IMF Country Report No. 21/164

RWANDA

July 2021

FOURTH REVIEW OF THE POLICY COORDINATION INSTRUMENT AND REQUEST OF AN EXTENSION OF THE POLICY COORDINATION INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the Fourth Review of the Policy Coordination Instrument and Request of an Extension of the Policy Coordination Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 1st, 2021, following discussions that ended on May 6, 2021 with the officials of the 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 June 15, 2021.
- A **Statement by the Executive Director** for Rwanda.

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

PR21/206

IMF Executive Board Completes Fourth Review Under the Policy Coordination Instrument (PCI) and Request of an Extension of the Policy Coordination Instrument for Rwanda

FOR IMMEDIATE RELEASE

- Real GDP is projected to rebound to 5.1 percent this year, after a contraction of 3.4 percent in 2020. The outlook remains uncertain due to the protracted impact of the pandemic and uncertainty on adequate vaccine availability.

- The authorities continue to appropriately balance their policy response to contain the pandemic, including by procuring vaccines, and minimize its long-lasting impacts, with maintaining fiscal sustainability.

- The Policy Coordination Instrument (PCI) continues to provide a policy anchor for the next phase of the authorities' COVID-19 response and for supporting a strong and inclusive recovery. The authorities requested a one-year extension of the PCI, which was initially set to expire on June 15, 2022.

Washington, DC – July 6, 2021: The Executive Board of the International Monetary Fund (IMF) completed on July 1, 2021 the Fourth Review under the Policy Coordination Instrument (PCI) for Rwanda and approved a one-year extension of the PCI.[1] The PCI was approved on June 28, 2019 (Press Release No.19/258) to facilitate macroeconomic and financial stability, while advancing an ambitious reform agenda under Rwanda's National Strategy for Transformation (NST). Program implementation has been strong with program priorities shifting in response to the COVID-19 pandemic to supporting the economy and people through the crisis.

The COVID-19 pandemic continues to exert a large impact on Rwanda's economy and social fabric. Real GDP growth contracted by 3.4 percent in 2020. Despite a second wave of infections that prompted a three-week lockdown in Kigali in early 2021, real GDP is projected to rebound by 5.1 percent in 2021, reflecting the start of vaccine rollout, and scaled-up government spending to accommodate additional spending needs due to the more protracted nature of the pandemic and the need to minimize scarring. Growth is expected to return to its pre-pandemic trend by end-2023. However, downside risks to growth remain substantial owing mainly to uncertainties surrounding the availability and timely delivery of vaccines.

The authorities' policy response has remained well-designed and targeted. It aims at swiftly procuring and securing financing for vaccines, increasing fiscal support for households and businesses, and providing sufficient liquidity to the banking system given the protracted nature of the pandemic and the need to minimize any lasting socioeconomic impact. To accommodate additional spending needs, the authorities have appropriately relaxed the

[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.

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fiscal program targets, while enhancing their efforts to contain fiscal risks to safeguard debt sustainability and adopting a gradual fiscal consolidation as soon as the crisis abates.

While bringing the pandemic to an end remains the utmost priority, going forward policies must continue to strike a balance between ensuring a rapid and inclusive economic recovery with maintaining fiscal sustainability and financial stability. The authorities have requested a one-year extension of the PCI to make progress on ongoing reforms and policies under the program to support the economic recovery, meet their fiscal consolidation and debt objectives, strengthen fiscal transparency, contain fiscal risks, and ensure the financial system remains sound.

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 exact a large economic and social toll on Rwanda, with real output contracting in 2020 and the number of people falling into poverty increasing. While the deployment of vaccines is expected to support the recovery, their timely delivery remains uncertain, posing a significant downside risk to the outlook.

``Given the protracted nature of the pandemic, an increase in the fiscal deficit should allow the authorities to accommodate further spending to cushion the impact of COVID-19 by supporting hard-hit businesses and vulnerable households. Monetary policy has also been accommodative to help keep the banking sector liquid and support borrowing.

``However, rising debt levels call for balancing efforts to sustain the recovery with safeguarding fiscal sustainability. This necessitates containing fiscal risks from SOEs, PPPs, and state-guaranteed loans to support a growth-friendly fiscal consolidation once the crisis abates and gradually bring debt towards the authorities’ 65 percent of GDP target. The one-year extension of the PCI should allow the authorities to make progress on ongoing reforms and policies to support the economic recovery and meet their fiscal consolidation and debt objectives.

``Containing financial sector vulnerabilities will be key to safeguarding financial stability, aided by intensified monitoring of credit risk, prudent restructuring, and timely recognition of problem loans. The central bank should continue keeping monetary policy data driven and monitoring price developments amid the uncertain outlook.

``The authorities should keep the momentum with structural reforms for an inclusive recovery, especially to limit the impact of the pandemic on women and children, and to make progress on the Sustainable Development Goals. Their commitment to strengthening fiscal transparency, domestic revenue mobilization, and the monetary policy framework should help in this regard. In addition, measures to deepen financial markets, improve education and health care, sustain the expansion of digital payments, and further financial inclusion should contribute to accelerating the transition to a private sector-led growth.’’

Table 1. Rwanda: Selected Economic Indicators, 2020–26

	2020	2021		2022		2023		2024		2025		2026
	Act.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Output and prices												
Real GDP	-3.4	5.7	5.1	6.8	7.0	8.0	8.1	7.5	7.5	7.5	7.5	6.1
GDP deflator	8.3	2.3	1.9	4.3	5.4	5.0	5.8	5.0	5.0	5.0	5.0	5.0
CPI (period average)	7.7	2.5	2.4	4.1	4.9	5.0	5.8	5.0	5.0	5.0	5.0	5.0
CPI (end period)	3.7	2.3	3.5	5.0	5.2	5.0	6.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-0.9	0.0	2.6	1.0	0.2	1.1	1.6	-0.6	-0.6	2.3	1.7	2.3
Money and credit												
Broad money (M3)	18.0	12.0	10.1	13.6	13.1	22.0	17.3	14.9	14.7	12.8	12.7	11.4
Reserve money	21.7	11.2	10.6	17.8	13.1	19.8	15.2	14.9	14.7	12.8	12.7	11.4
Credit to non-government sector	21.8	12.6	10.0	12.1	12.7	14.0	14.6	13.7	13.3	14.0	13.5	12.7
M3/GDP (percent)	28.9	28.0	29.8	28.5	29.9	30.7	30.6	31.3	31.1	31.3	31.1	31.1
	(Percent of GDP, unless otherwise indicated)											
Budgetary central government, FY basis [1]												
Total revenue and grants	23.3	23.7	25.0	23.2	24.2	23.4	24.4	23.3	24.6	23.6	24.8	25.1
of which: tax revenue	16.2	15.5	16.0	15.4	15.9	15.5	16.4	15.7	16.8	16.0	17.0	17.5
of which: non-tax revenue	2.6	2.3	3.3	2.4	2.8	2.4	2.7	2.5	2.7	2.6	2.7	2.7
of which: grants	4.5	5.8	5.7	5.4	5.5	5.5	5.4	5.1	5.2	2.8	5.2	4.9
Expenditure	32.4	32.2	34.2	30.9	32.8	29.9	32.0	28.4	29.7	27.4	28.8	28.1
Current	16.0	14.8	15.9	16.3	15.4	15.5	15.7	14.2	14.5	13.5	14.6	14.4
Capital	12.7	12.8	14.5	11.5	12.3	11.5	12.4	11.2	11.9	11.0	12.3	11.9
Lending minus repayment	3.7	4.5	3.8	3.1	5.1	3.0	3.8	3.0	3.3	1.5	2.0	1.8
Primary balance	-7.6	-6.6	-7.6	-5.9	-6.3	-4.8	-5.2	-3.7	-2.9	-2.5	-1.9	-1.1
Overall balance	-9.1	-8.5	-9.2	-7.7	-8.6	-6.5	-7.5	-5.1	-5.1	-3.8	-4.0	-3.0
excluding grants	-13.6	-14.3	-14.9	-13.1	-14.1	-12.0	-12.9	-10.2	-10.3	-8.8	-9.2	-7.8
Debt-creating overall bal. (excl. PKO) [2]	-7.7	-8.6	-9.2	-7.0	-8.6	-6.3	-7.5	-5.1	-5.1	-3.8	-4.0	-3.0
Net domestic borrowing	-0.6	2.1	-0.4	1.8	4.0	1.5	1.3	1.4	0.5	0.7	0.0	-0.2
Public debt												
Total public debt incl. guarantees	71.3	71.1	79.1	73.7	81.3	73.3	81.1	72.0	79.5	70.0	76.5	74.0
of which: external public debt	55.3	58.4	63.0	60.7	66.8	61.0	68.7	61.1	68.7	60.8	67.9	65.9
PV of total public debt incl. guarantees	51.0	48.8	55.7	50.6	56.7	50.9	56.5	50.4	55.5	49.3	53.4	51.9
Investment and savings												
Investment	24.5	22.6	24.2	26.4	26.8	28.2	28.8	28.4	28.7	27.9	29.0	26.9
Government	14.2	12.2	13.8	11.5	12.1	11.4	12.1	11.5	12.0	10.9	12.2	10.2
Nongovernment	10.4	10.4	10.4	14.8	14.7	16.8	16.7	16.9	16.7	17.0	16.7	16.7
Savings	9.5	6.1	6.5	10.9	10.3	14.0	13.8	15.5	15.3	16.5	17.5	17.4
Government	3.1	2.6	-0.1	2.0	0.4	3.0	1.9	4.4	2.8	5.6	3.7	3.3
Nongovernment	6.4	3.5	6.5	8.8	9.9	11.0	11.8	11.1	12.5	11.0	13.8	14.1
External sector												
Exports (goods and services)	18.7	22.7	22.3	26.2	25.7	26.8	27.7	27.7	29.5	27.9	31.0	30.8
Imports (goods and services)	35.1	39.8	41.2	42.3	43.4	41.7	43.9	41.1	44.3	39.8	43.7	41.7
Current account balance (incl grants)	-12.2	-12.5	-13.4	-11.4	-12.2	-9.6	-11.2	-8.4	-9.6	-8.0	-7.5	-6.8
Current account balance (excl grants)	-15.0	-16.5	-17.8	-15.5	-16.5	-14.2	-15.0	-12.8	-13.5	-11.4	-11.5	-9.6
Current account balance (excl. large proj.)	-11.8	-11.0	-10.7	-9.6	-9.5	-7.1	-8.6	-6.3	-7.6	...	-6.3	-6.8
Gross international reserves												
In millions of US$	1,780	1,463	1,709	1,556	1,682	1,654	1,653	1,834	1,800	1,921	1,899	1,995
In months of next year's imports[2]	6.0	4.3	5.1	4.2	4.5	4.1	4.0	4.2	4.1	4.2	4.2	4.0
Memorandum items												
GDP at current market prices												
Rwanda francs (billion), CY basis	9,746	10,641	10,438	11,862	11,772	13,449	13,463	15,184	15,207	17,129	17,163	19,119
Rwanda francs (billion), FY basis [1]	9,402	10,241	10,092	11,251	11,105	12,655	12,617	14,317	14,335	16,157	16,185	18,141
Population (million)	12.7	13.0	13.0	13.3	13.3	13.6	13.6	13.9	13.9	14.2	14.2	14.2

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 25/26 (2026). Fiscal year runs from July to June.

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

[3] Based on prospective import of goods (excluding gold) and services.

INTERNATIONAL MONETARY FUND

RWANDA

June 15, 2021

FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR AN EXTENSION OF THE POLICY COORDINATION INSTRUMENT

EXECUTIVE SUMMARY

Recent economic developments. Despite a sizeable policy response, the COVID-19 pandemic continues to impact Rwanda's economy and social fabric, with output contracting by 3.4 percent in 2020. The vaccine rollout is expected to help counter the pandemic and support the economic recovery, but risks remain elevated. While progress was made in several reform areas, some envisaged reforms are being delayed. The authorities requested the extension of the program by one year to make progress on ongoing reforms and policies to support the economic recovery and meet their fiscal consolidation and debt objectives. Rwanda received debt relief under the third tranche of the Catastrophe Containment and Relief Trust (CCRT).

Program implementation. Program performance remains strong with all end-December 2020 quantitative targets and all but one end-December 2020 reform targets met. The reform target on the automation of the risk-based verification process for value-added tax (VAT) refund claims was not met due to delays in the development of procedures to automate risk rules on the data platform.

Policy recommendations.

- **Crisis measures.** The large fiscal package targeting economic and social needs and the proposed relaxation of program fiscal targets to limit the impact of the crisis remain broadly appropriate. Containing fiscal risks and adopting mitigating measures should guide policies given the rising debt level and uncertain outlook. With inflation projected to remain low, the accommodative monetary stance remains appropriate along with liquidity support for banks and financial markets as needed.
- **Fiscal policy.** The fiscal stance should continue to balance support to the economic recovery with a return to a credible fiscal consolidation path over the medium term after the crisis abates. Under the baseline, debt will remain sustainable with a moderate risk of debt distress, but buffers have diminished.
- **Structural reforms.** The near-term agenda should remain focused on fast-tracking efforts to strengthen fiscal risk management, including of state-owned enterprises, and monitoring financial sector risks.

Staff supports the requests for completion of the fourth review under the Policy Coordination Instrument and extension of the program by one year through June 27, 2023.

Approved By	
Catherine A. Pattillo (AFR) and Delia Velculescu (SPR)	Discussions were held remotely from Washington, D.C. to Kigali during March 22–May 6, 2021. The mission comprised H. Teferra (head), V. Duarte Lledo, K. Gyesaw, M. Woldemichael, C. Aoyagi (all AFR), A. Ceber (FAD), S. Kaihatsu and A. Miksjuk (SPR). M. Alle and L. Nankunda (OEDAF) also attended mission meetings. The mission was facilitated by P. Rutabuzwa and J. Kayemba (staff of the resident representative's office in Kigali). R. Iyer and F. Morán Arce (AFR) assisted in the preparation of this report.

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ANNEXES

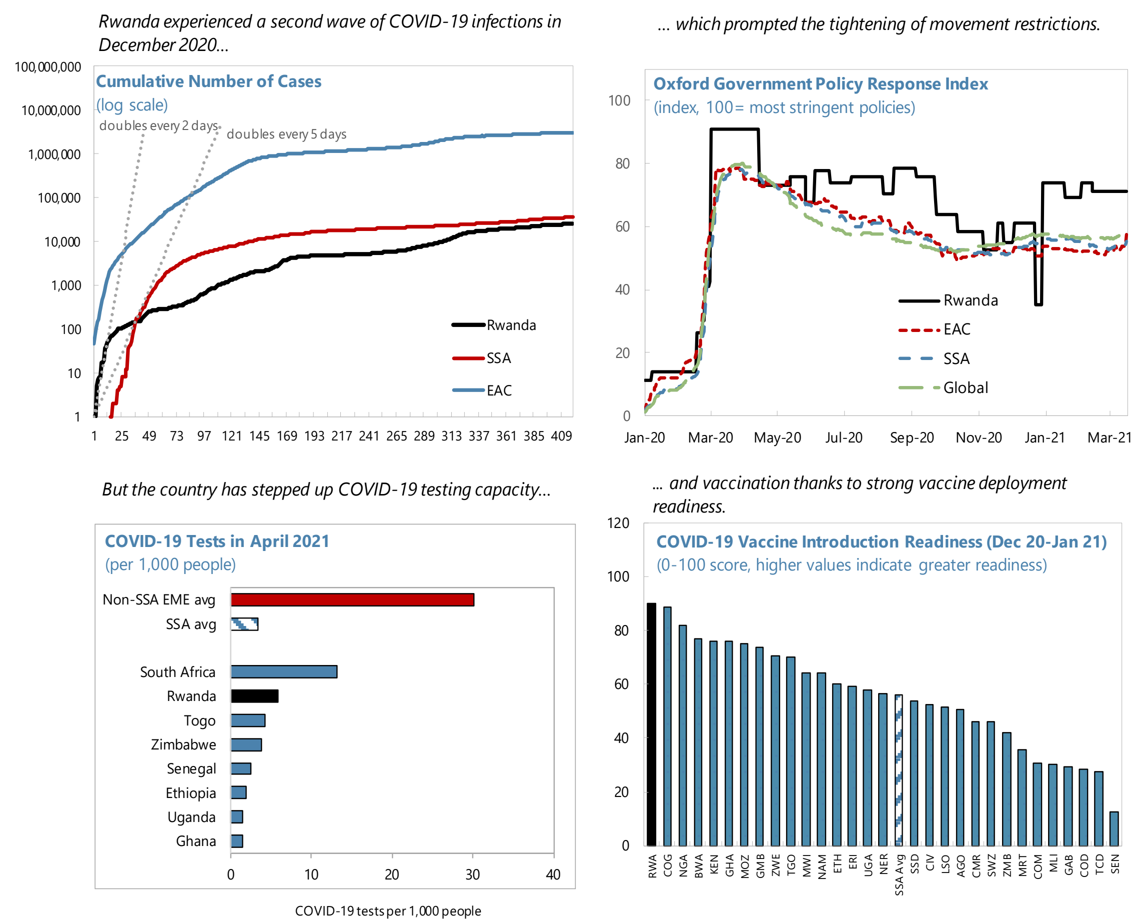
APPENDIX

CONTEXT

1. The pandemic continues to impact lives and livelihoods in Rwanda. Cases and deaths rose to 26,780 and 349, respectively, as of May 25 (Figure 1). A second wave of infections led to a tightening of restrictions in December 2020 and a three-week lockdown in Kigali in January 2021. A gradual easing of restrictions is currently underway, supported by the national vaccination campaign (Box 1). The social impact of the pandemic is expected to be significant, with 900,000 individuals projected to fall under the poverty line in 2020–21.[1] The authorities are implementing a sizeable policy package to lessen the impact of the prolonged pandemic.

PS ¶ 1 & 3

Figure 1. Rwanda: Pandemic Overview

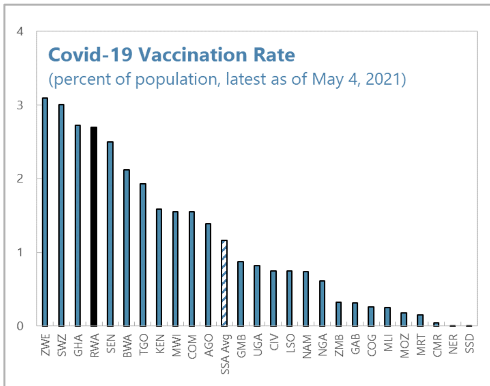


Sources: National Institute of Statistics Rwanda (NISR), Johns Hopkins CSSE, WHO COVID-19 Vaccine Introduction and Readiness Assessment Dashboard, Our World in Data (OWiD), and IMF staff calculations.

[1] World Bank Rwanda Macro Poverty Outlook., April 2021.

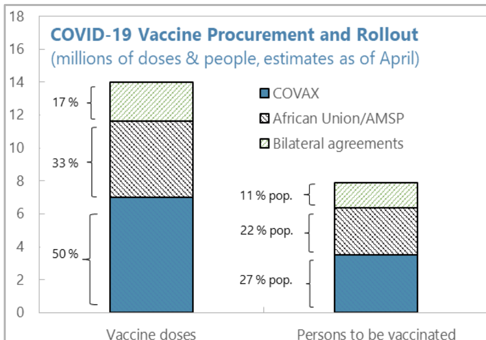
Box 1. Rwanda's COVID-19 Vaccination Campaign

Rwanda's COVID-19 vaccination strategy aims to inoculate 20 percent of the population by June 2021 and 60 percent by June 2022. The vaccine rollout started on February 14 and first targeted healthcare professionals before being extended to vulnerable individuals, including refugees. A nationwide sensitization campaign was launched to foster demand for vaccines and dispel vaccine hesitancy. As a result, vaccination is occurring at a rate faster than the sub-Saharan African average, with about 3 percent of the population inoculated as of May, though slower than what is needed to reach 20 percent of the population by end-June 2021.



Sources: Our World in Data (OWID) and IMF staff calculations.

Despite Rwanda's preparedness and sustained efforts to secure doses and financing, swift deployment of vaccines hinges on the global availability of vaccines and their timely delivery, which remain uncertain. Early logistical planning entailed boosting vaccine storage and distribution capacity. The authorities also relied on digital tools to manage human resources, vaccination sites, and communication. Half of the COVID-19 vaccine doses are expected to be procured through COVAX, and the remainder secured from the African Union/African Medical Supplies Platform (AMSP) and bilateral arrangements with vaccine manufacturers.



Sources: Rwandan Ministry of Health and IMF staff calculations.

The total cost of procuring vaccines is estimated at USD 127.3 million (1.2 percent of GDP). The authorities have secured foreign financing for vaccines, of which almost half in the form of grants, mostly through COVAX, and the remainder through concessional loans from the French Development Agency (AFD) and the World Bank. Part of the IMF emergency financing disbursed in 2020 was also repurposed for vaccine financing.

COVID-19 Vaccine Financing (estimates as of May 2021)

	Financing (USD million)	Share (percent)
Total COVID-19 vaccine financing	**127.3**	**100.0**
Project grants	**60.3**	**47.4**
of which: COVAX	45.1	35.4
of which: World Bank	15.0	11.8
of which: India	0.2	0.1
Project loans (World Bank)	**15.0**	**11.8**
Budget loans	**52.0**	**40.9**
of which: AFD	34.0	26.7
of which: IMF[1]	18.0	14.1

Sources: Rwandan authorities and IMF staff estimates.

[1] Estimated share of USD 220.46 of IMF RCF disbursed in 2020 dedicated to vaccine financing.

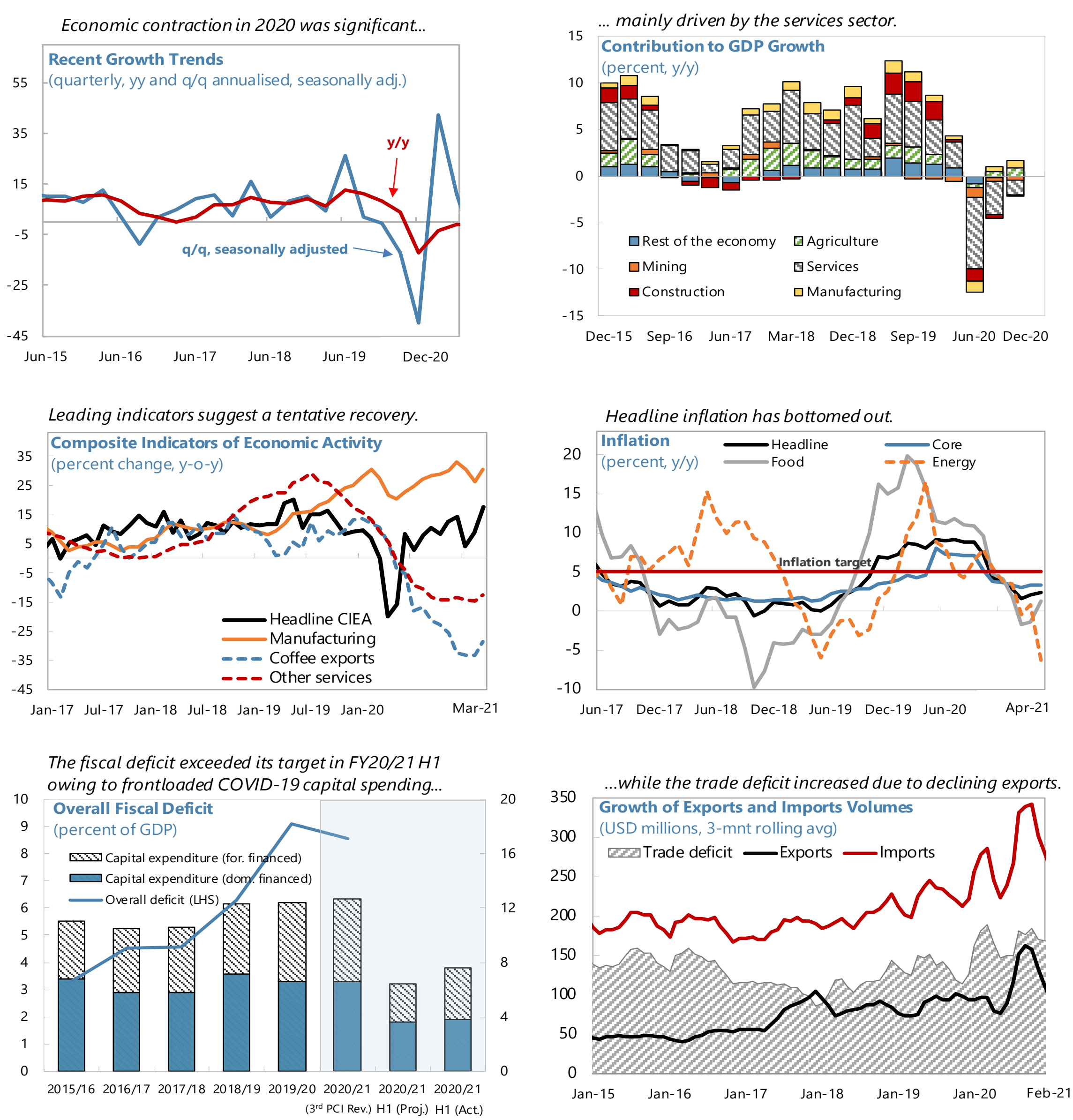
RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

PS ¶ 2, 6–7

2. Rwanda's economy was significantly battered by the pandemic (Figure 2, Table 1). Real GDP fell by 3.4 percent y/y in 2020, primarily driven by the contraction in industry and services, with agriculture mantaining modest growth. High frequency data suggest a slower pace of recovery in 2021 than projected at the 3rd review due to containment measures to address the second wave of infections. Headline inflation remains low at 2.4 percent y/y in April. Monetary policy remains accommodative, with the policy rate kept unchanged in May given the subdued inflation outlook (Figure 5, Table 3).

3. The external position deteriorated, reflecting weak global demand (Figure 3, Table 5). The current account deficit increased to 12.2 percent in 2020, largely due to a widening of the trade deficit, partly reflecting higher imports for infrastructure projects amid subdued demand for exports. The Rwandan franc depreciated against the dollar by 5.4 percent y/y at end-April, while foreign exchange reserves remained adequate at 4.8 months of import cover. PS ¶ 10

Figure 2. Rwanda: Overview of Recent Economic Developments



Sources: Rwandan authorities, and IMF staff estimates.

4. Despite higher revenues, the FY20/21 H1 fiscal deficit was larger than anticipated owing to higher capital spending and delays in grants. (Figure 4, Tables 2a–d). Revenues surprised on the upside mainly due to disbursements of previously delayed funds for peace-keeping operations, and overperforming tax revenues, reflecting one-off events unrelated to economic activity.[2] Total expenditure exceeded budget appropriations owing to accelerated execution of infrastructure projects, notably the construction of new schools. Delayed budget support led to a temporary increase in accounts payables (float) of 1.6 percent of GDP that was eventually cleared by March.

