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RWANDA

December 2022

REQUEST FOR A NEW 36-MONTH POLICY COORDINATION INSTRUMENT AND REQUEST FOR AN ARRANGMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY; PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the Request for a new 36-Month Policy Coordination Instrument and Request for an Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement of 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 December 12, 2022, following discussions that ended on October 6, 2022, with the officials of Rwanda on economic developments and policies underpinning the IMF Policy Coordination Instrument arrangement, and reforms measures supporting the IMF Resilience and Sustainability Facility arrangement. Based on information available at the time of these discussions, the Staff Report was completed on November 28, 2022.
- 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves $319 Million Arrangement for Rwanda Under the Resilience and Sustainability Facility, Plus a New Policy Coordination Instrument

FOR IMMEDIATE RELEASE

- *The IMF Executive Board approved today an arrangement for Rwanda under the newly established Resilience and Sustainability Facility (RSF), the first for an African country, in an amount equivalent to US$ 319 million. The RSF will support Rwanda's ambitious agenda to build resilience to climate change and help to catalyze further financing.*
- *The Executive Board also approved a new 36-month Policy Coordination Instrument to support the authorities' economic policy and reform agenda designed to maintain macroeconomic stability and foster more inclusive growth.*
- *More decisive monetary policy tightening and timely implementation of a fiscal strategy will be essential to preserve macroeconomic stability and safeguard debt sustainability, while fostering adaptative social protection systems, human capital investment, and greater economic diversification that is critical to socioeconomic resilience.*

Washington, DC – December 12, 2022. The Executive Board of the International Monetary Fund (IMF) approved today Rwanda's request for an arrangement under the Resilience and Sustainability Facility (RSF) amounting to SDR 240.3 million (about US$ 319 million, or 150 percent of quota). Rwanda is the first African country to secure access to the RSF, which was created this year with the aim of helping low-income and vulnerable middle-income IMF members address longer-term structural challenges such as climate change with longer-term, low-cost financing.

The RSF-supported program will advance the authorities' efforts to build resilience to climate change by improving the transparency and accountability in the planning, execution, reporting, and oversight of budget resources dedicated to addressing climate change. The program will include facilitating green public investment, creating further fiscal space, mitigating financial risks, and strengthening public debt dynamics and prospective balance-of-payments stability.

Disbursements to Rwanda under the RSF will be contingent on the conclusion of relevant reviews under a new 36-month Policy Coordination Instrument (PCI) approved today and implementation of scheduled reform measures agreed as part of the RSF arrangement, which establishes Rwanda's broad economic reform goals. The new PCI[1] for Rwanda replaces an instrument approved on June 28, 2019 (see Press Release No.19/258).

[1] The PCI is available to all IMF members that do not need extensive 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.

Program performance under the 2019 PCI has been relatively strong with all quantitative and standard continuous targets through end-June 2022 met, and all but one of the reform targets through end-September 2022 completed. The new PCI will continue to support Rwanda's macroeconomic policies and reforms, with a greater emphasis on policies to ensure macroeconomic stability and reforms to mitigate pandemic scars and to build socioeconomic resilience to shocks and insure against downside risks.

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

"Rwanda has become the first African and low-income country to benefit from the Resilience and Sustainability Facility (RSF), a recognition of the country's commitment to strengthen its resilience to climate change.

The Rwandan authorities implemented a sizable policy package to protect the most vulnerable against multiple shocks, while steering the economy to protect macroeconomic stability and advance their reform agenda under the Policy Coordination Instrument (PCI). However, global headwinds are slowing economic activity amid high unemployment, elevated inflationary pressures and limited fiscal space, compounding the challenges from pandemic scars and climate-related events.

The authorities' economic program under the new PCI is focused on policies to ensure macroeconomic stability, foster economic growth, and enhance socioeconomic resilience. Timely adoption of domestic revenue mobilization measures envisaged under their medium-term revenue strategy and the launching of a spending rationalization strategy will be critical for the credibility of the envisaged fiscal consolidation and to safeguard debt sustainability. The authorities should continue strengthening capacity to manage fiscal risks and adopt more effective and transparent public financial and investment management practices.

More decisive monetary tightening by the National Bank of Rwanda (NBR) is needed to contain inflationary pressures, while ensuring greater exchange rate flexibility remains key for external stability. Continued monitoring of the financial sector to ensure risks remain contained while deepening financial markets and promoting financial inclusion is also important.

The authorities' commitment to building socioeconomic resilience through adaptive social safety nets, human capital investments, and economic diversification policies and climate resilience reforms is commendable.

The RSF arrangement, underpinned by a strong reform package will help advance Rwanda's efforts to build climate resilience. The reforms under the RSF are expected to strengthen and institutionalize monitoring and reporting of climate-related spending, integrate climate risks into fiscal planning, improve the sensitivity of public investment management to climate-related issues, strengthen climate-related risk management for financial institutions, and strengthen the disaster risk reduction and management. The RSF is also expected to catalyze further climate finance from official and private sectors."

Table 1. Rwanda: Selected Economic Indicators, 2019–27

	2019	2020	2021	2022		2023		2024		2025		2026		2027	
	Act.	Act.	Act.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.
Output and prices															
Real GDP	9.5	-3.4	10.9	6.0	6.8	6.7	6.2	7.0	7.5	7.5	7.5	6.1	6.8	6.1	6.2
GDP deflator	2.5	6.7	2.7	9.3	11.9	8.7	7.4	5.5	5.3	5.4	5.2	5.0	5.1	5.0	5.0
CPI (period average)	2.4	7.7	0.8	9.5	`112.	8.0	7.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI (end period)	6.7	3.7	1.9	8.8	17.1	6.5	3.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-1.8	-0.9	3.9	7.5	11.1	-2.9	-7.5	-0.9	-2.1	0.3	-1.3	0.7	-0.4	0.2	-0.3
Exchange rate (Rwanda franc/US$)	922.	972.	1,009	1,085	1,060	1,155	1,134	1,213	1,207	1,268	1,279	1,319	1,331	1,358	1,383
Rwanda franc y/y depreciation rate		5.4	3.8	7.5	5.0	6.5	7.0	5.0	6.5	4.5	5.9	4.0	4.1	3.0	3.9
Exchange rate (Rwanda franc/US$) (p.	899.	943.	988.9	1,047	1,034	1,120	1,097	1,184	1,171	1,241	1,243	1,293	1,305	1,332	1,357
Rwanda franc y/y depreciation rate (p.		4.9	4.8	5.9	4.6	7.0	6.0	5.7	6.7	4.7	6.2	4.2	5.0	3.0	4.0
Real effective exchange rate	-1.7	3.0	-10.3	-1.6	0.7	-2.0	-1.9	-2.6	-3.6	-1.7	-3.1	-1.3	-1.9	-0.1	-1.0
Money and credit															
Broad money (M3)	15.4	18.0	17.8	15.8	19.5	14.2	12.3	15.0	15.4	15.8	15.5	11.4	12.3	11.4	11.5
Reserve money	16.0	21.7	30.7	4.8	8.1	12.2	10.3	15.0	15.4	15.8	15.5	11.4	12.3	11.4	11.5
Credit to non-government sector	12.6	21.8	14.7	11.0	10.8	11.5	13.7	21.3	21.2	19.4	25.7	10.7	17.6	14.5	16.9
M3/GDP (percent)	25.7	29.4	30.4	30.4	30.4	29.9	29.9	30.5	30.5	31.2	31.2	31.2	31.2	31.2	31.2
Budgetary central government, FY basis [1]															
Revenue	23.1	23.3	25.0	25.3	25.9	24.6	23.6	22.9	22.9	23.2	23.2	24.1	23.8	24.2	24.1
Taxes	16.0	15.7	15.8	15.7	15.7	15.4	15.9	15.9	16.0	16.5	16.5	17.3	17.2	17.5	18.0
Grants	3.0	4.6	5.5	5.9	6.9	6.6	5.2	4.4	4.4	4.1	4.2	4.0	4.1	3.9	3.8
Other revenue	3.0	3.1	3.7	3.7	3.3	2.5	2.5	2.6	2.5	2.7	2.5	2.8	2.5	2.8	2.4
Expense	20.5	20.2	20.3	20.6	20.6	19.3	20.2	18.2	18.6	18.4	18.1	18.1	17.1	18.0	17.0
Net acquisition of nonfin. assets	11.2	11.0	12.2	12.4	11.6	11.0	10.3	9.6	9.9	9.5	10.1	9.6	9.9	9.6	10.2
Net lending (+) / borrowing (-) (NLB)	-8.6	-7.9	-7.5	-7.6	-6.3	-5.7	-6.9	-4.9	-5.6	-4.7	-4.9	-3.6	-3.2	-3.4	-3.0
excluding grants	-	-	-13.0	-13.5	-13.2	-12.4	-12.1	-9.3	-10.0	-8.8	-9.2	-7.6	-7.4	-7.3	-6.7
Net acquisition of financial assets	0.8	4.5	1.5	1.1	3.6	1.3	-0.2	1.5	1.2	0.5	0.5	0.3	0.4	1.4	0.3
Net incurrence of liabilities	6.4	12.3	8.9	9.0	10.4	7.0	6.7	6.4	6.8	5.2	5.5	3.9	3.6	4.8	3.3
Domestic	1.2	2.2	2.5	-0.5	1.8	0.7	0.5	1.2	1.3	1.4	-0.4	0.2	-0.6	1.7	-0.5
Foreign	5.1	10.2	6.4	9.5	8.6	6.3	6.2	5.2	5.5	3.9	5.9	3.6	4.2	3.2	3.8
Overall fiscal balance (incl. grants, policy	-8.1	-9.1	-8.6	-8.7	-7.6	-6.9	-8.1	-6.1	-6.5	-4.9	-5.2	-3.6	-3.2	-3.4	-3.0
Debt-creating overall balance (excl. PKO)[3]	-5.5	-7.8	-8.2	-8.7	-7.4	-6.9	-8.1	-6.1	-6.5	-4.9	-5.2	-3.6	-3.2	-3.4	-3.0
Public debt															
Total public debt incl. guarantees	56.8	72.4	73.3	73.1	71.3	75.2	73.9	75.9	76.8	74.2	77.3	73.6	75.7	71.7	73.9
of which: external public debt	44.3	56.4	54.5	57.6	53.0	58.0	55.9	60.8	60.8	60.1	63.1	59.1	62.5	56.8	62.1
Total public debt excluding guarantees	53.0	69.3	72.6	71.8	70.0	73.1	71.9	73.6	74.6	71.4	74.6	71.0	73.1	69.4	71.5
External public debt incl. quarantees,	29.7	34.0	34.9	36.1	33.6	38.2	35.8	39.2	38.9	38.7	40.4	37.6	39.9	35.7	39.5
Gross domestic debt	12.4	16.0	18.8	15.5	18.3	17.1	18.0	15.1	16.0	14.2	14.2	14.5	13.2	15.0	11.8
Total public debt incl. guarantees, PV	42.9	51.1	54.4	53.0	52.7	56.6	55.0	55.3	56.1	53.7	55.8	52.9	53.9	51.3	52.1
Investment and savings															
Investment	23.5	25.1	26.3	25.8	24.5	28.4	29.0	29.4	30.5	28.6	29.5	28.4	28.9	28.2	28.1
Government	12.9	14.2	12.2	13.2	12.8	11.8	11.4	11.1	11.9	10.8	11.4	11.2	11.6	11.0	10.8
Nongovernment	10.6	11.0	14.1	12.6	11.6	16.5	17.6	18.3	18.6	17.8	18.0	17.2	17.2	17.2	17.3
Savings (excl. grants)	9.0	10.2	12.3	8.6	9.9	13.7	14.1	16.3	15.8	16.9	15.6	17.8	17.6	18.1	17.7
Government	3.7	-0.5	-0.6	-0.2	-0.1	0.8	1.2	1.5	0.9	2.8	3.3	3.4	4.3	3.6	3.9
Nongovernment	5.3	10.7	12.8	8.9	10.0	12.9	13.0	14.9	14.9	14.1	12.3	14.4	13.4	14.5	13.7
External sector															
Exports (goods and services)	21.8	18.9	19.1	23.4	24.1	25.3	25.0	27.1	25.9	28.5	26.6	28.8	26.7	29.2	27.0
Imports (goods and services)	36.1	35.1	34.8	41.7	40.0	41.2	41.1	40.8	41.4	40.9	41.2	40.2	38.5	40.1	38.0
Current account balance (incl. grants)	-	-	-10.9	-12.6	-10.5	-11.7	-12.4	-10.3	-11.6	-8.9	-11.0	-7.8	-8.6	-7.3	-7.7
Gross international reserves															
In millions of US$	1,38	1,72	1,889	1,868	1,894	1,869	2,052	2,063	2,309	2,093	2,378	2,229		2351	2643
In months of next year's imports[4]	5.6	5.9	5.1	4.6	4.7	4.4	4.7	4.5	5.0	4.3	5.2	4.2	5.0	4.1	5.0
Memorandum items:															
GDP at current market prices															
Rwanda francs (billion), CY basis	9,31	9,60	10,94	12,67	13,07	14,69	14,90	16,58	16,88	18,80	19,08	20,94	21,42	23,34	23,89
nominal growth	12.2	4.6	13.9	15.8	19.5	16.0	14.0	12.8	13.3	13.4	13.1	11.4	12.3	11.4	11.5
Population (million)	12.4	12.7	13.0	13.3	13.3	13.6	13.6	13.9	13.9	14.2	14.2	14.5	14.5	14.8	14.8

Sources: Rwandan authorities and IMF staff estimates.

1 From FY 19/20 (2020) to FY 26/27 (2027). Fiscal year runs from July to June. FY19/20 and FY20/21 are actuals.

2 For purposes of the PCI the overall balance (GFSM 1986, incl. policy lending) is used for monitoring.

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

4 Based on prospective import of goods (excluding gold) and services. SDR allocation included in 2021.

INTERNATIONAL MONETARY FUND

RWANDA

November 28, 2022

REQUEST FOR A NEW 36-MONTH POLICY COORDINATION INSTRUMENT AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. Supported by a large policy package, Rwanda's economy rebounded in 2021 after contracting in the preceding year due to the COVID-19 shock. However, the country now faces multi-faceted challenges—pandemic scars, headwinds from the war in Ukraine, and climate-related shocks, meanwhile inflationary pressures have increased markedly. Downside risks are significant from the war spillovers, through further pressures on energy, food, and fertilizer prices, global financial tightening, and slowdown in major trading partners, in addition to climate-related shocks. Against this backdrop, the authorities have requested a new Policy Coordination Instrument (PCI) and an arrangement under the Resilience and Sustainability Facility (RSF) to support their efforts in maintaining macroeconomic stability, advancing their reform agenda, including on climate to enhance Rwanda's resilience to climate-related shocks, and insuring against downside risks. They will cancel the current PCI (expiring in June 2023) upon approval of the new PCI.

Program implementation under the current PCI. Program performance under the current PCI has been relatively strong with all quantitative and standard continuous targets through end-June 2022 met. Two out of three reform targets (RTs) that were set for the 7th review of the current PCI were completed with a delay.

New PCI request. Proposed policy priorities under a new 36-month PCI include: (i) ensuring the fiscal framework remains anchored and supported by a credible fiscal consolidation that preserves fiscal space for development priorities, (ii) staying the course on the implementation of a forward-looking monetary framework, and (iii) mitigating pandemic scars, while building resilience to shocks.

RSF request. Proposed reform areas under an RSF will reinforce Rwanda's strong track record to date on climate policy agenda and support their effort to strengthen Rwanda's resilience to climate change. They include: (i) strengthening and institutionalizing monitoring and reporting of climate-related spending, (ii) integrating climate risks into fiscal planning, (iii) improving the sensitivity of public investment management to climate-related issues, (iv) strengthening climate-related risk managements for financial institutions, and (v) strengthening the disaster risk reduction and management strategy and operations.

Policy recommendations. The near-term agenda should focus on supporting the economy through the evolving crisis, containing inflationary pressures through more decisive tightening, monitoring and managing emerging fiscal and financial risks, and advancing measures that would support the envisaged fiscal consolidation to reduce debt vulnerabilities and external stability while preserving policy space to mitigate pandemic scars and respond to shocks. Integrating climate-related considerations in macroeconomic policy formulation and mobilizing climate financing to help achieve Rwanda's Nationally Determined Contribution (NDC) commitments will also be critical.

Approved By
Catherine Pattillo (AFR) and Eugenio M. Cerutti (SPR)

A mission comprised H. Teferra (Head), V. Duarte Lledo, S. M. Choi, C. Aoyagi (all AFR); A. Ceber and B. Battersby (all FAD); S. Mulema (MCM); and A. Miksjuk (SPR). G. Pula (Resident Representative), J. Kayemba (local economist) and L. Nankunda (OED) also joined the mission. The mission was assisted by local staff in the IMF Kigali office. E. Chueca Montuenga, F. Morán Arce, and M. Nsanzimana (AFR) assisted in the preparation of this report. Virtual technical discussions were held in September 21–22, 2022 followed by in-person discussions held in Kigali during September 26–October 6, 2022. The team met with the Minister of Finance and Economic Planning, Dr. Uzziel Ndagijimana, Governor of the National Bank of Rwanda, John Rwangombwa, as well as Ministers of Environment, Agriculture, Local Government, Infrastructure, Public Investment and Privatization, and Trade, and heads of commercial banks. The mission also held discussions with the Parliament Budget Committee and development partners.

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CONTEXT

1. Rwanda has weathered the COVID-19 crisis relatively well although emerging with scars. Rwanda entered the crisis with sound macroeconomic fundamentals. In response to the pandemic, the authorities implemented a sizeable policy package, which helped save lives and livelihoods and supported the economic rebound. Rwanda also embarked on one of the fastest COVID-19 vaccine rollouts in sub-Saharan Africa (SSA). However, following COVID-19 containment measures, unemployment increased, and human capital accumulation disrupted. The ensuing policy response pushed Rwanda's debt to increase from 56.8 percent of GDP in 2019 to 73.3 in 2021, elevating the risk of debt distress from low to moderate.

2. The fallout from Russia's invasion of Ukraine, coupled with expected increase in climate-related events, are further complicating the challenges going forward. The surge in global food and energy prices, exacerbated by the war in Ukraine, has put pressures on inflation, depressing consumption and worsening the terms of trade, meanwhile weaker global economic activity is dampening external demand and investment. Spillovers from the war are also increasing social needs, adversely impacting food security, and straining the fiscal balance. As a low-income country depending heavily on rain-fed agriculture, Rwanda is highly vulnerable to climate change, while the frequency and intensity of climate-induced disasters are expected to increase (¶27, Annex III).

3. The PCI has been instrumental in supporting the authorities navigate two major tail-risk events—the global pandemic and the war in Ukraine.[1] Under the PCI, approved in 2019, the authorities recalibrated their fiscal framework to preserve fiscal sustainability while identifying fiscal space for priority spending to support the response to the shocks and initiating the work to identify measures for medium-term fiscal consolidation.[2] The PCI also supported the implementation of the new forward-looking monetary policy framework with progress in building modeling and forecasting capacity. Significant IMF capacity development (CD) was provided to meet these objectives.

4. Sustained efforts will be critical to put Rwanda on a stronger, more resilient, and more inclusive growth trajectory. To further advance the reform agenda, including on climate, the authorities have requested a new 36-month PCI and budget support under the Resilience and Sustainability Facility (RSF) arrangement.[3] Upon approval of the new PCI, they plan to cancel the current PCI, which is expected to expire on June 28, 2023. In the absence of current balance of payments (BOP) needs, the authorities view the PCI remains an appropriate vehicle to demonstrate Rwanda's commitment to advance the reform agenda, enhance macroeconomic stability, and

[1] The current PCI has four pillars: (i) a fiscal stance supportive of the National Strategy for Transformation (NST), while safeguarding debt sustainability; (ii) reinvigorating domestic revenue mobilization; (iii) strengthening fiscal transparency, including containing fiscal risks; and (iv) support to the new interest rate-based monetary policy framework.

[2] The fiscal framework introduced a debt anchor to guide the consolidation during the 3rd PCI review.

[3] The qualification criteria for approval of an RSF request include a concurrent upper-credit-tranche (UCT) quality program with at least 18 months remaining.

maintain a close policy dialogue with the Fund. The RSF would support the authorities in their efforts to advance climate-related reforms, given Rwanda's high vulnerability to climate change and objectives to put Rwanda on a low carbon growth trajectory (Annex III). As climate-related disasters could induce a substantial increase to the debt burden and external financing needs (¶27; Supplement 1), the RSF financing can address prospective climate-related BOP needs by enhancing external buffers and strengthening climate contingent plans, thereby buttressing Rwanda's resilience to climate-related shocks (¶33).

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

PS ¶ 2

5. **Despite growth registering 10.9 percent in 2021, economic activity slowed in 2022 while unemployment remained higher than pre-pandemic levels.** (Figures 1–2, Table 1). The pandemic is waning, with vaccination close to the end-year objective of 70 percent of the population. The H1 2022 growth was 7.7 percent, year-on-year, partly reflecting lower-than anticipated agricultural production due to unfavorable weather conditions. Challenges were compounded by spillovers from the war in Ukraine, mainly through rising food, fuel, and fertilizer prices. The real output level is projected below pre-pandemic trends given pandemic scars. The unemployment rate, while declining in Q3 2022, remained high at 18.1 percent and above the pre-pandemic level of around 15 percent. The female unemployment rate stood higher at 21.4 percent. Employment in some key sub-sectors, such as trade and hospitality, remains below pre-pandemic levels, reportedly due to skill mismatches. The lower-than-expected agricultural production in H1 2022 also constrained employment, although the sector has been the largest contributor of post-pandemic job creation and the source of nearly half of total employment.

PS ¶ 3

6. **Inflation surged due to rising energy and food prices, which could endanger food security.** (Figures 1–2, Table 1). Headline inflation rose from 5.8 percent in February to 20.1 percent in October, year-on-year, reflecting elevated global commodity prices and subdued domestic food production. Food inflation (at 29.7 percent in Q3) is particularly concerning for the urban poor's access to food.[4] Core inflation was also high (12.9 percent in Q3), likely reflecting second-round effects of the food and energy inflation. The government introduced and expanded subsidies for fertilizer and public transport to mitigate rising costs. The Monetary Policy Committee (MPC) raised the policy interest rate by 50 basis points to 6.5 percent in November and decided to increase the reserve requirement ratio to the pre-COVID level of 5 percent.

PS ¶ 7

7. **The current account improved, despite surging energy costs, but lower external financing is putting pressure on the exchange rate.** (Figure 3, Table 6). The external position in 2021 is assessed to be substantially weaker than implied by fundamentals

[4] The latest Famine Early Warning System Network Situation Report for Rwanda finds more households are expected to fall under stress to make minimally adequate food consumption during the main lean season during October 2022–January 2023.

and desirable policies.[5] Notwithstanding a widening trade deficit owing to rising energy imports, the current account deficit is projected to narrow to 10.5 percent of GDP in 2022, reflecting a temporary reduction in capital imports, tourism recovery supported by large international events, and strong remittances. On the financial account side, FDI inflows were strong, but project and budget financing were much lower than expected. Hence, international reserves are expected to decline from 5.1 in 2021 to 4.7 months of prospective imports by end-2022. The rate of Rwandan franc depreciation against the US dollar increased, reaching 8.0 percent in annualized term in October, but the real effective exchange rate appreciated since the beginning of the year on the back of high inflation relative to trading partners and the strong US dollar.

Text Table. Rwanda: Trade Balance (January–August 2022)
(Percent Change Over the Same Period of the Previous Year)

	Exports				Imports			Trade deficit (US$ millions)	
	Value	Volume	Price		Value	Volume	Price	Jan-Aug 2022	Jan-Aug 2021
Total	**47.8**			**Total**	**37.8**			**-1,524.8**	**-1,169.5**
Total excl. gold and reexports	**33.2**			**Total excl. gold and imports for reexports**	**34.5**			**-1,714.1**	**-1,270.8**
Tea & coffee	1.3	-11.8	14.8	Consumer goods	31.8	9.6	20.2		
o/w coffee	-18.5	-44.3	46.3	o/w food	30.0	5.9	22.8		
o/w tea	10.9	-1.3	12.4	o/w other	33.2	24.4	7.1		
Trad. mining	77.0	31.7	34.4	Capital goods	-5.0	-30.2	36.1		
Other exports	30.7	41.8	-7.8	Intermediate goods	31.9	10.9	19.0		
Reexports	45.8	7.7	35.3	Energy and lubricants	147.2	36.9	80.5		
Gold	74.8	65.8	5.5	Gold	74.7	71.7	1.7		

Sources: National Bank of Rwanda, National Institute of Statistics of Rwanda, and IMF staff calculations

8. **The fiscal deficit in FY21/22 was 7.6 percent, 1.1 percent of GDP lower than projected in the 6th PCI review.** (Figure 4, Tables 2a–b). Revenue was higher by 0.6 percent of GDP, owing to higher grants (1.0 percent of GDP), partly offset by lower non-tax revenue (0.4 percent of GDP).[6] Higher grants reflect earlier-than-anticipated disbursements from the UK under the Migration and Economic Development Partnership (MEDP) agreement (1.5 percent of GDP) while some other grants were cancelled. Capital expenditure was lower by 0.8 percent of GDP, driven by lower capital project execution related to delayed donor disbursements while current expenses were consistent with expectations. Spending on projects financed by the SDR allocation amounted to 1.3 percent of GDP.[7]

PS ¶ 4–5

Rwanda: Operations of the Central Government, FY21/22, GFSM 2014[1]
(Percent of GDP)

	2021/22	
	6th Rev.	**Act.**
Revenue	25.3	25.9
Taxes	15.7	15.7
Taxes on income, profits, and capital gains	7.0	7.1
Taxes on property	0.2	0.1
Taxes on goods and services	7.3	7.3
Taxes on international trade and transactions	1.1	1.1
Grants	5.9	6.9
Other revenue	3.7	3.3
Expense	20.6	20.6
o/w Interest	2.0	1.8
Net acquisition of nonfin. assets	12.4	11.6
Net lending (+) / borrowing (-)	**-7.6**	-6.3
Net acquisition of financial assets	1.1	3.6
Net incurrence of liabilities	9.0	10.4
Domestic	-0.5	1.8
o/w Accounts payable[2]	-0.3	0.7
Foreign	9.5	8.6
Total Covid-19 spending	2.9	2.7
Overall balance (GFSM 1986)	**-8.7**	-7.6
Debt-creating overall balance (excl. PKO, GFSM 1986)[3]	**-8.7**	-7.4

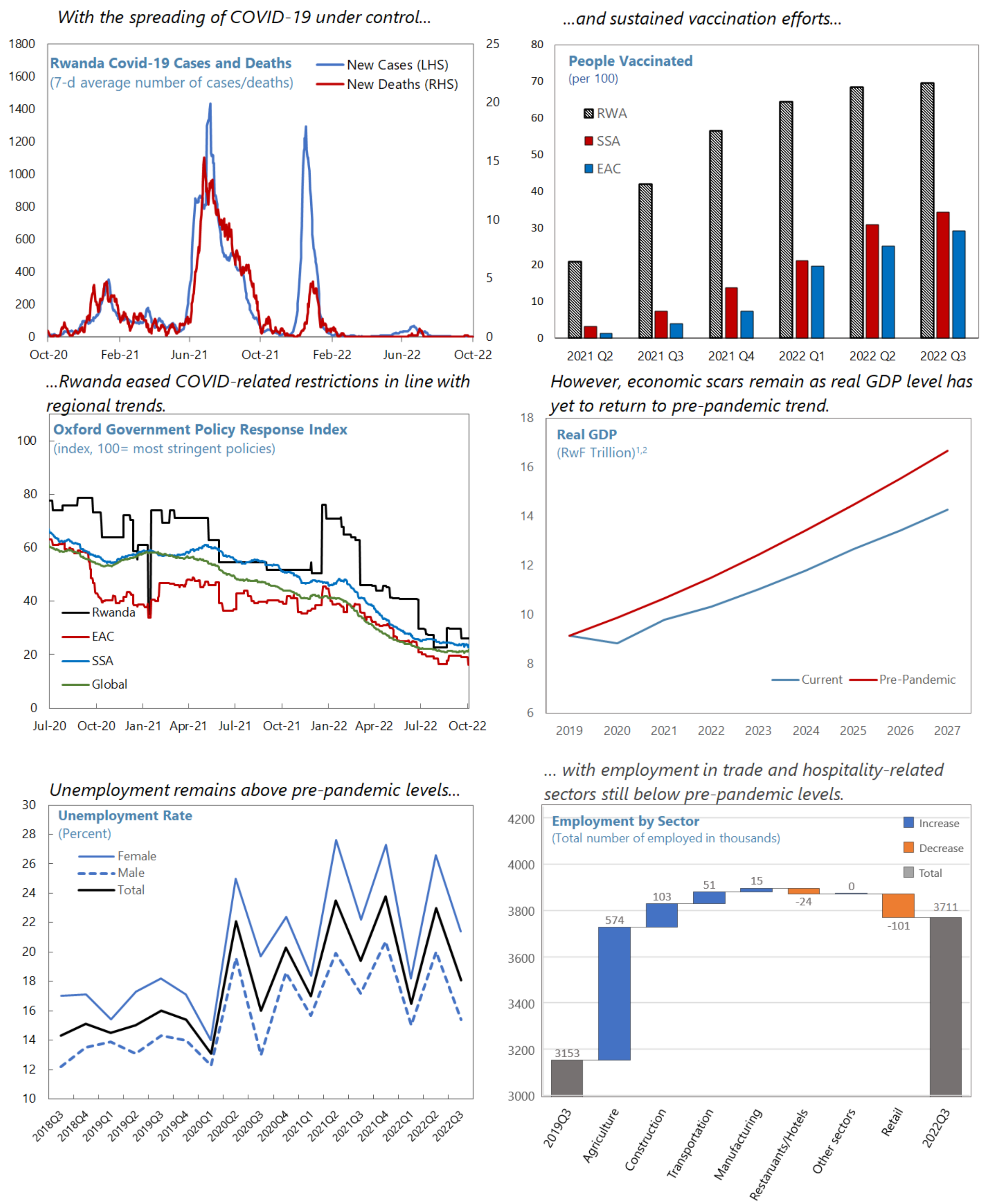
Sources: Rwandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July to June.
[2] Positive sign indicates an increase in liabilities
[3] Overall balance excluding Peacekeeping Operations (PKO) and spending on material contingent liabilities in the DSA.

[5] See Annex V in Country Report No. 2022/007.

[6] Revenue losses due to reduced fuel levies and other subsidies were in line with estimates set at the 6th PCI review. See IMF country report 22/200, Box 1.

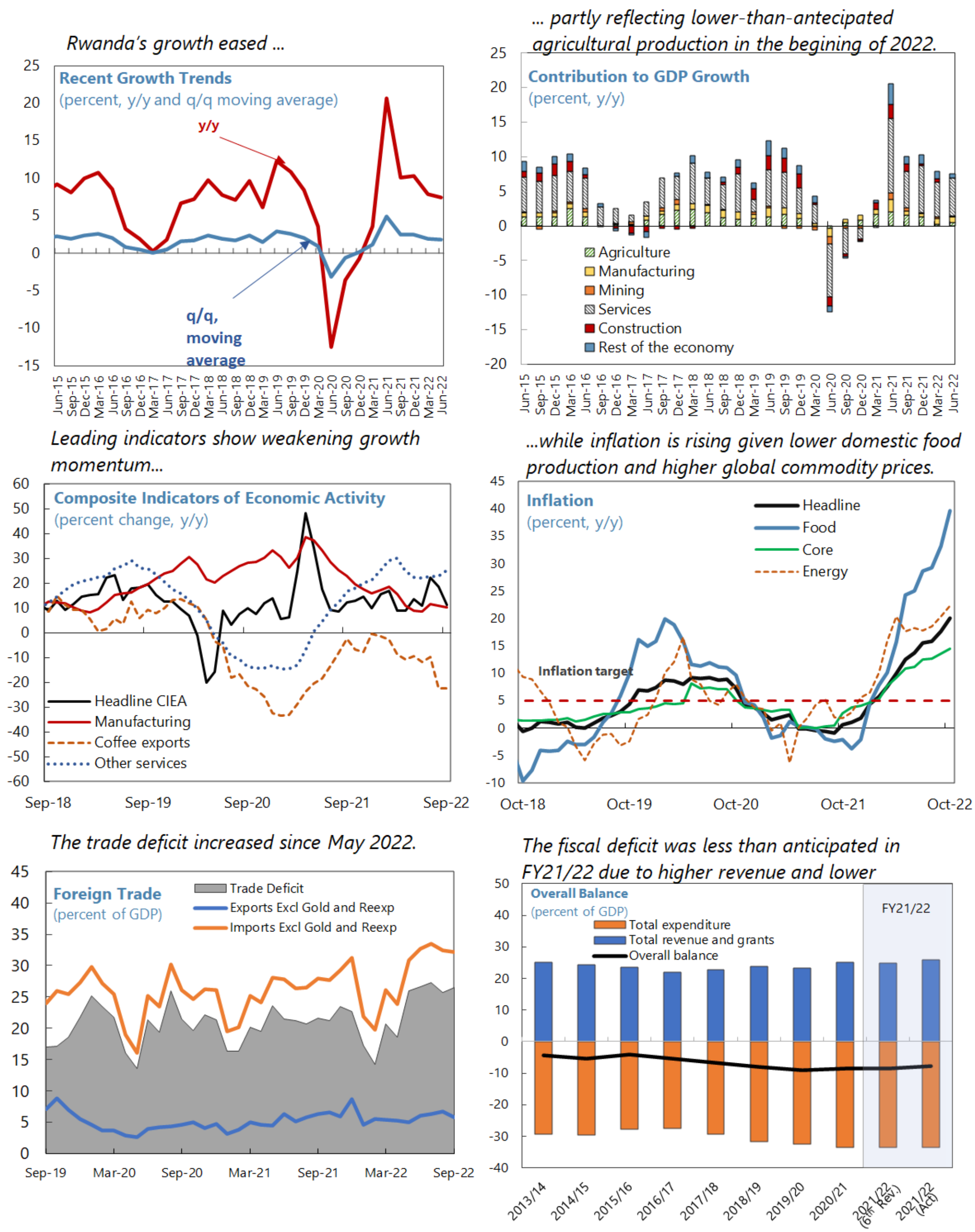
[7] This corresponds to 70 percent of the SDR allocation, which was appropriated in the revised FY21/22 budget to address urgent social and pandemic needs.

Figure 1. Rwanda: Pandemic Overview



Sources: National Institute of Statistics Rwanda (NISR), Johns Hopkins CSSE, Our World in Data (OWiD), and IMF staff calculations.
[1] Base year for real GDP in 2017 prices.
[2] Pre-pandemic projections set at the time of the 1st review of the PCI in October 2019.

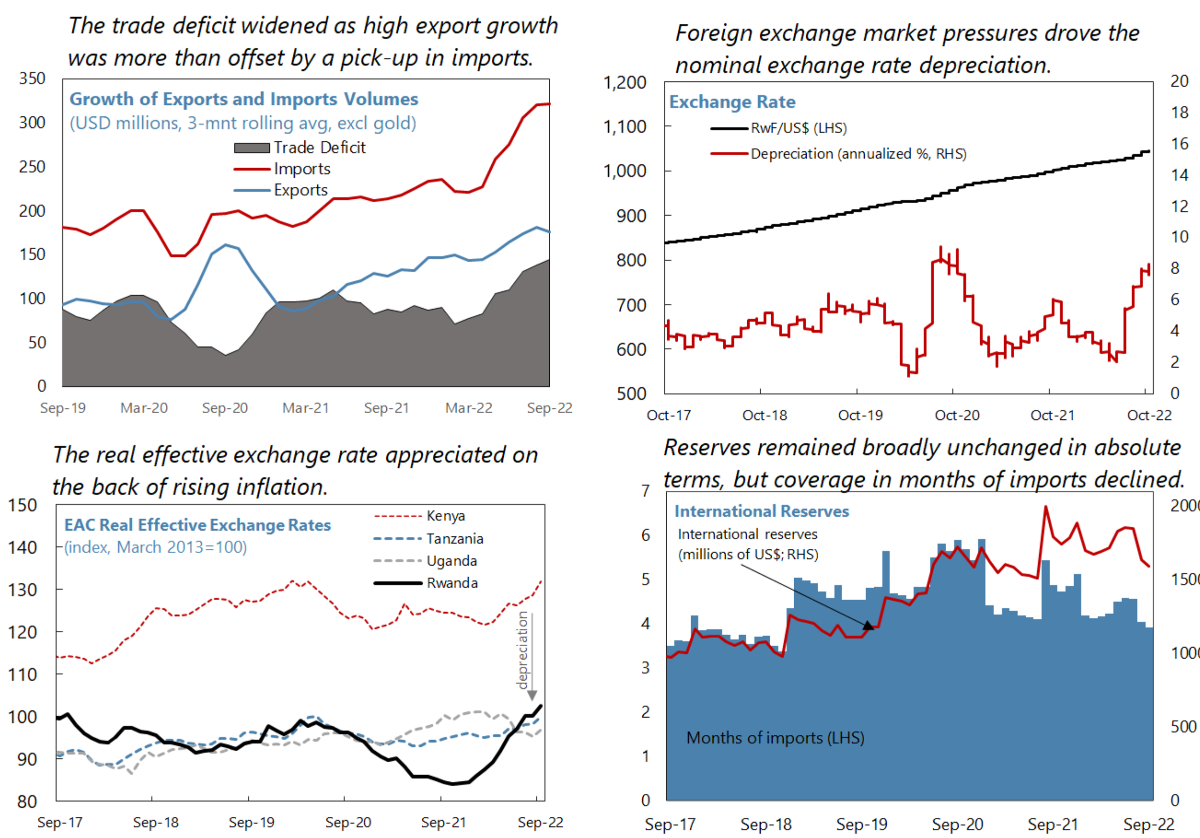
Figure 2. Rwanda: Overview of Recent Economic Developments



Sources: Rwandan authorities, and IMF staff estimates.
Note: For the Foreign Trade chart, yearly GDP has been divided by 12 and used as denominator for monthly data on exports and imports.

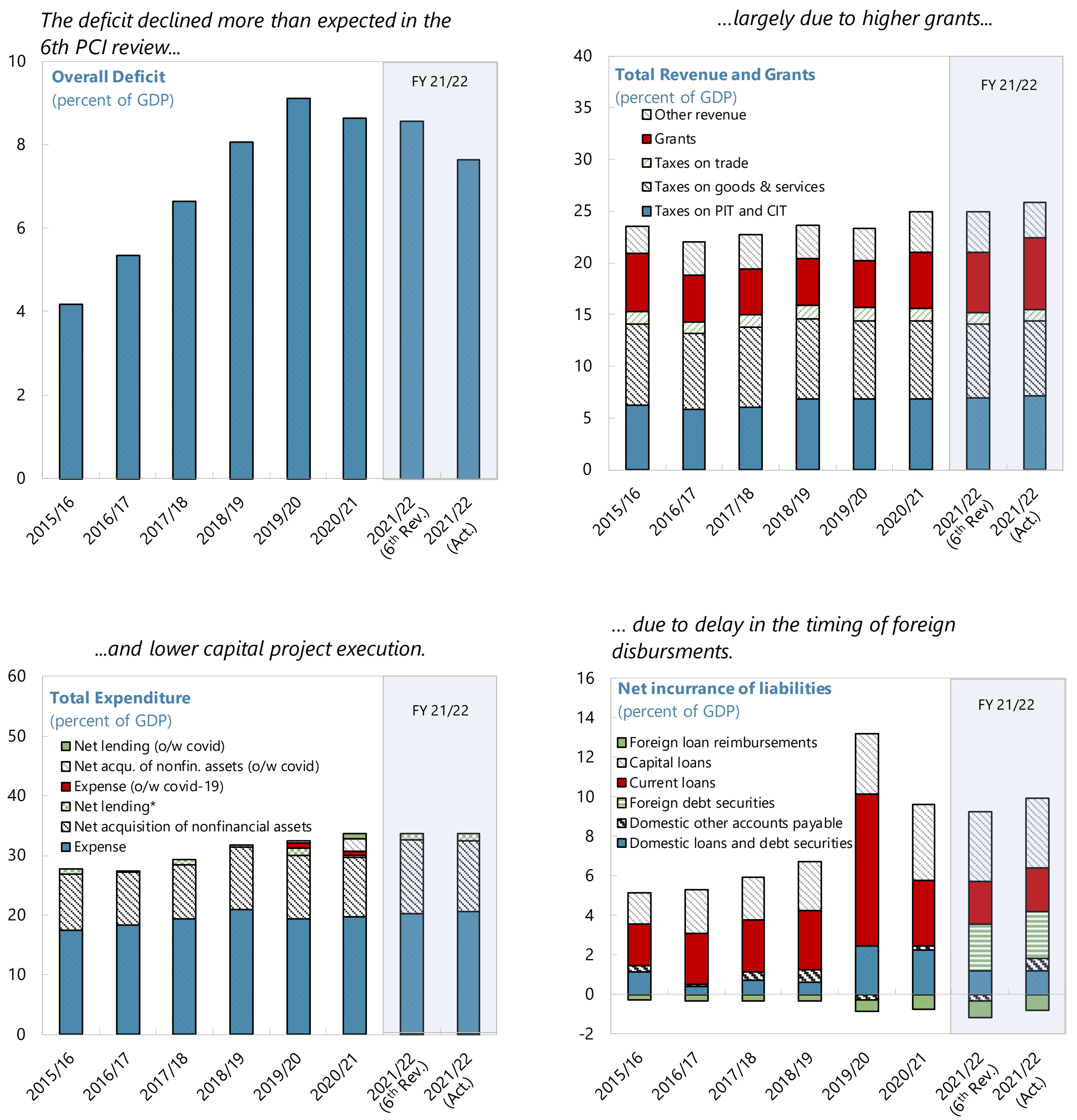
9. **The financial sector remained stable.** (Figure 5, Table 5). The banking sector continues to be profitable, well-capitalized, and liquid. Credit quality continued to improve, with NPLs for banks and microfinance institutions falling to 4.1 and 2.4 percent in September 2022 from 5.1 and 6.4 percent in September 2021, respectively. Growth in private sector credit has tapered off largely due to dropoff in new authorized loans following the weaker economic conditions. Exposure to SOEs increased from 16 to 22 percent of outstanding loans since the 6th Review, with loan performance remaining normal. PS ¶ 6

Figure 3. Rwanda: External Developments



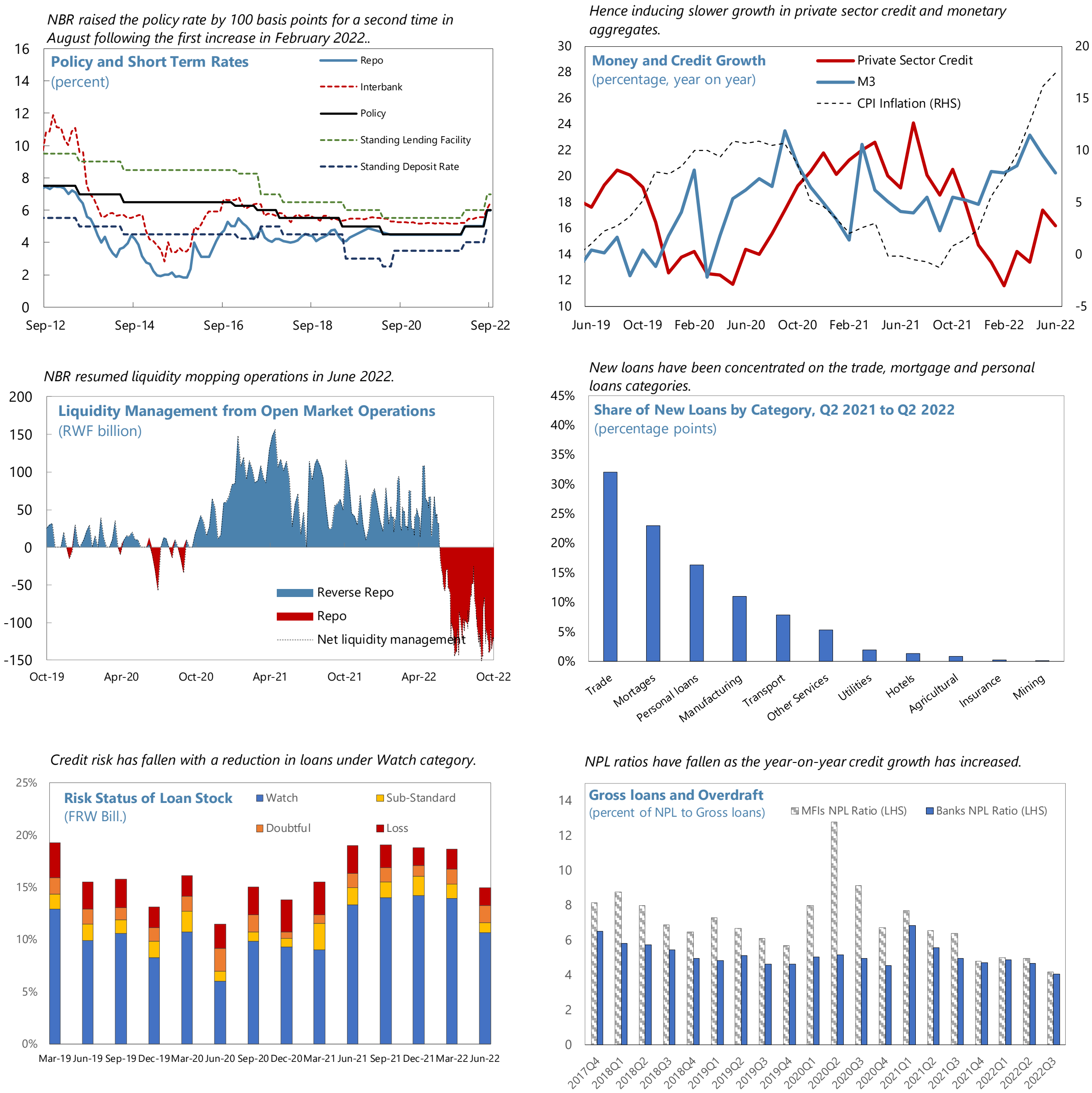
Sources: Rwandan authorities, and IMF staff estimates

Figure 4. Rwanda: Fiscal Developments



Sources: Rwandan Authorities and IMF staff estimates.
*Net lending is presented in the overall balance in accordance with the PCI definition.

