INTERNATIONAL MONETARY FUND

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RWANDA

June 2023

FIRST REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR THE MODIFICATION OF END-JUNE 2023 QUANTITATIVE TARGETS, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY–PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the First Reviews Under the Policy Coordination Instrument and the Arrangement Under the Resilience and Sustainability Facility, Request for the Modification of End-June 2023 Quantitative Targets, and Rephasing of Access 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 May 24, 2023, following discussions that ended on April 04, 2023, with the officials of Rwanda on economic developments and policies underpinning the IMF First Reviews Under the Policy Coordination Instrument and the Arrangement Under the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the Staff Report was completed on May 15, 2023.
- A **Supplement** highlights relevant changes that have occurred since the issuance of the Assessment Letter (RSF Assessment Letter)
- A **Supplementary Information** updating information on recent developments.
- 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.

PR23/176

IMF Executive Board Completes First Reviews Under the Policy Coordination Instrument, and Resilience and Sustainability Facility for Rwanda

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the first reviews of Rwanda's Policy Coordination Instrument and program under the Resilience and Sustainability Facility, allowing for an immediate disbursement equivalent to about US$ 98.6 million for budget support.
- Rwanda's economy had robust growth in 2022, but the overlapping crises have eroded policy buffers. The outlook remains subject to high uncertainty and the costs of the humanitarian response and reconstruction of damaged infrastructure in the wake of the recent disastrous floods will add to existing spending pressures.
- Immediate policy priorities need to focus on implementing a strong policy mix that can prevent macroeconomic imbalances from becoming entrenched. The frontloaded fiscal policy adjustment, decisive monetary tightening, and greater exchange rate flexibility are needed to contain inflationary pressures and promote external stability.

Washington, DC – May 24, 2023: The Executive Board of the International Monetary Fund (IMF) completed today the first reviews of Rwanda's Policy Coordination Instrument (PCI) and program under the Resilience and Sustainability Facility (RSF). The Board's decision allows for an immediate disbursement of SDR 73.95 million (about US$ 98.6 million) under the Resilience and Sustainability Facility. The PCI and RSF arrangement were approved on December 12, 2022, the latter with a total amount of SDR 240.3 million (about US$ 319 million or 150 percent of quota).

Rwanda's economy continued with fast-paced post-pandemic growth in 2022, but macroeconomic imbalances have emerged. Rising food prices and strong domestic demand fueled by high credit growth contributed to a persistent inflation which stood at 17.8 percent in April. Robust import demand coupled with high commodity prices and tightening global financing conditions have weakened Rwanda's external position. The uncertain external environment and the reduced prospects for external concessional financing are compounding the challenges from the legacy of the recent global crises. A strong and carefully calibrated policy mix—including frontloaded fiscal policy adjustment, corrective actions to address delays in domestic revenue mobilization, a decisive monetary policy tightening, and greater exchange rate flexibility—is needed to correct domestic imbalances, promote external stability, and channel resources to the authorities' ambitious development and climate agenda. The outlook is subject to high uncertainty, mainly stemming from the risks of deepening geopolitical fragmentation, volatility in global energy and fertilizer prices, a steeper-than-projected decline in trading partners growth, or a funding squeeze. The costs of humanitarian response and reconstruction following the recent floods will generate further spending needs.

Notwithstanding the challenging environment, reforms remained broadly on track under the PCI, while the authorities' commitment to advancing the climate agenda has been very strong. The PCI supports Rwanda's macroeconomic policies and reforms, with 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. The RSF-supported program, the first for an African country, 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. Continued reforms to allocate climate resources more effectively and transparently will be key to mobilizing additional climate funding and achieving Rwanda's ambitious climate agenda.

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director, and Acting Chair, made the following statement:

"1. The Rwandan authorities are to be commended for their commitment to macroeconomic stability and the satisfactory implementation of reforms supported by the Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility (RSF), notwithstanding a challenging environment. Economic activity expanded at a strong pace, but macroeconomic imbalances have emerged reducing the room for maneuver. Implementing an appropriate and carefully calibrated policy mix is key to prevent imbalances from becoming entrenched. The recent natural disaster is expected to take a heavy toll on Rwanda's economy, and it is a testament of the country's high vulnerability to climate change shocks.

"2. Continued fiscal consolidation, including ensuring the credibility of domestic revenue mobilization, will provide space to withstand future shocks. To address delays in implementing the Medium-Term Revenue Strategy, the authorities need to promptly implement revenue-raising measures aimed at broadening the tax base, streamlining exemptions, and enhancing tax compliance. Adopting a more prudent, transparent, and credible public financial management and investment frameworks, should also remain a priority.

"3. Tighter and forward-looking monetary policy is needed to help contain persistent inflationary pressures and preserve external stability. Strengthening communication, pursuing greater exchange rate flexibility and implementing reforms to deepen financial and government securities markets will improve the effectiveness of the interest rate-based monetary policy framework. Vigilance is needed to ensure that financial risks remain contained with continued efforts to promote financial inclusion. Further strengthening of the AML/CFT framework is also important.

"4. Rwanda's commitment to building socio-economic resilience and efforts to transition to greener growth is commendable and should be sustained. Rwanda continues to be at the forefront of tackling the climate change adaptation and is the first country in the sub-Saharan region to benefit from the RSF. Pressing ahead, it will be important to advance reforms in green public finance management and climate-focused public investment management with a view to create an enabling environment for attracting climate finance and support private green investment."

Table 1. Rwanda: Selected Economic Indicators, 2021–25

	2021 Act.	2022 Est.	2023 Proj.	2024 Proj.	2025 Proj.
Output					
Real GDP growth (%)	10.9	8.2	6.2	6.7	6.9
Prices					
Inflation - average (%)	0.8	13.9	14.5	5.0	5.0
Central government finances (fiscal year)[1]					
Revenue (% GDP)	25.0	25.9	22.7	21.8	22.9
Expense (% GDP)	20.3	20.6	19.1	18.5	18.1
Net acquisition of nonfin. Asset (% GDP)	12.2	11.6	9.8	9.0	9.4
Fiscal balance (% GDP)	-8.6	-7.6	-7.3	-6.5	-4.8
Public debt (% GDP)	73.4	67.1	69.1	74.4	79.2
External public debt (% GDP)	54.6	48.7	54.1	60.9	68.6
Money and credit					
Broad money (% change)	17.1	22.5	11.3	17.4	12.4
Credit to private sector (% change)	14.8	13.6	8.5	17.7	21.0
Policy Rate, end-of-period (%)	4.5	6.5	...	...	...
Balance of Payments					
Current account (% GDP)	-11.2	-9.8	-11.3	-10.5	-10.1
Reserves (in months of imports)	5.1	4.4	4.5	4.8	5.2
Exchange rate					
REER (% change)	-9.7	8.3	...	...	...

Sources: Rwandan authorities and IMF staff estimates.
[1] Based on fiscal year (i.e. 2022 represents 2021/22)

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RWANDA

May 15, 2023

FIRST REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR THE MODIFICATION OF END-JUNE 2023 QUANTITATIVE TARGETS, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Recent developments. Rwanda's economy continued with fast-paced post-pandemic growth in 2022, but macroeconomic imbalances have emerged. Strong output in manufacturing and services sectors more than offset weaker agricultural production and construction activity. Rising food prices and strong domestic demand fueled by high credit growth partly contributed to a persistent inflation which stood at 19.3 percent in March. Robust import demand coupled with high commodity prices and tightening global financing conditions have weakened Rwanda's external position. The uncertain external environment and the reduced prospects for external concessional financing are compounding the challenges from the legacy of the pandemic. The authorities are committed to implementing frontloaded fiscal policy adjustment, while the National Bank of Rwanda stands ready to take further actions to anchor inflation expectations. The outlook is subject to high uncertainty, mainly stemming from deepening geopolitical fragmentation, volatility in global energy and fertilizer prices, a steeper-than-projected decline in trading partners growth, or a funding squeeze.

Policy recommendations. Against the backdrop of emerging external and domestic pressures, the near-term priorities should focus on a policy mix that aims at macroeconomic stabilization, while rebuilding policy space to respond to potential shocks. Inflationary pressures need to be reduced through more decisive monetary tightening, supported by fiscal adjustment to reduce debt vulnerabilities and greater exchange rate flexibility to promote external stability. These efforts should be supported by stepped up domestic revenue mobilization, spending rationalization measures, and a more decisive monetary policy action. Integrating climate-related considerations into macroeconomic policy formulation and mobilizing climate financing to help achieve Rwanda's Nationally Determined Contribution commitments remain critical.

Program implementation. Reform progress—under the IMF Board approved Policy Coordination Instrument and the Resilience and Sustainability Facility—has continued. The performance under the PCI has been broadly strong with all quantitative targets (QTs) through end-December 2022 and standard continuous targets met. All four reform targets (RTs) that were set for the 1st PCI review were met, although the implementation of some key elements of the domestic revenue mobilization efforts was subsequently not approved by Cabinet. The RSF-supported climate policy agenda is off to good start with all three reform measures for the first review implemented on time and an additional reform measure related to climate-sensitive public investment management implemented ahead of schedule. The authorities are requesting the modification under the PCI of the end-June 2023 QTs on the ceiling on the debt-creating overall deficit, the floor on the stock of net foreign assets (NFA), and the ceiling on the present value of new public and publicly guaranteed external debt. The authorities are also requesting to re-define NFA to exclude RSF disbursements and to modify the period over which headline inflation is averaged for the Monetary Policy Consultation Clause (MPCC) for end-June 2023. The authorities are proposing three new reform targets under the PCI.

Staff supports the completion of the 1st reviews of the PCI and RSF. Staff supports the authorities' request under the PCI to modify the above-mentioned end-June 2023 QTs and definitions for NFA and average headline inflation for the MPCC, as well as the three new RTs. Staff also supports the authorities request under the RSF to rephase to the 1st RSF review the disbursement associated with one reform measure originally envisaged for the 2nd RSF review and completed ahead of schedule. The authorities' strong commitment to reforms—including according to high priority to implementing the climate agenda—warrant continued Fund support.

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

A mission comprised Haimanot Teferra (Head), Ruben Atoyan (incoming Mission Chief), Victor Duarte Lledo, Irena Jankulov Suljagic, Sampawende Jules Tapsoba, Chie Aoyagi (all AFR), Andrew Ceber (FAD), Alexei Miksjuk (SPR), Gabor Pula (Resident Representative in Kigali Office), and John Kayemba (local economist). Loy Nankunda (OED) also joined the mission. Enrique Chueca Montuenga, Fernando Morán Arce, and Mireille Nsanzimana (AFR) assisted in the preparation of this report. Discussions were held in Kigali during March 21–April 4, 2023. The team met with the Minister of Finance and Economic Planning, Dr. Uzziel Ndagijimana, Governor of the National Bank of Rwanda, John Rwangombwa, the Ministers of Agriculture, Public Investment and Privatization, and Local Government, and Permanent Secretaries for the Ministries of Environment and Trade. The mission also held discussions with the development partners, and private sector stakeholders.

CONTENTS

TABLES

ANNEXES

APPENDIX

CONTEXT

1. **Rwanda's economy rebounded after a series of multi-faceted challenges.** Supported by a large policy package, the economy withstood pressures from the pandemic, headwinds from the war in Ukraine, climate-related shocks, and inflationary pressures. While the economic recovery is strong, macroeconomic imbalances have emerged and policy buffers have been reduced

2. **To support efforts in maintaining macroeconomic stability and advancing reforms, a 3-year Policy Coordination Instrument (PCI) and an arrangement under the Resilience and Sustainability Facility (RSF), the latter with access of 150 percent of quota ($320 million), were approved in December 2022.** The PCI and RSF aim to preserve macroeconomic stability, fiscal sustainability, and achieve greater resilience against future shocks, including climate shocks. The PCI program focuses on strengthening the fiscal and monetary frameworks and building socioeconomic resilience. The RSF-supported program focuses on integrating climate-related considerations in macroeconomic policy formulation to support the achievement of Rwanda's climate commitments by advancing reforms in green public financial management (PFM), climate-resilient public investment management (PIM), climate-related risk management for financial institutions, and disaster risk reduction and management.

3. **External pressures have emerged towards end-2022, which are likely to persist over the near-term on the back of heightened uncertainties in the global economy.** Despite faster nominal depreciation since H2 2022, international reserves declined from 4.9 months in 2021 to 4.2 months of prospective imports at end-December 2022 due to reduction in external concessional and non-concessional financing, increased fuel import bill, and strong domestic demand for imports. With external buffers are eroding, limiting the room to absorb shocks, the uncertainty surrounding the authorities' ability to secure concessional financing poses a particular concern for near-term external stability.

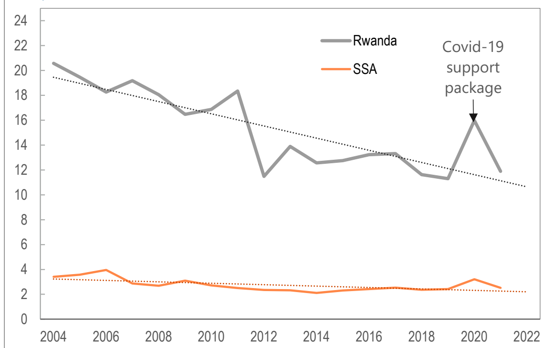
RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

4. **Rwanda's growth continues to perform strongly, registering 8.2 percent in 2022, while unemployment remains high (Figure 1, Table 1).** Robust performance in the manufacturing and services sectors combined with strong private consumption were able to offset weather-affected weak agricultural production and a contraction in the construction sector. However, the unemployment rate has not come down to pre-covid levels on account of persistent job losses in the trade and hospitality sectors as well as reduced job opportunities in the construction sector. The unemployment rate increased to 24.3 percent in Q4 2022 from 18.1 percent in the previous quarter, with the female unemployment rate particularly high at 28.3 percent.

5. **The inflation rate remained high and well above the NBR's inflation target, reflecting high food and energy prices and persistent core inflation (Figure 2, Table 1).** Headline inflation

stood high at 19.3 percent in March, although moderating from its peak of 21.7 percent in November 2022. Food inflation has been over 40 percent since October 2022, which remains a source of concern for the urban poor.[1] Core inflation also remained elevated in March (12.2 percent) raising concerns over broad inflationary pressures. The NBR Monetary Policy Committee (MPC) raised the policy interest rate by 50 basis points to 7.0 percent in February 2023, with the next rate decision expected in early May.

Rwanda and SSA: ODA
(percent of GDP, dotted line is linear trend line)



Sources: OECD and IMF staff calculations.
Note: ODA = official development assistance.

6. **The balance of payment developments was mixed in 2022, but the overall external position has worsened (Figure 5, Tables 6a–6b).** On the back of a high inflation differential, the real effective exchange rate appreciated by 8.3 percent in 2022. Together with strong domestic demand and high energy prices, the trade deficit increased by US$332 million, as the rise of imports outpaced exports, although relative to GDP it remained stable at 15 percent due to nominal GDP growth. Rapid tourism recovery drove improvement in the balance of services. FDI inflows increased, but net inflow of other private investments dried up amid tightening global financial conditions. In the absence of new commercial borrowing, low availability of concessional budget financing—already on a declining path for the last two decades—could put additional pressure on the level of international reserves. Gross reserves declined from 4.9 months of prospective imports at end-2021 to 4.2 months at end-2022, close to the lower bound but above the minimum adequate level. The Rwanda franc depreciated against the US$ by 6.1 percent in 2022, with the NBR appropriately accommodating greater nominal depreciation in the first three months of 2023.

Text Table 1. Rwanda: Trade Balance (January–December 2022)
(Percent change over the same period of the previous year)

	Exports				Imports		
	Value	Volume	Price		Value	Volume	Price
Total	**37.7**	**...**	**...**	**Total**	**32.7**	**...**	**...**
Total excl. gold and reexports	**27.3**	...	...	**Total excl. gold and imports for**	**31.8**	...	...
Tea & coffee	21.0	2.8	17.7	Consumer goods	26.6	19.1	6.3
o/w coffee	34.1	2.1	31.4	o/w food	29.3	19.1	8.5
o/w tea	10.3	3.1	7.0	o/w other	24.4	18.9	4.6
Trad. mining	36.4	24.1	9.8	Capital goods	1.4	-9.8	12.4
Other exports	26.8	35.1	-6.1	Intermediate goods	27.7	14.2	11.9
Reexports	39.3	9.5	27.2	Energy and lubricar	120.4	27.4	73.1
Gold	53.0	49.3	2.5	Gold	39.1	39.1	0.0

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

[1] The latest Famine Early Warning System Network Situation Report for Rwanda finds that high food prices, combined with a slowdown in economic growth, limited employment opportunities, and the high cost of fuel and transportation, will likely continue constraining household purchasing power and limiting food access, especially in urban areas in 2023. While the availability of season A (September 2022–February 2023) harvest improved food security in general, poor urban households continued to face stress in meeting their basic food needs.

7. The fiscal deficit in the first half of FY 22/23 was lower than anticipated, primarily due to lower expenditures more than offsetting lower revenues (Figure 3, Tables 2a–b). Despite significantly higher nominal GDP, nominal tax revenues have not increased commensurately as the taxable base exempts high-inflation agriculture and food products, while exemptions also increased (see ¶13). Grants were less than expected due to disbursement delays. Expenditures were largely unchanged in nominal terms, consistent with the FY22/23 budget, leading to lower expenditure-to-GDP ratios. Delays in hiring teachers under the expanded education program (until early 2023) led to lower grants to local government. Delays in external loan disbursements from the World Bank, AFDB, and JICA led to significantly higher domestic financing.[2] The World Bank subsequently disbursed in March, while the JICA disbursement is anticipated in the next fiscal year; the timing of the AFDB financing remains uncertain.

Rwanda: Operations of the Central Government, H1:FY22/23, GFSM 2014[1]
(Percent of GDP)

	July-Dec 2022	
	H1 RSF/PCI Aproval	H1 Act.
Revenue	**10.7**	**10.3**
Taxes	7.4	7.2
Grants	2.1	1.8
Other Revenue	1.2	1.2
Expense	**9.7**	**9.1**
o/w Purchases of Goods and Services	2.6	2.6
o/w Interest	1.1	0.9
o/w Grants	3.2	2.8
Net Acquisition of Nonfin. Assets	**4.8**	**4.4**
Net Lending (+) / Borrowing (-)	**-3.9**	**-3.3**
Net Acquisition of Financial Assets	**-0.8**	**-0.2**
Net Incurrence of Liabilities	**3.1**	**3.3**
Domestic	0.3	2.1
o/w Accounts Payable[2]	-0.3	0.8
Foreign	2.8	1.2
Overall balance (GFSM 1986)	**-4.5**	-4.0
Debt-creating Overall Balance (excl. PKO, GFSM 1986)[3]	**-4.5**	-3.9

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
spending on materialized contingent liabilities in the DSA.

8. The financial sector remains stable (Figure 4, Tables 4–5). The banking sector continued to be profitable, well-capitalized, and liquid as of end-December 2022. Credit quality improved, with NPLs for banks further reduced relative to end-2021 (from 4.6 to 3.1 percent) and microfinance institutions (from 4.8 to 3.5 percent), benefiting from growth in new loans and higher loan write-offs. Credit to the private sector grew by 13.6 percent in 2022, while bank exposure to mortgage and household lending accounted for 37 percent of the new lending.