PS ¶ 4–5

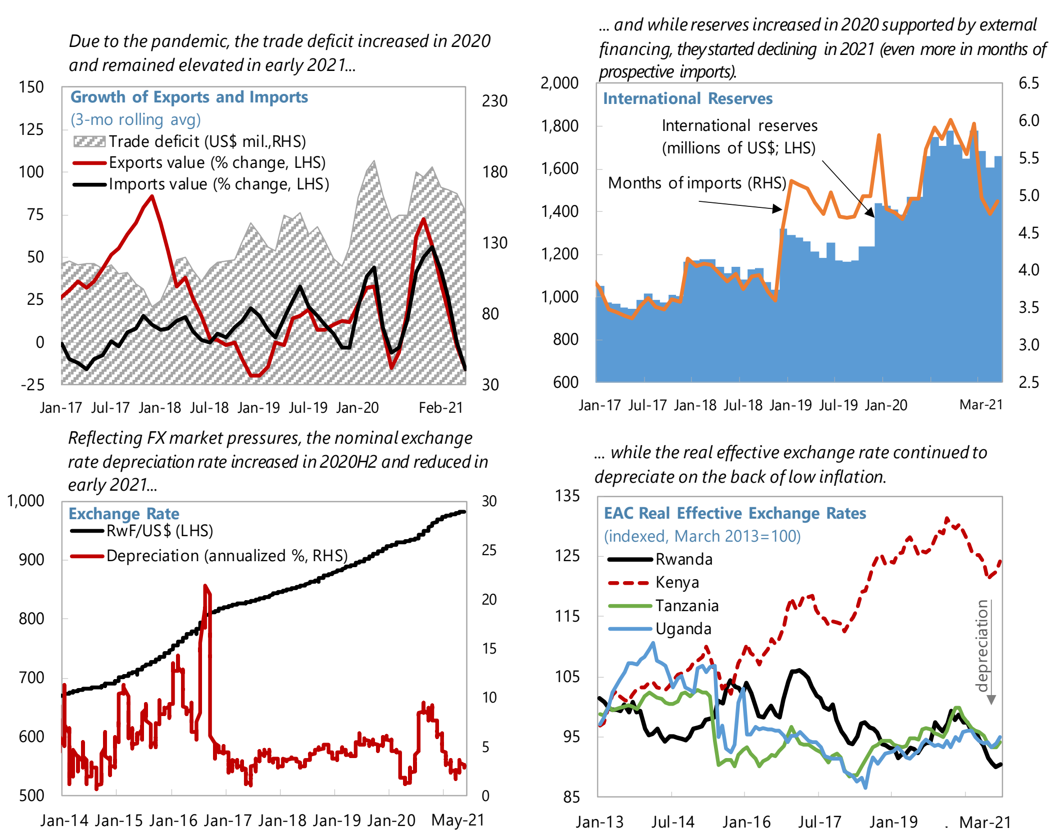
Rwanda: Operations of the Central Government, HY 20/21, in percent GDP[1]

	Jul-Dec 2020	
	Budget	Act.
Revenue and grants	**11.8**	**12.2**
Total revenue	8.3	9.6
of which Peace Keeping Operations	0.5	1.2
Total grants	3.6	2.6
of which budgetary grants	2.2	1.2
Total expenditure and net lending	**16.5**	**17.4**
Current expenditure	7.7	7.7
Capital expenditure	6.4	7.6
Net lending	2.4	2.1
Overall deficit (payment order)	**-4.7**	**-5.2**
Accounts payable (net reduction-)	-0.2	1.6
Overall Deficit (cash basis)	**-4.9**	**-3.6**
Financing	**4.9**	**3.6**
Foreign financing (net)	4.3	4.5
of which budget support	3.3	2.4
Domestic financing	0.5	-0.8

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

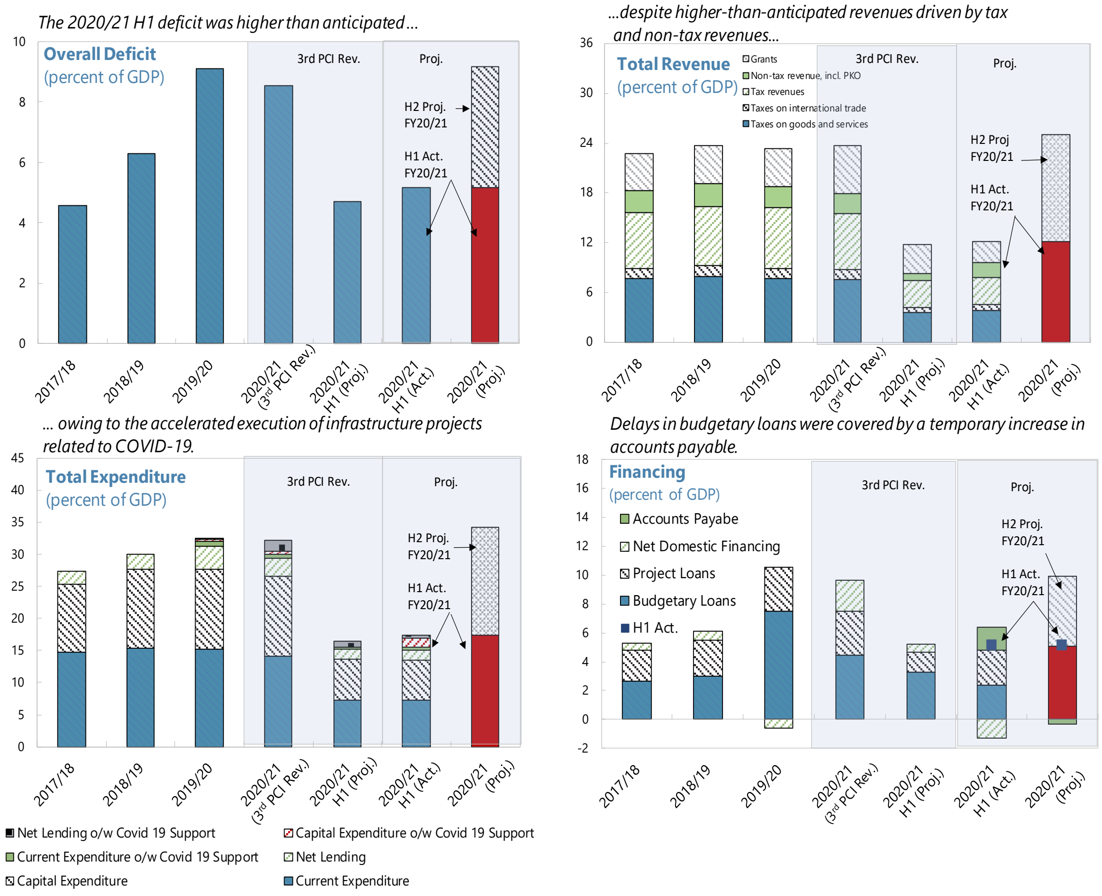
Figure 3. Rwanda: External Developments



Sources: Rwandan authorities, and IMF staff estimates.

[2] Notably, payments of postponed corporate income tax (CIT) and personal income tax (PIT), an increase in VAT due to the surge in capital imports, and a larger-than-anticipated increase in PAYE (payroll taxes) following a pickup in public employment in the health sector.

Figure 4. Rwanda: Fiscal Developments



Sources: Rwandan Authorities, and IMF staff estimates.

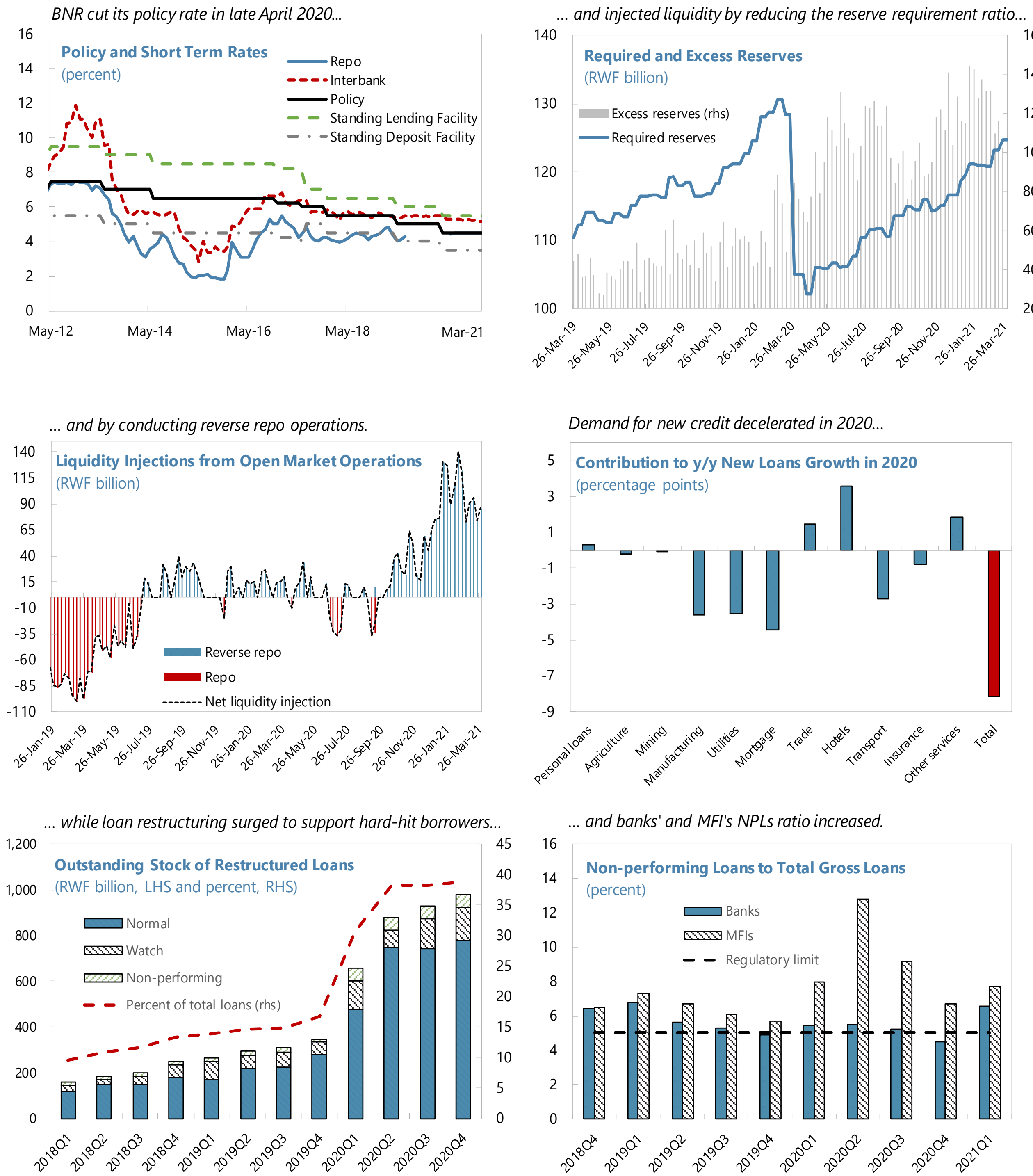
5. The financial sector remains sound, but credit risk has built up (Figure 5, Table 4). The financial sector continues to be profitable, well-capitalized, and liquid as of end-March 2021. The capital adequacy ratio of banks and microfinance institutions (MFIs) stood at 22.3 and 35.6 percent, respectively, while key liquidity indicators also remained above the minimum prudential requirements. However, credit risk has heightened, with the non-performing loans (NPLs) ratio for banks and microfinance institutions (MFIs) rising from 4.5 and 6.7 percent at end-December 2020, respectively, to 6.6 and 7.7 percent at end-March 2021. The outstanding stock of restructured loans due to the pandemic at end-March stood at 28.9 and 6.6 percent of total loans for banks and MFIs, respectively. Despite the deceleration of credit demand, credit growth in 2020 was strong, although due to loan restructuring.

PS ¶ 8

6. Program performance has been strong (Tables 6 and 7). All end-December 2020 quantitative targets (QTs) and the continous targets were met. Inflation remained within the inner band set in the monetary policy consultation clause (MPCC). All but one reform target (RT) were met. Nothwithsanding significant progress, the automation of the risk-based verification process for VAT refund claims was not met due to delays in the developoment of procedures to automate risk rules on the data platform.

PS ¶ 11–12

Figure 5. Rwanda: Monetary and Financial Sector Developments



Sources: Rwandan authorities, and IMF staff estimates.

7. The authorities' retroactive revisions to monetary statistics do not affect past assessments of program targets. Following the reclassification as central bank foreign liabilities of funds incorrectly recorded as government deposits, staff confirmed that the resulting revisions to NFA stocks, net domestic financing, and the statistical discrepancy in the fiscal data do not affect the assessments of either the QT on NFA or other QTs under program reviews completed within the last three years.

8. The authorities audited and published COVID-19-related spending. The Auditor General published at end-April 2021, all audited government expenditures, and procurement tenders for FY19/20, including those linked to the pandemic.[3]

OUTLOOK AND RISKS

9. The economic recovery is expected in 2021 as the pandemic recedes and macroeconomic policies remain accommodative (Tables 1–5).

- **Growth.** Real GDP is projected to rebound by 5.1 percent in 2021, reflecting the positive outlook from the vaccination rollout, scaled-up government spending, and the strong base effect from 2020. Growth is expected to return to its pre-pandemic trend by end-2023.
- **Inflation.** Headline inflation is expected to remain subdued in the next quarters and fall below the 5 percent benchmark in 2021.
- **External position.** The current account deficit is projected to widen to 13.4 percent of GDP in 2021, following a pickup in capital and intermediate goods imports associated with the resumption of economic activity, subdued tourism, and higher oil prices. Gross official reserves are expected to decline in 2021 but remain adequate at above 4 months of import cover. The current account deficit is expected to start narrowing afterwards as the tourism sector recovers.
- **Fiscal position.** The near-term fiscal position is projected to worsen relative to the 3rd Policy Coordination Instrument (PCI) review due to increases in COVID-19-related spending (see ¶11). Overall and debt-creating fiscal balances are projected to gradually improve as COVID-19 fiscal support is phased out and fiscal consolidation measures are implemented after the crisis abates.
- **Debt.** The trajectory of public and publicly-guaranteed (PPG) debt is projected to deteriorate relative to the 3rd PCI review on the back of larger primary deficits, lower nominal GDP, and faster exchange rate depreciation. PPG debt-to-GDP is projected to reach the anchor of 65 percent in 2030, two years later than previously projected.[4] Debt is assessed to remain sustainable with a moderate risk of external and overall public debt distress.[5]

[3] FY19/20 Auditor General Report

[4] For discussions on the debt anchor, see IMF Country Report No. 2021/001.

[5] See Annex II.

Rwanda: Macroeconomic Framework, 2020–26

	2020	2021		2022		2023		2024		2025		2026
	Act.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Output and prices												
Real GDP growth (percent)	-3.4	5.7	5.1	6.8	7.0	8.0	8.1	7.5	7.5	7.5	7.5	6.1
CPI inflation, period average (percent)	7.7	2.5	2.4	4.1	4.9	5.0	5.8	5.0	5.0	5.0	5.0	5.0
CPI inflation, end-of-period (percent)	3.7	2.3	3.5	5.0	5.2	5.0	6.0	5.0	5.0	5.0	5.0	5.0
Fiscal Balance (% of GDP), FY Basis[1]	-9.1	-8.5	-9.2	-7.7	-8.6	-6.5	-7.5	-5.1	-5.1	-3.8	-4.0	-3.0
Total public debt (% of GDP)	71.3	71.1	79.1	73.7	81.3	73.3	81.1	72.0	79.5	70.0	76.6	74.0
Current account deficit (% of GDP)	-12.2	-12.5	-13.4	-11.4	-12.2	-9.6	-11.2	-8.4	-9.6	-8.0	-7.5	-6.8
Gross international reserves (months of imports)	6.0	4.3	5.1	4.2	4.5	4.1	4.0	4.2	4.1	4.2	4.2	4.0

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY19/20 (2020) to FY25/26 (2026). Fiscal year runs from July to June.

10. Risks to the outlook remain substantial (Figure 6, Annex I). The future course of the pandemic and related economic disruptions in Rwanda and its trading partners are a key source of uncertainty. The limited access to, and/or longer-than-expected deployment of vaccines, higher oil prices, continued subdued external demand—especially tourism—, and regional security issues present downside risks to the growth outlook. If realized, they would impose a more protracted recovery, stressing fiscal and external positions, heightening the likelihood that financial sector risks and contingent liabilities materialize, delaying the fiscal adjustment, and worsening the debt outlook. A faster containment of the pandemic following an effective rollout of vaccines domestically and globally is an upside risk that would boost confidence and economic activity.

PROGRAM POLICY DISCUSSIONS

Policy discussions focused on support to the vaccination campaign and the economy while maintaining debt sustainability through an ambitious medium-term consolidation and renewed efforts to manage fiscal risks and mobilize domestic revenues.[6] The authorities have reiterated their commitment to these program objectives and, to support achieving them, have requested the extension of the program by one year (Letter of Intent (LOI) and Program Statement (PS); Tables 1–2).

A. Fiscal Policy: Supporting the Recovery while Ensuring Debt Sustainability

Fiscal Policy Stance

PS ¶ 16

11. COVID-19-related spending is fully accommodated over the current and next two budget years to facilitate the vaccine rollout, support the recovery, and minimize scarring.[7] Relative to the 3rd PCI review, the resulting increases in the

[6] The four pillars of the PCI program are: (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 interest rate-based monetary policy framework.

[7] At the 3rd PCI review, COVID-19-related spending under the Economic Recovery Plan (ERP) amounted to 6.3 percent of GDP in FY19/20–FY21/22 (IMF Country Report No. 21/1).

annual deficits due to additional planned spending net of revenue increases sum up to about 2.6 percentage points of GDP during FY20/21-FY22/23. They reflect measures to (i) accommodate the rollout of COVID-19 vaccines, (ii) accelerate the construction of schools and hiring of teachers to minimize learning losses, (iii) enhance the delivery of goods and services by attracting and retaining qualified staff, (iv) provide temporary support to state-owned enterprises (SOEs) in hard-hit sectors, and (v) support private firms and priority investment projects in strategic sectors to promote economic diversification and a resilient recovery. Temporary support to SOEs in the transport and hospitality sectors will be provided through subsidies, loans, and equity injections. Support to private firms will continue through a revamped Economic Recovery Fund (ERF) (Box 2).

Rwanda: Overall Balance, Deviations from the 3rd PCI Review, Percent of GDP
(Program Definition, GFS 1986)[1]

	2020/21	2021/22	2022/23	Total Deviation
Overall Balance	-0.6	-0.9	-1.0	-2.6
Total revenue	1.4	1.0	1.0	3.4
o/w Taxes	0.6	0.9	0.9	2.3
o/w Grants	-0.1	0.1	-0.1	-0.1
Expenses (Current expenditure)	1.4	0.6	0.3	2.4
o/w Covid-19 vaccines net of grants	0.1	0.5	0.0	0.6
o/w Wage bill	0.1	1.2	1.3	2.7
o/w SOE subsidies	0.0	1.0	0.0	1.0
o/w Goods and Services	1.6	-1.4	-0.9	-0.7
o/w Other	-0.3	-0.8	-0.1	-1.2
Net acq.of nonfinancial assets (Capital expenditure)	1.4	0.7	0.9	3.0
Loans and Equity (Net lending)	-0.9	0.7	0.8	0.6
o/w ERF	-0.9	0.6	0.7	0.4

Sources: Rwandan authorities and IMF staff projections

[1] This table is presented in FY format. FY runs from July to June.

12. The revised fiscal path envisages an ambitious and credible fiscal consolidation to maintain debt sustainability. Debt would converge to the anchor of 65 percent of GDP by 2030 instead of 2028 projected in the 3rd review.[8] This would require a cumulative reduction in the overall headline deficit of 6 percentage points of GDP during 2021–29, of which about half from the gradual phasing-out of COVID-19-related spending and the remaining through additional measures. To ensure the fiscal consolidation is credible, the authorities remain committed to start announcing, legislating, and implementing revenue and expenditures measures before the program expires. To allow more time to do so, they have requested a one-year program extension.

PS ¶ 17

13. The authorities' growth-friendly consolidation strategy focuses on mobilizing revenues and rationalizing spending. Domestic revenue mobilization (DRM) will be pursued through a medium-term revenue strategy (MTRS) to be launched in 2021H2 (see ¶15). Spending rationalization measures will start to be formulated by the

PS ¶ 18

[8] Debt will fall below the East African Monetary Union Protocol's present value (PV) of debt convergence criterion of 50 percent by 2027.

next review following recommendations from an ongoing World Bank Public Expenditure Review and IMF Public Investment Management Assessment (PIMA), both to be finalized by end-2021.

Box 2. Rwanda's Revamped Economic Recovery Fund

The government plans to revamp the Economic Recovery Fund (ERF) to continue supporting the recovery.[1] The ERF initial fund size of USD 100 million, financed by the IMF RCF disbursements, is expected to be raised to USD 357.5 million, with additional resources secured from development partners, including USD 257.5 million from the World Bank and Asian Infrastructure Investment Bank (AIIB).

ERF Financing (estimates as of May 2021)

	Financing (USD million)	Share (percent)
Total	**357.5**	**100.0**
World Bank	157.5	44.1
AIIB	100.0	28.0
IMF	82.0	22.9
OFID	15.0	4.2
USAID	3.0	0.8

Sources: Rwandan authorities and IMF staff calculations.

The additional resources will finance both existing and new windows under the ERF. The working capital, guarantee scheme, and hotel refinancing windows will benefit from a top-up, with the latter extended to sectors outside the hospitality industry. The revamped ERF also includes a new investment window of USD 150 million, provides for capacity building to firms and financial service providers to strengthen ERF implementation and accelerate take-up, and offers bridge lending to vulnerable micro, small and medium businesses hit by climatic shocks.

The new investment window aims to support manufacturing and other strategic sectors to accelerate the recovery by creating jobs and improving Rwanda's external position. Targeted beneficiaries are private firms that have the potential to promote exports by increasing existing and new investments. Firms would need to furnish documentation on their expansion plan, financial projections, and performance history to access financing under preferential terms. The new investment window is expected to be managed by the Development Bank of Rwanda (BRD), with Rwanda Development Board (RDB) overseeing the eligibility criteria and application process, in close collaboration with the central bank. It is expected to be launched by end-June 2021.

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1/ See Box 2 in IMF Country Report No. 21/1 for a description of ERF windows and implementation challenges.

Rwanda: Fiscal Consolidation Path[1]
(percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Third PCI Review Baseline										
Overall deficit	-7.9	-7.0	-5.8	-4.4	-3.7	-3.7	-3.7	-3.7	-5.3	-5.3
Public debt	71.9	73.6	72.8	71.5	69.2	67.2	65.3	63.1	62.5	62.1
Revised Fiscal Path										
Overall deficit	-8.9	-7.5	-6.3	-4.8	-3.5	-3.4	-3.1	-3.1	-3.1	-4.1
o/w Covid-19 spending	3.1	2.1	1.1	0.3	--	--	--	--	--	--
Annual adjustment		1.4	1.2	1.6	1.3	0.1	0.2	0.0	0.0	-1.0
Covid-19 spending phase-off		1.0	1.0	0.8	0.3	0.0	0.0	0.0	0.0	0.0
Unidentified additional measures		0.3	0.2	0.8	1.0	0.1	0.2	0.0	0.0	-1.0
Public Debt	79.1	81.3	81.1	79.5	76.5	74.0	71.4	68.5	65.7	64.4

Sources: Rwandan authorities and IMF staff projections.

[1] This table is presented in CY format, consistent with projections of public sector debt in Annex II (Debt Sustainability Analysis).

14. **Rwanda's debt remains sustainable with a moderate risk of debt distress, but buffers have diminished (Annex II).** An updated Debt Sustainability Analysis (DSA) indicates a moderate risk of debt distress, with limited space to absorb shocks. Stress tests show that solvency risks are elevated, while liquidity risks from the repayment of the existing PS ¶ 26

Eurobond in 2023 would be mitigated by the authorities' debt management strategy to smooth out the debt servicing profile. These assessments hinge on the implementation of an ambitious fiscal adjustment after the pandemic abates.

Domestic Revenue Mobilization

PS ¶ 18–19

15. The authorities have phased out all pandemic tax relief while finalizing a revenue mobilization strategy.

- ***Pandemic tax relief and compliance.*** All pandemic-related tax measures have been phased out.[9] Most taxpayer services are now done electronically to sustain tax compliance.
- ***MTRS.*** To regain momentum in DRM, the authorities expect to launch their first MTRS (MTRS-1) in July 2021 with IMF TA support. MTRS-1 will span FY21/22-FY23/24 with the goal of increasing the revenue-to-GDP ratio by 1 percentage point of GDP during this period. MTRS-1 is expected to be followed by a more ambitious set of reforms to cover the forthcoming 5-year NST, with the aim of increasing domestic revenues by another 5 percentage points of GDP.

PS ¶ 20–21

16. Tax measures under MTRS-1 will underpin the initial phase of the authorities' post-pandemic fiscal consolidation. Tax policy measures yielding about 0.48 percent of GDP will focus on (i) PIT progressivity, (ii) CIT reforms to attract private investment while phasing out tax holidays and exemptions, (iii) excise duty reforms, and (iv) VAT rebates for enhanced use of electronic billing machines (EBMs). Tax administration measures yielding about 0.52 percent of GDP will aim at (i) fostering voluntary compliance in domestic tax and customs, and (ii) reducing non-compliance in high-risk sectors. Measures aimed at improving tax compliance such as VAT rebates are expected to be implemented this fiscal year. MTRS-1 implementation will be supported by a newly created Tax Policy Directorate General under the Ministry of Finance and Economic Planning.

Fiscal Risks, Transparency, and Governance

PS¶ 22–23

17. The government has stepped up efforts to manage fiscal risks from SOEs and public-private partnerships (PPPs). The authorities finalized a first health-check assessment of SOEs at end-May (RT) and included a summary of the outcomes and initial risk mitigating measures in their published second annual fiscal risk statement (FRS).[10] The authorities plan to refine these measures to limit government exposure to SOEs and their private shareholders and reduce their future budgetary impact in the second half of FY21/22 informed by stress tests on high-risk SOEs to be finalized by end-December 2021. The revised Organic Budget Law to be submitted to Cabinet by end-June 2021 will align the identification and containment of fiscal risks and publication of the FRS with the budget cycle and determine the fiscal risk committee (FRC)'s mandate and composition. The monitoring of SOE fiscal risks will also be

[9] See IMF Country Report No. 21/1 on tax relief measures.

[10] Some of these measures may also be implemented as part of existing contingent planning practices discussed in IMF Country Report No. 21/1.

strengthened with the publication of an SOE Ownership Policy by December 2021. With IMF TA support, the authorities have also expanded their second FRS to include information on contingent liabilities from PPPs and plan to expand next year's FRS with a summary of PPP fiscal risks and mitigation measures informed by the Public Fiscal Risk Assessment Model (PFRAM) by end-April 2022 (new RT).[11]

PS ¶ 24

18. Fiscal transparency reforms have kept momentum. With IMF TA support, the authorities will continue to expand the coverage of published fiscal data and reports. They plan to start compiling and publishing (i) historical series of consolidated government finance statistics for the non-financial public sector (NFPS) by end-December 2021 (new RT) and (ii) financial balance sheets for the general government, including Rwanda Social Security Board (RSSB), and for public corporations starting from FY20/21 by end-December 2022, with subsequent fiscal years published every December. Quarterly budget execution reports (BERs) in GFSM 2014 will start to be published by end-March 2023 for the general government (new RT) and during FY22/23 for public corporations.

PS ¶ 27

19. More could be done to strengthen transparency of pandemic-related procurement contracts. While information on awarded public contracts continues to be publicly available from the government's e-procurement website, staff continues to encourage the authorities to further enhance the transparency of their procurement practices 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 and that the IMF's Legal department stands ready to provide TA. The authorities noted that such information will be available upon request.

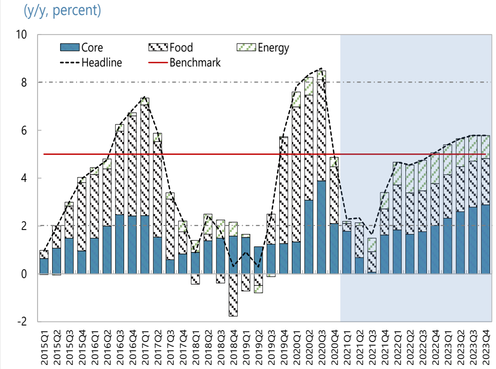
B. Monetary Policy: Supporting the Recovery while Safeguarding Financial Stability

Monetary and Exchange Rate Policy

PS ¶ 28

20. Staff and the authorities agreed that monetary policy should remain data-dependent and accommodative amid the low inflation outlook. Headline inflation is projected to remain below the National Bank of Rwanda (BNR)'s benchmark in the next quarters on the back of subdued demand and base effects. Given the uncertainties surrounding the outlook, including possible pressures from international energy and food prices, the authorities agreed on the need to continue closely monitoring price developments and keeping monetary policy data-dependent.

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



Sources: IMF staff estimates.

[11] The IMF PIMA will review existing public investment practices to minimize government exposure to risky projects.