Figure 5. Rwanda: Monetary and Financial Sector Developments



Sources: Rwandan authorities, and IMF staff estimates.

10. Performance under the current PCI remained relatively strong with all quantitative and standard continuous targets through end-June 2022 met and all but one of the reform targets (RTs) through end-September completed. (Tables 9–10). Two out of three RTs were completed, though with a delay. The RTs on the submission of revisions to the excise law to Cabinet and on the studies on the feasibility and regulatory aspects of extending true repo to non-bank financial institutions ahead of the Global Master Repurchase Agreement (GMRA) PS ¶ 9 rollout were completed in November. The RT on the review of the Rwanda Social Security Board (RSSB) asset allocation faced significant delays due to additional procurement requirements and a lengthier-than-expected onboarding process of the advisory firm selected to conduct the review, delaying the signing of contract. The advisory firm finalized in November an inception report providing an initial desk review of the RSSB asset allocation, which, in turn, is now expected to be finalized by end-October 2023 (proposed RT).

OUTLOOK AND RISKS

11. Rwanda's near-term growth continues to be adversely impacted by spillovers from the war in Ukraine. (Tables 1–6). PS ¶ 10-12

- **Growth is projected to be weaker through 2023.** Facing headwinds from the war in Ukraine, weakening external demand, and rising commodity prices, growth is projected at 6.8 and 6.2 percent of GDP this year and the next (0.4 and 1.7 percentage points lower than pre-war projections), respectively. Economic activity is expected to regain momentum in 2024, if the situation normalizes, driven by the pickup in construction of the new airport and the subsequent boost to the services sector. With fiscal consolidation measures implemented, private consumption and investment are expected to be the main growth drivers in the medium term.[8]

- **Average headline inflation is projected to rise from 0.8 percent in 2021 to 12.6 percent in 2022, far exceeding the NBR's benchmark level of 5 percent.** This is primarily due to the pass-through from rising commodity prices and the exchange rate depreciation. Inflation is projected to converge back to the NBR's tolerance band (2–8 percent) in 2023, provided monetary policy is further tightened to fend off second-round effects. Core inflation rose to 14.4 percent in October, suggesting the second-round effects of the energy and food prices are likely impacting inflation expectations.

- **The fiscal deficit for FY22/23 is expected to increase to 8.1 percent of GDP, 1.2 percentage points higher than projected at the 6th review.** The higher deficit reflects an earlier-than-expected disbursement of the UK MEDP grant (1.3 percent of FY22/23 GDP), late in the previous fiscal year.[9] Compared to FY21/22, tax revenues are anticipated to increase while nontax revenues and expenditure are expected to be lower (¶13).

- **The current account deficit is projected to widen to 12.4 percent of GDP in 2023 and start narrowing thereafter.** Despite downward revisions of oil prices, the trade deficit is projected to deteriorate compared to the 6th review, reflecting lower export prices for tin, metal, and tea prices. Given lower expected external budget financing, higher exchange rate depreciation would likely be desirable to partly offset the negative terms-of-trade effect and balance the foreign exchange market. Over the medium term, the trade balance and the

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[8] While climate-related reforms are expected to catalyze additional investments, the baseline incorporates such impact conservatively until such investment flows start materializing.

[9] UK grants totaling 176 billion RFW came earlier (in FY21/22) than anticipated. This represents 1.5 percent of FY21/22 GDP, or using FY22/23 GDP as the base, 1.3 percent of GDP, while the related spending is expected in FY22/23.

current account are expected to improve with higher domestic savings (from the fiscal consolidation) and productivity growth (from ongoing structural reforms). Gross official reserves, projected close to 5 months of prospective imports in the medium term (and boosted by the RSF), are considered adequate.[10]

Text Table. Rwanda: Revised Macroeconomic Framework, 2019–27

	2019	2020	2021	2022		2023		2024		2025		2026		2027	
	Act.	Act.	Act.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.
Real GDP growth (percent)	9.5	-3.4	10.9	6.0	6.8	6.7	6.2	7.0	7.5	7.5	7.5	6.1	6.8	6.1	6.2
CPI inflation, average (percent)	2.4	7.7	0.8	9.5	12.6	8.0	7.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI inflation, eop (percent)	6.7	3.7	1.9	8.8	17.1	6.5	3.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Overall fiscal balance (% of GDP), FY Basis[1]	-8.1	-9.1	-8.6	-8.7	-7.6	-6.9	-8.1	-6.1	-6.5	-4.9	-5.2	-3.6	-3.2	-3.4	-3.0
Total public debt incl. guarantees	56.8	72.4	73.3	73.1	71.3	75.2	73.9	75.9	76.8	74.2	77.3	73.6	75.7	71.7	73.9
Current account balance (% of GDP)	-11.9	-12.1	-10.9	-12.6	-10.5	-11.7	-12.4	-10.3	-11.6	-8.9	-11.0	-7.8	-8.6	-7.3	-7.7
Gross international reserves (months of imports)	5.6	5.9	5.1	4.6	4.7	4.4	4.7	4.5	5.0	4.3	5.2	4.2	5.0	4.1	5.0

Sources: Rwandan authorities and IMF staff estimates.

[1] For purposes of the PCI the overall balance (GFSM 1986, incl. policy lending) is used for monitoring

12. The outlook is subject to elevated geopolitical and climate risks (Annex I). The main risks arising from a prolonged war in Ukraine include further pressures on energy, fertilizer, and food prices, endangering food security, weakening external tourism demand, and supply chain disruptions. Lower availability of concessional resources, lower external demand fueled by monetary tightening in advanced economies, and a fallout from the conflict with the neighboring Democratic Republic of the Congo pose further downside risks. Rwanda’s dominantly rain-fed subsistence agriculture sector is highly vulnerable to climate variability. On the upside, mineral export receipts may increase as Russia’s mineral exports decline given sanctions.

POLICY DISCUSSIONS

Policy discussions focused on (i) assessing near-term policy responses to external shocks and (ii) defining medium-term policies and reform priorities under the new PCI and RSF-supported program. The new PCI aims at maintaining macroeconomic stability and reinforcing policy frameworks, while pushing ahead with structural reforms to deliver a more inclusive, resilient, and sustainable growth. RSF-supported reforms focus on integrating climate-related considerations in the design of macroeconomic policies and frameworks, mainly through green public financial management (PFM), climate-sensitive public investment management (PIM), and climate-related risk management for financial institutions, including by introducing standards to support climate finance and strengthening the disaster risk reduction and management framework (Letter of Intent and Program Statement (PS); Tables 1–3).

[10] See IMF Country Report No. 22/7, Annex V for Rwanda’s reserve adequacy metrics.

A. Fiscal Policy: Balancing Development Needs with Sustainability

Addressing pandemic scars and rising development needs, while safeguarding fiscal sustainability, will require keeping the fiscal framework well-anchored and supported by a credible fiscal consolidation strategy that preserves fiscal space for social and development priorities through expenditure rationalization, revenue mobilization, and securing concessional financing, while enhancing the effectiveness and transparency of PFM and PIM practices.

Fiscal Stance

PS ¶ 14

13. The FY22/23 fiscal deficit excluding grants is projected to be 0.2 percent of GDP lower than the 6th Review.[11] The resulting fiscal impulse remains negative.[12] The main drivers were an upward revision in tax revenues (0.5 percent of GDP) and a downward revision in capital expenditure (0.7 percent of GDP) partially offset by higher recurrent expenditure (0.9 percent of GDP). More specifically,

- **Tax revenue.** The upward revision is primarily due to the earlier than anticipated reinstatement of the fuel levy (0.3 percent of GDP), a lower take-up of exemptions previously announced to support the recovery, and a lower-than-anticipated impact of the African Continental Free Trade Agreement (AfCFTA) (0.2 percent of GDP).
- **Recurrent expenditure.** This has been mainly revised upwards due to an increase in spending to address a longstanding issue of low teacher pay and poor student retention. This policy added 1.0 percent of GDP to spending in FY22/23. Given high fertilizer and food prices, the authorities will expand fertilizer subsidies upwards (0.3 percent of GDP) to support domestic food production and continue measures implemented during the COVID-19 pandemic (including public transport subsidies and social protection measures).
- **Capital expenditure.** Domestic capital expenditure has been reduced, reflecting the need to make fiscal space (0.3 percent of GDP) as well as due to reduced foreign financing (0.4 percent of GDP).

Fiscal Objectives under the New PCI: Anchor, Pace and Composition of Consolidation

PS ¶ 15

14. The debt anchor will continue to play a pivotal role in guiding the fiscal framework under the new PCI. Staff assessment shows that, while the more concessional new lending terms under the 20th replenishment of the IDA (IDA-20) and recent improvements in fiscal risk management could warrant a slight increase in the 65 percent debt-to-GDP program anchor adopted at the time of the 3rd review of the current PCI, the current environment marked by elevated uncertainty due to headwinds from the war in Ukraine calls for

[11] Compared to the 6th review, the FY 22/23 the headline fiscal deficit (including grants) is projected to be about 1.2 percent of GDP higher due to the early disbursement of UK EMDP grants (see ¶ 6). This represents 1.5 percent of FY21/22 GDP, or using FY22/23 as the base, 1.3 percent of GDP.

[12] Defined as the change in the overall fiscal balance excluding grants relative to FY 21/22, this negative fiscal impulse, reflects a tightening fiscal stance, amounts to 1.2 percent of GDP against 1.1 percent of GDP in the 6th review.

keeping the anchor unchanged (Annex II). Convergence to the anchor is achieved by FY30/31, three years earlier than projected in the 6th review.[13] The cumulative reduction in the overall deficit is now estimated to be 4.9 percent of GDP during FY22/23–FY25/26. The authorities reaffirmed their commitment to seek concessional resources to finance development projects while ensuring the present value (PV) of public and publicly guaranteed debt stays on the agreed path.

Text Table. Rwanda: Fiscal Consolidation Path
(Percent of GDP)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
6th PCI Review Fiscal Path										
Overall balance[1]	-8.7	-6.9	-6.1	-4.9	-3.6	-3.4	-3.6	-3.8	-4.5	-5.0
Public debt[2]	73.1	75.2	75.9	74.2	73.6	71.7	69.4	67.5	66.9	66.3
New PCI and RSF Review Fiscal Path										
Overall balance	**-7.6**	**-8.1**	**-6.5**	**-5.2**	**-3.2**	**-3.0**	**-2.9**	**-2.9**	**-2.9**	**-3.4**
Public Debt	**71.3**	**73.9**	**76.8**	**77.3**	**75.7**	**73.9**	**70.8**	**68.2**	**66.1**	**64.7**

[1] For purposes of the PCI the overall balance (GFSM 1986 definition, incl. policy lending) is used for monitoring.

[2] Public debt produced from DSA is on CY basis while fiscal year runs from July-June.

*Public debt path from DSA adjusted by accumulated impact of grants that shifted to loans under new IDA20 lending conditions for countries in moderate risk of debt distress

PS ¶ 16

15. Rwanda's debt remains sustainable with a moderate risk of external and overall public debt distress (Supplement 1). Under the joint Debt Sustainability Analysis (DSA) from Bank and Fund staffs, the risk of debt distress is assessed as moderate in the context of the highly uncertain and difficult external environment, subject to risks in the availability of concessional financing, further U.S. monetary policy tightening and U.S. dollar appreciation, and terms-of-trade shocks. Implementation of the ambitious fiscal consolidation strategy under the new PCI, increase of buffers to deal with climate risks under the RSF, and further strengthening of debt management capacity to mitigate heightened uncertainty and risks surrounding the current environment remain critical in achieving the debt anchor and reducing debt-related risks.

PS ¶ 17–20

16. The fiscal consolidation strategy remains predicated on the timely implementation of domestic revenue mobilization (DRM) and spending rationalization measures. The Medium-term Revenue Strategy (MTRS), approved by the Cabinet in May, aims at permanently yielding 1 percent of GDP in additional revenues from FY25/26 when all measures become effective (Text Table).

- **DRM.** Tax reforms under the MTRS include the personal income tax (PIT) law (approved by Parliament in September and effected in October), and the value-added tax (VAT) law (expected to be submitted to Cabinet in December). A draft law proposing revisions in excise taxes has been submitted to Cabinet in November and is expected to become effective in FY 22/23 H2. The submission to Cabinet of the revised corporate income tax

[13] At the 6th review debt was projected to reach the anchor in FY 28/29, excluding changes in IDA20 financing terms (50–50 grant-loan mix to 100 percent loans), same as in the 5th review, and by FY 33/34 including these changes (see IMF country report 22/200).

(CIT), originally envisaged by January 2023, is now expected by May 2023 (proposed RT). While the draft VAT law proposes well-intended environmental interventions by zero-rating electric automotive vehicles, related batteries, and charging stations equipment to help the economy to shift to environmentally friendly transport, staff see these as sub-optimal and advised the authorities, as an alternative, to consider higher excises on gasoline vehicles and/or higher fuel taxes. Regarding tax administration, Rwanda's Revenue Authority (RRA) has started to implement MTRS measures aimed at (i) taxing the shadow economy; (ii) improving voluntary compliance through better taxpayer services; and (iii) promoting compliance improvement plans targeted at the manufacturing sector, large businesses, customs, and to combat aggressive tax planning by individuals. The authorities remain committed to conduct a full MTRS evaluation and, guided by this evaluation and Fund TA, to identify measures for a MTRS successor prior to the expiration of the current MTRS. Staff welcomed the initiative and advised authorities to consider measures to streamline tax incentives already identified with Fund TA support as part of a MTRS successor.[14]

Text Table. Rwanda: Domestic Revenue Mobilization

(Percentage Points of GDP From the Previous Fiscal Year)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Total tax revenue (+ = consolidation)	**-0.1**	**0.2**	**0.1**	**0.5**	**0.7**	**0.8**
Medium-term revenue strategy	0.2	0.2	0.0	0.4	0.5	0.7
Policy measures for MTRS-1	0.0	-0.1	-0.2	0.4	0.4	0.0
Administration measures for MTRS-1	0.2	0.4	0.2	0.0	0.0	0.0
Additional policy measures (MTRS-2)	0.0	0.0	0.0	0.0	0.1	0.7
Fuel levy impact	-0.3	0.3	0.0	0.0	0.0	0.0
Manufacturing Build to Recover Exemptions	0.0	-0.1	0.1	0.0	0.0	0.0
African Continental Free Trade Agreement	0.0	0.0	-0.2	0.0	0.0	0.0
Other (buoyancy impact and judgement)	-0.1	-0.2	0.2	0.1	0.2	0.1

- **Spending Rationalization.** Expenditure is anticipated to decline by 1.8 percent of GDP in FY22/23 driven by the phase-off of COVID-19 and one-off SDR allocation related expenditures. The authorities have yet to articulate spending categories subject to rationalization. Staff urged them to do so as part of the FY 23/24 budget framework paper (BFP). Authorities felt it would be premature to announce the strategy in FY 23/24, as new PFM practices needed for the effective implementation of the strategy were still being established (see PS ¶19-20). They plan to announce and start to implement the strategy in FY24/25 (proposed RT) with special consideration in some areas (see PS ¶18). Staff encouraged the authorities to implement recommendations from the World Bank's Public Expenditure Review (PER) as soon as they are finalized to be included in the FY 23/24 budget.

[14] IMF TA recommended MTRS-1 to be followed by a more ambitious set of reforms with the aim of increasing domestic revenues by another 5 percentage points of GDP by 2030, mainly through the reduction of tax exemptions and preferential treatments.

17. The current crisis-prone global environment calls for contingency plans to cushion against renewed crisis effects. With less fiscal space to implement another sizeable policy package in the event of a negative shock, staff advised the authorities to consider adopting contingency measures as needed to meet their fiscal objectives, including through reprioritization given the limited fiscal space. The authorities indicated that their existing contingencies include protecting priority spending and reprioritizing non-wage current and domestic capital spending to avoid significant budget slippages and preserve debt sustainability (PS ¶14).

Fiscal Reforms for a more Prudent, Transparent, and Credible Fiscal Framework

18. The authorities plan to continue strengthening their institutional and technical capacity to manage fiscal risks.

PS ¶ 21–22

- **Institutions.** The new Organic Budget Law institutionalized the oversight and management of fiscal risks by clarifying the role of the Fiscal Risk Committee (FRC), mandating the Minister of Finance and Economic Planning (MINECOFIN) to appoint their members, and requiring the publication of an annual Fiscal Risk Statement (FRS) as part of the annual budget documents. To strengthen the oversight, management, and governance of SOEs, a new Ministry of Public Investment and Privatization (MININVEST) was established in July to evaluate new public investments, financial viability and governance of SOEs, and review the existing legal framework. MININVEST is expected to coordinate closely with MINECOFIN, especially with respect to the quantification and management of fiscal risks from SOEs.
- **Technical Capacity.** To strengthen the technical capacity to identify, quantify, and manage fiscal risks, the SOE health-check assessment is now interfaced with the IFMIS thus allowing for the automatic calculation of the standard ratios in the assessment for each SOEs. With IMF TA support, the assessment of fiscal risks from public-private partnerships was submitted along with mitigation options to the FRC and included in the FY 22/23 FRS. The authorities' plan to resume conducting stress tests on a quarterly basis of at least one high-risk SOEs or SOE subsidiaries in H2 2023, once staffing constraints are addressed and the role of MINECOFIN and MININVEST with regard to this exercise is clarified. To avoid fiscal-risks emerging outside the central government, staff stressed to the authorities the importance of resuming stress-testing high risk SOE's sooner. The authorities also plan to continue expanding the scope of the FRS by including a long-term fiscal sustainability analysis, as part of a climate risk analysis, in the FRS for the FY 23/24 budget by end-April 2023 (proposed RM under the RSF).
- **Public investment management.** The authorities are reviewing the recommendations of the Public Investment Management Assessment (PIMA) conducted by the IMF in January and April, with the objective of drawing a timeline for implementing key recommendations.

19. The authorities remain committed to advance reforms to strengthen fiscal transparency. They plan to produce quarterly financial statements starting for Q1 FY22/23 at the general government level by end-April 2023 (proposed RT) and to prepare an action plan (with Fund TA support) outlining the next steps in increasing the coverage, frequency,

PS ¶ 23

and timeliness of fiscal reports by end-March 2023. Staff strongly advised the authorities to consider requesting a follow-up Fiscal Transparency Evaluation (FTE) that will provide an update to the last FTE in 2019, including identifying reforms that could be considered during the proposed new PCI. The review of the RSSB asset allocation, a reform envisaged under the PCI to improve RSSB's PFM practices, and which faced significant delays due to longer-than-anticipated procurement process, is now expected to be completed by end-October 2023 (proposed RT). The selected firm to conduct the review of RSSB's asset allocation is expected to sign a contract by end-December.[15]

PS ¶ 24

20. The authorities also reaffirmed their commitment to sustain efforts in the transparency of use of public resources. An independent audit of government expenditures, inclusive of spending of the 2021 SDR allocation is expected to be published by end-May 2023 as part of a full audit of all government expenditures and procurement tenders for FY 21/22. A new public procurement bill, which requires beneficial ownership (BO) disclosure of companies bidding for public contracts was approved by Cabinet in September 2022 and by Parliament in November 2022. The authorities are also developing an electronic reporting portal for BO disclosure to the Registrar General, which is currently being piloted. A draft Company and Partnership law to capture BO information was approved by Cabinet in October 2022 and is expected to be adopted by Parliament by end-June 2023. In the meantime, the authorities are currently in the process of onboarding inspectors to conduct inspections and audits related to entities' obligations to keep accurate and up-to-date BO information and reliable accounting records.

B. Monetary, Financial Sector, and External Sector Policies

The implementation of an effective forward-looking monetary policy framework hinges on a clear commitment to price stability, clear communication of monetary policy decisions that are data-driven, and reforms to enhance monetary policy operations and to deepen financial markets, while ensuring financial risks remain contained and promoting financial inclusion.

Monetary Policy Stance

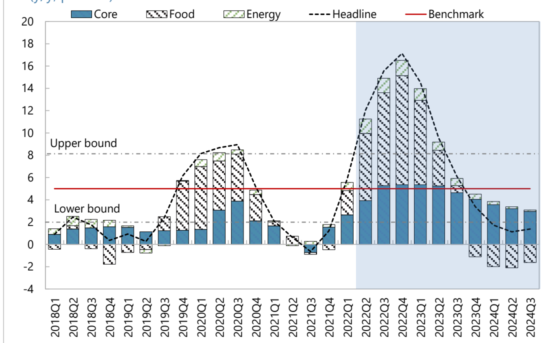
PS ¶ 26

21. Monetary policy would benefit from a more decisive tightening given elevated inflationary pressures. The NBR's quarterly projection model (QPM) in September suggests that, even with the expected fiscal consolidation, aggressive monetary tightening will be needed to bring the 12-month average inflation below the upper bound of NBR's tolerance band by end-2023. Given the current inflation level, the midpoint for the MPCC that averages the past 12 months outcomes will be outside NBR's tolerance upper bound of 8 percent until end-2023 even with the appropriate tightening. While NBR's inflation benchmark remains 5 percent, the midpoint for the MPCC band is proposed to be raised temporarily for program monitoring purposes (see ¶32). Staff advised that, going forward, a more decisive tightening is

[15] RSSB which manages both pensions and health insurance schemes, with asset value if RWF 1.4 trillion (10.7 percent of GDP), is the largest single financial entity in the country and largest depositor in the domestic commercial banking system.

needed in coordination with fiscal policy, especially as remaining subsidies are phased-off, to better anchor inflation expectations and mitigate second-round effects. The costs of tightening too little and too late include loss in credibility of NBR and elevating the risks of macroeconomic vulnerabilities. NBR's communications should also be strengthened to better guide inflation expectations.

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



Sources: IMF staff estimates.

Monetary Framework Modernization

PS ¶ 27

22. The authorities commit to continue strengthening their monetary policy formulation and communication, key for an effective forward-looking monetary policy framework. With the help of Fund TA on Forecasting and Policy Analysis System (FPAS), the authorities' priorities are in enhancing forecasting and modelling capacity (preparation of alternative scenarios) and in-reach (more frequent presentation of QPM outcomes to MPC members) to integrate the FPAS results into monetary policy decisions. To strengthen communications with the public and increase awareness of the monetary policy framework, NBR plans to develop and publish a monetary policy strategy by end-March 2023 (proposed RT) explaining how actual and expected developments feed into monetary policy decisions. Given the absence of financial markets-based measures of inflation expectations, NBR is also considering the development of an inflation expectations survey in the medium-term.

PS ¶ 28–29

23. NBR will continue to deepen monetary, debt, and foreign exchange markets and strengthen monetary policy operations. Interbank market pricing continues to be aligned with NBR's policy rate and NBR has switched from liquidity provision through reverse repos to mopping up given the increase in bank reserves. Deepening of the money market through development of the repo market will also benefit the government debt market. The legal review for applicability of GMRA identified the changes that are needed to the insolvency, payment system and banking laws. A roadmap for implementing these changes, as well as getting the market (both banks and non-banks) ready for repo trading will be developed and completed by end-April 2023 (proposed RT). The Real Time Gross Settlement and Central Securities Depository infrastructure has been upgraded to support repo transactions between banks. The FX interbank market liquidity remains limited, and the market continues to be shallow, undermining exchange rate flexibility. To address that, the NBR with Fund TA will undertake a diagnostic assessment of the FX market by end-September 2023 (proposed RT) as a first step towards developing measures to deepen the market and ensure NBR FX operations are consistent with the monetary policy framework. The authorities reiterated their commitment to exchange rate flexibility to safeguard foreign exchange reserves and limiting intervention to minimizing excess volatility.

Financial Stability and Inclusion

PS ¶ 30–31

24. The authorities continue rigorous supervisory oversight. All COVID-19 related regulatory forbearance measures expired in September 2021 and banks reverted to the pre-COVID-19 standards. The NBR is enhancing its risk-based supervision framework as well as the Supervisory Review and Evaluation Process (SREP) to improve their expertise of the bottom-up Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP) reports with the assistance of IMF TA. Combined with the top-down stress tests conducted every quarter; this provides an overview of the health of the banking system. Onsite examinations will continue to ensure adequate loan classification and provisioning. To preserve financial stability, NBR will monitor risks of excessive leverage in specific sectors and whether macroprudential policies need to be introduced or tightened.

PS ¶ 32

25. Digitalization remains instrumental for greater financial inclusion, especially among women. Value and volume of mobile payments increased by 26.7 percent and 32.6 percent, respectively in the year to June 2022. The current focus is on improving access to savings instruments and financial services. This is implemented through training programs particularly for youth and women and the establishment of a Women's Guarantee Fund to enable small businesses without collateral to access affordable loans. The NBR is also establishing an environment to better assess and regulate Fin Tech startups and, with other stakeholders, is developing a new financial inclusion strategy to be concluded by mid-2023.

C. Structural Policies: Mitigating Scars and Building Resilience

Structural policies should aim at mitigating pandemic scars while building resilience to large and protracted shocks, including climate change. Climate-related policies should aim at adapting to and mitigating climate change, including through integrating climate risks in economic decisions.

Mitigating Pandemic Scars and Building Socioeconomic Resilience

PS ¶ 33–34

26. Authorities plan to address pandemic scars and building socioeconomic resilience against future shocks through more adaptive social safety nets, accelerating human capital accumulation, and promoting economic diversification.

- *Strengthening social protection*: Coverage of the social protection programs remains low; their targeting poor; and their agility in responding to shocks needs improvement. Better coverage of the urban poor, especially those working in the informal sector would be critical, as these groups are the most vulnerable to poverty risk from the rise in cost-of-living. The piloting stage for a dynamic social registry has already started and the authorities plan to complete the full rollout of the registry by May 2024 (proposed RT).
- *Improving human capital accumulation and pandemic preparedness:* Education outcomes remain stagnant as the quality and the completion rate of basic education are low, and the yields from transitioning to an English curriculum are yet to be seen. The authorities' recent measures to subsidize school feeding programs and increase teachers' salaries will likely

address some of the challenges but will be costly given these measures were largely untargeted. Efforts to expand pre-primary education, improve teacher management, and reduce child stunting should be stepped up. Work is also starting on strengthening pandemic preparedness to build further resilience for future public health emergencies. This need to be complemented by on-going initiatives to enhance the coverage of community-based health insurance and increases in the number of skilled health professionals. Support for women's economic empowerment, including through equitable access to quality education and health services, should be strengthened.

- *Promoting private sector-led economic diversification:* For Rwanda to reach upper Middle-Income status by 2035, the private sector will need to play a larger role in supporting quality employment, investments, and productivity. Efforts to reduce the high costs of finance, electricity, and transport which are major impediments to private sector growth, should continue. Furthermore, given the limited size of domestic markets, increasing Rwanda's trade openness, continued regional trade integration, including by positioning the country as regional trade and logistics hub, will be critical to promote private sector development. Policy priorities include reducing tariff and non-tariff barriers with all East African Community members; leveraging the AfCFTA preferential market access to secure new opportunities for Rwanda firms; and achieving a regional agreement on a legal framework for multimodal transport to reduce transport costs.[16]

Building Resilience to Climate Change

PS ¶35

27. Rwanda is vulnerable to the consequences of climate change although its economic activity has been less carbon-intensive than those of many other countries, contributing little to climate change. Rwanda's 2016 landslide was the fourth largest in the world recorded during 2010–21 for the number of people affected as a share of total population.[17] The World Bank's Country Climate and Development Report (CCDR) finds that, under a plausible but pessimistic scenario of greenhouse gas (GHG) concentration trajectory, the annual damage due to flooding is estimated to be 0.3 percent of Rwanda's capital stock, which would increase to 1.4 percent by end-century,[18] given that the frequency and intensity of climate-induced disasters are expected to increase with climate change. Additionally, an illustrative scenario in the DSA's tailored stress test finds a large climate-related disaster, like once-in-100-years flooding, could induce a one-off spike of 22 percent of GDP to the PPG debt ratio, jeopardizing debt sustainability and balance-of-payments stability (Supplement 1).

PS ¶ 36

28. Recognizing its vulnerability, Rwanda has made notable progress in mainstreaming climate commitments into its national plans and sectoral strategies. (Annex III). Rwanda has been addressing climate change for more than a decade,

[16] See World Bank's Rwanda Economic Update, January 2022 for a comprehensive list of recommendations.

[17] Floods together with landslides in 2018 are estimated to have caused a damage of 0.8 percent of GDP (Emergency Events Database (EM-DAT)) (CCDR).

[18] In the pessimistic scenario, the mean annual temperature could be 21.51°C, with a range between 20.65°C to 22.06°C by 2050 (CCDR).

adopting a low carbon growth strategy in 2011. It has a strong climate policy track record, standing ahead of regional peers in adaptation readiness.[19] The CCDR finds Rwanda has made a substantial progress in mainstreaming its climate commitments into national plans and sectoral strategies. For example, Rwanda outlined adaptation and mitigation agenda in its National Strategy for Transformation (2017–24) and Nationally Determined Contribution (NDC), revised in 2020, including by identifying priority measures aligned with the Sustainable Development Goals (SDGs). Rwanda is recognized by the United Nations as the first African country and least developed country to submit a revised, more ambitious NDC in 2020, with a goal to lower GHG emissions by 38 percent relative to the "business as usual" scenario by 2030, through unconditional (16 percent) and conditional (22 percent) measures. Rwanda is active in the mitigation agenda including in reforestation and the promotion of e-mobility (committed in NDC). The CCDR also notes that Rwanda's ambitious climate-related agenda comprehensively covers a wide range of sectoral issues (such as water, agriculture, forestry, land use, urbanization, transport, energy, manufacturing technologies, access to finance, and disaster risk reduction and management). Rwanda's annual budget preparation documents also provide guidelines on mainstreaming climate change and environment while budget execution reports describe the implementation of environmental protection and climate-change-related programs.[20] Consequently, the CCDR's simulations suggest that implementing the full set of Rwanda's NDC commitments would more than fully offset the negative impact on economic activity expected from climate change.

PS ¶ 37

29. Despite the progress made to date, Rwanda needs to further strengthen its institutions to deliver and monitor its ambitious climate objectives and to mobilize and efficiently allocate resources. As the CCDR points out, the absence of a clear framework and guidelines for institutions to publish information regarding climate spending suggests the inadequacy of transparency and accountability in the planning, execution, reporting, and oversight of budget funds dedicated to addressing climate change issues across a wide range of sectors. The following policy-specific recommendations were also put forward in the CCDR: (i) increasing fiscal space using a mix of financing sources, including through DRM and government spending reallocations, and (ii) improving PFM and public investment management (PIM) practices, including through public-private partnerships (Annex III). Rwanda's NDC estimates that climate-related investment needs amount to US$11 billion by 2030 (which is about 10 percent of the 2022 projected GDP per year over 2023–30), made up of US$5.7 billion for mitigation and US$5.3 billion for adaptation, expected to come from both domestic and external sources. While DRM (under the PCI) will support efforts to create the fiscal space for climate-related investment, a large share of financing would have to come from external sources, including the private sector.

[19] According to Notre Dame Global Adaptation Initiative, Rwanda is the 10th most vulnerable country and the 90th most adaptation-ready country. See also the CCDR's Table 9 on current Rwanda's policy framework to support the implementation of NDC commitments and Annex 3 on Adaptation and Mitigation Measures Included in the NDC. For Rwanda's recent progress in climate measures, see IMF Country Report No 22/200, Box 2; and IMF Country Report No 22/7; Annex VI.

[20] Despite the paucity of climate change considerations in the legal framework for PFM, the Manual of PFM Policies and Procedures (updated in 2019) has shown progress in mainstreaming climate by pointing to environmental considerations as a guiding principle for the management of government assets and requires agencies to consider environmental issues together with social and economic factors in making service delivery decisions.

PS ¶ 38

30. The proposed RSF-supported program will focus on integrating climate-related considerations in macroeconomic policy formulation to support the delivery and monitoring of Rwanda's climate commitments. While sub-Saharan African countries are highly vulnerable to climate shocks with lasting impact on economic development than those in other regions (IMF (2020)), Rwanda specifically faces significant challenges from landslides and floods (¶27; ¶1 in Annex III). Research finds that savings from reduced post-disaster spending is many times the cost of upfront investment in resilience and coping mechanisms, implying that significant up-front investment in adaptation is a critical strategy. While Rwanda has an ambitious plan for green investment, strengthening its institutional capacity to deliver and monitor this would also be critical. To this end, the RSF provides an important opportunity to advance the relevant reforms. The required high level of climate-related investment calls for a coherent and consistent methodology for the government to evaluate projects, which can be set up by the proposed reforms (Reform Areas 1–3). In addition, as noted by the CCDR, climate change poses risks for Rwanda's financial sector, primarily through the banks' exposure to disasters linked to natural hazards. This calls for the reform to enhance climate-related risk management for financial institutions (Reform Area 4). Additionally, the strategy for disaster risk reduction and management needs to be strengthened to ensure capacity to manage and respond to disasters timely (Reform Area 5). The following five Reform Areas are proposed (Text Table and Table 12).

- **Reform Area 1: Strengthening and institutionalizing the monitoring and reporting of climate-related spending feeding into decision making processes.** While Rwanda's spending to achieve NDC objectives is not fully available to monitor at this point (Supplement I), the authorities plan to take steps to operationalize a budget tagging system and integrate it into decision-making, including by publishing key climate information in the budget. First, the authorities plan to produce internal guidelines on the climate budget tagging system, including anticipated changes to the budget call circular and user requirements for the Integrated Financial Management Information System (IFMIS). Second, the authorities plan to implement climate change budget tagging and publish a climate budget statement (first for development expenditure and then for all expenditure). They also plan to identify in the Budget Framework Paper (BFP) how climate information has been used in decision making.[21] Comprehensive tagging results plan to be published, along with the quarterly climate expenditure reports.

- **Reform Area 2: Integrating climate risks into fiscal planning.** The authorities plan to submit a quantitative climate risk analysis in the Fiscal Risk Statement to the Fiscal Risk Committee[22] and further expand the quantitative climate risk analysis to include PPPs and SOEs that are vulnerable to climate-related risks, highlighting how investment in adaptation seeks to reduce the impacts of negative climate events.

- **Reform Area 3: Improving the sensitivity of PIM to climate-related issues.** As building more resilient infrastructure is a key strategy for Rwanda, the authorities plan to update the national investment policy to integrate the climate agenda and to publish the guidelines for

[21] The BFP is published alongside the budget and outlines the key policy commitments of the authorities.

[22] A related TA is scheduled for early 2023.

the appraisal and selection criteria, including climate considerations. The authorities also plan to publish a consolidated report on major public investment projects in the pipeline by sector with information, including the appraisal and selection criteria and the distribution of ratings according to these criteria.

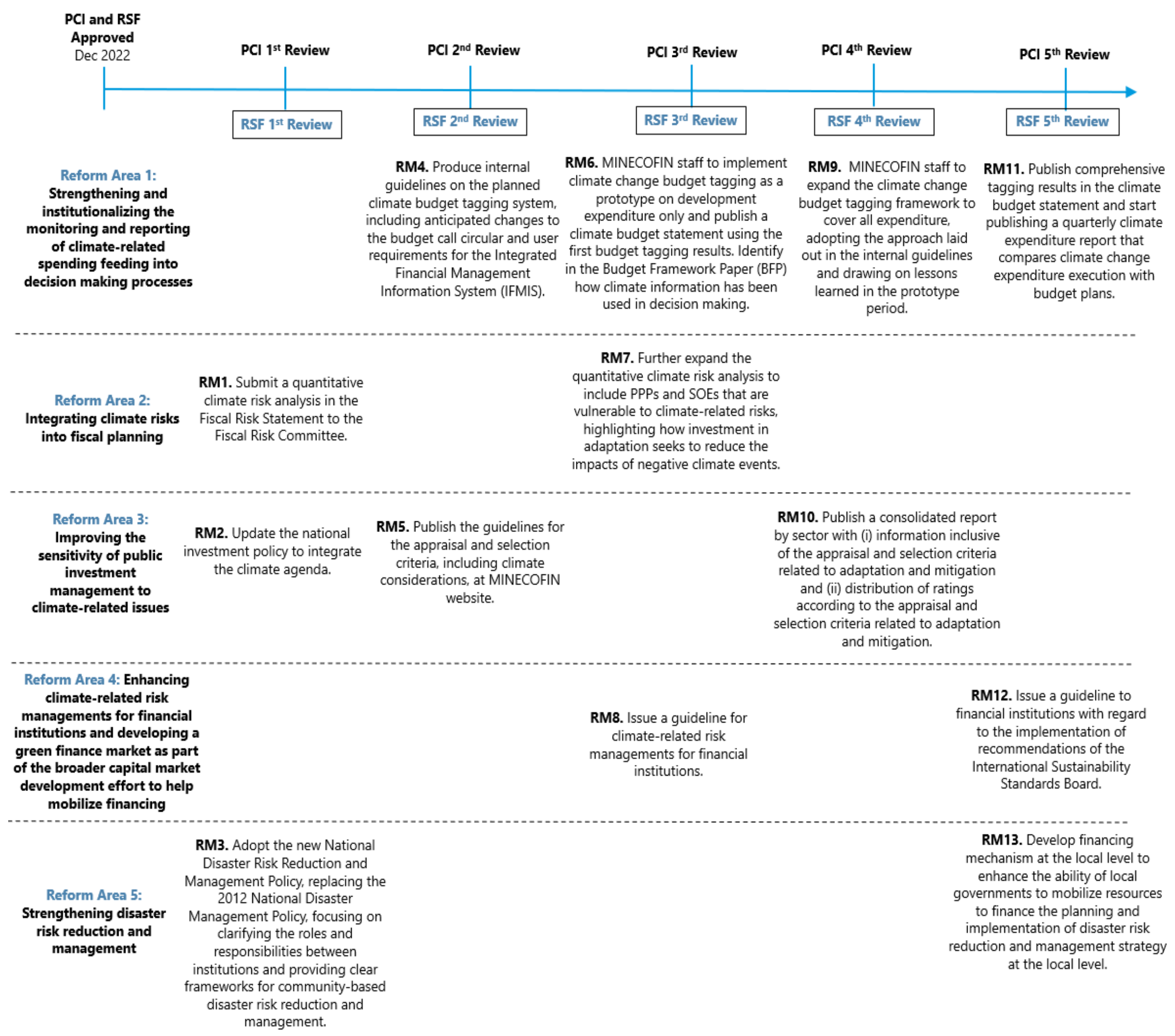
- **Reform Area 4: Enhancing climate-related risk management for financial institutions and developing a green finance market.** Climate change poses risks to Rwanda's financial sector, primarily through the banks' exposure to disasters linked to natural hazards. This calls for reforms to enhance climate-related risk management for financial institutions. The authorities plan to issue guidelines for financial institutions on climate-related risk managements as well as introduce standards in line with the recommendations of the International Sustainability Standards Board (ISSB) to support the development of a green finance market to mobilize financing for adapting to and mitigating climate change.
- **Reform Area 5: Strengthening disaster risk reduction and management.** The authorities plan to adopt the new National Disaster Risk Reduction and Management Policy, focusing on clarifying the roles and responsibilities between institutions and providing clear frameworks for community-based disaster risk reduction and management. This will replace Rwanda's 2012 National Disaster Management Policy. The authorities also plan to develop a financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy. These RSF-supported reforms under Reform Area 5 will complement the reforms on adaptive social protection, including implementation of a dynamic social registry, supported by the PCI's pillar on strengthening resilience.

PS ¶39–40

31. The authorities consider the proposed reforms as impetus to catalyze climate financing (Box 1). RSF-supported reforms on green PFM and climate PIMA (Reform Areas 1–3) are expected to facilitate green financing from development partners (DPs) and the private sector by: (i) helping internalize climate-change considerations in the allocation of government resources; and (ii) improving transparency and accountability in their use to deliver on ambitious climate measures. In addition, reforms on climate-related risk management for financial institution and adoption of ISSB standards (Reform Area 4) are a part of the broader capital market development effort to help mobilize climate financing.[23] With already active involvement of DPs in the climate-related agenda in Rwanda (Annex III), RSF-supported reforms can provide assurances that DP climate funds will be well-spent with strengthened transparency and accountability. In turn, additional DP resources to finance public or public-private partnerships or to de-risk climate change projects will help attract private financing by raising risk-adjusted returns. Staff encouraged the authorities to leverage the RSF in the reallocation of resources to and scale up green investments.

[23] While private investment is projected to increase to over 17 percent under the baseline in the medium term, this would likely be revised upward if there are signs that more climate-related private investments would materialize from the expected catalytic effect of the RSF.

Text Figure. Rwanda: Proposed RSF Reform Areas and Reform Measures, 2023–25



Box 1. Climate Financing in Rwanda

Facing large climate financing needs (¶29) to address vulnerabilities, Rwanda is actively exploring options to catalyze climate financing. The national green fund (FONERWA) has mobilized domestic financing to fund 45 climate-related projects as of April 2022. To facilitate project applications to international financial institutions, Rwanda's Ministry of Environment is accredited to the Green Climate Fund and the Adaptation Fund and is supporting a commercial bank to be similarly accredited.

However, significant additional financing from the private sector would be essential. To enhance private climate financing, Rwanda plans to issue green bonds and is exploring options related to carbon credit financing, including by working to establishing a carbon credit registry in collaboration with the UNDP. Rwanda is also working to identify and overcome impediments to private climate financing.

- Some impediments are related to private financing in general, including Rwanda's small market size as well as high perceived risks (including political and legal) for low-income countries. To overcome these, Rwanda launched a roadmap (the Rwanda Sustainable Finance Roadmap) in October 2022, involving the Kigali International Financial Center with an aim to establish itself as a regional financial hub.
- The lack of marketable climate projects and climate-related regulatory environment is an additional impediment to private climate finance. As Rwanda continues its efforts to develop climate projects, an international motor manufacturer built a plant and is operating it in Rwanda given Rwanda's initiatives on promoting e-mobility. During the 27th United Nations Climate Change Conference of the Parties (COP27), Rwanda launched a new green investment facility ("Ireme Invest") to support SMEs' climate projects, initially capitalized at US$104 million. The authorities are also working to develop the green taxonomy to build up the regulatory environment.