9. Program performance under the PCI/RSF was broadly strong with all quantitative and standard continuous targets, as well as reform targets and reform measures set for the completion of the first reviews, met:

- *Quantitative and standard continuous targets.* All end-December 2022 quantitative targets (QTs) and standard continuous targets envisaged for the completion of the 1st review of the PCI were met. 12-month average inflation stayed within the inner band of the monetary policy consultation clause despite acceleration in 2022 H2.
- *PCI Reform Targets (RTs).* Consistent with the authorities' domestic revenue mobilization efforts, the revised CIT law (end-May 2023 RT) was submitted to Cabinet in April 2023 (although the approved version by Cabinet did not include key elements of the reform, which necessitated a new RT, see ¶15). Quarterly fiscal reporting in GFS 2014 format

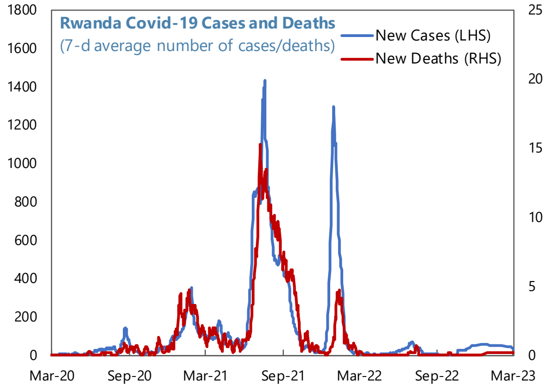
[2] This was made up from higher domestic debt issuances and a build-up of accounts payable. The accounts payable are not classified as arrears as they are less than 90 days. The authorities have indicated that some of these payments have been made, supported by the World Bank disbursement that materialized in Q3 of FY22/23.

coverage (end-April 2023 RT) was expanded to include all general government entities including RSSB and published in April 2023. The Monetary Policy Strategy (MPS)—end-March 2023 RT—was approved and published on the NBR's website in February 2023. The NBR management approved a roadmap endorsed by all stakeholders for Global Master Repurchase Agreement implementation (end-April 2023 RT) in April 2023.

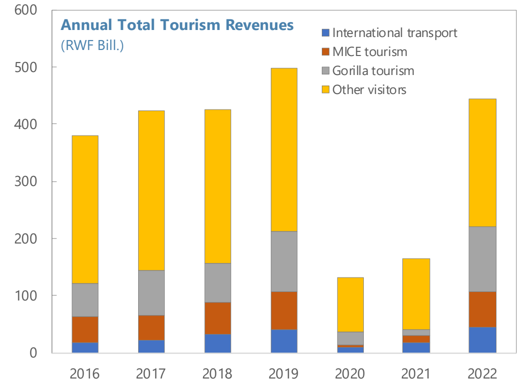
- *RSF-supported reform measures (RMs) envisaged for the first review*. Quantitative climate risk assessments were incorporated into the fiscal risk statement and submitted to the Fiscal Risk Committee in April. In April 2023, national investment policy was updated to integrate the climate agenda-based on PIMA/C-PIMA recommendations. A new National Disaster Risk Reduction and Management Policy, delineating responsibilities between institutions and providing a framework for community-based disaster risk reduction and management, was adopted in May 2023.

Figure 1. Rwanda: Spillovers from the Multi-Year Shocks and the War in Ukraine

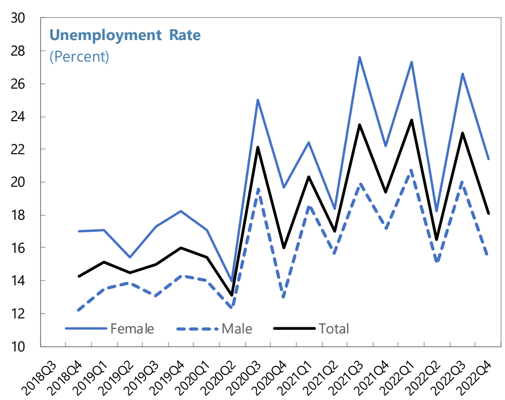
The COVID-19 pandemic continues to wane, as Rwanda achieved its end-2022 vaccination target.



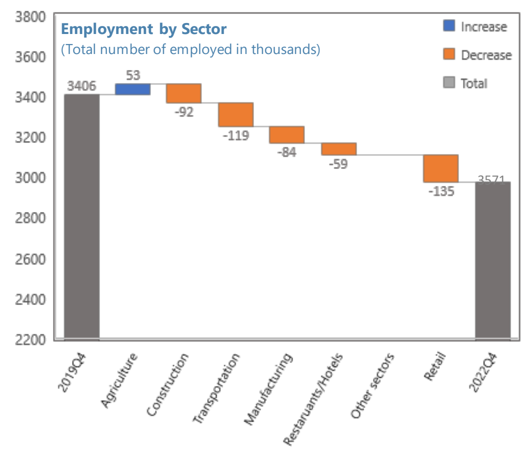
Rwanda Tourisim revenue after the COVID-19 pandemic showed a strong recovery during 2022.



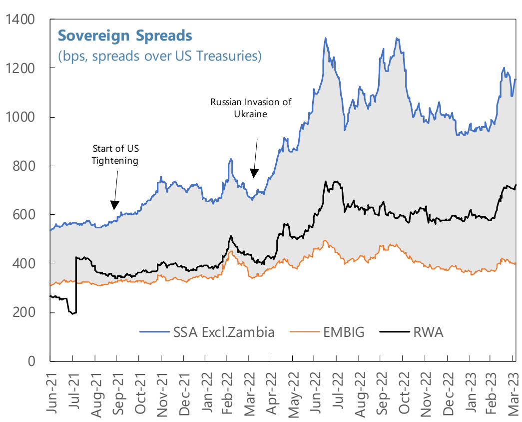
Unemployment remains high, especially among women...



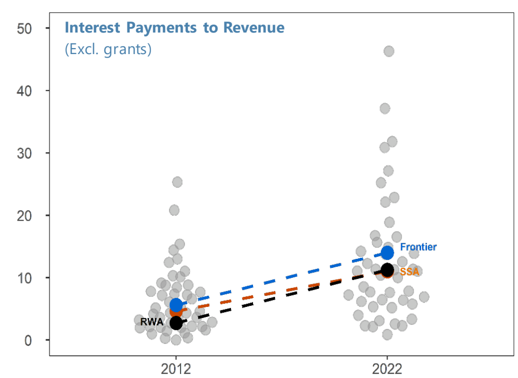
... with employment in trade and hospitality-related sectors still below pre-pandemic levels.



Sovereign spreads over US Treasuries grew for Rwanda in the aftermath of the war in Ukraine but remained below SSA levels...



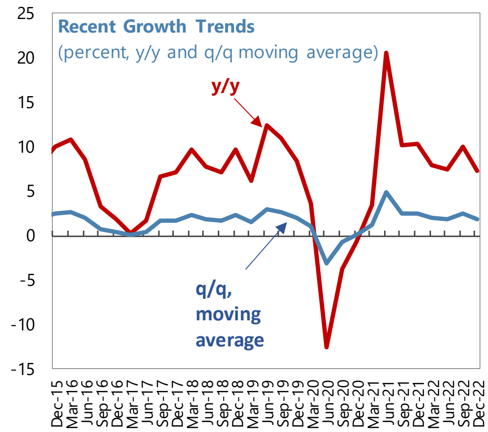
...while borrowing costs have significantly increased, with interest payments as a share of revenue doubling in the last decade.



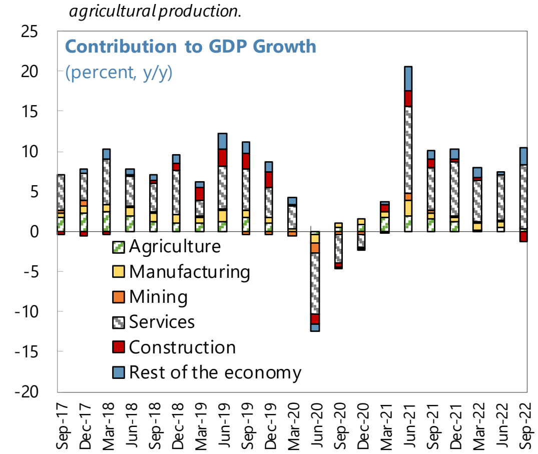
Sources: Rwandan authorities, National Institute of Statistics Rwanda (NISR), Oxford Government Policy Response Index Database (2023), and IMF staff calculations.

Figure 2. Rwanda: Overview of Recent Economic Developments

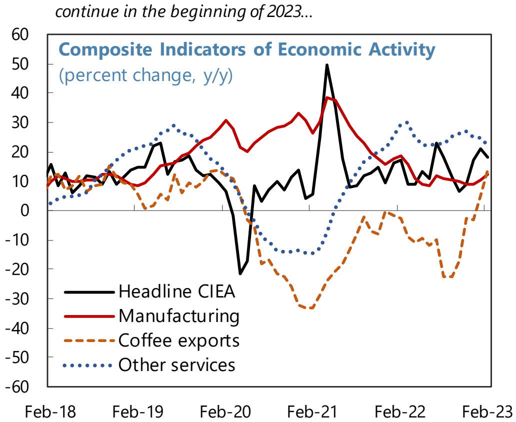
Economic activities remain strong in 2022…



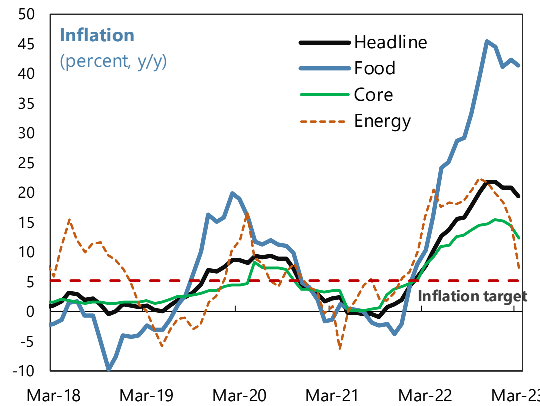
… as sharp pickup in the service sector more than offset weak agricultural production.



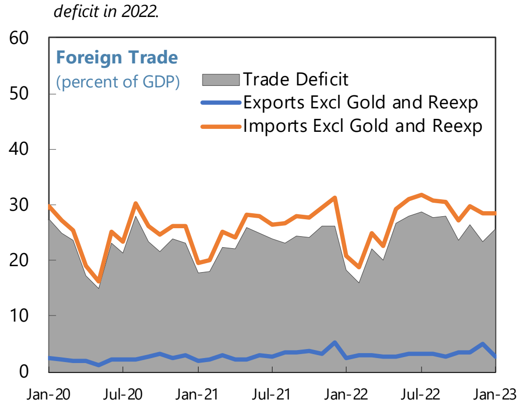
While leading indicators suggest strong economic activities continue in the beginning of 2023…



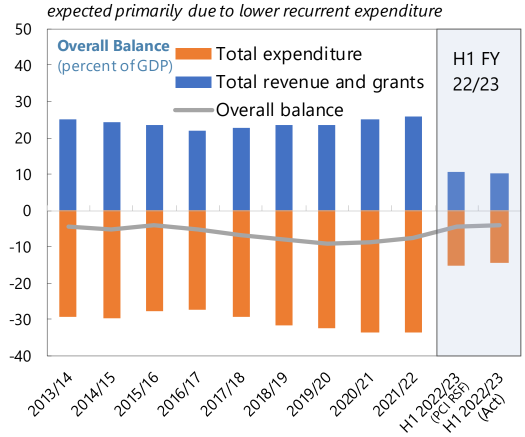
…the inflation rate remained well above the NBR's inflation target although declining in recent months.



High import prices and strong demand resulted in wider trade deficit in 2022.

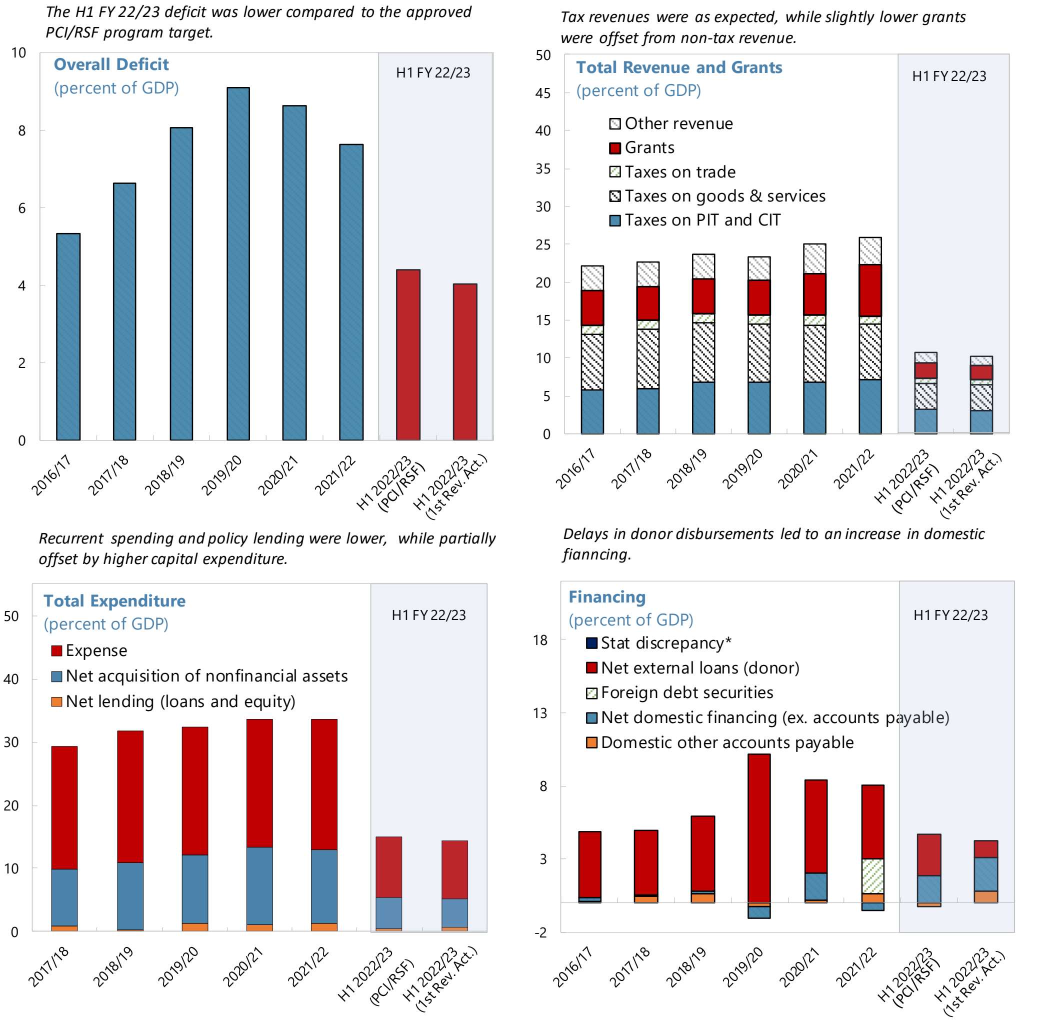


The fiscal deficit in H1 FY 22/23 was slightly lower than expected primarily due to lower recurrent expenditure



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.

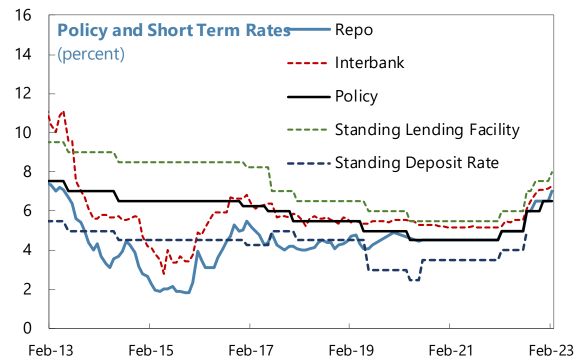
Figure 3. Rwanda: Fiscal Developments



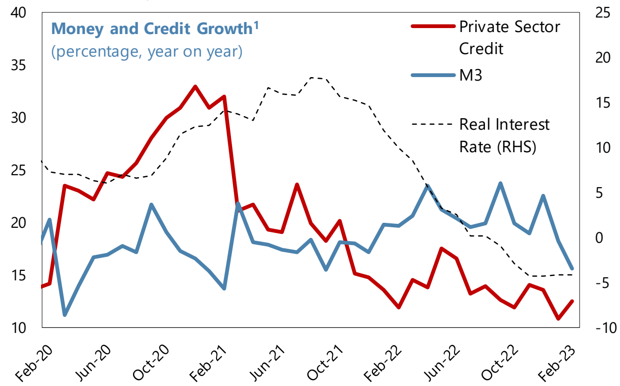
Sources: Rwandan Authorities and IMF staff estimates.
*Outturns have a statistical discrepancy that is the difference between net aquisition of financial assets and the net lending/borrowing.

Figure 4. Rwanda: Monetary and Financial Sector Developments

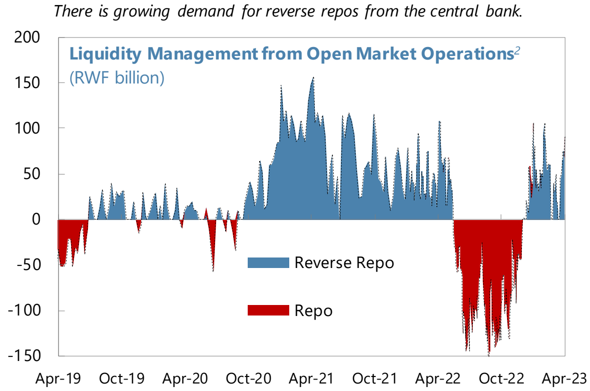
NBR started tightening in February 2022...



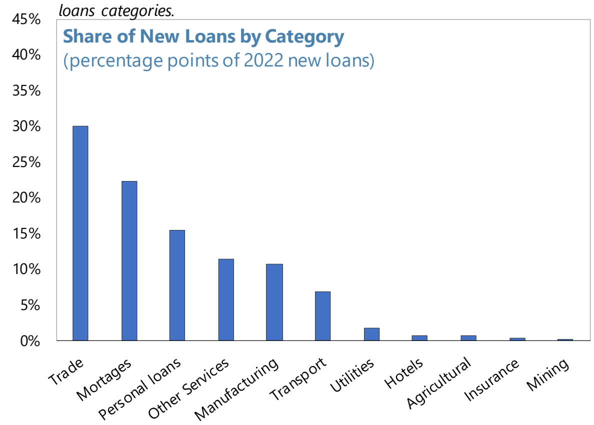
...yet real interest rates remain low, allowing for double-digits private sector credit growth.



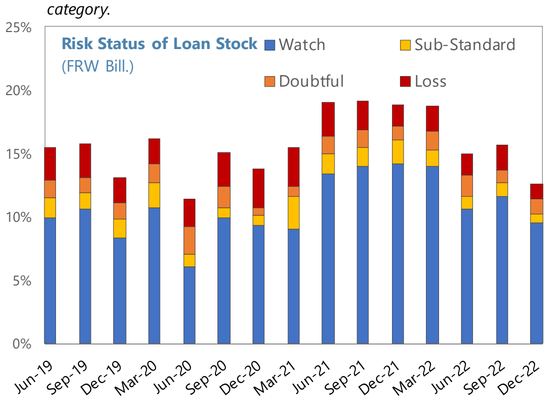
There is growing demand for reverse repos from the central bank.



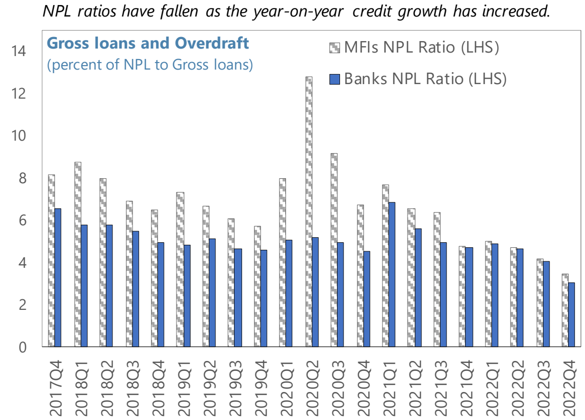
New loans have been concentrated on the trade, mortgage and personal loans categories.



Credit risk has fallen with a reduction in loans under Watch category.



NPL ratios have fallen as the year-on-year credit growth has increased.