PS ¶ 29–31

21. The authorities are maintaining the reform momentum in support of the interest rate-based monetary policy framework. BNR continues to build Forecasting and Policy Analysis System (FPAS) capacity to inform monetary policy decision-making, with recent efforts focused on modeling the COVID-19 shock and strengthening the role of sectoral experts in the forecasting process, aided by IMF TA. The authorities are also sustaining progress in deepening financial markets, including through bond reopenings and upgrades to the repo market infrastructure, which allows for change of ownership during repo transactions since November 2020. The rollout of the Global Master Repurchase Agreement (GMRA) (new end-June 2022 RT) should gain traction once the legal assessment of the regulatory framework for true repo (end-November 2021 RT) and the study on the feasibility of extending it to non-bank financial institutions (new end-March 2022 RT) are completed. Interbank market activity has increased relative to 2019 and BNR continues to use reverse repos to meet banks' liquidity demand.

22. The authorities agreed that exchange rate flexibility is critical for external sustainability and an effective interest rate-based monetary policy framework. BNR remains committed to limiting foreign exchange market interventions to minimizing excessive exchange rate volatility. While pressures on the foreign exchange market have started abating since December owing to the tightening of movement restrictions, demand for foreign exchange is expected to increase in 2021 with the gradual resumption of activity.

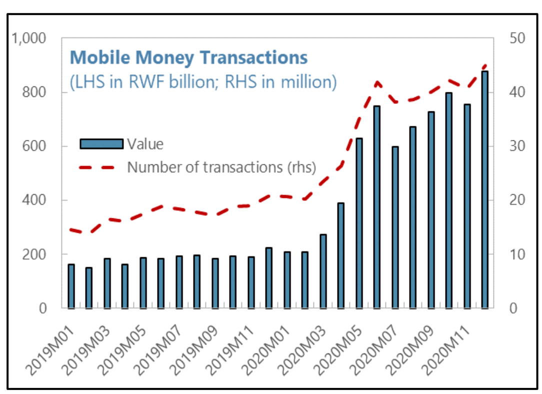
Financial Stability and Inclusion

PS ¶ 33–34

23. The authorities have intensified supervisory oversight and taken new steps to safeguard financial stability. BNR is closely monitoring credit risk by performing stress tests to assess banking system vulnerability to defaults on restructured loan repayments and by scrutinizing banks' credit underwriting standards to ensure that problem loans are accurately determined, classified, and provisioned for. Supervision of banks' operational resilience has also been stepped up. To further buttress financial stability, BNR suspended the distribution of 2020 dividends in financial institutions and is considering further prudential policy responses. Staff advised BNR to continue encouraging prudent and timebound loan restructuring targeted at viable customers and to allow the utilization of the capital conservation buffer. Steps to strengthen the financial safety net and crisis management framework should benefit from IMF TA, in line with the Financial Sector Stability Review (FSSR).

PS ¶ 35

24. Financial inclusion and digitalization are progressing. Mobile money transactions continue to exceed pre-pandemic levels. To sustain the momentum, a study on consumer payment behavior and the pricing of digital payment services will be conducted (end-December 2021 RT). Other ongoing initiatives expected to foster financial inclusion include the retail interoperability project and the automation of Savings and Credit Cooperatives (SACCOs).

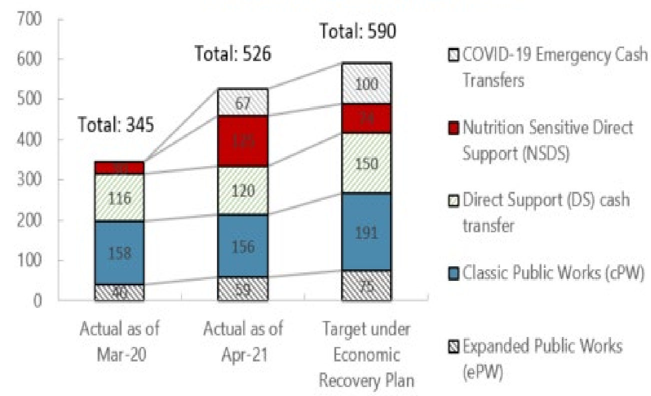


C. Structural Policies: Ensuring an Inclusive Recovery and Achieving Sustainable Development Goals

PS ¶ 36–37

25. Limiting pandemic scars and promoting an inclusive and sustainable recovery are key. The pandemic could leave lasting scars in the form of persistent inequalities, especially for women and children, and learning and earning losses (Figure 6).[12] To minimize scarring, the government scaled up social safety nets to reach over ½ million households, provided support to hard-hit firms, and accelerated investment in education. The authorities are also calibrating their growth strategy focused on manufacturing and climate-resilient infrastructure investment.

Rwanda: Expansion of Social Protection Programs
(Thousands of beneficiary households)



Source: Rwandan authorities, World Bank, and IMF staff calculations.

Note : NSDS is a cash transfer scheme conditional on the take-up of essential health and nutrition services by pregnant women and children. DS cash transfers target individuals with disabilities and unable to work. cPW and ePW are public work program providing, respectively, short-term employment to households with able to work and part-time employment to households with caring responsibilities.

26. Achieving Rwanda's Sustainable Development Goals (SDGs) will require stepped-up efforts to close the financing gap amplified by the pandemic (Annex III). It is estimated that Rwanda would need additional resources of about 21¼ percent of GDP per year to meet its SDGs by 2030, against 15.7 percent of GDP per year pre-pandemic.[13] Closing the post-pandemic SDG financing gap will require policies to increase DRM, boost spending efficiency, foster private sector participation, and secure concessional resources consistent with the authorities' fiscal consolidation strategy.

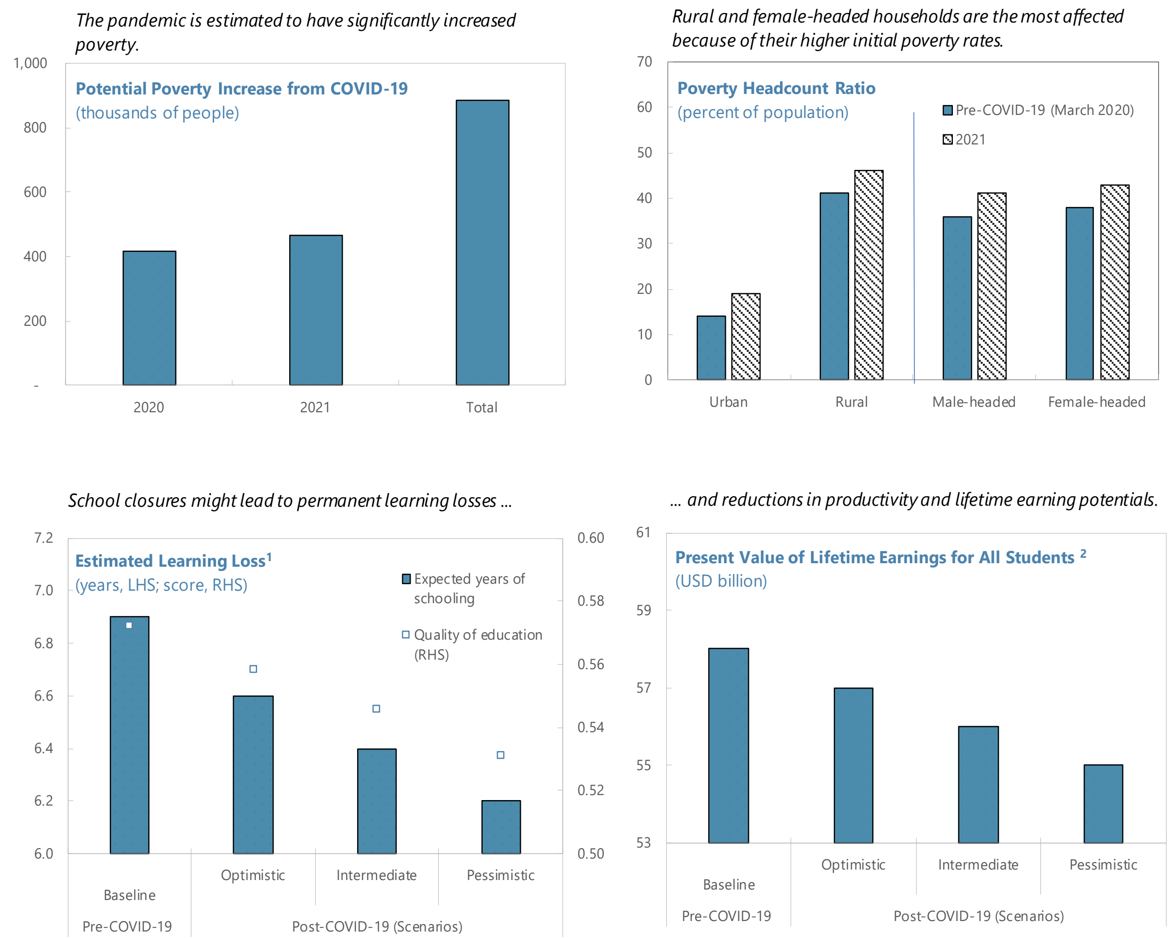
PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

27. Quantitative and reform targets. The program will continue to be monitored on a semi-annual basis through QTs, RTs, standard continuous targets, and an MPCC (PS Tables 1 and 2). Policy implementation will be evaluated through review-based monitoring, considering evolving circumstances and policy needs. The authorities have requested to extend the program for one year to make progress on ongoing reforms and policies to support the economic recovery and fiscal consolidation objectives and to address emerging risks.

[12] World Bank Rwanda Economic Update, January 2021; and Rwanda Macro Poverty Outlook., April 2021

[13] Duarte Lledo and Perrelli (2021)

Figure 6. Pandemic Social Impact and Scars



Sources: World Bank Rwanda Economic Update, January 2021; Rwanda Macro Poverty Outlook, April 2021; and IMF staff calculations.

[1] Quality of education is calculated as the ratio of the estimated Harmonized Test Score to 625, where 625 corresponds to advancement attainment on the TIMSS (Trends in International Mathematics and Science Study) test.

[2] Present value calculations assume 45 years of working life and a 3 percent discount rate. The total enrollment number is adjusted with the adult survival rate from the Human Capital Index, 2020 database. It takes 20 years for all the currently enrolled student cohorts to enter the labor market. Average human capital utilization is assumed as per Pennings (2019).

28. **Program adjustors have been introduced to accommodate uncertainties related to the COVID-19 vaccine rollout.** Uncertainty surrounding the global availability of vaccines and the cost and financing of Rwanda's vaccination campaign merits temporary adjustors on program QTs (debt-creating overall fiscal balance and PV of new external debt contracted or guaranteed by the government) to flexibly accommodate the COVID-19 vaccination strategy (TMU ¶4, ¶6, and ¶19). Staff and the authorities agreed to reassess the adjustors during the 5th PCI review.

29. Program conditionality is updated reflecting the macroeconomic framework and the authorities' commitments to reforms (PS Tables 1a–2): end-June 2021 QTs, which have been set during the 3rd review, have been modified and new end-December 2021 QTs have been set.

- The ceiling on the PV of new external PPG debt is proposed to be modified to exclude external borrowing to refinance existing public sector external debt with the aim of improving the profile of the repayment schedule (TMU ¶13). It was also revised upwards to include the carryover borrowing space from 2020, valuation effects, and external borrowing related to the COVID-19 vaccination campaign.
- To sustain reform efforts to strengthen the analysis and management of fiscal risks, a new RT on conducting an assessment of fiscal risks from PPPs with IMF TA support and submitting the outcome of this assessment together with mitigation options to the FRC is proposed for end-April 2022.
- The missed end-December 2020 RT on automating the risk-based verification process for VAT refund claims is proposed to be reset to end-October 2021.
- The end-June 2021 RT on the review of RSSB's asset allocation review is proposed to be reset to end-December 2021 to accommodate RSSB's need to hire an external advisory firm to conduct the review. The selection of the advisory firm is proposed as a new RT for end-June 2021.
- The end-June 2021 RT on the legal assessment for GMRA rollout is reset to end-November 2021 to accommodate BNR's requirement to consult with all parties involved in the GMRA reform, including the Capital Market Authority and the Rwanda Stock Exchange, before launching the legal assessment to identify gaps in the regulatory framework for true repo, together with recommendations to address them.
- Two new RTs are introduced to support fiscal transparency reforms: (i) the end-December 2021 RT on publishing historical series of consolidated fiscal statistics for the NFPS and (ii) the end-March 2023 publication of quarterly BER in GFSM 2014 for the general government.
- Two new RTs are introduced to support the GMRA reform: (i) the end-March 2022 RT on producing a study on the feasibility of extending true repo to non-bank financial institutions and (ii) the end-June 2022 RT on providing capacity building to market participants and securing the signing of the GMRA by all banks as a final step in its operationalization.
- The end-December 2021 RT on producing a study on consumer payment behavior is updated to clarify that the study will also include an assessment of the pricing of digital payment services.

30. Program financing and risks. Rwanda is not seeking financial assistance from the Fund and, based on development partners' firm commitments, the program is fully financed, with firm commitments of financing in place over the next 12 months and good financing prospects for the remainder of the program.[14] While uncertainty and risks to program implementation remain high, they are mitigated by the authorities' robust public health response, steadfast implementation of the ERP, commitment to targeted and transparent pandemic-related aid and expenditures, contingency planning, oversight , and strong track record in implementing Fund-supported programs.

31. Safeguards Assessment. The authorities have requested a safeguards assessment to be conducted as soon as possible pursuant to the June 2020 RCF disbursement. The last safeguards assessment took place in 2016, with all recommendations implemented.

32. Capacity Development (CD). CD activities remain closely linked to program priorities (Annex IV). Recent CD included TA to support the authorities' efforts to strengthen FPAS, improve government finance statistics, design the MTRS, and strengthen fiscal risk management. Going forward, CD activities are expected to focus, inter alia, on conducting a PIMA, PFRAM, and a follow-up on the fiscal transparency evaluation; and implementing the MTRS and FSSR recommendations.

STAFF APPRAISAL

33. The pandemic continues to exact a large economic and social toll on Rwanda. While the spread of the disease has been limited and fatality rates are relatively low, the impact of the pandemic has been significant, particularly in services. Output contraction in 2020 was larger than expected, and increasing poverty rates, especially among women, are exacerbating inequalities. Learning losses due to schooling interruptions could persistently reduce productivity and earnings.

34. The authorities' health and policy response, including the proposed relaxation of fiscal targets during the program, is appropriate. They acted swiftly to procure and secure financing for vaccines. The policy measures remain appropriately designed and targeted. Staff supports the authorities' decision to relax fiscal targets to accommodate additional spending needs due to the more protracted nature of the pandemic and the need to minimize scarring, and their commitment to safeguard debt sustainability by adopting a gradual and growth-friendly fiscal consolidation over the medium term. Debt under the baseline is assessed to remain sustainable with a moderate risk of debt distress, but buffers have diminished.

35. Given rising debt and the uncertain outlook, the authorities should step up efforts to contain fiscal and financial sector risks. Fiscal risks from SOEs and state-guaranteed loans merit close monitoring and mitigating measures, including limiting government exposure, tapering existing support, and relying on contingency planning practices. It will also be important to closely monitor credit risk to safeguard financial stability and avoid relaxing regulatory and supervisory requirements.

36. Transparency and accountability of COVID-19-related spending are important. The government's timely audit of COVID-19-related spending and publication of all expenditures,

[14] The potential for an SDR allocation later this year would supplement BNR's reserves. Rwanda's allocation, which would amount to US$219 million (2.1 percent of GDP) if confirmed, has not yet been incorporated into the macroeconomic framework. Its prospective use will be discussed at the next program review.

including pandemic-related, are welcome. Concrete steps to publish information on beneficial ownership of companies awarded government procurement contracts would further strengthen governance.

37. It will be critical to announce credible and growth-friendly fiscal consolidation measures prior to the end of the PCI to be implemented within a reasonable timeframe after the crisis abates. This will need to be predicated on the timely implementation of MTRS-1 and additional DRM measures, and steps to streamline non-priority spending and re-prioritize public investment during the current program. To support the credibility of the fiscal strategy, it would be critical to announce and start legislating and adopting some of these measures before the end of the program. To this effect, the authorities' decision to extend the PCI by one year is appropriate.

38. Staff welcomes the authorities' sustained commitment to structural reforms under the program. The authorities' timely actions to strengthen fiscal transparency, DRM, and the interest rate-based monetary framework will be critical to ensuring policies remain credible and help pave the way for a strong post-crisis recovery.

39. Staff supports the completion of the fourth review and the extension of the PCI through June 27, 2023 based on the authorities' appropriate actions to address the economic fallout from the pandemic, their commitment to reforms and to implementing a credible fiscal path to bring debt down as soon as the crisis abates.

Table 1. Rwanda: Selected Economic Indicators, 2020–26

	2020	2021		2022		2023		2024		2025		2026
	Act.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Output and prices												
Real GDP	-3.4	5.7	5.1	6.8	7.0	8.0	8.1	7.5	7.5	7.5	7.5	6.1
GDP deflator	8.3	2.3	1.9	4.3	5.4	5.0	5.8	5.0	5.0	5.0	5.0	5.0
CPI (period average)	7.7	2.5	2.4	4.1	4.9	5.0	5.8	5.0	5.0	5.0	5.0	5.0
CPI (end period)	3.7	2.3	3.5	5.0	5.2	5.0	6.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-0.9	0.0	2.6	1.0	0.2	1.1	1.6	-0.6	-0.6	2.3	1.7	2.3
Money and credit												
Broad money (M3)	18.0	12.0	10.1	13.6	13.1	22.0	17.3	14.9	14.7	12.8	12.7	11.4
Reserve money	21.7	11.2	10.6	17.8	13.1	19.8	15.2	14.9	14.7	12.8	12.7	11.4
Credit to non-government sector	21.8	12.6	10.0	12.1	12.7	14.0	14.6	13.7	13.3	14.0	13.5	12.7
M3/GDP (percent)	28.9	28.0	29.8	28.5	29.9	30.7	30.6	31.3	31.1	31.3	31.1	31.1
	(Percent of GDP, unless otherwise indicated)											
Budgetary central government, FY basis [1]												
Total revenue and grants	23.3	23.7	25.0	23.2	24.2	23.4	24.4	23.3	24.6	23.6	24.8	25.1
of which : tax revenue	16.2	15.5	16.0	15.4	15.9	15.5	16.4	15.7	16.8	16.0	17.0	17.5
of which : non-tax revenue	2.6	2.3	3.3	2.4	2.8	2.4	2.7	2.5	2.7	2.6	2.7	2.7
of which : grants	4.5	5.8	5.7	5.4	5.5	5.5	5.4	5.1	5.2	2.8	5.2	4.9
Expenditure	32.4	32.2	34.2	30.9	32.8	29.9	32.0	28.4	29.7	27.4	28.8	28.1
Current	16.0	14.8	15.9	16.3	15.4	15.5	15.7	14.2	14.5	13.5	14.6	14.4
Capital	12.7	12.8	14.5	11.5	12.3	11.5	12.4	11.2	11.9	11.0	12.3	11.9
Lending minus repayment	3.7	4.5	3.8	3.1	5.1	3.0	3.8	3.0	3.3	1.5	2.0	1.8
Primary balance	-7.6	-6.6	-7.6	-5.9	-6.3	-4.8	-5.2	-3.7	-2.9	-2.5	-1.9	-1.1
Overall balance	-9.1	-8.5	-9.2	-7.7	-8.6	-6.5	-7.5	-5.1	-5.1	-3.8	-4.0	-3.0
excluding grants	-13.6	-14.3	-14.9	-13.1	-14.1	-12.0	-12.9	-10.2	-10.3	-8.8	-9.2	-7.8
Debt-creating overall bal. (excl. PKO) [2]	-7.7	-8.6	-9.2	-7.0	-8.6	-6.3	-7.5	-5.1	-5.1	-3.8	-4.0	-3.0
Net domestic borrowing	-0.6	2.1	-0.4	1.8	4.0	1.5	1.3	1.4	0.5	0.7	0.0	-0.2
Public debt												
Total public debt incl. guarantees	71.3	71.1	79.1	73.7	81.3	73.3	81.1	72.0	79.5	70.0	76.5	74.0
of which : external public debt	55.3	58.4	63.0	60.7	66.8	61.0	68.7	61.1	68.7	60.8	67.9	65.9
PV of total public debt incl. guarantees	51.0	48.8	55.7	50.6	56.7	50.9	56.5	50.4	55.5	49.3	53.4	51.9
Investment and savings												
Investment	24.5	22.6	24.2	26.4	26.8	28.2	28.8	28.4	28.7	27.9	29.0	26.9
Government	14.2	12.2	13.8	11.5	12.1	11.4	12.1	11.5	12.0	10.9	12.2	10.2
Nongovernment	10.4	10.4	10.4	14.8	14.7	16.8	16.7	16.9	16.7	17.0	16.7	16.7
Savings	9.5	6.1	6.5	10.9	10.3	14.0	13.8	15.5	15.3	16.5	17.5	17.4
Government	3.1	2.6	-0.1	2.0	0.4	3.0	1.9	4.4	2.8	5.6	3.7	3.3
Nongovernment	6.4	3.5	6.5	8.8	9.9	11.0	11.8	11.1	12.5	11.0	13.8	14.1
External sector												
Exports (goods and services)	18.7	22.7	22.3	26.2	25.7	26.8	27.7	27.7	29.5	27.9	31.0	30.8
Imports (goods and services)	35.1	39.8	41.2	42.3	43.4	41.7	43.9	41.1	44.3	39.8	43.7	41.7
Current account balance (incl grants)	-12.2	-12.5	-13.4	-11.4	-12.2	-9.6	-11.2	-8.4	-9.6	-8.0	-7.5	-6.8
Current account balance (excl grants)	-15.0	-16.5	-17.8	-15.5	-16.5	-14.2	-15.0	-12.8	-13.5	-11.4	-11.5	-9.6
Current account balance (excl. large proj.)	-11.8	-11.0	-10.7	-9.6	-9.5	-7.1	-8.6	-6.3	-7.6	...	-6.3	-6.8
Gross international reserves												
In millions of US$	1,780	1,463	1,709	1,556	1,682	1,654	1,653	1,834	1,800	1,921	1,899	1,995
In months of next year's imports [3]	6.0	4.3	5.1	4.2	4.5	4.1	4.0	4.2	4.1	4.2	4.2	4.0
Memorandum items:												
GDP at current market prices												
Rwanda francs (billion), CY basis	9,746	10,641	10,438	11,862	11,772	13,449	13,463	15,184	15,207	17,129	17,163	19,119
Rwanda francs (billion), FY basis [1]	9,402	10,241	10,092	11,251	11,105	12,655	12,617	14,317	14,335	16,157	16,185	18,141
Population (million)	12.7	13.0	13.0	13.3	13.3	13.6	13.6	13.9	13.9	14.2	14.2	14.2

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 25/26 (2026). Fiscal year runs from July to June.

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

[3] Based on prospective import of goods (excluding gold) and services.

Table 2a. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation, FY19/20–25/26[1]

(billions of Rwandan Francs)

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26
	Prel.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
Revenue	**2,193**	**2,423**	**2,525**	**2,607**	**2,688**	**2,963**	**3,081**	**3,336**	**3,533**	**3,807**	**4,021**	**4,555**
Taxes	1,476	1,560	1,594	1,687	1,760	1,957	2,066	2,249	2,406	2,588	2,744	3,179
Taxes on income, profits, and capital gains	641	655	678	679	740	816	843	925	966	1,045	1,099	1,256
Taxes on property	5	4	22	--	28	--	31	--	37	--	39	44
Taxes on goods and services	712	777	769	870	848	985	1,022	1,145	1,172	1,330	1,327	1,493
Taxes on international trade and transactions	117	124	125	137	145	156	171	179	231	213	279	387
Grants	427	592	572	604	612	696	677	734	748	802	847	883
Current	168	300	276	327	274	411	385	432	435	455	481	498
Capital	260	292	295	277	338	285	292	301	313	348	366	386
of which Vaccine	--	--	4	--	59	--	--	--	--	--	--	--
Other revenue	290	271	360	316	315	309	337	354	380	417	430	492
of which PKO	142	143	214	145	177	--	184	--	198	--	206	213
of which CCRT	10	16	28	--	9	--	--	--	--	--	--	--
Expense (Current exp.)	**1,901**	**1,936**	**2,054**	**2,231**	**2,267**	**2,460**	**2,496**	**2,678**	**2,612**	**2,782**	**2,900**	**3,184**
Compensation of employees	266	304	302	236	354	256	425	283	474	305	542	609
of which: Covid-19 spending	--	--	28	--	--	--	--	--	--	--	--	--
Use of goods and services	572	470	621	694	532	736	620	850	622	797	713	813
of which: Covid-19 spending	65	60	29	11	119	--	--	--	--	--	--	--
of which: Covid-19 Vaccine	--	--	17	--	109	--	--	--	--	--	--	--
of which: PKO	188	136	214	145	177	--	188	--	198	--	206	213
Interest	139	197	163	206	257	224	299	203	322	213	332	339
To nonresidents	61	60	60	67	94	77	106	53	105	62	117	130
To residents other than general government	78	137	104	139	162	147	193	150	217	151	215	209
Subsidies	252	269	264	259	357	339	290	367	300	396	312	321
of which: Covid-19 spending (Public Transport)	12	--	12	--	--	--	--	--	--	--	--	--
Grants	500	502	528	623	615	665	680	704	691	764	767	830
To EBUs	31	42	56	52	64	55	71	58	78	63	85	94
Current	17	31	33	42	42	43	44	45	45	49	49	54
of which compensation of employees	16	26	26	32	36	34	34	36	34	39	35	35
Capital	14	10	22	10	22	12	27	13	32	14	37	40
To Local Government	469	460	472	571	551	610	610	646	614	701	682	736
Current	279	298	300	420	400	431	443	446	446	480	495	534
of which compensation of employees	171	229	233	284	291	304	304	322	322	349	349	352
Capital	128	162	173	151	151	179	167	201	168	221	187	202
of which: Covid-19 spending	--	11	--	5	--	5	5	--	--	--	--	--
Social benefits	27	33	46	36	46	41	52	46	60	52	67	76
of which: Covid-19 spending	5	--	--	--	--	--	5	--	--	--	--	--
Other expense	144	161	130	177	107	199	130	225	143	254	167	196
Net Operating Balance (Current balance)												
including grants	**292**	**487**	**470**	**377**	**421**	**503**	**585**	**658**	**922**	**1,025**	**1,122**	**1,371**
excluding grants	-136	-105	-101	-227	-191	-194	-93	-75	174	223	274	488
Net acquisition of nonfin. assets (Capital exp.)	1,033	1,143	1,271	1,135	1,195	1,262	1,370	1,390	1,512	1,540	1,761	1,909
Foreign financed	548	601	708	631	574	662	660	719	711	801	865	915
of which: Covid-19 spending	0	--	90	--	30	--	--	--	--	--	--	--
Domestically financed	485	541	563	505	621	600	710	671	801	739	897	994
of which: Covid-19 spending	27	40	121	127	100	100	100	--	--	--	--	--
Net lending (+) / borrowing (-) (Overall balance)												
including grants	**-741**	**-656**	**-801**	**-758**	**-775**	**-759**	**-785**	**-731**	**-590**	**-515**	**-640**	**-538**
excluding grants	-1,169	-1,248	-1,373	-1,363	-1,387	-1,455	-1,462	-1,465	-1,338	-1,318	-1,487	-1,422
Net acquisition of financial assets	**421**	-0	**307**	-76	-263	-95	**-5**	-97	**61**	-10	**8**	**41**
Currency and deposits	308	-220	181	-185	-447	-163	-170	-195	-79	-110	8	41
Loans	104	212	119	104	124	63.4	124	--	117	--	--	--
of which ERF	0	183	90	25	93	--	88	--	92	--	--	--
Equity and investment fund shares	10	7	7	5	60	5	42	97	23	100	--	--
Net incurrence of liabilities	**1,160**	**655**	**1,108**	**682**	**512**	**1,343**	**781**	**1,114**	**652**	**1,051**	**647**	**580**
Domestic	206	-35	102	-25	-40	664	-40	537	-40	506	-40	-40
Debt securities	271	57	195	73	67	83	140	0	1	0	37	107
Loans	-39	-57	-57	-58	-67	621	-140	577	-1	546	-37	-107
Other accounts payable	-27	-35	-35	-40	-40	-40	-40	-40	-40	-40	-40	-40
Foreign	954	691	1,006	707	552	679	821	577	692	546	688	620
Debt securities	--	--	253	--	--	--	--	--	--	--	--	--
Loans	954	691	752	707	552	679	821	577	692	546	688	620
Disbursements	1,009	766	828	801	651	1,198	924	688	829	699	871	906
Current	721	457	416	448	248	821	468	270	339	246	372	376
Capital	288	309	413	353	403	377	456	418	490	453	499	530
Reimbursements	55	76	76	94	100	519	103	111	137	153	183	286
Statistical discrepancy	2	--	--	--	--	--	--	--	--	--	--	--
Memorandum items:												
Domestic revenue (incl. local government)	1,624	1,688	1,739	1,858	1,898	2,267	2,219	2,603	2,588	3,004	2,968	3,459
Wage bill	453	558	561	552	682	594	762	641	829	693	925	996
Total Covid-19 related spending	109	294	370	168	342	105	198	--	92	--	--	--
Overall fiscal balance (incl. grants, comm. basis)	-855	-875	-927	-867	-959	-827	-951	-731	-730	-615	-640	-538
Debt creating overall bal. (excl. PKO)[2]	-729	-883	-927	-867	-959	-827	-947	-731	-730	-615	-640	-538

Sources: Rwandan authorities and IMF staff estimates and projections.