Box 2. Policy Lessons from DIGNAD Simulations[1]

The Debt, Investment, Growth, and Natural Disasters (DIGNAD) model can demonstrate the impact of investing in ex-ante adaptation on output growth and public debt, in countries vulnerable to climate-induced disasters (Marto and others (2018)). The model is calibrated to Rwanda and is simulated for a hypothetical disaster lowering GDP in 2028 by about 4 percent (which is mimicking once-in-100-years flooding as considered in DSA's tailored stress test (¶27)). The decline in GDP arises mainly due to the damages to infrastructure.

Scenario 1 (baseline) assumes that investment proceeds as normal in "standard" infrastructure. In Scenario 2, investment is scaled to include so-called "adaptation" infrastructure (more robust to climate-induced shocks) by 1.5 percent of GDP per year, financed through private financing and concessional borrowing. Scenario 3 considers reforms including those related to climate PIMA and green PFM, raising the efficiency of public investment by 20 percentage points. This is assumed to be accompanied by catalyzed green financing from the private sector and DPs and by additional 1.5 percent of GDP.

The simulations illustrate that investing in more robust infrastructure (as in Scenarios 2 and 3) results initially in higher public debt but improves the resilience of the economy by reducing the adverse impact of natural disasters on output, damages to physical assets, and post-disaster fiscal costs for rebuilding and lifeline support. Enhanced reforms to improve the efficiency of public investment raises the resilience of the economy to shocks (Scenario 3). Given the limited fiscal space, the initial increase in public debt (in Scenarios 2 and 3) can be mitigated by securing private financing as well as more concessional financing.

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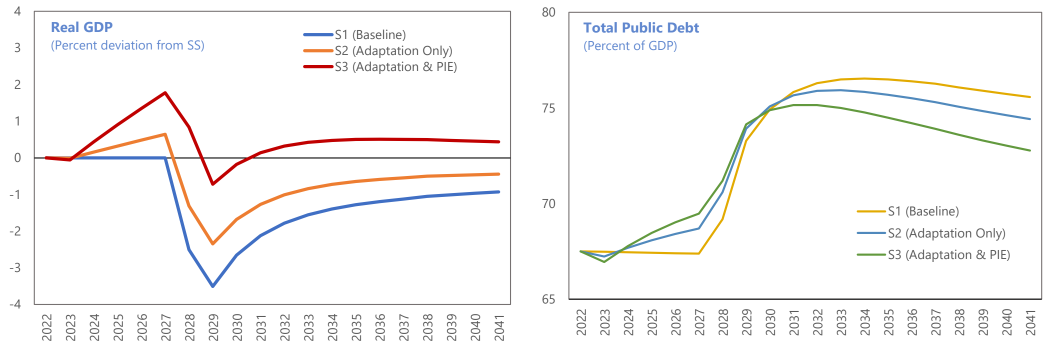
[1] Cian Ruane and Azar Sultanov (both RES) contributed to the DIGNAD model simulations of macro-fiscal implications of climate change policies.

Box 2. Policy Lessons from DIGNAD Simulations (concluded)



PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

32. The proposed 36-month PCI would include quantitative and structural conditionality (PS Tables 1-2). Program implementation will be monitored by QTs and an MPCC with end-June and end-December test dates. Given the current inflation level, the MPCC midpoint, based on the 12-month headline inflation is proposed to be temporarily raised relative to the NBR's benchmark of 5 percent for the first two reviews of the program. The temporary MPCC target is proposed to be set based on projected average inflation in 2022 (12.6 percent) with decisive monetary policy tightening with a symmetric inner/outer band around the objective as discussed in the TMU.[24] The program also envisages several RTs with further conditionality to be developed over the course of the program and calibrated and phased in line with the authorities' plans and implementation capacity. No prior actions are foreseen at this time. The new PCI will have adjustors on the fiscal deficit, NFA floor and PV of debt targets as described in the TMU.

33. A concurrent RSF-supported program is proposed with an access level of 150 percent of quota (SDR 240.3 million) as budget support (Tables 13–14).[25] Rwanda is eligible for RSF financing with Group A interest rates applied (¶35 and ¶43 in IMF's RST Proposal Paper). The program will be supported by a proposed sequence of reform measures (RMs) to be implemented with TA support (Table 13). The RSF disbursement is proposed to be distributed equally across the RMs with phasing of the disbursement across the five reviews reflecting expected completion dates for these RMs (Table 13). Given Rwanda's vulnerability to the consequences of climate change, the RSF-supported program would strengthen Rwanda's climate policy framework which has already demonstrated a good track record. Staff considers the proposed access level as appropriate, given the strength and ambition of the reforms (that includes support to build capacity sustainably), prospective BOP needs associated with climate-related events, and the capacity to repay the Fund. Specifically,

[24] Reducing the averaging period of headline inflation for MPCC target or replacing it by core inflation will be considered during the program period once inflationary pressures subside and return to NBR's benchmark rate.

[25] A Memorandum of Understanding (MOU) between NBR and MINECOFIN has been signed to clarify the responsibilities for timely servicing of the financial obligations to the IMF under the RSF arrangement.

- **Ambition of reforms**. The proposed reform areas are a high priority set of climate-related reforms proposed and identified in diagnostic reports (Annex III) that would put Rwanda in the forefront of countries with green budgeting frameworks. The proposed reforms are critical, as they would enhance Rwanda's efforts to mainstream climate-related policies given Rwanda's vulnerability to climate shocks (¶30). In particular, Reform Areas 1–3, related to PFM and PIM, contain significant output measures that should lead to tangible changes in the authorities' decision making, including safeguarding climate-spending in the context of the envisioned fiscal consolidation and ultimately resilience to climate shocks.
- **BOP needs**. The proposed access level would enhance external buffers to deal with prospective climate-related BOP needs, given the expected increase in the frequency and severity of natural disasters, adding to Rwanda's resilience to climate shocks and strengthening climate contingency plans. International reserves, which would otherwise be expected to remain around 4 months of imports during 2022–27 would be brought to near 5 months of imports under the RSF during this period, which is consistent with the upper end of the reserve adequacy metrics. In addition, given the large climate-related investment needs (¶29) and prospective BOP needs from disaster (¶27), concessional financing under RSF is preferable to the more expensive domestic financing as it improves the underlying public debt dynamics. Implementing the disaster risk reduction and management framework will have financial implications in terms of resource needs for investing in preventing, mitigating, and responding to disaster risks with potential BOP implications. This will require innovative resource mobilization strategies, both at national and local level, including attracting external sources of funding beyond internal public investment resources depending on the final design and implementation of the framework.
- **Capacity to repay the Fund** (Table 8, Annex V). Rwanda's capacity to repay is deemed manageable and is supported by the downward debt trajectory in the medium term with moderate risks of external and overall public debt distress, and the authorities' track record of reforms and sound macroeconomic management. With the RSF resources, total Fund credit outstanding indicators are mostly inside the interquartile range for PRGT borrowing countries (Panel A), peaking at 3.4 percent of GDP and 13.3 percent of exports of goods and services in 2024, or 21.9 percent of gross international reserves and 241.3 percent of quota in 2025 once the RSF is fully disbursed, with a downward sloping trend over time. The inclusion of the RSF resources does not significantly increase Rwanda's total debt service to the Fund, with near-term elevated levels due to repayment of the 2016-2018 Standby Credit Facility and related to two 2020 Rapid Credit Facilities (Panel B). Rwanda's largest peaks for both credit outstanding (as percent of GDP) and debt service to the Fund (as percent of revenue excl. grants) with RST resources are below the 75th percentile of comparators (Panel C).

34. Staff coordinated closely with the World Bank and other DPs to leverage comparative expertise and institutional knowledge in defining policy priorities under the new PCI and RSF. Staff drew from the World Bank's PER and CCDR to refine policy discussions with the authorities under the new PCI and RSF. Bank staff has provided an assessment letter on the authorities' climate policies in the context of the RSF request, which confirms the authorities' ambitious climate reform package (Attachment II). DPs are actively engaged in technical assistance related to climate related policy reforms, which are complementary to the RSF-supported reforms (Annex III).

35. Safeguards Assessment. The latest safeguards assessment, concluded in January 2022 found a well-established governance and control framework with audit and reporting practices aligned with international standards. The NBR is making progress on the report's recommendation and has updated its investment policy to align with the definition of reserves as per e-GDDS, thereby eliminating holdings of instruments issued by domestic issuers (i.e., Rwanda Eurobonds) as part of official foreign reserves. The NBR has further amended its credit policy to limit the amount of foreign currency denominated securities issued by domestic entities that can be held by the central bank.

36. The PCI and RSF-supported programs are subject to downside risks. With no current BoP need envisaged during the duration of the proposed new PCI, the program remains fully financed with firm financing commitments over the next 12 months and good prospects thereafter. Program risks from high global and regional uncertainty, frequent climate-related events, and decline in available concessional resources remain but will be moderated by Rwanda's good track record under a series of Fund-supported programs, and commitments to enhance DRM and to strengthen fiscal risk management, contingent planning and build resilience to climate-related shocks under the new programs.

37. CD activities remain closely linked to PCI- and RSF-supported reforms (Annexes III and IV), focusing, inter alia, on fiscal transparency, DRM, medium-term expenditure frameworks, implementation of the forward-looking monetary policy framework, and financial stability. CD under the RSF will focus on adopting green PFM, implementation of climate sensitive PIM practices based on the recent C-PIMA, and climate-related risk management of financial institutions. CD activities are expected to focus on strengthening fiscal risk analysis, budget preparation, fiscal reporting, macro-fiscal capacity, and implementing FSSR recommendations.

STAFF APPRAISAL

38. The large policy package implemented in response to the global pandemic provided vital support to the economy. Rwanda has weathered the COVID-19 crisis relatively well although emerging with some scars. Despite a large fiscal impulse, borrowing costs remain contained and the risk of public debt distress remains at moderate.

39. However, the fallout from the war in Ukraine, coupled with more frequent climate-change-related events, are further complicating the challenges going forward. Additional contingency plans will still be needed to cushion renewed crisis effects through reprioritization given the limited fiscal space, while maintaining transparency and accountability. Sustaining reform efforts will be critical to put Rwanda on a stronger, more resilient, and inclusive growth trajectory.

40. The authorities should continue to reinforce their policy frameworks, advancing structural and institutional reforms while navigating shocks to deliver a more inclusive, resilient, and sustainable growth. The immediate priorities for the new PCI consist of supporting the economy through the crisis, ensuring price stability and monitoring and managing emerging risks. Reinforcing the fiscal framework, implementing an effective forward-looking monetary policy framework, mitigating pandemic scars, and building socioeconomic resilience are key elements of the program. Given Rwanda's high vulnerability to climate change, the RSF would support the authorities' reforms to adapt to and mitigate climate change.

41. Keeping the fiscal framework well-anchored and supported by a credible fiscal consolidation strategy will be critical to safeguard debt sustainability. The timely approval and implementation of DRM measures under the MTRS and a successor and a well-specified spending rationalization strategy will be critical to support a credible fiscal consolidation and allow Rwanda's public debt to converge to the program anchor within the envisaged timeframe. To strengthen the fiscal consolidation strategy, staff urged the authorities to launch and start to implement the spending rationalization strategy already under the FY23/24. budget process. The authorities' commitment to enhance the effectiveness and transparency of PFM and PIM practices, including disclosure of BO information in public procurement, and to strengthen institutional and technical capacity to manage fiscal risks is essential for the success of the PCI.

42. Monetary policy would benefit from more decisive tightening given elevated inflationary pressures. Reforms to enhance the forward-looking monetary policy framework, clear communication of data-driven monetary policy decisions, and a greater exchange rate flexibility remain critical for price and external stability. Deepening financial markets and promoting financial inclusion, while ensuring financial risks remain contained, will be also important.

43. Structural policies should aim at mitigating pandemic scars while building resilience to large and protracted shocks, including climate change. Given the shock prone global environment, more adaptive social safety nets, accelerating human capital accumulation, and promoting economic diversification will be needed. In addition, the more frequent adverse climate-related events call for integrating climate-related considerations in the design of macroeconomic policies and frameworks to build resilience to climate shocks.

44. The PCI and the RSF provide appropriate instruments to support the authorities' proposed program. In the absence of current BoP needs, staff considers the PCI as an appropriate vehicle to demonstrate Rwanda's commitment to advance the reform agenda, enhance macroeconomic stability, and maintain a close policy dialogue with the Fund. The RSF reform measures to address climate change will support Rwanda's resilience building to shocks. Staff encourage the authorities to leverage the RSF to support scaling up green investments as well as catalyze further climate financing from official and private sector sources. Based on the authorities' strong program performance to date and continued commitment to policies and reforms, staff supports the request for a new 36-month PCI to replace the current PCI set to expire on June 28, 2023, and support under an RSF arrangement.

Table 1. Rwanda: Selected Economic Indicators, 2019–27

	2019	2020	2021	2022		2023		2024		2025		2026		2027	
	Act.	Act.	Act.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.
	(Annual percentage change, unless otherwise indicated)														
Output and prices															
Real GDP	9.5	-3.4	10.9	6.0	6.8	6.7	6.2	7.0	7.5	7.5	7.5	6.1	6.8	6.1	6.2
GDP deflator	2.5	6.7	2.7	9.3	11.9	8.7	7.4	5.5	5.3	5.4	5.2	5.0	5.1	5.0	5.0
CPI (period average)	2.4	7.7	0.8	9.5	12.6	8.0	7.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI (end period)	6.7	3.7	1.9	8.8	17.1	6.5	3.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-1.8	-0.9	3.9	7.5	11.1	-2.9	-7.5	-0.9	-2.1	0.3	-1.3	0.7	-0.4	0.2	-0.3
Exchange rate (Rwanda franc/US$) (e.o.p.)	922.5	972.5	1,009.6	1,085.3	1,060.0	1,155.9	1,134.2	1,213.7	1,207.9	1,268.3	1,279.2	1,319.0	1,331.6	1,358.6	1,383.5
Rwanda franc y/y depreciation rate (e.o.p.)		5.4	3.8	7.5	5.0	6.5	7.0	5.0	6.5	4.5	5.9	4.0	4.1	3.0	3.9
Exchange rate (Rwanda franc/US$) (p. avg.)	899.5	943.3	988.9	1,047.5	1,034.8	1,120.6	1,097.1	1,184.8	1,171.0	1,241.0	1,243.5	1,293.7	1,305.4	1,332.5	1,357.6
Rwanda franc y/y depreciation rate (p. avg.)		4.9	4.8	5.9	4.6	7.0	6.0	5.7	6.7	4.7	6.2	4.2	5.0	3.0	4.0
Real effective exchange rate (depreciation, -)(p.avg.)	-1.7	3.0	-10.3	-1.6	0.7	-2.0	-1.9	-2.6	-3.6	-1.7	-3.1	-1.3	-1.9	-0.1	-1.0
Money and credit															
Broad money (M3)	15.4	18.0	17.8	15.8	19.5	14.2	12.3	15.0	15.4	15.8	15.5	11.4	12.3	11.4	11.5
Reserve money	16.0	21.7	30.7	4.8	8.1	12.2	10.3	15.0	15.4	15.8	15.5	11.4	12.3	11.4	11.5
Credit to non-government sector	12.6	21.8	14.7	11.0	10.8	11.5	13.7	21.3	21.2	19.4	25.7	10.7	17.6	14.5	16.9
M3/GDP (percent)	25.7	29.4	30.4	30.4	30.4	29.9	29.9	30.5	30.5	31.2	31.2	31.2	31.2	31.2	31.2
	(Percent of GDP, unless otherwise indicated)														
Budgetary central government, FY basis [1]															
Revenue	23.1	23.3	25.0	25.3	25.9	24.6	23.6	22.9	22.9	23.2	23.2	24.1	23.8	24.2	24.1
Taxes	16.0	15.7	15.8	15.7	15.7	15.4	15.9	15.9	16.0	16.5	16.5	17.3	17.2	17.5	18.0
Grants	3.0	4.6	5.5	5.9	6.9	6.6	5.2	4.4	4.4	4.1	4.2	4.0	4.1	3.9	3.8
Other revenue	3.0	3.1	3.7	3.7	3.3	2.5	2.5	2.6	2.5	2.7	2.5	2.8	2.5	2.8	2.4
Expense	20.5	20.2	20.3	20.6	20.6	19.3	20.2	18.2	18.6	18.4	18.1	18.1	17.1	18.0	17.0
Net acquisition of nonfin. assets	11.2	11.0	12.2	12.4	11.6	11.0	10.3	9.6	9.9	9.5	10.1	9.6	9.9	9.6	10.2
Net lending (+) / borrowing (-) (NLB)	-8.6	-7.9	-7.5	-7.6	-6.3	-5.7	-6.9	-4.9	-5.6	-4.7	-4.9	-3.6	-3.2	-3.4	-3.0
excluding grants	-11.6	-12.4	-13.0	-13.5	-13.2	-12.4	-12.1	-9.3	-10.0	-8.8	-9.2	-7.6	-7.4	-7.3	-6.7
Net acquisition of financial assets	0.8	4.5	1.5	1.1	3.6	1.3	-0.2	1.5	1.2	0.5	0.5	0.3	0.4	1.4	0.3
Net incurrence of liabilities	6.4	12.3	8.9	9.0	10.4	7.0	6.7	6.4	6.8	5.2	5.5	3.9	3.6	4.8	3.3
Domestic	1.2	2.2	2.5	-0.5	1.8	0.7	0.5	1.2	1.3	1.4	-0.4	0.2	-0.6	1.7	-0.5
Foreign	5.1	10.2	6.4	9.5	8.6	6.3	6.2	5.2	5.5	3.9	5.9	3.6	4.2	3.2	3.8
Overall fiscal balance (incl. grants, policy lending)[2]	-8.1	-9.1	-8.6	-8.7	-7.6	-6.9	-8.1	-6.1	-6.5	-4.9	-5.2	-3.6	-3.2	-3.4	-3.0
Debt-creating overall balance (excl. PKO)[3]	-5.5	-7.8	-8.2	-8.7	-7.4	-6.9	-8.1	-6.1	-6.5	-4.9	-5.2	-3.6	-3.2	-3.4	-3.0
Public debt															
Total public debt incl. guarantees	56.8	72.4	73.3	73.1	71.3	75.2	73.9	75.9	76.8	74.2	77.3	73.6	75.7	71.7	73.9
of which : external public debt	44.3	56.4	54.5	57.6	53.0	58.0	55.9	60.8	60.8	60.1	63.1	59.1	62.5	56.8	62.1
Total public debt excluding guarantees	53.0	69.3	72.6	71.8	70.0	73.1	71.9	73.6	74.6	71.4	74.6	71.0	73.1	69.4	71.5
External public debt incl. guarantees, PV	29.7	34.0	34.9	36.1	33.6	38.2	35.8	39.2	38.9	38.7	40.4	37.6	39.9	35.7	39.5
Gross domestic debt	12.4	16.0	18.8	15.5	18.3	17.1	18.0	15.1	16.0	14.2	14.2	14.5	13.2	15.0	11.8
Total public debt incl. guarantees, PV	42.9	51.1	54.4	53.0	52.7	56.6	55.0	55.3	56.1	53.7	55.8	52.9	53.9	51.3	52.1
Investment and savings															
Investment	23.5	25.1	26.3	25.8	24.5	28.4	29.0	29.4	30.5	28.6	29.5	28.4	28.9	28.2	28.1
Government	12.9	14.2	12.2	13.2	12.8	11.8	11.4	11.1	11.9	10.8	11.4	11.2	11.6	11.0	10.8
Nongovernment	10.6	11.0	14.1	12.6	11.6	16.5	17.6	18.3	18.6	17.8	18.0	17.2	17.2	17.2	17.3
Savings (excl. grants)	9.0	10.2	12.3	8.6	9.9	13.7	14.1	16.3	15.8	16.9	15.6	17.8	17.6	18.1	17.7
Government	3.7	-0.5	-0.6	-0.2	-0.1	0.8	1.2	1.5	0.9	2.8	3.3	3.4	4.3	3.6	3.9
Nongovernment	5.3	10.7	12.8	8.9	10.0	12.9	13.0	14.9	14.9	14.1	12.3	14.4	13.4	14.5	13.7
External sector															
Exports (goods and services)	21.8	18.9	19.1	23.4	24.1	25.3	25.0	27.1	25.9	28.5	26.6	28.8	26.7	29.2	27.0
Imports (goods and services)	36.1	35.1	34.8	41.7	40.0	41.2	41.1	40.8	41.4	40.9	41.2	40.2	38.5	40.1	38.0
Current account balance (incl grants)	-11.9	-12.1	-10.9	-12.6	-10.5	-11.7	-12.4	-10.3	-11.6	-8.9	-11.0	-7.8	-8.6	-7.3	-7.7
Gross international reserves															
In millions of US$	1,382	1,722	1,889	1,868	1,894	1,869	2,052	2,063	2,309	2,093	2,378	2,229	2,442	2351	2643
In months of next year's imports[4]	5.6	5.9	5.1	4.6	4.7	4.4	4.7	4.5	5.0	4.3	5.2	4.2	5.0	4.1	5.0
Memorandum items:															
GDP at current market prices															
Rwanda francs (billion), CY basis	9,314	9,607	10,944	12,672	13,075	14,698	14,904	16,585	16,880	18,800	19,083	20,942	21,429	23,340	23,898
nominal growth	12.2	4.6	13.9	15.8	19.5	16.0	14.0	12.8	13.3	13.4	13.1	11.4	12.3	11.4	11.5
Population (million)	12.4	12.7	13.0	13.3	13.3	13.6	13.6	13.9	13.9	14.2	14.2	14.5	14.5	14.8	14.8

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 26/27 (2027). Fiscal year runs from July to June. FY19/20 and FY20/21 are actuals.

[2] For purposes of the PCI the overall balance (GFSM 1986, incl. policy lending) is used for monitoring.

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

[4] Based on prospective import of goods (excluding gold) and services. SDR allocation included in 2021.

Table 2a. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation FY21/22–26/27[1]

(Billions of Rwandan Francs)

	2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
	6th rev.	Prelim.	6th rev.	Proj.	6th rev.	Proj.	6th rev.	Proj.	6th rev.	Proj.	6th rev.	Proj.
Revenue	**2,992**	**3,103**	**3,365**	**3,303**	**3,583**	**3,646**	**4,111**	**4,173**	**4,784**	**4,816**	**5,363**	**5,473**
Taxes	1,849	1,877	2,110	2,224	2,492	2,550	2,913	2,973	3,434	3,482	3,883	4,077
Taxes on income, profits, and capital gains	828	854	917	966	1,069	1,094	1,237	1,263	1,454	1,474	1,677	1,760
Taxes on property	28	17	34	36	41	42	46	47	51	52	57	60
Taxes on goods and services	860	873	981	1,034	1,140	1,167	1,328	1,355	1,550	1,571	1,727	1,812
Taxes on international trade and transactions	133	133	179	189	241	246	302	309	379	386	422	445
Grants	700	824	907	728	687	705	725	758	804	837	870	851
Other revenue	443	402	348	351	404	392	474	441	547	497	610	546
of which PKO	174	144	185	182	197	194	208	207	217	218	227	228
of which CCRT	32	23	0	--	0	--	0	--	0	--	0	--
Expense	**2,427**	**2,468**	**2,644**	**2,826**	**2,845**	**2,963**	**3,264**	**3,249**	**3,588**	**3,469**	**3,994**	**3,845**
Compensation of employees	313	318	366	366	431	431	507	507	586	586	661	677
of which: Covid-19 spending	--	--	--	--	--	--	--	--	--	--	--	--
Use of goods and services	663	688	714	720	738	767	834	840	936	879	1,043	977
of which: Covid-19 spending	175	186	--	--	--	--	--	--	--	--	--	--
of which: Covid-19 Vaccine	142	152	--	--	--	--	--	--	--	--	--	--
of which: PKO	174	175	185	182	197	194	208	207	217	218	227	228
of which: SDR allocation (2021)	51	50	--	--								
Interest	241	220	296	318	340	343	382	333	411	347	458	337
To nonresidents	84	70	110	108	132	130	146	147	162	164	175	174
To residents other than general government	157	150	187	210	208	213	236	186	249	183	283	163
Subsidies	382	382	299	299	284	287	304	301	294	293	328	326
of which: Rwandair	164	260	175	177	170	167	162	152	154	141	171	157
of which: Export Promotion	102	102	115	115	121	121	127	127	133	133	148	148
Grants	652	656	797	951	864	951	967	1,023	1,086	1,116	1,195	1,249
To EBUs	36	32	61	61	70	70	88	88	98	98	109	109
Current	30	25	40	40	45	45	49	49	54	54	60	60
of which compensation of employees	25	23	32	32	34	34	35	35	35	35	39	39
Capital	7	7	20	20	25	25	39	39	44	44	49	49
To Local Government	615	624	736	890	794	881	879	934	989	1,019	1,086	1,141
Current	480	488	548	663	612	679	677	720	762	785	833	875
of which compensation of employees	301	308	367	446	385	468	404	492	424	517	446	542
Capital	135	135	188	227	182	202	202	214	227	234	253	266
Social benefits	59	57	45	46	47	46	74	70	74	68	89	81
Other expense	116	147	126	126	140	138	195	176	200	180	221	198
Net acquisition of nonfin. assets	**1,461**	**1,393**	**1,505**	**1,442**	**1,504**	**1,568**	**1,683**	**1,812**	**1,908**	**2,000**	**2,120**	**2,307**
Foreign financed	691	589	807	774	886	944	759	896	1,006	1,142	1,032	1,163
of which: Covid-19 spending	30	32	30	30	--	--	--	--	--	--	--	--
of which: Covid-19 Vaccine	--	--	--	--	--	--	--	--	--	--	--	--
Domestically financed	770	804	698	669	618	624	923	916	902	858	1,088	1,144
of which: Covid-19 spending	100	107	100	100	--	--	--	--	--	--	--	--
of which: projects financed by EURO Bond	65	64	18	18	--	--	--	--	--	--	--	--
of which: projects financed by SDR allocation	103	104	--	--	--	--	--	--	--	--	--	--
Net lending (+) / borrowing (-)												
including grants	**-896**	**-758.3**	**-784**	**-965**	**-766**	**-885**	**-835**	**-888**	-711	**-653**	-751	**-679**
excluding grants	-1596	-1583	-1690	-1694	-1453	-1590	-1560	-1646	-1515	-1490	-1621	-1529
Net acquisition of financial assets	**135**	**434**	**178**	**-27**	**239**	**196**	**92**	**97**	**60**	**84**	**319**	**68**
Domestic	66	366	246	41	239	196	92	97	60	84	319	68
Currency and deposits	-65	209	84	-122	47	48	53	54	60	84	319	68
o/w RSF deposits	--	--	--	--	--	--	--	--	--	--	--	--
Loans	67	94	118	117	167	119	35	35	--	--	--	--
of which: KCC Interest Payment	33	31	36	37	35	35	35	35	--	--	--	--
of which ERF-1 and ERF-2	34	63	82	81	132	84	--	--	--	--	--	--
Equity and investment fund shares	64	62	44	46	25	29	4	8	--	--	--	--
Foreign	69	68	-68	-68	--	--	--	--	--	--	--	--
Special Drawing Rights (SDRs)	69	68	-68	-68								
Net incurrence of liabilities	**1,064**	**1,252**	**962**	**938**	**1,005**	**1,081**	**927**	**985**	**771**	**736**	**1,070**	**747**
Domestic	-62	221	101	66	189	211	243	-70	48	-115	370	-119
Debt securities	122	224	285	285	301	317	355	74	189	51	459	-9
Debt securities (Without RSF)	122	224	285	378	301	449	355	214	189	51	459	-9
Loans	-144	-81	-139	-141	-66	-66	-67	-67	-101	-126	-49	-70
Other accounts payable	-40	78	-45	-78	-45	-40	-45	-78	-40	-40	-40	-40
Foreign	1,126	1,032	861	873	816	870	684	1,055	723	851	700	866
Special Drawing Rights (SDRs)	222	222	--	--	--	--	--	--	--	--	--	--
Debt securities	286	275	151	108	--	10	--	--	--	--	--	--
Loans	618	535	710	764	816	860	684	1,055	723	851	700	866
Disbursements	716	630	812	864	953	995	868	1,239	1,018	1,148	1,048	1,248
Current	267	218	331	411	398	423	412	645	406	401	430	502
o/w required	--	--	--	--	--	155	49	112	25	--	26	96
o/w IMF RSF	--	--	--	81	--	143	--	153	--		--	
Capital	449	412	481	453	555	572	456	594	613	747	617	746
Reimbursements	98	95	102	100	137	135	185	184	295	297	348	382
Statistical discrepancy	-33	-60	--	--	--	--	--	--	--	--	--	--
Memorandum items:												
Domestic revenue (incl. local government)	2,117	2,135	2,273	2,393	2,698	2,747	3,179	3,208	3,764	3,761	4,267	4,395
Wage bill	639	649	765	845	850	934	946	1,034	1,045	1,137	1,145	1,258
Total Covid-19 spending (excl. ERF-2)[4]	338	324	130	130	0	0	0	0	0	0	0	0
Overall fiscal balance (incl. grants, policy loans)[2]	-1,027	-915.3	-946	-1,128	-958	-1,033	-874	-931	-711	-653	-751	-679
Debt creating overall bal. (excl. PKO)[3]	-1,027	-884	-946	-1,128	-958	-1,033	-874	-931	-711	-653	-751	-679

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] For purposes of the PCI the overall balance (GFSM 1986 definition, incl. policy lending) is used for monitoring.

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

[4] ERF-1/ ERF-2 were labelled COVID-19 spending in the 5th review. For FY24 onwards this will no longer be labeled as COVID-19 support, rather ERF-2.

Table 2b. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation FY21/22–26/27[1]

(Percent of GDP)

	2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
	6th rev.	Prelim.	6th rev.	Proj.	6th rev.	Proj.	6th rev.	Proj.	6th rev.	Proj.	6th rev.	Proj.
Revenue	**25.3**	**25.9**	**24.6**	**23.6**	**22.9**	**22.9**	**23.2**	**23.2**	**24.1**	**23.8**	**24.2**	**24.1**
Taxes	15.7	15.7	15.4	15.9	15.9	16.0	16.5	16.5	17.3	17.2	17.5	18.0
Taxes on income, profits, and capital gains	7.0	7.1	6.7	6.9	6.8	6.9	7.0	7.0	7.3	7.3	7.6	7.8
Taxes on property	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Taxes on goods and services	7.3	7.3	7.2	7.4	7.3	7.3	7.5	7.5	7.8	7.8	7.8	8.0
Taxes on international trade and transactions	1.1	1.1	1.3	1.3	1.5	1.6	1.7	1.7	1.9	1.9	1.9	2.0
Grants	5.9	6.9	6.6	5.2	4.4	4.4	4.1	4.2	4.0	4.1	3.9	3.8
Other revenue	3.7	3.3	2.5	2.5	2.6	2.5	2.7	2.5	2.8	2.5	2.8	2.4
of which PKO	1.5	1.2	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.0	1.0
of which CCRT	0.3	0.2	--	--	--	--	--	--	--	--	--	--
Expense	**20.6**	**20.6**	**19.3**	**20.2**	**18.2**	**18.6**	**18.4**	**18.1**	**18.1**	**17.1**	**18.0**	**17.0**
Compensation of employees	2.7	2.6	2.7	2.6	2.8	2.7	2.9	2.8	2.9	2.9	3.0	3.0
Use of goods and services	5.6	5.7	5.2	5.1	4.7	4.8	4.7	4.7	4.7	4.3	4.7	4.3
of which: Covid-19 spending	1.5	1.5	--	--	--	--	--	--	0.0	0.0	0.0	0.0
of which: Vaccine	1.2	1.3	--	--	--	--	--	--	0.0	0.0	0.0	0.0
of which: PKO	1.5	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.0	1.0
of which: SDR allocation (2021)	0.4	0.4										
Interest	2.0	1.8	2.2	2.3	2.2	2.2	2.2	1.8	2.1	1.7	2.1	1.5
To nonresidents	0.7	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
To residents other than general government	1.3	1.3	1.4	1.5	1.3	1.3	1.3	1.0	1.3	0.9	1.3	0.7
Subsidies	3.2	3.2	2.2	2.1	1.8	1.8	1.7	1.7	1.5	1.4	1.5	1.4
of which: Rwandair	2.2	2.2	1.3	1.3	1.1	1.1	0.9	0.8	0.8	0.7	0.8	0.7
of which: Export Promotion	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Grants	5.5	5.5	5.8	6.8	5.5	6.0	5.5	5.7	5.5	5.5	5.4	5.5
To EBUs	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Current	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
of which compensation of employees	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
To Local Government	5.2	5.2	5.4	6.4	5.1	5.5	5.0	5.2	5.0	5.0	4.9	5.0
Current	4.1	4.1	4.0	4.7	3.9	4.3	3.8	4.0	3.8	3.9	3.8	3.9
of which compensation of employees	2.5	2.6	2.7	3.2	2.5	2.9	2.3	2.7	2.1	2.5	2.0	2.4
Capital	1.1	1.1	1.4	1.6	1.2	1.3	1.1	1.2	1.1	1.2	1.1	1.2
Social benefits	0.5	0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.4
Other expense	1.0	1.2	0.9	0.9	0.9	0.9	1.1	1.0	1.0	0.9	1.0	0.9
Net acquisition of nonfin. assets	**12.4**	**11.6**	**11.0**	**10.3**	**9.6**	**9.9**	**9.5**	**10.1**	**9.6**	**9.9**	**9.6**	**10.2**
Foreign financed	5.9	4.9	5.9	5.5	5.7	5.9	4.3	5.0	5.1	5.6	4.7	5.1
of which: Covid-19 spending	0.3	0.3	0.2	0.2	--	--	--	--	--	--	--	--
Domestically financed	6.5	6.7	5.1	4.8	3.9	3.9	5.2	5.1	4.5	4.2	4.9	5.0
of which: Covid-19 spending	0.8	0.9	0.7	0.7	--	--	--	--	--	--	--	--
Fixed assets	3.0	6.7	--	--	--	--	--	--	--	--	--	--
of which: projects financed by Eurobond	0.5	0.5	0.1	0.1	--	--	--	--	--	--	--	--
of which: projects financed by SDR allocation	0.9	0.9	--	--	--	--	--	--	--	--	--	--
Net lending (+) / borrowing (-)												
including grants	**-7.6**	**-6.3**	**-5.7**	**-6.9**	**-4.9**	**-5.6**	**-4.7**	**-4.9**	**-3.6**	**-3.2**	**-3.4**	**-3.0**
excluding grants	-13.5	-13.2	-12.4	-12.1	-9.3	-10.0	-8.8	-9.2	-7.6	-7.4	-7.3	-6.7
Net acquisition of financial assets	**1.1**	**3.6**	**1.3**	**-0.2**	**1.5**	**1.2**	**0.5**	0.5	**0.3**	**0.4**	**1.4**	**0.3**
Domestic	0.6	3.0	1.8	0.3	1.5	1.2	0.5	0.5	0.3	0.4	1.4	0.3
Currency and deposits	-0.5	1.7	0.6	-0.9	0.3	0.3	0.3	0.3	0.3	0.4	1.4	0.3
o/w RSF deposits	--	--	--	--	--	--	--	--	--	--	--	--
Loans	0.6	0.8	0.9	0.8	1.1	0.7	0.2	0.2	--	--	--	--
of which: KCC Interest Payment	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	--	--	--	--
of which ERF-1 and ERF-2	0.3	0.5	0.6	0.6	0.8	0.5	--	--	--	--	--	--
Equity and investment fund shares	0.5	0.5	0.3	0.3	0.2	0.2	--	--	--	--	--	--
Foreign	0.6	0.6	-0.5	-0.5	--	--	--	--	--	--	--	--
Special Drawing Rights (SDRs)	0.6	0.6	-0.5	-0.5	--	--	--	--	--	--	--	--
Net incurrence of liabilities	**9.0**	**10.4**	**7.0**	**6.7**	**6.4**	**6.8**	**5.2**	**5.5**	**3.9**	**3.6**	**4.8**	**3.3**
Domestic	-0.5	1.8	0.7	0.5	1.2	1.3	1.4	-0.4	0.2	-0.6	1.7	-0.5
Debt securities	1.0	1.9	2.1	2.0	1.9	2.0	2.0	0.4	1.0	0.3	2.1	--
Debt securites (Without RSF)	1.0	1.9	2.1	2.7	1.9	2.8	2.0	1.2	1.0	0.3	2.1	--
Loans	-1.2	-0.7	-1.0	-1.0	-0.4	-0.4	-0.4	-0.4	-0.5	-0.6	-0.2	-0.3
Foreign	9.5	8.6	6.3	6.2	5.2	5.5	3.9	5.9	3.6	4.2	3.2	3.8
Special Drawing Rights (SDRs)	1.9	1.9	--	--	--	--	--	--	--	--	--	--
Debt securities	2.4	2.3	1.1	0.8	--	0.1	--	--	--	--	--	--
Disbursements	5.3	5.1	1.6	1.2	--	0.1	--	--	--	--	--	--
Redemptions	2.9	2.8	0.5	0.5	--	--	--	--	--	--	--	--
Loans	5.2	4.5	5.2	5.5	5.2	5.4	3.9	5.9	3.6	4.2	3.2	3.8
Disbursements	6.1	5.3	5.9	6.2	6.1	6.3	4.9	6.9	5.1	5.7	4.7	5.5
Current	2.3	1.8	2.4	2.9	2.5	2.7	2.3	3.6	2.0	2.0	1.9	2.2
o/w required	--	--	--	--	--	1.0	0.3	0.6	0.1	--	0.1	0.4
o/w IMF RSF	--	--	--	0.6	--	0.9	--	0.8	--	--	--	--
Capital	3.8	3.4	3.5	3.2	3.5	3.6	2.6	3.3	3.1	3.7	2.8	3.3
Reimbursements	0.8	0.8	0.7	0.7	0.9	0.8	1.0	1.0	1.5	1.5	1.6	1.7
Statistical discrepancy	-0.3	-0.5	--	--	--	--	--	--	--	--	--	--
Memorandum item:												
Domestic revenue (incl. local government)	17.9	17.8	16.6	17.1	17.3	17.3	18.0	17.8	18.9	18.6	19.3	19.4
Wage bill	5.4	5.4	5.6	6.0	5.4	5.9	5.3	5.7	5.3	5.6	5.2	5.6
Total Covid-19 spending (excl. ERF 2 from FY24)[4]	2.9	2.7	0.9	0.9	--	--	--	--	--	--	--	--
Overall fiscal balance (incl. grants, policy loans)[2]	-8.7	-7.6	-6.9	-8.1	-6.1	-6.5	-4.9	-5.2	-3.6	-3.2	-3.4	-3.0
Debt creating overall bal. (excl. PKO, comm.)[3]	-8.7	-7.4	-6.9	-8.1	-6.1	-6.5	-4.9	-5.2	-3.6	-3.2	-3.4	-3.0
GDP (Billions of RwF), FY basis	11,808	11,992	13,685	13,989	15,642	15,892	17,693	17,981	19,871	20,256	22,141	22,664

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal years runs from July to June.

[2] For purposes of the PCI, the overall balance (GFSM 1986 definition, incl. policy lending) is used for monitoring.

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

[4] ERF-1/ ERF-2 were labelled COVID-19 spending in the 5th review. Since the 6th review, ERF-2 is no longer COVID-19 spending.

Table 3. Rwanda: Decomposition of Public Debt and Debt Service by Creditor, 2021–23[1]

(Millions of U.S. Dollars, Unless Otherwise Indicated)

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$ mn)	*(Percent total debt)*	*(Percent GDP)*[6]	*(In US$ mn)*			*(Percent GDP)*		
Total	7,944.8	100.0	73.3	976.3	884.7	561.0	8.8	7.3	4.3
External	5,910.0	74.4	54.5	720.0	195.7	251.3	6.5	1.6	1.9
Multilateral creditors[2]	4,331.6	54.5	40.0	69.6	91.4	104.7	0.6	0.8	0.8
IMF	364.3	4.6	3.4	0.0	45.0	33.7	0.0	0.4	0.3
World Bank	2,583.1	32.5	23.8	38.7	49.3	59.0	0.3	0.4	0.4
ADB/AfDB/IADB	1,045.0	13.2	9.6	15.6	16.3	17.8	0.1	0.1	0.1
Other Multilaterals	339.2	4.3	3.1	15.4	15.1	15.6	0.1	0.1	0.1
o/w: IFAD	171.7	2.2	1.6						
BADEA	77.8	1.0	0.7						
Bilateral Creditors	813.4	10.2	7.5	37.9	33.0	33.1	0.3	0.3	0.3
Paris Club	328.9	4.1	3.0	14.1	7.3	7.3	0.1	0.1	0.1
o/w: JICA	142.4	1.8	1.3						
AFD	101.9	1.3	0.9						
Non-Paris Club	484.5	6.1	4.5	23.8	25.7	25.8	0.2	0.2	0.2
o/w: EXIM-CHINA	333.3	4.2	3.1						
SFD	77.7	1.0	0.7						
Bonds	680.6	8.6	6.3	360.6	38.1	96.7	3.3	0.3	0.7
Commercial creditors[3]	84.3	1.1	0.8	251.8	33.1	16.8	2.3	0.3	0.1
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2,034.8	25.6	18.8	256.3	689.0	309.8	2.3	5.7	2.4
Held by residents, total	2,034.8	25.6	18.8	256.3	689.0	309.8	2.3	5.7	2.4
Held by non-residents, total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	420.7	5.3	3.9	38.7	405.5	24.6	0.3	3.3	0.2
Bonds	935.3	11.8	8.6	156.6	155.8	177.0	1.4	1.3	1.3
Loans	678.8	8.5	6.3	61.0	127.7	108.2	0.6	1.1	0.8
Memo items:									
Collateralized debt[4,6]	0.0	0.0	0.0						
Contingent liabilities[5,6]	0.0	0.0	0.0						
Nominal GDP (US$ million)				10,944	12,679	14,709			

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/A breakdown by creditor is not available due to capacity constraints.

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Guaranteed debt is included in public debt.

6/Data is reported by the authorities based on calculations in national currency, deviates from U.S. dollar-based calculations due to the difference between end-of-period exchange rate (applied for nominator) and period-average exchange rate (applied for denominator).