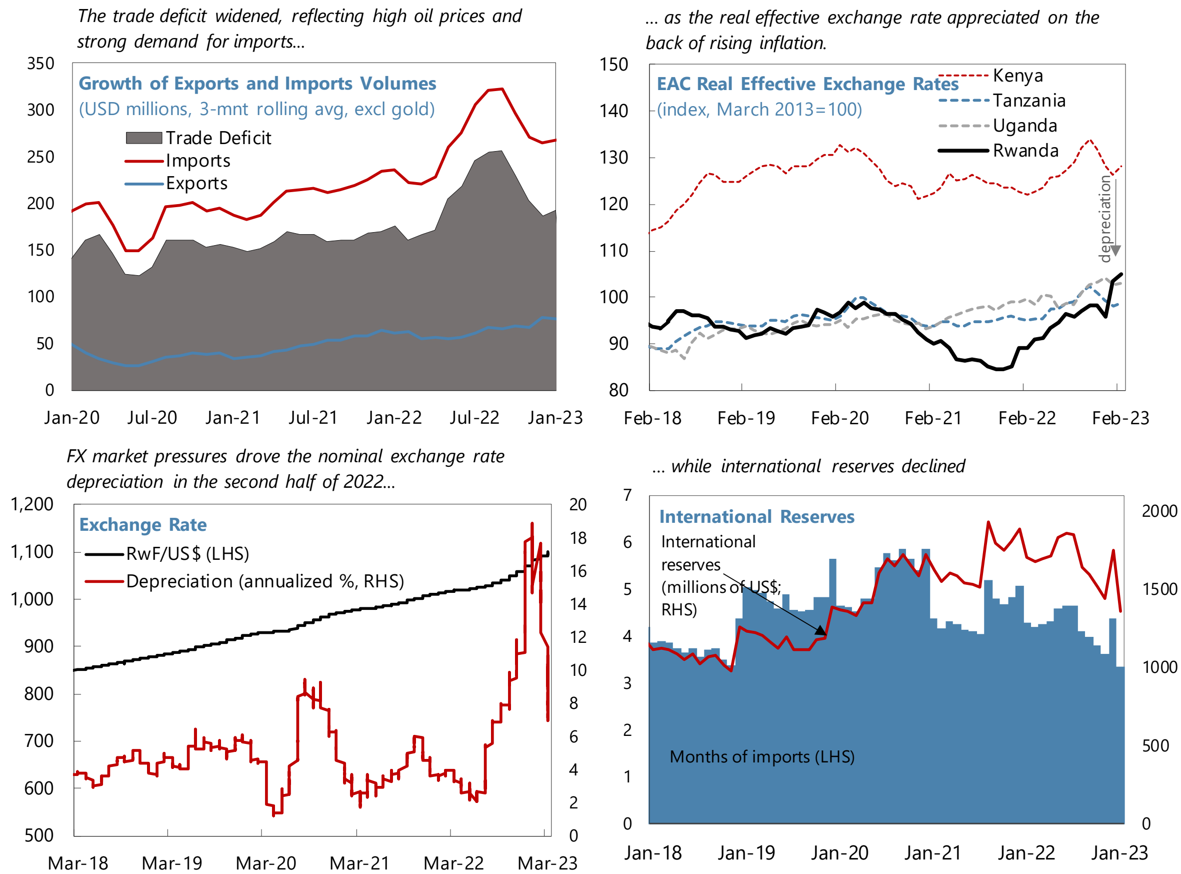


Sources: Rwandan authorities, and IMF staff estimates.

Note: [1] Real interest rate is calculated from the average nominal lending rate and the year-on-year inflation rate.

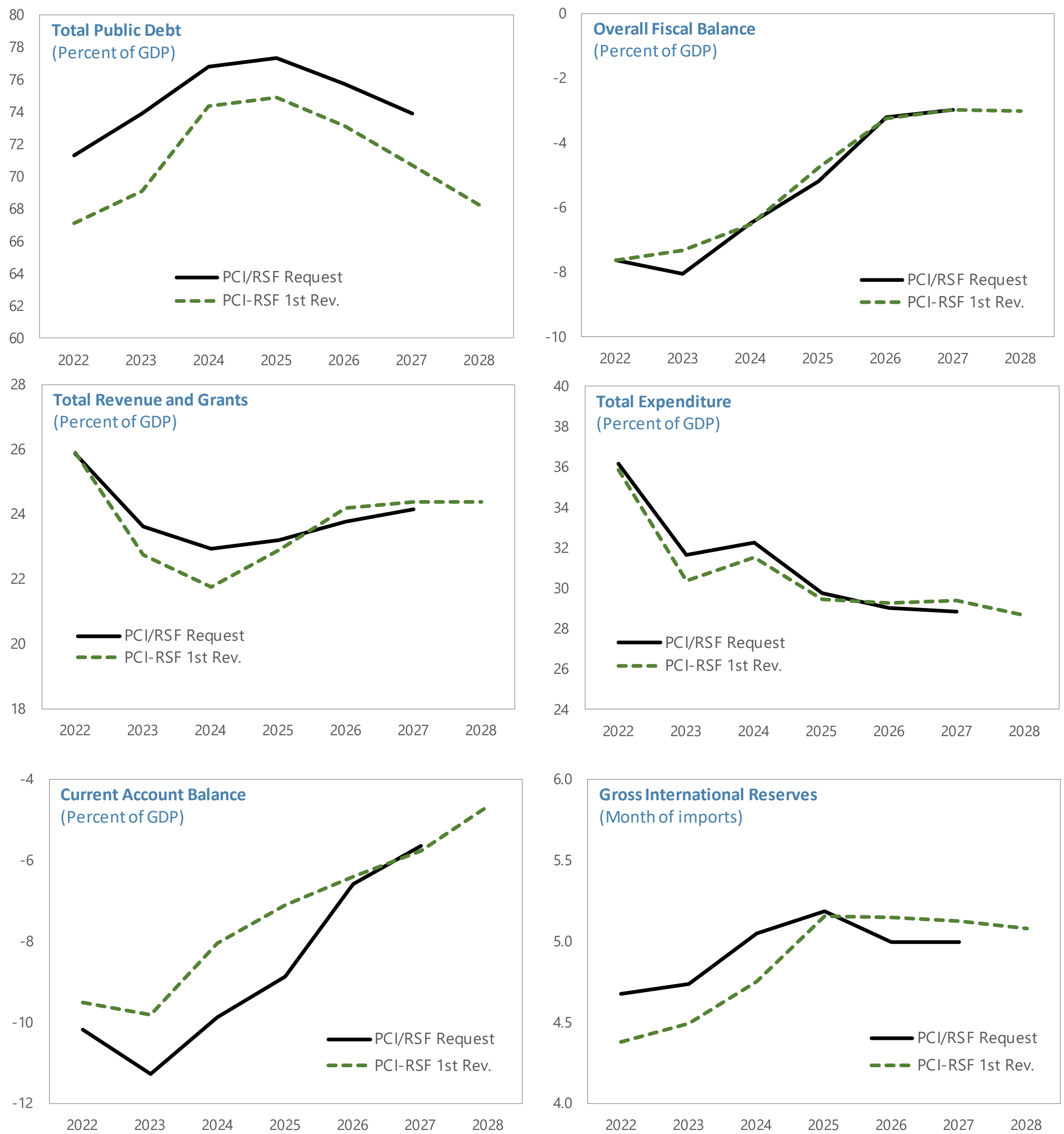
[2] Positive sign means net injection and negative sign means net absorption of liquidity.

Figure 5. Rwanda: External Developments



Sources: Rwandan authorities, and IMF staff estimates

Figure 6. Rwanda: Selected Program Indicators, PCI–RSF Programs Approval, and the First Reviews



Sources: Rwandan authorities, and IMF staff estimates
Note: Overall fiscal balance, total revenue and total expenditure are reported on a fiscal year basis. (e.g: 2022=FY21/22)

OUTLOOK AND RISKS

10. Real GDP growth is expected to soften and inflation to decline slowly on account of envisaged tightening policy measures to support external balance and price stability. (Tables 1–6).

- **Growth is projected to moderate to 6.2 percent in 2023 and improve to 6.7 percent in 2024.** Rwanda's recovery is expected to moderate reflecting additional fiscal consolidation and monetary policy tightening to rebuild policy buffers. In 2024, economic activity is expected to regain momentum, if the external environment improves, although some scarring is likely. The output gap is projected to turn negative in the beginning of 2024. Private consumption and investment would be the main growth drivers in the medium term, as fiscal consolidation ensues.

- **Average headline inflation is projected to stay high at 14.5 percent in 2023,** exceeding the NBR's benchmark level (5 percent), driven primarily by continued high food inflation in the first half of the year while fiscal and monetary tightening takes effect. Headline inflation is projected to decline to 5 percent in 2024, as monetary policy is expected to be further tightened to fend off second-round effects.

- **The fiscal deficit for FY22/23 is expected to be 7.3 percent of GDP, 0.8 percentage points lower than envisaged at the PCI approval.** The tighter fiscal stance compared to program approval is driven by expenditure constraints, more than offsetting lower tax revenues. The fiscal deficit for FY23/24 is expected to tighten to 6.5 percent of GDP, consistent with the PCI program target.

- **The current account deficit is expected to temporarily widen to 11.3 percent of GDP in 2023, with foreign reserves falling to just above adequate levels.** Excluding the Bugesera airport construction project,[3] the CAD is projected to remain at 9.3 percent of GDP and the trade deficit to shrink to 13.5 percent of GDP, on account of fiscal and monetary policy tightening coupled with some real effective exchange rate depreciation in 2023. Over the medium term, the trade balance and the current account are expected to improve underpinned by further real effective exchange rate adjustment, higher domestic savings (from the continued fiscal consolidation), and productivity growth, helping to boost gross official reserves to 5 months of imports.

[3] The project is expected to significantly increase imports of goods and services but be fully financed from external sources (FDIs and loans) and have little effect on the overall balance of payments.

Text Table 2. Rwanda: Macroeconomic Framework, 2021–28

	2021	2022		2023		2024		2025		2026		2027		2028
	Act.	PCI/RSF	Act.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)													
Real GDP growth (percent)	10.9	6.8	8.2	6.2	6.2	7.5	6.7	7.5	7.0	6.8	7.3	6.2	7.3	7.3
CPI inflation, average (percent)	0.8	12.6	13.9	7.9	14.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI inflation, eop (percent)	1.9	17.1	21.6	3.4	7.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Overall fiscal balance incl. grants, policy lending (% of GDP)[2]	-8.6	-7.6	-7.6	-8.1	-7.3	-6.5	-6.5	-5.2	-4.8	-3.2	-3.2	-3.0	-3.0	-3.0
Overall fiscal balance excl. grants (% of GDP), FY Basis[1]	-12.3	-7.6	-12.7	-8.1	-10.1	-6.5	-7.6	-5.2	-6.5	-3.2	-5.3	-3.0	-4.5	-4.2
Total public debt incl. guarantees	73.4	71.3	67.1	73.9	69.1	76.8	74.4	77.3	74.9	75.7	73.1	73.9	70.7	68.2
Current account balance (% of GDP)	-11.2	-10.5	-9.8	-12.4	-11.3	-11.6	-10.5	-11.0	-10.1	-8.6	-9.5	-7.7	-9.0	-7.5
Foreign assets of monetary authorities (In months of next year's	5.1	4.7	4.4	4.7	4.5	5.0	4.8	5.2	5.2	5.0	5.1	5.0	5.1	5.1
Gross official reserves (In months of next year's imports[2])	...	4.5	4.2	4.6	4.4	4.9	4.6	5.1	5.0	4.9	5.0	4.9	5.0	5.0

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 27/28 (2028). 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.

11. The outlook is subject to significant uncertainty and a range of downside risks (Annex I). The confluence of headwinds from deepening geopolitical fragmentation, another spike in global energy and fertilizer prices, a steeper decline in trading partners growth, or a funding squeeze would weigh heavily on Rwanda's outlook. Global financial market developments—in particular, the availability of concessional resources as these are diverted to support Ukraine—could adversely affect affordability of external financing and induce delays to disbursements of previously committed resources. Rwanda's dominantly rain-fed agriculture sector is highly exposed to climate variability, adding to the country's vulnerability from frequent climate related shocks. Fallout from the conflict with the Democratic Republic of Congo affecting regional trade and subdued external demand, possibly fueled by tightening financial conditions in advanced economies and increased geopolitical fragmentation, add to downside risks. Downside risks could pose significant challenges to maintain Rwanda's macroeconomic stability which will need to be met with a credible policy response. Staff stressed that if any of these downside risks materialize, they may need to be mitigated by fiscal and monetary policy tightening. On the fiscal side, staff viewed that additional savings could be achieved by the rationalization of capital expenditure through efficiency gains identified through the World Bank PER and the IMF PIMA. Additionally, any needed current account adjustment could be met through continued depreciation of the nominal exchange rate and further monetary tightening to curtail inflationary pressures and anchor expectations.

POLICY DISCUSSIONS

Policy discussions focused on: (i) assessing near-term policy responses to the external shocks; (ii) crafting an appropriate policy mix needed to rebuild buffers, rein in inflation, and allow the exchange rate to play its shock absorber role and mitigate external pressures, and (iii) progress in implementing policies and reform priorities under the PCI and RSF-supported program. With continued high uncertainty, securing sufficient concessional external and fiscal financing will be critical to meet the PCI's objectives, while also pursuing the structural reform agenda to build resilience, including to *climate change as set out under the RSF-supported program.* [4] *(Letter of Intent and Program Statement (PS); Tables 1–3).*

A. Fiscal Policy: Balancing Development Needs with Sustainability

Fiscal Stance

12. The FY22/23 fiscal position is expected to be 0.8 percent of GDP lower than anticipated at the PCI approval. This improved fiscal position is driven by lower expenditures (1.6 percent of GDP), that were more than enough to offset lower revenues (0.8 percent of GDP). Despite the high inflationary environment, the authorities presented a revised budget in January that was largely the same as at the time of program approval in nominal terms (Table 2a). Tax revenues were impacted by new tax exemptions, and delays to the Medium-Term Revenue Strategy (MTRS) (see ¶13), and a narrow tax base that already exempted several sectors (especially the agriculture and transport sectors) that faced high inflation.

13. The fiscal deficit in FY23/24 is expected to decline to 6.5 percent of GDP. However, the primary balance excluding grants is 1.2 percentage points lower than envisaged under the program, reflecting lower grants and a desire to counter emerging external and domestic imbalances. The adjustment has also become more weighted toward expenditure with expenditure growth contained through expenditure rationalization. Tax revenues are 0.6 percentage points lower compared to the PCI due to a lower starting base and increased exemptions (see ¶15).

Fiscal Objective: Anchor, Pace, and Composition of Consolidation

14. The debt anchor of 65 percent of GDP is expected to be reached in FY29/30, one year earlier than at the program approval. This is mostly due to a combination of a lower initial (end-2022) debt stock (due to the unexpected real exchange rate appreciation and higher-than-expected GDP growth) and lower primary deficits through FY 27/28 (due to envisaged constrained growth in both capital and recurrent expenditures over the medium-term, see ¶13). The assessment of the last DSA, published in Decemeber 2022, remains applicable: debt is assessed to remain sustainable with moderate risk of external and overall public debt distress. Potential risks to debt sustainability stem from high uncertainty and a difficult external environment in the form of declining concessional financing, U.S. monetary policy tightening, US$ appreciation, and terms-of-trade shocks.

[4] The PCI stands on the following three pillars: (i) a fiscal framework that is supportive of the National Strategy for Transformation (NST) while safeguarding debt sustainability, (ii) sustained support for the implementation of the interest rate-based monetary policy framework, and (iii) mitigating scars and building resilience against future shocks. The RSF-supported program consists of five reform areas: (i) strengthening the monitoring and reporting of climate-related spending decisions, (ii) integrating climate risks into fiscal planning, (iii) improving the climate-sensitivity of public investment management (PIM) decisions, (iv) enhancing climate-related risk management for financial institutions and developing a green finance market, and (v) strengthening disaster risk reduction and management.

Text Table 3. 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
PCI and RSF Program Approval										
Overall balance[1]	-7.6	-8.1	-6.5	-5.2	-3.2	-3.0	-2.9	-2.9	-2.9	-3.4
Public debt[2]	71.3	73.9	76.8	77.3	75.7	73.9	70.8	68.2	66.1	64.7
1st Review PCI and RSF										
Overall balance	-7.6	-7.3	-6.5	-4.8	-3.2	-3.0	-3.0	-3.3	-3.5	-3.7
Public Debt	67.1	69.1	74.4	74.9	73.1	70.7	68.2	66.0	64.5	63.5

[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

15. The fiscal consolidation strategy remains predicated on a mix of DRM and spending rationalization measures. The MTRS, which was approved by cabinet in May 2022, is expected to permanently yield 1 percent of GDP. A more backloaded profile is assumed compared to the program approval as critical policy measures were not supported by Cabinet, and an increase in exemptions in FY22/23 have undermined yields. Spending rationalization measures are expected to be supported by an upcoming RT that explicitly outlines consolidation measures in the FY24/25 Budget.

- **Tax Policy DRM.** Domestic revenue mobilization efforts have faced delays as more time is needed to generate buy-in from relevant stakeholders. A draft excise law that was submitted to Cabinet in November (RT under the previous PCI) was subsequently sent back for amendments and was approved in April. The approved draft law is expected to be revenue neutral as key revenue raising measures were not approved, reducing 0.15 percent of GDP over 2022/23 and 2023/24 from what was expected at program approval. As part of the MTRS, the draft Corporate Income Tax law (expected to yield 0.8 percent of GDP at program approval) was submitted to Cabinet in line with IMF recommendations (first review RT). However, the only element approved was a marginal reduction in the CIT rate, leading to 0.1 percent of GDP loss in revenues as assessed by staff. The VAT law (expected to bring losses of 0.1 percent of GDP) was also approved by Cabinet in April. Revenue leakages have also increased, including through a reduction in diesel excises to stabilize international prices and the extension of the manufacturing build to recovery program (MBRP) that exempts VAT and import duties for select projects. Consistent with the RST objectives, the authorities have since ended the implicit fuel subsidy (since April 5) and have committed to not extending the MBRP beyond the end-December 2024 application deadline. Given the departure from key MTRS measures and the revenue leakages, staff assessed that a 1.2 percent of GDP revenue gap emerged over the medium term. To close the gap and to ensure that MTRS domestic revenue mobilization and other objectives are met, the authorities proposed that a package of revenue generating and predominantly tax policy measures will be approved by Cabinet, in consultation with staff, for the completion of the second review (new end-September RT). These could include increases to property tax, the rationalization of exemptions, and other tax base broadening measures, as well as credible new tax administration measures (next bullet). Staff urged the authorities to step up efforts to build consensus on the originally envisaged CIT reform package and limit further exemptions and revenue leakages as they undermine their commitments under the MTRS. The authorities are committed to an MTRS successor at the expiration the current MTRS.

- **Revenue Administration DRM.** The Rwanda Revenue Authority (RRA) has continued to implement MTRS administration measures.[5] The amount of VAT retained by RRA to offset outstanding VAT refunds to economic agents built-up over several years was increased from 12 percent to 15 percent. The RRA anticipates improved administrative efficiency with the implementation of the New Operating Model (NOM) from January 2023 derived from improved focus on digitalization and Compliance Improvement Plans for special sectors. The improved Electronic Bulling Machine (EBM) program should see widening of the tax base by including the informal sector.

Text Table 4. Rwanda: Domestic Revenue Mobilization

(Percentage points of GDP from the previous fiscal year)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total tax revenue (+ = consolidation)	**-0.4**	**0.1**	**0.5**	**1.1**	**1.0**	**0.3**
Medium-term revenue strategy	0.2	0.0	0.4	0.9	0.8	0.1
Identified policy measures for MTRS-1	-0.2	-0.4	-0.1	0.0	0.0	0.0
Unidentified MTRS-1 measures (predominately policy) - New RT	0.0	0.3	0.5	0.4	0.0	0.0
Identified administration measures for MTRS-1	0.4	0.2	0.0	0.0	0.0	0.0
Unidentified policy measures for MTRS-2	0.0	0.0	0.0	0.5	0.8	0.1
Fuel levy and diesel excise impact	-0.1	0.1	0.0	0.0	0.0	0.0
Manufacturing Build to Recover Exemptions	-0.1	0.0	0.1	0.0	0.0	0.0
Increase in VAT retention for RRA[1]	-0.1	-0.1	0.0	0.0	0.0	0.0
African Continental Free Trade Agreement	0.0	-0.1	-0.1	0.0	-0.1	0.0
Other (buoyancy[2] impact and judgement)	-0.4	0.1	0.1	0.2	0.2	0.2

[1]The RRA increased the amount of VAT it witholds from the Treasury to meet refunds (from 12 to 15 percent of gross collections)

[2]Long-term bouyancies have averaged around 1.1

- **Spending rationalization focuses on improved efficiency of government services, limits to subsides, more efficient capital expenditure, and general PFM reforms.** Expenditure is anticipated to decline by 3.4 percent of GDP in FY22/23 and a further 1.8 percent of GDP in FY23/24 as the authorities limit growth in new spending despite the high inflation environment. The digitalization in the delivery of some public goods and services will drive efficiency gains, while based on the Fund's PIMA the authorities have started to implement public investment management reforms aimed at promoting greater value-for-money based on selection, prioritization, and execution of public projects. The authorities are on track to submit a spending rationalization strategy as part of the FY24/25 budget framework paper (May 2024 RT) based on the medium-term fiscal policy outlined by the Planning and Budget Outlook Paper (November RT).