[1]Fiscal year runs from July to June.

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

Table 2b. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation, FY19/20–25/26[1]

(percent of GDP)

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26
	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
Revenue	**23.3**	**23.7**	**25.0**	**23.2**	**24.2**	**23.4**	**24.4**	**23.3**	**24.6**	**23.6**	**24.8**	**25.1**
Taxes	15.7	15.2	15.8	15.0	15.9	15.5	16.4	15.7	16.8	16.0	17.0	17.5
Taxes on income, profits, and capital gains	6.8	6.4	6.7	6.0	6.7	6.4	6.7	6.5	6.7	6.5	6.8	6.9
Taxes on property	0.0	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.3	0.0	0.2	0.2
Taxes on goods and services	7.6	7.6	7.6	7.7	7.6	7.8	8.1	8.0	8.2	8.2	8.2	8.2
Taxes on international trade and transactions	1.2	1.2	1.2	1.2	1.3	1.2	1.4	1.3	1.6	1.3	1.7	2.1
Grants	4.5	5.8	5.7	5.4	5.5	5.5	5.4	5.1	5.2	5.0	5.2	4.9
Current	1.8	2.9	2.7	2.9	2.5	3.2	3.1	3.0	3.0	2.8	3.0	2.7
Capital	2.8	2.9	2.9	2.5	3.0	2.3	2.3	2.1	2.2	2.2	2.3	2.1
of which Vaccine	--	--	--	--	0.5	--	--	--	--	--	--	--
Other revenue	3.1	2.6	3.6	2.8	2.8	2.4	2.7	2.5	2.7	2.6	2.7	2.7
of which PKO	1.5	1.4	2.1	1.3	1.6	1.2	1.5	1.0	1.4	1.2	1.3	1.2
of which CCRT	0.1	0.2	0.3	--	0.1	--	--	--	--	--	--	--
Expense (Current exp.)	**20.2**	**18.9**	**20.4**	**19.8**	**20.4**	**19.4**	**19.8**	**18.7**	**18.2**	**17.2**	**17.9**	**17.6**
Compensation of employees	2.8	3.0	3.0	2.1	3.2	2.0	3.4	2.0	3.3	1.9	3.3	3.4
of which: Covid-19 spending	--	--	0.3	--	--	--	--	--	--	--	--	--
Use of goods and services	6.1	4.6	6.2	6.2	4.8	5.8	4.9	5.9	4.3	4.9	4.4	4.5
of which: Covid-19 spending	0.7	0.6	0.3	0.1	1.1	--	--	--	--	--	--	--
of which: Vaccine	0.0	--	0.2	--	1.0	--	--	--	--	--	--	--
of which: PKO	2.0	1.3	2.1	1.3	1.6	--	1.5	--	1	--	1.3	1.2
Interest	1.5	1.9	1.6	1.8	2.3	1.8	2.4	1.4	2.2	1.3	2.1	1.9
To nonresidents	0.6	0.6	0.6	0.6	0.8	0.6	0.8	0.4	0.7	0.4	0.7	0.7
To residents other than general government	0.8	1.3	1.0	1.2	1.5	1.2	1.5	1.0	1.5	0.9	1.3	1.2
Subsidies	2.7	2.6	2.6	2.3	3.2	2.7	2.3	2.6	2.1	2.5	1.9	1.8
of which: Covid-19 spending (Public Transport)	0.1	--	0.1	--	--	--	--	--	--	--	--	--
Grants	5.3	4.9	5.2	5.5	5.5	5.3	5.4	4.9	4.8	4.7	4.7	4.6
To EBUs	0.3	0.4	0.6	0.5	0.6	0.4	0.6	0.4	0.5	0.4	0.5	0.5
Current	0.2	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
of which compensation of employees	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Capital	0.1	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.2
To Local Government	5.0	4.5	4.7	5.1	5.0	4.8	4.8	4.5	4.3	4.3	4.2	4.1
Current	3.0	2.9	3.0	3.7	3.6	3.4	3.5	3.1	3.1	3.0	3.1	2.9
of which compensation of employees	1.8	2.2	2.3	2.5	2.6	2.4	2.4	2.2	2.2	2.2	2.2	1.9
Capital	1.4	1.6	1.7	1.3	1.4	1.4	1.3	1.4	1.2	1.4	1.2	1.1
of which: Covid-19 spending	0.0	0.1	--	--	--	--	--	--	--	--	--	--
Social benefits	0.3	0.3	0.5	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.4
Other expense	1.5	1.6	1.3	1.6	1.0	1.6	1.0	1.6	1.0	1.6	1.0	1.1
Net acquisition of nonfin. assets (Capital exp.)	**11.0**	**11.2**	**12.6**	**10.1**	**10.8**	**10.0**	**10.9**	**9.7**	**10.5**	**9.5**	**10.9**	**10.5**
Foreign financed	5.8	5.9	7.0	5.6	5.2	5.2	5.2	5.0	5.0	5.0	5.3	5.0
of which: Covid-19 spending	0.0	--	0.9	--	0.3	--	--	--	--	--	--	--
Domestically financed	5.2	5.3	5.6	4.5	5.6	4.7	5.6	4.7	5.6	4.6	5.5	5.5
of which: Covid-19 spending	0.3	0.4	1.2	1.1	0.9	0.8	0.8	--	--	--	--	--
Net lending (+) / borrowing (-) (Overall balance)												
including grants	**-7.9**	**-6.4**	**-7.9**	**-6.7**	**-7.0**	**-6.0**	**-6.2**	**-5.1**	**-4.1**	**-3.2**	**-4.0**	**-3.0**
excluding grants	-12.4	-12.2	-13.6	-12.1	-12.5	-11.5	-11.6	-10.2	-9.3	-8.2	-9.2	-7.8
Net acquisition of financial assets	**4.5**	**--**	**3.0**	**-0.7**	**-2.4**	**-0.8**	--	**-0.7**	**0.4**	**-0.1**	--	**0.2**
Currency and deposits	3.3	-2.1	1.8	-1.6	-4.0	-1.3	-1.3	-1.4	-0.5	-0.7	--	0.2
Loans	1.1	2.1	1.2	0.9	1.1	0.5	1.0	--	0.8	--	--	--
of which ERF	0.0	1.8	0.9	0.2	0.8	--	0.7	--	0.6	--	--	--
Equity and investment fund shares	0.1	0.1	0.1	0.0	0.5	--	0.3	0.7	0.2	0.6	--	--
Net incurrence of liabilities	**12.3**	**6.4**	**11.0**	**6.1**	**4.6**	**10.6**	**6.2**	**7.8**	**4.5**	**6.5**	**4.0**	**3.2**
Domestic	2.2	-0.3	1.0	-0.2	-0.4	5.2	-0.3	3.7	-0.3	3.1	-0.2	-0.2
Debt securities	2.9	0.6	1.9	0.6	0.6	0.7	1.1	--	--	--	0.2	0.6
Loans	-0.4	-0.6	-0.6	-0.5	-0.6	4.9	-1.1	4.0	0.0	3.4	-0.2	-0.6
Other accounts payable	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Foreign	10.1	6.7	10.0	6.3	5.0	5.4	6.5	4.0	4.8	3.4	4.2	3.4
Debt securities	0.0	--	2.5	--	--	--	--	--	--	--	--	--
Loans	10.1	6.7	7.5	6.3	5.0	5.4	6.5	4.0	4.8	3.4	4.2	3.4
Disbursements	10.7	7.5	8.2	7.1	5.9	9.5	7.3	4.8	5.8	4.3	5.4	5.0
Current	7.7	4.5	4.1	4.0	2.2	6.5	3.7	1.9	2.4	1.5	2.3	2.1
Capital	3.1	3.0	4.1	3.1	3.6	3.0	3.6	2.9	3.4	2.8	3.1	2.9
Reimbursements	0.6	0.7	0.8	0.8	0.9	4.1	0.8	0.8	1.0	0.9	1.1	1.6
Statistical discrepancy	--	--	--	--	--	--	--	--	--	--	--	--
Memorandum items:												
Domestic revenue (incl. local government)	17.3	16.5	17.2	16.5	17.1	17.9	17.6	18.2	18.1	18.6	18.3	19.1
Wage bill	4.8	5.5	5.6	4.9	6.1	4.7	6.0	4.5	5.8	4.3	5.7	5.5
Total Covid-19 related spending	1.2	2.9	3.7	1.5	3.1	0.8	1.6	--	0.6	--	--	--
Overall fiscal balance (incl. grants, comm. basis)	-9.1	-8.5	-9.2	-7.7	-8.6	-6.5	-7.5	-5.1	-5.1	-3.8	-4.0	-3.0
Debt creating overall bal. (excl. PKO, comm.)[2]	-7.7	-8.6	-9.2	-7.7	-8.6	-6.5	-7.5	-5.1	-5.1	-3.8	-4.0	-3.0
GDP (Billions of RwF), FY basis	9,402	10,241	10,092	11,251	11,105	12,655	12,617	14,317	14,335	16,157	16,185	18,141

Sources: Rwandan authorities and IMF staff estimates and projections.

[1]Fiscal years runs from July to June.

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

Table 2c. Rwanda: Budgetary Central Government Flows, GFSM 1986 Presentation, FY19/20–25/26[1]

(billions of Rwandan Francs)

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26
	Act.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
Revenue and grants	**2,193**	**2,423**	**2,525**	**2,607**	**2,688**	**2,963**	**3,081**	**3,336**	**3,533**	**3,807**	**4,021**	**4,555**
Total revenue	1,765	1,831	1,953	2,003	2,076	2,267	2,403	2,603	2,786	3,004	3,174	3,672
Tax revenue	1,524	1,591	1,618	1,731	1,760	1,957	2,066	2,249	2,406	2,588	2,744	3,179
Direct taxes	685	696	712	723	768	816	873	925	1,002	1,045	1,138	1,300
Taxes on goods and services	720	771	780	870	848	985	1,022	1,145	1,172	1,330	1,327	1,493
Taxes on international trade	118	124	126	137	145	156	171	179	231	213	279	387
Non-tax revenue	242	240	335	272	315	309	337	354	380	417	430	492
of which: CCRT	10	16	28	--	8	--	--	--	--	--	--	--
of which: PKO	142	143	214	145	177	152	184	140	198	156	206	213
Grants	427	592	572	604	612	696	677	734	748	802	847	883
Budget grants	168	300	277	327	274	411	385	432	435	455	481	498
Project grants	260	292	295	277	338	285	292	301	313	348	366	386
Total expenditure and net lending	**3,048**	**3,299**	**3,452**	**3,475**	**3,647**	**3,790**	**4,031**	**4,068**	**4,264**	**4,422**	**4,661**	**5,093**
Current expenditure	1,502	1,519	1,603	1,834	1,709	1,961	1,987	2,034	2,085	2,186	2,360	2,613
Wages and salaries	400	558	561	552	682	594	762	641	829	693	925	996
of which: Covid-19 spending	--	--	28	--	--	--	--	--	--	--	--	--
Purchases of goods and services	256	197	481	393	468	413	581	434	560	451	668	802
of which: Covid-19 spending	65	60	29	11	119	--	--	--	--	--	--	--
of which: Covid-19 Vaccine	--	--	17	--	109	--	--	--	--	--	--	--
Interest payments	139	197	163	206	257	224	299	203	322	213	332	339
Domestic debt	78	137	104	139	162	147	193	150	217	151	215	209
External debt	61	60	60	67	94	77	106	53	105	62	117	130
Transfers	482	388	137	481	79	515	105	545	118	591	162	189
of which: Covid-19 spending (Public Transport)	5	11	12	5	--	5	5	--	--	--	--	--
PKO and demobilization	225	178	261	202	223	216	240	212	257	237	273	288
of which: PKO	188	136	214	145	177	152	188	140	198	156	206	213
of which: Covid-19 spending	--	--	--	--	--	--	5		--		--	--
Capital expenditure	1,194	1,315	1,466	1,296	1,369	1,453	1,564	1,603	1,712	1,776	1,985	2,151
Domestic	646	714	758	665	794	791	904	884	1,001	975	1,120	1,236
of which: Covid-19 spending	27	40	121	127	100	100	100		--		--	--
Foreign	548	601	708	631	574	662	660	719	711	801	865	915
of which: Covid-19 spending	--	--	90	--	30	--	--	--	--	--	--	--
Net lending and privatization receipts	352	465	383	345	569	377	481	431	466	460	317	329
of which: Covid-19 spending (ERF)	12	183	90	25	93	--	88	--	92	--	--	--
Overall balance (incl. grants, commitment basis)	**-855**	**-875**	**-927**	**-867**	**-959**	**-827**	**-951**	**-731**	**-730**	**-615**	**-640**	**-538**
of which Debt-creating overall balance (excl. PKO)[2]	**-729**	**-883**	**-927**	**-788**	**-959**	**-795**	**-947**	**-731**	**-730**	**-615**	**-640**	**-538**
Change in float/arrears [3]	-27	-35	-35	-40	-40	-40	-40	-40	-40	-40	-40	-40
Overall balance (incl. grants, cash basis)	**-882**	**-911**	**-962**	**-907**	**-999**	**-867**	**-991**	**-771**	**-770**	**-655**	**-680**	**-578**
Financing	**882**	**911**	**962**	**907**	**999**	**867**	**991**	**771**	**770**	**655**	**680**	**578**
Foreign financing (net)	936	691	1,006	707	552	679	821	577	692	546	688	620
Drawings	991	766	1,315	801	651	1,198	924	688	829	699	871	906
Budgetary loans	703	457	902	448	248	821	468	270	339	246	372	376
Project loans	288	309	413	353	403	377	456	418	490	453	499	530
Amortization	-55	-76	-309	-94	-100	-519	-279	-111	-137	-153	-183	-286
Net domestic financing	-54	220	-43	200	447	188	170	195	79	110	-8	-41
Net credit from banking system	-102	220	-123	185	439	163	169	195	79	110	-8	-41
Nonbank sector	59	--	80	15	8	25	1	--	--	--	--	--
Errors and omissions	-12	--	--	--	--	--	--	--	--	--	--	--

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

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

[3] A negative sign indicates a reduction.

Table 2d. Rwanda: Budgetary Central Government Flows, GFSM 1986 Presentation, FY19/20–25/26[1]

(percent of GDP)

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26
	Act.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
Revenue and grants	**23.3**	**23.7**	**25.0**	**23.2**	**24.2**	**23.4**	**24.4**	**23.3**	**24.6**	**23.6**	**24.8**	**25.1**
Total revenue	18.8	17.9	19.4	17.8	18.7	17.9	19.0	18.2	19.4	18.6	19.6	20.2
Tax revenue	16.2	15.5	16.0	15.4	15.9	15.5	16.4	15.7	16.8	16.0	17.0	17.5
Direct taxes	7.3	6.8	7.1	6.4	6.9	6.4	6.9	6.5	7.0	6.5	7.0	7.2
Taxes on goods and services	7.7	7.5	7.7	7.7	7.6	7.8	8.1	8.0	8.2	8.2	8.2	8.2
Taxes on international trade	1.3	1.2	1.2	1.2	1.3	1.2	1.4	1.3	1.6	1.3	1.7	2.1
Nontax revenue	2.6	2.3	3.3	2.4	2.8	2.4	2.7	2.5	2.7	2.6	2.7	2.7
of which: CCRT	0.1	0.2	0.3	--	0.1	--	--	--	--	--	--	--
of which: PKO	1.5	1.4	2.1	1.3	1.6	1.2	1.5	1.0	1.4	1.2	1.4	1.5
Grants	4.5	5.8	5.7	5.4	5.5	5.5	5.4	5.1	5.2	2.8	5.2	4.9
Budget grants	1.8	2.9	2.7	2.9	2.5	3.2	3.1	3.0	3.0	2.8	3.0	2.7
Project grants	2.8	2.9	2.9	2.5	3.0	2.3	2.3	2.1	2.2	2.2	2.3	2.1
Total expenditure and net lending	**32.4**	**32.2**	**34.2**	**30.9**	**32.8**	**29.9**	**32.0**	**28.4**	**29.7**	**27.4**	**28.8**	**28.1**
Current expenditure	16.0	14.8	15.9	16.3	15.4	15.5	15.7	14.2	14.5	13.5	14.6	14.4
Wages and salaries	4.3	5.5	5.6	4.9	6.1	4.7	6.0	4.5	5.8	4.3	5.7	5.5
of which: Covid-19 spending	--	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases of goods and services	2.7	1.9	4.8	3.5	4.2	3.3	4.6	3.0	3.9	2.8	4.1	4.4
of which: Covid-19 spending	0.7	0.6	0.3	0.1	1.1	--	--	--	--	--	--	--
of which: Covid-19 Vaccine	0.0	0.0	0.2	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	1.5	1.9	1.6	1.8	2.3	1.8	2.4	1.4	2.2	1.3	2.1	1.9
Domestic debt	0.8	1.3	1.0	1.2	1.5	1.2	1.5	1.0	1.5	0.9	1.3	1.2
External debt	0.6	0.6	0.6	0.6	0.8	0.6	0.8	0.4	0.7	0.4	0.7	0.7
Transfers	5.1	3.8	1.4	4.3	0.7	4.1	0.8	3.8	0.8	3.7	1.0	1.0
of which: Covid-19 spending (Public Transport)	0.1	0.1	0.1	0.0	0.0	0.0	0.0			0.0	0.0	0.0
PKO and demobilization	2.0	1.7	2.6	1.8	2.0	1.7	1.9	1.5	1.8	1.5	1.7	1.6
of which: PKO	2.0	1.3	2.1	1.3	1.6	1.2	1.5	1.0	1.4	1.0	1.3	1.2
of which: Covid-19 spending	--	--	--	--	--	--	0.0	--	--	--	--	--
Capital expenditure	12.7	12.8	14.5	11.5	12.3	11.5	12.4	11.2	11.9	11.0	12.3	11.9
Domestic	6.9	7.0	7.5	5.9	7.2	6.2	7.2	6.2	7.0	6.0	6.9	6.8
of which: Covid-19 spending	0.3	0.4	1.2	1.1	0.9	0.8	0.8	--	--	--	--	--
Foreign	5.8	5.9	7.0	5.6	5.2	5.2	5.2	5.0	5.0	5.0	5.3	5.0
of which: Covid-19 spending	0.0	0.0	0.9	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending and privatization receipts	3.7	4.5	3.8	3.1	5.1	3.0	3.8	3.0	3.3	1.5	2.0	1.8
of which: Covid-19 spending (ERF)	0.1	1.8	0.9	0.2	0.8	--	0.7	--	0.6	--	--	--
Overall balance (incl. grants, commitment basis)	**-9.1**	**-8.5**	**-9.2**	**-7.7**	**-8.6**	**-6.5**	**-7.5**	**-5.1**	**-5.1**	**-3.8**	**-4.0**	**-3.0**
***of which:* Debt-creating overall bal.(exc. PKO)[2]**	**-7.7**	**-8.6**	**-9.2**	**-7.0**	**-8.6**	**-6.3**	**-7.5**	**-5.1**	**-5.1**	**-3.8**	**-4.0**	**-3.0**
Change in float/arrears[3]	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Overall balance (incl. grants, cash basis)	**-9.4**	**-8.9**	**-9.5**	**-8.1**	**-9.0**	**-6.9**	**-7.9**	**-5.4**	**-5.4**	**-4.1**	**-4.2**	**-3.2**
Financing	**9.4**	**8.9**	**9.5**	**8.1**	**9.0**	**6.9**	**7.9**	**5.4**	**5.4**	**4.1**	**4.2**	**3.2**
Foreign financing (net)	10.0	6.7	10.0	6.3	5.0	5.4	6.5	4.0	4.8	3.4	4.2	3.4
Drawings	10.5	7.5	13.0	7.1	5.9	9.5	7.3	4.8	5.8	4.3	5.4	5.0
Budgetary loans	7.5	4.5	8.9	4.0	2.2	6.5	3.7	1.9	2.4	1.5	2.3	2.1
Project loans	3.1	3.0	4.1	3.1	3.6	3.0	3.6	2.9	3.4	2.8	3.1	2.9
Amortization	-0.6	-0.7	-3.1	-0.8	-0.9	-4.1	-2.2	-0.8	-1.0	-0.9	-1.1	-1.6
Net domestic financing	-0.6	2.1	-0.4	1.8	4.0	1.5	1.3	1.4	0.5	0.7	0.0	-0.2
Net credit from banking system	-1.1	2.1	-1.2	1.6	4.0	1.3	1.3	1.4	0.5	0.7	0.0	-0.2
Nonbank sector	0.6	--	0.8	0.1	0.1	0.2	--	--	--	--	--	--
Errors and omissions	-0.1	--	--	--	--	--	--	--	--	--	--	--
Memorandum items:												
Covid-19 related spending (total)	1.2	2.9	3.7	1.5	3.1	0.8	1.6	--	0.6	--	--	--
GDP (billions of Rwanda Francs), FY basis	9,402	10,241	10,092	11,251	11,105	12,655	12,617	14,317	14,335	16,157	16,185	18,141

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

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

[3] A negative sign indicates a reduction.

Table 3. Monetary Survey, 2019–26

(billions of Rwandan francs, unless otherwise indicated)

	2019		2020		2021				2022		2023		2024		2025		2026
	Jun.	Dec.	Jun.	Dec.	Jun.		Dec.		Dec.		Dec		Dec		Dec		Dec
	Act.	Act.	Act.	Act.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
Monetary authorities survey																	
Net Foreign Assets[1]	819	1,017	1,046	1,214	994	1,198	926	1,182	1,055	1,200	1,189	1,218	1,389	1,395	1,497	1,532	1,671
Of which: Foreign assets	1,126	1,329	1,558	1,731	1,455	1,697	1,371	1,662	1,458	1,636	1,550	1,608	1,718	1,750	1,800	1,847	1,940
Foreign liabilities	306	312	512	517	461	499	445	481	403	435	361	390	329	355	303	315	269
Net domestic assets	-390	-569	-554	-668	-446	-654	-368	-579	-398	-518	-402	-432	-484	-493	-477	-516	-539
Domestic credit	-176	-348	-288	-389	-126	-341	-125	-254	-130	-186	-151	-86	-181	-137	-116	-170	-223
Other items (net; asset +)	-214	-220	-266	-280	-320	-312	-244	-325	-267	-332	-251	-346	-304	-356	-361	-347	-316
Reserve money	429	448	492	545	548	544	558	603	657	682	787	786	905	902	1,020	1,016	1,132
Commercial banks survey																	
Net foreign assets	81	121	49	97	118	97	118	97	118	97	118	97	118	97	118	97	97
Net domestic assets	1,926	2,040	2,343	2,471	3,618	2,490	2,579	2,731	2,936	3,103	3,618	3,666	4,178	4,221	4,731	4,770	5,326
Reserves	216	218	243	292	275	281	274	324	326	368	394	425	455	489	516	553	617
Net credit to BNR	8	2	32	-103	33	-184	-101	-125	-76	-121	61	29	161	73	171	72	59
Domestic credit	2,249	2,371	2,714	2,964	2,931	3,106	3,080	3,312	3,450	3,709	3,989	4,126	4,412	4,598	4,902	5,092	5,615
Government (net)	393	440	594	641	626	693	638	768	724	854	895	870	907	923	919	935	940
Public enterprises	126	129	143	140	128	140	128	140	128	140	128	140	128	140	128	140	140
Private sector	1,730	1,802	1,977	2,183	2,177	2,273	2,314	2,404	2,598	2,715	2,966	3,116	3,377	3,535	3,855	4,017	4,535
Other items (net; asset +)	-548	-551	-646	-682	-754	-712	-675	-781	-764	-852	-826	-914	-851	-939	-859	-947	-964
Deposits	2,006	2,162	2,391	2,568	2,605	2,588	2,697	2,828	3,054	3,200	3,736	3,763	4,296	4,318	4,849	4,867	5,423
Monetary survey																	
Net foreign assets	900	1,138	1,095	1,311	1,112	1,295	1,045	1,279	1,173	1,298	1,307	1,315	1,507	1,492	1,615	1,629	1,768
Net domestic assets	1,320	1,253	1,545	1,510	1,765	1,556	1,937	1,828	2,213	2,216	2,823	2,808	3,239	3,238	3,738	3,701	4,170
Domestic credit	2,082	2,025	2,457	2,472	2,839	2,581	2,855	2,934	3,244	3,401	3,900	4,069	4,393	4,534	4,958	4,995	5,450
Government	201	70	308	108	503	127	382	348	486	505	774	772	856	818	944	796	734
Public enterprises	126	129	143	140	128	140	128	140	128	140	128	140	128	140	128	140	140
Private sector	1,754	1,826	2,007	2,224	2,209	2,314	2,346	2,446	2,629	2,756	2,998	3,157	3,409	3,576	3,887	4,059	4,576
Other items (net; asset +)	-762	-772	-912	-962	-1,074	-1,025	-919	-1,106	-1,031	-1,184	-1,077	-1,261	-1,154	-1,296	-1,220	-1,294	-1,281
Broad money	2,220	2,391	2,640	2,821	2,877	2,851	2,981	3,106	3,386	3,514	4,130	4,124	4,746	4,730	5,353	5,330	5,938
Year on Year Growth									(Percent)								
Broad money	14.3	15.4	18.9	18.0	9.4	8.0	12.0	10.1	13.6	13.1	22.0	17.3	14.9	14.7	12.8	12.7	11.4
Reserve money	15.3	16.0	14.6	21.7	11.0	10.5	11.2	10.6	17.8	13.1	19.8	15.2	14.9	14.7	12.8	12.7	11.4
Net foreign assets	13.2	7.6	21.7	15.2	1.2	18.2	-9.2	-2.4	12.3	1.5	11.4	1.3	15.3	13.4	7.2	9.2	8.5
Credit to the private sector	17.6	12.6	14.4	21.8	10.3	15.3	12.6	10.0	12.1	12.7	14.0	14.6	13.7	13.3	14.0	13.5	12.7
Memorandum items:																	
Velocity (eop)	3.9	3.9	3.6	3.5	3.6	3.5	3.6	3.4	3.5	3.4	3.3	3.3	3.2	3.2	3.2	3.2	3.2
Money multiplier	5.2	5.3	5.4	5.2	5.3	5.2	5.3	5.2	5.2	5.2	5.2	5.2	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 of the Banking Sector (March 2018–21)

	2018				2019				2020				2021
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
	(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	20.3	21.1
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	21.5	22.3
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	109.3	98.5
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	14.2	7.3
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	121.1	111.3
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	4.5	6.6
NPLs net of suspended interest/gross loans	5.5	5.2	6.1	5.5	5.6	5.6	4.8	4.7	3.1	4.9	4.7	4.0	5.9
Provisions/NPLs	59.2	67.4	64.2	68.2	71.1	80.2	85.4	81.5	76.7	82.6	88.3	106.3	79.9
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	85.0	80.4
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	24.7	24.0
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	2.0	2.4
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	11.8	14.5
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	8.3	9.2
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	3.3	3.3
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	77.7	72.3
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	39.5	35.2
Liquidity													
Liquidity coverage ratio	...	299.5	317.5	637.0	215.2	180.5	193.0	191.8	202.1	252.8	254.0	254.7	240.8
Net stable funding ratio	...	224.7	219.9	222.0	174.0	164.3	146.3	129.3	134.7	175.5	159.1	161.4	159.2
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	2.4	-0.7
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	39.5	35.9
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	26.7	25.0
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	0.8	0.9
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	112.4	107.9
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	-4.4	-3.2
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	41.8	37.0
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	88.5	87.8

Source: National Bank of Rwanda.