Table 4. Rwanda: Monetary Survey, 2020–27

(Billions of Rwandan Francs, Unless Otherwise Indicated)

	2020		2021		2022				2023		2024		2025		2026		2027	
	Jun.	Dec.	Jun.	Dec.	Jun.		Dec.		Dec		Dec		Dec		Dec		Dec	
	Act.	Act.	Act.	Act.	6th Review	Act.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.
Monetary authorities survey[1]																		
Net Foreign Assets[2]	992	1,157	1,016	1,191	1,207	1,221	1,222	1,295	1,269	1,349	1,498	1,540	1,568	1,584	1,752	1,692	1,919	1,939
Of which: Foreign assets	1,504	1,675	1,509	1,907	1,896	1,903	1,886	1,940	1,887	2,102	2,083	2,365	2,114	2,436	2,251	2,502	2,374	2,708
Foreign liabilities	512	517	494	716	690	681	664	645	619	753	585	825	545	852	499	809	455	769
Net domestic assets	-500	-612	-489	-478	-504	-540	-475	-525	-430	-499	-534	-559	-452	-451	-508	-420	-533	-520
Domestic credit	-234	-332	-173	-156	-163	-209	-116	-82	-34	-19	-100	-43	19	103	0	171	11	108
Other items (net; asset +)	-266	-280	-317	-323	-341	-331	-360	-443	-397	-480	-434	-517	-471	-554	-508	-591	-545	-628
Reserve money	492	545	526	713	703	682	747	771	838	850	964	981	1,116	1,133	1,244	1,272	1,386	1,419
Commercial banks survey																		
Net foreign assets	49	97	107	47	47	140	47	140	47	140	47	140	47	140	47	140	47	140
Net domestic assets	2,343	2,471	2,730	2,995	3,239	3,277	3,506	3,532	4,020	3,989	4,631	4,627	5,373	5,367	5,992	6,044	6,684	6,757
Reserves	243	292	266	431	356	374	452	472	509	521	586	602	680	695	758	781	846	872
Net credit to NBR	32	-103	-45	-117	50	34	7	-44	-140	-199	-124	-226	-299	-440	-469	-584	-481	-521
Domestic credit	2,714	2,964	3,253	3,480	3,664	3,749	3,908	3,964	4,575	4,590	5,154	5,236	6,040	6,159	6,812	6,957	7,490	7,578
Government (net)	594	641	775	852	902	919	1,000	1,084	1,343	1,324	1,250	1,288	1,392	1,207	1,674	1,141	1,617	787
Public enterprises	143	140	130	121	121	120	121	120	121	120	121	120	121	120	121	120	121	120
Private sector	1,977	2,183	2,348	2,507	2,641	2,709	2,787	2,760	3,111	3,146	3,784	3,828	4,527	4,831	5,017	5,695	5,753	6,671
Other items (net; asset +)	-646	-682	-744	-799	-830	-879	-861	-861	-923	-923	-985	-985	-1,048	-1,048	-1,110	-1,110	-1,172	-1,172
Deposits	2,391	2,568	2,837	3,042	3,286	3,418	3,554	3,672	4,067	4,130	4,679	4,767	5,420	5,507	6,039	6,185	6,731	6,898
Monetary survey																		
Net foreign assets	1,041	1,254	1,123	1,239	1,254	1,362	1,270	1,436	1,316	1,489	1,545	1,681	1,616	1,725	1,799	1,833	1,967	2,079
Net domestic assets	1,600	1,566	1,975	2,085	2,379	2,364	2,579	2,535	3,081	2,969	3,511	3,465	4,241	4,220	4,725	4,843	5,304	5,365
Domestic credit	2,512	2,529	3,035	3,207	3,551	3,574	3,800	3,839	4,401	4,372	4,930	4,968	5,759	5,821	6,342	6,543	7,021	7,165
Government	362	164	515	535	745	676	848	890	1,125	1,038	982	951	1,067	802	1,161	660	1,103	305
Public enterprises	143	140	130	121	121	120	121	120	121	120	121	120	121	120	121	120	121	120
Private sector	2,007	2,224	2,390	2,551	2,685	2,777	2,831	2,828	3,155	3,214	3,828	3,896	4,571	4,899	5,061	5,763	5,797	6,739
Other items (net; asset +)	-912	-962	-1,061	-1,122	-1,171	-1,210	-1,221	-1,304	-1,320	-1,403	-1,419	-1,502	-1,518	-1,601	-1,617	-1,700	-1,716	-1,799
Broad money	2,640	2,821	3,098	3,324	3,633	3,726	3,848	3,971	4,397	4,458	5,056	5,146	5,857	5,945	6,524	6,676	7,271	7,445
Year on Year Growth								(Percent)										
Broad money	18.9	18.0	17.3	17.8	17.3	20.3	15.8	19.5	14.2	12.3	15.0	15.4	15.8	15.5	11.4	12.3	11.4	11.5
Reserve money	14.6	21.7	6.9	30.7	33.5	29.6	4.8	8.1	12.2	10.3	15.0	15.4	15.8	15.5	11.4	12.3	11.4	11.5
Net credit to Government	42.8	33.1	42.4	225.4	-12.8	31.2	58.5	66.5	32.7	16.5	-12.7	-8.3	8.7	-15.7	8.8	-17.8	-4.9	-53.7
Net foreign assets	22.8	15.7	7.9	-1.3	11.7	21.3	2.5	15.9	3.6	3.7	17.4	12.9	4.6	2.6	11.3	6.3	9.3	13.5
Credit to the private sector	14.4	21.8	19.1	14.7	12.3	16.2	11.0	10.8	11.4	13.7	21.3	21.2	19.4	25.7	10.7	17.6	14.5	16.9
Memorandum items:																		
Velocity (eop)	3.6	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Money multiplier	5.4	5.2	5.9	4.7	5.2	5.2	5.2	5.2	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] The monetary table displays the monetary authorities accounts, and thus includes central banking functions (such as the holding of international reserves and the conducting of transactions with the IMF) performed by the central government.

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

Table 5. Rwanda: Financial Soundness Indicators, March 2018–December 2022

(Billions of Rwandan Francs, Unless Otherwise Indicated)

	2018				2019				2020				2021				2022		
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
	(Percent)																		
Capital adequacy																			
Core capital to risk-weighted assets	19.5	20.1	20.8	23.8	22.4	21.8	22.2	22.6	23.4	22.3	21.3	20.3	21.1	21.4	21.1	20.6	22.8	22.1	21.3
Regulatory capital to risk-weighted assets	21.1	21.9	22.6	25.5	24.1	23.3	23.7	24.1	24.9	23.6	22.6	21.5	22.3	22.5	22.2	21.5	23.9	23.1	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	121.5	126.1	139.6	136.9	84.8	89.1
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	5.8	8.3	8.2	23.5	17.1	65.7
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	116.4	124.6	140.3	171.7	117.4	156.5
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	5.7	5.1	4.6	4.7	4.3	4.1
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	5.1	4.7	4.3	4.3	3.8	3.6
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	99.0	106.0	119.8	108.1	114.4	112.9
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	85.0	85.3	83.5	85.5	85.1	77.8
Large exposures/gross loans	34.2	34.5	29.6	32.0	28.5	28.1	29.7	33.5	28.6	32.9	27.2	24.7	23.4	25.2	26.2	30.0	26.8	24.3	31.6
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	2.5	2.5	2.5	3.1	2.8	3.0
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	14.4	14.8	15.0	17.0	16.5	18.0
Net interest margin	9.8	9.7	9.5	9.0	9.2	8.8	9.0	8.9	9.9	8.8	8.6	8.3	9.2	9.0	8.7	8.5	9.3	9.1	8.8
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	3.3	3.3	3.2	3.2	3.3	5.0
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	72.5	72.8	72.7	67.0	69.7	67.1
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	34.5	36.5	36.7	36.8	37.5	37.0
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	226.2	221.4	268.9	365.4	224.7	250.5
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	157.4	143.6	147.1	154.6	130.9	154.8
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	2.8	0.6	0.2	6.6	2.0	2.5
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	38.1	38.3	41.7	40.7	40.7	40.7
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	25.1	25.6	25.0	25.9	26.9	26.8
NBR 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	0.5	0.5	0.7	0.5	0.5	0.6
Gross loans/total deposits	92.3	94.0	92.9	95.2	93.9	96.9	99.0	95.2	94.1	94.3	95.3	95.4	94.3	96.2	97.5	94.0	89.3	93.8	90.5
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	-4.7	-5.3	-3.7	-1.8	-4.4	-4.4
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	37.7	42.3	32.8	26.5	31.5	33.3
Forex assets/Forex liabilities	76.5	82.0	88.1	91.2	91.0	91.0	83.6	81.8	84.4	83.0	83.2	88.5	87.8	85.3	87.2	92.0	87.4	86.7	88.2

Source: National Bank of Rwanda.

Table 6. Rwanda: Balance of Payments, 2021–27
(Millions of U.S. Dollars, Unless Otherwise Indicated)

	2021	2022		2023		2024		2025		2026		2027	
	Act.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.	6th Review	Proj.
Current account balance (incl. official transfers)	**-1,209**	**-1,528**	**-1,330**	**-1,533**	**-1,679**	**-1,446**	**-1,670**	**-1,350**	**-1,694**	**-1,271**	**-1,413**	**-1,275**	**-1,349**
Trade balance	-1,659	-2,059	-1,983	-2,044	-2,171	-1,965	-2,279	-1,995	-2,249	-1,959	-2,037	-2,012	-2,026
Exports (f.o.b.)	1,531	2,109	2,184	2,433	2,425	2,742	2,656	3,112	2,956	3,398	3,175	3,736	3,456
Of which: gold	363	547	654	655	746	706	806	763	864	753	857	753	869
Exports (f.o.b.) excl. gold	1,168	1,562	1,529	1,777	1,679	2,036	1,849	2,348	2,092	2,645	2,319	2,983	2,587
Of which: coffee and tea	175	223	180	238	230	259	255	284	280	313	309	344	341
Of which: minerals	149	238	215	300	215	363	250	432	284	515	326	615	374
Imports (f.o.b.)	3,190	4,168	4,166	4,476	4,595	4,708	4,935	5,106	5,204	5,357	5,213	5,749	5,482
Of which: gold	368	485	644	562	716	611	776	664	831	656	822	656	832
Imports (f.o.b.) excl. gold	2,821	3,683	3,523	3,914	3,879	4,097	4,159	4,442	4,374	4,702	4,391	5,093	4,649
Of which : Energy goods	350	556	643	515	533	510	547	540	567	597	579	618	592
Of which : Food	352	419	406	422	425	443	438	460	436	499	457	558	476
Services (net)	-87	-155	-25	-33	-9	42	39	107	7	113	93	100	85
Credit	579	726	863	891	975	1,047	1,078	1,204	1,122	1,264	1,206	1,376	1,299
Of which: tourism receipts	150	240	343	348	423	487	486	562	511	601	562	667	618
Debit	666	882	888	923	984	1,005	1,039	1,096	1,115	1,152	1,113	1,276	1,214
Income	-220	-298	-303	-333	-331	-407	-400	-445	-437	-463	-473	-510	-491
Of which: interest on public debt[1,2]	-57	-65	-65	-81	-73	-101	-92	-108	-107	-96	-115	-111	-111
Of which: RSF debt service							-11		-16		-17		-17
Current transfers (net)	756	985	981	876	831	884	970	982	985	1,039	1,004	1,147	1,083
Private	413	441	471	479	494	501	518	556	543	599	571	647	600
Of which: remittance inflows	379	392	435	426	455	444	476	501	498	542	521	590	546
Public	343	544	510	397	338	383	452	427	442	441	433	500	484
Capital and financial account balance	**1,339**	**1,543**	**1,367**	**1,581**	**1,756**	**1,675**	**1,835**	**1,421**	**1,726**	**1,454**	**1,524**	**1,441**	**1,594**
Capital account	338	322	322	398	398	348	348	256	256	313	313	313	313
Financial account	1,001	1,221	1,045	1,184	1,359	1,327	1,487	1,165	1,470	1,141	1,211	1,128	1,281
Direct investment	212	362	373	420	590	405	554	458	608	373	470	418	500
o/w Bugesera		186	87	215	272	183	196	172	202				
o/w excl. Bugesera		176	286	205	318	222	358	286	406				
Public sector capital	697	819	630	689	707	926	1,019	578	848	541	674	454	712
Long-term borrowing[2]	1,170	932	743	872	883	1,115	1,166	874	1,043	811	943	764	1,023
Scheduled amortization, excl IMF	-692	-113	-113	-183	-176	-188	-148	-296	-195	-269	-269	-311	-311
SDR allocation	219												
Other capital[3]	93	40	42	75	62	-4	-85	129	13	226	67	257	70
Net errors and omissions	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**154**	**15**	**37**	**48**	**77**	**229**	**166**	**71**	**32**	**183**	**110**	**166**	**245**
Financing	**-154**	**-15**	**-37**	**-48**	**-77**	**-229**	**-166**	**-71**	**-32**	**-183**	**-110**	**-166**	**-245**
Reserve assets (increase -)	-154	20	-5	-1	-158	-194	-257	-30	-69	-136	-64	-122	-201
of which: RSF impact					-123		-124		-75				
Net credit from the IMF	-42	-47	-43	-47	80	-35	92	-41	37	-47	-46	-44	-44
IMF disbursement (+)	0	0	0	0	123	0.0	124	0.0	75	0.0	0	0.0	0
of which : RSF					123		124		75				
Repayments to IMF (-)	-42	-47	-43	-47	-43	-35	-32	-41	-38	-47	-46	-44	-44
Exceptional financing	42	12	11	0	0	0	0	0	0	0	0	0	0
Grant for debt relief under CCRT	42	12	11	0	0	0	0	0	0	0	0	0	0
Memorandum items:													
Current account balance (percent of GDP)[4]	-10.9	-12.6	-10.5	-11.7	-12.4	-10.3	-11.6	-8.9	-11.0	-7.8	-8.6	-7.3	-7.7
Trade balance (percent of GDP)	-15.0	-17.0	-15.7	-15.6	-16.0	-14.0	-15.8	-13.2	-14.7	-12.1	-12.4	-11.5	-11.5
Gross official reserves	**1,889**	**1,868**	**1,894**	**1,869**	**2,052**	**2,063**	**2,309**	**2,093**	**2,378**	**2,229**	**2,442**	**2,351**	**2,643**
in months of prospective imports of G&S[5]	5.1	4.6	4.7	4.4	4.7	4.5	5.0	4.3	5.2	4.2	5.0	4.1	5.0
Of which : RSF					123		247		321		321		321
Of which : excluding RSF	1,889	1,868	1,894	1,869	1,928	2,063	2,062	2,093	2,056	2,229	2,121	2,351	2,322
Of which : excluding RSF, in months of imports	5.1	4.6	4.7	4.4	4.5	4.5	4.5	4.3	4.5	4.2	4.3	4.1	4.4

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

[4] Including official transfers.

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

Table 7. Rwanda: Gross External Financing Needs and Sources, 2021–27

(Millions of U.S. Dollars, Unless Otherwise Indicated)

	2021	2022	2023	2024	2025	2026	2027
	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Gross external financing needs	**1,944**	**1,486**	**1,898**	**1,849**	**1,926**	**1,729**	**1,703**
Current account deficit	1,209	1,330	1,679	1,670	1,694	1,413	1,349
Public debt amortization (excl. IMF)	692	113	176	148	195	269	311
Repayments to IMF	42	43	43	32	38	46	44
External financing sources 1/	**1,919**	**1,486**	**1,898**	**1,849**	**1,926**	**1,729**	**1,703**
Capital transfers	338	322	398	348	256	313	313
Direct investment	212	373	590	554	608	470	500
Public sector borrowing	1,170	743	883	1,166	1,043	943	1,023
Other inflows 2/	354	53	62	-85	13	67	70
RSF	0	0	123	124	75	0	0
Reserve assets (increase -)	-154	-5	-158	-257	-69	-64	-201
Net errors and omissions	**25**	**0**	**0**	**0**	**0**	**0**	**0**
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:							
Reserve assets excl. RSF (increase -)	-154	-5	-35	-133	6	-64	-201

1/ Includes approved exceptional financing (CCRT debt relief).

2/ Reflects private capital inflows, 2021 SDR allocation, and CCRT debt relief.

Table 8. Rwanda: Indicators of Capacity to Repay the Fund, 2022–42

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
IMF debt service based on existing credit (SDR millions)																					
Principal	24.0	32.0	24.0	28.0	34.0	32.0	32.0	32.0	16.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	1.8	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
IMF debt service based on existing and prospective credit (SDR millions)[1]																					
Principal	24.0	32.0	24.0	28.0	34.0	32.0	32.0	32.0	16.0	0.0	0.0	2.8	12.0	21.3	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Charges and interest	1.8	5.8	8.6	11.5	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.7	12.3	11.6	10.9	10.1	9.3	8.6	7.8	7.0
IMF debt service based on existing and prospective credit (SDR millions)																					
In millions of SDRs	25.9	37.8	32.6	39.6	46.8	44.8	44.8	44.8	28.8	12.8	12.8	15.6	24.7	33.6	35.7	34.9	34.1	33.4	32.6	31.8	31.1
In millions of U.S. dollars	34.8	50.3	43.6	53.2	63.4	61.0	61.2	61.2	39.3	17.4	17.5	21.2	33.7	45.8	48.7	47.6	46.6	45.5	44.5	43.4	42.4
In percent of GDP	0.3	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
In percent of exports of goods and services	1.1	1.5	1.2	1.3	1.4	1.3	1.2	1.1	0.7	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3
In percent of government revenue (excl. grant:	1.5	2.0	1.6	1.8	1.9	1.7	1.5	1.4	0.8	0.3	0.3	0.3	0.5	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3
In percent of gross international reserves	1.8	2.5	1.9	2.2	2.6	2.3	2.1	2.0	1.2	0.5	0.5	0.5	0.7	0.9	0.9	0.8	0.7	0.7	0.6	0.5	0.5
In percent of PPG external debt service	16.8	17.3	16.0	15.2	13.4	11.5	11.3	11.1	7.1	1.5	2.8	3.0	4.1	5.1	5.1	4.6	4.3	3.9	3.6	2.2	3.0
In percent of IMF quota	16.1	23.6	20.4	24.7	29.2	28.0	28.0	28.0	18.0	8.0	8.0	9.7	15.4	21.0	22.3	21.8	21.3	20.8	20.4	19.9	19.4
IMF credit outstanding (end-of-period)																					
In millions of SDRs	230.3	290.7	359.1	386.5	352.4	320.4	288.4	256.3	240.3	240.3	240.3	237.5	225.5	204.3	180.2	156.2	132.2	108.1	84.1	60.1	36.0
In millions of U.S. dollars	305.0	387.5	481.6	521.2	478.2	437.1	393.4	349.7	327.8	327.8	327.8	324.0	307.7	278.6	245.9	213.1	180.3	147.5	114.7	82.0	49.2
In percent of GDP	2.4	2.9	3.3	3.4	2.9	2.5	2.0	1.7	1.4	1.3	1.2	1.1	0.9	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.1
In percent of exports of goods and services	10.0	11.4	12.9	12.8	10.9	9.2	8.0	6.6	5.7	5.3	4.8	4.4	3.8	3.2	2.6	2.0	1.6	1.2	0.8	0.5	0.3
In percent of government revenue (excl. grant:	12.8	15.5	17.8	17.2	14.5	12.1	9.8	7.9	6.6	6.0	5.4	4.9	4.2	3.4	2.7	2.2	1.7	1.2	0.9	0.6	0.3
In percent of gross international reserves	16.1	18.9	20.9	21.9	19.6	16.5	13.6	11.3	10.0	9.3	8.6	7.8	6.8	5.7	4.6	3.7	2.9	2.2	1.5	1.0	0.6
In percent of PPG external debt	4.7	5.3	5.7	5.5	4.8	4.1	3.4	2.9	2.5	2.4	2.3	2.1	2.0	1.7	1.5	1.2	1.0	0.8	0.6	0.4	0.2
In percent of IMF quota	143.8	181.5	224.2	241.3	220.0	200.0	180.0	160.0	150.0	150.0	150.0	148.3	140.8	127.5	112.5	97.5	82.5	67.5	52.5	37.5	22.5
Net use of IMF credit (SDR millions)	-24.0	60.4	68.4	27.4	-34.0	-32.0	-32.0	-32.0	-16.0	0.0	0.0	-2.8	-12.0	-21.3	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0
Disbursements	0.0	92.4	92.4	55.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	24.0	32.0	24.0	28.0	34.0	32.0	32.0	32.0	16.0	0.0	0.0	2.8	12.0	21.3	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Memorandum items																					
Nominal GDP (USD millions)	12,635.0	13,585.6	14,414.3	15,345.5	16,415.9	17,603.4	19,260.6	21,073.8	23,031.2	25,167.1	27,479.4	29,983.5	32,722.4	35,670.0	38,853.8	42,273.9	45,952.0	49,903.2	54,194.1	58,854.1	63,914.7
Exports of goods and services (USD millions)	3,046.4	3,399.7	3,734.0	4,077.4	4,381.3	4,754.3	4,930.1	5,322.1	5,757.3	6,241.9	6,780.4	7,366.8	8,019.1	8,741.7	9,543.8	10,433.2	11,420.8	12,518.0	13,741.8	15,107.9	16,634.1
Government revenues excl. grants (USD millior	2,380.6	2,507.3	2,705.8	3,027.8	3,294.6	3,608.7	4,006.2	4,425.5	4,951.7	5,473.1	6,044.7	6,671.5	7,365.0	8,121.2	8,948.4	9,848.9	10,830.1	11,898.0	13,071.4	14,360.8	15,777.6
Gross international reserves (USD millions)	1,893.9	2,051.5	2,308.7	2,377.6	2,442.0	2,643.3	2,893.6	3,092.9	3,291.7	3,529.2	3,813.4	4,161.2	4,501.3	4,916.2	5,306.3	5,806.6	6,319.9	6,861.2	7,452.9	8,187.8	8,831.1
PPG external debt (USD millions)	6,537.4	7,340.4	8,496.0	9,415.7	10,060.7	10,719.4	11,645.1	12,263.3	13,013.8	13,796.9	14,525.6	15,188.4	15,762.6	16,341.0	16,949.5	17,591.8	18,275.8	19,008.7	19,792.2	20,640.9	21,551.7
PPG external debt service (USD millions)	207.5	291.2	273.0	350.6	473.5	529.5	539.6	550.4	554.1	1,163.1	622.0	708.6	816.5	897.7	960.8	1,026.8	1,094.1	1,161.5	1,239.1	1,932.5	1,402.3
IMF quota (SDR millions)	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2

[1]Using the RSF Group A interest rate = 3.191% as of Nov 10th, 2022, for projected interest

Table 9. Rwanda: Quantitative Program Targets Under the PCI (June 2022)

	end-June 2022				
	Prog.	Adjustors	Rev. 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]	-1,068	0	-1,068	-884	Met
2. Floor on stock of Net Foreign Assets	838	-28	810	1,502	Met
3. Ceiling on net accumulation of domestic arrears	0			-0.2	Met
Continuous Targets					
4. Ceiling on stock of external payment arrears (US$ million)	0			0	Met
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt (US$ million)[3]	651			345	Met
Monetary Policy Consultation Band[1,4]					
CPI Inflation target	5.0			4.6	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]	1,560			1,561	
Floor on domestic revenue collection[2,5]	2,061			2,134	
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700			700	
Total budget support (US$ million) [2]	554			660	
Budget support grants (US$ million)	298			446	
Budget support loans (US$ million)	256			214	
PV of budget and project loans dedicated to COVID-19 vaccine interventions (US$ million)[2,6,7]	…			…	
Budget and project grants dedicated to COVID-19 vaccine interventions (US$ million)[2,6]	56			126	
Total spending dedicated to COVID-19 vaccine interventions[6]	97			152	
Total spending on projects financed by the SDR allocation [2]	103.1			104	
Total spending on Eurobond-financed projects [2]	64.5			64	
RWF/US$ program exchange rate	987			987	

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] End-June 2022 targets and memorandum items were set at the time of the 5th PCI Review. Assessment of end-June 2022 targets will be guided by TMU in the 5th PCI review staff report

[2] Numbers are cumulative from June 30, 2021. Targets for priority spending were inadvertently not cumulative and were corrected to include priority spending until end-December 2020.

[3] Ceiling is cumulative from the beginning of calendar year 2022.

[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.

Table 10. Rwanda: Reform Targets Under the PCI (June 2019–September 2022)

Actions	Target Date	Status	Remark	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
Select advisory firm to conduct a review of RSSB asset allocation	end-Jun 2021	Not Met		Improve resource efficiency
Automating the risk-based verification process for refund claims.	end-Oct. 2021	Not Met	Completed in Nov. 2021	Improve DRM
Publish 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	Not Met	Completed in Mar. 2022	Improve fiscal transparency/PFM
Select advisory firm to conduct a review of the RSSB asset allocation	end-Jan. 2022	Not Met	Completed in Apr. 2022	Improve resource efficiency
Approval of a Medium-Term Revenue Strategy for FY 21/22-23/24 by Cabinet	end-Jan. 2022	Not Met	Completed in May 2022	Improve DRM
Conduct a fiscal risk assessment of public-private partnerships and submit the outcome and mitigation options to the fiscal risk committee.	end-Apr. 2022	Met		Improve fiscal transparency/PFM
Submit revisions to the excise tax law to Cabinet	end-July 2022	Not Met	Completed in November 2022	Improve DRM
Conduct a review of RSSB asset allocation and submit the associated report to RSSB management.	end-Sep. 2022	Not Met	Proposed RT under new PCI	Improve resource efficiency
Monetary and Financial				
Improve communication for monetary policy by organizing quarterly outreach after each MPC meeting, including roundtable discussions with CEOs of commercial banks and other financial institutions, as well as other interested stakeholders.	end-Dec. 2019	Met		Support new monetary policy framework
Publish macro projections for MPC decision making in quarterly inflation reports, according to best practices established by other central banks.	end-Jun. 2020	Met		Support new monetary policy framework
Introduce a platform for issuing government securities using mobile phones.	end-Jun. 2020	Not Met		Deepen financial markets
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
Introduce a platform for issuing government securities using mobile phones.	end-Jun. 2021	Met		Deepen financial markets
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	Not Met		Support new monetary policy framework
Produce a study on consumer and merchant payment behavior and the pricing of digital payment services leveraging micro-data.	end-Dec. 2021	Not Met	Completed in May 2022	Deepen financial markets
Conduct a legal assessment to identify gaps in the regulatory framework for true repo ahead of the Global Master Repurchase Agreement (GMRA) rollout.	end-Mar. 2022	Met		Support new monetary policy framework
Conduct a study on the regulatory aspects and feasibility of extending true repo to non-bank financial institutions ahead of the GMRA rollout.	end-June 2022	Not Met	Completed in November 2022	Support new monetary policy framework

Table 11. Rwanda: Schedule of Reviews Under the Policy Coordination Instrument, 2023–25

Program Review	Test Date	Review Date
Board discussion of a PCI request		December 12, 2022
First Review	December 31, 2022	By May 15, 2023
Second Review	June 30, 2023	By November 15, 2023
Third Review	December 31, 2023	By May 15, 2024
Fourth Review	June 30, 2024	By November 15, 2024
Fifth Review	December 31, 2024	By May 15, 2025
Sixth Review	June 30, 2025	By November 15, 2025

Source: IMF staff.

Table 12. Rwanda: Reform Measures Under the RSF Arrangement

	Reform measure (RMs)	Access in percent of quota	Review
Reform Area 1. Strengthening and institutionalizing the **monitoring and reporting of climate-related spending** feeding into decision making processes.		46.16	
RM4	Produce internal guidelines on the planned climate budget tagging system, including anticipated changes to the budget call circular and user requirements for the Integrated Financial Management Information System (IFMIS).		2nd Review
RM6	MINECOFIN staff to implement climate change budget tagging as a prototype on development expenditure only and publish a climate budget statement using the first budget tagging results. Identify in the Budget Framework Paper (BFP) how climate information has been used in decision making.		3rd Review
RM9	MINECOFIN staff to expand the climate change budget tagging framework to cover all expenditure, adopting the approach laid out in the internal guidelines and drawing on lessons learned in the prototype period.		4th Review
RM11	Publish comprehensive tagging results in the climate budget statement and start publishing a quarterly climate expenditure report that compares climate change expenditure execution with budget plans.		5th Review
Reform Area 2. Integrating **climate risks** into fiscal planning.		23.08	
RM1	Submit a quantitative climate risk analysis in the Fiscal Risk Statement to the Fiscal Risk Committee.		1st Review
RM7	Further expand the quantitative climate risk analysis to include PPPs and SOEs that are vulnerable to climate-related risks, highlighting how investment in adaptation seeks to reduce the impacts of negative climate events.		3rd Review
Reform Area 3. Improving the sensitivity of **PIM** to climate-related issues.		34.62	
RM2	Update the national investment policy to integrate the climate agenda.		1st Review
RM5	Publish the guidelines for the appraisal and selection criteria, including climate considerations, at MINECOFIN website.		2nd Review
RM10	Publish a consolidated report on major projects in the pipeline by sector with information inclusive of (i) the appraisal and selection criteria related to adaptation and mitigation and (ii) the distribution of ratings according to the appraisal and selection criteria related to adaptation and mitigation.		4th Review
Reform Area 4. Enhancing **climate-related risk managements for financial institutions** and developing a green finance market as part of the broader capital market development effort to help mobilize financing.		23.07	
RM8	Issue a guideline for climate-related risk managements for financial institutions.		3rd Review
RM12	Issue a guideline to financial institutions with regard to the implementation of recommendations of the International Sustainability Standards Board (ISSB).		5th Review
Reform Area 5. Strengthening **disaster risk reduction and management**.		23.07	
RM3	Adopt the new National Disaster Risk Reduction and Management Policy, replacing the 2012 National Disaster Management Policy, focusing on clarifying the roles and responsibilities between institutions and providing clear frameworks for community-based disaster risk reduction and management.		1st Review
RM13	Develop financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy at the local level.		5th Review

Table 13. Rwanda: Proposed Schedule of Disbursements Under the RSF Arrangement

Availability Date	Millions of SDR	Percent of Quota	Conditions
May 1, 2023	18.48708	11.54	RM1 implementation review
May 1, 2023	18.48708	11.54	RM2 implementation review
May 1, 2023	18.48708	11.54	RM3 implementation review
November 1, 2023	18.48708	11.54	RM4 implementation review
November 1, 2023	18.48708	11.54	RM5 implementation review
May 1, 2024	18.48708	11.54	RM6 implementation review
May 1, 2024	18.48708	11.54	RM7 implementation review
May 1, 2024	18.48708	11.54	RM8 implementation review
November 1, 2024	18.48708	11.54	RM9 implementation review
November 1, 2024	18.48708	11.54	RM10 implementation review
May 1, 2025	18.48708	11.54	RM11 implementation review
May 1, 2025	18.47106	11.53	RM12 implementation review
May 1, 2025	18.47106	11.53	RM13 implementation review
Total	240.30000	150.00	
Memorandum item:			
Quota	160.20000		

Source: IMF staff calculations.

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Intensifying spillovers from Russia's war in Ukraine and commodity price shocks. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High	High • Higher and volatile commodity prices due to uncertainty. • External balance worsens with higher import prices and lower export demand. • Shortages of intermediate and final consumer goods. • High fertilizer costs affect domestic food production. • Refugees flow from the affected countries.	• Targeted support to protect vulnerable population from rising food prices. • Fuel subsidies should be a temporary solution as it is regressive and has adverse environmental effects. • Ensure strategic fuel and grain reserves are adequate.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	Medium	High • Bouts of price and real sector volatility. • Economic activities negatively impacted by the worsening of terms of trade and lower global demand. • Financial conditions become tighter with higher country risk premia.	• Monetary policy should strike a balance between maintaining price stability and growth, with exchange rate flexibility playing larger role against external shocks. • Secure social protection for vulnerable households.
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	Medium	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. • A reassessment of growth prospects triggers capital outflow, financial tightening, currency depreciation, and debt distress.	• Continue to provide 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.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown. For EMDEs, sharp tightening of global financial conditions combined with volatile commodity prices leads to spiking risk premia, widening of external imbalances and fiscal pressures, capital outflow and sudden stops, and debt and financial crises across EMDEs.	High	Medium Lower global demand. Higher borrowing cost. Capital outflow and currency depreciation.	• Strengthen data-driven monetary policy framework and MTRS. • Maintain exchange rate flexibility. • Facilitate exports. • Strengthen debt management.
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	High	High Adverse impact on international trade as the demand for exports falls, hurting domestic growth.	• Diversify the structure of the economy and export sources. • Strengthen regional security surveillance programs.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability or widespread disruptions in socio-economic activities.	Medium/Low	Medium/Low Financial services interruption, data theft or deletion, loss of sensitive data or intellectual property.	• Ensure that financial service providers frequently upgrade their IT systems.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	Medium	Medium/High Reduced output in the agricultural 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. • Fast-track efforts to build resilience to climate shocks.

[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. Revisiting Rwanda's Fiscal Anchor

1. A nominal debt anchor of 65 percent of GDP was introduced at the time of the 3rd PCI review when Rwanda's risk of debt distress moved from low to moderate at the onset of the pandemic.[1] At the approval of the current PCI in 2019, the fiscal framework was guided by a fiscal rule that set a ceiling on the debt-creating overall balance of 5.5 percent of GDP to stabilize the PV of debt at or below the EAMU debt convergence criterion of 50 percent of GDP, which corresponded to a nominal debt of 60 percent of GDP. With a significant increase in the debt level due to the pandemic, the PV of debt exceeded 50 percent of GDP, and the existing program fiscal rule could no longer provide operational guidance to the fiscal framework. Hence, at the 3rd PCI review, the fiscal framework was re-calibrated to introduce a debt anchor. Along with this debt anchor, the authorities adopted a more flexible fiscal path that allowed for a higher deficit to respond to the COVID-19 crisis and a gradual fiscal consolidation that made room for financing National Strategy for Transformation (NST-1) goals, while also implementing reforms to strengthen fiscal risk management and measures to support the credibility of the consolidation path.

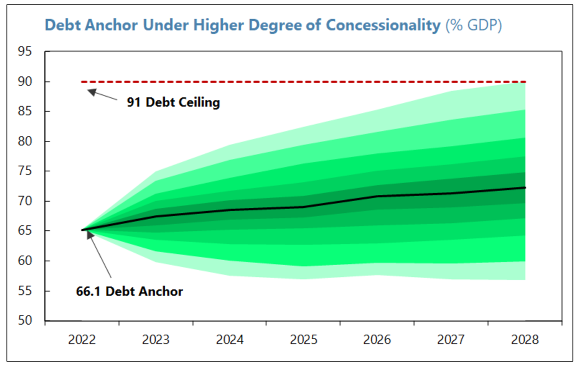
2. The proposed methodology to recalibrate the anchor, which is the same pursued now, builds on the IMF Fiscal Affairs Department (FAD)'s approach to setting debt anchors and a debt "cliff". FAD's approach starts from a pre-determined debt ceiling and seeks to estimate the necessary buffer to minimize the risks of exceeding this ceiling.[2] The buffer is estimated from stochastic debt projections produced by applying to the baseline path a series of shocks calibrated to match the size of past macroeconomic shocks. The debt anchor is then set as the difference between the debt ceiling and the estimated buffer with the size of the buffer increasing the lower is the government's risk tolerance level (i.e., the lower the probability the government would tolerate debt to breach the debt ceiling). At the time of the 3rd PCI review, the ceiling for the overall debt was estimated using the high-capacity threshold under the LIC-DSF of 70 percent of GDP in present value (PV) terms, as the debt cliff, which broadly corresponds to a nominal debt-to-GDP ratio of 90 percent given the degree of concessionality at that time. The stochastic projections suggested that a nominal debt anchor of 65 percent of GDP would be appropriate to guard against exceeding the latter DSA "cliff". Notably, the debt anchor would likely remain consistent with the EAMU ceiling, as existing concessionality terms suggest that it would correspond to a PV of debt of around 45 percent of GDP.

3. Several changes to the policy and external environments since then called for reassessing the fiscal anchor. These included (i) changes in IDA-20 financing terms and WB guidance that assumptions for IDA financing post IDA-20 should be 100 percent credit on regular IDA terms for IDA-only countries with moderate risk; (ii) better management of fiscal risks; and (iii) growing perception of lower fiscal consolidation capacity following the pandemic and the war in Ukraine. This was done using the same methodology deployed in the 3rd review to generate alternative scenarios.

[1] See Annex IV IMF Country Report 21/1.

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

4. Scenario 1: *Higher degree of concessionality.* This scenario assumes a higher degree of concessionally brought by changes in IDA-20 lending terms (only for commitments under IDA-20). This implies a slight increase to the debt ceiling to 91 percent of GDP, consistent with a nominal-PV gap of 21 percent of GDP, and the PV limit of 70 percent of GDP (LIC-DSF debt threshold), while keeping the risk tolerance relative to the 3rd PCI review unchanged. Fiscal consolidation capacity is also kept the same by relying on a similar fiscal reaction function as in the previous exercise. As expected, the implied debt anchor remains virtually the same as in the 3rd PCI review.



5. Scenario 2: *Lower-than-anticipated concessionality.* This scenario assumes that the level of concessionality does not materialize as currently anticipated with greater reliance on more commercial borrowing. Looking back, the average level of concessionality was about 4 percentage points lower than what was assumed at the time of the 3rd PCI review. Assuming a debt ceiling consistent with the LIC-DSF debt threshold in PV terms at 70 percent and lower average concessionality of debt (by 4 ppt), it implies everything else equal, a lower debt anchor of 59 percent of GDP.

6. Scenario 3: *Higher fiscal risk management capacity.* Higher fiscal risk management capacity is captured in this scenario by increasing the risk tolerance level. The idea is that better fiscal risk management capacity would reduce the likelihood of a debt "surprise" and a breach in the debt ceiling in generating a debt distress event. This could be reflected in a reduced likelihood of breaching the debt ceiling given better fiscal risk monitoring and prevention or by a more limited fiscal impact a breach would create through better contingency planning. Increasing the risk tolerance level from 5 to percent to 10 percent under this scenario would raise the debt anchor just above 70 percent of GDP. However, given the increase in global uncertainty and the need to institutionalize recent efforts in fiscal risk management, it may not be prudent to consider this scenario at the current juncture, as discussed above.

7. Scenario 4: *Lower fiscal consolidation capacity.* This scenario replaces the standard low-income country (LIC) fiscal reaction function with a fiscal reaction function less responsive to debt increases—for instance, due to spending rigidities or increasing spending needs—reflecting lower fiscal consolidation capacity.[3] This change would result in a lower debt anchor since lower fiscal consolidation capacity makes more likely the debt ceiling would be breached thereby increasing the likelihood of a debt distress event.

[3] This is done by increasing primary balances serial autocorrelation to introduce more inertia and thus more protracted adjustment pattern in the fiscal reaction function.

8. Scenario 5: *Lower LIC-DSF debt carrying capacity.* This scenario illustrates the impact of a downgrade in Rwanda's debt-carrying capacity from high to medium as defined under the IMF-LIC-DSF. Such a downgrade would imply a reduction in the LIC-DSF threshold on the overall debt in PV terms to 55 percent implying a corresponding nominal debt ceiling of 76 percent under the higher degree of concessionality assumed in Scenario 1.[4] The resulting debt anchor would be even lower than that of the previous scenario under similar risk tolerance even if a standard LIC fiscal reaction function is used.

9. Scenario 6: *Aspirational scenario.* This scenario illustrates the impact that fiscal reforms that increase fiscal consolidation capacity would have on the debt anchor. In particular, it looks at the impact DRM reforms may have on the debt ceiling estimated using the principle of debt-servicing capacity as proposed by David, Eyraud and Sode (2022).[5] An increase in the projected revenue-to-GDP ratio reflecting the implementation of measures envisaged under Rwanda's Medium-Term Revenue Strategy (MTRS) would allow for a measurable increase in the debt anchor once fully realized.

Rwanda: Scenarios and Implied Debt Anchor

	1	2	3	4	5	6
Nominal debt ceiling (percent of GDP)	91	86	91	91	76	95
Risk tolerance (percent)	5	5	10	5	5	5
Fiscal reaction function	LIC	LIC	LIC	LIC+	LIC	LIC
Debt anchor (percent of GDP)	**66**	**59**	**71**	**58**	**47**	**69**

10. Given the range of possibilities presented, there is not an overwhelming support for raising the fiscal anchor beyond the 65 percent of GDP. The elevated uncertainty brought in the aftermath of the two unprecedented pandemic and geopolitical shocks reinforces the case for keeping (and even increasing) existing safety margins in setting the debt anchor, as the methodology, which uses historical volatility to generate the shocks, might underestimate the level of uncertainty. On a reassuring note, the proposed calibration approach demonstrates some scope to increase the debt anchor over the medium-term once fiscal reforms strengthening the credibility and fiscal consolidation capacity under the current fiscal framework are implemented. All in all, a prudent approach is to maintain the debt anchor of 65 percent of GDP, while ensuring the consolidation path and timeline to achieve the anchor is feasible and maintains a fiscal stance supportive to Rwanda's development goals under its NST-1. Even under those circumstances, any increase in the nominal debt anchor would have to comply with Rwanda's commitments under EAMU's convergence criteria.

[4] Such downgrade would be triggered by significant changes in global or domestic growth, import coverage of reserves, and a deterioration in the policy and institutional environment measured by the World Bank's CPIA.

[5] The debt ceiling is calibrated as (Debt ceiling as a ratio to GDP) = τ * (revenue as a ratio to GDP) / (effective interest rate) (1) where τ is estimated to range from 16 to 19 percent, above which predicts a higher risk of upcoming fiscal stress in sub-Saharan Africa; the revenue-to-GDP ratio amounts to 20 percent the FY 25/26 projection at the 6th PCI review when yields from MTRS measures are expected to fully accrue; and the corresponding projected effective interest rate at that time of about 4 percent.

Annex III. Climate-Related Reforms: Implementation and Development Partners' Support

1. As a low-income country depending heavily on rain-fed agriculture, Rwanda is highly vulnerable to climate change although it contributed very little to global CO2 emissions. The impact of climate change will be channeled by (i) declining labor productivity resulting from an increased incidence of climate-sensitive illnesses (such as malaria, dengue fever, and diarrhea) and greater food insecurity (as food is mainly domestically produced through rain-fed agriculture while the level of malnutrition is already high), and (ii) depleting public infrastructures and regional trade disruptions resulting from increasing soil erosion given the country's mountainous topography. As an example, Rwanda's 2016 landslide was the fourth largest in the world recorded during 2010–21 for the number of people affected as a share of total population (CCDR).[1] The annual damage due to flooding is estimated to be 0.3 percent of the capital stock, which would increase to 1.4 percent by end-century in the "Representative Concentration Pathway (RCP) 8.5" scenario (CCDR, Table 4). The CCDR estimates that a major flood likely to occur once in 100 years in Rwanda would destroy around 11 percent of the capital stock and lower GDP by 4.4 percent. Rwanda, as other countries in the region, will face increasing frequency and intensity of climate-induced disasters as global temperatures continue to rise (IMF (2020)).

2. Rwanda has made substantial progress in climate-sensitive planning, with a well-designed and effective system for integrating climate considerations in national and sectoral planning processes (CCDR; IMF C-PIMA conducted in April 2022) Rwanda's National Strategy for Transformation (2017–24) and Nationally Determined Contribution (NDC), revised in 2020, outlined ambitious adaptation and mitigation agenda, including by identifying priority measures aligned with the SDGs. As reported in the CCDR, Rwanda's ambitious climate-related agenda comprehensively cover a wide range of sectoral issues (such as agriculture, forestry, land use, urbanization, transport, energy, manufacturing technologies, and disaster risk reduction and management). Annual budget preparation documents provide guidelines on mainstreaming environment and climate change (C-PIMA). Budget execution reports describe the implementation of environmental protection and climate change-related programs. In addition, the Rwanda Environment Management Authority (REMA) monitors progress in implementation of environmental and climate change policies and publishes the biannual State of Environment and Outlook Report.

- **Adaptation:** Rwanda stands ahead of regional peers in climate change adaptation readiness (IMF Country Report No 22/7, Annex VI). Rwanda's adaptation measures include boosting agricultural productivity through an improvement of productive inputs use, irrigation coverage, and soil quality. Enhancing resilience has been also identified in forestry, human settlement, transport, health, and mining.[2]

[1] Floods together with landslides in 2018 are estimated to have caused a damage of 0.8 percent of GDP (Emergency Events Database (EM-DAT)).

[2] For Rwanda's recent progress, see IMF Country Report No 22/200, Box 2.

- **Transition to a low-carbon economy and mitigation:** Rwanda's NDC plans to promote hydro- and -solar power capacity and to use tax incentives to increase vehicle emissions performance. These will help to lower the dependence on fossil fuel and thus reduce the import burden on balance-of-payment needs. These measures will also help to reduce greenhouse gas emissions, along with other mitigation measures such as the use of energy efficient cooktops and improved livestock management. Rwanda seriously acknowledges its mitigation agenda, targeting to reduce greenhouse gas emissions by 38 percent by 2030 compared to business as usual and allocating more than a half of the climate-related investment needs in the NDC for mitigation. With active engagement in afforestation and reforestation, Rwanda achieved its target to have 30 percent of forest land cover by 2020 a year earlier. Its current forest cover is approximately 30.4 percent (~724,662 hectares) and is moving forward to contribute to the global Bonn challenge by restoring 2 million hectares of forest land by 2030.[3]

3. **Engagement by development partners has been strong.** Several DPs are financially supporting or providing TAs for projects in (i) agriculture, biodiversity, and forestry (EU, Belgium, Germany, Netherland, Sweden, UK, UNEP, UN FAO, World Bank, WWF), (ii) renewable energy (EU, Belgium, Germany, Sweden, US, AfDB, Global Green Growth Institute, UNDP, UNEP, World Bank), and (iii) water management (Germany, Japan, Netherlands, AfDB). Some DPs are involved in urban development (Belgium, Germany, World Bank), land management (UK), and waste management (Sweden). DPs have also provided technical assistance for implementing the Sustainable Finance Roadmap by the Kigali International Financial Center (France, Germany, Sweden, AfDB, FCDO, and UNDP), identifying and implementing reforms that help unlock private green funding through the Access to Climate Finance Taskforce (Germany, Sweden, UK) (with Rwanda selected as a pilot country for the initiative), and operationalizing standardized mainstreaming tools and guidelines, such as the environment and climate change monitoring statement and climate budget tagging, to ensure new projects are aligned with and contribute to Rwanda's NDCs (France, Germany, AfDB, UNDP). The World Bank, USAID, and AfDB have been involved in developing the Rwanda Agriculture De-Risking and Financing Facility, a recent government initiative to address challenges in agriculture sector including by supporting the private sector to expand financing and provide insurance. Key projects financed by FONERWA (Box 2) are supported by DPs. For example, Germany has supported the Green City Kigali project, which intends to develop a sustainable neighborhood, while the Green Climate Fund (GCF) has supported the Green Gicumbi project, which intends to strengthen climate resilience of rural communities.