[5] The measures are aimed at (i) taxing the shadow economy, (ii) improving voluntary compliance through better taxpayer services, and (iii) promoting compliance improvement plans (CIPs) targeted at the manufacturing sector, large businesses, customs, and to combat aggressive tax evasion by individuals.

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

16. The quantification and management of fiscal risks from State-Owned Enterprises (SOEs) has resumed following the creation and staffing of the Ministry of Public Investment and Privatization (MININVEST). MININVEST has set up a team to conduct SOE health check and health stress exercises previously conducted by the MINECOFIN; and SOE health checks to identify high-risk SOEs have been resumed. MININVEST has committed to conduct stress tests in at least two high-risk SOEs to be submitted to the Fiscal Risk Committee by end-November 2023 (proposed new RT) with a view to continue conducting in 2024 SOE health-checks for all SOEs and quarterly stress tests for at least two high-risk SOEs. The authorities also plan to develop mitigation measures to address key vulnerabilities identified in the stress tests by end-April 2024 to be published in the FY 24/25 fiscal risk statement. To ensure fiscal risk management activities are properly coordinated, MINECOFIN will issue Terms of Reference to determine the roles and responsibilities of all stakeholders, including MININVEST, in the process of quantification and management of fiscal risks by end-August 2023.

17. Going forward, strengthening fiscal reporting and transparency is paramount. Staff strongly support the authorities plans to conduct a new Fiscal Transparency Evaluation (FTE) and publish the subsequent report together with the original unpublished 2019 FTE report by the second half of 2024 to highlight the progress achieved. In April, coverage of GFS 2014 reporting has been expanded following the publication of the quarterly budget execution reports under GFS 2014 for the whole general government, including RSSB (1st review RT), with plans to continue publishing these 60 days after the end of each quarter. The RT on the RSSB asset allocation review due in October (2nd review RT) is on-track for October 2023, with a consulting firm hired in November 2022 to help guide the review.

18. The implementation of the new Organic Budget Law (OBL) continues, along with other reforms to PFM systems. The issuance of Ministerial Orders and other financial regulations by MINECOFIN is expected by end-June 2023 to support the OBL implementation. The authorities have implemented a new baseline costing framework that allows spending ministries to better estimate the cost of ongoing programs, calculate the amount of fiscal space available for new programs and better prioritize core programs. The authorities have continued their migration to accrual accounting and rollout of the IFMIS to primary and secondary schools.

19. The authorities continue advancing their reforms for greater transparency in the use of public resources and to sustained anti-money laundering/countering the financing of terrorism (AML/CFT) efforts. On March 2023, the authorities have launched an electronic reporting portal for beneficial ownership (BO) disclosure to the Registrar General and a draft Company and Partnerships law capturing BO information was approved by Parliament. The authorities have also started inspections and audits related to entities' obligations to keep accurate and up-to-date BO information and reliable accounting records and plan to apply sanctions in the event of non-compliance with BO disclosure and accounting obligations. An independent audit of all government expenditures and procurement tenders for FY 21/22, including those financed by the new SDR allocation, is on track to be published by end-May 2023. Consistent with international commitments in the exchange of financial information in tax and AML/CFT matters, the cabinet approved the AML/CFT strategy to address the legal gaps.

B. Monetary, Financial Sector, and External Sector Policies

Monetary Policy

20. A more decisive monetary policy tightening is warranted given persistent inflationary pressures and the need to preserve external stability. The NBR's quarterly projection model (QPM) in March suggests that, even with the frontloaded fiscal consolidation, assertive monetary tightening will be needed to bring year-on-year inflation below the upper bound of NBR's tolerance band.[6] In line with data-dependent and forward-looking monetary policy, staff advised that a more decisive tightening, supported by strengthened communication, is needed to mitigate the second-round effects, anchor inflation expectations, and keep core inflation firmly on the downward trajectory (Box 1). The need to curb the double-digit growth of credit and high domestic demand, the erosion of FX reserve buffers, and negative real interest rates call for stronger policy actions (¶19 and Figure 4). To preserve external stability, more decisive monetary tightening should also be supported by greater exchange rate flexibility.

Monetary Policy Framework Modernization

21. The authorities are committed to strengthening their monetary policy formulation and communication, and operations critical to ensure the implementation of the interest rate-based monetary policy framework.

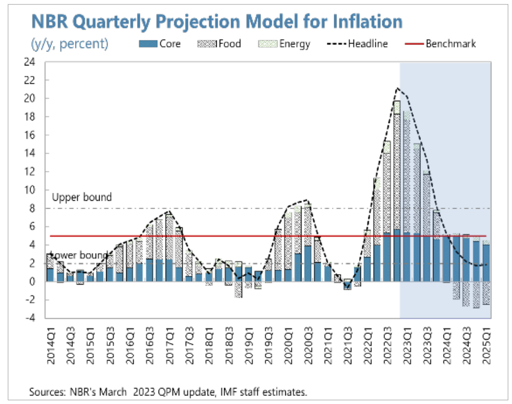
- **Monetary policy formulation and communication.** Supported by the IMF TA, the authorities made progress towards integrating the Forecasting Policy and Analysis System (FPAS), economic analysis and forecasting with monetary policy decision making. To this end, and to strengthen communications with the public and increase awareness of the monetary policy framework, the NBR developed and publish a monetary policy strategy in February 2023 (RT) explaining how actual and expected developments feed into monetary policy decisions. Given the absence of financial market-based measures of inflation expectations, the NBR is exploring options to develop an inflation expectations survey in the medium-term.
- **Monetary policy operations.** The NBR continues to focus on developing money, bond, and foreign-exchange markets to strengthen the transmission mechanism. Interbank market pricing continues to be aligned with NBR's policy rate and NBR provided liquidity through reverse repos as demand grew towards the end of year 2022 and early 2023. An implementation roadmap for the Global Master Repurchase Agreement (GMRA) has been finalized in April (1st review RT) with the full GMRA rollout expected by end-2024 (proposed new RT).

[6] While NBR's inflation benchmark remains 5 percent, the midpoint for the MPCC band has been raised temporarily for program monitoring purposes, and the period over which inflation will be averaged was brought down to 3-months to better capture recent inflation pressures.

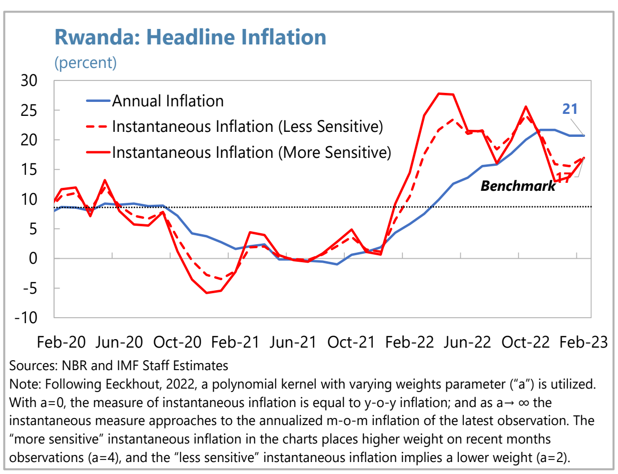
- **Foreign exchange interbank market liquidity.** NBR considers the exchange rate as the first line of defense against external shocks and is committed to increasing exchange rate flexibility. However, the FX interbank market liquidity remains limited, and the market continues to be shallow, undermining exchange rate flexibility. NBR, supported by the IMF TA, will undertake a diagnostic assessment of the FX market by end-November 2023 (RT). Based on the diagnostic assessment, NBR plans to establish a framework to guide foreign exchange intervention policy.

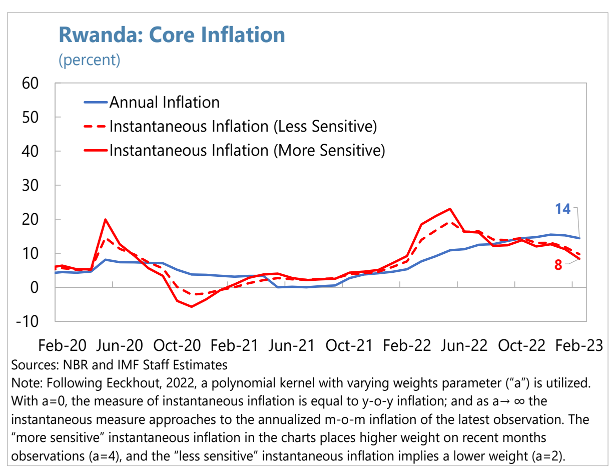
Box 1. Inflation Dynamics in Rwanda

The NBR's Monetary Policy Strategy states its objective as maintaining price stability by keeping headline consumer price inflation within the band of 2 percent and 8 percent, with a focus of having it close to 5 percent in the medium term. The NBR started tightening in February 2022 guided by a buildup of inflationary pressures as evidenced by its Quarterly Projection Model (QPM) analysis. The QPM suggests that headline inflation will converge towards the target band (below 8 percent) at the beginning of 2024, reflecting the effect of NBR monetary policy tightening and other policy measures, assuming a good performance of the agriculture sector and a decline in international commodity prices.



Considering recent inflation developments, headline inflation appears to be sticky while core inflation is decelerating. When inflation changes rapidly, the annual average rate is biased towards data from far in the past and conveys the true price level with a delay. While the average inflation rate can be thought of as the geometric mean of the annualized monthly inflation rates that puts equal weight on each month's data, the instantaneous inflation rate varies the weighting (with higher weights assigned to more recent months) and is able to better detect both turning points and trend (see Eeckhout, 2022). The instantaneous inflation rate shows that recent data—which incorporate the higher local fresh product prices given the poor agricultural season—point to a pickup of headline inflation, while core inflation is gradually trending down.

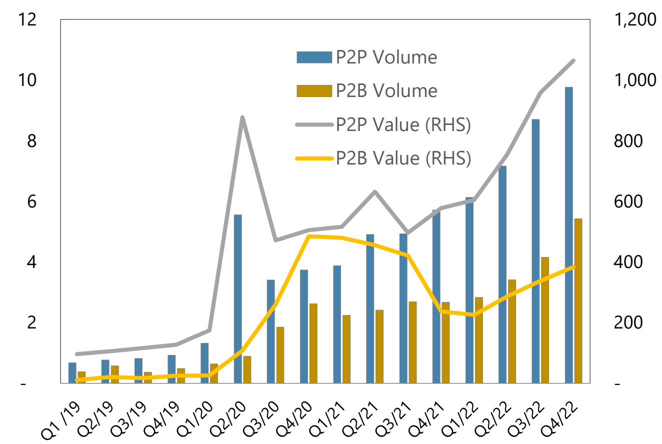




Financial Stability and Inclusion

22. The authorities maintained intensive supervisory oversight and relied on macroprudential analysis, standards, and processes to safeguard financial stability. As personal and commercial real estate sector loans grew robustly in 2022, the onsite inspections have enhanced focuses on credit risks, adequate loan classification and provisioning, and scrutinize banks' assessment of borrowers. The NBR continues to conduct a macro stress-test on a quarterly basis, and the banks continue with Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). To preserve financial stability, the NBR will monitor risks of excessive leverage in specific sectors with a view to apply or further tighten macroprudential policies. Furthermore, as the financial sub-sectors are highly interconnected, the NBR will continue to monitor the potential buildup of systemic risk concentrations.

Rwanda: P2P and P2B Mobile Payment Transactions
(Millions of RWF, LHS, and thousands of transactions RHS)



Source: BNR

23. Digitalization remains critical for advancing financial inclusion. The value and volume of mobile payments—both person-to-person and person-to-business—continue to grow since the COVID-19 pandemic. The authorities aim at further scaling up digital financial services provided by MFIs and Savings and Credit Cooperatives (SACCOs), improving the interoperability of instant payments under the Rwanda National Digital Payment System initiative which comprises the technology as well as a broader set of rules, processes and standards, strengthening security regulations and the Business Continuity Plan that addresses information security continuity, and digitalizing complaints handling via AI-chatbot system.

C. Structural Policies: Mitigating Scars and Building Resilience

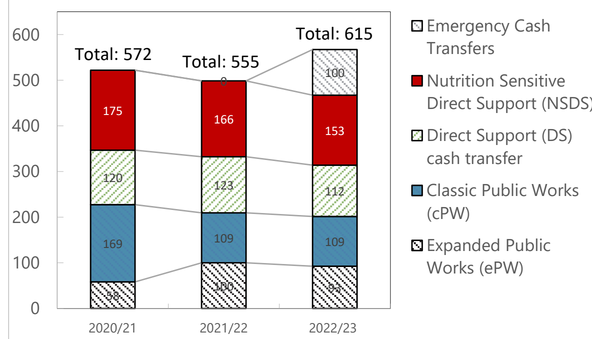
Mitigating Pandemic Scars and Building Socioeconomic Resilience

24. High and inclusive longer-term growth demands decisive structural policies to mitigate pandemic scars and build socioeconomic resilience. Enhancing the coverage, targeting, and shock-adaptability of social safety nets, improving the access and quality of health and education among vulnerable groups, and promoting economic diversification remain key pillars for addressing pandemic scarring and building socioeconomic resilience against future shocks.

- *Enhancing social protection.* The authorities made significant progress in implementing the dynamic social registry in the context of the Vision 2020 Umurenge Program— VUP (RT, 3rd review). The pilot and system development are expected to be finalized by end-June 2023.

Roll out to the remaining 28 districts and the Community Health Based Insurance Scheme is expected to start in July 2023 and be finalized by end-December 2023 ahead of schedule. Progress in expanding the VUP coverage has been mixed. After peaking in FY 21/22, coverage in most existing programs has declined in FY 22/23. On the other hand, a new program targeting street vendors was created in FY 22/23, helping to enhance the coverage of the urban poor working in the informal sector, a group particularly vulnerable to poverty risk from the rise in cost-of-living. The VUP shock-adaptability has also been enhanced by repurposing public works towards climate-sensitive projects (e.g., agricultural terracing) targeting areas more prone to disasters and increasing the coverage of emergency cash transfers. Benefits in some programs have also been increased to address rising living costs.

Rwanda: Expansion of Social Protection Programs



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

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

- *Improving human capital accumulation and pandemic preparedness*. The authorities' recent measures to subsidize school feeding programs have helped increase school attendance. To be sustainable, this program needs to be better targeted and financed through domestic resources. Furthermore, with support from the World Bank and other development partners, the authorities have taken steps to strengthen remote learning to minimize present and future pandemic scars. Guided by the World Health Organization, efforts to improve pandemic preparedness have also continued.

- *Promoting private sector-led economic diversification*. Efforts to promote private sector led economic diversification have been excessively focused on tax incentives. With support from the World Bank and development partners, the authorities are stepping up efforts to leverage the AfCTA preferential market access to secure opportunities of Rwandan firms by adjusting their legal framework to reduce tariff and non-tariff barriers. Greater emphasis should be placed on building a more skilled labor force, including by easing entry barriers for skilled EAC workers.

Building Resilience to Climate Change

25. **The implementation of the RSF-supported program is off to a good start,** including—integrating climate-related considerations in macroeconomic policy formulation to support the delivery and monitoring of Rwanda's climate commitments (Program Statement, Table 3).

- **Integrating climate risks into fiscal risk statement.** Supported by IMF technical assistance, climate risks have been included into the Fiscal Risk Statement, and a quantitative climate risk analysis has been provided to the Fiscal Risk Committee (1st review RM). The quantitative findings showed that GDP could be up to 5 percent lower by 2100 which could lead the debt to GDP ratio increasing to 104 percent. Next steps will include strengthening the quantification of discrete risks from climate, including on the materialization of fiscal risks from SOEs, and PPPs.

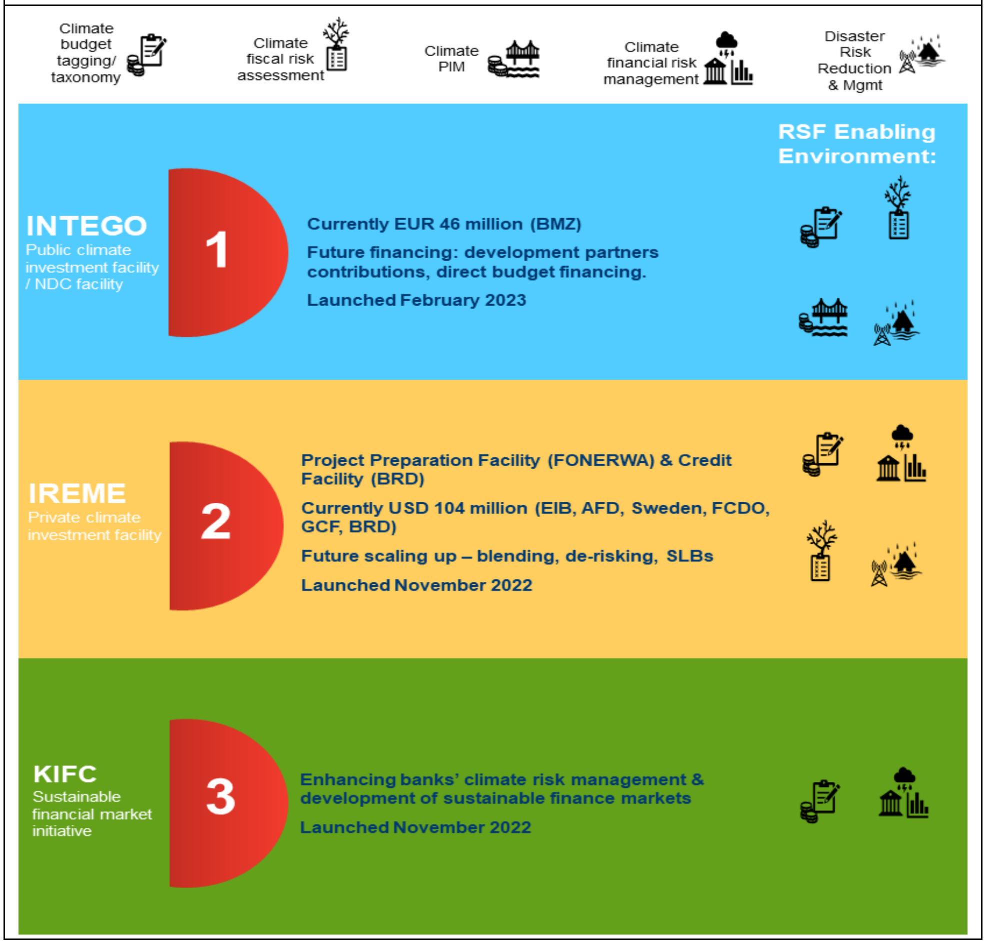
- **Improving climate-sensitivity of PIM.** An updated National Investment Policy that integrates the climate agenda was approved by Cabinet in April (1st review RM). With support from the IMF, the authorities have also published the guidelines for the appraisal and selection criteria to reflect PIMA/C-PIMA recommendations, re-phasing this reform measure to the first review (initially 2nd review RM). Following the publication, the authorities are encouraged to apply a project concept note (PCN) that explicitly references climate change objectives and climate risk screening for new investment project proposals. The authorities will also need to pilot the new prioritization and selection templates that weight climate considerations in the final project selection. The new procedures will support the final RM in this reform area (RM10) envisaging publish a consolidated report on major investment projects which will identify the ratings according to the adaptation/mitigation appraisal and selection criteria.
- **Strengthening disaster risk reduction and management.** A revised National Disaster Risk Reduction and Management Policy—adopted in May 2023 (1st review RM)—clarifies the roles and responsibilities between institutions and provides clear frameworks for community-based disaster risk reduction and management (DRRM). The new policy is supported by four pillars: (i) improve understanding of climate risks, their factors, and mitigation measures; (ii) risk governance and decision-making, (iii) community-based DRRM, and (iv) risk financing by different government levels. The implementation of the Policy will be supported by the enhanced capacity of the Ministry in charge of Emergency Management, where staff has tripled. The critical next step will be to develop a DRRM financing framework that ensures the availability of budget resources at the district level for emergency response and disaster risk reduction (RM 13). A diagnostic assessment of the DRM financing landscape is expected to be finalized by end-2023.
- **Monitoring and reporting of climate-related spending.** The Ministry of Economy and Financial Planning and the Ministry of Environment are preparing guidelines for the implementation of the climate budget tagging system consistent with the Green Taxonomy by end-2023 (2nd review RM). This will be followed by a gradual roll-out of the green budget tagging system. Once fully implemented, the budget tagging system should allow monitoring, preparation and execution of climate related activities and result in the publication of climate budget statement and quarterly climate expenditure reports, further improving transparency.
- **Managing risks to financial institutions and developing a green finance market.** As a first step towards issuing guidelines for financial institutions to better manage climate-related risks (3rd review RM), the NBR is preparing a diagnostic review to identify regulatory

gaps of the existing frameworks. The report is currently under validation and expected to be finalized by June.