Table 5. Rwanda: Balance of Payments, 2019–26

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

	2019	2020		2021		2022		2023		2024		2025		2026
	Act.	3rd Review	Prelim.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	3rd Review	Proj.	Proj.
Current account balance (incl. official transfers)	**-1,231**	**-1,261**	**-1,265**	**-1,334**	**-1,395**	**-1,292**	**-1,348**	**-1,193**	**-1,335**	**-1,140**	**-1,230**	**-1,198**	**-1,044**	**-1,036**
Trade balance	-1,465	-1,511	-1,696	-1,700	-1,821	-1,821	-1,881	-1,834	-1,926	-1,818	-1,938	-1,828	-1,889	-1,782
Exports (f.o.b.)	1,240	1,418	1,409	1,690	1,728	1,942	2,028	2,219	2,347	2,558	2,664	2,820	2,994	3,190
Of which: gold	276	626	648	657	732	690	768	724	807	761	847	799	889	916
Exports (f.o.b.) excl. gold	963	793	762	1,033	996	1,252	1,260	1,494	1,540	1,798	1,817	2,022	2,104	2,274
Of which: coffee and tea	156	148	144	186	183	206	219	223	235	258	238	292	274	307
Of which: minerals	100	74	83	121	115	169	139	207	187	238	236	300	298	334
Imports (f.o.b.)	2,705	2,930	3,106	3,390	3,549	3,763	3,910	4,052	4,273	4,376	4,602	4,648	4,883	4,972
Of which: gold	239	593	675	623	702	654	730	686	759	721	789	757	821	846
Imports (f.o.b.) excl. gold	2,465	2,337	2,431	2,768	2,848	3,109	3,180	3,366	3,514	3,656	3,812	3,891	4,061	4,126
Imports (f.o.b.) excl. gold and non-fuel re-exports	2,289	2,165	2,228	2,579	2,642	2,890	2,933	3,114	3,230	3,361	3,543	3,580	3,747	3,760
Services (net)	-18	-176	1	-115	-141	3	-66	-8	-4	-7	39	55	108	127
Credit	1,015	467	521	728	593	1,017	813	1,116	963	1,210	1,136	1,344	1,351	1,472
Of which: tourism receipts	458	107	120	236	124	472	335	542	435	597	523	686	627	690
Debit	1,033	643	519	843	734	1,014	878	1,125	967	1,217	1,096	1,289	1,243	1,344
Income	-330	-298	-190	-283	-248	-291	-290	-299	-321	-315	-358	-330	-375	-378
Of which: interest on public debt[1,2]	-93	-90	-74	-85	-94	-77	-102	-85	-102	-91	-109	-95	-122	-136
Current transfers (net)	581	724	621	764	816	817	888	948	916	1,001	1,026	905	1,111	997
Private	313	310	332	345	365	360	419	378	458	393	523	408	544	583
Of which: remittance inflows	252	252	274	273	294	283	334	296	363	307	413	317	429	459
Public	268	414	289	419	452	457	469	571	459	608	503	497	567	414
Capital and financial account balance	**1,186**	**1,243**	**1,182**	**1,154**	**1,324**	**1,417**	**1,356**	**1,336**	**1,353**	**1,353**	**1,412**	**1,313**	**1,185**	**1,178**
Capital account	260	285	285	290	336	258	273	268	268	287	287	307	307	278
Financial account	926	958	897	864	988	1,159	1,083	1,068	1,084	1,065	1,125	1,006	879	900
Direct investment	258	245	100	373	402	397	418	426	417	455	404	487	440	388
Public sector capital[3]	589	709	635	500	605	742	747	567	644	615	696	512	599	466
Long-term borrowing[2]	669	858	767	714	1,239	868	863	1,090	929	795	860	748	840	741
Scheduled amortization, excl IMF	-80	-149	-132	-214	-635	-126	-116	-523	-285	-180	-165	-237	-241	-275
Other capital[4]	80	4	162	-9	-19	21	-82	75	24	-4	25	8	-160	46
Of which: commercial banks NFA (increase -)	47	36	31	0	0	0	0	0	0	0	0	0	0	0
Net errors and omissions	**157**	**0**	**195**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**112**	**-18**	**112**	**-181**	**-71**	**125**	**8**	**143**	**18**	**213**	**182**	**115**	**141**	**143**
Financing	**-112**	**18**	**-112**	**181**	**71**	**-125**	**-8**	**-143**	**-18**	**-213**	**-182**	**-115**	**-141**	**-143**
Reserve assets (increase -)	-112	-202	-333	180	71	-92	27	-99	29	-179	-147	-87	-100	-96
Net credit from the IMF	0	198	198	-36	-38	-45	-47	-45	-47	-34	-35	-28	-41	-47
IMF disbursement (+)[5]	0	220	220	0	0	0	0	0	0	0.0	0	0.0	0	0
Repayments to IMF (-)	0	-22	-23	-36	-38	-45	-47	-45	-47	-34	-35	-28	-41	-47
Exceptional financing	0	22	23	37	38	12	12	0	0	0	0	0	0	0
Grant for debt relief under CCRT[6]	...	22	23	37	38	12	12	0	0	0	0	0	0	0
Memorandum items:														
Current account balance (percent of GDP)[7]	-11.9	-12.2	-12.2	-12.5	-13.4	-11.4	-12.2	-9.6	-11.2	-8.4	-9.6	-8.0	-7.5	-6.8
Trade balance (percent of GDP)	-14.1	-14.6	-16.4	-16.0	-17.5	-16.1	-17.0	-14.8	-16.1	-13.3	-15.1	-12.3	-13.5	-11.8
Gross official reserves	**1,440**	**1,643**	**1,780**	**1,463**	**1,709**	**1,556**	**1,682**	**1,654**	**1,653**	**1,834**	**1,800**	**1,921**	**1,899**	**1,995**
in months of prospective imports of G&S[8]	5.9	5.5	6.0	4.3	5.1	4.2	4.5	4.1	4.0	4.2	4.1	4.2	4.2	4.0

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 12 months from April 14, 2021 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 2020)

	end-Dec. 2020				
	Prog.	Adjustors	Prog. Adjusted	Actual	Status
(Billions of Rwandan francs, unless otherwise indicated)					
Half-yearly Quantitative Targets[1]					
1. Ceiling on the debt-creating overall balance, including grants[2]	-472	102	-574	-554	Met
2. Floor on stock of Net Foreign Assets	649	-100	549	1,214	Met
3. Ceiling on net accumulation of domestic arrears	0			-0.1	Met
Continuous Targets					
4. Ceiling on stock of external payment arrears (US$ million)[3]	0			0	Met
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt (US$ million)[3]	821			229	Met
Monetary Policy Consultation Band[1,4]					
CPI Inflation target	5.0			7.7	Met
Inflation, upper inner-bound, percent	8.0				
Inflation, lower inner-bound, percent	2.0				
Inflation, upper bound, percent	9.0				
Inflation, lower bound, percent	1.0				
Memorandum items:					
Total priority spending[2]	450			524	Met
Floor on domestic revenue collection[2,5]	794			849	Met
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700			342	Met
Total budget support (US$ million) [2]	574			352	
Budget support grants (US$ million)	230			106	
Budget support loans (US$ million)	344			246	
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] 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.

Table 7. Rwanda: Reform Targets (June 2019 — May 2021)

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
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	Met	Improve fiscal transparency/ PFM
Automating the risk-based verification process for refund claims.	end-Dec. 2020	Not Met	Improve DRM
Produce financial and management reports from the IT system for all schemes managed by RSSB.	end-Dec. 2020	Met	Improve fiscal transparency and strengthen management and sustainability of all schemes managed by RSSB
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	Met	Mitigate fiscal risks
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
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	Met	Support new monetary policy framework

Table 8. Rwanda: Review Schedule Under the Policy Coordination Instrument, 2019–23

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
Seventh Review	June 30, 2022	December 15, 2022
Eight Review	December 31, 2022	June 15, 2023

Source: IMF staff.

Annex I. 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.		**High**	
***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.	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.
***Upside:** Recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine.	Low		
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 II. Debt Sustainability Analysis Update

Rwanda: Risk Rating Summary	
Joint Bank-Fund Debt Sustainability Analysis [1]	
Risk of external debt distress	Moderate [2]
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgment	No
Macroeconomic projections	The DSA incorporates the macroeconomic projections in the 4th PCI review staff report. Due to the prolonged pandemic, the output recovery is expected to be slower than in the December 2020 DSA, despite sizable fiscal support. The medium-term fiscal consolidation path is envisaged after the pandemic abates.
Financing strategy	As in the December 2020 DSA, the current DSA assumes continued support from bilateral and multilateral development partners over the medium term. From 2028 onwards, the financing mix is assumed to: (i) shift gradually away from concessional financing to market-based financing as Rwanda's income level rises, and (ii) shift from external to domestic financing as the local bond markets develop. As of May 25, 2021, the World Bank disbursed US$513.5 million in FY21 in the form of concessional financing, including budget support (loans and grants) and project financing (loans and grants).
Realism tools flagged	The envisaged post-pandemic fiscal adjustment is assessed as ambitious based on the experience in LICs.
Mechanical risk rating under the external DSA	Moderate

[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 Composite Indicator score (3.16) has not been updated since the December 2020 DSA. Therefore, Rwanda's debt-carrying capacity remains unchanged, and assessed as strong. Debt coverage includes the central government and state-owned enterprises (SOEs). There has been no change in debt coverage since the December 2020 DSA.

The updated Bank-Fund assessment of Rwanda's debt sustainability indicates continued moderate risk of external and overall debt distress, although it also suggests elevated solvency risks and limited buffers to cushion the impact of external and growth shocks.

Total nominal public debt-to-GDP stood at 71.3 percent in 2020, which is higher than expected compared to the December 2020 DSA against the background of lower-than-expected GDP and a higher fiscal deficit due to the larger pandemic-related spending.

The baseline scenario in the updated DSA is consistent with the macroeconomic projections and the post-pandemic medium-term fiscal consolidation envisaged under the 4th PCI review. As the pandemic continues to impact Rwanda's economy, the output recovery is expected to be somewhat slower than in the December 2020 DSA, despite sizable fiscal support (Text Table below). Output is projected to grow by 5.1 percent in 2021, reflecting strong base effects and a pickup in the agriculture and manufacturing sectors, before faster broad-based recovery starts in 2022. Compared to the December 2020 DSA, the updated DSA assumes larger fiscal spending to continue responding to the health, social, and economic fallout of the pandemic, which is expected to contribute to a faster pace of accumulation of public and publicly guaranteed (PPG) debt over time. It also incorporates a debt management strategy which helps to mitigate the refinancing risk associated with the $400 million Eurobond bullet payment in 2023.

Key Macro and Debt Indicators—Comparison with the Previous DSA[1]

Calendar year	2020	2021	2026	2031	2036	2041	2026-41
			Projections				
Selected indicators from the macro-framework and debt data							
(Percent, unless otherwise indicated)							
PV of PPG External Debt to GDP Ratio							
2020 DSA	34.1	35.2	38.9	36.6	30.9	...	33.7
2021 DSA	33.9	38.4	43.0	36.7	31.9	25.4	34.5
PV of Public Debt to GDP Ratio							
2020 DSA	45.5	48.8	47.7	44.8	47.1	...	46.4
2021 DSA	51.0	55.7	51.9	44.8	44.7	45.9	45.8
Grant Element of New External Borrowing							
2020 DSA	48.3	47.5	44.3	40.3	31.4	...	35.5
2021 DSA	-	30.3	38.0	31.6	30.1	18.7	32.6
Stock of New Commercial Loan (billions of U.S. dollars)							
2020 DSA	0.0	0.0	0.9	1.0	1.1	...	1.1
2021 DSA	0.0	0.5	0.9	0.6	1.4	2.6	1.3
Real GDP Growth (annual percent change)							
2020 DSA	-0.2	5.7	6.1	7.2	6.8	...	6.8
2021 DSA	-3.4	5.1	6.1	7.2	6.8	6.5	6.8
Current Account Balance (percent of GDP)							
2020 DSA	-12.2	-12.5	-7.6	-8.0	-7.5	...	-7.5
2021 DSA	-12.2	-13.4	-6.8	-8.0	-7.5	-6.5	-7.4
Exports of goods and services (percent of GDP)							
2020 DSA	18.2	22.7	28.5	30.3	32.2	...	31.2
2021 DSA	18.7	22.3	30.8	29.6	28.3	27.5	29.0
Fiscal balance[2] (percent of GDP)							
2020 DSA	-9.7	-7.9	-3.7	-5.2	-4.8	...	-4.8
2021 DSA	-9.4	-8.9	-3.4	-4.1	-3.4	-3.3	-3.6

1/ Previous DSA completed in December 2020 (published in January 2021).
2/ Fiscal balance excludes debt assumption for Marriott loan.
Sources: Rwandan authorities; IMF and World Bank staff estimates and projections.

In the baseline scenario, the present value (PV) of PPG debt is projected to reach 56.7 percent of GDP in 2022 before achieving the East African Community debt convergence criterion of 50 percent in 2027. The nominal PPG debt-to-GDP ratio is projected to peak at 81.3 percent in 2022 and reach the nominal debt anchor of 65 percent under the PCI program in 2030, two years later than expected in the December 2020 DSA.[1] *This would require a cumulative reduction in the overall headline deficit of 6 percentage points of GDP between 2021 and 2029, of which about half is due to the gradual phasing-out of COVID-19-related spending (with no additional fiscal effort or drag on growth), and the other half through the implementation of additional domestic revenue mobilization and spending rationalization measures with the support of ongoing IMF TA, the bulk of which will be implemented after growth returns to pre-pandemic levels in 2023.*

The stress tests indicate that Rwanda's solvency risks are elevated overall, which makes the country more susceptible to both external and growth shocks compared to the December 2020 DSA (Figure 1 and 2). Solvency indicators for the PV of external debt-to-GDP ratio and PV of total public debt-to-GDP ratio are below the indicative threshold/benchmark under the baseline scenario, but there are multiple breaches under the most extreme risk shocks. On the other hand, liquidity indicators (debt service-to-exports ratio and debt service-to-revenue ratio) show that the liquidity risks associated with the repayment of the existing Eurobond in 2023 are somewhat mitigated by the debt management strategy to smooth out the debt servicing profile. A temporary deterioration of liquidity indicators in 2021 mainly reflects the recording of the debt service smoothing operations. Rwanda may still face liquidity pressures due to adverse market conditions, as pointed to by a breach of the market-financing risk indicator for gross financing needs (Figure 6) but this is mitigated by adequate reserves and available external official financing.

Overall, while liquidity indicators display only one short-lived breach in 2021 under the baseline scenario, multiple breaches in both solvency and liquidity risk indicators under the most extreme shocks indicate 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). To mitigate these risks, the government needs to adopt a credible fiscal consolidation path as soon as the COVID-19 crisis abates and accelerate efforts to strengthen fiscal risk management.

The evolution of public debt going forward is dominated by the path of the primary fiscal deficit and real GDP growth, as in the past (Figure 3). Compared to the past five years, a higher primary deficit due to the COVID-19 shock is expected to raise public debt regardless of growth recovery. Realism tools illustrate that the projected 3-year fiscal adjustment peaking at 3.8 percentage points of GDP lies in the top quartile of the distribution of past adjustment for a sample of LICs, signaling that the envisaged post-pandemic fiscal adjustment in the baseline scenario is ambitious based on the experience in LICs (Figure 4).

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 evolving and risks to the debt outlook and sustainability could elevate should the pandemic shock prolong further.

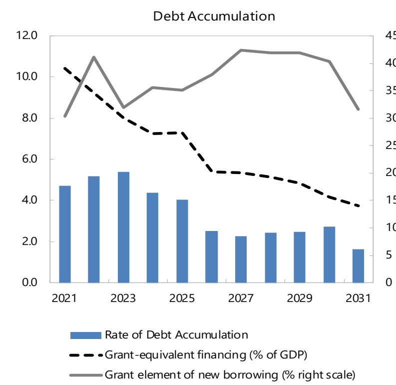
[1] See IMF Country Report No. 2021/001

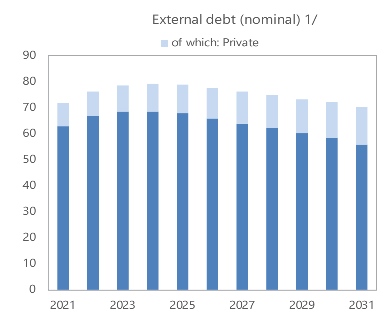
Table 1. Rwanda: External Debt Sustainability Framework, Baseline Scenario, 2020–41

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	**63.8**	**71.9**	**76.2**	**78.6**	**79.1**	**78.9**	**77.5**	**70.3**	**58.2**	**39.8**	**75.4**
of which: public and publicly guaranteed (PPG)	**55.3**	**63.0**	**66.8**	**68.7**	**68.7**	**67.9**	**65.9**	**55.8**	**35.1**	**33.8**	**63.8**
Change in external debt	5.3	8.1	4.3	2.4	0.5	-0.2	-1.4	-2.0	-1.2		
Identified net debt-creating flows	**11.4**	**6.3**	**3.7**	**2.0**	**0.9**	**-1.1**	**-0.1**	**0.0**	**-2.1**	**6.6**	**1.0**
Non-interest current account deficit	**10.9**	**12.0**	**10.7**	**9.7**	**7.9**	**5.7**	**5.0**	**6.2**	**4.2**	**9.7**	**7.3**
Deficit in balance of goods and services	16.4	18.9	17.6	16.2	14.7	12.7	10.9	10.0	5.0	**15.7**	**13.0**
Exports	18.7	22.3	25.7	27.7	29.5	31.0	30.8	29.6	27.5		
Imports	35.1	41.2	43.4	43.9	44.3	43.7	41.7	39.6	32.4		
Net current transfers (negative = inflow)	-6.0	-7.9	-8.0	-7.7	-8.0	-7.9	-6.6	-4.8	-2.0	**-7.4**	**-6.7**
of which: official	-5.8	-7.8	-6.9	-6.3	-6.3	-6.4	-4.8	-2.9	-1.2		
Other current account flows (negative = net inflow)	0.5	1.0	1.1	1.2	1.1	0.9	0.7	0.9	1.2	**1.3**	**0.9**
Net FDI (negative = inflow)	**-1.0**	**-3.9**	**-3.8**	**-3.5**	**-3.1**	**-3.1**	**-2.6**	**-3.3**	**-5.0**	**-2.6**	**-3.2**
Endogenous debt dynamics 2/	**1.5**	**-1.8**	**-3.3**	**-4.2**	**-3.8**	**-3.7**	**-2.6**	**-2.9**	**-1.2**		
Contribution from nominal interest rate	1.3	1.4	1.5	1.5	1.7	1.8	1.8	1.8	2.3		
Contribution from real GDP growth	2.0	-3.2	-4.7	-5.7	-5.5	-5.4	-4.4	-4.7	-3.6		
Contribution from price and exchange rate changes	-1.8	...	...	...	...	...	...	...	...		
Residual 3/	**-6.1**	**1.8**	**0.6**	**0.4**	**-0.4**	**0.9**	**-1.3**	**-2.0**	**0.8**	**-1.9**	**-0.4**
of which: exceptional financing	-0.2	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**33.9**	**38.4**	**41.0**	**42.9**	**43.8**	**44.0**	**43.0**	**36.7**	**25.4**		
PV of PPG external debt-to-exports ratio	**181.4**	**171.9**	**159.4**	**154.7**	**148.5**	**141.9**	**139.8**	**124.2**	**92.3**		
PPG debt service-to-exports ratio	**10.8**	**27.1**	**8.0**	**12.2**	**7.7**	**8.2**	**9.2**	**14.1**	**12.1**		
PPG debt service-to-revenue ratio	**10.8**	**31.9**	**10.9**	**17.7**	**11.6**	**12.5**	**13.5**	**19.0**	**13.0**		
Gross external financing need (Billion of U.S. dollars)	1.4	1.7	1.2	1.4	1.1	1.0	1.1	2.3	3.6		
Key macroeconomic assumptions											
Real GDP growth (in percent)	-3.4	5.1	7.0	8.1	7.5	7.5	6.1	7.2	6.5	**6.1**	**6.9**
GDP deflator in US dollar terms (change in percent)	3.2	-4.3	-0.8	0.1	0.3	1.2	2.0	2.0	2.0	**-0.6**	**0.8**
Effective interest rate (percent) 4/	2.3	2.3	2.2	2.1	2.3	2.4	2.5	2.7	4.3	**3.2**	**2.5**
Growth of exports of G&S (US dollar terms, in percent)	-14.4	20.3	22.4	16.5	14.8	14.3	7.3	7.8	8.1	**11.4**	**12.4**
Growth of imports of G&S (US dollar terms, in percent)	-3.0	18.2	11.8	9.4	8.8	7.5	3.1	6.7	7.1	**8.6**	**9.0**
Grant element of new public sector borrowing (in percent)	...	30.3	41.1	31.9	35.6	35.1	38.0	31.6	18.7	**...**	**37.3**
Government revenues (excluding grants, in percent of GDP)	18.8	19.0	18.9	19.2	19.5	20.3	21.0	21.9	25.6	**14.9**	**20.5**
Aid flows (in Billion of US dollars) 5/	0.5	1.2	1.1	1.0	1.0	1.1	0.9	1.0	0.8		
Grant-equivalent financing (in percent of GDP) 6/	...	10.4	9.2	8.0	7.3	7.3	5.4	3.7	1.3	**...**	**6.4**
Grant-equivalent financing (in percent of external financing) 6/	...	53.4	64.4	55.4	63.0	63.7	64.0	49.1	34.1	**...**	**60.3**
Nominal GDP (Billion of US dollars)	10	10	11	12	13	14	15	23	55		
Nominal dollar GDP growth	-0.2	0.6	6.2	8.2	7.9	8.8	8.2	9.3	8.6	**5.4**	**7.7**
Memorandum items:											
PV of external debt 7/	42.4	47.3	50.4	52.8	54.3	55.0	54.6	51.2	48.4		
In percent of exports	226.8	212.0	195.8	190.5	184.0	177.3	177.5	173.2	176.4		
Total external debt service-to-exports ratio	19.7	34.9	14.7	18.7	14.1	14.5	16.0	22.9	27.2		
PV of PPG external debt (in Billion of US dollars)	3.5	4.0	4.5	5.1	5.6	6.2	6.5	8.6	13.9		
(PVt-PVt-1)/GDPt-1 (in percent)		4.7	5.2	5.4	4.4	4.1	2.5	1.7	0.7		
Non-interest current account deficit that stabilizes debt ratio	5.6	3.8	6.5	7.3	7.3	5.9	6.4	8.2	5.4		

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.

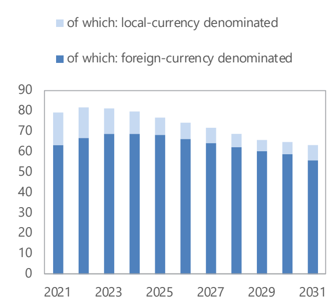
Table 2. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–41

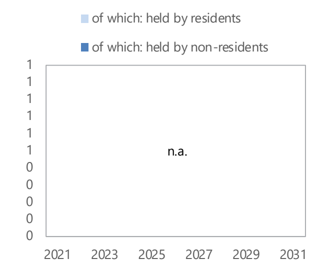
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	71.3	79.1	81.3	81.1	79.5	76.5	74.0	63.2	55.2	**43.1**	**73.2**
of which: external debt	55.3	63.0	66.8	68.7	68.7	67.9	65.9	55.8	35.1	**33.8**	**63.8**
Change in public sector debt	8.5	7.8	2.2	-0.2	-1.7	-3.0	-2.5	-1.2	-0.1		
Identified debt-creating flows	10.1	7.9	2.4	0.1	-1.5	-2.7	-2.3	-1.2	-0.1	**1.9**	**-0.6**
Primary deficit	8.7	6.9	5.6	4.9	3.4	2.2	1.9	3.1	2.5	**3.1**	**3.3**
Revenue and grants	23.6	25.5	24.6	24.2	24.5	25.4	24.5	23.9	26.3	**21.3**	**24.5**
of which: grants	4.8	6.5	5.7	5.0	4.9	5.0	3.5	2.0	0.8		
Primary (noninterest) expenditure	32.2	32.4	30.2	29.1	27.8	27.6	26.4	27.0	28.8	**24.4**	**27.8**
Automatic debt dynamics	1.4	1.0	-3.2	-4.8	-4.7	-4.8	-4.0	-4.2	-2.6		
Contribution from interest rate/growth differential	1.9	-2.7	-4.6	-5.5	-5.4	-5.0	-3.9	-4.3	-2.6		
of which: contribution from average real interest rate	-0.3	0.8	0.6	0.6	0.3	0.5	0.4	0.0	0.8		
of which: contribution from real GDP growth	2.2	-3.5	-5.2	-6.1	-5.7	-5.5	-4.4	-4.3	-3.4		
Contribution from real exchange rate depreciation	-0.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	-0.2	-0.1	-0.1	0.0	0.0	**-0.1**	**-0.1**
Privatization receipts (negative)	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		
Debt relief (HIPC and other)	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	-0.2	-0.1	-0.1	0.0	0.0		
Residual	-1.6	3.5	1.2	0.4	0.6	0.0	-0.4	0.0	0.0	**3.3**	**0.4**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**51.0**	**55.7**	**56.7**	**56.5**	**55.5**	**53.4**	**51.9**	**44.8**	**45.9**		
PV of public debt-to-revenue and grants ratio	**216.4**	**218.6**	**230.6**	**233.5**	**227.1**	**210.7**	**211.7**	**187.4**	**174.5**		
Debt service-to-revenue and grants ratio 3/	**36.5**	**55.9**	**36.8**	**41.6**	**33.0**	**30.2**	**29.8**	**32.2**	**39.2**		
Gross financing need 4/	17.3	21.1	14.7	14.9	11.3	9.7	9.1	10.7	12.8		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-3.4	5.1	7.0	8.1	7.5	7.5	6.1	7.2	6.5	**6.1**	**6.9**
Average nominal interest rate on external debt (in percent)	1.4	1.4	1.4	1.4	1.6	1.6	1.7	1.5	2.1	**1.8**	**1.5**
Average real interest rate on domestic debt (in percent)	-0.7	8.7	5.4	4.6	5.8	6.2	6.6	5.4	4.3	**1.3**	**6.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.8	...	...	...	...	...	...	...	...	**2.4**	**...**
Inflation rate (GDP deflator, in percent)	8.3	1.9	5.4	5.8	5.0	5.0	5.0	5.0	5.0	**4.3**	**4.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	28.2	5.7	-0.1	3.9	2.9	6.4	1.5	7.0	8.9	**11.1**	**5.2**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.2	-0.9	3.4	5.0	5.0	5.2	4.4	4.2	2.6	**-1.5**	**4.1**
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		

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.