4. **Policy recommendations in CCDR and PIMA include improving public investment management (PIM) and public financial management (PFM), enhancing climate-related risk management for financial institutions, and improving disaster risk reduction and management.**

[3] The CCDR notes that while forest density is still low in Rwanda at ~75t/ha compared to CAR at 144t/ha and Gabon at 269t/ha hindering effective use of land and the potential for carbon capture, the carbon removal of the forestry sector is significant, but the impact can be even greater.

- **Fiscal sector:** The CCDR recommends increasing fiscal space using a mix of financing sources, including through DRM and government spending relocations, and improving PIM (including through public-private partnerships) and PFM. Regarding PIM and PFM, the C-PIMA, and the draft Public Expenditure and Financial Accountability (PEFA), conducted in June 2022, provide specific reform recommendations including:
    - **Reporting climate-related fiscal activities:** Incorporate elements of green PFM, including by exploring options for budget tagging and for publishing climate information alongside the budget.[4] Construct and implement a methodology for ex-post reviews in relation to climate mitigation and adaptation.
    - **Integrate climate risks into fiscal planning:** Expand the Fiscal Risk Statement to include quantitative analysis of the fiscal risks related to climate change by assessing long-term fiscal sustainability under different climate change scenarios. The analysis of fiscal risks related to climate change is currently qualitative and does not provide a measure of the scale of the possible risks related to climate change in Rwanda.
- **Incorporate mitigation and adaptation criteria in public investment management:** (i) Update the Environmental Impact Assessment (EIA) guidelines to indicate how the greenhouse gas impact and climate-change resilience of projects should be assessed and incorporated in project design and appraisal (while the NDC already outlines objectives and requirement in public investment management). (ii) Clarify PPP guidelines in relation to climate risk allocation. (iii) Encourage extra-budgetary units to incorporate specific climate objectives, targets, and indicators in their performance contracts. (iv) Include climate impact assessment as a mandatory disclosure item in central and local government project appraisal information systems (which should also establish standard shadow prices for greenhouse gas in economic analysis of project proposals). (v) Update maintenance manuals and schedules to incorporate climate change related guidance for the sectors vulnerable to the impacts of climate change.
- **Financial sector:** According to the CCDR, climate-related risks to Rwanda's financial sector, primarily through the banks' exposure to disasters linked to natural hazards, calls for reforms to enhance climate-related risk management. The CCDR recommends Rwanda's financial regulators and supervisors to implement environmental, social, and governance standards in operations of financial institutions and to develop a pipeline of bankable and monitorable green projects. In addition, introducing standards in line with the recommendations of the International Sustainability Standards Board would be needed to support the development of a green finance market, which will further help to mobilize green financing.
- **Disaster risk reduction and management:** Given Rwanda's vulnerability to disaster risks, the CCDR emphasizes the importance of adopting and implementing the new National Disaster Risk Reduction Management Policy. As informal settlements are sometimes built-in flooding zones and slopes that are less resistant to disasters such as floods and landslides,

[4] During the budget process for FY22/23, institutions already submitted their plans indicating key environment and climate change interventions and their respective budget as requested in the first planning and budget call circular for the FY 22/23 budget.

the CCDR also recommends providing more affordable housing units that are climate resilient.

- **Other sectors:** The CCDR covers a range of sectoral issues (such as water, agriculture, forestry, land use, urbanization, transport, energy, manufacturing technologies, access to finance, and disaster risk reduction and management).[5]

5. The proposed RSF-supported reforms endeavors to respond to these recommendations while their achievement will potentially be supported by technical assistance (TA). The authorities have indicated interest in requesting IMF TA for the reforms in fiscal area as the IMF has expertise that could be drawn on to design climate change budget tagging frameworks, fiscal risk analysis tools, and climate-sensitive PIM practices, among others. While more detailed planning of the reforms need to follow, the TA could focus on the following.

- Strengthening and institutionalizing the monitoring and reporting of climate-related spending feeding into decision making processes (Reform area 1): Rwanda is relatively well-prepared to incorporate climate budget tagging in its budget preparation and execution processes, having already identified potential tagging approaches to adopt in its IFMIS. However, challenges remain, particularly in leveraging cross-ministry expertise on climate agenda. The authorities would need to set up an inter-agency working group to prepare the relevant guidelines and design user requirements for the IFMIS. To support this, the TA could involve the drawing on international best practice and peer learning with other countries which have undertaken similar reforms. In addition, institutional needs for the authorities to implement budget tagging include IFMIS updates, budget call circular updates, and the changes consistent with guidelines prepared (above), supported by internal training. The IMF can provide ad-hoc short-term assistance, if requested, to support design and implementation.
- Integrating climate risks into fiscal planning (Reform area 2): There is already a plan to deliver IMF TA on methods to integrate climate risks into fiscal planning, set for early 2023. Institutional needs include sufficient staffing in relevant units.
- Improving the sensitivity of PIM to climate-related issues (Reform area 3): Institutional needs include establishing a working group of key stakeholders (to prepare climate-change-sensitive appraisal guidelines and selection criteria for inclusion in the National Investment Policy) and ensuring reform coordination and oversight are adequately staffed. The TA could include providing international expertise on climate change sensitivity in appraisal and selection processes and peer learning with other countries.

[5] The CCDR's sectoral recommendations include promoting soil-conscious conservation agriculture, preserving sustainable and productive forestry, and improving water infrastructure development and management.

Annex IV. Capacity Development Strategy for FY22/23

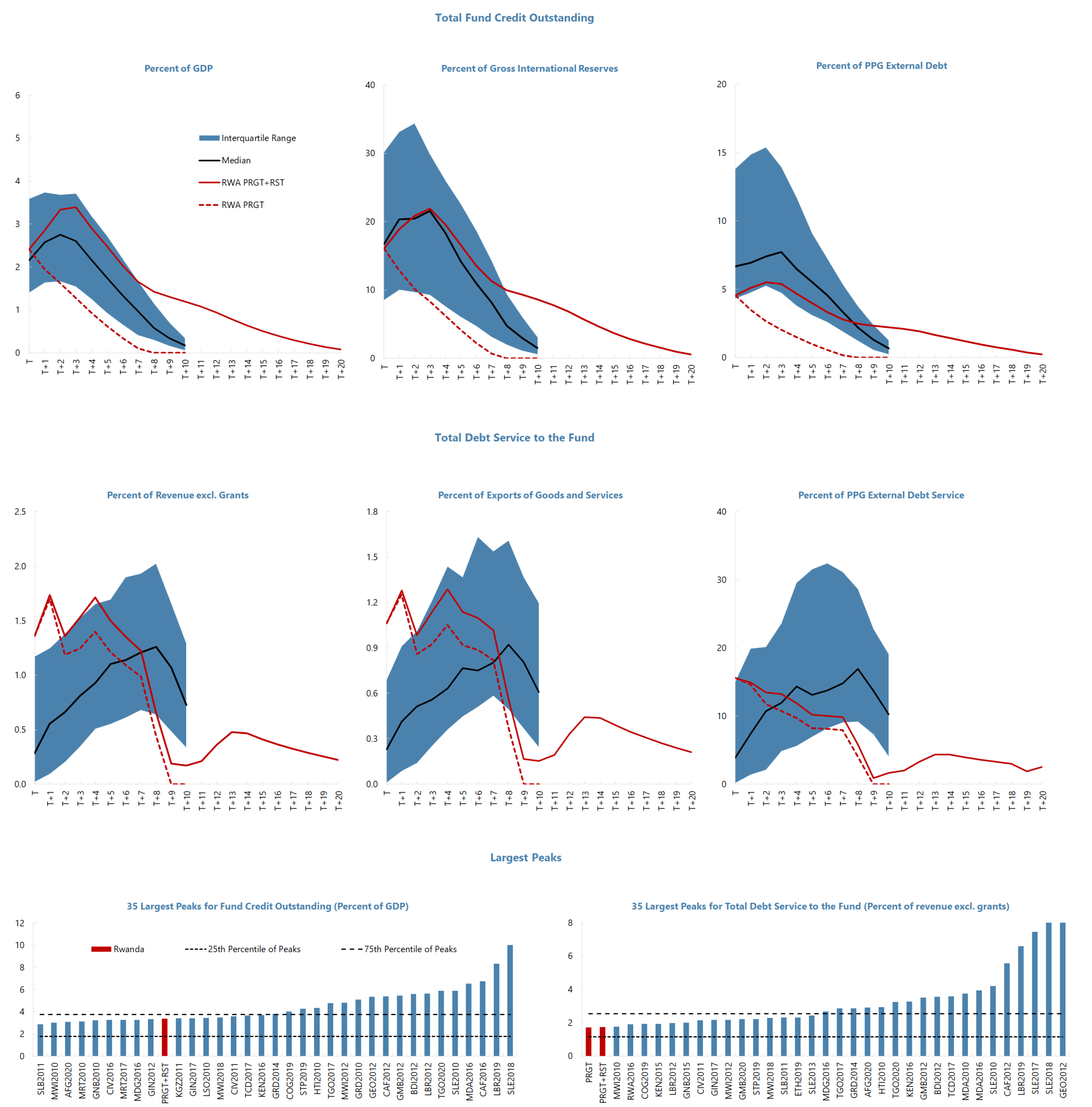
1. Rwanda is a high-intensity technical assistance (TA) user. With relatively strong institutional capacity, Rwanda has a good track record of implementing TA recommendations. Capacity development efforts reflect the Fund's policy engagement with Rwanda, namely, the support for implementation of the country's National Strategy for Transformation (NST-1), while also ensuring macro stability. TA focuses on the main areas of fiscal transparency, DRM, implementation of the new forward-looking monetary policy framework, and financial stability.

Rwanda: Key Overall CD Priorities Going Forward

Priorities	Objectives
Public Financial Management	Continue to improve fiscal transparency through an expanded fiscal risk statement encompassing risks from SOEs and PPPs. Improve the budget process through performance-based budgeting and a more strategic budget calendar. Assist the authorities with implementation recommendations of recent PIMA and C-PIMA. Assist the authorities with green PFM and long-term fiscal sustainability analysis (particularly as it relates to climate change).
Government Finance Statistics	Continue the transition to GFSM 2014 including expanding the coverage of the public sector and reduce the lag to publish general government statistics.
Tax Policy and Revenue Administration	Assist with the implementation of the MTRS announced by the authorities in May 2022, informed by the latest TADAT; VAT gap workshop (December 2022); VAT refund forecasting; risk management; assessment of tax expenditures; and an overall diagnostic of the policy and legislative framework.
Monetary Policy	Provide TA on FPAS to support the move to an interest rate-based monetary framework. Complete the ongoing forecast evaluation project; complete the build-up of the nowcasting framework; strengthen the framework for analyzing and forecasting the external assumptions; and strengthen the monetary policy process and the engagement with policy makers and building policy maker capacity for FPAS.
Financial Supervision and Regulation	Build on the FSSR to strengthen risk-based supervision and stress-testing. Strengthen regulation and supervisory frameworks in risk management and governance. Increase capacity in evaluating ICAAP reports to set different capital charges on top of the minimum requirements.
Financial Stability	Build on the FSSR to strengthen the financial safety net, crisis preparedness and management, resolution frameworks, financial market infrastructure, and government debt and money markets.

Annex V. Capacity to Repay Indicators

Rwanda: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2010 and 2020.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.

Appendix I. Letter of Intent

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

Kigali, November 25, 2022

Dear Ms. Georgieva:

Since the onset of the COVID-19 pandemic that impacted immensely our economy, we have been able to make considerable progress in containing the virus outbreak, accelerating vaccination, stabilizing the economy, and restoring growth, with strong support from the international community. We have also continued to address key macroeconomic challenges, while advancing structural reforms. However, the economic outlook is now clouded by significant uncertainty amid the spillovers from the war in Ukraine through rising global food and energy prices and weakening external demand. As a result, growth is projected to moderate to 6.8 percent in 2022, compared to 10.9 in 2021 and our headline inflation has picked up to 20.1 percent in October 2022.

Our immediate policy focus, supported by our current Policy Coordination Instrument (PCI), has shifted to managing emerging issues, including the spillovers from the war in Ukraine, which, by continuing to add to inflationary pressures, raise food security concerns, stall our economic recovery, and weigh on our fiscal and external accounts.

Given our country's vulnerability to climate change, building a more resilient economy is of the utmost importance. Hence, we are stepping up our climate adaptation and mitigation efforts to support a transition to a low carbon growth trajectory. In this context, we are requesting access under the Resilience and Sustainability Facility (RSF) from the IMF totaling SDR 240.3 million (150 percent of quota) to be disbursed for direct budget support. The RSF support will help us advance our climate change-related policies and catalyze additional financing by other official and private partners. We also wish to request a new 36-month PCI concurrent to the RSF request to support our reform efforts to sustain macroeconomic stability, advance our ambitious reform agenda and build socioeconomic resilience. While our PCI program implementation has been strong with all end-June 2022 quantitative targets (QTs) and all reform targets (RTs) except one implemented, we wish to cancel the current PCI, expiring in June 2023, on technical grounds to meet the policy requirement for the RSF approval. We request the cancellation to be effective upon approval of the new 36-month PCI.

The Program Statement attached to this Letter of Intent sets out the economic policies and reform measures that the Government and the National Bank of Rwanda intend to implement to achieve the objectives of our Fund-supported programs under the new PCI and RSF. It includes policies to (i) help us confront the new challenges brought by the escalation of the Ukraine-Russia conflict while exiting the pandemic, (ii) minimize the scars from the pandemic and build socioeconomic resilience, (iii) put public finances on a sustainable footing through a growth-friendly fiscal consolidation strategy grounded in high-quality measures, (iv) strengthen our monetary policy framework to ensure price stability and anchor inflation expectations, and (v) advance reforms to build a climate resilient economy. We have also finalized a Memorandum of Understanding (MOU) between the NBR and MINECOFIN that clarifies the responsibilities for timely servicing of the financial obligations to the IMF under the RSF arrangement.

The implementation of our PCI program will continue to be monitored through quantitative, standard continuous, and reform targets, and a monetary policy consultation clause, while financing under the RSF is expected to be available once the reforms measures proposed are implemented as described in the attached Program Statement and Technical Memorandum of Understanding (TMU). PCI reviews will be completed on a semi-annual basis to assess progress in program implementation and reach understandings on additional measures needed to achieve its objectives. RSF-supported program review will also be on a semi-annual basis and coincide with the PCI reviews. We will consult with the IMF on the adoption of new measures and in advance of any revisions to policies included in this letter and the attached 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 programs will be provided, as agreed, under the attached TMU, or at the IMF's request.

In line with our commitment to transparency, 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, November 25, 2022

I. CONTEXT

1. This Program Statement describes recent economic developments and our policy objectives and priorities under the new Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility. Under this new arrangement and instrument, we continue to aim at maintaining macroeconomic stability and advancing our reform agenda, including building climate resilience. With the pandemic still lingering and the spillovers from the war in Ukraine already being felt, our new program would allow us to manage the impact from the current crisis, build on the progress in macroeconomic, fiscal, and financial resilience, and continue with reforms that we started under the PCI approved in 2019.

II. RECENT DEVELOPMENTS

2. Growth has slowed while unemployment remains higher than pre-pandemic levels. The pandemic is waning as we approach our goal of vaccinating 70 percent of the eligible population by the end of 2022. After peaking at 10.9 percent in 2021, economic activity has started to slow. The H1 2022 growth was 7.7 percent, year-on-year, partly reflecting lower-than anticipated agricultural production, especially food crops, due to unfavorable weather conditions. Challenges were compounded by spillovers from the war in Ukraine, mainly through rising food, fuel, and fertilizer prices. Real output level is projected below pre-pandemic trends given negative exogenous factors and pandemic scars. The unemployment rate in Q3 2022 remained high at 18.1 percent, above the pre-pandemic level around 15 percent. Female unemployment rate stands at 21.4 percent.

3. Inflation has increased rapidly, reflecting elevated commodity prices and subdued domestic food production. Headline inflation rose from 5.8 percent in February to 20.1 percent in October, year-on-year. Food inflation (39.7 percent in October) hiked on the back of the poor performance of the agriculture sector in 2022. Core inflation was also high (14.4 percent in October), reflecting to a large extent the rise in the cost of imported production factors. To contain inflationary pressures, the Monetary Policy Committee (MPC) raised the policy interest rate by 200 basis points starting in February to 6.5 percent in November 2022 and decided to reinstate the reserve requirement ratio to the pre-COVID level of 5 percent. To mitigate rising living costs, the government introduced subsidies for fuel, fertilizer, and public transport.

4. The fiscal deficit in FY21/22 was 7.6 percent, 1 percent of GDP lower than anticipated at the 6th review. On the revenue side, tax revenues were in line with the expectations. Tax policy changes and administrative measures were responsible for the sustained revenue collections. Lower than expected exemptions for VAT claims under the Manufacture and Build to Recover Program (MBRP) largely contributed to the good performance. In the case of administrative measures, strict enforcement of the electronic billing machine (EBM) usage, especially by non-VAT registered taxpayers as well as enforcing proper utilization of tax information numbers (TIN) numbers boosted revenue collections. With regards to the non-tax revenue, sales of assets mobilized additional resources. On the expenditure side, total expenses were in line with expectations at the 6th review, but capital expenditure was lower due to lower-than-anticipated foreign financing, reflecting delays in the implementation of some education, energy, and road projects, which, in turn, resulted in a lower-than-anticipated draw-down of some loans.

5. Our 2021 SDR allocation was used as planned. As envisaged in the revised FY21/22 budget, we used 70 percent of our SDR allocation on recurrent and capital expenses in priority areas. On the recurrent side, we temporarily increased spending by 0.4 percent of GDP on social protection activities through the replenishment of food reserves used during the lockdown and nutrition support to reduce and, in some cases, eliminate malnutrition among children, as well as in retrofitting public offices to prevent the spread of the virus as civil servants returned to in-person work. On the capital expenditure side, we raised spending by 0.9 percent of GDP to execute delayed high-quality investment projects in targeted social sectors and to repair infrastructure, especially roads, bridges, and water damaged by a recent volcanic eruption near the border with the Democratic Republic of the Congo. We remain committed to save the remaining 30 percent of the SDR allocation as reserves to be used in retiring the remaining 2013 Eurobond amount at maturity in 2023.

6. Our financial sector remains sound and stable despite its exposure to pandemic, geopolitical, and climatic risks. Our banking sector continues to be profitable, well-capitalized, and liquid, as of end-June, even after the expiry of forbearance measures. Capital adequacy for banks and micro financial institutions (MFIs) at the end of September 2022 was 22.3 and 35 percent against the prudential limit of 15 percent, respectively. Liquidity coverage ratios for banks and MFIs was 250.5 against the regulatory limit of 100 percent, while the liquidity ratio stood at 98.8 percent against the regulatory limit of 15 percent. Return on average assets and average equity for banks was 3.0 and 18.0 percent while MFIs registered 5.1 and 14.8 percent. Credit quality continued to improve, with NPLs for banks and microfinance institutions falling to 4.1 and 4.2 percent in September 2022 from 5.1 and 6.4 percent in September 2021, respectively.

7. Higher energy import costs widened the current account deficit in 2022 H1. In the 2022H1, exports of goods and services improved significantly, by 47.1 percent, due to rising commodity prices mainly of traditional exports, good performance of manufacturing exports, continued strong regional demand of re-exports combined with a strong recovery of exports of services. The recovery of trade in services is mainly driven by a strong rebound of travel and tourism and air transport as the economy opens for international conferences. On the other hand, imports of goods and services rose by 33.6 percent owing to rising international food and oil prices as well as higher demand of imports as economic activities rebounded. As a result, the trade deficit in goods and services expanded by 18.7 percent. However, the expansion of the trade deficit was offset by significant increase in current transfers, mainly remittances and official transfers, leading to an improvement in the current account deficit (CAD) by 6.7 percent. The CAD was financed by an increase in external government borrowing and improved foreign direct investment (FDI) flows. Foreign exchange reserves remain adequate, covering 4.8 months of prospective import of goods and services as of end-June 2022.

8. We have sustained our efforts to mitigate the socioeconomic impact and rising living costs from the COVID-19 pandemic and the war in Ukraine.

- **Vaccination.** We maintained our momentum in administering the COVID-19 vaccine. By end-July, 9.1 million people had received the first dose, 8.8 million were on their second dose, while 5.2 million had already received their first booster shot. Since August 2022, Rwanda Biomedical Centre (RBC) is administering the fourth jab of the COVID-19 vaccine in the country in a bid to boost the immunity of the population.

- **Social protection programs.** During the FY21/22 11.5 percent of the population benefited from existing social security and income support programs. Near 315,000 households were provided short-term social assistance (temporary financial assistance, shelter, health fees), close to 29,000 extremely poor households received asset transfers and about 7,400 extremely poor and vulnerable individuals received formal skills training and apprenticeships. More than 95 percent of payments in all core social protection programs were delivered on-time.

- **Subsidies**. In a bid to safeguard the social welfare amidst the outbreak of the COVID-19 pandemic and mitigate rising fuel prices following the war in Ukraine, we temporarily reduced fuel levies on both diesel and gasoline between May 2021 and August 2022. As a more targeted approach, we are providing transport subsidies for private operators, projected to be RWF 49 billion or 0.3 percent of GDP in FY22/23. To mitigate rising fertilizer prices and declining fertilizer imports following the War in Ukraine and the resulting poor performance in food crop production that put pressure on food inflation in 2022, fertilizer subsides were revised to RWF 79 billion or 0.6 percent of GDP against RWF 44 billion or 0.3 percent of GDP under the original FY22/23 budget.

- **Business support.** The Economic Recovery Fund (ERF) and the MBRP have been the foundations of the government's support to the private sector during the pandemic over the last two years. Out of the US$ 250 million in ERF capital, (i) the Business Development Fund (BDF) has approved loans to micro-businesses amounting to RWF 1.9 billion (US$ 1.9 million) and disbursed to 586 beneficiaries (30 percent of which female) through SACCOs and (ii) the Rwanda Development Bank (BRD) has approved RWF 95 billion (US$ 94 million) of investment loans to 61 companies to be disbursed via commercial banks. The BRD has also disbursed a total of RWF 7.2 billion (US$ 7.1 million) in direct investment loans to 3 companies. BRD has also approved RWF 13.1 billion (US$ 12.9 million) of working capital loans that will be disbursed via commercial banks. Under the partial credit guarantee scheme, the BDF has approved a total of RWF 1.5 billion (US$ 1.5 million) to 2 beneficiaries. The MBRP will continue to provide tax incentives for increasing production in the agro-processing, construction materials, light manufacturing, and cross-cutting enablers such as paper packaging and plastic packaging until December 2022. The program has approved so far 97 applications (from projects expected to create 34,647 new jobs), of which 46 have already received tax incentives equivalent to RWF 5.7 billion.

Program Performance

9. Performance under the PCI approved in 2019 remains strong. While we are proposing to cancel the PCI before it's expected expiry in June 2023 for technical reasons, the program remains on track.

- All end-June 2022 quantitative targets (QTs) and standard continuous targets envisaged for the completion of the 7th review of the program were met. Inflation returned within the inner band of the monetary policy consultation clause.
- Two out of three reform targets (RTs) set through end-September 2022 were completed, albeit with delays.
  - The revised excise law, originally due by end-July 2022, and the studies on the feasibility and regulatory aspects of extending the true repo to non-bank financial institutions, originally due by end-June 2022, were completed in November. Regarding the latter, with support from the World Bank and the International Finance Corporation, a diagnostic on feasibility of extending true repo to non-bank financial institutions ahead of the GMRA rollout was conducted and the draft report was available in September 2022. The diagnostic aimed to review whether the national laws can accommodate the non-bank financial institutions in accessing the true-repo market under the GMRA. The study on the regulatory aspects and feasibility of extending true repo to non-bank financial institutions was finalized in November.
  - The RT on the review of RSSB asset allocation faced significant delays due to additional procurement requirements and a lengthier-than-expected onboarding process of the advisory firm selected to conduct the review. A contract with the selected advisory firm is expected to be signed by end-December 2022 concluding this process. In the meantime, the advisory firm finalized and submitted to RSSB in mid-November an inception report providing an initial desk review of the RSSB asset allocation, which is now expected to be finalized by end-October 2023 (proposed RT).

III. OUTLOOK AND POLICIES

A. Outlook

10. We foresee spillovers from the war in Ukraine continuing to weigh on Rwanda's economic recovery. Real GDP growth is projected at 6.8 percent in 2022, reflecting poor agriculture output, notably food crops production. Weak external demand and higher commodity prices will continue to weigh on growth in 2023, with economic growth expected to decline to 6.2 percent. With fiscal consolidation measures implemented, private consumption and investment would be the main growth drivers in the medium term.

11. We expect inflationary pressures to moderate in 2023. Average headline inflation is projected to rise from 0.8 percent in 2021 to 12.6 percent by end-2022, exceeding the NBR's benchmark level (5 percent), driven primarily by global commodity prices, supply shocks, and high imported costs. Inflation is projected to moderate to 7.9 percent in 2023, reflecting the effects of monetary policy tightening, easing global commodity prices, and fading supply shocks.

12. We expect the external position to temporarily deteriorate in 2023 due to a worsening current account balance and improve thereafter. The trade deficit outlook deteriorated relative to the 6th review despite downward revisions of oil prices, reflecting lower tin, metal, and tea prices. In 2024 and over the medium term, the trade and the current account balances are expected to improve with higher domestic savings (from the fiscal consolidation) and productivity growth (from ongoing structural reforms). Financial inflows are expected to remain high but start declining from 2024 onwards, reflecting decreasing public sector borrowing amid fiscal consolidation. The decline in public sector borrowing will be partially offset by the increase in private flows mainly FDI. Gross official reserves are projected to remain adequate and close to 5 months of prospective imports over the medium term.

B. Fiscal Policies and Structural Reforms

13. Our proposed new PCI will continue to be supported by fiscal policies and structural reforms aimed at strengthening our fiscal framework, keeping our debt at sustainable levels, and preserving the needed fiscal space to implement our development priorities. This will be achieved by (i) a credible fiscal consolidation that preserves fiscal space through a growth-friendly domestic revenue mobilization (DRM) and spending rationalizing measures and (ii) staying the course on reforms to increase the transparency and efficiency of our public financial management and investment practices and enhance the management of fiscal risks.

Growth Friendly-Consolidation Policies

14. Our near-term fiscal strategy under the new PCI arrangement will continue to aim at mitigating the impact of the ongoing external shocks on the most vulnerable, while preserving fiscal sustainability. The FY22/23 deficit is projected at 8.1 percent of GDP (against 6.9 percent envisaged in the 6th review of the current PCI), primarily reflecting lower grants (as some grants previously envisaged for FY22/23 came earlier than expected in FY21/22 but have not been spent).

- **Mitigation measures.** Revised fiscal projections for FY22/23 reflect measures aimed at mitigating the impact of the pandemic and spillovers from the war in Ukraine. They include, in particular, increased grants to local governments to support an increase in teacher salaries and expenses in the school feeding program (1 percent of GDP), increases in fertilizer subsidies (0.3 percent of GDP) and subsidies to private transport operators (0.3 percent of GDP), and the expansion of social protection programs (e.g., home-based early childhood development, public works, skills development, and asset transfer). As previously reported, the fuel levy was restored at its original level of RWF 115 per liter on August 8, 2022, marking the phasing out of fuel subsidies well ahead of the timeline committed in the 6th review (end-FY22/23). This is anticipated to save 0.3 percent of GDP compared to the expectation at the 6th review of the PCI.

- **Consolidation measures.** At the same time, we have continued to implement the fiscal consolidation envisaged in our FY 22/23 budget framework paper. Total expenditure is declining by 1.8 percent relative to FY 21/22. This is being supported with the phase-off of COVID-related spending and SDR-earmarked spending which amounts to 2.3 and 1.3 percent of GDP, respectively. These one-off measures have been partially offset from other new spending initiatives (such as increases to teacher salaries). This expected lower spending combined with our domestic revenue mobilization efforts of 0.2 percent of GDP (see below) will lead our projected fiscal deficit excluding grants to start declining in FY 22/23. Should the war in Ukraine escalate or protract, economic disruptions from the pandemic persist, or envisaged domestic and external resources fail to materialize we stand ready to support affected groups and activities. In doing so, we will ensure that such support is temporary, targeted, transparent, and consistent with our contingent plans by protecting priority spending and reprioritizing non-wage current and domestic capital spending to avoid significant budget slippages and preserve debt sustainability.

15. We will maintain the 65 percent of GDP debt anchor and a broadly similar fiscal consolidation path under the new PCI. Our debt anchor remains appropriate to keep our debt within moderate risk levels. We will also broadly maintain the fiscal consolidation path discussed in the 6th review of the current PCI with convergence to the anchor achieved by 2031 backed by credible measures under the FY22/23 budget and the medium-term fiscal framework. This consolidation path would ensure that Rwanda remains at moderate risk of debt distress with sufficient buffers to absorb shocks.

16. Our fiscal consolidation will continue to be supported by a prudent debt management strategy that prioritizes concessional resources including among others climate change related financing to support Rwanda's adaptation and mitigation efforts. We will continue to strengthen our debt management capacity, which should also benefit from our ongoing efforts to enhance fiscal risk monitoring, strengthen debt reporting by expanding of the debt coverage with the inclusion of local government debts, and to develop domestic capital markets. To contain the debt service burden, mitigate solvency risks, and prevent debt from deviating from the agreed debt path, we will seize available opportunities to contract additional highly concessionally financed projects to support our development priorities. This would be done by prioritizing the implementation of these projects over domestically or commercially financed projects.

17. Domestic revenue mobilization remains an important pillar for our fiscal consolidation strategy. Cabinet approved in May 2022 a Medium-Term Revenue Strategy (MTRS) that was published in July and will be implemented by FY 23/24. Some tax administration measures under the MTRS are already effective and tax policy measures will start to become effective in FY 22/23. All measures are expected to become effective by FY 25/26 permanently yielding 1 percent of GDP in additional revenues. The strategy will be supported by a Tax Policy Directorate created last year and that is expected to be fully staffed over the course of 2023. In particular,

- **Tax policy**
  - The personal income tax (PIT) law was approved by Parliament in end-September and became effective in October. This provision will be implemented in two phases. In the first year (phase 1), the tax exemption threshold will be doubled from RWF 30,000 to RWF 60,000 per month. In the second year (phase 2), workers who earn between RWF 60,001 and 100,000 will be taxed at the rate of 10 percent instead of 20 percent and those who earn between RWF 100,001 and 200,000 taxed at the rate of 20 percent instead of 30 percent.
  - The value-added tax (VAT) law is expected to be submitted for cabinet approval in December. The draft law provides for VAT rebates to incentivize consumers to request EBM receipts. This move will boost the effectiveness of the EBM system and boost VAT compliance (details of the scheme, including on the cap of the rebates, will be formulated under a Ministerial Order once the law is approved). Furthermore, the draft law proposes new environmental interventions, including zero-rating electric automotive vehicles, related batteries, and charging stations equipment (e-mobility incentive). This will help Rwanda to meet its commitments under the Paris agreement by shifting to environmentally friendly modes of transportation. Moreover, the draft law provides for zero-rated VAT for construction of new residential houses to support affordable housing. As with all exemptions, we will continue to transparently report them in our statement of tax expenditures published alongside the budget.
  - A draft law proposing revisions in excise taxes has been submitted to Cabinet by end-Nov 2022. Revisions include (i) periodically aligning the excise rate with inflation; (ii) replacing ad valorem taxes on beer, wine, and spirits with a specific excise tax, (iii) increasing the share of specific taxes on cigarettes, (iv) imposing excises levied on sugar content, and (iv) increasing the excise tax on older vehicles to incentivize the upgrading of Rwanda's fleet. The law is expected to become effective in FY 22/23 H2.
  - The submission to Cabinet of the revised corporate income tax (CIT) law is expected in May 2023 (proposed RT). This was originally envisaged by end-January 2023 but was delayed due to the need by the Tax Policy Directorate at MINECOFIN of additional technical assistance to draft the revised CIT law. Revisions, which are expected to be approved as a package, include (i) lowering the statutory CIT rate; (ii) introducing a gross turnover-based minimum alternative tax; (iii) broadening the business tax base; (iv) introducing full expensing of capital expenditures; and (v) allowing indefinite carry forward of business losses. The CIT law is expected to become effective in FY 23/24 and start to yield revenues in FY 24/25.
- **Tax administration.** Rwanda's Revenue Authority (RRA) has started to implement MTRS measures aimed at (i) taxing the shadow economy, (ii) improving voluntary compliance through better taxpayer services, and (iii) promoting compliance improvement plans targeted at the manufacturing sector, large businesses, customs, and to combat aggressive tax evasion by individuals. In FY 22/23, as part of RRA action plan, this included specific measures aimed at e-service design to improve taxpayers' timeliness for filing and payment; simplifying the registration process of small and medium enterprises; greater reliance on

data science to improve service delivery; and combating tax evasion by developing risk-rules for VATs through EBMs and manufacturing firms. Key accomplishments included the distribution of over 33,176 new VAT taxpayers issued with electronic billing machines (EBMs) by end-June 2022, a significant increase from the 3,535 achieved in the previous year, control measure for VAT and income tax payments. In the case of income tax this measure will ensure that all allowable expenses under the income tax law are supported by an EBM invoice. RRA will also continue to promote voluntary compliance through provision of better services with more recent developments undertaken, including revamping the RRA website and customizing it to better suit the needs of the public. The website now boasts features such as availability of multiple languages (Kinyarwanda, English and French), less congestion and easier navigation and accessibility functions supporting individuals with disabilities such as the physically impaired. RRA's call center has also been upgraded in accordance with the outcomes of the call center evaluation assessment report. On the other hand, measures to tax the shadow economy have been delayed until FY 23/24 pending the approval of the VAT law, which would allow for the introduction of VAT rebates through EBM.

- **MTRS implementation and succession plans.** Following the MTRS implementation, we have completed policy appraisals for proposed MTRS reforms related to PAYE, excise duty and VAT. The PAYE reform has since been approved by Parliament. We conducted consultations with relevant stakeholders when designing the policies proposed under MTRS. To disseminate the outcomes of this reform, we plan to conduct meetings with policymakers and public communication campaigns to increase public awareness after the ratification of a new law. Guided by recommendations from IMF's AFRITAC East and a hired consultant, RRA will continue to work on further aligning its RRA's strategic plan with the MTRS and in developing a monitoring system to track and quantify adopted MTRS measures. We remain committed to conduct a full evaluation of the MTRS implementation prior to its expiration. Guided by previous IMF technical recommendations, we plan to evaluate ahead of the expiration of the current MTRS additional domestic revenue mobilization (DRM) measures to be implemented in the subsequent period.

18. Our fiscal consolidation strategy is also predicated on spending rationalization measures that will be further refined in the FY 24/25 budget. By end-November 2023, we will submit to Cabinet an outline underlying the medium-term fiscal policies behind the spending rationalization strategy as an annex in the FY 24/25 Planning and Budget Outlook Paper—PBOP— (proposed RT). By end-May 2024, we will submit to Cabinet a spending rationalization strategy as an annex in the FY 24/25 budget framework paper based on the PBOP outline—see below— (proposed RT). We will implement measures for additional cost-savings and efficiency gains based on recommendations from the World Bank's Public Expenditure Review (PER) and the IMF's Public Investment Management Assessment (PIMA) and our own analysis. Consideration will be devoted to identifying cost-savings measures. Examples include (a) the digitalization in the delivery of public goods and services, (b) strengthening the oversight and governance of state-owned enterprises (SOEs) with a view to gradually reduce subsidies and budget support, and (c) improvements in the selection and prioritization of public investments to achieve greater value-for-money and leverage private sector involvement.

Fiscal Structural Reforms

19. Supported by our new Organic Budget Law (OBL), we are staying the course on public financial management (PFM) reforms to strengthen the credibility, transparency, and prudency of our fiscal framework and consolidation. The OBL was approved by both chambers of Parliament in July 2022, but its full implementation requires the timely issuance of Ministerial Orders and other financial regulations by MINECOFIN expected by end-June 2023. Once fully implemented, the OBL will facilitate (i) improvements in the budget/medium-term expenditure framework (MTEF), (ii) the institutionalization of fiscal risk management practices and structures, and (iii) the harmonization of financial reporting calendars of all public entities, including RSSB and state-owned enterprises (SOEs), and enforcing the timely submission of fiscal reporting beyond the central government.

20. We continue to strengthen our MTEF and other PFM areas. We have started the implementation of MTEF enhancements with budget baseline costing with standard costing guidelines and related templates issued with the first Planning and Budget Call Circulars for the FY 23/24. This has allowed us to bring-forward the setting of expenditure ceilings for line ministries and other government budgetary agencies for a given fiscal year from April to November of the previous fiscal year starting in FY 23/24 through our first PBOP. These new practices will also instill a top-down orientation in the budget/MTEF planning process and enhance its credibility at later stages of the budget cycle. Progress also continues in other PFM areas. The migration to accrual accounting under IPSAS is on track for its implementation by FY23/24. The IFMIS roll-out has continued with some important near-term actions, including the integration into IFMIS of the budget costing framework and public schools. Performance-based budgeting implementation is significantly improving with continuous capacity development in budget agencies planned during the FY23/24 planning and budget process, where more focus will be on automation of the process with emphasis on data quality during action planning.

21. We are building our institutional and technical capacity to oversee and manage fiscal risks, especially on SOEs.

- **Institutions.**
  - *Fiscal risk framework*. The OBL institutionalized the oversight and management of fiscal risks by clarifying the role of the Fiscal Risk Committee (FRC), mandating the Minister of Finance and Economic Planning (MINECOFIN) to appoint their members, and requiring the publication of an annual Fiscal Risk Statement (FRS) as part of the annual budget documents.
  - *SOE oversight, oversight, management, and governance*. A new Ministry of Public Investment and Privatization (MININVEST) was established in July 2022 with the following responsibilities: i) to develop national policies, laws, strategies and programs for profit-oriented public investments and privatization; ii) to identify and analyze strategic opportunities for profit-oriented public investments leading to the economic growth of the country; iii) to monitor the performance of profit-oriented public investments to ensure their financial and economic viability; iv) to identify public

investments that must be privatized and modalities of the implementation of their privatization; v) to identify and optimize government assets through strategic monetization; and vi) to monitor, coordinate and evaluate the implementation of policies, strategies and programs related to public investments and privatization. MININVEST is expected to play a central role in strengthening the oversight, management, and governance of SOEs. The Ministerial Orders to be issued as part of the OBL operationalization by June 2023 (see¶19) will also define the roles and responsibilities of government agencies for an effective coordination of the oversight, management, and reporting of fiscal risks from SOEs. We also plan to significantly strengthen the SOE governance legal framework by reviewing the National Investment Policy and the Privatization Law.

- **Technical capacity.** We will continue to strengthen our technical capacity to identify, quantify, and manage fiscal risks.
  - The SOE health-check assessment in now interfaced with IFMIS thus allowing for the automatic production of the standard ratios in this assessment for each SOEs.
  - Informed by a first batch of SOE health-check assessment in May 2021, we have conducted stress tests in four high-risk SOEs in March 2022. A summary of the assessment and mitigation recommendations was included in the FRS under the FY 22/23 budget.
  - With IMF TA support, we have prepared an assessment of fiscal risks from public-private partnerships, which was submitted along with mitigation options to the Fiscal Risk Committee by end-April 2022 (RT) and included in the FY 22/23 FRS.
  - Our plan to conduct stress tests on a quarterly basis of at least one high-risk SOE or SOE subsidiaries has been delayed due to limited staff at MINECOFIN's Government Portfolio Management Unit and the role to be played by MININVEST in this exercise. We expect this situation to be resolved in the second half of 2023 and to resume conducting stress tests on a quarterly basis thereafter with the goal of finalizing stress tests on at least 2 high risk SOEs inclusive of their holding companies by December 2023. To that effect, we plan to request additional support from the IMF AFRITAC East (AFE).
  - We plan to continue expanding the scope of our FRS by including a long-term fiscal sustainability analysis as part of the FRS in the FY 23/24 budget by end-April 2023 (proposed new RM for the RSF arrangement—see below).

22. We plan to review the recently completed IMF Public Investment Management Assessment (PIMA) and create an action-plan to implement the key recommendations. We are committed to improving the efficiency of our public investment practices as we move to reaching our National Strategy for Transformation (NST-1) goals. The government is currently reviewing the final report and is working with key stakeholders to come up with a timeline of implementation.

23. We will continue to make our fiscal practices more transparent over the course of the new PCI. Significant progress has already been achieved in implementing the recommendations from the 2019 Fiscal Transparency Evaluation in several areas, including fiscal risk management, fiscal reporting, and medium-term fiscal planning. We have also conducted several diagnostic exercises to guide us in further improving our transparency practices with support from the IMF, the World Bank, and other development partners, including PIMA, PER, and Public Expenditure and Financial Accountability (PEFA). We are currently working to assess and implement the many recommendations from these exercises. Upon review, we will also consider publishing the finalized PIMA report. By end-March 2023, guided by IMF TA, we will develop a feasible action plan to be implemented over the course of the new PCI to further expand the coverage, frequency, and timeliness of fiscal reports in GFS 2014 formats, including on functional expenditures (COFOG) and balance sheets. The publication of quarterly budget execution reports under GFS 2014 for the whole general government, including RSSB, was delayed from end-March 2023 to end-April 2023 (proposed RT). This delay was the result of longer than expected processes of having the RSSB and other entities report their income statement on a quarterly basis.

24. We remain committed to use public resources transparently.

- **Auditing of government expenses.** All FY 20/21 government expenditures and procurement tenders, including those linked to the pandemic, were audited by the Office of the Auditor General (OAG), whose independence is enshrined in the Constitution and law, and made public. The OAG is expected to audit all government expenditures, including those financed by the new SDR allocation, and publish them by end-May 2023 as part of a full audit of all government expenditures and procurement tenders for FY 21/22.
- **Beneficial ownership.** We remain committed to strengthen the transparency with respect to the beneficial ownership (BO) of companies awarded public contracts to combat corruption, money laundering, and illicit financial flows. A new Public Procurement bill, which requires BO disclosure of companies bidding for public contracts, was approved by the Cabinet in September 2022 and by Parliament on November 7, 2022. Consistent with our international commitments in the exchange of financial information in tax matters and anti-money laundering/countering the financing of terrorism (AML/CFT), and to support the envisaged work of the Kigali International Financial Centre (KIFC), we are undertaking the following actions:
    - An initial version of an electronic reporting portal for BO disclosure to the Registrar General is being pilot tested. The results of the test will inform the remaining work towards finalization.
    - A draft Company and Partnerships law to capture BO information was approved by the Cabinet in October 2022. The bill is expected to be adopted by Parliament by end-June 2023.
    - We developed a plan to conduct inspections and audits on obligations of entities to keep accurate and up-to-date BO information and reliable accounting records. We are currently in the process of onboarding inspectors to implement those plans and, once the Public Procurement and Company and Partnership bills are passed into laws, we shall start inspections, audits, and shall apply sanctions for non-compliance with BO and accounting obligations.

C. Monetary, Exchange Rate, and Financial Sector Policies

25. Our new PCI will bring continuity to the implementation of our forward-looking monetary framework and reforms to promote the development, stability, and inclusion of our financial market. We will pursue these objectives by continuing to (i) increase the reliance on data, analysis and forecasts in informing monetary policy formulation and communication and (ii) strengthen monetary policy and exchange rate operations and further develop money, domestic debt, and foreign exchange markets.