26. Continued reforms to allocate climate resources more effectively and transparently will help to mobilize additional climate funding and achieving Rwanda's ambitious climate agenda. Green public finance management and climate-specific public investment management reforms will improve the authorities' decision making and create a conducive environment for attracting climate finance from development partners and from stakeholders looking to support Rwanda's climate efforts. The updated national investment plan will promote innovative approaches and a diverse set of instruments to mobilize sustainable finance (see next paragraph). Establishing guidelines for financial institutions on climate-related risk management and introducing standards for development of markets for sustainable finance products will also support private green investment. In addition, given the greater exposure of women to climate shocks due to their prevalence in the agriculture sector and their greater exposure to climate shocks, Rwanda's green strategy—that includes gender equality and equity principles—would help address existing gender inequalities in the allocation of climate resources (Annex III).

27. The authorities launched several green initiatives, while also actively exploring options to mobilizing additional climate financing (Annex II). The near-term focus is to build on Rwanda's Green Private Investment Facility ("Ireme Invest") by blending non-concessional and concessional resources. The terms and conditions of the scaled-up facility are expected to be finalized by mid-2023, including pledges by international partners. Any fiscal risks stemming from the government's financial exposure through potential equity contributions or guarantees should be well-identified and transparently reported, while accountability and governance frameworks should ensure the mitigation of such risks. In February 2023, Rwanda launched a Green Public Investment Facility ("Intego"). The public sector investments will be catalytic to foster more private investments by providing well-adapted to climate change infrastructure and by clearly signaling nature conservation priorities. Finally, during COP27, Rwanda also launched the Kigali International Financial Center (KIFC) initiative with the objective to establish a sustainable finance hub that would attract international capital to finance local and regional green and sustainable finance activities. The initiative's key strategic activities until end-2025 include enabling the regulatory environment to support banks' climate risk management and reporting practices, while at the same time deepening markets for sustainable financial products and developing the market of climate debt instruments and insurance.

Text Table 5. Rwanda: Climate Initiatives and the RSF Support



PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

28. Program conditionality under the PCI is proposed to be updated reflecting the macroeconomic framework and authorities' commitments to reforms (PS Tables 1 and 2). The implementation will continue to be monitored on a semi-annual basis through QTs, RTs, standard continuous targets, and a Monetary Policy Consultation Clause (MPCC) with end-June and end-December test dates. Policy implementation will be evaluated through review-based monitoring, considering evolving circumstances and policy needs. The authorities have requested to modify PCI conditionality reflecting the economic developments, and their commitments to reforms as follows:

- Given the current inflation level, the MPCC midpoint for end-June remains unchanged at 11.0 percent, while the end-December target will be set to 6.0 percent with an unchanged symmetric inner/outer band around the objective as per the TMU.[7] The period over which headline inflation is averaged will be reduced from 12- to 3-months to capture more accurately recent inflationary developments.

[7] Return to the NBR's benchmark rate of 5.0 percent will be considered during the program period.

- The QT on net foreign assets for end-June 2023 and end-December 2023 have been redefined to explicitly exclude RSF disbursements.
- The revised end-June and new end-December 2023 QTs and adjustors have been proposed in line with the updated macroeconomic framework and new borrowing plans.
- Three new RTs are proposed. The first on the commitment of the new Ministry of Public Investment and Privatization to conduct at least two stress tests on SOEs identified as high-risk and submit the results to the Fiscal Risk Committee by end-November 2023 (proposed 2nd PCI review RT). The second on Cabinet approval of a package of revenue generating and predominantly tax policy measures that ensure achieving MTRS domestic revenue mobilization objectives, by end-September 2023 (proposed 2nd PCI review RT). The third on the commitment by NBR and the Capital Market Association to enact the full GMRA rollout, including securing the signing of the GMRA by all banks, by end-December 2024 (proposed 4th PCI review RT).

29. The concurrent RSF-supported program will continue to be monitored by the agreed reform measures, with one of them proposed to be re-phased. The phasing of the RSF-supported reforms remains identical to the approved RSF request, distributed equally across the five reviews reflecting expected completion dates for all but one of the RMs that is brought forward from the second review (Table 10). The RSF provides budget support, and seeks to catalyze external support.

- Bank staff has provided an assessment letter on the authorities' climate policies in the context of the first RSF review (Supplement I).
- *The authorities are requesting to bring forward to the first RSF review the completion date of RM5 and associated disbursement*. This reform measure aims at improving the sensitivity of public investment management to climate-related issues and consists of the publication of new guidelines for appraisal and selection criteria, including climate considerations. With support from IMF AFRITAC East TA, the authorities published these guidelines on April 27 within the first PCI/RSF review window.
- The RSF disbursement under the first review will create fiscal space that, among other things, will support the authorities' climate adaptation and climate mitigation priorities. Climate related investments projects included in the FY22/23 and FY23/24 budgets include (i) building resilience to climate change hazards in the Volcano Region of Rwanda, (ii) Green City Kigali Project, (iii) Rwanda - Nyandungu Urban Wetland Eco-Tourism Park project, (iv) reducing vulnerability to climate change through enhanced community-based biodiversity conservation in the Eastern Province of Rwanda, (v) restoration of Upper Nyabarongo Catchment in the Mbirurume Sub-catchment of Rwanda. These projects aim to support investments in areas of low-carbon transport networks, low carbon and climate-resilient infrastructure, resilient urban landscapes, and sustainable agriculture, forestry, and conservation.

30. Capacity to repay the Fund is deemed adequate (Table 8). Rwanda's capacity to repay 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 will peak at 3.6 percent of GDP and 241.3 percent of quota in 2025 once the RSF is fully disbursed, with a downward sloping trend over time. Relative to gross reserves, it will increase to 23.1 percent in 2024 and reduce afterwards. Debt service to the Fund will peak at 2.0–2.3 percent of revenues (excluding grants) during 2023-2027, reducing afterwards.

31. Program financing and risks. While the outlook is subject to downside risks, the program is fully financed over the next 12 months with good financing prospects for the remainder of the program. Financing assurances have been provided mostly in the form of concessional grants from the World Bank, UNICEF, Global Fund, and bilateral development partners and concessional loans from the World Bank, AfDB, and other multilateral and bilateral DPs. While uncertainty and risks to program implementation remain significant, they are mitigated by the authorities' strong ownership in implementing Fund-supported programs.

32. Capacity development (CD) activities remain closely linked to the implementation of the PCI and RSF supported reforms (Annex IV). CD under the PCI will focus on the main areas of fiscal transparency and risk management, medium-term expenditure frameworks, DRM, implementation of the new forward-looking monetary policy framework, the framework for foreign exchange interventions, and financial stability. CD under the RSF will focus on adopting green PFM and climate-sensitive PIM practices. The authorities are committed to strengthening GFS reporting and SOE stress-testing. Going forward, CD activities are expected to focus on strengthening performance budgeting, fiscal reporting, macro-fiscal capacity, and implementing FSSR recommendations.

33. Safeguards Assessment. The 2022 safeguards assessment found a well-established governance and control framework. The NBR is making progress on safeguards recommendations, including amending its foreign reserves management policy and enhancing disclosures in the FY 2022 financial statements. The NBR's internal audit department should conduct periodic reviews of program monetary data for consistency with the TMU definitions.

STAFF APPRAISAL

34. Overlapping crises have eroded Rwanda's buffers and reduced room for maneuver to navigate new challenges. Signs of emerging imbalances—exacerbated by external shocks and Rwanda's diminished access to concessional financing—highlight a pressing need to build resilience and rebuild policy buffers.

35. Immediate policy priorities are focused on a strong policy mix that can prevent macroeconomic imbalances from becoming entrenched. In view of rising inflation, it is critical for NBR to continue tightening monetary policy to bring inflation back to the target by 2024. The authorities should continue conduct forward-looking and data-dependent monetary policy, while acting more decisively to contain second round inflationary pressures and strengthening communication to firmly anchor inflation expectations. Strong implementation of the interest rate based monetary policy framework, alongside the reforms to deepen money and government securities markets, should continue. Greater exchange rate flexibility remains key to ensuring external sustainability and for an effective interest rate based monetary policy framework.

36. Anchoring medium-term fiscal discipline through a credible fiscal consolidation plan should be re-phased after several disappointing delays to the MTRS implementation. The implementation of reforms envisaged under the MTRS have faced disappointing delays, including the recent non-approval by Cabinet of revenue raising measures related to excises and corporate income taxes. In order to maintain credibility to the commitment to raise the tax revenue to GDP ratio by 1 percentage point, staff view that reforms aimed at broadening the tax base and phasing-off tax exemptions together with tax administration measures to enhance compliance should be approved and implemented in the coming months. The authorities should step up their efforts to identify and cost medium-term spending rationalization measures by exploring additional cost-savings and efficiency gains through further digitalization in the delivery of public goods and services and improvements in the selection and prioritization of public investments. Steadfast adoption of on-going PFM reforms to strengthen budget costing and prioritization needs to be accelerated.

37. Given the limited fiscal space and the uncertain outlook, the authorities should continue to step up efforts to contain fiscal and financial sector risks. Reforms should continue to increase transparency in fiscal reporting, RSSB finances, and beneficial ownership in public procurement, while also aligning the AML/CFT legal framework with the Financial Action Task Force (FATF) standards.

38. The authorities' commitment to structural reforms, including to build resilience to climate shocks, should be sustained. Staff welcome the authorities' efforts to minimize pandemic scaring. Pursuing the transition to greener growth, supported by cost-effective interventions to attract private and concessional donor financing, should continue to be vital overarching priorities. Timely completion of the reform measures envisaged for the first review and re-phasing of the climate-sensitive PIM reform demonstrate the authorities' strong commitment to the climate reform agenda. It is critical that the authorities continue to make good progress with their efforts to strengthen the monitoring and reporting of climate spending (green budget tagging), establish climate sensitive public investment appraisal and selection criteria, develop regulatory guidelines for banks' climate risk management practices, and develop financing mechanisms to support disaster risk management at the local level. Green public finance management and climate-focused public investment management reforms will improve the authorities' decision making and create an enabling environment for attracting climate finance and support private green investment. At the same time, fiscal risks associated with the scaling up of Rwanda's private and public investment facilities need to be carefully analyzed and mechanisms to mitigate these risks need to be developed and implemented.

39. Staff supports the completion of the first reviews under the PCI/RSF based on the authorities' commitment to implement ambitious reform package supported by a credible fiscal consolidation to bring debt down and a decisive monetary action to curb inflationary pressures and rebuild external buffers. Staff supports the modification of the end-June 2023 QTs on the ceiling on the debt-creating overall deficit, the floor on the NFA stock, and the ceiling on the PV of new public and publicly guaranteed external debt. Staff also supports the modifications from end-June 2023 on the NFA definition and the reduction in the period over which headline inflation is averaged for the MPCC. Staff supports a disbursement totaling SDR 74mn (46.2 percent of quota) on the account of meeting RSF reform measures (RM1, RM2, RM3, and RM5).

Table 1. Rwanda: Selected Economic Indicators, 2021–28

	2021	2022		2023		2024		2025		2026		2027		2028
	Act.	PCI/RSF	Act.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	Proj.
Output and prices				(Annual percentage change, unless otherwise indicated)										
Real GDP	10.9	6.8	8.2	6.2	6.2	7.5	6.7	7.5	7.0	6.8	7.3	6.2	7.3	7.3
GDP deflator	2.7	11.9	16.0	7.4	10.0	5.3	5.6	5.2	5.1	5.1	5.0	5.0	4.9	5.0
CPI (period average)	0.8	12.6	13.9	7.9	14.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI (end period)	1.9	17.1	21.6	3.4	7.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	2.2	11.1	3.0	-7.5	-4.8	-2.1	-2.2	-1.3	-1.4	-0.4	-0.8	-0.3	-0.8	-1.2
Exchange rate (Rwanda franc/US$) (e.o.p.)	1,009.6	1,060.0	1,070.7	...	...	...	...	...	...	...	...	...	...	...
Rwanda franc y/y depreciation rate (e.o.p.)	3.8	5.0	6.1	...	...	...	...	...	...	...	...	...	...	...
Exchange rate (Rwanda franc/US$) (p. avg.)	988.9	1,034.8	1,030.6	...	...	...	...	...	...	...	...	...	...	...
Rwanda franc y/y depreciation rate (p. avg.)	4.8	4.6	4.2	...	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (depreciation, -)(p.avg.)	-9.7	0.7	8.3	...	...	...	...	...	...	...	...	...	...	...
Money and credit														
Broad money (M3)	17.1	19.5	22.5	12.3	11.3	15.4	17.4	15.5	12.4	12.3	14.1	11.5	16.0	12.7
Reserve money	30.7	8.1	29.0	10.3	-7.8	15.4	17.4	15.5	12.4	12.3	14.1	11.5	16.0	12.7
Credit to non-government sector	14.8	10.8	13.6	13.7	8.5	21.2	17.7	25.7	21.0	17.6	15.7	16.9	14.6	13.2
M3/GDP (percent)	29.9	30.4	29.2	29.9	27.8	30.5	28.9	31.2	28.9	31.2	29.3	31.2	30.2	30.2
						(Percent of GDP, unless otherwise indicated)								
Budgetary central government, FY basis [1]														
Revenue	25.0	25.9	25.9	23.6	22.7	22.9	21.8	23.2	22.9	23.8	24.2	24.1	24.4	24.4
Taxes	15.8	15.7	15.7	15.9	15.2	16.0	15.4	16.5	15.9	17.2	17.0	18.0	18.0	18.3
Grants	5.5	6.9	6.9	5.2	5.0	4.4	3.8	4.2	4.4	4.1	4.5	3.8	3.8	3.5
Other revenue	3.8	3.3	3.4	2.5	2.5	2.5	2.6	2.5	2.6	2.5	2.7	2.4	2.6	2.6
Expense	20.3	20.6	20.6	20.2	19.1	18.6	18.5	18.1	18.1	17.1	17.2	17.0	16.9	17.3
Net acquisition of nonfin. assets	12.2	11.6	11.6	10.3	9.8	9.9	9.0	10.1	9.4	9.9	10.2	10.2	10.5	10.1
Net lending (+) / borrowing (-) (NLB)	-7.5	-6.3	-6.3	-6.9	-6.2	-5.6	-5.8	-4.9	-4.6	-3.2	-3.2	-3.0	-3.0	-3.0
excluding grants	-13.0	-13.2	-13.2	-12.1	-11.2	-10.0	-9.6	-9.2	-9.0	-7.4	-7.8	-6.7	-6.8	-6.5
Net acquisition of financial assets	1.5	3.6	3.6	-0.2	-0.2	1.2	1.1	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Currency and deposits	0.4	1.7	1.7	-0.9	-0.8	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3
Loans	1.0	0.8	0.8	0.8	0.8	0.7	0.6	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.1	0.5	0.5	0.3	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	8.9	10.4	10.4	6.7	6.3	6.8	6.8	5.5	5.1	3.6	3.6	3.3	3.3	3.3
Domestic	2.5	1.8	1.8	0.5	0.7	1.3	0.6	-0.4	-0.6	-0.6	0.3	-0.5	0.0	-0.1
Foreign	6.4	8.6	8.6	6.2	5.6	5.5	6.3	5.9	5.6	4.2	3.4	3.8	3.3	3.4
Overall fiscal balance (incl. grants, policy lending)[2]	-8.6	-7.6	-7.6	-8.1	-7.3	-6.5	-6.5	-5.2	-4.8	-3.2	-3.2	-3.0	-3.0	-3.0
Debt-creating overall balance (excl. PKO)[3]	-8.2	-7.4	-7.4	-8.1	-7.0	-6.5	-6.5	-5.2	-4.8	-3.2	-3.2	-3.0	-3.0	-3.0
Primary balance (excl grants)	...	...	-12.7	...	-10.6	...	-8.6	...	-6.4	...	-4.5	...	-4.0	-3.7
Public debt														
Total public debt incl. guarantees	73.4	71.3	67.1	73.9	69.1	76.8	74.4	77.3	74.9	75.7	73.1	73.9	70.7	68.2
of which: external public debt	54.6	53.0	48.7	55.9	54.1	60.8	60.9	63.1	64.8	62.5	64.2	62.1	61.9	58.8
Total public debt excluding guarantees	72.7	70.0	67.0	71.9	67.1	74.6	72.1	74.6	71.9	73.1	70.4	71.5	68.2	65.9
External public debt incl. guarantees, PV	36.6	33.6	30.3	35.8	33.2	38.9	38.8	40.4	42.2	39.9	41.4	39.5	40.1	38.1
Gross domestic debt	18.8	18.3	18.4	18.0	15.0	16.0	13.5	14.2	10.0	13.2	8.9	11.8	8.8	9.5
Total public debt incl. guarantees, PV	56.1	52.7	49.9	55.0	50.5	56.1	54.1	55.8	53.3	53.9	51.5	52.1	49.5	48.1
Investment and savings														
Investment	26.1	24.5	24.5	29.0	24.2	30.5	28.5	29.5	29.9	28.9	29.3	28.1	29.5	27.5
Government	12.2	12.8	11.7	11.4	10.5	11.9	11.4	11.4	11.1	11.6	11.8	10.8	12.0	10.0
Nongovernment	13.9	11.6	12.8	17.6	13.6	18.6	17.1	18.0	18.8	17.2	17.5	17.3	17.5	17.5
Savings (excl. grants)	11.8	9.9	10.7	14.1	10.4	15.8	14.2	15.6	15.8	17.6	15.8	17.7	17.9	17.5
Government	-0.6	-0.1	0.0	1.2	0.9	0.9	0.4	3.3	3.0	4.3	4.4	3.9	5.0	3.7
Nongovernment	12.3	10.0	10.7	13.0	9.5	14.9	13.8	12.3	12.8	13.4	11.4	13.7	12.8	13.7
External sector														
Exports (goods and services)	19.1	24.1	22.5	25.0	24.7	25.9	27.2	26.6	28.7	26.7	28.8	27.0	29.3	28.9
Imports (goods and services)	35.2	40.0	37.4	41.1	39.5	41.4	40.9	41.2	42.9	38.5	41.9	38.0	41.0	38.9
Current account balance (incl grants)	-11.2	-10.5	-9.8	-12.4	-11.3	-11.6	-10.5	-11.0	-10.1	-8.6	-9.5	-7.7	-9.0	-7.5
Foreign assets of monetary authorities														
In millions of US$	1,889	1,894	1,747	2,052	1,832	2,309	2,099	2,378	2,411	2,442	2,520	2643	2618	2749
In months of next year's imports[4]	5.1	4.7	4.4	4.7	4.5	5.0	4.8	5.2	5.2	5.0	5.1	5.0	5.1	5.1
In millions of US$ (excl RSF)	...	...	1,747	...	1,707	...	1,850	...	2,087	...	2,197	...	2,294	2,425
In months of next year's imports[4] (excl RSF)	...	...	4.4	...	4.2	...	4.2	...	4.5	...	4.5	...	4.5	4.5
Gross official reserves														
In millions of US$	...	1,840	1,693	1,997	1,778	2,255	2,045	2,324	2,357	2,388	2,467	2,589	2,564	2,695
In months of next year's imports[4]	...	4.5	4.2	4.6	4.4	4.9	4.6	5.1	5.0	4.9	5.0	4.9	5.0	5.0
In millions of US$ (excl RSF)	...	...	1,693	...	1,653	...	1,796	...	2,033	...	2,143	...	2,240	2,372
In months of next year's imports[4] (excl RSF)	...	...	4.2	...	4.1	...	4.1	...	4.3	...	4.4	...	4.4	4.4
Memorandum items:														
GDP at current market prices														
Rwanda francs (billion), CY basis	10,930	13,075	13,716	14,904	16,025	16,880	18,058	19,083	20,290	21,429	22,856	23,898	25,730	28,991
nominal growth	13.9	19.5	25.5	14.0	16.8	13.3	12.7	13.1	12.4	12.3	12.6	11.5	12.6	12.7