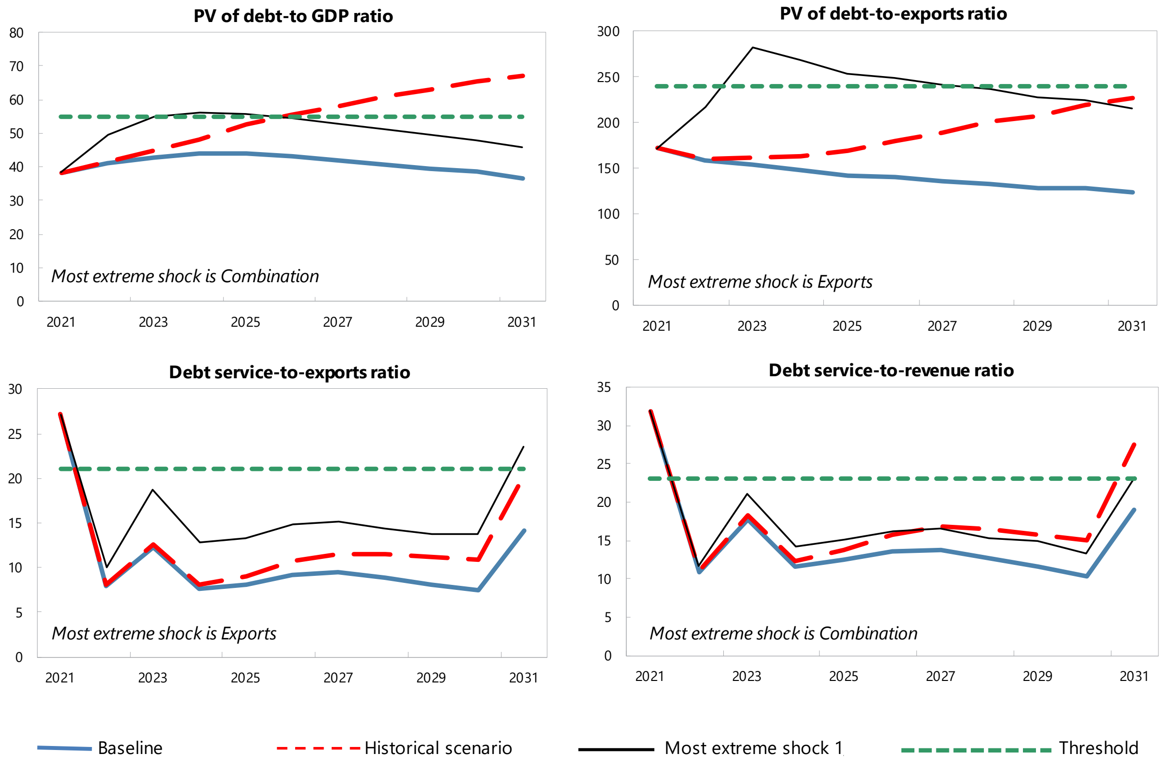
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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, 2021–31 [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	2.0%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6

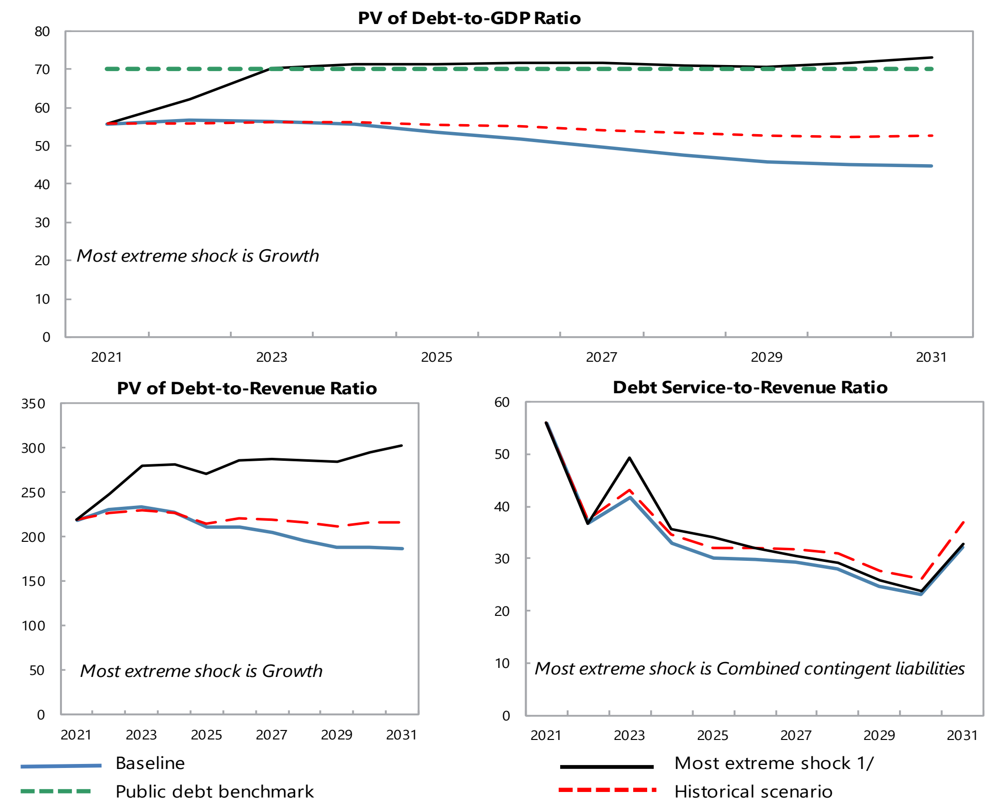
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2031. 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, 2021–31 1/



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	61%	61%
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	2.0%	2.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.6%	5.6%
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 2031. 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, 2021–31

(In percent)

	Projections										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	**38.4**	**41.0**	**42.9**	**43.8**	**44.0**	**43.0**	**41.8**	**40.6**	**39.3**	**38.5**	**36.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	38.4	41.3	44.8	48.2	52.6	55.5	58.2	61.0	63.1	65.5	67.0
B. Bound Tests											
B1. Real GDP growth	38.4	44.2	50.6	51.7	51.9	50.7	49.3	47.8	46.4	45.4	43.3
B2. Primary balance	38.4	42.0	46.4	47.5	47.6	46.6	45.3	44.0	42.6	41.5	39.6
B3. Exports	38.4	44.7	52.8	53.4	53.2	51.9	50.3	48.7	46.9	45.3	42.9
B4. Other flows 2/	38.4	44.2	48.7	49.4	49.3	48.1	46.7	45.2	43.7	42.4	40.2
B6. One-time 30 percent nominal depreciation	38.4	52.0	49.9	51.2	51.7	50.6	49.2	47.8	46.4	45.6	43.7
B6. Combination of B1-B5	38.4	49.6	55.1	56.0	55.9	54.6	53.0	51.3	49.5	48.1	45.7
C. Tailored Tests											
C1. Combined contingent liabilities	38.4	43.9	46.4	47.4	47.8	46.8	45.5	44.1	42.8	41.8	39.9
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	38.4	45.9	48.0	49.2	49.3	48.1	46.6	45.1	43.7	42.8	40.8
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**171.9**	**159.4**	**154.7**	**148.5**	**141.9**	**139.8**	**135.6**	**133.3**	**128.8**	**128.4**	**124.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	171.9	160.5	161.5	163.2	169.5	180.5	188.7	200.4	206.5	218.6	226.4
B. Bound Tests											
B1. Real GDP growth	171.9	159.4	154.7	148.5	141.9	139.8	135.6	133.3	128.8	128.4	124.2
B2. Primary balance	171.9	163.1	167.3	160.8	153.5	151.6	147.0	144.4	139.4	138.5	133.8
B3. Exports	171.9	216.5	282.0	267.9	253.9	249.5	241.5	236.8	227.5	224.0	214.8
B4. Other flows 2/	171.9	171.7	175.5	167.3	159.0	156.4	151.5	148.7	143.0	141.4	136.1
B6. One-time 30 percent nominal depreciation	171.9	159.4	141.8	136.8	131.3	129.5	125.7	123.7	119.8	120.1	116.6
B6. Combination of B1-B5	171.9	209.9	174.0	216.5	205.9	202.6	196.3	192.6	185.1	183.1	176.3
C. Tailored Tests											
C1. Combined contingent liabilities	171.9	170.5	167.2	160.5	154.0	152.1	147.6	145.1	140.2	139.4	134.9
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	171.9	159.4	154.8	148.9	142.2	139.9	135.2	132.4	128.1	127.6	123.3
Threshold	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**
Debt service-to-exports ratio											
Baseline	**27.1**	**8.0**	**12.2**	**7.7**	**8.2**	**9.2**	**9.5**	**8.9**	**8.1**	**7.4**	**14.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	27.1	8.1	12.6	8.2	9.0	10.7	11.6	11.5	11.2	10.9	20.4
B. Bound Tests											
B1. Real GDP growth	27.1	8.0	12.2	7.7	8.2	9.2	9.5	8.9	8.1	7.4	14.1
B2. Primary balance	27.1	8.0	12.5	8.3	8.7	9.8	10.0	9.4	8.7	8.1	14.8
B3. Exports	27.1	10.0	18.8	12.8	13.3	14.9	15.2	14.3	13.8	13.8	23.5
B4. Other flows 2/	27.1	8.0	12.6	8.2	8.6	9.7	9.9	9.3	8.9	8.5	15.1
B6. One-time 30 percent nominal depreciation	27.1	8.0	12.2	7.3	7.9	8.9	9.2	8.7	7.9	6.7	13.4
B6. Combination of B1-B5	27.1	9.4	16.6	10.8	11.3	12.7	13.0	12.2	12.0	11.0	19.6
C. Tailored Tests											
C1. Combined contingent liabilities	27.1	8.0	12.5	8.0	8.5	9.5	9.8	9.2	8.4	7.7	14.3
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	27.1	8.0	12.3	8.4	9.6	10.5	9.9	10.8	7.5	7.3	13.9
Threshold	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**
Debt service-to-revenue ratio											
Baseline	**31.9**	**10.9**	**17.7**	**11.6**	**12.5**	**13.5**	**13.8**	**12.7**	**11.5**	**10.3**	**19.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	31.9	11.0	18.2	12.3	13.8	15.7	16.8	16.4	15.8	15.0	27.5
B. Bound Tests											
B1. Real GDP growth	31.9	11.8	20.8	13.7	14.7	16.0	16.3	15.0	13.6	12.1	22.4
B2. Primary balance	31.9	10.9	18.1	12.5	13.3	14.3	14.6	13.4	12.4	11.2	19.9
B3. Exports	31.9	11.0	18.3	13.1	13.8	14.8	15.0	13.8	13.2	12.9	21.4
B4. Other flows 2/	31.9	10.9	18.1	12.4	13.2	14.2	14.5	13.3	12.7	11.8	20.4
B6. One-time 30 percent nominal depreciation	31.9	13.8	22.4	14.1	15.2	16.6	17.1	15.7	14.2	11.8	23.0
B6. Combination of B1-B5	31.9	11.7	21.0	14.3	15.1	16.3	16.5	15.2	14.9	13.3	23.2
C. Tailored Tests											
C1. Combined contingent liabilities	31.9	10.9	18.1	12.1	12.9	14.0	14.3	13.2	12.0	10.6	19.3
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	31.9	10.9	17.8	12.7	14.7	15.4	14.4	15.4	10.6	10.0	18.8
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, 2021–31
(In percent)

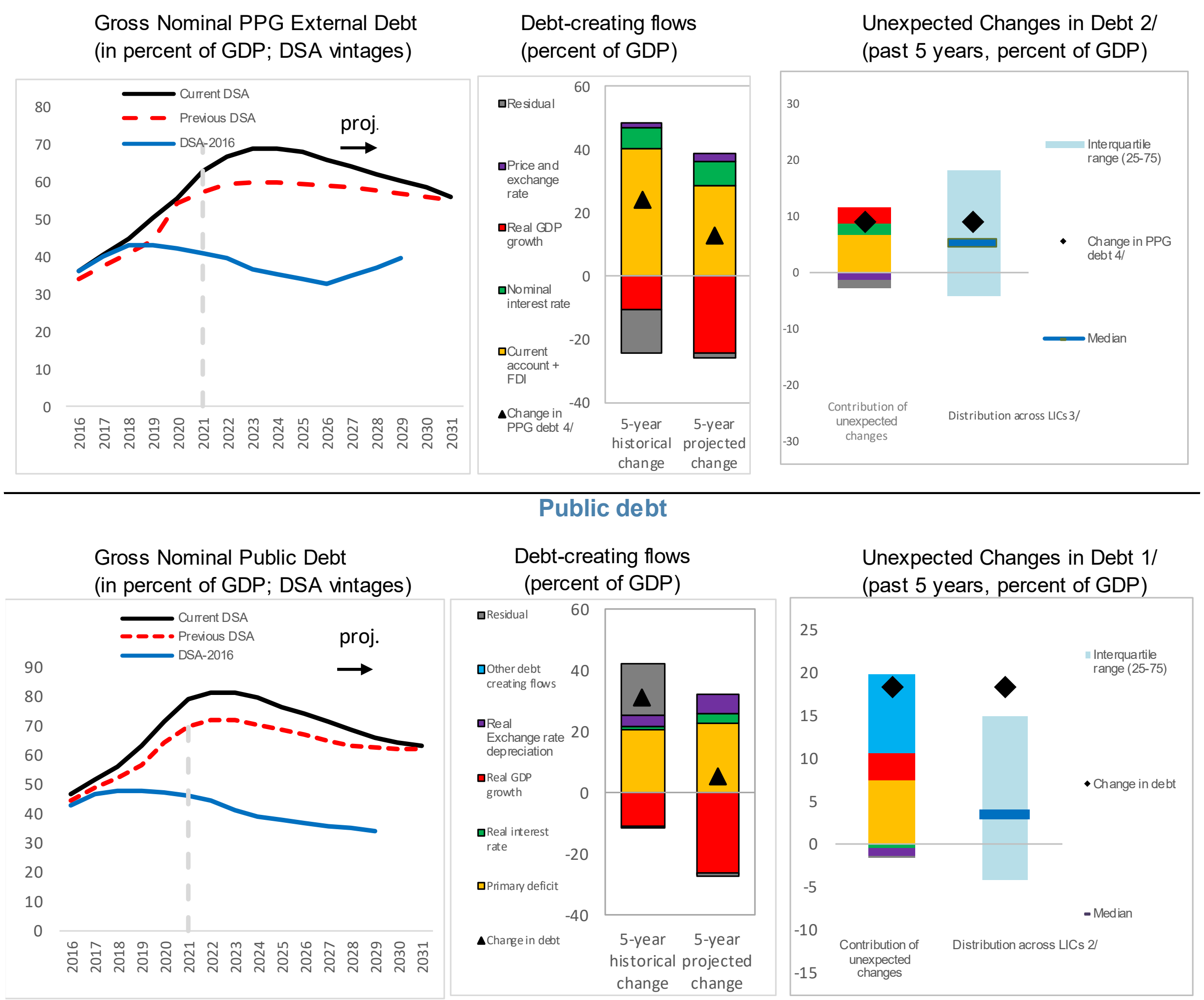
	Projections										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	**55.7**	**56.7**	**56.5**	**55.5**	**53.4**	**51.9**	**49.8**	**47.6**	**45.7**	**45.1**	**44.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	56	56	56	56	56	55	54	53	53	52	53
B. Bound Tests											
B1. Real GDP growth	56	62	70	71	71	72	72	71	71	72	73
B2. Primary balance	56	59	61	60	58	56	54	51	49	48	48
B3. Exports	56	60	66	65	62	60	58	56	53	52	51
B4. Other flows 2/	56	60	62	61	59	57	55	52	50	49	48
B6. One-time 30 percent nominal depreciation	56	63	60	57	54	51	47	44	41	39	38
B6. Combination of B1-B5	56	57	60	59	57	56	54	53	51	50	50
C. Tailored Tests											
C1. Combined contingent liabilities	56	62	62	60	58	56	54	51	49	49	48
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	56	57	57	56	53	52	50	47	45	45	45
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**218.6**	**230.6**	**233.5**	**227.1**	**210.7**	**211.7**	**204.9**	**196.0**	**187.7**	**188.2**	**187.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	219	227	230	227	215	221	219	216	212	216	217
B. Bound Tests											
B1. Real GDP growth	219	248	280	282	271	286	288	286	285	295	302
B2. Primary balance	219	238	254	246	228	228	221	211	202	202	200
B3. Exports	219	245	274	266	246	247	239	229	218	216	212
B4. Other flows 2/	219	244	258	250	232	233	225	216	206	205	202
B6. One-time 30 percent nominal depreciation	219	260	252	239	216	210	197	183	170	165	159
B6. Combination of B1-B5	219	231	245	241	225	228	223	216	208	210	210
C. Tailored Tests											
C1. Combined contingent liabilities	219	253	254	246	228	229	221	211	202	202	201
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	219	231	234	228	211	212	204	195	187	187	186
Debt Service-to-Revenue Ratio											
Baseline	**55.9**	**36.8**	**41.6**	**33.0**	**30.2**	**29.8**	**29.2**	**28.1**	**24.8**	**23.1**	**32.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	56	37	43	35	32	32	32	31	28	26	37
B. Bound Tests											
B1. Real GDP growth	56	39	49	42	40	42	42	42	39	38	49
B2. Primary balance	56	37	44	37	33	33	31	30	26	25	34
B3. Exports	56	37	42	34	31	31	30	29	26	25	34
B4. Other flows 2/	56	37	42	34	31	30	30	29	26	24	33
B6. One-time 30 percent nominal depreciation	56	36	43	33	31	31	31	29	26	24	35
B6. Combination of B1-B5	56	36	44	36	33	33	33	32	28	26	36
C. Tailored Tests											
C1. Combined contingent liabilities	56	37	49	36	34	32	31	29	26	24	33
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	56	37	42	34	32	31	30	30	24	23	32

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 2016 DSA and the previous full DSA in 2020.

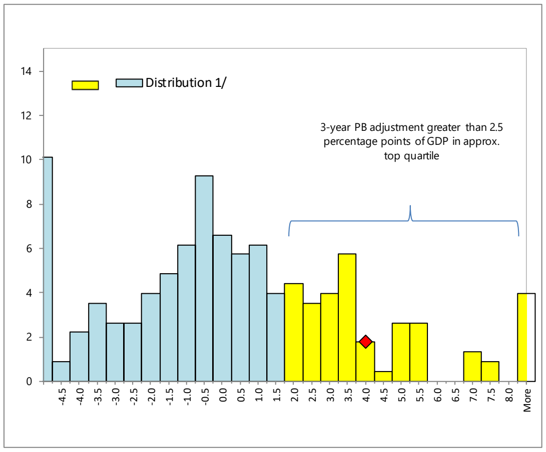
2/ Difference between anticipated and actual contributions on debt ratios.

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.

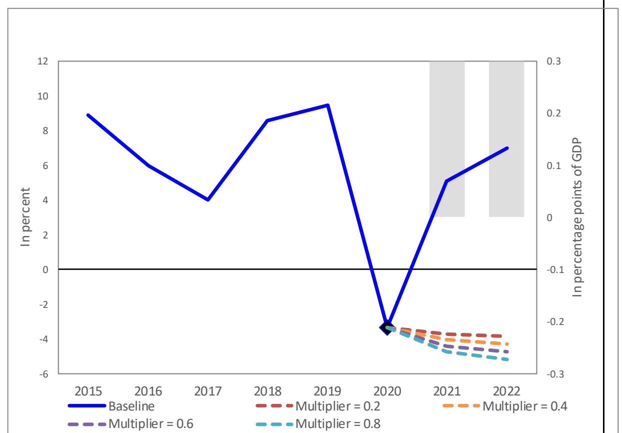
Figure 4. Rwanda: Realism Tools

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



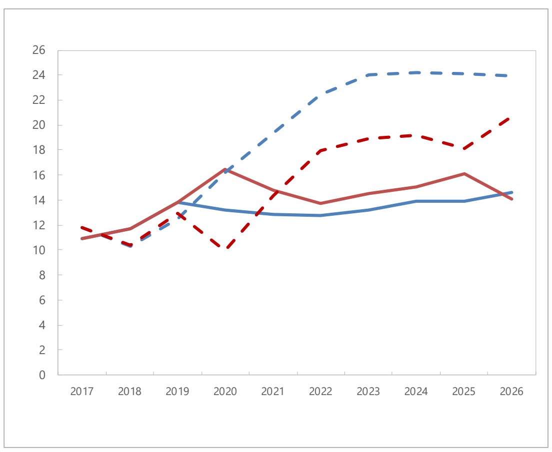
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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).

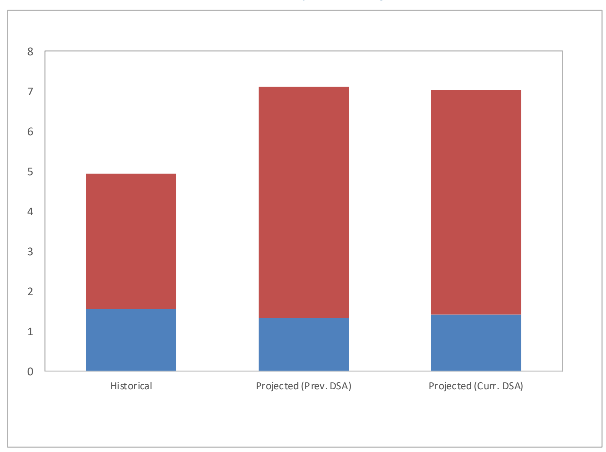
Public and Private Investment Rates 1/
(% of GDP)



Gov. Invest. - Prev. DSA
Gov. Invest. - Current DSA
Priv. Invest. - Prev. DSA
Priv. Invest. - Current DSA

1/ Private investment includes the Bugesera airport project.

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



Contribution of other factors
Contribution of government capital

Figure 5. Rwanda: Qualification of the Moderate Category, 2021–31 1/

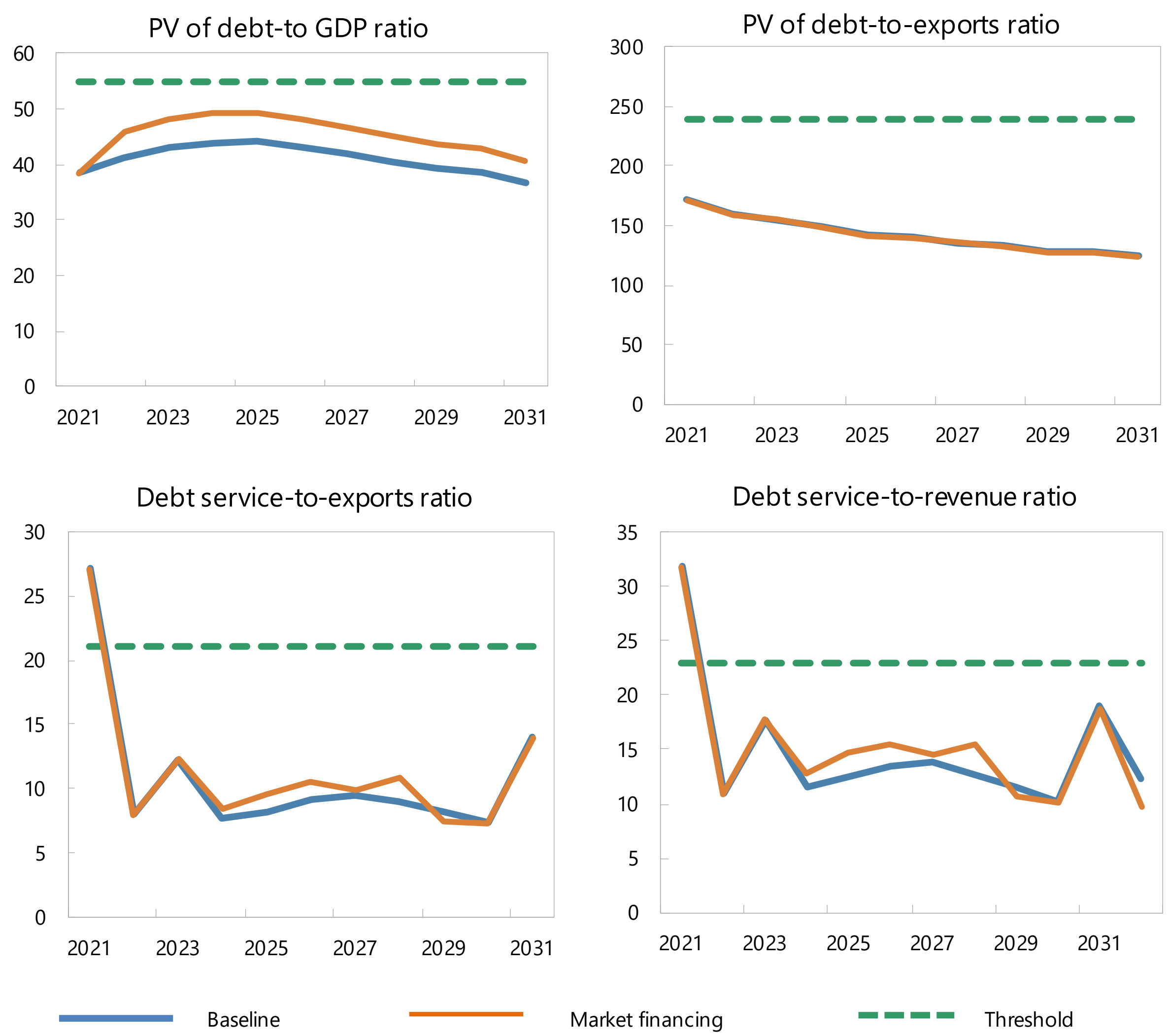
Sources: Country authorities; and staff estimates and projections.

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	21	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.

Annex III. Financing Rwanda's Sustainable Development Goals

1. **The pandemic has significantly raised Rwanda's spending needs to meet the Sustainable Development Goals (SDGs)**. Rwanda will need additional resources in the order of 21¼ percent of GDP per year to meet its SDGs by 2030.[1] This compares with a pre-pandemic SDG financing gap of 15.7 percent of GDP per year using the same model.[2] The additional needs could be 1–1½ percent of GDP larger if long-term scarring is considered. The widening of Rwanda's SDG financing gap post-pandemic can be mostly attributed to lower GDP (about 10 percent in real terms) and reduced fiscal space. The pandemic is expected to impose output losses to the tune of 10 percent in real terms, which translates into an additional SDG financing gap of 3.2 percent of GDP per year until 2030 (mostly reflecting higher infrastructure costs relative to the smaller size of the economy). Rwanda's commitment to safeguard debt sustainability entails a delay in fiscal adjustment that would require substantially reducing the country's overall fiscal deficit. The tighter stance reduces Rwanda's annual fiscal space to invest in SDGs, on average, by 2.4 percent of GDP over this decade.

Rwanda: Additional Grants Needed to Meet 2030 Target

	Percent of GDP		
	Pre-COVID	Post-COVID	Difference
Additional grants needed	15.7	21.3	5.6
of which: Health & Education	4.8	5.9	1.2
Infrastructure	11.0	15.4	4.4
Total change			**5.6**
Effect of lower nominal GDP			**3.2**
Effect of lower fiscal space			**2.4**
of which: change in revenues (-)			1.3
change in fiscal balance			2.2
change in interest expenses			0.5
change in non-SDG spending			-1.3
change in subsidies for private investment			0.0
change in identified grants (-)			-0.3

Source: IMF staff

2. **Closing Rwanda's post-pandemic SDG financing gap will require ambitious fiscal measures to enhance domestic revenue mobilization and boost spending efficiency.** Fiscal measures to enhance domestic revenue mobilization and boost spending efficiency have turned even more critical post-pandemic. By increasing government resources, they serve the twin purpose of closing SDG financing gaps and reducing public debt, consistent with Rwanda's fiscal consolidation objectives. Enacting a medium-term revenue strategy that gradually raises the total revenue-to-GDP ratio by about 7 percentage points above the baseline during 2023–29, reallocating one percentage point of GDP in public expenditures towards SDGs, and boosting spending efficiency to the level of peers could

Rwanda: Post-COVID Scenarios, 2020-2050

Scenario	SDGs met by	Additional grants per year [1]
A. Post-COVID baseline settings	>2050	0.0
B. Domestic revenue mobilization	2044	0.0
C. Spending reallocation to SDGs	2050	0.0
D. Combined fiscal measures	2041	0.0
E. Private sector participation	>2050	0.0
F. Active policies w/o addtl grants	2040	0.0
G. Baseline plus additional grants	2030	21.3
H. Fiscal measures plus grants	2030	15.6
I. Active policies plus grants	2030	13.7

Sources: IMF staff estimates and projections.
1 In percent of nominal GDP.

[1] Results are based on a dynamic financing framework developed in IMF Staff Discussion Note 2021/003 and applied for the case of Rwanda in Duarte Lledo and Perrelli (2021). Please refer to both papers for details.

[2] Estimates are based on the 3rd PCI review macroeconomic framework.

cover more than one quarter of the financing gap, helping the country to meet its SDGs around a decade later (by 2041).

3. Attracting private investment and additional resources to finance Rwanda's SDGs would also be critical. Increasing Rwanda's annual foreign direct investment to the top quartile of its peers' distribution could attract an extra 2¾ percent of GDP of private resources, closing up to one tenth of Rwanda's 2030 SDG financing gap. Polices to attract private investment should continue to (i) strengthen Rwanda's business climate, (ii) identify projects with an attractive risk-return profile through public-private partnerships, and (iii) grant government guarantees with due regard to fair and proportional distribution of risk and return among public and private participants.[3] Active policies that combine fiscal measures and higher private sector participation could fulfill more than one third of Rwanda's financing gap, enabling the country to meet its SDGs targets by 2040.