Monetary Policy Stance and Analysis

26. Our monetary policy will be focused on containing inflationary pressures. With heightened pressures from global commodity prices and weaker than expected domestic food production and elevated core inflation, reflecting high imported costs and emerging threats of second round effects, the Monetary Policy Committee (MPC) of the National Bank of Rwanda (NBR) raised its policy interest rate by 200 basis points since the start of the year. As the war in Ukraine endures, inflationary pressures are likely to continue into next year. The NBR is committed to continue tightening monetary policy if inflationary pressures due to domestic factors and high imported prices persist and risk de-anchoring inflation expectations.

27. We will remain committed under the new PCI to implement our forward-looking price-based framework. To elicit greater awareness and transparency over our price-based monetary framework and facilitate monetary policy communication, NBR will develop and publish a Monetary Policy Strategy by end-March 2023 (proposed RT). The strategy will describe the central bank's primary monetary policy target, additional targets and the monetary policy decision-making process. Once published, we expect the strategy to help monetary policy become more systematic and predictable. NBR will also continue to strengthen its Forecasting and Policy Analysis System (FPAS), the NBR's main tool of monetary policy formulation and communication since the adoption on the current framework in 2019. With support from the IMF's AFE, NBR will continue to build the necessary analytical capacity to operationalize its core quarterly projection model (QPM) and integrate the FPAS into NBR's monetary policy decision-making. Looking ahead, NBR will continue developing sectoral expertise and scenario design analysis and documenting near-term forecasting and other toolkits. We also plan to integrate labor and financial markets analyses into our QPM and enhance our monetary policy communication, including through regular presentations to MPC members. In addition, with Fund TA support, we will continue to strengthen our capacity to compile real, monetary, and balance of payment statistics. We will also consider the possibility of reviewing the period over which headline inflation is averaged under our MPCC and/or replacing the headline inflation with an appropriate measure of core inflation once the inflationary environment abates and prices stabilize. Given the current elevated inflation levels, we expect the twelve-month average inflation to be outside the MPCC band set at the 6th review for December 2022 and likely June 2023 even with monetary policy tightening measures taking effect. Hence, we propose to raise the MPCC target from 5 to 11 percent and shift the corresponding band for these test dates. This is solely for program monitoring for these respective test dates. NBR's medium-term inflation target will remain at 5 percent and will apply for the PCI from December 2023 onward. Additionally, we are considering developing a consumer price expectations survey to improve the quality of forecasts. This will be an important project about which we plan to request Fund TA support to explore the best practices on how to conduct such surveys.

Monetary Policy Operations and Market Development

28. We aim to deepen our monetary, debt, and foreign exchange markets. We have taken steps to develop financial markets and thereby strengthen the monetary policy transmission mechanism. Since November 2020, we have upgraded the Real Time Gross Settlement and Central Securities Depository infrastructure to accommodate repo transactions. Measures to roll out the Global Master Repurchase Agreement (GMRA) are ongoing. A review of the legal and regulatory framework was conducted, and the report was available in March 2022. The assessment reviewed the national laws and identified gaps in insolvency, payment system and banking laws, which we plan to close before the introduction of the GMRA. In addition, with support from the World Bank and the International Finance Corporation, a diagnostic on feasibility of extending true repo to non-bank financial institutions ahead of the GMRA rollout was conducted and the draft report was finalized in November (RT under the 6th review of the current PCI). The diagnostic assessed whether the national laws could accommodate the non-bank financial institutions accessing the true-repo market in context of GMRA. To allow sufficient time to address the identified gaps in national insolvency, payment system and banking laws (a prerequisite for the rollout of the GMRA), as well as other national laws to extending true repo to non-bank financial institutions, we are proposing to reschedule to a later time the capacity building on all aspects of the GMRA terms to market participants and the signature of GMRA by all banks originally expected by end-December 2022 (RT under the current PCI). In the meantime, we will work to prepare and ensure NBR management approve a roadmap for GMRA implementation endorsed by all stakeholders by end-April 2023 (proposed RT).

29. We remain committed to a flexible exchange rate to support our monetary policy framework and maintain external buffers. We consider the exchange rate our first line of defense against external shocks and will limit our interventions in the foreign exchange (FX) market to minimize excessive exchange rate volatility. Exchange rate pressures have increased somewhat due to rising imported fuel and food prices. We expect FX pressures to be slightly higher in the remainder of 2022 and to continue in 2023 driven by increases in the import bill as economic activity recovers from the COVID-19 pandemic and higher commodity prices triggered by the war in Ukraine. We expect exchange rate pressures to ease over the medium term as supply chain disruptions end and external demand recovers, particularly in the tourism sector, and the reserve coverage to remain comfortably above the minimum adequate level of 4 months of imports. We plan to regularly assess our foreign exchange market for consistency with our monetary policy framework. To assess and further strengthen the functioning of FX markets in the context of our new monetary policy framework, we plan to undertake a diagnostic assessment of the FX market by end September 2023 (proposed RT). To preserve external sustainability, we will work towards building up reserves gradually with the objective to reach 5 months of imports cover in the medium-term as recommended in the last IMF's External Sustainability Assessment.

Financial Sector Policies

30. We will continue to focus on early detection of risks and take appropriate and timely micro and macroprudential interventions to ensure that supervised institutions are stable and sound. Onsite examinations will continue to focus on credit risk to scrutinize banks' assessment of borrowers' likeliness to pay and ensure adequate loan classification and provisioning. Banks submitted the first annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) in March 2022 and April 2022, respectively. The assessment of ICAAP elaborated on the Board of Directors and Senior Management oversight, risk management practices, including internal stress testing, and contingency planning. On the ILAAP, the assessment assessed strategies in place to manage liquidity risks including maturity mismatch risks and concentration risks. These have been subjected to the routine Supervisory Review and Evaluation Process (SREP) to obtain assurances that banks have adequate strategies, processes, capital, and liquidity in line with the risks they are exposed to. The NBR will also continue to conduct macro stress tests every quarter to assess the ability of banks to withstand credit and market risks as well as systemic and sector specific shocks.

31. Strengthening regulation and supervisory frameworks in risk management and governance is our near-term priority. With assistance from IMFTA we are enhancing our risk-based supervision framework as well as the directives to market remuneration, assessment of interest rate risk in the banking book (IRRBB) and developing recovery plans for banks to restore their viability even in periods of financial stress**.**

32. Expanding access to digital financial services will remain instrumental to implement our financial inclusion strategy. We are developing a new financial inclusion strategy, which we expect to conclude by mid-2023, with some aspects of the new strategy already under implementation. The focus of the new strategy is on improving access to savings and financial services. We have rolled out countrywide youth savings competitions as well as training and awareness of savings instruments. We have developed RegTech in the form of an electronic data warehouse to measure progress in financial inclusion and to inform new interventions. The NBR has established a regulatory sandbox to support innovation, particularly in FinTech, which provides an opportunity for FinTech start-ups to test products that can improve access to financial services. The new financial consumer protection law together with an automated complaints handling system will ensure that customers are protected when receiving services from financial institutions. The Women's Guarantee Fund (WGF) established and managed by the Business Development Fund (BDF) facilitates female owned MSMEs without collateral to access affordable loans in commercial banks and MFIs.

D. Structural Policies

33. We will step up our efforts under the new PCI to address pandemic scarring and making our people and economy more resilient. Pandemic scars in the form of learning losses, protracted unemployment, and increasing income and gender disparities risk reversing our hard-won development gains, further undermining the pursuit of high, sustainable, and inclusive growth, and challenging the achievement of Rwanda's development priorities. Rising international prices for fuel, food, and fertilizers and greater food insecurity triggered by the war in Ukraine have made the situation even more challenging. To counter these developments, we are implementing policies and reforms to mitigate the socioeconomic legacy of these recent global shocks and make our people and our whole economy more resilient against future shocks.

- **Individual resilience.** We will continue to expand the coverage, geographical reach, and benefits of our existing social protection schemes. We are working to making our existing social protection schemes more responsive to large shocks building on our largely effective experience in rolling out much needed social assistance in a timely manner during the COVID-19 pandemic. We are also taking steps to support vulnerable communities to adapt to climate change and natural disasters. To this effect, we have started to steer some of our public work schemes under our Vision 2020 Umurenge Program (VUP) towards climate adaption interventions such as tree plantation and terracing to avoid soil erosion and support small holder farmers with more sustainable practices. We have also started the operationalization of a dynamic social registry to improve the accuracy of targeting the poorest and most vulnerable. Piloting the dynamic social registry has already started in October 2022 in two districts. RSSB is expected to start using the dynamic social registry for their Community Based Health insurance (CBHI) scheme by January 2023. We plan to complete the full rollout of the registry by May 2024 (proposed RT). We have intensified our efforts to improve the coverage and quality of education. To this effect, we increased in August the salaries of all primary school teachers by 88 percent and that of secondary school teachers (A0 &A1) by 40 percent. We also increased subsidies for school feeding and the contribution of the government now amounts to 40 percent of the school feeding budget of every student. We will continue with our effort to tackle stunting, which is a critical health challenge among preschoolers, by increasing the coverage of nutrition programs.
- **Economywide resilience.** To build greater economywide resilience and help us achieve our goal of reaching upper middle-income status by 2035, we will continue to advance policies that promote private sector-led economic diversification through greater regional trade integration. To this effect, we will continue to implement our trade logistics and distribution service strategy to position the country as a regional distribution hub and to support our export-oriented industrial development efforts This will be supported by the finalization of the new Bugesera International Airport, which has currently nearly 60 percent of the groundworks completed. Our plans to build an air cargo service market to facilitate the export of higher value-added and time-sensitive products, which included RwandAir's acquisition of a new freighter in October 2022, are also part of those efforts. In the agriculture sector, government's provision of extension services and initiatives to create an enabling environment for private sector investment are on-going. We have developed new projects (e.g., the Commercialization and De-Risking for Agricultural Transformation Project financed by the World Bank) that aims to increase the use of irrigation and commercialization among producers and agribusiness firms across the country and increase access to agriculture finance and insurance. We remain committed to fast-track the implementation of the Rwanda Agriculture De-Risking and Financing Facility (with support from the World Bank, USAID, and AfDB).

34. We are strengthening our capacities for pandemic and endemic preparedness and response. Building on the lessons learned and challenges the country faced in terms of readiness in combating the COVID-19 pandemic and the previous Ebola outbreak**,** we are working with support from the World Health Organization (WHO) and other development partners to boost our pandemic and endemic preparedness, detection, and response. To this effect, the government of Rwanda and the WHO are working towards signing a Memorandum of Understanding (MOU) to implement three WHO flagship initiatives that will strengthen Rwanda's capacity to prepare for, detect and respond to emergencies, namely the Detect, Prepare, and Response initiatives. The 'Detect' Flagship aims to reinvigorate stronger, integrated surveillance systems across Africa, and enable detection and action to prevent or timely respond to outbreaks. The Prepare' Flagship aims to strengthen the ability to plan and anticipate shock events. Lastly, the 'Response' Flagship aims at ensuring the government is equipped to mobilize resources and respond to public health emergencies within the first 24–48 hours. As part of these initiatives, Rwanda will also continue to improve clinical care for infectious diseases, ensuring the timely provision of logistics and supplies, and ensuring predictable financing for public health emergencies preparedness activities. Rwanda's initiative to attract investments to construct the first African mRNA manufacturing facility, which kicked off in June 2022, will be crucial to ensure sufficient vaccine supply not only in Rwanda, but also in the region. Important progress has also been achieved towards universal health coverage with more than 86.5 percent of the target population covered by the CBHI based on the CBHI individual enrollment database.

E. Building Resilience to Climate Change

35. We recognize that sustaining high economic growth in the future will require building resilience to climate shocks. Rwanda, as other countries in the region, will face increasing frequency and intensity of climate-induced disasters as global temperatures continue to rise and rainfall patterns change. The recently launched Country Climate and Development Report (CCDR) by the World Bank estimates that climate risks could reduce Rwanda's GDP by 5–7 percent by 2050, with a negative impact on private consumption, exports, and government revenues.

36. We have strong track record in climate-sensitive planning, with a well-designed and effective system for integrating climate considerations in national and sectoral planning processes. We have been addressing climate change for more than a decade, adopting a low carbon growth strategy in 2011. We are also contributing to global efforts for mitigation including through the use of renewable energy, climate-smart agriculture, as well as introducing reforestation programs for carbon sequestration. We outlined our national adaptation and mitigation agenda in our 2020-revised Nationally Determined Contribution (NDC), as well as in the country's medium-term National Strategy for Transformation (2017–24), including by identifying priority measures aligned with the Sustainable Development Goals (SDGs). We are revising the Green Growth and Climate Resilience Strategy (GGCRS) originally adopted in 2011. As reported in the CCDR, our ambitious climate-related agenda comprehensively cover a wide range of sectoral issues (such as agriculture, forestry, land use, urbanization, transport, energy, manufacturing technologies, and disaster risk reduction and management). Our annual budget preparation documents provide guidelines on mainstreaming environment and climate change, including through tools such as the environment and climate change monitoring statement as well as the environment and climate change checklist. Budget execution reports describe the allocations and expenditures on the implementation of environmental protection and climate change-related programs. In addition, the Rwanda Environment Management Authority (REMA) monitors progress in implementation of environmental and climate change policies and publishes the biannual State of Environment and Outlook Report.

37. Our climate strategy uniformly supports climate adaptation and mitigation initiatives. Our adaptation measures include landscape restoration and management, subsequently boosting agricultural productivity through an improvement of productive inputs use, irrigation coverage, and terracing to reduce soil erosion and preserve soil quality. Enhancing climate resilience has been also identified in forestry, human settlement, transport, health, and mining. We target to reduce greenhouse gas emissions by 38 percent by 2030. With active engagement in afforestation and reforestation, we achieved the target to have 30 percent of forest land cover by 2020 a year earlier than planned. Rwanda's current forest cover is approximately 30.4 percent. Our NDC promotes the increase of hydro- and -solar power capacity, e-mobility, and the use of energy efficient cooktops and improved livestock management.

38. Our RSF-supported program will focus on the following five major reform areas, which will strengthen further our institutional capacity to address climate change. It reflects recommendations in the World Bank's CCDR, the C-PIMA, and the PEFA (conducted in June 2022). Each reform area has reform measures (specified below) to be achieved with target dates under this program.

- ***Reform area 1:*** *Strengthening and institutionalizing the monitoring and reporting of climate-related spending feeding into decision making processes. We will seek* IMF TA to improve the technical capacity required for us to independently develop a climate budget tagging framework that is operable within the context of Rwanda's institutions on a sustainable basis. Considering MINECOFIN strong capacity on the implementation of different Integrated Financial Management Information System (IFMIS) modules acquired over the years, we expect this assistance to be limited and focused on the necessary conceptual underpinnings, including developing the classification system and preparation of recommendations to guide the reform process. Based on this knowledge and said IFMIS implementation capacity, MINECOFIN will be fully in charge of operationalizing the climate budget tagging framework that is fully integrated into decision-making, including by publishing key climate information in the budget.
  - By the 2nd review, we will produce internal guidelines on the planned climate budget tagging system, including anticipated changes to the budget call circular and user requirements for IFMIS.
  - By the 3rd review, MINECOFIN will implement climate change budget tagging as a prototype on development expenditure only and publish a climate budget statement using the first budget tagging results. We will identify in the Budget Framework Paper (BFP) how climate information has been used in decision making.

- By the 4th review, MINECOFIN will expand the climate change budget tagging framework to cover all expenditure, adopting the approach laid out in the internal guidelines and drawing on lessons learned in the prototype period.
- By the 5th review, we will publish comprehensive tagging results in the climate budget statement and start publishing a quarterly climate expenditure report that compares climate change expenditure execution with budget plans.

- ***Reform area 2:*** *Integrating climate risks into fiscal planning.*
  - By the 1st review, we will submit a quantitative climate risk analysis in the Fiscal Risk Statement to the Fiscal Risk Committee and
  - By the 3rd review, we will further expand the quantitative climate risk analysis to include PPPs and SOEs that are vulnerable to climate-related risks. This new quantitative information will also highlight how investment in adaptation seeks to reduce the impacts of negative climate events.
- ***Reform area 3:*** *Improving the sensitivity of PIM to climate-related issues*.
  - By the 1st review, we will update the national investment policy to integrate the climate agenda.
  - By the 2nd review, we will publish the guidelines for the appraisal and selection criteria, including climate considerations, at MINECOFIN website.
  - By the 4th review, we will publish a consolidated report by sector with (i) information inclusive of the appraisal and selection criteria related to adaptation and mitigation and (ii) distribution of ratings according to the appraisal and selection criteria related to adaptation and mitigation.
- ***Reform area 4:*** *Enhancing climate-related risk managements for financial institutions and developing a green finance market as part of the broader capital market development effort to help mobilize financing*.
  - By the 3rd review, we will issue a guideline for climate-related risk managements for financial institutions.
  - By the 5th review, as part of our efforts to develop green finance market, we will issue a guideline to financial institutions regarding the implementation of recommendations of the International Sustainability Standards Board.
- ***Reform area 5:*** *Strengthening disaster risk reduction and management*
  - By the 1st review, we will adopt the new National Disaster Risk Reduction and Management Policy, replacing the 2012 National Disaster Management Policy, focusing on clarifying the roles and responsibilities between institutions and providing clear frameworks for community-based disaster risk reduction and management
  - By the 5th review, we will develop financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy at the local level.

39. These reforms will further strengthen our institutional capacity to more efficiently mobilize and allocate additional resources. Our NDC estimates that climate-related investment needs amount to US$11 billion by 2030 (which is, per year over 2023–30, about 10 percent of the 2022 projected GDP). While DRM will contribute to creating the fiscal space for climate-related investment, a large share of financing would have to come from external sources, including the private sector. We consider our plans for green PFM and climate-sensitive PIM (Reform Areas 1–3) should facilitate green financing from DPs and the private sector, by helping internalize climate-change considerations in the allocation of government resources and improving transparency and accountability in their use to deliver on ambitious climate measures. In addition, reforms on climate-related risk managements for financial institution (Reform Area 4) are a part of the broader capital market development effort to help mobilize financing. With already active involvement of DPs in the climate-related agenda in Rwanda, RSF-supported reforms can provide assurances that DP climate funds will be well-spent. In turn, additional DP resources to finance public or public-private partnerships or to de-risk climate change projects will help attract private financing by raising risk-adjusted returns.

40. In addition, we will continue to actively explore access to climate financing, given the large financing needs of our climate agenda. The Rwanda Green Fund (FONERWA), which provides green investment funding and training to public and private sectors, has funded 45 projects (including 8 private sector projects) in the value of about RWF 40 billion as of April 2022. FONERWA has also established a national taskforce charged with climate finance mobilization for NDC implementation. Our Ministry of Environment has been accredited to the Green Climate Fund (GCF) and the Adaptation Fund and is working to help the Rwanda Development Bank (BRD) to be accredited to support private-sector investment projects. The Rwanda Green Investment Facility (Ireme Invest) was launched during the 27th United Nations Climate Change Conference of the Parties (COP27) by FONERWA and the BRD. This facility, initially capitalized at US$104 million, will feature the Project Preparation Facility offering grants and the Credit Facility offering concessional loans and a credit guarantee.to support SME green projects. In addition, the Sustainable Finance Roadmap was finalized by the Kigali International Financial Center (KIFC), with a vision to make Kigali a regional financial center to attract new investors (including private) and to align financial flows to SDGs.

41. We will continue to work on other policy areas in our climate agenda. The CCDR proposes sector-specific recommendations on water management, agriculture, forestry management, energy, transport, and urban planning, which we will continue to incorporate into our climate agenda.

IV. PROGRAM MONITORING UNDER THE PCI AND RSF

42. PCI arrangement. 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 1a–2, with definitions provided in the attached Technical Memorandum of Understanding.

43. RSF arrangement. Progress in the implementation of the policies under this arrangement will be monitored through RMs. These are detailed in Table 3.

Table 1a. Rwanda: Quantitative Targets, December 2022 and June 2023

	end-Dec 2022	end-June 2023
	Prog	Prog
(Billions of Rwandan francs, unless otherwise indicated)		
Half-yearly Quantitative Targets[1]		
1. Ceiling on the debt-creating overall deficit, including grants[2]	-631	-1,128
2. Floor on stock of Net Foreign Assets	1,143	1,191
3. Ceiling on flow of net accumulation of domestic arrears	0	0
Continuous Targets		
4. Ceiling on stock of external payment arrears (US$ million)	0	0
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt[3] (US$ million)	759	390
Monetary Policy Consultation Band[1,4]		
CPI Inflation target	11.0	11.0
Inflation, upper inner-bound, percent	14.0	14.0
Inflation, lower inner-bound, percent	8.0	8.0
Inflation, upper bound, percent	15.0	15.0
Inflation, lower bound, percent	7.0	7.0
Memorandum items:		
Total priority spending[2]	790	1,590
Floor on domestic revenue collection[2,5]	1,145	2,393
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700	700
Total budget support (US$ million) [2]	362	743
Budget support grants (US$ million)	112	319
Budget support loans (US$ million)	250	424
of which 'RSF Disbursements (US$ million)	0	74
RWF/US$ program exchange rate	1,024	1,024

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, 2022.
[3] End-Dec 2022 number is cumulative from the beginning of calendar year 2022. End-June 2023 is cumulative since the beginning of calendar year 2023.
[4] When the end-of period year-on-year average inflation is above/below the outer band of the upper/lower bound, a formal consultation with the Executive Board would be triggered.
[5] Floor is adjusted to exclude UN peace keeping operations, in line with the TMU.

Table 1b. Rwanda: Standard Continuous Targets

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

Table 2. Rwanda: PCI Reform Targets, end-March 2023–end-May 2024

Actions	Target Date	Review	Objective
1) Fiscal Pillar			
Submit revisions to the corporate income tax law to Cabinet	end-May 2023	1st Review	Improve DRM
Expand the coverage in quarterly fiscal reporting in GFS 2014 to include the whole general government (i.e. including RSSB).	end-April 2023	1st Review	Improve fiscal transparency/PFM
Conduct a review of RSSB asset allocation and submit the associated report to RSSB management.	end-October 2023	2nd Review	Improve fiscal transparency
Submit to Cabinet an outline the underlying policies behind the spending rationalization strategy in the FY 24/25 Planning and Budget Outlook Paper	end-November 2023	2nd Review	Improve credibility of fiscal consolidation
Submit to Cabinet a spending rationalization strategy outlining policy measures underlying the medium-term projection of the fiscal consolidaiton path as an annex to the FY 24/25 budget framework paper	end-May 2024	3rd Review	Improve credibility of fiscal consolidation
2) Monetary and Financial Pillar			
Publication of a Monetary Policy Strategy approved by Monetary Policy Committee	end-March 2023	1st Review	Strengthen monetary policy communication
BNR management to approve a roadmap for GMRA implementation endorsed by all stakeholders	end-April 2023	1st Review	Strengthen monetary policy operations
Finalize a diagnostic study of foreign exchange markets	end-September 2023	2nd Review	Strengthen monetary policy operations
3) Resilience Pillar			
Finalize the roll-out of a dynamic social registry to all beneficiaries of social protection schemes under the Vision 2020 Umenge Program (VUP) and beneficiaries of subsidized enrollment in the Community Based Health Insurance (CBHI)	end-May 2024	3rd Review	Build resilience through social safety nets

Table 3. Rwanda: RSF Reform Measures

	Reform measure (RMs)	Review
Reform Area 1. Strengthening and institutionalizing the **monitoring and reporting of climate-related spending** feeding into decision making processes.		
RM4	Produce internal guidelines on the planned climate budget tagging system, including anticipated changes to the budget call circular and user requirements for the Integrated Financial Management Information System (IFMIS).	2nd Review
RM6	MINECOFIN staff to implement climate change budget tagging as a prototype on development expenditure only and publish a climate budget statement using the first budget tagging results. Identify in the Budget Framework Paper (BFP) how climate information has been used in decision making.	3rd Review
RM9	MINECOFIN staff to expand the climate change budget tagging framework to cover all expenditure, adopting the approach laid out in the internal guidelines and drawing on lessons learned in the prototype period.	4th Review
RM11	Publish comprehensive tagging results in the climate budget statement and start publishing a quarterly climate expenditure report that compares climate change expenditure execution with budget plans.	5th Review
Reform Area 2. Integrating **climate risks** into fiscal planning.		
RM1	Submit a quantitative climate risk analysis in the Fiscal Risk Statement to the Fiscal Risk Committee.	1st Review
RM7	Further expand the quantitative climate risk analysis to include PPPs and SOEs that are vulnerable to climate-related risks, highlighting how investment in adaptation seeks to reduce the impacts of negative climate events.	3rd Review
Reform Area 3. Improving the sensitivity of **PIM** to climate-related issues.		
RM2	Update the national investment policy to integrate the climate agenda.	1st Review
RM5	Publish the guidelines for the appraisal and selection criteria, including climate considerations, at MINECOFIN website.	2nd Review
RM10	Publish a consolidated report on major projects in the pipeline by sector with information inclusive of (i) the appraisal and selection criteria related to adaptation and mitigation and (ii) the distribution of ratings according to the appraisal and selection criteria related to adaptation and mitigation.	4th Review
Reform Area 4. Enhancing **climate-related risk managements for financial institutions** and developing a green finance market as part of the broader capital market development effort to help mobilize financing.		
RM8	Issue a guideline for climate-related risk managements for financial institutions.	3rd Review
RM12	Issue a guideline to financial institutions with regard to the implementation of recommendations of the International Sustainability Standards Board (ISSB).	5th Review
Reform Area 5. Strengthening **disaster risk reduction and management**.		
RM3	Adopt the new National Disaster Risk Reduction and Management Policy, replacing the 2012 National Disaster Management Policy, focusing on clarifying the roles and responsibilities between institutions and providing clear frameworks for community-based disaster risk reduction and management.	1st Review
RM13	Develop financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy at the local level.	5th Review

Table 4. Rwanda: Summary of the External Borrowing Program[1]

	July-December 2022		January-June 2023	
	Program		Program	
	Nominal	PV	Nominal	PV
(Millions of USD)				
By sources of debt financing	**589**	**324**	**734**	**390**
Concessional debt, of which [2]	**430**	**185**	**493**	**169**
Multilateral debt	304	121	295	79
Bilateral debt	127	63	198	90
Other	0	0	0	0
Non-concessional debt, of which	**159**	**140**	**242**	**221**
Semi-concessional [3]	159	140	80	59
Commercial terms [4]	0	0	162	162
By Creditor Type	**589**	**324**	**734**	**390**
Multilateral	397	206	355	123
Bilateral - Paris Club	94	66	178	80
Bilateral - Non-Paris Club	99	52	40	25
Other	0	0	162	162
Uses of debt financing	**589**	**324**	**734**	**390**
Infrastructure	289	204	423	183
Social Spending	100	27	50	13
Budget Financing	200	93	262	193
Other	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 threashold 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, November 25, 2022

1. This memorandum defines the quantitative targets described in the Program Statement (PS) for the period: July 1, 2022–June 30, 2023, supported by the IMF Policy Coordination Instrument (PCI) and sets out the data reporting requirements.

2. Program exchange rates. For program purposes, the exchange rates for end-June 2022 in the IMF's International Financial Statistics database will apply (see Table 1 for major currencies).

Table 1. Program Exchange Rates from June 30, 2022
(US$ per Currency Unit, Unless Indicated Otherwise)

Rwanda Franc (per US$)	1,024.5
Euro	1.039
British Pound	1.211
Japanese Yen (per US$)	136.6
SDR	1.328

A. Quantitative Program Targets

Ceiling on Debt-Creating Overall Fiscal Deficit

3. A ceiling applies to the debt-creating overall fiscal deficit of the budgetary central government, excluding Peace-Keeping Operations and including grants. The ceilings for December 31, 2022, and June 30, 2023, are cumulatively measured from June 30, 2022.

4. Definition. For the program, the debt-creating overall fiscal deficit is defined by the overall fiscal deficit, 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 deficit 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 based on 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 deficit as of the beginning of the fiscal year.

Adjustors to the Debt-Creating Overall Fiscal Deficit

- The ceiling on the debt-creating overall deficit will be adjusted upward:
  - by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1a of the PS).

  - by the amount of unexpected budgetary central government expenditure on cereals imports in the case of a food emergency and in spending relative to the programmed amount on fertilizer subsidy in the case of significant increases in fertilizer import price.

- The combined upward adjustments in the two above-mentioned adjustors would be capped at RWF 291 billion to ensure reserves do not fall below 4 months of prospective import cover, which is the minimum adequate level for Rwanda.
- The ceiling on the debt-creating overall deficit will be adjusted upward to a maximum of 130 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 from previously disbursed capital grants.

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

5. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2022, and June 30, 2023.

6. Definition. NFA of the NBR 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 NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps with resident institutions with original maturity of one year or less, and with non-resident institutions) are excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Reserve's assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA. Holdings of Eurobonds issued by the Government of Rwanda are excluded from the measurement of NFA. 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 (including RSF disbursement) and grants per Table 1a of the PS.
- The floor on NFA will be adjusted downward by the amount of unexpected public expenditures on cereal imports in the case of a food emergency and/or on fertilizer imports in the case of significant fertilizer import price increases.
- The combined downward adjustments in the three above-mentioned adjustors would be capped at RWF 124 billion in December 2022 and RWF 171 billion in June 2023 to ensure reserves do not fall below 4 months of prospective import cover, which is the minimum adequate level for Rwanda.

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 (considering 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]

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

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

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

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

   i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of

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

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 Rwandan Franc.

13. A continuous ceiling is applied to the present value (PV) of all new external debt (concessional or non-concessional) contracted or guaranteed by the central government, including commitments contracted or guaranteed for which no value has been received. The ceiling for December 31, 2022, is cumulative from January 1, 2022. The ceiling for June 30, 2023, is cumulative from January 1, 2023. This quantitative target does not apply to:

- Normal import-related commercial debts having a maturity of less than one year;
- Rescheduling agreements;
- 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
- 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) based on 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 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -150 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -350 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -250 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -150 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. The program reference rate and spreads will remain fixed and will not be revised until every Fall edition of the World Economic Outlook (WEO). Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

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 quantitative target on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

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

Monetary Policy Consultation Clause (MPCC)

20. Definition. MPCC headline inflation is defined as the year-on-year rate of change in the 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 the target band value for end-December 2022 and end-June 2023 as specified

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

in Table 1a in the PS, the authorities will conduct discussions with the Fund staff.

- If the observed headline inflation falls outside the ±4 percentage point range around mid-point of the target band value for end-December 2022, and end-June 2023 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.

Memorandum Items and Data Reporting Requirements

21. For the purposes of program monitoring, the Government of Rwanda will provide the data listed below and in Table 2. Unless specified otherwise, weekly data will be provided within seven days of the end of each week; monthly data within five weeks of the end of each month; quarterly data within eight weeks.

22. Data on priority expenditure will be transmitted on a quarterly basis. Priority expenditure is defined as the sum of those recurrent expenditures, domestically financed capital expenditures, and policy lending that the government has identified as priority in line with Rwanda's National Strategy for Transformation (NST-1). Priority expenditure is monitored through the Integrated Financial Management System (IFMS) which tracks priority spending of the annual budget at the program level of the end of each quarter.

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

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

25. The authorities will inform the IMF staff in writing prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include, but are not limited to, customs and tax laws, wage policy, and financial support to public and private enterprises. The authorities will inform the IMF staff of changes affecting with respect to continuous QTs. The authorities will furnish a description of program performance for the

QTs as well as reform targets within 8 weeks of a test date. The authorities commit to submit information to IMF staff with the frequency and submission time lag indicated in Table 2 of the TMU. The information should be mailed electronically to the Fund (email to the Resident Representative and the Mission Chief).

Table 2. 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 NBR to commercial banks and other foreign currency interventions by NBR.	D	W	W
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	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 NBR[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 NBR.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions. Balances for project accounts and swaps with original maturity less than one year should be indicated.
[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 NBR 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).

INTERNATIONAL MONETARY FUND

RWANDA

November 28, 2022

REQUEST FOR A NEW 36-MONTH POLICY COORDINATION INSTRUMENT AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Catherine Pattillo and Eugenio Cerutti (IMF), Marcello Estevão and Asad Alam (IDA)

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

Rwanda: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Sustainable*
Application of judgment	*Yes*

The updates to the Bank/Fund assessment of Rwanda's debt sustainability analysis indicate a moderate risk of external and overall public debt distress. The current debt-carrying capacity is consistent with a classification of 'strong'.[2] The baseline scenario is based on the macroeconomic projections in the accompanying Staff Report for discussions of a new PCI and RSF request, reflecting the negative impact of the spillovers from the war in Ukraine. Rwanda's financing strategy assumes continued support from bilateral and multilateral development partners over the medium term, with highly concessional loans for new external borrowing under IDA 20 and an increasing share of domestic financing in the long term. The DSA also incorporates a 36-month Resilience and Sustainability Facility (RSF)-supported program with proposed access level of 150 percent of quota (SDR 240.3 million). While the debt indicators and standard stress tests mechanically classify debt sustainability risks as low, in staff's judgement, they don't fully capture the highly uncertain and difficult current external environment for Rwanda affecting the risks of declining concessional financing, U.S. monetary policy tightening and U.S. dollar appreciation, and terms-of-trade shocks, which warrants maintaining moderate risk of debt distress. The country also remains susceptible to adverse market conditions and climate shocks. The authorities are encouraged to implement the ambitious fiscal consolidation strategy envisaged under the new PCI, use concessional external financing (including the RSF) in place of the more expensive domestic financing to increase international reserve buffers, and further strengthen their debt management capacity to mitigate heightened uncertainty and risks, including those climate-related, surrounding the current environment.

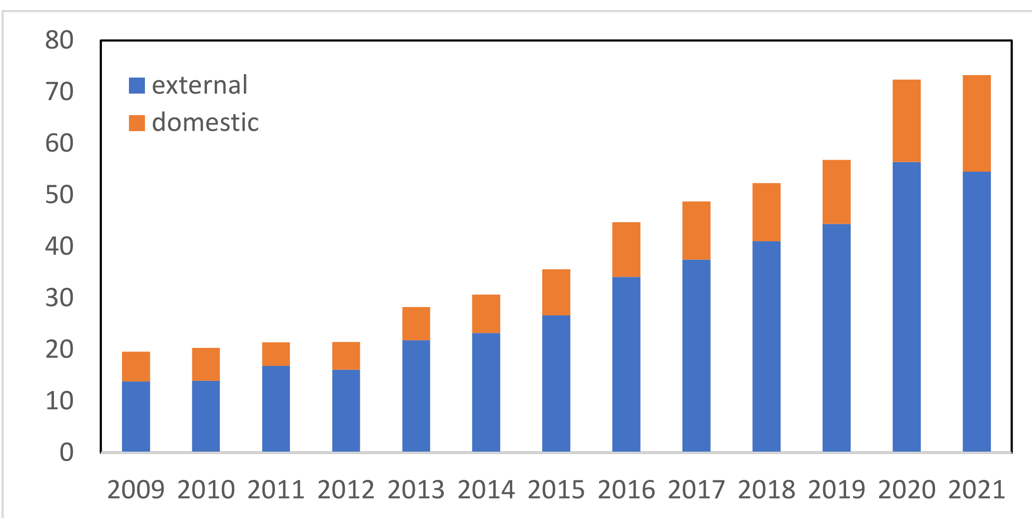
[1] This debt sustainability analysis was conducted using the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) that was approved in 2017. The fiscal year for Rwanda is from July to June; however, this DSA is prepared on a calendar year basis.

[2] Rwanda's has a debt carrying capacity indicator score of 3.16 based on the October 2022 WEO and the World Bank's 2021 CPIA data. This implies a classification of strong debt carrying capacity, which is the same classification as under the previous DSA.

BACKGROUND

1. Rwanda's public and publicly-guaranteed (PPG) external debt-to-GDP ratio increased by 31.3 percentage points over the last 7 years, driven by loans to meet the development needs envisaged in the National Strategy for Transformation (NST), but also to respond to the fallout from the COVID-19 pandemic. The development needs are supported by a long-planned comprehensive public investment strategy, including three large projects to support trade and tourism through a series of public-private partnerships and external guarantees outside the budgetary central government (construction of the Kigali Convention Center completed in 2016, the expansion of the national airline RwandAir, and the ongoing construction of the Bugesera airport). These developments contributed to an increase in PPG external debt by 21.1 percentage points in the five years preceding the COVID-19 shock. At the same time, the increase in the fiscal deficit due to revenue shortfalls and a scaling up in spending to address the COVID-19 crisis led to sharp debt increase by an additional 12.1 percentage points in 2020, followed by 1.9 percentage points decline in 2021. As a result, external PPG debt has risen from 23.2 percent of GDP in 2014 to 54.5 percent in 2021 (Text Figure 1). It continues to be dominated by multilateral lending on concessional terms, resulting in a present value (PV) of external PPG debt-to-GDP ratio of 34.9 percent at end-2021. Total PPG debt stood at 73.3 percent of GDP at end-2021, which is slightly lower than the 2021 DSA projections (estimated at 74.6 percent of GDP) due to higher-than-expected GDP growth and lower fiscal deficit. In August 2021, Rwanda took advantage of the favorable market conditions and issued US$620 million Eurobond at 5.5 percent yield, partly to buyback 85 percent of the 2013 Eurobonds maturing in 2023 and smooth out the liquidity risk. Interest rates on domestic T-bills and T-bonds range from 5.7 percent (28 days) to 12.9 percent (20 years).

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



Sources: Rwandan authorities and IMF Staff Calculations.

Text Table 1. Rwanda: Decomposition of Public and Publicly-Guaranteed Debt and Debt Service by Creditor, 2021–23[1]

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$ mn)	*(Percent total debt)*	*(Percent GDP)*[5]	*(In US$ mn)*			*(Percent GDP)*		
Total	7,944.8	100.0	73.3	976.3	884.7	561.0	8.8	7.3	4.3
External	5,910.0	74.4	54.5	720.0	195.7	251.3	6.5	1.6	1.9
Multilateral creditors[2]	4,331.6	54.5	40.0	69.6	91.4	104.7	0.6	0.8	0.8
IMF	364.3	4.6	3.4	0.0	45.0	33.7	0.0	0.4	0.3
World Bank	2,583.1	32.5	23.8	38.7	49.3	59.0	0.3	0.4	0.4
ADB/AfDB/IADB	1,045.0	13.2	9.6	15.6	16.3	17.8	0.1	0.1	0.1
Other Multilaterals	339.2	4.3	3.1	15.4	15.1	15.6	0.1	0.1	0.1
o/w: IFAD	171.7	2.2	1.6						
BADEA	77.8	1.0	0.7						
Bilateral Creditors	813.4	10.2	7.5	37.9	33.0	33.1	0.3	0.3	0.3
Paris Club	328.9	4.1	3.0	14.1	7.3	7.3	0.1	0.1	0.1
o/w: JICA	142.4	1.8	1.3						
AFD	101.9	1.3	0.9						
Non-Paris Club	484.5	6.1	4.5	23.8	25.7	25.8	0.2	0.2	0.2
o/w: EXIM-CHINA	333.3	4.2	3.1						
SFD	77.7	1.0	0.7						
Bonds	680.6	8.6	6.3	360.6	38.1	96.7	3.3	0.3	0.7
Commercial creditors	84.3	1.1	0.8	251.8	33.1	16.8	2.3	0.3	0.1
o/w: Trade Development Bank	50.3	0.6	0.5						
o/w: KCB Kenya	10.5	0.1	0.1						
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2,034.8	25.6	18.8	256.3	689.0	309.8	2.3	5.7	2.4
Held by residents, total	2,034.8	25.6	18.8	256.3	689.0	309.8	2.3	5.7	2.4
Held by non-residents, total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	420.7	5.3	3.9	38.7	405.5	24.6	0.3	3.3	0.2
Bonds	935.3	11.8	8.6	156.6	155.8	177.0	1.4	1.3	1.3
Loans	678.8	8.5	6.3	61.0	127.7	108.2	0.6	1.1	0.8
Memo items:									
Collateralized debt[3]	0.0	0.0	0.0						
Contingent liabilities[4]	0.0	0.0	0.0						
Nominal GDP (US$ million)				10,944	12,679	14,709			

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
4/Guaranteed debt is included in public debt.
5/Data is reported by the authorities based on calculations in national currency, deviates from U.S. dollar-based calculations due to the difference between end-of-period exchange rate (applied for nominator) and period-average exchange rate (applied for denominator).

Sources: Rwandan authorities and IMF Staff Calculations.

Public Debt Coverage

2. **The DSA covers the central government, guarantees, and state-owned enterprises (Text Table 2).** The Ministry of Finance and Economic Planning (MINECOFIN) publishes annual debt data, covering domestic and external debt of the central government, broken down by multilateral, bilateral and commercial debt, as well as information on both domestic and external guarantees and domestic and

external debt held by all state-owned enterprises (SOEs).[3] There is no debt stemming from extra budgetary funds, long term central bank financing of the government, nor the state-owned social security fund. The local government debt is not covered but the existing stock to date is marginal,[4] and its contracting is subject to approval by MINECOFIN. The contingent liabilities shock (6.1 percent of GDP) accounts for potential fiscal costs associated with fiscal risks of existing public-private partnerships (PPPs), as well as for the possible incidence of a financial crisis. External debt is defined on a currency basis.

Text Table 2. Rwanda: Coverage of Public and Publicly-Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	The country's coverage of public debt	The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0	SOE debt is covered in PPG debt
4	PPP 2/	35 percent of PPP stock	1.1	default, i.e. 35 percent of PPP stock
5	Financial market (the default value of 5 percent of GDP is the minimum val	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		6.1	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2/ When PPP stock is less than 3 percent of GDP, as reflected in the World Bank's database, then test is set to zero.

3/ Based on project value

UNDERLYING ASSUMPTIONS

3. The macroeconomic assumptions underlying the baseline scenario reflect recent economic developments and policies, including adverse spillovers from the war in Ukraine (Text Table 3). Compared to the previous DSA, growth was downgraded by 0.4 percentage points to 6.8 percent in 2022, and by 1.7 percentage points to 6.2 percent in 2023. This partly reflects energy and food price increases exacerbated by the war in Ukraine adding to inflationary pressures in Rwanda, while reducing real incomes domestically and in the trading partner countries. Economic activity is expected to regain momentum in 2024, if the situation normalizes, driven by the pickup in construction of the new airport and the subsequent boost to the services sector, and private consumption and investment as the main growth

[3] Leases on RwandAir (SOE) aircrafts are not covered; further data will be needed from the authorities to assess its impact on PPG debt. In addition, existing public-private partnerships (power purchase agreements, water purchase agreements, etc.) are not part of the PPG debt.

[4] Local government debt stood at RWF 3.9bn or 0.04 percent GDP at end-2021. The authorities expect to start regularly reporting the local government debt in 2023.

drivers in the medium term. Overall, growth trajectory for 2024 onwards was kept broadly unchanged from the previous DSA, gradually converging to 6.5 percent over the long term. The fiscal consolidation path envisaged in the previous DSA is expected to be broadly maintained although slightly more backloaded, predicated on the phasing-off of large COVID-19 related spending, spending rationalization through better spending prioritization and efficiency gains, and domestic revenue mobilization under the current medium-term revenue strategy. But multiple factors affect the projected fiscal deficit trajectory, including the significant UK budget grants that are deficit reducing and the changes in IDA20 financing terms that will increase primary deficit as it shifts financing from the World Bank from 50-50 grant-loan financing to 100 percent loans, though with higher concessional terms. The projections continue to assume strong fiscal policy consolidation to accelerate public debt convergence to the anchor, with some relaxation afterwards[5]. The current account improved in 2022, reflecting a temporary reduction in capital imports, tourism recovery, and strong remittances. The current account deficit is projected to widen in 2023 due to adverse commodity price dynamics and start narrowing thereafter, largely driven by fiscal developments. It expanded amid sustained external financing and fiscal policy response to COVID-19 but the current account gap is expected to start narrowing down as the envisaged fiscal tightening takes place, with the current account deficit reaching 7.7 percent GDP by 2027.