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 27/28 (2028). 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 FY21/22–27/28[1]

(Billions of Rwandan francs)

	2021/22	2022/23		2023/24		2024/25		2025/26		2026/27		2027/28
	Act.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	Proj.
Revenue	**3,103**	**3,303**	**3,382**	**3,646**	**3,708**	**4,173**	**4,392**	**4,816**	**5,214**	**5,473**	**5,924**	**6,670**
Taxes	1,877	2,224	2,266	2,550	2,616	2,973	3,041	3,482	3,660	4,077	4,362	5,001
Taxes on income, profits, and capital gains	854	966	984	1,094	1,122	1,263	1,292	1,474	1,550	1,760	1,884	2,160
Taxes on property	17	36	36	42	43	47	48	52	54	60	64	73
Taxes on goods and services	873	1,034	1,053	1,167	1,197	1,355	1,386	1,571	1,652	1,812	1,940	2,225
Taxes on international trade and transactions	133	189	193	246	253	309	315	386	404	445	475	544
Grants	824	728	743	705	652	758	844	837	979	851	924	958
Other revenue	402	351	373	392	440	441	507	497	576	546	638	711
Expense	**2,468**	**2,826**	**2,847**	**2,963**	**3,153**	**3,249**	**3,466**	**3,469**	**3,706**	**3,845**	**4,102**	**4,729**
Compensation of employees	318	366	366	431	468	507	550	586	636	677	735	848
Use of goods and services	688	720	720	767	750	840	793	879	826	977	920	1,067
Interest	220	318	339	343	468	333	511	347	542	337	571	629
To nonresidents	70	108	110	130	157	147	198	164	229	174	260	287
To residents other than general government	150	210	229	213	311	186	314	183	313	163	310	342
Subsidies	382	299	299	287	308	301	322	293	314	326	351	383
of which: Rwandair	260	177	177	167	179	152	162	141	150	157	168	183
of which: Export Promotion	102	115	115	121	121	127	127	133	133	148	148	162
Grants	656	951	951	951	972	1,023	1,069	1,116	1,156	1,249	1,263	1,450
To EBUs	32	61	61	70	70	88	88	98	98	109	109	125
To Local Government	624	890	890	881	902	934	981	1,019	1,059	1,141	1,154	1,325
Current	488	663	692	679	695	720	756	785	816	875	885	1,017
Capital	135	227	198	202	207	214	225	234	243	266	269	309
Social benefits	57	46	46	46	50	70	63	68	72	81	87	132
Other expense	147	126	126	138	139	176	156	180	159	198	176	219
Net acquisition of nonfin. assets	**1,393**	**1,442**	**1,461**	**1,568**	**1,538**	**1,812**	**1,802**	**2,000**	**2,207**	**2,307**	**2,550**	**2,763**
Foreign financed	589	774	793	944	962	896	912	1,142	1,207	1,163	1,322	1,477
Domestically financed	804	669	668	624	576	916	890	858	1,000	1,144	1,228	1,286
Net lending (+) / borrowing (-)												
including grants	**-758.3**	**-965**	**-926**	**-885**	**-982**	**-888**	**-875**	-653	**-699**	-679	**-728**	**-822**
excluding grants	-1583	-1694	-1669	-1590	-1634	-1646	-1720	-1490	-1678	-1529	-1653	-1780
Net acquisition of financial assets	**434**	**-27**	**-26**	**196**	**182**	**97**	**96**	**84**	**88**	**68**	**73**	**82**
Domestic	366	41	42	196	182	97	96	84	88	68	73	82
Foreign	68	-68	-68	--	--	--	--	--	--	--	--	--
Special Drawing Rights (SDRs)	68	-68	-68									
Net incurrence of liabilities	**1,252**	**938**	**936**	**1,081**	**1,165**	**985**	**971**	**736**	**786**	**747**	**801**	**904**
Domestic	221	66	111	211	99	-70	-107	-115	61	-119	-9	-38
Debt securities	224	285	297	317	225	74	37	51	227	-9	101	72
Other accounts payable	78	-78	-45	-40	-57	-78	-78	-40	-40	-40	-40	-40
Foreign	1,032	873	826	870	1,065	1,055	1,078	851	725	866	810	942
Special Drawing Rights (SDRs)	222	--	--	--	--	--	--	--	--	--	--	--
Debt securities	275	108	-66	10	--	--	--	--	--	--	--	--
Loans	535	764	891	860	1,065	1,055	1,078	851	725	866	810	942
Disbursements	630	864	994	995	1,195	1,239	1,275	1,148	1,036	1,248	1,254	1,322
Current	218	411	530	423	652	645	697	401	270	502	398	420
o/w required	--	--	--	155	--	112	137	--	--	96	107	--
o/w IMF RSF	--	81	107	143	120	153	166					
Capital	412	453	464	572	543	594	578	747	766	746	856	902
Reimbursements	95	100	102	135	130	184	197	297	311	382	444	380
Statistical discrepancy	-60	--	-37	--	--	--	--	--	--	--	--	--
Memorandum items:												
Domestic revenue (incl. local government)	2,135	2,393	2,453	2,747	2,848	3,208	3,320	3,761	3,992	4,395	4,745	5,713
Wage bill (incl. local government)	649	845	845	934	970	1,034	1,077	1,137	1,187	1,258	1,316	1,515
Primary balance excl. grants	-1,519	-1,538	-1,495	-1,395	-1,298	-1,356	-1,247	-1,143	-1,135	-1,192	-1,082	-1,150
Overall fiscal balance (incl. grants, policy loans)[2]	-915.3	-1,128	-1,091	-1,033	-1,114	-931	-914	-653	-699	-679	-728	-822

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.

Table 2b. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation FY21/22–27/28[1]

(Percent of GDP)

	2021/22	2022/23		2023/24		2024/25		2025/26		2026/27		2027/28
	Prelim.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	Proj.
Revenue	**25.9**	**23.6**	**22.7**	**22.9**	**21.8**	**23.2**	**22.9**	**23.8**	**24.2**	**24.1**	**24.4**	**24.4**
Taxes	15.7	15.9	15.2	16.0	15.4	16.5	15.9	17.2	17.0	18.0	18.0	18.3
Taxes on income, profits, and capital gains	7.1	6.9	6.6	6.9	6.6	7.0	6.7	7.3	7.2	7.8	7.8	7.9
Taxes on property	0.1	0.3	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Taxes on goods and services	7.3	7.4	7.1	7.3	7.0	7.5	7.2	7.8	7.7	8.0	8.0	8.1
Taxes on international trade and transactions	1.1	1.3	1.3	1.6	1.5	1.7	1.6	1.9	1.9	2.0	2.0	2.0
Grants	6.9	5.2	5.0	4.4	3.8	4.2	4.4	4.1	4.5	3.8	3.8	3.5
Other revenue	3.4	2.5	2.5	2.5	2.6	2.5	2.6	2.5	2.7	2.4	2.6	2.6
Expense	**20.6**	**20.2**	**19.1**	**18.6**	**18.5**	**18.1**	**18.1**	**17.1**	**17.2**	**17.0**	**16.9**	**17.3**
Compensation of employees	2.7	2.6	2.5	2.7	2.7	2.8	2.9	2.9	2.9	3.0	3.0	3.1
Use of goods and services	5.7	5.1	4.8	4.8	4.4	4.7	4.1	4.3	3.8	4.3	3.8	3.9
Interest	1.8	2.3	2.3	2.2	2.7	1.8	2.7	1.7	2.5	1.5	2.4	2.3
To nonresidents	0.6	0.8	0.7	0.8	0.9	0.8	1.0	0.8	1.1	0.8	1.1	1.0
To residents other than general government	1.3	1.5	1.5	1.3	1.8	1.0	1.6	0.9	1.5	0.7	1.3	1.3
Subsidies	3.2	2.1	2.0	1.8	1.8	1.7	1.7	1.4	1.5	1.4	1.4	1.4
of which: Rwandair	2.2	1.3	1.2	1.1	1.1	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Grants	5.5	6.8	6.4	6.0	5.7	5.7	5.6	5.5	5.4	5.5	5.2	5.3
To EBUs	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.5
To Local Government	5.2	6.4	6.0	5.5	5.3	5.2	5.1	5.0	4.9	5.0	4.8	4.8
Social benefits	0.5	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.5
Other expense	1.2	0.9	0.8	0.9	0.8	1.0	0.8	0.9	0.7	0.9	0.7	0.8
Net acquisition of nonfin. assets	**11.6**	**10.3**	**9.8**	**9.9**	**9.0**	**10.1**	**9.4**	**9.9**	**10.2**	**10.2**	**10.5**	**10.1**
Foreign financed	4.9	5.5	5.3	5.9	5.6	5.0	4.8	5.6	5.6	5.1	5.4	5.4
Domestically financed	6.7	4.8	4.5	3.9	3.4	5.1	4.6	4.2	4.6	5.0	5.1	4.7
Net lending (+) / borrowing (-)												
including grants	**-6.3**	**-6.9**	**-6.2**	**-5.6**	**-5.8**	**-4.9**	**-4.6**	**-3.2**	**-3.2**	**-3.0**	**-3.0**	**-3.0**
excluding grants	-13.2	-12.1	-11.2	-10.0	-9.6	-9.2	-9.0	-7.4	-7.8	-6.7	-6.8	-6.5
Net acquisition of financial assets	**3.6**	**-0.2**	**-0.2**	**1.2**	**1.1**	**0.5**	0.5	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Domestic	3.1	0.3	0.3	1.2	1.1	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Currency and deposits	1.7	-0.9	-0.8	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Loans	0.8	0.8	0.8	0.7	0.6	0.2	0.2	--	--	--	--	--
Equity and investment fund shares	0.5	0.3	0.3	0.2	0.1	--	--	--	--	--	--	--
Foreign	0.6	-0.5	-0.5	--	--	--	--	--	--	--	--	--
Special Drawing Rights (SDRs)	0.6	-0.5	-0.5	--	--	--	--	--	--	--	--	--
Net incurrence of liabilities	**10.4**	**6.7**	**6.3**	**6.8**	**6.8**	**5.5**	**5.1**	**3.6**	**3.6**	**3.3**	**3.3**	**3.3**
Domestic	1.8	0.5	0.7	1.3	0.6	-0.4	-0.6	-0.6	0.3	-0.5	--	-0.1
Debt securities	1.9	2.0	2.0	2.0	1.3	0.4	0.2	0.3	1.1	--	0.4	0.3
Loans	-0.7	-1.0	-0.9	-0.4	-0.4	-0.4	-0.3	-0.6	-0.6	-0.3	-0.3	-0.3
Other accounts payable	0.7	-0.6	-0.3	-0.3	-0.3	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1
Foreign	8.6	6.2	5.6	5.5	6.3	5.9	5.6	4.2	3.4	3.8	3.3	3.4
Special Drawing Rights (SDRs)	1.9	--	--	--	--	--	--	--	--	--	--	--
Debt securities	2.3	0.8	-0.4	0.1	--	--	--	--	--	--	--	--
Loans	4.5	5.5	6.0	5.4	6.3	5.9	5.6	4.2	3.4	3.8	3.3	3.4
Disbursements	5.3	6.2	6.7	6.3	7.0	6.9	6.6	5.7	4.8	5.5	5.2	4.8
Current	1.8	2.9	3.6	2.7	3.8	3.6	3.6	2.0	1.3	2.2	1.6	1.5
o/w required	--	--	--	1.0	--	0.6	0.7	--	--	0.4	0.4	--
o/w IMF RSF	--	0.6	0.7	0.9	0.7	0.8	0.9	--	--	--	--	--
Capital	3.4	3.2	3.1	3.6	3.2	3.3	3.0	3.7	3.5	3.3	3.5	3.3
Reimbursements	0.8	0.7	0.7	0.8	0.8	1.0	1.0	1.5	1.4	1.7	1.8	1.4
Statistical discrepancy	-0.5	--	-0.2	--	--	--	--	--	--	--	--	--
Memorandum item:												
Domestic revenue (incl. local government)	17.8	17.1	16.5	17.3	16.7	17.8	17.3	18.6	18.5	19.4	19.5	20.9
Wage bill (incl. local government)	5.4	6.0	5.7	5.9	5.7	5.7	5.6	5.6	5.5	5.6	5.4	5.5
Total expenditure	33.5	31.7	30.1	29.4	28.3	28.4	27.7	27.0	27.4	27.1	27.4	27.4
Primary balance excl. grants	-12.7	-11.0	-10.1	-8.8	-7.6	-7.5	-6.5	-5.6	-5.3	-5.3	-4.5	-4.2
Overall fiscal balance (incl. grants, policy loans)[2]	-7.6	-8.1	-7.3	-6.5	-6.5	-5.2	-4.8	-3.2	-3.2	-3.0	-3.0	-3.0
GDP (Billions of RwF), FY basis	11,984	13,989	14,870	15,892	17,041	17,981	19,174	20,256	21,573	22,664	24,293	27,360

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.

Table 3. Rwanda: Decomposition of Public Debt and Debt Service by Creditor, 2022–24[1]

(Millions of U.S. Dollars, unless otherwise indicated)

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ mn)	*(Percent total debt)*	*(Percent GDP)* [5]	*(In US$ mn)*			*(Percent GDP)*		
Total	8,648.1	100.0	67.5	796.5	1,243.9	536.2	6.0	8.9	3.8
External	6,193.6	71.6	48.3	181.3	273.9	229.3	1.4	2.0	1.6
Multilateral creditors[2]	4,633.6	53.6	36.2	85.5	130.7	145.5	0.6	0.9	1.0
IMF	451.1	5.2	3.5	1.0	37.2	37.2	0.0	0.3	0.3
World Bank	2,698.1	31.2	21.1	49.8	58.6	71.4	0.4	0.4	0.5
ADB/AfDB/IADB	1,061.0	12.3	8.3	18.9	18.7	20.9	0.1	0.1	0.1
Other Multilaterals	423.4	4.9	3.3	15.8	16.2	16.0	0.1	0.1	0.1
o/w: IFAD	183.2	2.1	1.4	5.2	5.4	5.9	0.0	0.0	0.0
BADEA	80.7	0.9	0.6	0.1	0.1	0.1	0.0	0.0	0.0
Bilateral Creditors	836.4	9.7	6.5	36.2	31.8	37.7	0.3	0.2	0.3
Paris Club	287.8	3.3	2.2	0.3	0.1	0.1	0.0	0.0	0.0
o/w: JICA	142.3	1.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0
AFD	117.4	1.4	0.9	0.2	0.1	0.1	0.0	0.0	0.0
Non-Paris Club	548.6	6.3	4.3	36.0	31.7	37.6	0.3	0.2	0.3
o/w: EXIM-CHINA	334.0	3.9	2.6	16.9	16.4	21.6	0.1	0.1	0.2
SFD	76.0	0.9	0.6	4.3	4.1	4.4	0.0	0.0	0.0
Bonds	680.6	7.9	5.3	38.1	96.7	34.1	0.3	0.7	0.2
Commercial creditors	43.1	0.5	0.3	21.4	14.8	12.0	0.2	0.1	0.1
o/w: Trade Development Bank	39.6	0.5	0.3	14.1	12.4	11.8	0.1	0.1	0.1
o/w: EDC	2.2	0.0	0.0	9.1	2.2	0.0	0.1	0.0	0.0
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2,454.5	28.4	19.2	615.2	970.0	306.9	4.6	7.0	2.2
Held by residents, total	2,454.5	28.4	19.2	615.2	970.0	306.9	4.6	7.0	2.2
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	425.8	4.9	3.3	438.9	418.5	0.0	3.3	3.0	0.0
Bonds	1,219.8	14.1	9.5	99.4	216.8	209.4	0.7	1.6	1.5
Loans	808.8	9.4	6.3	76.9	334.7	97.5	0.6	2.4	0.7
Memo items:									
Collateralized debt[3]	0.0	0.0	0.0	…	…	…	…	…	…
Contingent liabilities[4]	0.0	0.0	0.0	…	…	…	…	…	…
Nominal GDP (US$ million)	…	…	…	13,309	13,920	13,872	…	…	…

[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).

Table 4. Rwanda: Monetary Survey, 2021–28

(Billions of Rwandan francs, unless otherwise indicated)

	2021		2022			2023			2024		2025		2026		2027		2028
	Jun.	Dec.	Jun.	Dec.		Jun.	Dec		Dec		Dec		Dec		Dec		Dec
	Act.	Act.	Act.	PCI/RSF	Act.	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RS	Proj.	Proj.
Monetary authorities survey[1]																	
Net Foreign Assets[2]	1,008	1,191	1,221	1,295	1,195	1,197	1,349	1,199	1,540	1,386	1,584	1,681	1,692	1,847	1,939	1,997	2,183
Of which: Foreign assets	1,509	1,907	1,903	1,940	1,870	1,916	2,102	1,961	2,365	2,248	2,436	2,582	2,502	2,699	2,708	2,803	2,944
Foreign liabilities	502	716	681	645	675	719	753	762	825	861	852	901	809	852	769	806	760
Net domestic assets	-481	-478	-540	-525	-275	-408	-499	-350	-559	-390	-451	-561	-420	-569	-520	-515	-514
Domestic credit	-165	-156	-209	-82	61	-54	-19	23	-43	20	103	-114	171	-85	108	6	44
Other items (net; asset +)	-317	-323	-331	-443	-336	-355	-480	-373	-517	-410	-554	-447	-591	-484	-628	-521	-558
Reserve money	526	713	682	771	920	788	850	848	981	996	1,133	1,120	1,272	1,278	1,419	1,482	1,669
Commercial banks survey																	
Net foreign assets	101	40	127	140	81	163	140	163	140	163	140	163	140	163	140	163	163
Net domestic assets	2,695	2,955	3,247	3,532	3,606	3,647	3,989	3,998	4,627	4,724	5,367	5,329	6,044	6,105	6,757	7,107	8,030
Reserves	274	443	384	472	606	442	521	559	602	657	695	739	781	843	872	979	1,104
Net credit to NBR	-45	-117	34	-44	-75	-2	-199	-77	-226	-128	-440	-66	-584	-175	-521	-344	-382
Domestic credit	3,474	3,721	4,016	3,964	4,420	4,582	4,590	4,923	5,236	5,665	6,159	6,189	6,957	7,031	7,578	8,128	9,026
Government (net)	781	858	927	1,084	1,149	1,092	1,324	1,384	1,288	1,516	1,207	1,191	1,141	1,263	787	1,535	1,576
Public enterprises	130	121	120	120	170	170	120	170	120	170	120	170	120	170	120	170	170
Private sector	2,564	2,743	2,969	2,760	3,101	3,320	3,146	3,370	3,828	3,979	4,831	4,828	5,695	5,598	6,671	6,423	7,281
Other items (net; asset +)	-1,008	-1,092	-1,186	-861	-1,345	-1,376	-923	-1,407	-985	-1,469	-1,048	-1,532	-1,110	-1,594	-1,172	-1,656	-1,718
Deposits	2,796	2,995	3,374	3,672	3,687	3,810	4,130	4,161	4,767	4,887	5,507	5,493	6,185	6,268	6,898	7,271	8,193
Monetary survey																	
Net foreign assets	1,109	1,231	1,348	1,436	1,276	1,360	1,489	1,362	1,681	1,550	1,725	1,844	1,833	2,010	2,079	2,160	2,347
Net domestic assets	1,940	2,034	2,324	2,535	2,725	2,796	2,969	3,089	3,465	3,677	4,220	4,029	4,843	4,692	5,365	5,613	6,412
Domestic credit	3,265	3,448	3,841	3,839	4,406	4,527	4,372	4,870	4,968	5,557	5,821	6,008	6,543	6,770	7,165	7,790	8,688
Government	529	541	683	890	1,070	971	1,038	1,265	951	1,343	802	945	660	937	305	1,132	1,172
Public enterprises	130	121	120	120	170	170	120	170	120	170	120	170	120	170	120	170	170
Private sector	2,606	2,787	3,037	2,828	3,167	3,386	3,214	3,435	3,896	4,044	4,899	4,894	5,763	5,664	6,739	6,488	7,346
Other items (net; asset +)	-1,325	-1,415	-1,517	-1,304	-1,681	-1,731	-1,403	-1,780	-1,502	-1,879	-1,601	-1,979	-1,700	-2,078	-1,799	-2,177	-2,276
Broad money	3,049	3,265	3,672	3,971	4,000	4,156	4,458	4,451	5,146	5,227	5,945	5,874	6,676	6,703	7,445	7,773	8,759
Year on Year Growth								(Percentage)									
Broad money	17.4	17.1	20.4	19.5	22.5	13.2	12.3	11.3	15.4	17.4	15.5	12.4	12.3	14.1	11.5	16.0	12.7
Reserve money	6.9	30.7	29.6	8.1	29.0	15.7	10.3	-7.8	15.4	17.4	15.5	12.4	12.3	14.1	11.5	16.0	12.7
Net credit to Government	42.4	199.2	29.2	66.5	97.9	42.1	16.5	18.2	-8.3	6.2	-15.7	-29.7	-17.8	-0.8	-53.7	20.8	3.6
Net foreign assets	7.0	-0.5	21.6	15.9	3.6	0.9	3.7	6.8	12.9	13.8	2.6	19.0	6.3	9.0	13.5	7.5	8.6
Credit to the private sector	19.0	14.8	16.6	10.8	13.6	11.5	13.7	8.5	21.2	17.7	25.7	21.0	17.6	15.7	16.9	14.6	13.2
Memorandum items:																	
Velocity (eop)	3.4	3.3	3.4	3.3	3.4	3.6	3.3	3.6	3.3	3.5	3.2	3.5	3.2	3.4	3.2	3.3	3.3
Money multiplier	5.8	4.6	5.4	5.2	4.3	5.3	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