4. Financing Rwanda's SDGs cannot be achieved without additional support from development partners. Even in the scenario with active policies, the pledge to meet its SDGs by 2030 would still require about 13¾ percentage points of GDP in additional resources annually. Initiatives to leverage existing concessional resources to finance de-risking initiatives (blended finance), securing additional resources from established development partners, and unlocking untapped resources from institutional investors (e.g. pension and mutual funds, insurance companies) and private philanthropies must be vigorously pursued.[4]

[3] IMF Department Paper 21/11.

[4] Ibid.

Annex IV. 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.

Rwanda: 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, June 25, 2021

Dear Ms. Georgieva:

The COVID-19 pandemic continues to take a toll on our economy. Real GDP contracted by 3.4 percent in 2020 and a second wave of infections prompted a three-week lockdown in Kigali in early 2021. We expect growth to rebound in 2021, supported by our ongoing vaccination efforts targeting 60 percent of the population by end-June 2022 and continued government support to hard-hit businesses and vulnerable households. However, downside risks remain high owing to uncertainties surrounding the duration of the pandemic and supply constraints for vaccines. The fiscal and debt outlook have deteriorated on the back of increased spending needs to cushion the economic and social impact of the pandemic.

In light of these developments, we request a one-year extension, through June 27, 2023, of our Policy Coordination Instrument-supported program to allow more time to address emerging risks and meet our program's objectives. To support the recovery while preserving debt sustainability, we recognize the importance of identifying credible revenue and spending measures underpinning our growth-friendly fiscal consolidation with a view to reaching our debt anchor within a reasonable timeframe, and stepping up efforts to quantify, contain, and remediate emerging fiscal risks. Consistent with our program pillars, we are committed to maintaining the reform momentum in mobilizing domestic revenue, enhancing fiscal transparency, and strengthening our monetary policy framework. This will lay the foundation for a sustained and inclusive economic recovery and accelerate progress towards achieving our Sustainable Development Goals.

In keeping with our longstanding commitment to transparency, we have also requested a voluntary safeguards assessment to be conducted as soon as possible. The last safeguards assessment mission was held in 2016, with all recommendations implemented to date. To enable the assessment, we will provide the IMF with the central bank's most recently completed external audit reports and authorize our external auditors to hold discussions with the IMF.

The Program Statement attached to this Letter of Intent presents our performance under the program and updates the specific policies to meet the program's objectives, including the associated quantitative and reform targets. We will monitor progress continuously in consultation with the IMF. We stand ready to take any additional measures that may prove necessary to reach our objectives and will consult with the IMF on the adoption of such measures and in advance of any revisions to policies included in this Program Statement in accordance with the IMF's policies on consultations. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as agreed under the attached Technical Memorandum of Understanding, or at the IMF's request.

We agree to the publication of this Letter of Intent and its attachments, as well as the related Staff Report, on the IMF's website.

Sincerely yours,

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

Attachments (2)

I. Program Statement

II. Technical Memorandum of Understanding

Attachment I. Program Statement

(Kigali, Rwanda, June 25, 2021)

I. RECENT DEVELOPMENTS

1. **Rwanda is still dealing with the fallout from the COVID-19 pandemic.** A second wave of infections led to a tightening of restrictions in December and a three-week lockdown in Kigali in January 2021. Some of the restrictions on mass movements, including the imposition of curfews, continued through the end of the first quarter of 2021. While the overall spread of the disease has been limited, with about 2,061 confirmed cases per 1 million people and 27 deaths per 1 million people as of end-May 2021, COVID-19 remains a serious concern and a major risk to public health. Moreover, the attendant economic disruption arising from restrictions on mass movements has caused widespread income losses. While a gradual lifting of restrictions is currently underway, our development goals have already suffered a significant setback, and we face a difficult task of returning to a path of sustained and inclusive growth.

2. **The toll on the economy has been larger than anticipated.** After a 12 percent y/y contraction in Q2, the economy gradually recovered in the second half of 2020. Real GDP contracted by 3.4 percent in 2020. While the agriculture sector grew by 0.8 percent, output in the industry and services sectors decreased by 4.2 percent and 5.5 percent, respectively. Within the services sector, transport activities, wholesale and retail trade, and hotels and restaurants, which represented some of the hardest hit sectors, contracted by 23.7, 3.3, and 40.6 percent, respectively.

3. **The vaccination campaign has kicked off, with a target of reaching 60 percent of the population by end June-2022.** We launched our national vaccination campaign mid-February with the inoculation of frontline health workers. The vaccination cost will be financed by grants (mainly through the COVAX initiative) representing half of the total financing and through concessional loans. As of end-May, about 3 percent of the population in Rwanda has been vaccinated against COVID-19. This is our plan for vaccine rollout, provided that the vaccine supply issue is resolved and there is a fair and equitable access to COVID-19 vaccines for all countries globally.

4. **The fiscal deficit was larger than expected in the first half of FY20/21, despite overperforming revenues.** Revenues collected in the first half of the fiscal year reached RWF 1,230 billion (12.2 percent of GDP) mainly due to disbursements of previously delayed funds for peace-keeping operations, and overperforming tax revenues. The latter was mainly due to one-off events unrelated to economic activity, notably (i) payments of corporate income tax (CIT) and personal income tax (PIT) in July originally due in March, and (ii) an increase in value-added tax (VAT) and larger-than-anticipated Pay As You Earn (PAYE) collections on account of the surge in capital imports due to a pickup in public construction, including the government's accelerated school construction program, and public employment in the health sector. Total expenses exceeded allocations in the revised budget mainly due to the accelerated execution of these infrastructure projects. Except for policy lending affected by slow disbursements under the Economic Recovery Fund (ERF), COVID-19-related spending was also over-executed. Despite the overperformance in

revenues, the higher-than-expected total spending led to an overall deficit in the first half of the fiscal year of RWF 523 billion (5.2 percent of GDP) above the amount of RWF 481 billion (4.7 percent of GDP) allocated in the revised budget. As a result, Rwanda's total public and publicly guaranteed (PPG) debt stood at 71.3 percent of GDP as of end-December 2020. The higher-than-anticipated stock was mainly attributed to larger-than-anticipated sales of domestic government securities (3 percent of GDP), a faster-than-projected depreciation of the Rwandan franc against the US dollar, and a lower nominal GDP growth.

5. **Delayed budget support disbursements from development partners at end-2020 led to a temporary spike in unpaid bills, which have been paid by end-March.** Delayed budget support amounted to about US$ 220 million, mainly due to unanticipated delays in the approval of a new education law, a prior action under the World Bank program. Some of these funds only started to materialize at the end of the year, leaving insufficient time to draw down on government deposits to meet spending commitments, and leading to a temporary increase in accounts payables (float) of RWF 157.8 billion (1.6 percent of GDP) and a buildup in deposits. With the drawdown of government deposits since January and the disbursement of delayed funds following the adoption of the education law in early March, these unpaid bills were settled before end-March.

6. **The government is considering new policy measures to lay the foundations for a strong and inclusive recovery.** Our Economic Recovery Plan (ERP) was adopted in May 2020, at the beginning of the crisis. Given the more protracted impact of the pandemic, particularly in the hospitality sector, we are targeting the manufacturing sector to boost job creation and support the economic recovery (see ¶36). To this effect, we launched in December 2020 the Manufacture and Build to Recover Program (MBRP) with the objective to fast-track the economic recovery mainly through temporary tax incentives for manufacturing and construction activities. In addition, with support from the World Bank and the Asian Infrastructure Investment Bank, we will revamp our ERF with the creation of a new investment window. This new investment window will provide financing to create and expand new ventures in agro-processing, light manufacturing, construction, and other job-intensive manufacturing activities.

7. **Inflation reached 2.4 percent y/y in April, against 2 percent y/y the previous month.** Inflation has been declining since 2020Q4, driven by falling food prices on the back of good agricultural production in season A and the downward revision of public transport fares. The Monetary Policy Committee (MPC) kept the policy rate unchanged in May given the subdued inflation outlook.

8. **The financial sector has been resilient so far, but risks loom large.** The banking sector continues to maintain sufficient capital and liquidity buffers, with the capital adequacy (CAR) and liquidity coverage ratios at 21.5 percent and 254.7 percent respectively at end-December 2020, well above the minimum prudential requirements (15 and 100 percent, respectively). Similarly, the microfinance (MFI) sector's CAR stood at 36 percent, while the liquidity ratio stood at 101.5 percent against the 30 percent minimum requirement. The insurance sector remained resilient, with the aggregate solvency ratio of private insurers at 114 percent and a liquidity ratio at 134 (against 100 and 120 percent prudential minimum requirements), although the increase in insurance

premium receivables poses credit and liquidity risks to the sector. The non-performing loans (NPLs) ratio declined for both banks and MFIs at end-December 2020 relative to the previous quarter, falling to 4.5 and 6.7 percent, respectively. However, the reduction in banks' NPLs reflects the strong growth in gross loans, supported by new authorized loans, COVID-19-related restructuring, and forbearance on the write-off of loss loans. At end-December 2020, outstanding COVID-19-related restructured loans stood at RWF 799.9 billion (31.7 percent of total loans) in banks, and at RWF 14.8 billion (7.3 percent of loans) in MFIs. In the absence of loan restructuring and forbearance on the write-off of class 5 loans, growth in banks' outstanding loans could have been as low as 7.1 percent y/y at end-2020, against 21.2 percent currently recorded.

9. The central bank continues to make its liquidity support measures available to banks. The RWF 50 billion worth extended lending facility established in April 2020 for a period of six months was extended in October to offer a standby support to liquidity-stressed banks. To date, RWF 5 billion have been disbursed to two banks. The T-bond rediscounting window remains unused. Limited take-up reflects liquidity buffers from the implementation of Basel II/III standards pre-pandemic, further buttressed by the policy rate cut in April 2020, the reduction of the reserve requirement ratio from 5 to 4 percent (which injected RWF 23.4 billion in the system), continued restriction on dividend distribution, and the operationalization of the ERF, which injected around RWF 48 billion in the banking sector by end-December 2020 under the hotel refinancing and working capital windows.

10. The trade and current account balances widened in 2020. The COVID-19 pandemic had a material impact on Rwanda's net exports of goods and services, leading to a wider trade deficit of 16.4 percent of GDP in 2020. Rwanda's exports of goods and services fell to 18.7 percent of GDP from 21.8 percent of GDP at the same period last year. Pandemic containment measures introduced worldwide have negatively impacted cross-border movements, hence reducing revenues from key sectors, notably travel and tourism, and air transport. Export receipts from travel and tourism shrank by 73.7 percent y/y. Similarly, merchandise exports dropped by 20.9 percent as the COVID-19 pandemic hit global demand, weighing down commodity prices and domestic economic activities. On the imports side, merchandise imports dropped by 1.4 percent in 2020, 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. The increasing trade deficit widened the current account deficit (CAD) to RWF 1,264.7 billion in 2020 while inflows from private transfers, mainly from remittances and official transfers, were relatively stable. This CAD was financed in large part by external borrowing, mainly public loans, which helped cushion foreign reserve assets. At end-December 2020, gross international reserves stood at US$1,780 million, covering 6.0 months of prospective imports of goods and services.

Program Performance

11. Program performance at end-December 2020 was strong. The debt-creating overall deficit (including grants) was kept below the program ceiling, while the floors on the stock of the National Bank of Rwanda (NBR)'s net foreign assets, total priority spending, and domestic revenue mobilization were exceeded. Rwanda did not accumulate domestic arrears, nor external payment arrears. The monetary policy consultation clause (MPCC) was also observed, with the 12-month average y/y headline inflation within the inner band at end-2020. The ceiling on the present value (PV) of new PPG external debt, the target on the stock of new external debt contracted or guaranteed by nonfinancial public enterprises, and standard continuous targets were also observed.

12. All but one end-December 2020 reform targets (RTs) were met.

- **Expanding coverage of fiscal reporting to central government.** We expanded the coverage of fiscal reporting in GFSM 2014 from budgetary central government to central government (i.e. including extrabudgetary entities) and local governments. We remain committed to making further progress on expanding the coverage of fiscal reports (see ¶24).
- **Automating the risk-based verification process for refund claims.** The RT was not met due to technical challenges in the development of procedures to automate risk rules on the data platform. Progress towards implementing this RT has been significant, with the automation of a number of activities to improve the integrity of the VAT process. These include (i) the full validation of Electronic Billing Machine (EBM)-issued VAT input claims; (ii) the development of risk indicators to detect fictitious claims and the use of cancelled EBMs, and (iii) the creation and maintenance of a blacklist of fraudulent taxpayers. Meeting this RT will still require the automatic detection of fraudulent export claims, which Rwanda Revenue Authority (RRA) expects to achieve by end-October 2021.
- **Produce financial and management reports from the Information Technology (IT) system for all schemes managed by Rwanda Social Security Board (RSSB).** The RT 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 rollout 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 the management and sustainability of all schemes managed by RSSB (see ¶25).
- **Expanding industrial and market expectation surveys that feed into macro forecasting, beginning collecting data to construct a purchasing managers index (PMI), and accelerating the publication of the foreign private capital survey.** We have improved the structure and content of the food price expectation survey questionnaire by adding more items which have a significant weight in our consumer price index, digitized the survey instrument, and expanded the coverage from 10 to 14 districts, with further plans to reach all rural districts by December 2021. In 2019, NBR initiated the Agricultural Forecasting Group (AFG) that brings together experts from the Ministry of Agriculture, Rwanda Agriculture Board, Ministry of Trade and Industry, Ministry of Finance and Economic Planning, Ministry of Environmental Management, National Bank of Rwanda, and the Rwanda Meteorology Agency, to inform our near-term forecasts for inflation. The first formal meeting of the AFG took place on October 9, 2020. We started collecting PMI data in Kigali

City in September 2019, expanded the coverage to provinces from July 2020, and are now using the results as inputs to the FPAS tool that informs MPC meetings. We expect to increase the sample of manufacturing companies from 55 to 96 by December 2021. The 2020 foreign private capital survey was conducted in July-September 2020 and the report published on NBR's website in December 2020.

II. OUTLOOK AND POLICIES

A. Outlook

13. **The outlook is that of a gradual recovery in economic activity from the trough in the second quarter of 2020 as vaccination gains steam, with the output gap projected to close by early 2023.** The economic recovery could be delayed if the vaccination program encounters difficulties both in the country and the region. The renewed lockdown in Kigali in January and tighter restrictions are expected to have less impact on activity compared to the first lockdown in 2020. This is due to a combination of factors, including the more limited extent of the 2021Q1 lockdown, Rwandans' adaptation to remote work, and the subdued contact-intensive activity in 2021 compared to the first phase of the lockdown. In 2021Q1, we expect agriculture to be the least affected by the lockdown, followed by industry. On the other hand, the services sector is expected to contract, affected by ongoing restrictions. For the remainder of 2021, we expect agriculture to continue to grow, in part reflecting favorable export crop prices. Industry is expected to rebound and continue to be the driver of growth, supported by manufacturing and construction activities, while recovery in the services sector is expected to be slower as travel restrictions continue in 2021H2. As a result, growth is projected at 5.1 percent in 2021.

14. **Inflationary pressures should remain subdued in the near term.** Headline inflation is projected to fall below NBR's benchmark in 2021 owing to subdued demand, before picking up in 2022. However, inflationary risks could materialize, including from the increase in international energy and food prices.

15. **The current account deficit is expected to widen temporarily in 2021, driven by a pickup in imports, before starting to decline in the medium term.** It is projected to widen to 13.4 percent of GDP in 2021, mainly due to high imports of capital and intermediate goods as economic activity improves amid slow recovery of export receipts from travel and tourism, albeit the projected significant improvements in merchandise exports as external demand picks up. The CAD is projected to improve significantly in the medium to long term, driven in large part by government policies to transform its output, which are expected to diversify the export base and decrease imports.

B. Fiscal Policies

16. **Our medium-term budget framework fully accommodates our COVID-19 spending needs under our ERP, including those for the vaccine rollout and for healing social and**

economic scars from the pandemic. The fiscal deficit under the current and next two budget years fully accommodates spending needs under the ERP, including those necessary to allow for the envisaged vaccine rollout and limit scarring due to the pandemic by accelerating already planned education-related spending, which is critical to enhancing human capital, and providing support to private firms under the ERF and distressed state-owned enterprises (SOEs). In particular, headline deficits in FY20/21, FY21/22, and FY22/23 are projected to be above the figures agreed under the 3rd Policy Coordination Instrument (PCI) review by 0.6, 0.9, and 1 percentage points of GDP, respectively, reflecting the following measures:

- In FY20/21, the slightly higher deficit reflects in particular vaccine-related costs, faster project implementation, including the accelerated school construction program (as mentioned in ¶4), and higher non-vaccine current spending, which are partly offset by delayed disbursements to fund ERF activities and higher-than-anticipated revenues.
- In FY21/22, the higher deficit is mainly attributed to additional COVID-19-related expenditure, notably vaccine-related costs, support to the private sector through additional ERF resources, wage bill increases reflecting the need to hire new teachers and health workers as well as the restructuring of the civil service to improve central government service delivery, support to distressed SOEs in the form of subsidies, loans, and equity acquisitions, and an increase in public investment in priority projects to support the economic recovery. The proposed spending increase is partially compensated by revenue gains and spending cuts in goods and services.
- In FY22/23, the higher deficit is the result of the above-mentioned wage increases, support to SOEs and private firms through the ERF, and public investment targeting priority projects.

17. Our fiscal path has been revised to allow for this additional fiscal support, while remaining consistent with reaching our debt target over the medium term. To continue providing fiscal stimulus in the short term and fast-track the economic recovery, we have allowed for a more gradual fiscal consolidation path than the one agreed in the 3rd review. Under this path, debt would converge to our medium-term target by 2030 instead of 2028 projected in the 3rd review. This would be achieved through annual reductions in the headline deficit of 0.7 percentage point of GDP on average between 2021 and 2029, reflecting the gradual phasing-off of COVID-19-related spending through 2024 with no additional fiscal effort and the implementation of consolidation measures thereafter when the economic impact of the pandemic fully recedes. To this end, we plan to identify a full set of credible revenue and spending measures and start to implement them before the end of our PCI program, which we request to be extended through June 27, 2023.

18. We have started to design our growth-friendly fiscal consolidation strategy. We have started to lay out policy measures conducive to a growth-friendly fiscal consolidation aimed at balancing the need for supporting the recovery and meeting our development needs against the imperative of debt sustainability. We will pursue a three-pronged strategy consisting of domestic revenue mobilization, spending rationalization, and structural reforms to (i) accelerate and sustain economic growth through greater private sector participation and (ii) contain fiscal risks.

- **Revenue mobilization.** With IMF technical assistance (TA) support, we are finalizing our first Medium-Term Revenue Strategy (MTRS-1) expected to be launched in July 2021 and spanning the next three fiscal years (FY21/22 to FY23/24). MTRS-1 was designed to strike a balance between supporting the recovery and mobilizing additional revenues to help finance Rwanda's development priorities under the National Strategy for Transformation (NST-1). It identifies tax policy and administration measures to increase revenue-to-GDP ratios by 1 percentage point of GDP. MTRS-1 will lay the foundations for a more fundamental set of reforms to be carried under a second MTRS (MTRS-2). MTRS-2 will cover a 5-year period and be aligned to the forthcoming national strategy supporting its financing need. We are committed to withdrawing any remaining COVID-19-related tax relief as soon as the crisis abates.
- **Spending rationalization.** Initial efforts to rationalize spending have already begun with a focus on making some of the temporary savings in current spending, such as those related to official travel and conferences, permanent by increasing reliance on virtual meetings and other remote work practices developed during the pandemic. We are also considering other measures such as the consolidation of some on-going projects and the adoption of an expenditure management system to contain the growth of spending. To assess the scope of these and other measures, we have requested the World Bank to perform a Public Expenditure Review (PER) this fiscal year. To complement the PER analysis on public investment and review existing public investment management practices to minimize government exposure to risky projects, we plan to request the IMF by end-June 2021 to conduct a Public Investment Management Assessment (PIMA). To this end, we are engaging with the World Bank and IMF to better define the scope of these exercises and better understand their methodologies, data requirements, and participating government agencies. Both exercises are expected to be finalized in 2021, with preliminary recommendations expected to be available in time for the next PCI review.
- **Structural reforms.** Our strategy will put more emphasis initially on structural reforms to improve economic performance, strengthen public finance management practices, and contain fiscal risks. Fiscal consolidation measures are expected to be adopted as soon as growth is back to pre-COVID-19 levels.

19. We have phased out all pandemic tax relief measures, while staying the course on reforms to strengthen our revenue administration. All COVID-19- related tax relief measures have been phased out, including the PAYE tax exemption for employees earning up to RWF 150,000 in private schools and companies operating in the tourism and hotel sectors , which was extended beyond the initial deadline of September 2020 to December 2020. RRA has also accelerated the adoption of IT during the COVID-19 pandemic period where physical contact has been a challenge. Most taxpayer services are now offered electronically, including requests for transfer of assets, motor vehicle services, and EBM services. RRA has also disseminated phone and e-mail contacts for taxpayer support.

20. Tax measures under our MTRS-1 will help lay the foundations of the planned post-COVID-19 fiscal consolidation. We are considering a set of tax policy measures yielding about 0.48 percent of GDP and aimed at (i) restructuring the PIT rate schedule to provide relief to taxpayers from the impact of inflation over the last 15 years and improve progressivity; (ii) implementing a wide range of CIT reforms comprising rate reduction, full expensing and indefinite allowability of carry forward of business losses, elimination of tax incentives (with capped grandfathering), and the introduction of a minimum alternative tax (MAT) with the provision of MAT credit in subsequent years; (iii) switching to specific rates of excise duties and reviewing them; and (iv) providing incentives under the VAT in the form of rebates for enhanced use of EBMs. MTRS-1 also includes tax administration measures yielding about 0.52 percent of GDP and aimed at (i) fostering voluntary compliance in domestic tax and customs with improved taxpayer services; and (ii) strengthening tax compliance in high-risk sectors such as large businesses and the manufacturing sector. Policy measures to support the recovery by providing relief to taxpayers such as the adoption of a more progressive PIT and more consistent payment of VAT refunds together with administrative measures to enhance taxpayer services, are expected to be implemented in FY21/22. Other measures involving excise taxes and the CIT will be implemented in subsequent fiscal years and will help mobilize additional revenues in the short and medium term.

21. We are strengthening our tax policy capacity through the creation of a new Tax Policy Directorate General under the Ministry of Finance and Economic Planning. The Cabinet approved a new structure for the Ministry, recognizing the important role played by tax policy. As a result, the number of staff dedicated to this function increased from two to six with the creation of a separate directorate general. The new directorate will advise the Minister on all tax policy related matters, monitor the implementation of MTRS 1, propose changes in tax legislation, and undertake research and modeling activities to better inform policy.

22. We have made steady progress in the quantification, reporting, and management of fiscal risks, especially from SOEs. A health-check assessment of SOEs, including some initial mitigation options and stress tests, was finalized in May 2021 (end-May RT). A summary of the outcome and mitigation options of this assessment was included as part of our latest published Fiscal Risk Statement (FRS). We plan to perform additional stress tests to be finalized by end-December 2021. Informed by these tests, we will refine the mitigation options under our FRS during FY21/22 by including measures to limit government exposure to distressed SOEs and any of their shareholders with the aim of reducing their future impact on the budget. With Fund TA support, our FRS was also expanded to include additional information on contingent liabilities from public-private partnerships (PPPs), as part of on-going efforts to improve the accounting and reporting of those entities. To be aligned with the budget cycle, the FRS preparation and publication has been brought forward. Our second FRS was discussed by the Fiscal Risk Committee (FRC) in May and presented for approval to the Economic Cluster of the Cabinet by end-May ahead of the submission of the Budget to Parliament. We believe that these improvements will help us identify in advance fiscal risks from SOEs, engage them in finding a solution and, if necessary, provision resources in the following budget revision without endangering the agreed fiscal path. Our current medium-term fiscal projections already include some provisions. We have also strengthened the legal basis for our fiscal risk framework by including some of its key elements such as the mandate and composition of the FRC and publication timeline of the FRS in the revised Law of State Finances and Property (Organic Budget Law) to be submitted to Cabinet by end-June 2021 and approved by Parliament by end-December 2021.

23. We will continue to take further steps towards shoring up our fiscal risk management capacity and oversight. We will seek to expand our annual FRS to include selected PPPs based on their size and risk exposure using the IMF-World Bank Public Fiscal Risk Assessment Model (PFRAM) and submit outcomes and mitigation polices to the FRC by end-April 2022 (proposed new RT), also to be summarized in the FY22/23 FRS. Consistent with Fund TA recommendations, we plan to further support risk mitigation in the SOE sector by submitting an SOE Ownership Policy to Cabinet by end-June 2021 and publishing it by end-December 2021. The published policy will provide the Government Portfolio Management Unit (GPMU) with a formal mandate to manage SOEs, and further extend its oversight to subsidiary companies. We also plan to clear the backlog of unaudited Financial Statements for FY17/18 and FY18/19 and require all SOEs to publish their annual financial statements annually and to provide forecasts of their income statements and balance sheets by end-May 2022.

24. We have made significant strides in the transition of our fiscal accounts to GFSM 2014 and improvement of their coverage. We have continued our compilation efforts to increase the coverage of our annual government finance statistics and financial balance sheet in GFSM 2014. We plan to start disseminating annual historical data spanning FY16/17-FY19/20 on consolidated government finance statistics for public corporations, general government, and the non-financial public sector (NFPS) by end-December 2021 (new RT). We plan to expand this historical series by one more fiscal year and publish it every year by December thereafter. With respect to financial balance sheets, our plan is to publish by end-December 2022 annual financial balance sheets for the general government, including RSSB, and for public corporations five quarters after the end of any given fiscal year (i.e. by December), starting with FY20/21. In December 2020 (Q1 FY20/21), we started to produce quarterly budget execution report for the general government excluding RSSB using GFSM 2014. Our efforts to abide by good practices in transparent fiscal reporting will be sustained as we are also working to reduce the lag in reporting for some entities under the general government to be able to start the publication of quarterly budget execution reports covering the entire general government by March 2023 (new RT).

25. We remain committed to the transparency and sustainability of RSSB's finances. As advanced in the program statement for the 3rd review of the PCI, RSSB has undergone important statutory, managerial, and strategic changes since last year, while managing the impact of the COVID-19 pandemic. These changes will be critical to reinforce the transparency and sustainability of all RSSB's schemes. The institution was officially granted autonomy in February 2021 and, under a new management, started a process of organizational restructuring and continued IT modernization. As it was also indicated in our previous program statement, RSSB has approved a new strategic plan for the period 2020-25. Under this plan, all RSSB schemes are subject to wider and on-going reviews. A review of the optimal asset allocation, an RT under the program and originally set for end-June 2020, was to be part of, and informed by, some of these assessments. Reflecting the longer timeline to complete this broader review and the need to ensure the optimal asset allocation review benefitted from appropriate expert advice, we had requested at the 3rd PCI review for the RT to be delayed until end-June 2021. Since then, we have managed to complete actuarial studies for RSSB's Pension and Medical Schemes and Sustainability Studies of CBHI and *Ejo Heza*, whose completion prior to the asset allocation review was critical. However, RSSB's management has also come to realize that the magnitude and importance of the asset review and some of the other on-going reviews would require the services of an advisory firm with an international reputation. RSSB is now in the process of recruiting such firm by conducting introduction meetings of interested firms and a final selection is due by end-June 2021 (new RT). The hired advisory firm is expected, among other things, to conduct a review of the asset allocation, provide recommendations aligned with RSSB's strategic plan, assist in the implementation of the recommendations to achieve the proposed targets, and build capacity. The advisory firm is expected to conclude the review six months after the start of its contract and is expected to be hired for an additional 12 months (renewable if needed) thereafter to support the implementation of the review's recommendations. Against this background, we would like to request for the asset allocation review RT to be reset for end-December 2021.