4. Rwanda's financing strategy assumes continued support from bilateral and multilateral development partners over the medium term (Table 5). Besides financing from the World Bank and the IMF, the projection assumes disbursements of external financing from the African Development Bank and several other multilateral and official bilateral partners. In the context of fiscal consolidation and negotiated new external resources, the share of domestic financing is projected to remain low until 2030 and pick up thereafter. The share of market-based external financing is also projected to increase starting 2030, although very slowly. Under the IDA20 financing terms, the volume of loans is projected to increase given the shift from 50-50 grant-loan financing under IDA19 to 100 percent loans, hence, the fiscal deficit and the nominal debt will increase as well, but given the higher concessional terms of IDA20 loans, the expected impact on the present value of debt is marginal.[6] IDA financing signed after 2024 is assumed to be in the form of 100 percent credit on regular IDA terms.

5. The DSA also takes into account a proposal for a 36-month Resilience and Sustainability Facility (RSF)-supported program with the access level of 150 percent of quota (SDR240.3 million).[7] The RSF-supported program will help the authorities to undertake the delivery and monitoring of ambitious climate-related measures, which are expected to encourage private financing for green investment. Financial assistance under the RSF is projected to support authorities' efforts in greening the economy by providing more concessional external financing in place of the more expensive domestic financing while also expected to help catalyze concessional financing from other sources, thus improving the underlying public debt dynamics. Besides reducing the PV of debt, RSF would also support

[5] The fiscal consolidation path and policies discussed in Country Report No. 2022/200 is broadly maintained.

[6] 50-year loans under IDA20 have grant element of about 74 percent, while 50-50 grant-loan financing that prevailed under IDA19 has grant element of about 77 percent. With 3 percentage points difference, if cumulative disbursements under IDA20 reach 3.2 percent GDP, the effect on PV of external debt would be increase by about 0.1 percent GDP.

[7] The RSF loan has a 20-year maturity with 10 ½ year grace period, with borrowers paying an interest rate with a modest margin over the three-month SDR rate.

international reserve buffers, needed to deal with natural disaster shocks, as discussed in ¶15. The RSF-supported reforms are also expected to counter adverse debt dynamics by strengthening climate-sensitive policies and enabling an integrated government strategy to combat climate change and its adverse macroeconomic consequence, thereby improving resilience to climate shocks. It will do so inter alia by reducing the adverse impact of natural disasters on output, damages to physical assets, and post-disaster fiscal costs (as illustrated by the IMF DIGNAD model simulations in Box 2 of the accompanying Staff Report for discussions of a new PCI and RSF request).

Text Table 3. Rwanda: Key Macroeconomic and Debt Assumptions—Comparison with the Previous Debt Sustainability Analysis

Calendar year	2021	2022	2027	2032	2037	2041	2027-41
	Actual			Projections			
Selected indicators from the macro-framework and debt data							
(Percent, unless otherwise indicated)							
				PV of PPG External Debt to GDP Ratio			
2021 DSA (5th PCI Review)	36.1	39.2	38.8	30.9	26.3	22.1	29.7
2022 DSA (current)	34.9	33.6	39.5	35.2	28.4	24.2	32.2
				PV of Public Debt to GDP Ratio			
2021 DSA (5th PCI Review)	52.9	55.3	47.9	42.9	42.1	42.0	43.2
2022 DSA (current)	54.4	52.7	52.1	46.1	49.4	51.0	48.7
				Grant Element of New External Borrowing			
2021 DSA (5th PCI Review)	26.3	39.8	43.7	38.0	29.2	19.3	33.0
2022 DSA (current)		47.9	41.8	37.5	35.1	24.7	35.3
				Real GDP Growth (annual percent change)			
2021 DSA (5th PCI Review)	10.2	7.2	6.3	7.1	6.7	6.5	6.8
2022 DSA (current)	10.9	6.8	6.2	7.1	6.7	6.5	6.9
				Current Account Balance (percent of GDP)			
2021 DSA (5th PCI Review)	-11.0	-11.5	-7.0	-7.2	-6.0	-5.1	-6.6
2022 DSA (current)	-10.9	-10.5	-7.7	-10.3	-9.5	-8.4	-9.5
				Exports of goods and services (percent of GDP)			
2021 DSA (5th PCI Review)	18.9	24.4	33.3	32.8	30.5	29.7	31.9
2022 DSA (current)	19.1	24.1	27.0	24.7	24.7	25.7	25.1
				Fiscal balance (percent of GDP)			
2021 DSA (5th PCI Review)	-9.3	-7.8	-3.1	-4.1	-3.4	-3.3	-3.6
2022 DSA (current)	-7.9	-8.0	-3.0	-3.9	-3.9	-3.6	-3.6
				CPI, period average (percent)			
2021 DSA (5th PCI Review)	0.7	5.7	5.0	5.0	5.0	5.0	5.0
2022 DSA (current)	0.8	12.6	5.0	5.0	5.0	5.0	5.0

6. **Realism tools indicate that the planned fiscal adjustment is ambitious (Figure 4).** A 3-year fiscal consolidation in the primary balance is expected to peak at 3.8 percentage points of GDP from 2024 to 2027. Such adjustment lies in the top quartile of the distribution of past adjustments for a sample of LICs, signaling that the envisaged fiscal adjustment in the baseline scenario is ambitious based on past experiences in LICs. The adjustment reflects the domestic revenue mobilization and spending rationalization measures expected to be implemented during the period covered under the new PCI arrangement.

7. In the past, PPG debt dynamics have been strongly affected by the materialization of fiscal risks (Figure 3). Changes in total public debt over the past five years have been driven by higher-than-anticipated primary deficits due to the pandemic response and unanticipated developments of the debt outside the budgetary central government, leading to a higher-than-expected debt accumulation of about 25 percentage points of GDP—well in excess of the 75 percent quartile of other low-income countries. The ongoing efforts with the support of IMF TA to strengthen the management of fiscal risks to mitigate unanticipated fiscal developments outside the central government, which is a key pillar of the first PCI and the proposed new PCI, would help mitigate the prospects for unexpected debt increases. Going forward, the evolution of public debt will continue to be dominated by the path of the primary fiscal deficit and the real GDP growth.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

8. Rwanda's debt-carrying capacity continues to be assessed as "strong" (Text Tables 4a and 4b). The composite index (CI) for Rwanda, which measures the debt-carrying capacity in the new LIC-DSF, stands at 3.16, above the cut-off value of 3.05 for strong capacity countries. The underlying inputs for the calculation of the CI were sourced from the IMF's October 2022 WEO, and October 2022 update of the World Bank Country Policy and Institutional Assessment (CPIA) to 2021 levels. The CI score is largely driven by Rwanda's high CPIA score and adequate reserve coverage.

Text Table 4a. Rwanda: Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	4.06	1.56	49%
Real growth rate (in percent)	2.72	6.27	0.17	5%
Import coverage of reserves (in percent)	4.05	39.20	1.59	50%
Import coverage of reserves^2 (in percent)	-3.99	15.37	-0.61	-19%
Remittances (in percent)	2.02	2.97	0.06	2%
World economic growth (in percent)	13.52	2.90	0.39	12%
CI Score			3.16	100%
CI rating			Strong	

New framework	Cut-off values		
Weak	CI ≤	2.69	
Medium	2.69	< CI ≤	3.05
Strong	CI >	3.05	

Text Table 4b. Rwanda: Applicable Thresholds and Benchmarks

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

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

9. Rwanda may still face liquidity pressures from adverse market conditions if it turns to market financing to close the significant gross financing needs (Figure 5). Market-financing stress test was applied to Rwanda. Risk indicators from the stress test show that the country has significant gross financing needs, and its spreads have increased following the recent rise of sovereign spreads globally, breaching the thresholds.

DEBT SUSTAINABILITY ANALYSIS

External Debt

10. External debt indicators under the baseline and standard stress tests remain below their respective thresholds (Tables 1 and 3; Figure 1). Solvency indicators, PV of external debt-to-GDP ratio and of external debt-to-export ratio, remain below their indicative thresholds under the baseline scenario and under the most extreme shocks, combined and export shocks. Liquidity indicators show that liquidity risks are remote, as the authorities' debt management strategy to smooth out the debt servicing profile helped to mitigate the liquidity risks. The debt service-to-exports and debt service-to-revenue ratios remain below their thresholds until 2031 under the baseline and all stress tests applied, but prudent debt management strategy would be needed to mitigate the risks associated with the repayment of the existing Eurobond in 2031.

11. A customized alternative scenario illustrates risks to external debt sustainability stemming from the current uncertain and difficult external environment for Rwanda not fully captured in standard stress tests, with PV of external debt-to-GDP and debt service-to-revenue ratios reaching and briefly breaching the respective thresholds (Figure 1, Table 1). The current risks for Rwanda include, among others: decline in availability of concessional financing from their development partners; U.S. monetary policy tightening, and the associated tightening of external commercial borrowing terms and U.S. dollar appreciation putting additional pressure on the exchange rate; domestic monetary policy tightening and increasing domestic borrowing costs; terms-of-trade shocks (e.g., oil price increase); decline in tourism amid continued war in Ukraine. The alternative scenario illustrates the combined risk of temporary decline in external budget grants and sustained U.S. dollar appreciation pressures. In the scenario, only clearly identified grants from international organizations are assumed to materialize in 2023–26, while grants from foreign governments and other grants are excluded. The resulting gap is covered with external commercial borrowing, which assumes further increases in interest rate following the U.S. monetary policy tightening. The scenario also assumes additional Rwanda franc depreciation against the U.S. dollar to reverse the recent rapid real effective exchange rate appreciation (21.4 percent in January-August 2022). Under this alternative scenario, PV of debt reaches the threshold value of 55 percent GDP in 2025-2026 (with a small breach), before gradually reducing to the baseline trajectory. The debt service-to-revenue ratio briefly exceeds the 23 percent threshold in 2028.

12. The PV of external debt-to-GDP ratio increases steadily under the historical scenario since the latter assumes large external shock and imbalance reflecting averages of several large shocks and imbalances observed in the past (Table 3 and Figure 1). This is primarily due to the large current account deficit and negative USD GDP deflator calibrated using historical averages, which covered a period including several large shocks (commodity prices and drought) and large external imbalances corrected over 2015–17. Thus, policy adjustment to ensure a steady narrowing of the current account deficit from its elevated 2019–21 levels, as envisaged under the baseline scenario (Text Table 2), is key to strengthen robustness of the debt dynamics.

Public Debt

13. Under the baseline scenario, the PPG debt is expected to reach the program debt anchor of 65 percent of GDP under the PCI by 2031, supported by a large, but growth-friendly fiscal consolidation and a strong rebound in economic activity (Table 2). The nominal PPG debt is projected to peak at 77.3 percent GDP in 2025 then gradually converge to the debt anchor of 65 percent GDP by 2031.[8] The present value (PV) of PPG debt is projected to decline and achieve the East African Community debt convergence criterion of 50 percent by 2028. These dynamics would require a cumulative reduction in the primary fiscal deficit by 4.4 percentage points of GDP between 2021 and 2027.

14. Contingent on the projected growth trajectory and ambitious fiscal consolidation, PV of PPG debt stays well below the indicative benchmark of 70 percent of GDP but remains close to the threshold under the growth shock scenario (Tables 2 and 4; Figure 2). In the baseline scenario, the PV of PPG debt reaches 56.1 percent in 2024 and declines to below 50 percent in 2028. While the PV of PPG debt does not cross the 70 percent threshold under the most severe, growth shock, it stays close to the benchmark. While liquidity risks are muted in the baseline, reflecting a smooth debt service path achieved by the Eurobond issuance, debt service costs would remain elevated under the severe, growth shock.

CLIMATE CHANGE RISKS

15. Rwanda is vulnerable to the consequences of climate change through various channels, which might affect the debt dynamics. World Bank's (2022) Country Climate and Development Report (CCDR) for Rwanda identified that climate change might increase variability of crop yields, reduce labor productivity, and affect tourism through changing patterns of rainfall, extreme heat, increased incidents of illnesses, while extreme flooding events might become more frequent and damaging. This might reduce the long-term growth, affecting debt sustainability indicators in the long run, and increase risks of damage to infrastructure and other built-up capital requiring strong fiscal response.

16. To illustrate the risk of extreme flooding event, a natural disaster stress test for Rwanda was conducted, showing that preserving existing fiscal policy buffers and building up international reserves would be warranted (Figures 6 and 7). The natural disaster stress test was informed by the once-in-100-years flooding scenario discussed in the CCDR. The flooding was assumed to damage 11.2 percent of the physical capital and require about 18 percent of GDP of investments to fully replace the damage.[9] The associated increase of imports would create a balance-of-payments need estimated at 6 percent GDP (US$0.8 billion in 2022 prices).[10] In the year of the flooding, the GDP is expected to decline

[8] For discussion of the debt anchor see Country Report No. 2021/1 and the accompanying staff report for new PCI and RSF request (EBM/22).

[9] Capital-to-GDP ratio was estimated at 1.6 using the perpetual inventory method.

[10] Import content of investment was estimated at 34 percent using 2021 shares of capital imports in gross fixed capital formation and intermediate and energy imports in GDP.

by 4.4 percent. Given limited domestic savings, the investment needs are assumed to be covered with external financing. The projected debt dynamics, for external and total PPG debt, indicates that existing policy buffers (including proposed RSF financing) might need to be fully utilized to deal with such a shock, and deployment of international reserves in addition to incurrence of liabilities might be needed as PV of external PPG debt-to-GDP ratio and PV of total PPG debt-to-GDP ratio approach their indicative thresholds. While this scenario illustrates the impact of a major natural disaster, it is considered separately from the other stress tests, given the calibrated low probability of the event. That said, with expected increase in the frequency and intensity of climate change events, series of smaller but more frequent natural disasters could lead to comparable balance-of-payments needs and debt risks.

17. Rwanda has prepared an ambitious and innovative response package of measures seeking to carve out a green, inclusive, responsible, and growth-orientated development pathway outlined in its revised Nationally Determined Contribution (NDC). While additional unilateral climate spending and investment are unlikely to fundamentally change the climate outlook for Rwanda, as such a change calls for global action, they can increase countries' resilience to climate shocks (as illustrated in the Debt, Investment, Growth, and Natural Disasters (DIGNAD) model simulations in Box 2 of the accompanying Staff Report for discussions of a new PCI and RSF request)[11]. According to the NDC, the estimated cost of new investments is US$11.0 billion, of which US$6.9 billion is conditional on new financing. This is equivalent to spending an average of 8.8 percent of GDP each year through 2030—exceeding recorded and projected annual inflows of either official development assistance (ODA) or foreign direct investment (FDI) between 2015 and 2030 and representing a large share of domestic revenue collection or public investment spending during the same period. The CCDR noted that this commitment likely overstates the true additional expense since either some NDC projects are already underway, or they would replace other development projects in the pipeline.

18. While it remains difficult to quantify the risks to PPG debt sustainability associated with the NDC objectives of the authorities, such risks can be assumed contained, as the authorities' actions are contingent on the availability of grant resources and private financing. Currently, it remains unclear how much climate-related spending the authorities are already implementing, hence, how much additional financing is required to achieve the NDC objectives. However, the authorities are not expected to take climate-related actions, beyond what is already included in the baseline projections, that would jeopardize risks to PPG debt sustainability. Therefore, mix of official development assistance, FDI, taxation, internal and external borrowing, and government spending reallocations will be essential to achieve the NDC objectives. The implementation of the reforms under the RSF aims to address these questions through public financial management (PFM) reform quantifying fiscal climate measures and catalyzing other financial sources.

[11] The DIGNAD model provides a framework to evaluate macroeconomic and financial implications of alternative investment programs and financing strategies (see Marto, Papageorgiou, and Kluyev, 2018).

ASSESSMENT

19. Rwanda's debt is assessed to be sustainable with a moderate risk of external and overall public debt distress (with judgement applied to the mechanical risk ratings), which is in line with the previous DSA assessment. Mechanical external and overall ratings suggest low risk of debt distress, as debt indicators remain below their respective thresholds under the baseline and under the most extreme standard shock scenarios. However, these shocks scenarios do not fully capture the current uncertain and difficult external environment, so judgement was applied to account for the external risks faced by Rwanda (as illustrated in the customized alternative scenario) to classify the risk of external and overall public debt distress as moderate. Given the moderate risk of debt distress assessment, the limit on the stock of new external PPG debt will continue to be monitored under the new PCI.

20. As updates with respect to the external environment are evolving, risks to the debt outlook and sustainability could elevate should the situation deteriorate further. The macroeconomic framework which underpins this DSA reflects currently available information. The baseline scenario assumes Rwanda gradually reverts to its growth trend and continues to achieve robust growth over the medium term, while concessional financing is expected to decline only gradually in the long term. As the situation evolves, including with respect to the war in Ukraine, commodity prices, foreign inflation and growth, the debt risk assessment might change.

Authorities' Views

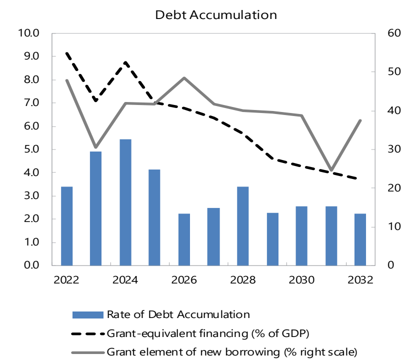
21. The authorities broadly agree with the results of the DSA and the overall assessment of a moderate risk of external and overall debt distress. The authorities' debt management strategy will continue to be based on maximizing external concessional funding to avoid pressures on the debt repayment profile, while also implementing prudent spending and revenue measures agreed under the PCI to bring the debt level to the anchor of 65 percent debt-to-GDP, which they expect to build buffers to absorb shocks and reduce solvency risks. The authorities also recognize potential fiscal risks stemming from PPAs and WPAs and have been strengthening their capacity to manage such risks. They expect their current liability management strategy of converting short term external debt into long term domestic debt would help in shielding the portfolio from refinancing risk stemming from external shocks.

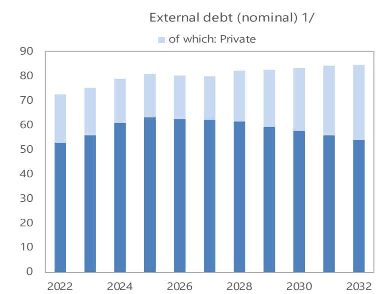
Table 1. Rwanda: External Debt Sustainability Framework, Baseline Scenario, 2021–42

(In percent of GDP, Unless Otherwise Indicated)

	Actual	Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	75.7	72.5	75.1	79.0	81.0	80.4	79.8	84.7	79.0	48.3	80.5
of which: public and publicly guaranteed (PPG)	54.5	53.0	55.9	60.8	63.1	62.5	62.1	53.9	34.4	35.3	58.7
Change in external debt	-2.1	-3.1	2.6	3.9	2.0	-0.6	-0.5	0.5	-1.8		
Identified net debt-creating flows	2.8	3.1	3.8	2.4	1.5	0.6	0.2	1.0	-0.9	6.4	1.6
Non-interest current account deficit	10.0	9.5	11.0	9.7	9.1	6.6	5.7	7.9	5.5	10.0	8.4
Deficit in balance of goods and services	15.8	15.9	16.0	15.5	14.6	11.8	11.0	10.6	6.7	15.5	12.9
Exports	19.1	24.1	25.0	25.9	26.6	26.7	27.0	24.7	26.0		
Imports	34.8	40.0	41.1	41.4	41.2	38.5	38.0	35.3	32.7		
Net current transfers (negative = inflow)	-6.8	-7.8	-6.1	-6.7	-6.4	-6.1	-6.2	-4.6	-3.2	-6.9	-5.8
of which: official	-6.5	-7.0	-5.8	-5.9	-4.9	-4.9	-4.9	-2.9	-1.7		
Other current account flows (negative = net inflow)	1.0	1.3	1.1	0.9	0.9	0.9	0.9	1.9	2.0	1.4	1.4
Net FDI (negative = inflow)	-1.9	-3.0	-4.3	-3.8	-4.0	-2.9	-2.8	-3.9	-4.6	-2.7	-3.5
Endogenous debt dynamics 2/	-5.2	-3.4	-2.8	-3.4	-3.6	-3.2	-2.7	-3.0	-1.7		
Contribution from nominal interest rate	1.0	1.0	1.4	1.9	2.0	2.0	1.9	2.4	3.1		
Contribution from real GDP growth	-7.8	-4.5	-4.2	-5.3	-5.6	-5.2	-4.6	-5.5	-4.8		
Contribution from price and exchange rate changes	1.6	...	...	...	...	...	...	...	...		
Residual 3/	-4.9	-6.2	-1.3	1.5	0.4	-1.2	-0.7	-0.4	-1.0	-0.8	-0.8
of which: exceptional financing /9	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	34.9	33.6	35.8	38.9	40.4	39.9	39.5	35.2	23.4		
PV of PPG external debt-to-exports ratio	183.3	139.3	143.1	150.1	152.1	149.4	146.3	142.7	89.7		
PPG debt service-to-exports ratio	34.2	6.8	8.6	7.3	8.6	10.8	11.1	9.2	8.4		
PPG debt service-to-revenue ratio	34.2	8.7	11.6	10.1	11.6	14.4	14.7	10.3	8.9		
Gross external financing need (Billion of U.S. dollars)	1.8	1.3	1.5	1.5	1.6	1.5	1.5	3.1	7.8		
Key macroeconomic assumptions											
Real GDP growth (in percent)	10.9	6.8	6.2	7.5	7.5	6.8	6.2	7.1	6.5	6.4	7.0
GDP deflator in US dollar terms (change in percent)	-2.0	6.9	1.3	-1.3	-0.9	0.2	1.0	2.0	2.0	-1.3	1.5
Effective interest rate (percent) 4/	1.3	1.6	2.0	2.7	2.6	2.6	2.6	3.1	4.2	3.0	2.6
Growth of exports of G&S (US dollar terms, in percent)	9.4	44.4	11.6	9.8	9.2	7.5	8.5	8.6	10.1	8.8	11.6
Growth of imports of G&S (US dollar terms, in percent)	7.8	31.1	10.4	7.1	5.8	0.1	5.9	6.9	10.0	6.0	9.0
Grant element of new public sector borrowing (in percent)	...	47.9	30.6	41.9	41.7	48.4	41.8	37.5	32.8	...	39.4
Government revenues (excluding grants, in percent of GDP)	19.1	18.8	18.5	18.8	19.7	20.1	20.5	22.0	24.7	13.8	20.3
Aid flows (in Billion of US dollars) 5/	0.6	1.3	1.0	1.3	1.2	1.3	1.2	1.2	1.7		
Grant-equivalent financing (in percent of GDP) 6/	...	9.1	7.1	8.8	7.0	6.8	6.4	3.7	2.3	...	6.1
Grant-equivalent financing (in percent of external financing) 6/	...	74.7	57.9	62.4	62.1	69.2	65.2	59.4	53.3	...	61.3
Nominal GDP (Billion of US dollars)	11	13	14	14	15	16	18	27	64		
Nominal dollar GDP growth	8.7	14.2	7.5	6.1	6.5	7.0	7.2	9.2	8.6	4.9	8.6
Memorandum items:											
PV of external debt 7/	56.1	53.1	55.1	57.1	58.3	57.7	57.3	66.1	68.0		
In percent of exports	294.1	220.3	220.1	220.4	219.3	216.3	212.0	267.8	261.3		
Total external debt service-to-exports ratio	44.9	15.0	18.2	18.3	18.9	21.1	21.6	29.6	44.0		
PV of PPG external debt (in Billion of U.S. dollars)	3.9	4.2	4.9	5.6	6.2	6.5	7.0	9.7	14.9		
(PVt-PVt-1)/GDPt-1 (in percent)		3.4	4.9	5.4	4.2	2.2	2.5	2.2	1.1		
Non-interest current account deficit that stabilizes debt ratio	12.1	12.6	8.4	5.8	7.1	7.2	6.3	7.3	7.3		

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.

9/ Grant for debt relief under CCRT

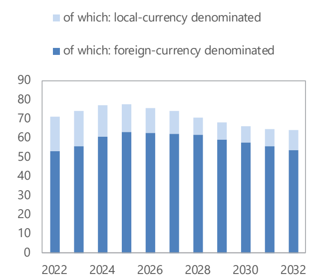
Table 2. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–42

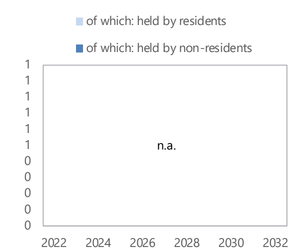
(In percent of GDP, Unless Otherwise Indicated)

	Actual	Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	73.3	71.3	73.9	76.8	77.3	75.7	73.9	64.1	63.4	46.1	71.2
of which: external debt	54.5	53.0	55.9	60.8	63.1	62.5	62.1	53.9	34.4	35.3	58.7
Change in public sector debt	0.9	-2.0	2.6	2.9	0.5	-1.6	-1.8	-0.6	1.4		
Identified debt-creating flows	1.0	-1.7	2.3	2.4	0.0	-2.0	-1.9	-0.6	1.4	1.5	-0.9
Primary deficit	6.0	5.9	5.2	5.4	3.3	1.8	1.6	3.4	3.8	2.6	3.2
Revenue and grants	24.6	25.1	23.3	23.7	23.7	24.0	24.4	24.2	26.0	19.7	24.0
of which: grants	5.5	6.3	4.8	5.0	4.0	3.9	3.9	2.2	1.3		
Primary (noninterest) expenditure	30.6	31.0	28.4	29.2	27.0	25.8	26.0	27.5	29.8	22.3	27.2
Automatic debt dynamics	-5.0	-7.6	-2.9	-2.8	-3.1	-3.7	-3.4	-4.0	-2.4		
Contribution from interest rate/growth differential	-6.5	-5.6	-3.6	-4.1	-4.7	-4.2	-3.8	-4.0	-2.4		
of which: contribution from average real interest rate	0.6	-1.0	0.6	1.1	0.6	0.8	0.6	0.3	1.4		
of which: contribution from real GDP growth	-7.1	-4.6	-4.2	-5.2	-5.3	-4.9	-4.4	-4.3	-3.8		
Contribution from real exchange rate depreciation	1.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	-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	-0.2	-0.2	-0.1	-0.1	0.0	0.0		
Residual	-0.1	-2.3	1.1	1.8	2.1	0.8	0.4	0.0	0.0	3.8	0.3
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	54.4	52.7	55.0	56.1	55.8	53.9	52.1	46.1	52.8		
PV of public debt-to-revenue and grants ratio	221.7	209.6	236.6	236.6	235.5	224.3	213.1	190.6	203.2		
Debt service-to-revenue and grants ratio 3/	59.6	33.6	41.8	43.9	40.4	40.5	39.2	29.7	48.4		
Gross financing need 4/	20.7	14.3	14.9	15.6	12.7	11.4	11.0	10.5	16.4		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	10.9	6.8	6.2	7.5	7.5	6.8	6.2	7.1	6.5	6.4	7.0
Average nominal interest rate on external debt (in percent)	1.4	1.4	1.3	1.6	1.7	1.7	1.6	1.7	2.0	2.0	1.6
Average real interest rate on domestic debt (in percent)	6.0	-2.7	4.6	5.7	6.1	6.1	5.9	5.3	5.7	2.9	4.9
Real exchange rate depreciation (in percent, + indicates depreciation)	2.9	...	...	...	...	...	...	...	...	3.1	...
Inflation rate (GDP deflator, in percent)	2.7	11.9	7.3	5.3	5.2	5.1	5.0	5.0	5.0	3.7	5.9
Growth of real primary spending (deflated by GDP deflator, in percent)	44.1	8.3	-2.8	10.3	-0.6	2.3	7.0	9.7	12.6	12.7	6.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	5.1	7.9	2.5	2.5	2.8	3.4	3.4	4.0	2.4	-3.0	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.

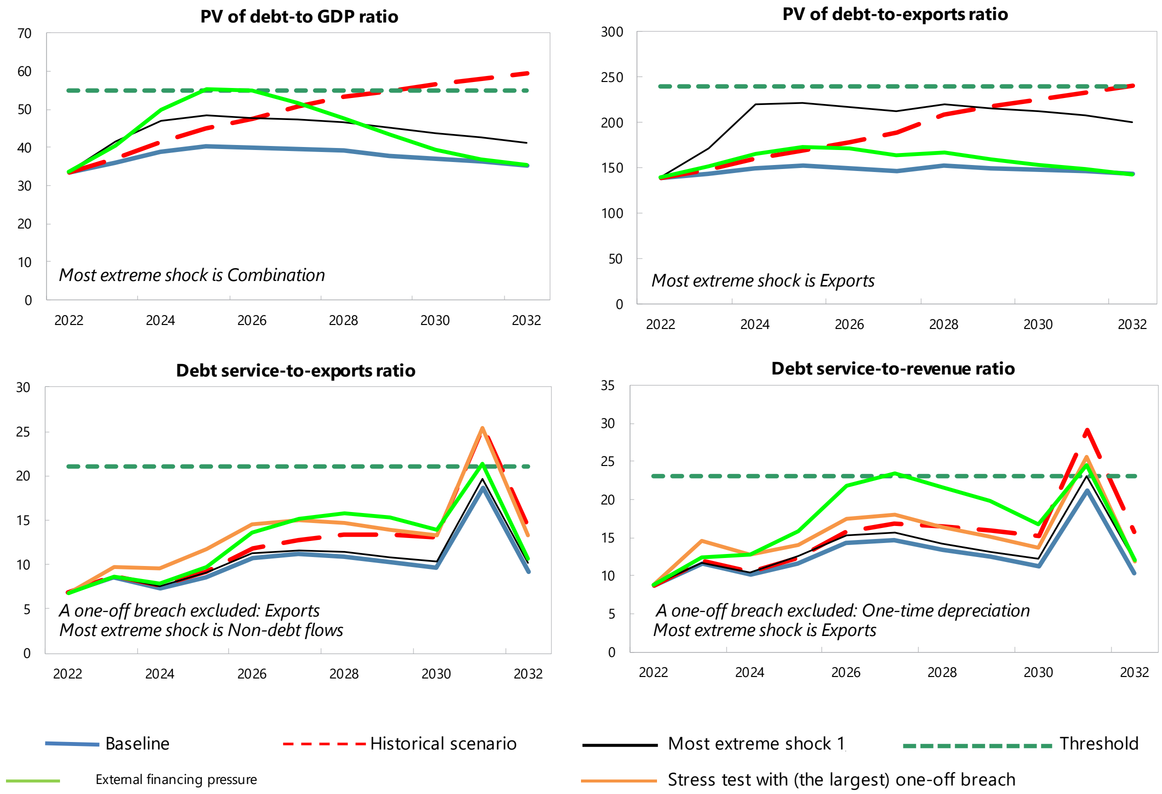
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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, 2022–32 1/ 2/



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
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	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6

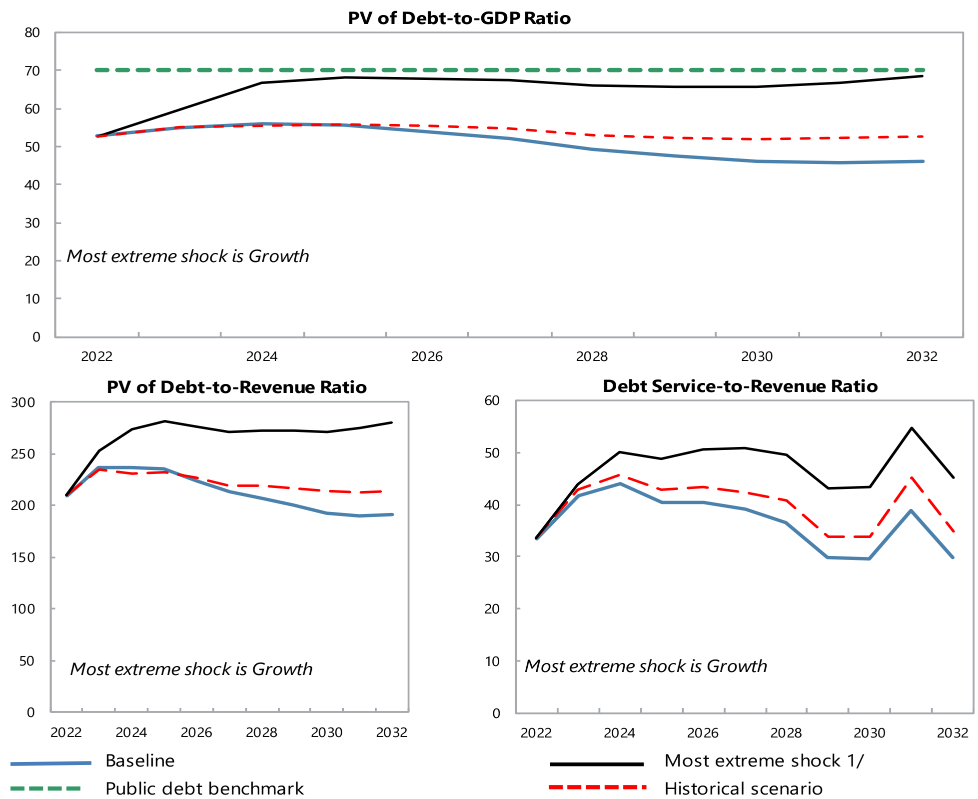
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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, 2022–32 1/



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	52%	52%
Domestic medium and long-term	17%	17%
Domestic short-term	31%	31%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.9%	5.9%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	2%	2.0%

* 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 2032. 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, 2022–32

(In Percent)

	Projections										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	**33.6**	**35.8**	**38.9**	**40.4**	**39.9**	**39.5**	**39.2**	**37.9**	**37.0**	**36.2**	**35.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	33.6	37.0	41.5	45.0	47.6	50.9	53.4	54.8	56.4	57.9	59.3
B. Bound Tests											
B1. Real GDP growth	33.6	38.2	44.2	45.9	45.3	44.9	44.5	43.0	42.0	41.1	40.0
B2. Primary balance	33.6	36.4	41.2	42.9	42.4	42.1	41.8	40.4	39.4	38.5	37.4
B3. Exports	33.6	38.0	45.1	46.5	45.8	45.3	44.7	43.1	41.9	40.7	39.2
B4. Other flows 2/	33.6	38.3	43.5	44.9	44.3	43.7	43.2	41.7	40.6	39.4	38.1
B6. One-time 30 percent nominal depreciation	33.6	45.2	44.8	46.8	46.3	45.9	45.7	44.2	43.3	42.6	41.6
B6. Combination of B1-B5	33.6	41.6	46.8	48.4	47.7	47.2	46.7	45.1	43.8	42.7	41.3
C. Tailored Tests											
C1. Combined contingent liabilities	33.6	38.0	41.7	43.4	43.2	42.9	42.6	41.2	40.2	39.3	38.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	33.6	40.0	43.6	45.5	44.8	44.1	43.6	42.1	41.2	40.3	39.2
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**139.3**	**143.1**	**150.1**	**152.1**	**149.4**	**146.3**	**153.2**	**150.1**	**148.1**	**146.0**	**142.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	139.3	147.9	160.1	169.4	178.2	188.5	208.7	217.2	225.5	233.4	240.1
B. Bound Tests											
B1. Real GDP growth	139.3	143.1	150.1	152.1	149.4	146.3	153.2	150.1	148.1	146.0	142.7
B2. Primary balance	139.3	145.5	158.9	161.3	158.9	155.9	163.2	159.9	157.7	155.3	151.5
B3. Exports	139.3	172.2	220.0	221.2	216.9	211.8	220.7	215.8	212.0	207.2	201.1
B4. Other flows 2/	139.3	153.1	167.9	169.1	165.8	162.0	168.9	165.3	162.4	159.0	154.5
B6. One-time 30 percent nominal depreciation	139.3	143.1	137.0	139.7	137.4	134.7	141.6	138.9	137.3	136.2	133.8
B6. Combination of B1-B5	139.3	169.0	164.9	190.5	186.9	182.7	190.7	186.6	183.3	179.7	174.8
C. Tailored Tests											
C1. Combined contingent liabilities	139.3	151.9	161.1	163.5	161.8	158.9	166.3	163.2	161.0	158.6	154.9
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	139.3	143.2	150.8	153.6	150.4	146.4	152.6	149.4	147.7	145.6	142.4
Threshold	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**
Debt service-to-exports ratio											
Baseline	**6.8**	**8.6**	**7.3**	**8.6**	**10.8**	**11.1**	**10.9**	**10.3**	**9.6**	**18.6**	**9.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	6.8	8.8	7.6	9.2	11.9	12.7	13.4	13.3	13.1	25.5	14.1
B. Bound Tests											
B1. Real GDP growth	6.8	8.6	7.3	8.6	10.8	11.1	10.9	10.3	9.6	18.6	9.2
B2. Primary balance	6.8	8.6	7.5	9.0	11.3	11.6	11.4	10.8	10.1	19.2	9.8
B3. Exports	6.8	9.7	9.6	11.8	14.6	14.9	14.7	13.9	13.3	25.5	13.3
B4. Other flows 2/	6.8	8.6	7.6	9.1	11.3	11.6	11.4	10.8	10.4	19.7	10.2
B6. One-time 30 percent nominal depreciation	6.8	8.6	7.3	8.2	10.4	10.8	10.6	10.0	9.3	17.8	8.4
B6. Combination of B1-B5	6.8	9.2	8.9	10.5	13.0	13.3	13.0	12.3	12.1	22.4	11.5
C. Tailored Tests											
C1. Combined contingent liabilities	6.8	8.6	7.6	8.9	11.1	11.5	11.3	10.7	10.0	19.0	9.5
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	6.8	8.6	7.7	10.0	13.6	13.4	11.9	9.6	8.7	18.4	9.0
Threshold	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**
Debt service-to-revenue ratio											
Baseline	**8.7**	**11.6**	**10.1**	**11.6**	**14.4**	**14.7**	**13.5**	**12.4**	**11.2**	**21.3**	**10.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	8.7	11.9	10.5	12.4	15.8	16.8	16.5	16.0	15.3	29.0	15.8
B. Bound Tests	8.7	12.4	12.8	15.8	21.8		21.7	19.8	16.7	24.5	**12.0**
B1. Real GDP growth	8.7	12.4	11.5	13.2	16.3	16.7	15.3	14.1	12.7	24.1	11.7
B2. Primary balance	8.7	11.6	10.4	12.2	15.0	15.2	14.0	13.0	11.8	21.9	10.9
B3. Exports	8.7	11.7	10.5	12.6	15.3	15.6	14.3	13.2	12.3	23.0	11.8
B4. Other flows 2/	8.7	11.6	10.5	12.3	15.0	15.3	14.0	13.0	12.1	22.5	11.4
B6. One-time 30 percent nominal depreciation	8.7	14.7	12.7	13.9	17.5	17.9	16.5	15.2	13.7	25.7	11.9
B6. Combination of B1-B5	8.7	12.3	11.8	13.5	16.5	16.8	15.4	14.2	13.4	24.4	12.3
C. Tailored Tests											
C1. Combined contingent liabilities	8.7	11.6	10.4	12.0	14.8	15.1	13.9	12.9	11.6	21.7	10.7
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	8.7	11.6	10.6	13.4	18.1	17.7	14.7	11.5	10.2	21.0	10.1
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, 2022–32
(In Percent)

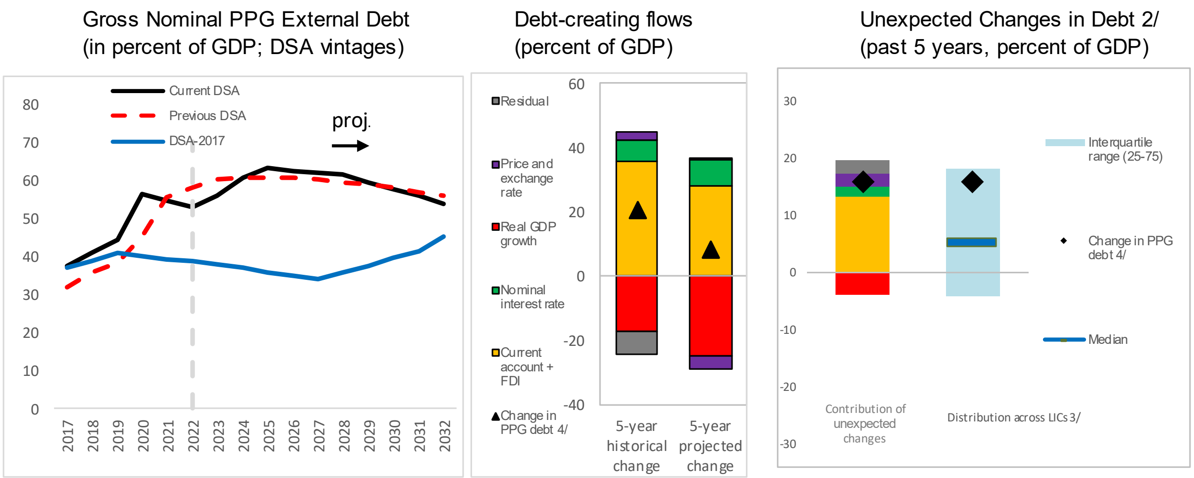
	Projections										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	**52.7**	**55.0**	**56.1**	**55.8**	**53.9**	**52.1**	**49.2**	**47.5**	**46.2**	**45.8**	**46.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	53	55	55	56	55	55	53	52	52	52	53
B. Bound Tests											
B1. Real GDP growth	53	60	67	68	68	68	66	66	66	67	69
B2. Primary balance	53	56	60	59	57	55	52	50	49	48	48
B3. Exports	53	57	62	62	60	58	54	53	51	50	50
B4. Other flows 2/	53	58	61	60	58	56	53	51	50	49	49
B6. One-time 30 percent nominal depreciation	53	60	58	56	53	50	45	43	40	38	38
B6. Combination of B1-B5	53	55	57	57	55	54	51	49	48	47	48
C. Tailored Tests											
C1. Combined contingent liabilities	53	60	61	60	58	56	53	51	50	49	49
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	53	55	56	56	54	52	49	47	46	46	46
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**209.6**	**236.6**	**236.6**	**235.5**	**224.3**	**213.1**	**206.6**	**200.1**	**193.1**	**190.3**	**190.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	210	235	231	233	227	220	219	217	214	213	214
B. Bound Tests											
B1. Real GDP growth	210	253	273	282	277	271	273	273	272	275	281
B2. Primary balance	210	243	252	250	238	226	219	211	204	200	200
B3. Exports	210	246	262	261	248	236	229	221	213	208	207
B4. Other flows 2/	210	248	257	255	243	231	224	217	208	204	203
B6. One-time 30 percent nominal depreciation	210	261	250	241	222	205	192	181	169	161	158
B6. Combination of B1-B5	210	235	242	241	230	219	213	206	199	196	197
C. Tailored Tests											
C1. Combined contingent liabilities	210	258	256	254	242	229	222	215	207	204	203
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	210	237	237	237	225	213	206	199	193	190	190
Debt Service-to-Revenue Ratio											
Baseline	**33.6**	**41.8**	**43.9**	**40.4**	**40.5**	**39.2**	**36.7**	**29.9**	**29.5**	**38.8**	**29.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	34	43	46	43	43	42	41	34	34	45	35
B. Bound Tests											
B1. Real GDP growth	34	44	50	49	51	51	50	43	43	55	45
B2. Primary balance	34	42	46	44	43	42	39	31	31	40	31
B3. Exports	34	42	44	41	41	40	37	30	30	40	31
B4. Other flows 2/	34	42	44	41	41	40	37	30	30	40	31
B6. One-time 30 percent nominal depreciation	34	41	44	39	41	40	37	31	30	41	30
B6. Combination of B1-B5	34	41	45	42	42	41	38	31	31	40	31
C. Tailored Tests											
C1. Combined contingent liabilities	34	42	52	44	45	42	39	32	31	40	31
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	34	42	44	42	44	42	38	29	29	39	30

Sources: Country authorities; and staff estimates and projections.