[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.	Dec
						(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	20.9
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	21.7
Off balance sheet items/total qualifying capit	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	96.6
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	9.2
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	160.7
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	3.1
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	2.8
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	141.9
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	81.1
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	32.0
Profitability and earnings																				
Return on average assets	1.3	1.6	1.7	1.9	2.1	1.6	2.1	2.2	2.1	1.8	1.9	2.0	2.4	2.5	2.5	2.5	3.1	2.8	3.0	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	17.8
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	8.7
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	3.3
Cost to income	82.5	81.1	79.7	78.4	77.7	81.1	78.4	77.1	76.7	79.7	78.2	77.7	72.3	72.5	72.8	72.7	67.0	69.7	67.1	66.7
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	37.8
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	215.9
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	136.8
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	-0.6
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	42.3
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	30.0
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	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	91.8
Market sensitivity																				
Forex exposure/core capital	-4.5	-6.1	-10.1	-5.6	-7.1	-8.6	-5.3	-4.8	-3.4	-6.6	-7.3	-4.4	-3.2	-4.7	-5.3	-3.7	-1.8	-4.4	-4.4	-0.3
Forex loans/Forex deposits	49.4	45.4	38.4	39.5	41.0	46.5	51.3	45.2	43.6	46.8	44.3	41.8	37.0	37.7	42.3	32.8	26.5	31.5	33.3	34.9
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	89.1

Source: National Bank of Rwanda.

Table 6a. Rwanda: Balance of Payments, 2021–28

(Millions of U.S. Dollars, unless otherwise indicated)

	2021	2022		2023		2024		2025		2026		2027		2028
	Act.	PCI/RSF	Act.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	Proj.
Current account balance	**-1,243**	**-1,330**	**-1,306**	**-1,679**	**-1,576**	**-1,670**	**-1,454**	**-1,694**	**-1,440**	**-1,413**	**-1,462**	**-1,349**	**-1,481**	**-1,351**
Current account balance ex. Bugesera			*-1,232*	*-1,307*	*-1,289*	*-1,376*	*-1,346*	*-1,392*	*-1,163*	*-1,413*	*-1,254*	*-1,349*	*-1,374*	*-1,351*
Trade balance	-1,659	-1,983	-1,990	-2,171	-2,105	-2,279	-1,982	-2,249	-2,074	-2,037	-2,067	-2,026	-1,991	-1,901
Trade balance ex. Bugesera			*-1,932*	*-1,881*	*-1,882*	*-2,051*	*-1,898*	*-2,013*	*-1,859*	*-2,037*	*-1,906*	*-2,026*	*-1,908*	*-1,901*
Exports (f.o.b.)	1,531	2,184	2,111	2,425	2,414	2,656	2,679	2,956	2,956	3,175	3,194	3,456	3,497	3,760
Of which: gold	363	654	556	746	746	806	807	864	864	857	857	869	869	869
Exports (f.o.b.) excl. gold	1,168	1,529	1,556	1,679	1,668	1,849	1,872	2,092	2,093	2,319	2,337	2,587	2,629	2,891
Imports (f.o.b.)	3,189	4,166	4,102	4,595	4,519	4,935	4,661	5,204	5,031	5,213	5,261	5,482	5,489	5,661
Of which: gold	368	644	510	716	716	776	776	831	831	822	822	832	832	831
Imports (f.o.b.) excl. gold	2,821	3,523	3,592	3,879	3,802	4,159	3,885	4,374	4,200	4,391	4,440	4,649	4,657	4,830
Services (net)	-122	-25	5	-9	48	39	85	7	50	93	62	85	84	106
Services ex. Bugesera	*-109*	*-8*	*22*	*73*	*112*	*104*	*109*	*74*	*112*	*93*	*108*	*85*	*108*	*106*
Credit	579	863	883	975	1,032	1,078	1,093	1,122	1,154	1,206	1,234	1,299	1,305	1,408
Of which: tourism receipts	150	343	400	423	468	486	512	511	539	562	593	618	638	705
Debit	701	888	878	984	983	1,039	1,008	1,115	1,103	1,113	1,172	1,214	1,221	1,302
Income	-219	-303	-302	-331	-393	-400	-436	-437	-457	-473	-486	-491	-531	-572
Of which: interest on public debt[1,2]	-79	-65	-112	-73	-167	-92	-197	-107	-203	-115	-207	-111	-219	-227
Of which: RSF debt service	...	...	...	...	...	-11	-16	-16	-21	-17	-23	-17	-23	-22
Current transfers (net)	757	981	981	831	874	970	878	985	1,041	1,004	1,029	1,083	957	1,016
Private	413	471	489	494	498	518	526	543	553	571	582	600	611	647
Of which: remittance inflows	379	435	461	455	464	476	485	498	508	521	531	546	556	582
Public	343	510	492	338	376	452	353	442	488	433	447	484	346	368
Capital and financial account balance	**1,535**	**1,367**	**1,137**	**1,756**	**1,579**	**1,835**	**1,630**	**1,726**	**1,715**	**1,524**	**1,617**	**1,594**	**1,621**	**1,525**
Capital account	380	322	322	398	398	348	348	256	256	313	313	313	313	294
Financial account	1,155	1,045	816	1,359	1,182	1,487	1,282	1,470	1,459	1,211	1,304	1,281	1,308	1,231
Direct investment	233	373	399	590	518	554	361	608	584	470	642	500	655	663
FDIs ex. Bugesera	*....*	*...*	*...*	*318*	*325*	*358*	*361*	*406*	*407*	*470*	*455*	*500*	*539*	*663*
Public sector capital	769	630	418	707	777	1,019	953	848	917	674	557	712	463	373
Long-term borrowing[2]	1,170	743	531	883	945	1,166	1,090	1,043	1,099	943	831	1,023	786	805
o/w budget financing and commercial loans	...	...	...	...	416	...	495	...	488	...	231	...	194	254
o/w project loans	...	...	...	...	409	...	476	...	486	...	561	...	592	551
Scheduled amortization, excl IMF	-620	-113	-113	-176	-169	-148	-137	-195	-182	-269	-274	-311	-323	-432
SDR allocation	219	...	...	...	...	...	...	...	...	...	...	...	...	...
Other capital[3]	153	42	-1	62	-113	-85	-32	13	-42	67	106	70	190	195
Net errors and omissions	**-136**	**0**	**72**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**156**	**37**	**-97**	**77**	**4**	**166**	**175**	**32**	**275**	**110**	**155**	**245**	**140**	**174**
Financing	**-156**	**-37**	**97**	**-77**	**-4**	**-166**	**-175**	**-32**	**-275**	**-110**	**-155**	**-245**	**-140**	**-174**
Reserve assets (increase -)	-156	-5	129	-158	-85	-257	-268	-69	-312	-64	-109	-201	-97	-131
of which: RSF impact	...	...	...	-123	-124	-124	-125	-75	-75	...	...	...	...	...
Net credit from the IMF	-42	-43	-43	80	81	92	92	37	37	-46	-46	-44	-43	-43
IMF disbursement (+)	0	0	0	123	124	124	125	75	75	0	0	0	0	0
of which: RSF	...	...	...	123	124	124	125	75	75	...	0	...	0	0
Repayments to IMF (-)	-42	-43	-43	-43	-43	-32	-32	-38	-38	-46	-46	-44	-43	-43
Exceptional financing	42	11	11	0	0	0	0	0	0	0	0	0	0	0
Grant for debt relief under CCRT	42	11	11	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:														
Current account balance (percent of GDP)[4]	-11.2	-10.5	-9.8	-12.4	-11.3	-11.6	-10.5	-11.0	-10.1	-8.6	-9.5	-7.7	-9.0	-7.5
Current account excl. Bugesera (percent of GDP)	...	...	*-9.3*		*-9.3*	...	*-9.7*	...	*-8.1*	...	*-8.2*	...	*-8.4*	*-7.5*
Trade balance (percent of GDP)	-15.0	-15.7	-15.0	-16.0	-15.1	-15.8	-14.3	-14.7	-14.5	-12.4	-13.5	-11.5	-12.2	-10.6
Trade balance excl. Bugesera (percent of GDP)	...	...	*-14.5*	...	*-13.5*	...	*-13.7*	...	*-13.0*	...	*-12.4*	...	*-11.7*	*-10.6*
Foreign assets of monetary authorities	**1,889**	**1,894**	**1,747**	**2,052**	**1,832**	**2,309**	**2,099**	**2,378**	**2,411**	**2,442**	**2,520**	**2,643**	**2,618**	**2,749**
in months of prospective imports of G&S[5]	5.1	4.7	4.4	4.7	4.5	5.0	4.8	5.2	5.2	5.0	5.1	5.0	5.1	5.1
Of which: RSF	...	...		123	124	247	249	321	324	321	324	321	324	324
Of which: excluding RSF	1,889	1,894	1,747	1,928	1,707	2,062	1,850	2,056	2,087	2,121	2,197	2,322	2,294	2,425
Of which: excluding RSF, in months of imports	5.1	4.7	4.4	4.5	4.2	4.5	4.2	4.5	4.5	4.3	4.5	4.4	4.5	4.5
Gross official reserves	**1,821**	**1,840**	**1,693**	**1,997**	**1,778**	**2,255**	**2,045**	**2,324**	**2,357**	**2,388**	**2,467**	**2,589**	**2,564**	**2,695**
in months of prospective imports of G&S[5]	4.9	4.5	4.2	4.6	4.4	4.9	4.6	5.1	5.0	4.9	5.0	4.9	5.0	5.0
Of which: RSF	...	...	0	...	124	...	249	...	324	...	324	...	324	324
Of which: excluding RSF	...	...	1,693	...	1,653	...	1,796	...	2,033	...	2,143	...	2,240	2,372
Of which: excluding RSF, in months of imports	...	...	4.2	...	4.1	...	4.1	...	4.3	...	4.4	...	4.4	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 6b. Rwanda: Balance of Payments, 2021–28

(Percent of GDP, unless otherwise indicated)

	2021	2022		2023		2024		2025		2026		2027		2028
	Act.	PCI/RSF	Act.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	PCI/RSF	Proj.	Proj.
Current account balance	**-11.2**	**-10.5**	**-9.8**	**-12.4**	**-11.3**	**-11.6**	**-10.5**	**-11.0**	**-10.1**	**-8.6**	**-9.5**	**-7.7**	**-9.0**	**-7.5**
Current account balance ex. Bugesera	*0.0*	*0.0*	*-9.3*	*-9.6*	*-9.3*	*-9.5*	*-9.7*	*-9.1*	*-8.1*	*-8.6*	*-8.2*	*-7.7*	*-8.4*	*-7.5*
Trade balance	-15.0	-15.7	-15.0	-16.0	-15.1	-15.8	-14.3	-14.7	-14.5	-12.4	-13.5	-11.5	-12.2	-10.6
Trade balance ex. Bugesera	*0.0*	*0.0*	*-14.5*	*-13.8*	*-13.5*	*-14.2*	*-13.7*	*-13.1*	*-13.0*	*-12.4*	*-12.4*	*-11.5*	*-11.7*	*-10.6*
Exports (f.o.b.)	13.8	17.3	15.9	17.8	17.3	18.4	19.3	19.3	20.7	19.3	20.8	19.6	21.4	21.0
Of which: gold	3.3	5.2	4.2	5.5	5.4	5.6	5.8	5.6	6.0	5.2	5.6	4.9	5.3	4.9
Exports (f.o.b.) excl. gold	10.6	12.1	11.7	12.4	12.0	12.8	13.5	13.6	14.6	14.1	15.2	14.7	16.1	16.1
Imports (f.o.b.)	28.9	33.0	30.8	33.8	32.5	34.2	33.6	33.9	35.2	31.8	34.3	31.1	33.5	31.6
Of which: gold	3.3	5.1	3.8	5.3	5.1	5.4	5.6	5.4	5.8	5.0	5.4	4.7	5.1	4.6
Imports (f.o.b.) excl. gold	25.5	27.9	27.0	28.6	27.3	28.9	28.0	28.5	29.4	26.7	28.9	26.4	28.4	27.0
Services (net)	-1.1	-0.2	0.0	-0.1	0.3	0.3	0.6	0.0	0.4	0.6	0.4	0.5	0.5	0.6
Services ex. Bugesera	*-1.0*	*-0.1*	*0.2*	*0.5*	*0.8*	*0.7*	*0.8*	*0.5*	*0.8*	*0.6*	*0.7*	*0.5*	*0.7*	*0.6*
Credit	5.2	6.8	6.6	7.2	7.4	7.5	7.9	7.3	8.1	7.3	8.0	7.4	8.0	7.9
Of which: tourism receipts	1.4	2.7	3.0	3.1	3.4	3.4	3.7	3.3	3.8	3.4	3.9	3.5	3.9	3.9
Debit	6.3	7.0	6.6	7.2	7.1	7.2	7.3	7.3	7.7	6.8	7.6	6.9	7.5	7.3
Income	-2.0	-2.4	-2.3	-2.4	-2.8	-2.8	-3.1	-2.8	-3.2	-2.9	-3.2	-2.8	-3.2	-3.2
Of which: interest on public debt[1,2]	-0.7	-0.5	-0.8	-0.5	-1.2	-0.6	-1.4	-0.7	-1.4	-0.7	-1.3	-0.6	-1.3	-1.3
Of which: RSF debt service	...	...	...	...	...	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Current transfers (net)	6.8	7.8	7.4	6.1	6.3	6.7	6.3	6.4	7.3	6.1	6.7	6.2	5.8	5.7
Private	3.7	3.7	3.7	3.6	3.6	3.6	3.8	3.5	3.9	3.5	3.8	3.4	3.7	3.6
Of which: remittance inflows	3.4	3.4	3.5	3.4	3.3	3.3	3.5	3.2	3.5	3.2	3.5	3.1	3.4	3.2
Public	3.1	4.0	3.7	2.5	2.7	3.1	2.5	2.9	3.4	2.6	2.9	2.7	2.1	2.1
Capital and financial account balance	**13.9**	**10.8**	**8.5**	**12.9**	**11.3**	**12.7**	**11.7**	**11.2**	**12.0**	**9.3**	**10.5**	**9.1**	**9.9**	**8.5**
Capital account	3.4	2.5	2.4	2.9	2.9	2.4	2.5	1.7	1.8	1.9	2.0	1.8	1.9	1.6
Financial account	10.5	8.3	6.1	10.0	8.5	10.3	9.2	9.6	10.2	7.4	8.5	7.3	8.0	6.9
Direct investment	2.1	3.0	3.0	4.3	3.7	3.8	2.6	4.0	4.1	2.9	4.2	2.8	4.0	3.7
FDIs ex. Bugesera	....	...	...	*2.3*	*2.3*	*2.5*	*2.6*	*2.6*	*2.8*	*2.9*	*3.0*	*2.8*	*3.3*	*3.7*
Public sector capital	7.0	5.0	3.1	5.2	5.6	7.1	6.9	5.5	6.4	4.1	3.6	4.0	2.8	2.1
Long-term borrowing[2]	10.6	5.9	4.0	6.5	6.8	8.1	7.9	6.8	7.7	5.7	5.4	5.8	4.8	4.5
o/w budget financing and commercial loans	...	...	...	...	3.0	...	3.6	...	3.4	...	1.5	...	1.2	1.4
o/w project loans	...	...	...	...	2.9	...	3.4	...	3.4	...	3.7	...	3.6	3.1
Scheduled amortization, excl IMF	-5.6	-0.9	-0.8	-1.3	-1.2	-1.0	-1.0	-1.3	-1.3	-1.6	-1.8	-1.8	-2.0	-2.4
SDR allocation	2.0	...	...	...	...	...	...	...	...	...	...	...	...	...
Other capital[3]	1.4	0.3	0.0	0.5	-0.8	-0.6	-0.2	0.1	-0.3	0.4	0.7	0.4	1.2	1.1
Net errors and omissions	**-1.2**	**0.0**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**1.4**	**0.3**	**-0.7**	**0.6**	**0.0**	**1.1**	**1.3**	**0.2**	**1.9**	**0.7**	**1.0**	**1.4**	**0.9**	**1.0**
Financing	**-1.4**	**-0.3**	**0.7**	**-0.6**	**0.0**	**-1.1**	**-1.3**	**-0.2**	**-1.9**	**-0.7**	**-1.0**	**-1.4**	**-0.9**	**-1.0**
Reserve assets (increase -)	-1.4	0.0	1.0	-1.2	-0.6	-1.8	-1.9	-0.4	-2.2	-0.4	-0.7	-1.1	-0.6	-0.7
of which: RSF impact	...	...	...	-0.9	-0.9	-0.9	-0.9	-0.5	-0.5	...	...	...	...	...
Net credit from the IMF	-0.4	-0.3	-0.3	0.6	0.6	0.6	0.7	0.2	0.3	-0.3	-0.3	-0.2	-0.3	-0.2
IMF disbursement (+)	0.0	0.0	0.0	0.9	0.9	0.9	0.9	0.5	0.5	0.0	0.0	0.0	0.0	0.0
of which : RSF	...	...	...	0.9	0.9	0.9	0.9	0.5	0.5	...	...	...	...	...
Repayments to IMF (-)	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.2	-0.3	-0.2
Exceptional financing	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant for debt relief under CCRT	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Current account balance[4]	-11.2	-10.5	-9.8	-12.4	-11.3	-11.6	-10.5	-11.0	-10.1	-8.6	-9.5	-7.7	-9.0	-7.5
Current account excl. Bugesera	...	...	*-9.3*	...	*-9.3*	...	*-9.7*	...	*-8.1*	...	*-8.2*	...	*-8.4*	*-7.5*
Trade balance	-15.0	-15.7	-15.0	-16.0	-15.1	-15.8	-14.3	-14.7	-14.5	-12.4	-13.5	-11.5	-12.2	-10.6
Trade balance excl. Bugesera	...	...	*-14.5*	...	*-13.5*	...	*-13.7*	...	*-13.0*	...	*-12.4*	...	*-11.7*	*-10.6*
Foreign assets of monetary authorities	**17.1**	**15.0**	**13.1**	**15.1**	**13.2**	**16.0**	**15.1**	**15.5**	**16.9**	**14.9**	**16.4**	**15.0**	**16.0**	**15.4**
in months of prospective imports of G&S[5]	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
Of which : RSF	...	...	...	0.9	0.9	1.7	1.8	2.1	2.3	2.0	2.1	1.8	2.0	1.8
Of which : excluding RSF	17.1	15.0	13.1	14.2	12.3	14.3	13.3	13.4	14.6	12.9	14.3	13.2	14.0	13.5
Of which : excluding RSF, in months of imports	5.1	4.7	4.4	4.5	4.2	4.5	4.2	4.5	4.5	4.3	4.5	4.4	4.5	4.5
Gross official reserves	**16.5**	**14.6**	**12.7**	**14.7**	**12.8**	**15.6**	**14.7**	**15.1**	**16.5**	**14.5**	**16.1**	**14.7**	**15.7**	**15.1**
in months of prospective imports of G&S[5]	4.9	4.5	4.2	4.6	4.4	4.9	4.6	5.1	5.0	4.9	5.0	4.9	5.0	5.0
Of which : RSF	...	...	0.0	...	0.9	...	1.8	...	2.3	...	2.1	...	2.0	1.8
Of which : excluding RSF	...	...	12.7	...	11.9	...	12.9	...	14.2	...	14.0	...	13.7	13.2
Of which : excluding RSF, in months of imports	...	...	4.2	...	4.1	...	4.1	...	4.3	...	4.4	...	4.4	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, 2021–28