26. Rwanda's external and overall PPG debt remains sustainable at a moderate risk of debt distress. As of end-2020, the stock of PPG debt stood at 71.3 percent of GDP, with most of the debt (52.5 percent) being contracted in foreign currency and at concessional terms. Going forward, our main priority remains to recover from the impact of the pandemic, while keeping debt at sustainable levels. To this end, we will continue to maximize concessional borrowing, with non-concessional borrowing limited to cases where grants or concessional resources are unavailable. In addition, given the approaching maturity of the US$400 million Eurobond, we are actively exploring different options that will help to mitigate the refinancing risk in 2023. With regards to domestic debt, we intend to resume issuing T-bonds to promote depth and liquidity in the government bond market over time. We will improve further our analysis of debt guarantees, through the application of scenario analysis tools designed to assist with the assessment of credit risk of new and outstanding loan guarantees. This practice will provide comprehensive information on the government's debt and guarantees to SOEs based on international best practice in debt transparency.

27. We remain committed to a transparent use of public resources. Our procurement practices are carried out 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, audited all government expenditures and procurement tenders for FY19/20, including those linked to the pandemic, and made public his findings on April 30, 2021. Beneficial ownership information for companies that have been awarded COVID-19-related government contracts can be made available upon request as part of strengthening the public procurement system.

C. Monetary and Exchange Rate Policies

28. We will continue to keep monetary policy data dependent. We remain committed to closely monitoring price and macroeconomic developments given the uncertainties surrounding the duration and impact of the pandemic. For this purpose, the NBR will continue to strengthen the implementation of the forward-looking monetary policy framework through several initiatives. These initiatives include strengthening economic analysis, research, modelling and forecasting capabilities to support monetary policy decisions; enhancing policy communication to anchor the expectations of economic agents, deepening financial markets by developing the interbank market, and broadening the investor base in government securities. Other enablers include timely production of high frequency economic indicators, market surveys, and market intelligence.

29. We remain committed to building FPAS capacity to support our interest-based monetary policy framework. We continue to build analytical capacity to inform monetary policy decisions through enhanced modeling and forecasting tools. High uncertainty about the outlook for output and inflation amidst the COVID-19 pandemic stresses the importance of a properly functioning FPAS for the monetary policy decision-making process. With support from IMF TA, we are working towards strengthening the role of sectoral experts in the forecasting process, refining the design and implementation of alternative model scenarios, and shaping external communication. To enhance the FPAS process, we will prepare forecast and model manuals subject to periodic review and continue publishing the date for MPC meeting, at least two months ahead.

30. We have taken steps to strengthen our repo market and are committed to maintaining the reform momentum in this area. Since November 2020, we have upgraded the repo market infrastructure to allow for change of ownership during repo transactions. Measures to roll out the Global Master Repurchase Agreement (GMRA) are ongoing: following consultation with the Capital Market Authority and the Rwanda Stock Exchange, we expect to sign a cooperation agreement with the World Bank/IFC by end-June to launch a legal assessment aimed at identifying gaps in the regulatory framework, together with recommendations on addressing them. The assessment will review national laws to determine whether they accommodate the standard GMRA, or whether a Rwandan annex is needed. We expect the assessment to be completed and a report to be produced by end-November 2021, and thus propose to update the scope and timing of the original RT accordingly. The cooperation agreement with the World Bank/IFC will also include a study on the regulatory aspects and feasibility of extending true repo to non-bank financial institutions. We propose to set the completion of the study as a new RT for March 2022. We expect the GMRA to be rolled out by June 2022, once training of market participants on all aspects of GMRA terms has been completed and all banks have signed the GMRA.

31. We will continue pursuing financial markets deepening and further strengthening monetary policy transmission. Interbank market activity has increased relative to 2019, although a decline in the volume and value of transactions was observed since October 2020 owing to relatively low excess reserves held by banks, in line with sluggish economic activity and reduced cash flow from deferred loan repayments. The primary bond market continues to operate despite the pandemic, with seven new bonds issued and eight bonds reopened in 2020 at an average subscription of 154.8 percent reflecting sustained investor appetite for government securities. To expand the investor base, we have been conducting sensitization campaigns targeted at retail investors, whose participation in the government's securities market should also benefit from the rollout of the electronic subscription platform for government securities (end-June 2021 RT). The secondary bond market was active, with the number of deals and the turnover of traded bonds increasing by 10.9 and 62.3 percent y/y in 2020.

32. We are committed to exchange rate flexibility in line with the monetary policy framework. As the exchange rate is the first line of defense against external shocks, we will only intervene on the foreign exchange (FX) market to minimize excessive exchange rate volatility. Following the lifting of the lockdown in June, high FX demand from the resumption of economic activity created FX pressure, prompting an increase in NBR's FX sales to banks to US$381.8 million in 2020, against US$282.5 million in 2019. Pressures on the FX market have abated from December owing to subdued activity and FX demand following the tightening of restrictions and the three-week lockdown in Kigali in January. However, we expect pressures to emerge in 2021 as the economy recovers, supported by the vaccine rollout.

D. Financial Sector Policies

33. We continue to closely monitor risks to the financial sector. The high level of restructured loans is indicative of a potential uptick in NPLs and loan loss provisions going forward. Although 51 percent of restructured loans at end-December 2020 have resumed repayment following the expiration of the moratorium period, uncertainties surrounding the outlook do not preclude a deterioration of borrowers' ability to pay. To monitor and address risks to the financial sector, we are conducting a systematic review of credit risk across all institutions based on offsite supervision and onsite visits. Supervision will focus on investigating the proper implementation of the June 2020 guidelines, including scrutinizing banks' assessment of borrowers' likeliness to pay and examining whether they are implementing proper classification and timely recognition and provisioning of problem loans. We are also assessing banks' operational resilience and business continuity management and have started compiling more granular data to assess the extent and impact of COVID-19-related loan restructuring by MFIs. We continue to perform stress tests to monitor for early signs of distress. Our latest credit risk stress testing considered the effect of restructured loans on NPLs and banks' solvency positions, with results under the baseline shock indicating that two banks (including one D-SIB) would fall below the prudential capital requirement and necessitate the utilization of the capital conservation buffer.

34. We are considering measures to safeguard the soundness of the financial sector going forward. We have announced the suspension of 2020 dividend distribution in banks, microfinance institutions and insurance companies and are considering new policy measures on pandemic-related loan restructuring by end-June 2021 to preserve financial stability. We are also conducting a study on the sectoral impact of COVID-19 to inform policy interventions to support severely affected sectors. With regards to strengthening the financial stability safety net, the Deposit Guarantee Fund

(DGF) has been operational since November 2016. We have sought for IMF technical assistance with regards to strengthening the crisis management framework following the FSSR.

35. We are staying the course toward a cashless economy and a more inclusive financial system. The number of people saving through "*Ejo Heza*", the long-term saving scheme sponsored by government, increased from 127,768 in December 2019 to 789,981 in December 2020 (the value of savings increased from RWF 1.3 billion to RWF 9.7 billion). The payment interoperability project, aimed at supporting the cashless agenda, is progressing with the first use case on "person-to-person" transfers expected to go live in September 2021. The automation of *Umurenge* Savings and Credit Cooperatives (SACCO) business operations is expected to be completed by end-December 2021, and data cleaning is on-going. The COVID-19 pandemic and associated containment measures also played a catalytic role in the adoption of digital payments as customers, merchants, and financial service providers sought safe means of payment to prevent the spread of the virus as well as flexibility to ensure business continuity amid disruptions and social distancing. As a result, the volume of mobile money transactions increased by 85 percent from 378.8 million (worth RWF 2,349 billion) in 2019 to 701 million (worth RWF 7,177 billion) in 2020. To sustain the digital payment momentum, we have commissioned a study investigating consumer and merchant payment behavior and the challenges to digital payment adoption. This includes understanding and assessing the reasonableness of the pricing of payment services offered by banks and non-banks, and determining the optimal pricing of payment services that would support further digital adoption by consumers and merchants while also preserving the business sustainability of digital payment providers. The study will leverage micro-data on payment choices and the cost of payment services to inform policy interventions (end-December 2021 RT).

E. Structural Policies

36. We are working diligently to mitigate the social impact of, and scars from, the pandemic. We acted swiftly to scale up social safety nets, including emergency transfers, under our social protection system in the wake of the COVID-19 pandemic. Our ERP further refined and strengthened our response to support vulnerable households and boost employment, including by improving the coverage and targeting of social protection. We worked tirelessly and succeeded in restoring access to critical health, especially childhood immunization and nutrition services, temporarily disrupted by lockdown policies and other social distancing measures. To avoid any future prolonged closure in schools, we have, with support from the World Bank and other development partners, frontloaded the construction of public schools, among other things, to ensure social distancing and other required public health standards are properly met. While the long-term effects of school closures and healthcare disruptions are difficult to assess at this stage, the government is committed to continue investing in improving the quality of Rwanda's education, healthcare, and social protection systems.

37. We are fine-tuning our growth strategy under NST-1 to ensure a sustainable and inclusive recovery. While continuing to see opportunities in tourism for growth and job creations, especially Meetings, Incentives, Conventions, and Exhibitions (MICE) tourism, we are stepping up our interventions to support the manufacturing sector in tandem with the recovering global demand. In addition to previously discussed tax incentives and greater access to finance through our revamped ERF, measures include improving access to utilities and better infrastructure. The aim is to support the industry to produce at full capacity, with a special focus on scaling up investments of manufacturers that can substitute imports, such as in light manufacturing, agricultural processing, and construction materials. Rehabilitation of infrastructure damaged by heavy rains and severe flooding in 2020, such as dams, reservoirs, and irrigation canals, are progressing, and Rwanda aims to build more climate-resilient water management infrastructure with collaboration with the private sector. With support from the World Bank and other development partners, we are also reviewing our medium-term public investment priorities to account for the need to close large infrastructure gaps while scaling up investment in health, education and other social sectors critical to accelerate productivity gains and generate higher and more inclusive growth.

III. PROGRAM MONITORING

38. Progress in the implementation of the policies under this program will be monitored through QTs, including an MPCC, continuous targets and RTs. These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding.

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

	end-June 2021		end-Dec. 2021
	Prog.	Rev. 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]	-884	-927	-506
2. Floor on stock of Net Foreign Assets	746	1,024	835
3. Ceiling on flow of net accumulation of domestic arrears	0	0	0
Continuous Targets			
4. Ceiling on stock of external payment arrears (US$ million)	0	0	0
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt[3] (US$ million)	485	1,149	1,149
Monetary Policy Consultation Band[1,4]			
CPI Inflation target	5.0	5.0	5.0
Inflation, upper inner-bound, percent	8.0	8.0	8.0
Inflation, lower inner-bound, percent	2.0	2.0	2.0
Inflation, upper bound, percent	9.0	9.0	9.0
Inflation, lower bound, percent	1.0	1.0	1.0
Memorandum items:			
Total priority spending[2]	520	520	740
Floor on domestic revenue collection[2,5]	1,687	1,739	914
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)	700	700	700
Total budget support (US$ million) [2]	777	711	370
Budget support grants (US$ million)	308	284	174
Budget support loans (US$ million)	469	427	196
PV of budget and project loans dedicated to COVID-19 vaccine interventions (US$ million)[2,6,7]	…	30	30
Budget and project grants dedicated to COVID-19 vaccine interventions (US$ million)[2,6]	…	4	42
Total spending dedicated to COVID-19 vaccine interventions[6]	…	17	65
RWF/US$ program exchange rate	937	972	972

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 for the end-June 2021 targets; and from June 30, 2021 for the end-December 2021 targets.
[3] End-June 2021 and end-December 2021 ceilings are cumulative from the 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.
[6] COVID-19 vaccine interventions are measures associated with the COVID-19 vaccination campaign (e.g. vaccine procurement and distribution) as defined in the TMU.
[7] This includes USD 34 million of budget loan from AFD with a grant element of 33 percent and USD 15 million of project loan from the World Bank/IDA with a grant element of 53 percent.

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, June 2021 – March 2023

Actions	Target Date	Objective	Comments
Fiscal			
Select advisory firm to conduct a review of RSSB asset allocation	end-June 2021	Improve resource efficiency	New
Automating the risk based verification process for refund claims.	end-Oct. 2021	Improve DRM	Reset from end-Dec. 2020
Conduct a review of RSSB asset allocation and submit the associated report to RSSB management.	end-Dec. 2021	Improve resource efficiency	Reset from end-Jun. 2021
Publication of consolidated fiscal statistics for public corporations, the general government, and the non-financial public sector for FY 16/17 through FY 19/20	end-Dec. 2021	Improve fiscal transparency/PFM	New
Conduct a fiscal risk assessment of public-private partnerships and submit the outcome and mitigation options to the fiscal risk committee.	end-Apr. 2022	Improve fiscal transparency/PFM	New
Expand the coverage in quarterly fiscal reporting in GFS 2014 to include the whole general government (i.e. including RSSB).	end-March 2023	Improve fiscal transparency/PFM	New
Monetary and Financial			
Introduce a platform for issuing government securities using mobile phones.	end-Jun. 2021	Deepen financial markets	On track
Conduct a legal assessment to identify gaps in the regulatory framework for true repo ahead of Global Master Repurchase Agreement (GMRA) rollout.	end-Nov. 2021	Support new monetary policy framework	Reformulated and reset from end-Jun. 2021
Produce a study on consumer and merchant payment behavior and the pricing of digital payment services leveraging micro-data.	end-Dec. 2021	Deepen financial markets	Reformulated
Conduct a study on the regulatory aspects and feasibility of extending true repo to non-bank financial institutions ahead of GMRA rollout.	end-Mar. 2022	Support new monetary policy framework	New
Provide capacity building on all aspects of GMRA terms to market participants and secure the signing of the GMRA by all banks as a final step in the operationalization of the GMRA	end-Jun. 2022	Support new monetary policy framework	New

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

	July-December 2020				January-December 2021			
	Program (3rd Review)		Actual		Program (3rd Review)		Program (4th Review)	
	Nominal	PV	Nominal	PV	Nominal	PV	Nominal	PV
(Millions of USD)								
By sources of debt financing	**1,374**	**821**	**446**	**229**	**886**	**485**	**1,675**	**1,149**
Concessional debt, of which[2]	**1,106**	**592**	**342**	**151**	**814**	**433**	**319**	**150**
Multilateral debt	1,040	574	235	109	790	418	272	122
Bilateral debt	66	18	106	42	24	16	47	28
Other	0	0	0	0	0	0	0	0
Non-concessional debt, of which	**268**	**229**	**105**	**78**	**72**	**52**	**1,356**	**999**
Semi-concessional[3]	132	93	105	78	72	52	1,208	852
Commercial terms[4]	136	136	0	0	0	0	148	148
By Creditor Type	**1,374**	**821**	**446**	**229**	**886**	**485**	**1,675**	**1,149**
Multilateral	1,172	667	340	187	832	449	1,279	837
Bilateral - Paris Club	66	18	106	42	50	34	204	133
Bilateral - Non-Paris Club	0	0	0	0	4	3	45	31
Other	136	136	0	0	0	0	148	148
Uses of debt financing	**1,374**	**821**	**446**	**229**	**886**	**485**	**1,675**	**1,149**
Infrastructure	992	556	320	161	509	296	1,269	879
Social Spending	51	32	72	34	0	0	120	71
Budget Financing	331	233	55	35	377	189	286	199
Other	0	0	0	0	0	0	0	0

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, June 25, 2021)

1. **This memorandum defines the quantitative targets described in the Program Statement (PS) for the period: December 31, 2020 – December 31, 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-December 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 December 31, 2020
(US$ per currency unit, unless indicated otherwise)

Rwanda Franc (per US$)	972.5
Euro	1.227
British Pound	1.342
Japanese Yen (per US$)	103.6
SDR	1.438

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 ceiling for June 30, 2021 is cumulatively measured from June 30, 2020 and the ceiling for December 31, 2021 is cumulatively measured from June 30, 2021.

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.

Adjustors 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) not related to COVID-19 vaccine interventions, up to a maximum of RWF 101 billion. COVID-19 vaccine interventions are measures associated with the COVID-19 vaccination campaign. These interventions pertain to securing human and material resources for vaccination and procuring and distributing vaccines.

- The ceiling on the debt-creating overall balance will be adjusted upward, up to a maximum of RWF 101 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.
- The ceiling on the debt-creating overall balance will be adjusted upward by the amount of any shortfall between actual and programmed grants dedicated to COVID-19 vaccine interventions or by the amount of unbudgeted spending directly related to the cost of COVID-19 vaccine interventions not financed by unbudgeted grants dedicated to COVID-19 vaccine interventions. The need for this adjustment will be assessed in the context of the 5th review of the PCI program.

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 June 30, 2021 and December 31, 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.

Adjustors:

- 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 101 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 ceiling for June 30, 2021 is cumulatively measured from June 30, 2020 and the ceiling for December 31, 2021 is cumulatively measured from June 30, 2021.

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

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

principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the 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 ceilings for June 30, 2021 and December 31, 2021 are 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;

(c) External borrowing which is for the sole purpose of refinancing existing public sector external debt and which helps to improve the profile of the repayment schedule; and

(d) 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.

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. The ceiling on the PV of new external debt contracted or guaranteed by the central government will be adjusted upward for the full amount of any unbudgeted external loan financing dedicated to COVID-19 vaccine interventions. The authorities will consult with IMF staff on any planned external borrowing for this purpose and the conditions on such borrowing before the loans are either contracted or guaranteed by the government. The need for this adjustment will be reassessed in the context of the 5th review of the PCI program.

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

20. 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)

21. 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-June 2021 and end-December 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-June 2021 and end-December 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

22. 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.

23. 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.

24. 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.

25. 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.

26. 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).

Statement by the Executive Director, Mr. Aivo Andrianarivelo, by the Alternate Executive Director, Mr. Regis O. N'Sonde, by the Senior Advisor of the Executive Director, Mr. Marcellin Koffi Alle, and by the Advisor of the Executive Director, Ms. Loy Nankunda
July 1, 2021

1. Our Rwandan authorities would like to express their gratitude to Staff, Management and the Executive Board for the continued support. The Fund assistance has been instrumental in Rwanda's macroeconomic achievements over the past decades and in the government's response to the still unfolding COVID-19 crisis. The engagement with staff in the context of the 4th review under the Policy Coordination Instrument (PCI) provided an opportunity to discuss issues and policies to continue responding and eventually exit the pandemic, address scars and revert the economy to its path of strong growth and structural transformation. The authorities broadly share the thrust of the staff report as a fair account of the discussions.

2. The Rwandan economy continues to battle the effects of the pandemic. After the authorities' swift response contributed to limit cases and casualties during the first phase, a second wave of infections led to the reinstatement of restrictions and lockdown starting in December 2020. As they were easing some of those restrictions, a new surge in infection rates has occurred, which prompted the authorities to reverse course. Going forward, the rollout of the national vaccination campaign is expected to stop infections and the authorities' policy package to address the impact of the prolonged pandemic on the economy and on social outcomes.

3. Despite this challenging environment, the implementation of the PCI has been met with a strong performance over the period under review. The authorities have maintained their reform momentum while pursuing the accommodative policy mix to dampen the effects of the pandemic. In the period ahead, they are committed to supporting the nascent recovery while gradually returning to more sustainable macroeconomic policies. In this regard, they will implement a growth-friendly fiscal consolidation to put debt on a downward path. As well, efforts will continue to enhance the monetary policy framework and strengthen financial stability. Furthermore, the authorities will resume the pace of their economic transformation agenda. They are convinced that the PCI provides an adequate anchor to help in these endeavors; and they are requesting a one-year extension of the Instrument, through June 27, 2023.

I. Recent Developments, Program Performance, and Outlook

4. Recent developments were marked by the different waves of the pandemic. Real GDP contracted by 3.4 percent y/y in 2020, driven by the almost stop of the tourism sector as well as the contraction in services in general and in industrial activity. The second wave of infections and the subsequent restrictions measures supported the projection of a slower-than-anticipated recovery in 2021 in the staff report. However, based on most recent data, 2021Q1 real GDP growth surprised on the upside, standing at 3.5 percent y/y on the back of stronger output in agriculture, industry, and services. Inflation was further subdued, falling to 0.4 percent y/y in May, compared to 2.4 percent y/y in April as reported at the time of the review mission. The external position deteriorated, with the current account deficit increasing to 12.2 percent in 2020

as a result of higher imports for infrastructure projects and lower global demand for exports. Reserves however remained at an adequate level at end-April, covering 4.8 months of prospective imports. Going forward, the authorities are confident that the combination of their vaccination program, temporary restriction measures to mitigate the new wave of infections and the additional policy support package will contribute to contain the spread of the virus, strengthen the recovery and improve economic indicators.

5. Program performance was strong owing to the authorities' resolve for reform amid a difficult pandemic-created environment. All end-December 2020 quantitative targets (QTs) and the continuous targets were met. All but one reform target (RT) were met. The missed RT relates to the automation of the risk-based verification process for VAT refund claims. Nonetheless, significant progress has already been made on this front and the authorities are working to make up the delays in the development of procedures and complete the reform by end-October 2021. Moving forward, they are committed to maintaining the strong track record of program implementation to meet its objectives.

6. The authorities share staff's overall positive view on the outlook while being cognizant of the balance of risks. They are determined to move ahead with their supportive actions to help firm up the recovery and pave the way for the 5.1 percent real GDP rebound projected in 2021. The authorities strongly believe that their vaccination program and supportive policy actions paired with improving global conditions would counterbalance downside risks which remain outside their control.

II. Policies for Recovery and Economic Transformation

Fiscal Policy and Debt Sustainability

7. Fiscal policy in the current FY20/21 through FY22/23 is geared towards the key objectives of accommodating the additional COVID-related spending and boosting domestic revenue mobilization. On the spending side, the main actions of the Government encompass rolling out COVID-19 vaccines, investing in education to minimize learning losses and support hard-hit state-owned enterprises (SOEs). In the same vein, aided by donors, more resources will be allocated to revamp the Economic Recovery Fund (ERF) launched with the financing from the two disbursements under the Rapid Credit Facility (RCF) last year. Through rigorous eligibility criteria and oversight, selected private firms in strategic sectors will also benefit from financing under a newly set ERF investment window. This is meant to contribute to the authorities' strategy to further economic diversification and create jobs.

8. The second step of fiscal policy starting this year regards stepping up domestic revenue mobilization. A Medium-Term Revenue Strategy (MTRS) has been elaborated accordingly. The first phase of this strategy, MTRS-1, will be launched in July 2021 and spans fiscal years FY21/22 through FY23/24. The strategy is a combination of tax policy measures, such as the progressivity of Personal Income Tax and private investment-friendly Corporate Income Tax; and tax administration measures aimed to enforce tax compliance. The authorities target increasing the revenue-to-GDP ratio by 1 percentage point of GDP under MTRS-1. This revenue

mobilization effort will be paired with steps to rationalize spending, as the recovery takes hold and some COVID-related expenditures are phased out. The authorities plan to formulate their spending rationalization measures by the next PCI review, based on the recommendations from an ongoing World Bank Public Expenditure Review and IMF Public Investment Management Assessment (PIMA), both to be finalized by end-2021.

9. Our authorities have intensified actions to enhance fiscal transparency and governance and they are committed to continuing efforts in these areas. Supported by IMF technical assistance (TA), reforms have led to the publication of the main fiscal data and reports to date. As well, significant progress has been made in the management of fiscal risks related to SOEs and public-private partnerships (PPPs). A health-check assessment of SOEs was finalized in May 2021. It discussed some initial risk mitigation options which were included in the latest published Fiscal Risk Statement (FRS). These options will be further refined in the next FY21/22 FRS with measures to limit government exposure to distressed SOEs and related shareholders. Similar initiatives will be expanded to contingent liabilities from PPPs, with the support of IMF TA.

10. This improved architecture has helped secure transparency of pandemic-related spending, including the use of resources from IMF's RCF. Based on regular practices under the Organic Budget Law, the Office of the Auditor General--whose independence is enshrined in the Constitution--has audited all government expenditures and procurement tenders for FY19/20, including those related to COVID-19. Its report was made public on April 30, 2021. In the same vein, the authorities have made publicly available, awarded COVID-related contracts, including on their e-procurement website. Going forward, they are committed to redoubling efforts to address any remaining gaps with the view to improving the overall transparency and accountability framework.

11. Preserving debt sustainability continues to be of the utmost importance in our authorities' development strategy. Though debt indicators have recently suffered the effects of the pandemic alongside key macroeconomic figures, the authorities have no doubt that as growth resumes and the fiscal stance improves, the period ahead will display better debt dynamics. Moreover, they are committed to maintaining their prudent borrowing strategy prioritizing concessional financing in addition to grants from donors. In the same vein, they will continue to enhance their debt management strategy, including selecting the best option for the refinancing of the Eurobond in 2023. With these steps, the authorities are confident that Rwanda will at least preserve its current status of facing moderate risk of debt distress.

Monetary and Financial Sector Policies

12. Monetary policy will remain accommodative to support the recovery in an environment of subdued inflation. Given the uncertainty surrounding the outlook, and possible adverse price developments, the authorities are committed to the data-dependent monetary policy approach and stand ready for adjustment. On the other hand, they continue to make steps towards the interest rate-based monetary policy framework, with support from IMF TA in key areas. In this vein, in addition to building technical systems, they are taking actions to deepen financial

markets and boost interbank market activity, with the view to ensuring a well-functioning policy framework.

13. Exchange rate flexibility continues to guide the authorities' policy for external sustainability. They see the flexible exchange rate as the first absorber of shocks, and interventions on the FX market will aim to minimize excessive exchange rate volatility.

14. Financial sector policies in the period ahead will focus on ensuring financial stability in the face of negative spillovers of the economic fallout to the banking sector. In this regard, the Banque Nationale du Rwanda (BNR) has initiated a set of actions to enhance its bank supervision, including conducting stress tests on vulnerability to defaults and suspending dividend distribution to further enhance financial stability. In the face of the prolonged pandemic, BNR has reviewed and extended some of the supportive policy measures for banks and microfinance institutions through end-September 2021 and end-December 2021, respectively. This is meant to ultimately benefit their clients still affected by the crisis.

15. The authorities are also moving ahead with their actions to enhance financial inclusion, including by tapping the opportunity provided by digitalization. Constraints posed by the pandemic have led to an increase in mobile money transactions, well above their pre-pandemic levels. The government is conducting studies on the pricing of mobile services with the view to ensuring their accessibility. Other similar actions are underway to help buttress financial inclusion.

Economic Transformation

16. Beyond implementing policies to exit the pandemic and support the recovery, our authorities are preparing the ground to resume and give impetus to their economic transformation agenda. The crisis and the subsequent hit taken by the tourism sector has further highlighted the imperative of diversification. Early actions taken include the revamped ERF's new investment window of USD 150 million created to support manufacturing and other strategic sectors. Furthermore, the authorities are revamping their National Strategy for Transformation (NST-1) with more emphasis on supporting the manufacturing sector. Specific initiatives in this regard include increasing access to finance and improving access to utilities. Likewise, with support from the World Bank and other development partners, public investment priorities are being directed to infrastructures, education, and health, which are critical to boost productivity. The government expects that these policies will also help unleash the development potential of activities in light manufacturing, agricultural processing, and construction materials.

17. The authorities' economic transformation agenda makes a priority of reducing poverty, improving social outcomes and making inroads towards achieving the Sustainable Development Goals (SDGs). They are cognizant of the need to redouble efforts on this front, given the legacy of the COVID-19 crisis and related scars. Early and swift actions taken to mitigate the social impact of the pandemic included scaling up social safety nets through emergency cash transfers to vulnerable households and improving the coverage and targeting of social protection. Going forward, the government is committed to continuing investing in health, education, and other

social sectors to ensure that disruptions and pandemic mitigation measures do not have lasting negative effects on Rwanda’s social and development indicators.

III. Conclusion

18. The Rwandan authorities have maintained a strong performance under the PCI amidst challenges brought about by a second wave of the COVID-19. They have kept their reform momentum and thus continued to make progress in key macroeconomic policy areas. In parallel, they have strengthened their response to the pandemic while paving the way for recovery and renewed momentum to the economic transformation agenda.

19. In view of the authorities’ achievements and strong commitment to the program objectives, we would appreciate Executive Directors’ support for the completion of the fourth review under the Policy Coordination Instrument and the extension of the PCI through June 27, 2023.