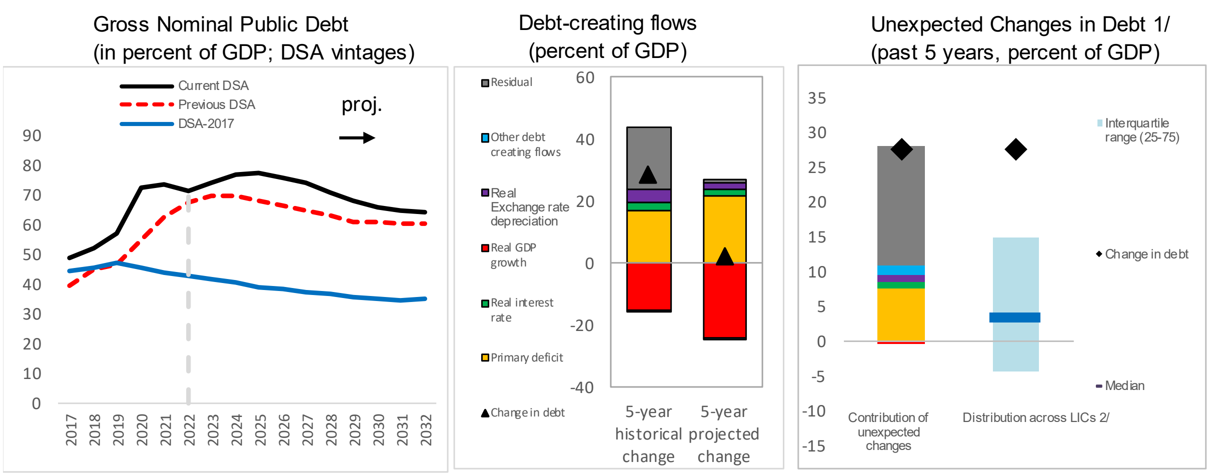
1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Figure 3. Rwanda: Drivers of Debt Dynamics—Baseline Scenario[1/]



Public debt



1/ Compared to 2017 DSA and the previous full DSA in 2020.

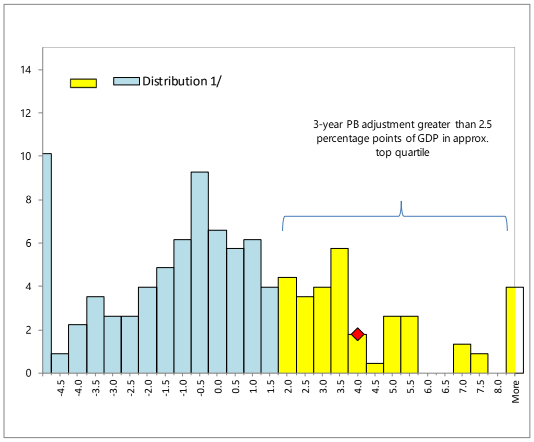
2/ Difference between anticipated and actual contributions on debt ratios.

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.

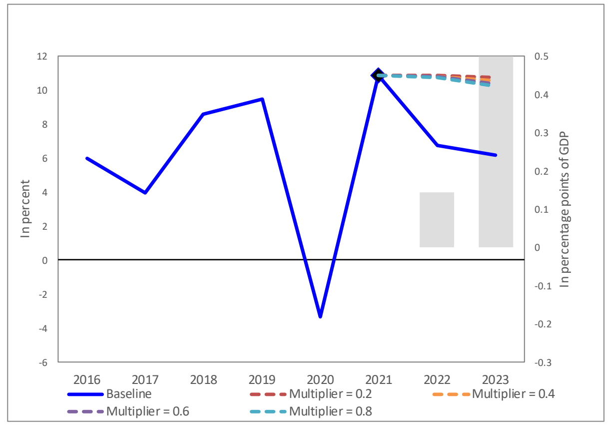
Figure 4. Rwanda: Realism Tools

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.

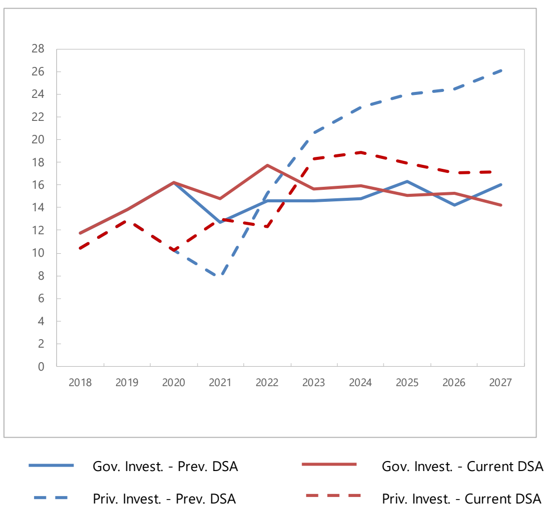
Fiscal Adjustment and Possible Growth Paths 1/



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)



1/ Private investment includes the Bugesera airport project.

Contribution to Real GDP growth

(percent, 5-year average)

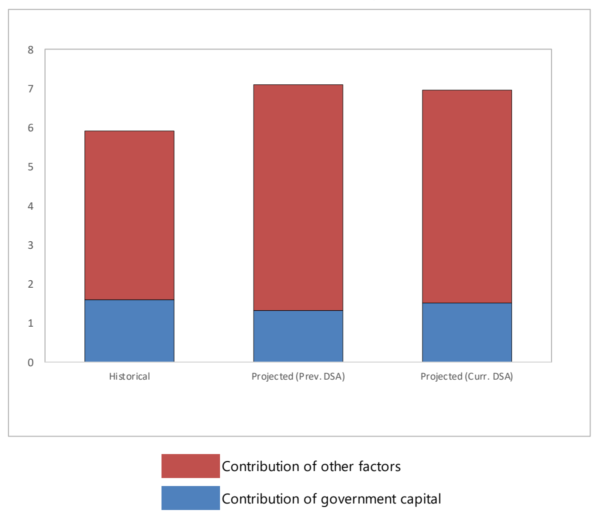
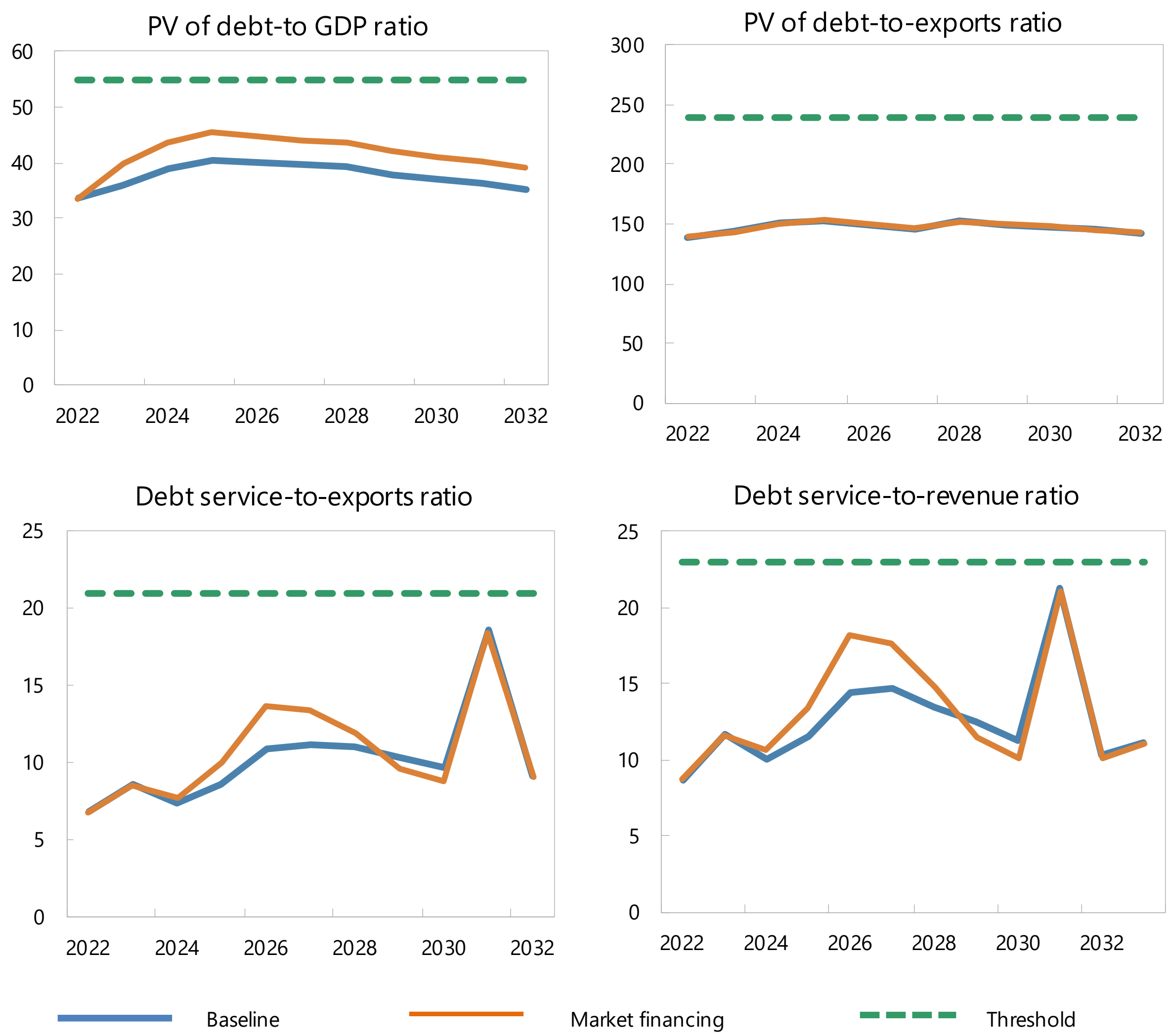


Figure 5. Rwanda: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	16	596
Breach of benchmark	Yes	Yes
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.



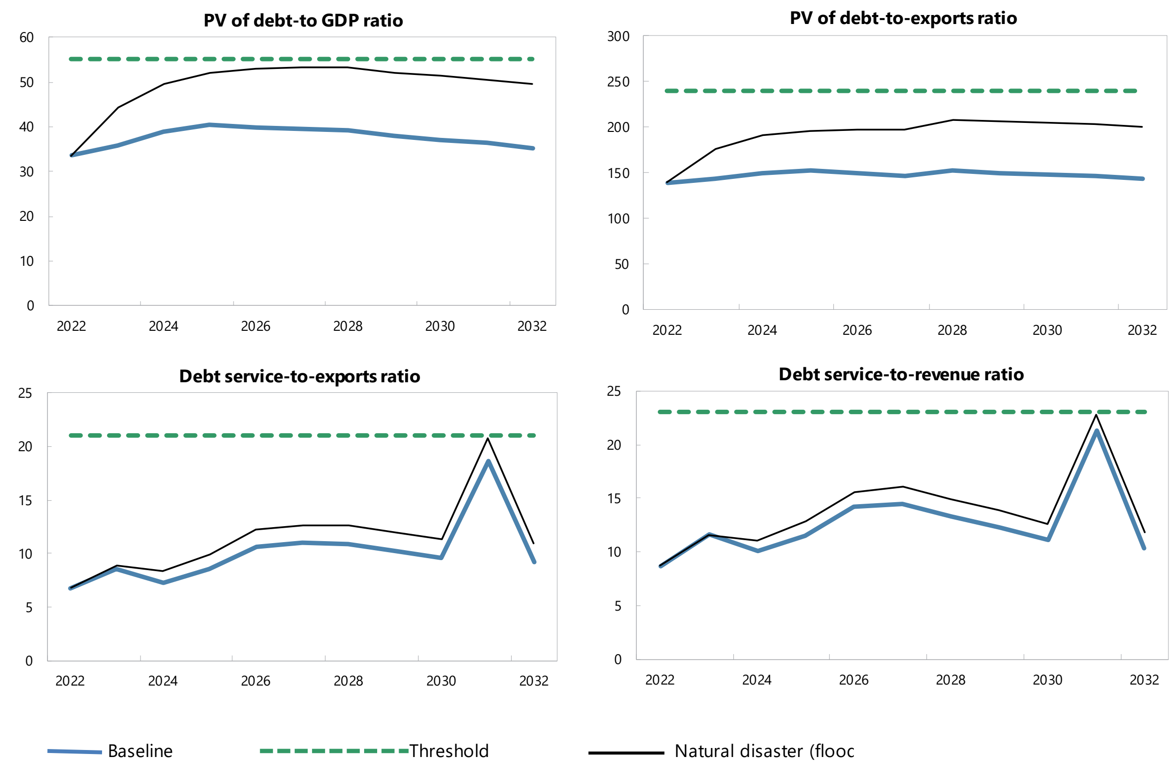
Sources: Country authorities; and staff estimates and projections.

Table 5. Rwanda: Public Debt Decomposition, 2021–42

	Actual	*Projections*																				
Creditor profile	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Total, US$ mn	**7,945**	**8,791**	**9,710**	**10,737**	**11,536**	**12,182**	**12,758**	**13,387**	**14,107**	**14,927**	**15,984**	**17,283**	**18,840**	**20,500**	**22,246**	**24,101**	**26,079**	**28,219**	**30,534**	**33,064**	**35,823**	**39,753**
External, US$ mn	**5,910**	**6,537**	**7,340**	**8,496**	**9,416**	**10,061**	**10,719**	**11,645**	**12,263**	**13,014**	**13,797**	**14,526**	**15,188**	**15,763**	**16,341**	**16,950**	**17,592**	**18,276**	**19,009**	**19,792**	**20,641**	**21,552**
Multilateral creditors	*4,332*	*4,913*	*5,372*	*6,201*	*6,909*	*7,568*	*8,120*	*8,850*	*9,336*	*9,909*	*10,479*	*11,017*	*11,513*	*11,959*	*12,395*	*12,832*	*13,277*	*13,739*	*14,220*	*14,725*	*15,265*	*15,837*
IMF	356	305	387	480	519	474	431	387	343	321	321	321	321	309	284	252	220	188	156	124	92	59
World Bank	2,583	3,059	3,249	3,696	4,145	4,664	5,071	5,596	5,954	6,353	6,734	7,093	7,428	7,742	8,055	8,377	8,709	9,056	9,421	9,805	10,219	10,659
AfDB	1,045	1,111	1,204	1,380	1,492	1,568	1,655	1,772	1,851	1,942	2,029	2,110	2,178	2,237	2,301	2,364	2,425	2,487	2,550	2,616	2,684	2,757
Other Multilaterals	348	437	532	646	754	861	963	1,095	1,188	1,293	1,395	1,493	1,586	1,671	1,754	1,838	1,923	2,008	2,093	2,181	2,270	2,362
Bilateral Creditors	*813*	*878*	*989*	*1,177*	*1,289*	*1,375*	*1,475*	*1,606*	*1,683*	*1,770*	*1,854*	*1,931*	*2,010*	*2,079*	*2,147*	*2,218*	*2,298*	*2,379*	*2,469*	*2,563*	*2,666*	*2,777*
Paris Club	329	374	459	595	692	776	861	968	1,040	1,120	1,198	1,272	1,342	1,406	1,470	1,536	1,604	1,673	1,744	1,818	1,900	1,985
Non-Paris Club	485	504	530	581	597	599	613	638	642	650	656	659	668	673	677	683	694	706	725	744	766	792
Private Creditors	*765*	*747*	*979*	*1,118*	*1,218*	*1,118*	*1,125*	*1,189*	*1,245*	*1,334*	*1,464*	*1,578*	*1,665*	*1,725*	*1,799*	*1,899*	*2,017*	*2,157*	*2,320*	*2,504*	*2,710*	*2,937*
Bonds	681	681	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620
Loans	84	66	359	498	598	498	505	569	625	714	844	958	1,045	1,105	1,179	1,279	1,397	1,537	1,700	1,884	2,090	2,317
Domestic, US$ mn	**2,035**	**2,253**	**2,370**	**2,241**	**2,121**	**2,121**	**2,039**	**1,742**	**1,843**	**1,914**	**2,187**	**2,757**	**3,652**	**4,737**	**5,905**	**7,151**	**8,487**	**9,943**	**11,526**	**13,271**	**15,182**	**18,201**
Memo items:																						
Collateralized debt (US$ million)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral and collateralized debt																						
Multilateral debt, US$ mn	**4,332**	**4,913**	**5,372**	**6,201**	**6,909**	**7,568**	**8,120**	**8,850**	**9,336**	**9,909**	**10,479**	**11,017**	**11,513**	**11,959**	**12,395**	**12,832**	**13,277**	**13,739**	**14,220**	**14,725**	**15,265**	**15,837**
percent of external debt	73.3	75.2	73.2	73.0	73.4	75.2	75.7	76.0	76.1	76.1	76.0	75.8	75.8	75.9	75.9	75.7	75.5	75.2	74.8	74.4	74.0	73.5
percent of GDP[1]	40.0	39.8	40.9	44.4	46.3	47.0	47.0	46.8	45.1	43.8	42.4	40.9	39.1	37.2	35.4	33.7	32.0	30.5	29.0	27.7	26.4	25.3
IMF and World Bank	*2,939*	*3,364*	*3,636*	*4,176*	*4,663*	*5,138*	*5,501*	*5,983*	*6,297*	*6,674*	*7,055*	*7,414*	*7,749*	*8,051*	*8,340*	*8,630*	*8,929*	*9,244*	*9,576*	*9,929*	*10,311*	*10,718*
percent of external debt	49.7	51.5	49.5	49.2	49.5	51.1	51.3	51.4	51.3	51.3	51.1	51.0	51.0	51.1	51.0	50.9	50.8	50.6	50.4	50.2	50.0	49.7
percent of GDP[1]	27.1	27.3	27.7	29.9	31.3	31.9	31.8	31.7	30.5	29.5	28.6	27.5	26.3	25.1	23.8	22.6	21.5	20.5	19.6	18.7	17.9	17.1
AfDB	*1,045*	*1,111*	*1,204*	*1,380*	*1,492*	*1,568*	*1,655*	*1,772*	*1,851*	*1,942*	*2,029*	*2,110*	*2,178*	*2,237*	*2,301*	*2,364*	*2,425*	*2,487*	*2,550*	*2,616*	*2,684*	*2,757*
percent of external debt	17.7	17.0	16.4	16.2	15.8	15.6	15.4	15.2	15.1	14.9	14.7	14.5	14.3	14.2	14.1	13.9	13.8	13.6	13.4	13.2	13.0	12.8
percent of GDP[1]	9.6	9.0	9.2	9.9	10.0	9.7	9.6	9.4	8.9	8.6	8.2	7.8	7.4	7.0	6.6	6.2	5.8	5.5	5.2	4.9	4.6	4.4
Other Multilateral	*348*	*437*	*532*	*646*	*754*	*861*	*963*	*1,095*	*1,188*	*1,293*	*1,395*	*1,493*	*1,586*	*1,671*	*1,754*	*1,838*	*1,923*	*2,008*	*2,093*	*2,181*	*2,270*	*2,362*
percent of external debt	5.9	6.7	7.2	7.6	8.0	8.6	9.0	9.4	9.7	9.9	10.1	10.3	10.4	10.6	10.7	10.8	10.9	11.0	11.0	11.0	11.0	11.0
percent of GDP[1]	3.2	3.5	4.0	4.6	5.1	5.4	5.6	5.8	5.7	5.7	5.6	5.5	5.4	5.2	5.0	4.8	4.6	4.5	4.3	4.1	3.9	3.8
Collateralized debt, US$ mn	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*

1/ debr as percent of GDP is calculated by authorities based on debt and GDP values in RwF

Figure 6. Rwanda: Public and Publicly-Guaranteed External Debt Natural Disaster (Flooding) Stress Test



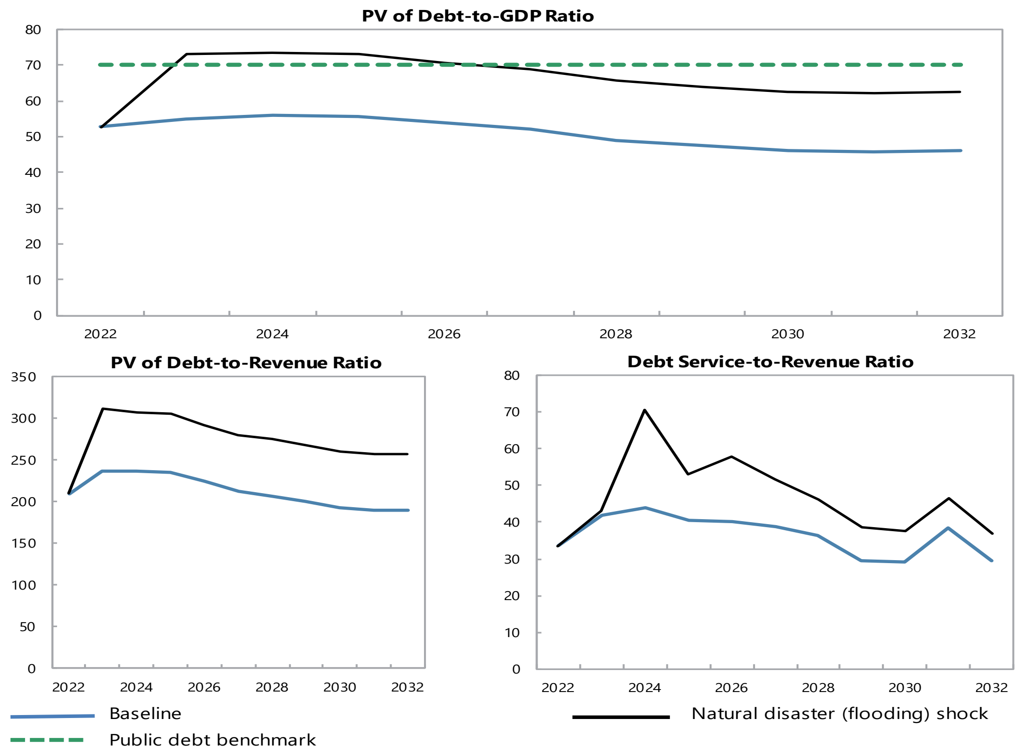
Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6

* 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.

The Natutal Disaster stress test was informed by the once-in-100-years flooding scenario discussed in the World Bank's 2022 Country Climate and Development Report for Rwanda. In partiocular, the flooding was assumed to damage 11.2% of the physical capital, which would require 17.9% of GDP external financing to be replaced (with capital-to-GDP estimation at 1.6 based on the perpetual inventory method). As the result of the flooding, the GDP was expected to decline by 4.4%, with a similar exports dynamics.

Figure 7. Rwanda: Public and Publicly-Guaranteed Debt Natural Disaster (Flooding) Stress Test



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	52%	52%
Domestic medium and long-term	17%	17%
Domestic short-term	31%	31%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.9%	5.9%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	2%	2.0%

* 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.

The Natutal Disaster stress test was informed by the once-in-100-years flooding scenario discussed in the World Bank's 2022 Country Climate and Development Report for Rwanda. In partiocular, the flooding was assumed to damage 11.2% of the physical capital, which would require 17.9% of GDP external financing to be replaced (with capital-to-GDP estimation at 1.6 based on the perpetual inventory method). As the result of the flooding, the GDP was expected to decline by 4.4%, with a similar exports dynamics.

RWANDA

November 28, 2022

REQUEST FOR A NEW 36-MONTH POLICY COORDINATION INSTRUMENT AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Climate Changes Implications for Rwanda

1. **Rwanda is vulnerable to increasingly frequent climate-induced natural disasters as well as to rising temperatures and changing rainfall patterns.** The University of Notre Dame Global Adaptation Initiative (ND-GAIN) Index, ranks Rwanda as 124th out of an 182 countries with respect to the country's vulnerability to climate change and other global challenges as well as its readiness to improve resilience.[1] Rwanda's vulnerability to climate change reflects the economy's dependence on climate sensitive sectors such as nature-based tourism, rainfed agriculture, extractives, and other weather-sensitive industries, which in 2021 accounted for an estimated 65 percent of employment, 45 percent of GDP, and 40 percent of exports.[2] The Rwanda Country Climate and Development Report (CCDR, 2022) estimates that Rwanda's annual GDP during 2022–50 could be between 0.6 and 2.6 percent lower on average, depending on the climate scenario, than in a baseline with no climate change, and that annual deviations could be 5.0–7.0 percent lower than the baseline in some years.[3] Droughts have historically had the widest reach among natural disasters, affecting as much as 12 percent of the population.[4] Rwanda, also faces floods, landslides, and rainstorms. For example, the 2018 floods caused damage to physical assets valued at Rwandan franc (RWF)

[1] GoR. 2019c. Rwanda Rapid Post Disaster Needs Assessment (PDNA). Kigali: Republic of Rwanda as cited in World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank

[2] World Bank Group, Rwanda Country Climate and Development Report, 2022. World Bank staff estimates using 2021 national accounts, employment, and balance of payments data from the Bank of Rwanda and the National Institute of Statistics Rwanda.

[3] World Bank Group, Rwanda Country Climate and Development Report: Technical Annex, 2022. Climate scenarios incorporate expected changes in rainfall and temperature associated with RCPs 2.6, 4.5, and 8.5 (ensemble averages) and with wetter, hotter, and drier variants of RCP8.5. Hot and dry conditions cause the largest losses.

[4] According to the data from the Emergency Events Database (EM-DAT), the 1996 drought affected 12 percent of the population.

201 billion and economic losses of RWF 21 billion (2.4 percent and 0.3 percent of GDP, respectively).[5] Nearly 52 percent of the Rwandan population lives below the international poverty line. Poor households and communities have little capacity to manage climate risks, including the health risks that are likely to increase with climate change.

2. Rwanda contributes only 0.003 percent to global greenhouse gas emissions and emitted 5.34 $MtCO_2e$ in 2015. Rwanda's per capita emissions are about 0.5 tCO2e, which is around one-fifth of the regional average and just one-twelfth of the world average. Rwanda also has a relatively low emissions intensity—around 0.6 tCO2e per 1000 2015 US$ GDP. Emissions from livestock dominate the emissions profile of Rwanda. Livestock, agriculture, and land use together account for 74 percent of total emissions. Energy, waste sector, and industrial processes and product use (IPPU) accounts for 18 percent, 8 percent and 1 percent of total emissions.[6]

B. Government Policies and Commitments for Climate Change Adaptation and Priority Areas to Strengthen Resilience

3. Rwanda is integrating its efforts to address climate change with development goals given its a growing rural population, high incidence of poverty, lack of universal access to basic services, and limited private sector engagement. Food security in Rwanda lies well below the average for low-income countries, mainly due to challenges in food affordability and availability, and is further threatened by climate change. With nearly 40 percent of the population living in informal settlements, access to water and sanitation, health services, and energy is limited, and informal settlements are likely to expand as the country seeks to promote rapid urbanization. Rwanda needs to modernize agriculture, manage urbanization, promote competitive domestic enterprises, strengthen regional integration, and invest in human development.[7]

4. Over several decades, Rwanda has progressively strengthened its climate commitments and put in place a legal, policy, and strategic framework to build resilience against climate change. Rwanda's Vision 2050 and National Transformation Strategy 2017–24 provide the foundation by mainstreaming sustainability and resilience into productive sectors and government planning.[8] Rwanda's Nationally Determined Contributions (NDC) presents details regarding specific adaptation and mitigation actions, as well as goals and targets. The country's 2020 updated NDC presents the interventions in more detail, specifying the government institution that is responsible, the timeframe for implementation, and the estimated costs. The updated NDC includes 24 priority adaptation interventions in the water, agriculture, land and forestry, human settlements, health, transport, and mining sectors. Interventions in the agriculture sector are aimed, among others, at sustainable land-use management and climate-resilient crops, resilient livestock, and value addition facilities and technologies. Other interventions in the NDC will improve forest

[5] Republic of Rwanda, Ministry in Charge of Emergency Management (MINEMA), Rwanda Rapid Post Disaster Needs Assessment Final Report, January 2019.

[6] World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank

[7] *Ibid.*

[8] The Green Growth and Climate Resilience Strategy (2011, revised in 2021), Rwanda's Nationally Determined Contribution (NDC) (2016, updated in 2020), and the National Environment and Climate Change Policy (2019) are other core documents.

management, promote afforestation, and reforestation and, in the area of water management, restore wetlands, build water storage, increase efficiency of water use, and introduce conservation practices.

5. **The Ministry of Environment leads the development of climate change strategy and policies at the central government level.**[9] Local governments are responsible for the application of laws and regulations related to the protection of the environment within their jurisdiction. Rwanda's National Fund for Environment (FONERWA) has, with the Development Bank of Rwanda, mobilized significant funding for climate action, including through the Rwanda Green Investment Facility, which recently mobilized US$104 million to support the private sector in developing a climate-friendly economy.

C. Government Policies and Commitments for Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

6. **Although the focus of Rwanda is on adaptation, the country is also committed to a low-carbon transition**. Rwanda's 2020 NDC presents an estimated total emissions reduction potential of around 4.6 million tons of carbon dioxide equivalent ($MtCO_2e$) in 2030, or a 38 percent reduction against the projected business as usual (BAU) emissions in the same year of 12.1 $MtCO_2e$.[10] To achieve the emission reduction commitment, the government has prioritized measures in energy, industrial processes and product use, waste, and agriculture. Investments in soil conservation, composting, and animal husbandry would provide almost half of this reduction (2.2 $MtCO_2e$), as agriculture and land use are dominant sources of Rwanda's current GHG emissions.[11] In energy, the aim is to achieve 1.5 $MtCO_2e$ reduction through increased use of hydropower, efficient cook stoves, motor vehicle standards, and the use of solar power in irrigation and mini grids. In addition to these measures that reduce emissions of GHGs, Rwanda is committed to protecting forests, which remove and store carbon, further offsetting Rwanda's GHG emissions.

D. Other Challenges and Opportunities

7. **Mobilizing financing for the proposed investments in Rwanda's 2020 NDC will be challenging.** Although all actions in the NDC support achieving Vision 2050's development goals, the government estimates that these actions will cost approximately US$11.0 billion, of which US$4.16 billion will be unconditional (with 52 percent for adaptation and 48 percent for mitigation) and US$6.89 billion will be conditional (with 47 percent for adaptation and the rest for mitigation). To manage these costs, additional fiscal space is needed, through increased spending efficiencies (as also outlined in the forthcoming World Bank Public Expenditure Review) and spreading out of planned investments over a longer timeframe.[12] There is also a need for the private sector to share the burden of investing in climate

[9] Rwanda adopted in 2011 the Rwanda Green Growth and Climate resilient strategy (GGCRS).

[10] This reduction potential includes an unconditional target of 1.9 $MtCO_2e$ plus an additional conditional reduction of 2.7 $MtCO_2e$, which would require new financing and assistance.

[11] The government estimates that agriculture accounted for 49 percent of GHG emissions in 2018, followed by energy (35 percent) and waste management (14 percent). Government of Rwanda, Rwanda's First Biennial Update Report Under the United Framework Convention on Climate Change, December 2021.

[12] World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank

resilience and the low-carbon transition, such as through public-private partnerships or joint management of protected areas.

8. Refinements to public investment management systems can support meeting Rwanda's climate commitments. Potential areas of action include: assessing systematically fiscal risks from climate change; mainstreaming into the public investment management system the appraisal of projects' climate change and natural disaster vulnerabilities, as well as their potential contributions to reducing damages and losses from climate change; and introducing climate change-related rules into public procurement regulations.

9. Developing a green finance market as part of the broader capital market development effort in Rwanda can also help mobilize financing. This will require actions by financial regulators and supervisors to implement environmental, social, and governance standards in operations of Rwanda's financial institutions as well as developing a pipeline of bankable and monitorable green projects. Introducing new financial products would also require new technical knowledge, e.g., to develop crop and livestock insurance products tailored to meet the needs of smallholders. [13]

E. World Bank Engagement

10. The World Bank has an active portfolio of financing and technical assistance that is helping Rwanda implement its climate commitments.

- ***Active operations:*** The Second Rwanda Urban Development Project (P165017) includes flood management. The Energy Access and Quality Improvement Project (P172594), Commercialization and De-Risking for Agricultural Transformation Project (P171462) contribute to addressing climate change through their focus on urban resilience, energy efficiency, and increased use of irrigation.
- ***Operations under preparation:*** The World Bank is preparing the Rwanda Urban Mobility Project (P176885), which aims to boost climate resilience in the transport sector. The Volcanoes Community Resilience Project (P178161) will reduce flood risks and improve land management through protected area expansion and landscape management. A planned new Development Policy Financing series is also expected to support policy reforms that boost climate resilience and advance the low-carbon transition.
- ***Analysis and technical assistance:*** The CCDR provides policy- and investment-related recommendations on climate change. The World Bank has been supporting the establishment of the Rwanda Green Investment Facility and will continue to support the government to mobilize climate and nature-based financing through targeted financing options (with a focus on private sector financing). The World Bank also continues to provide technical assistance on climate finance under the Green Growth and Climate Resilient Development Project (P169151).

[13] World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank

Statement by the Executive Director, Mr. Facinet Sylla, the Alternative Executive Director, Mr. Regis N'Sonde and by the Advisor of the Executive Director Ms. Loy Nankunda
December 12, 2022

I. Context and Overview

1. Our Rwandan authorities would like to thank the IMF's Executive Board, Management, and staff for the continued support to their policy and reform agenda. They value the close cooperation with the Fund and appreciate the constructive discussions held with staff in Kigali in the context of discussions on a new Policy Coordination Instrument (PCI) and an arrangement under the Resilience and Sustainability Facility (RSF).

2. Rwanda's economy has enjoyed a significant rebound in 2021 from the pandemic-related recession, and the recovery is expected to continue in 2023 and over the medium term. Performance under the existing PCI has been robust throughout its duration. However, the economy remains highly vulnerable to external shocks and the outlook is subject to immediate and significant downside risks.

3. In this context, the authorities are requesting a new PCI and an arrangement under the RSF to support the authorities' efforts in sustaining macroeconomic stability, safeguarding the economy against the significant risks, and advancing their reform agenda to enhance the resilience of the economy, including to climate-related shocks.

II. Recent Economic Developments and Performance Under the Current PCI

Recent Economic Developments

4. As the pandemic effects are fading due to strong measures put in place to fight COVID-19, including the authorities' ambition to reach the target of 70 percent of eligible population vaccinated by the end of 2022, economic growth reached 10.9 percent in 2021—also due to a base effect—before falling back to a more sustainable pace of 6-7 percent this year. Growth in the first half of 2022 is estimated at 7.7 percent, partly owing to lower-than-anticipated agricultural production, especially food crops, on the back of unfavorable weather conditions. Spillovers from the war in Ukraine include the rise of food, fuel, and fertilizer prices. Headline inflation rose from 5.8 percent in February to 20.1 percent in October on a year-on-year basis (y-o-y). In particular, food inflation hiked to 39.7 percent in October y-o-y on the back of relatively weak performance of the agriculture sector in 2022. Core inflation was also high, at 14.4 percent in October. To contain inflationary pressures, the Monetary Policy Committee (MPC) of National Bank of Rwanda (NBR) has raised the policy interest rate by 200 basis points cumulatively starting in February 2022 to reach 6.5 percent in November and decided to reinstate the reserve requirement ratio to the pre-COVID level of 5 percent.

5. The fiscal deficit in FY21/22 turned lower than anticipated at the time of the 6th PCI review due notably to lower externally funded capital expenditure induced by a drop in external financing. Tax revenue performed as expected, driven by tax administrative measures such as strict enforcement of the electronic billing machine (EBM) usage, especially by non-VAT registered taxpayers, as well as the enforcement of proper utilization of tax information numbers (TIN). 70 percent of the 2021 SDR allocation was used in spending in priority areas.

6. Regarding the external sector, goods and services export receipts increased significantly—by 47.1 percent in the first half of 2022—due to rising prices of traditional export commodity products, good performance of manufacturing exports, continued strong regional demand of re-exports, and recovery of exports of services notably travel and tourism. On the other hand, imports of goods and services rose by 33.6 percent due to increasing international food and oil prices as well as higher demand of imports as economic activities recovered. All in all, the current account deficit improved by 6.7 percent thanks to a significant increase in remittances and official transfers and despite an expansion of trade deficit. Gross international reserves remain comfortable, covering 4.8 months of prospective imports as of end-June 2022.

Program Performance under the current PCI and Rationale for a new PCI

7. Performance under the PCI approved in 2019 has remained strong, including recently with all quantitative targets (QTs) and standard continuous targets under the 7th review of the program (through end-June 2022) observed and structural reform implementation broadly satisfactory. Inflation returned within the inner band of the monetary policy consultation clause. Corrective actions were undertaken with the aim to keeping inflation objectives under control. While the authorities remain strongly committed to their program objectives, they are proposing to cancel the current PCI before its planned expiration in June 2023 because the RSF arrangement needed to enhance resilience against climate-related shocks requires a minimum of 18 months remaining on a UTC-quality program. It is in this regard that Rwandan authorities are requesting a new PCI to pursue their policy and reform objectives.

III. Outlook and Risks

8. Rwanda's medium-term outlook remains favorable. Real GDP growth is projected at 6.8 percent in 2022 and should remain around this level over the medium term albeit weak external demand and higher commodity prices expected in 2023. Amid the implementation of fiscal consolidation measures, private consumption and investment would be the main drivers of growth over the medium term. The elevated imported prices (food and fuel) will maintain inflationary pressures and average headline inflation y-o-y is projected at 12.6 percent. The 12-month headline inflation average is expected to be above NBR's tolerance benchmark band in 2023. The current account deficit will deteriorate in 2023 and

improve thereafter mainly reflecting lower export commodity prices and savings from the planned fiscal consolidation and bold structural reforms.

9. This outlook is however clouded by significant uncertainties surrounding the global economy. Furthermore, downside risks relate to the pandemic scars; headwinds from the war in Ukraine with its effects through fertilizers, food, and energy prices; tightening global financial conditions; and climate-related shocks and their impact on the agriculture sector.

VI. Macroeconomic Policies and Structural Reforms for 2023 and Beyond

10. The Rwandan authorities remain committed to the policies and reforms broadly consistent with the current PCI. Their priorities will focus on mitigating pandemic scars, containing inflationary pressures, promoting stronger and greener growth while building resilience to large and prolonged multiple shocks, including climate change. To foster sustainable growth, the authorities are also planning to adopt robust social safety nets, accelerate human capital accumulation, and buttress economic diversification.

Fiscal Policy and Reforms, and Debt Sustainability

11. Going forward, the Rwandan authorities are largely committed to pursuing fiscal consolidation albeit the pressures for additional spending notably on subsidies. This includes rationalizing expenditure by prioritizing social and investment spending. The authorities are putting their highest efforts to phase-out COVID-19 and other spending and ensure that expenditure declines by 1.8 percent of GDP in FY22/23. On the revenue side, tax policy changes and administrative measures that were responsible for the sustained revenue collections and the approved medium-term revenue strategy will continue to underpin the fiscal consolidation efforts.

12. Sound fiscal policy measures will be complemented by improved debt management capacity to enhance debt sustainability. Boosting debt management capacity will include enhancing fiscal risk monitoring, strengthening debt reporting, developing domestic bond markets, and improving the quality of investment. Rwanda’s debt remains sustainable, with a moderate risk of external and overall public debt distress.

Monetary and Financial Sector Policies

13. Monetary policy will focus on containing inflationary pressures. As indicated earlier, since the beginning of this year, the MPC raised its policy interest rate three times by a cumulative 200 basis points and decided to increase the reserve requirement ratio to the pre-Covid level of 5 percent in a bid to limit excess liquidity in the market. The MPC remains committed to bringing back inflation within NBR’s band by focusing on limiting second-round effects. The monetary policy tightening stance adopted this year, together with other Government measures, are expected to bring back inflation within the band by the end of 2023.

14. The financial sector remains stable and resilient although still exposed to prolonged pandemic and geopolitical uncertainties. The banking sector continues to be well capitalized and its liquidity buffers well above the minimum regulatory requirements while profits have increased. The authorities are determined to adopt international best practices to ensure financial system stability. They will continue to strongly monitor credit risks and pursue prudent loan classification and provisioning. The authorities have provided assurances on their continuous supervision of banks and committed to exchange financial information in tax matters and anti-money laundering and countering the financing of terrorism (AML/CFT). They will continue to improve compliance with the FATF standards to reduce financial sector risks.

Structural Reforms

15. The Rwandan authorities are committed to advance further structural reforms, including by continuing to address the pandemic scars, put in place an environment conducive to further private sector-led growth, and boost growth potential while sustaining efforts to build resilience to climate shocks.

16. On the pandemic scars, reforms will be crucial to mitigate long-term individual earnings losses and reduce damages to aggregate productivity. Our authorities will continue to put emphasis on promoting gender equity and fostering female labor force participation. They are also cognizant of the need to focus on measures to deepen financial markets, sustain the expansion of digital payments, and increase financial inclusion to help mobilize resources from domestic savings. To foster an inclusive and resilient growth and raise growth potential, the authorities will continue to monitor and enhance social protection programs as needed—including through improved coverage of vulnerable populations in urban areas—and sustain human capital investments by further expanding access to education, starting with pre-primary education and quality education for women. Efforts are also envisaged to strengthen health services and insurance and increase the training of health professionals.

17. The authorities are also engaged in boosting private investment and supporting the development of the private sector, with a view to sustaining productivity growth and quality employment. In this vein, efforts will be geared at reducing the costs of finance, energy, and transport. Promoting the development of private businesses will also hinge on the adequacy of public infrastructures. In this regard, improvements in the selection and prioritization of public investments to achieve greater value-for-money and leveraging private sector involvement are at the center of the authorities' agenda. Rwanda intends to leverage the opportunity offered by regional integration, including through the East African Community (EAC) and the African Continental Free Trade Area (AfCFTA) to gain market access and expand its sources of growth.

V. Building Resilience to Climate Change and Request for a RSF Arrangement

18. Rwanda is vulnerable to the effects of climate change whereas its economic activities have been less carbon-intensive than those of many other countries, contributing little to climate change. For instance, the landslide experienced by Rwanda in 2016 was the fourth largest in the world recorded during 2010–21 as measured by the share of population affected. The prospective climate-related balance-of-payment needs stemming from the multiplication and strength of natural disasters warrant the RSF support which will enhance external buffers while strengthening the underlying public debt dynamics that would otherwise deteriorate with more expensive domestic financing. This RSF arrangement will also catalyze more resources from development partners to meet this challenge.

Pillars of an RSF-supported Climate Agenda

19. Recognizing its vulnerability to climate shocks, Rwanda has made notable progress in mainstreaming climate commitments into its national development plans and sectoral strategies. The country enjoys a good track record to date on climate policy agenda. Notwithstanding, it still needs to strengthen institutions to deliver and monitor ambitious objectives and mobilize adequate financing. Multi-faceted reforms under an RSF-supported program are expected to improve the transparency and accountability in the planning, execution, reporting, and oversight of budget funds dedicated to addressing climate-related public investments; create further fiscal space; mitigate financial risks; strengthen public debt dynamics; and promote balance-of-payments stability. More specifically, the reforms encompass five areas: (i) strengthening and institutionalizing monitoring and reporting of climate-related spending; (ii) integrating climate risks into fiscal planning; (iii) improving the sensitivity of public investment management to climate-related issues; (iv) strengthening climate risk management for financial institutions; and (v) strengthening the disaster risk reduction and management strategy and operations.

20. As Rwanda needs to sustain its growth momentum—slowed down only by the pandemic—and deliver on its national development plan Vision 2050, consistent support from the IMF and World Bank will be critical. In addition to financing, the country's climate action and its integration into public investment management will benefit from Fund's capacity development (CD) assistance based on the recent Climate Public Investment Management Assessment (C-PIMA). Furthermore, Rwanda has climate-related investments in agriculture, energy, and infrastructure simulated in the World Bank's Country Climate and Development Report (CCDR) which also help accelerate the pace of structural transformation.

Other Climate Financing

21. While the RSF financing will support efforts in integrating climate considerations in macroeconomic policy formulation and support the delivery and monitoring of Rwanda's commitments, it will also help catalyze additional resources for this important agenda. The

authorities endeavor to ensure that private sector also has access to green financing to complement the authorities' policies. To this end, at Cop27 they launched *Ireme Invest*, a new investment facility with an initial capitalization of $104 million from the Rwanda Green Fund and Rwanda Development Bank (BRD) with the support from several development partners, notably France, Sweden, United Kingdom, and European Investment Bank. Ireme Invest will establish the Project Preparation Facility as a provider of grants and the Credit Facility offering concessional loans and credit guarantees to help SMEs contribute to the transformative agenda through green projects.

VI. Conclusion

22. The Rwandan authorities remain committed to preserving macroeconomic and external stability and achieving robust, green, and inclusive growth. They will pursue these objectives through the implementation of a new program for which they request Fund assistance under the PCI. They also require Fund support to their ambitious and well-designed climate strategy. Considering their solid track record of program implementation and the strength of their policy and reform agenda, we would appreciate Executive Directors' support of their requests for a new PCI and an RSF arrangement.