(USD million)

	2021 Act.	2022 Act.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Gross external financing needs	**1,906**	**1,462**	**1,787**	**1,623**	**1,659**	**1,782**	**1,846**	**1,826**
Current account deficit	1,243	1,306	1,576	1,454	1,440	1,462	1,481	1,351
Public debt amortization (excl. IMF)	620	113	169	137	182	274	323	432
Repayments to IMF	42	43	43	32	38	46	43	43
External financing sources 1/	**2,042**	**1,390**	**1,787**	**1,623**	**1,659**	**1,782**	**1,846**	**1,826**
Capital transfers	380	322	398	348	256	313	313	294
Direct investment	233	399	518	361	584	642	655	663
Public sector borrowing	1,170	531	945	1,090	1,099	831	786	805
Other inflows 2/	414	10	-113	-32	-42	106	190	195
Reserve assets excl. RSF (increase -)	-156	129	40	-143	-237	-109	-97	-131
Net errors and omissions	**-136**	**72**	**0**	**0**	**0**	**0**	**0**	**0**
BoP need	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:								
RSF	0	0	124	125	75	0	0	0
Reserve assets (increase -)	-156	129	-85	-268	-312	-109	-97	-131

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, 2023–43

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
IMF debt service based on existing credit (SDR millions)																								
Principal		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	0.0	0.0	0.0
Charges and interest		5.8	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
IMF debt service based on existing and prospective credit (SDR millions)[1]																								
Principal		32.0	24.0	28.0	34.0	32.0	32.0	32.0	16.0	0.0	0.0	3.7	12.0	21.3	24.0	24.0	24.0	24.0	24.0	24.0	24.0	20.3	12.0	2.8
Charges and interest		7.2	13.1	17.1	18.2	18.2	18.3	18.2	18.2	18.2	18.3	18.2	18.0	17.4	16.4	15.4	14.3	13.3	12.3	11.3	10.2	9.2	8.4	8.0
IMF debt service based on existing and prospective credit (SDR millions)																								
In millions of SDRs		39.2	37.1	45.1	52.3	50.3	50.3	50.3	34.3	18.2	18.3	21.9	30.0	38.7	40.5	39.4	38.4	37.4	36.3	35.3	34.2	29.5	20.4	10.8
In millions of U.S. dollars		52.8	50.1	60.7	70.2	67.2	67.0	67.0	45.6	24.3	24.3	29.2	40.0	51.5	53.9	52.5	51.1	49.7	48.4	47.0	45.6	39.3	27.2	14.3
In percent of GDP		0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
In percent of exports of goods and services		1.5	1.3	1.5	1.6	1.4	1.3	1.2	0.8	0.4	0.3	0.4	0.5	0.6	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.1	0.1
In percent of government revenue (excl. grants)		2.1	2.0	2.2	2.3	2.0	1.8	1.6	1.0	0.5	0.4	0.5	0.6	0.7	0.6	0.6	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.1
In percent of gross international reserves		2.9	2.4	2.5	2.8	2.6	2.4	2.2	1.3	0.7	0.6	0.7	0.9	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4	0.3	0.1
In percent of PPG external debt service		15.7	19.2	17.4	14.9	11.8	11.6	12.0	8.5	2.2	4.6	5.0	5.8	6.5	6.2	5.7	5.2	4.8	4.3	2.6	3.7	3.0		
In percent of IMF quota		24.5	23.2	28.1	32.6	31.4	31.4	31.4	21.4	11.4	11.4	13.7	18.7	24.1	25.3	24.6	24.0	23.3	22.7	22.0	21.4	18.4	12.8	6.7
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	236.6	224.6	203.3	179.3	155.3	131.2	107.2	83.2	59.1	35.1	14.8	2.8	0.0
In millions of U.S. dollars	306.4	392.2	483.9	520.1	472.1	427.7	383.1	340.5	319.3	319.3	319.3	314.3	298.4	270.1	238.2	206.3	174.4	142.4	110.5	78.6	46.7	19.6	3.7	0.0
In percent of GDP	2.3	2.8	3.5	3.6	3.1	2.6	2.1	1.7	1.5	1.4	1.2	1.1	1.0	0.8	0.7	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0
In percent of exports of goods and services	10.2	11.4	12.8	12.7	10.7	8.9	7.4	6.2	5.3	4.9	4.6	4.1	3.6	3.0	2.4	1.9	1.5	1.1	0.8	0.5	0.3	0.1	0.0	0.0
In percent of government revenue (excl. grants)	12.7	15.8	19.1	18.6	15.2	12.6	10.3	8.3	6.9	6.3	5.7	5.1	4.4	3.6	2.9	2.3	1.7	1.3	0.9	0.6	0.3	0.1	0.0	0.0
In percent of gross international reserves	17.5	21.4	23.1	21.6	18.7	16.3	13.9	11.2	9.4	8.6	8.1	7.6	6.6	5.5	4.5	3.6	2.8	2.1	1.5	1.0	0.5	0.2	0.0	0.0
In percent of PPG external debt	4.9	5.6	6.0	5.7	4.9	4.3	3.7	3.1	2.8	2.6	2.5	2.3	2.1	1.8	1.6	1.3	1.1	0.8	0.6	0.4	0.2	0.1		
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	147.7	140.2	126.9	111.9	96.9	81.9	66.9	51.9	36.9	21.9	9.2	1.7	0.0
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	-3.7	-12.0	-21.3	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0	-20.3	-12.0	-2.8
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	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	3.7	12.0	21.3	24.0	24.0	24.0	24.0	24.0	24.0	24.0	20.3	12.0	2.8
Memorandum items																								
Nominal GDP (USD millions)	13,308.9	13,920.4	13,872.1	14,308.8	15,354.3	16,368.3	17,906.0	19,591.7	21,411.4	23,397.0	25,546.7	27,874.7	30,421.0	33,161.3	36,121.2	39,300.7	42,720.1	46,393.4	50,382.6	54,714.8	59,419.5	64,528.7	70,077.2	76,102.8
Exports of goods and services (USD millions)	2,994.4	3,445.2	3,772.0	4,109.9	4,428.6	4,802.6	5,168.2	5,487.4	6,003.5	6,471.2	6,993.9	7,576.2	8,226.0	8,947.6	9,749.9	10,641.3	11,632.4	12,735.3	13,959.5	15,342.8	16,889.2	18,619.5	20,557.1	22,728.5
Government revenues excl. grants (USD millions)	2,408.1	2,477.3	2,529.1	2,794.4	3,102.0	3,407.4	3,724.4	4,114.3	4,603.4	5,088.2	5,619.6	6,202.3	6,847.0	7,550.0	8,319.1	9,156.3	10,068.4	11,061.2	12,152.1	13,350.8	14,667.9	16,115.3	17,705.7	19,453.3
Gross international reserves (USD millions)	1,746.6	1,831.5	2,099.2	2,411.1	2,520.5	2,617.8	2,749.2	3,052.5	3,404.1	3,718.0	3,923.8	4,151.4	4,526.9	4,905.8	5,269.9	5,731.4	6,321.9	6,800.8	7,459.8	8,149.0	8,944.5	9,758.7	10,709.6	12,149.8
PPG external debt (USD millions)	6,234.3	7,034.8	8,084.3	9,049.5	9,588.6	9,976.2	10,371.5	10,840.7	11,502.6	12,207.9	12,914.2	13,577.3	14,158.8	14,724.4	15,303.3	15,914.6	16,561.7	17,260.5	18,005.7	18,187.7	19,049.5	19,981.3		
PPG external debt service (USD millions)	139.2	337.2	261.0	349.9	472.7	568.1	575.1	559.4	534.6	1,125.4	524.5	589.3	692.3	791.9	865.0	924.9	988.4	1,043.6	1,114.2	1,805.0	1,230.2	1,311.5		
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	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: Review Schedule Under the Policy Coordination Instrument

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 10. Rwanda: Proposed Revised Schedule of Disbursements Under the Resilience and Sustainability Facility 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[1]
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.

[1]Proposed to be rephased to May 1, 2023.

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Intensification of regional conflict(s) and commodity price volatility. Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade, remittances, refugee flows, FDI and financial flows, and payment systems. A succession of supply disruptions and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures, 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.
Abrupt global slowdown or recession. Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	Medium	High • 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.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Medium	High • Bouts of price and real sector volatility. • Loss of export competitiveness. • 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. • Strengthen data-driven monetary policy framework.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	Medium • Financial conditions become tighter with higher country risk premia. • Capital outflow due to risk aversion. • Lesser financial market accesss.	• Continue monitoring the financial sector to ensure risks remain contained. • Take appropriate and timely micro and macroprudential interventions to ensure the stability. • Deepen financial markets.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	High • Adverse impact on international trade as the demand for exports falls, hurting domestic growth. • Concessional sources of financing temporarily diverted to attend geopolitical, rathern than economic, development objectives.	• Diversify the structure of the economy and export sources. • Strengthen regional security surveillance programs.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	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.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium/High	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. Leveraging the Resilience and Sustainability Facility to Mobilize Climate Finance

1. Rwanda's sizeable climate financing needs will require scaling up both public and private climate finance. Rwanda is estimated to need approximately US$11 billion (nearly 96 percent of GDP) to finance the mitigation and adaptation initiatives necessary to achieve its 2030 goals under the Nationally Determined Contributions (NDCs). Considering current grant and concessional financing facilities available to Rwanda, this puts the total financing gap at around US$9.9 billion. About US$6.9 billion is expected to require external financing through 2030, equally shared between mitigation and adaptation measures (US$3.22 billion and US$3.67 billion, respectively).[1]

Box 1. List of Acronyms

- BRD: Development Bank of Rwanda
- IFC: International Finance Corporation
- IFI: International Financial Institutions
- KIFC: Kigali International Finance Center
- KPI: Key Performance Indicator
- NDC: Nationally Determined Contribution
- RSF: Resilience and Sustainability Facility
- PFM: Public Financial Management
- MDB: Multilateral Development Bank

Policy Reforms

2. Enabling the policy environment to catalyze additional development and private financing to invest in climate resilience, including via measures initiated under Rwanda's Resilience and Sustainability Facility, will be critical to attract public and private climate investments.

- **Policy reforms under the RSF will support efforts to mobilize climate finance.** RSF-supported green PFM measures (budget tagging and better selection and appraisal of green public investment) will enhance the transparency of use of concessional climate resources, thereby facilitating climate resources from development partners. The sustainable finance pillar of the program, which aims to establish a regulation framework for banks to establish better climate risk management practices and contribute to development of markets for sustainable finance products should help attract private green investment.
- **Rwanda is working to identify and overcome impediments to private climate finance.** It has launched several initiatives: a green public investment facility (Intego) to enable the complementary public infrastructure, the green private investment facility (Ireme Invest) to support SMEs' climate projects, and a Sustainable Finance Roadmap (the Kigali International Financial Center (KIFC) initiative) aiming to establish a sustainable finance hub that would attract international capital to finance local and regional green and sustainable finance activities/projects. The green investment facilities are expected to be scaled up gradually, with operations starting before end of 2023. The Sustainable Finance Roadmap covers the 2022–29 period, which currently has the near-term focus on developing a green finance taxonomy.

[1] World Bank (2023): *Options Analysis of Climate and Nature Financing Instruments and Opportunities in Rwanda.*

3. The authorities have started exploring options with other MDBs and IFIs for scaling up private finance with good prospects.[2] While it will be challenging and will take time—given small markets, perceived low risk-adjusted returns—efforts are focused towards developing innovative financing structures to catalyze climate private financing, including though blended finance and risk transfers such as well-structured guarantees.

4. Several steps have been agreed to take this initiative forward:

- **The near-term focus will be on implementing the authorities' plan to scale up Rwanda's already established Green Private Investment Facility ("Ireme Invest").**[3] The scaling up will occur via blending non-concessional and concessional resources. Work on the broader elements of scaling up of climate finance in Rwanda, such as de-risking, issuance of sustainability-linked bonds (SLBs), climate-debt swaps and the public green investment facility should continue in parallel subject to capacity constraints.[4]
- **The objective is to have the terms and conditions of the scaling up of Ireme Invest in place, with the pledges by international partners secured by June 2023.** Ireme Invest, which currently has U.S. $104 million credit line pledged is expected to be scaled up to U.S. $300million and to mobilize US$1 billion of total climate financing (including private sector) in the medium-term.
- **The three key elements of the scaling-up of Ireme Invest are the ability to:** (i) secure the grants needed to lower the cost of financing, (ii) implement a reporting and monitoring system that combines the traditional project-based and the KPI based programmatic approaches, and (iii) identify a sizeable pipeline of green investment projects based on a transparent green taxonomy. The RSF's contribution to the scaling-up of Ireme is still to be agreed.
- **Fiscal risks associated with the scaling up of Ireme could be significant and need to be better understood.** Ireme Invest is a government owned and managed facility and could generate substantial fiscal costs and risks. Staff and the authorities will continue to monitor the government's financial exposure through equity contributions or guarantees, clarifying what part of the risk will be absorbed by other investors via the scheme's governance structure.

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[2] On February 20, Deputy Managing Director Bo Li, accompanied by the IMF Climate Finance Task Force head, visited Rwanda together with senior representatives of multilateral developments banks (EIB, IFC) and met with the authorities and the banking sector to explore together various ideas to support scaling up of climate finance.

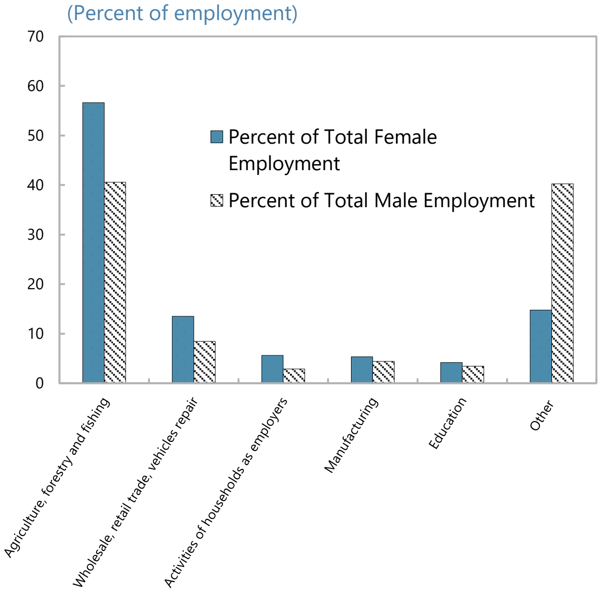
[3] Rwanda expects to agree on the terms and conditions of the scaled-up facility, including pledges by international partners by the June 2023 Climate Summit organized by the French Presidency in collaboration with the Prime Minister of Barbados, Mia Mottley. (https://www.plenglish.com/news/2022/11/21/climate-summit-proposed-by-macron-is-scheduled-for-june-2023/)

[4] On climate-debt swaps it was agreed that the highly concessional debt structure of Rwanda limits the options for this instrument at the moment. On the public investment facility, Rwanda has launched "Intego" on February 14, 2023, with the first call for proposals being open to projects from Rwandan public agencies and administrative bodies from both central and local government. The Intego Facility's current capital is EUR 46 million provided by a grant from Germany through KfW Development Bank.

Annex III. Gender Equity and Climate Change in Rwanda

1. The prevalence of women working in the agriculture sector makes them more exposed to climate shocks. About 50 percent of total female employment is in agriculture, against 40 percent among men in the last couple of years. Women are also more likely to be subsistence farmers than men (DHS 2019-2020). The high vulnerability of agriculture to climate change means climate-change related shocks can have devastating impact on women's work and food security. The shocks would be particularly hard on female-headed-households, which have higher rate of poverty and are more dependent on agricultural work as opposed to more diverse income sources (Integrated Household Living Survey (EICV5)). As such, gender policies focused on diversifying female employment opportunities, facilitating female labor force participation through the provision of affordable and high-quality childcare, and improving women's labor productivity, including through vocational training, and increasing access to adaptative social protection programs will also play an important role in improving individual resilience against climate shocks.

Branch of Economic Activity by Gender
(Percent of employment)



Source: Rwanda Labour Force Survey (2021)

2. Women could benefit to a greater extent through a green transition. Household division of labor implies gender-differential implications of climate change adaptation and mitigation measures. Traditionally, households tend to delegate unpaid care work to women, which is often labor- and time-intensive and energy-consuming, undermining their ability of getting paid-employment. One area that women could benefit more than men is the promotion of clean cooking solutions.[1] Women in Rwanda are often responsible for collecting firewood and cooking with a risk of inhaling smoke and developing respiratory illnesses. While 95 percent of households currently rely on charcoal, firewood or straws for cooking, transition to clean cooking solutions would empower women by saving time and reducing the health risk.[2] Clean transportation and energy the government has been promoting, if made widely available, also would break barriers to women's paid employment and development opportunities by facilitating women's access to technologies, knowledge, or credit (USAID 2019). Climate mitigation policies in this area would thus have the double-dividend of addressing gender inequalities.

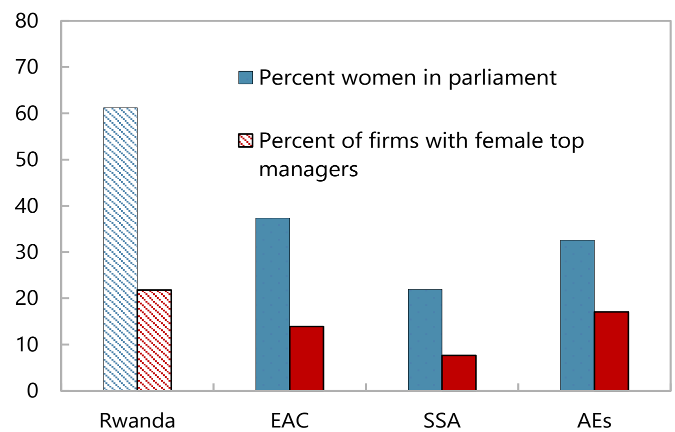
[1] See Rwanda - Energy Access and Quality Improvement Project (Worldbank.org).

[2] Rwanda is targeting universal access to clean cooking by 2030, in order to solve the deforestation, carbon emissions and indoor air pollution deaths caused by the use of charcoal and wood for cooking.

3. Ultimately, the promotion of gender-balanced climate policies would require increasing women's ownership and decision-making over assets. Ownership and decision-making over assets are not gender equal—more than half of Rwandan women of productive ages do not own land or a house, and more than 20 percent of married women do not participate in decision making of major household purchase (USAID 2019). This situation not only undermines women's empowerment but also decreases women's involvement in green investments. For example, women's access to secure property rights is important to increase agricultural productivity and facilitate private adaptation to climate change. Mitigation and adaptation solutions should be easily accessible for women, and women should be in decision making and leadership positions for developing such policies to reflect gender-specific needs. In Rwanda, while the percentage of seats in parliament held by women is at 60 percent and among the highest in the world,[3] only 20 percent of firms have the female top manager.

4. Rwanda's green strategy is guided by a number of principles including gender equality and equity. Rwanda's revised National Gender Policy (2021) defines the process of mainstreaming gender needs into all public and private sector policies, programs, projects and budgets, and it recognizes climate change as one of the key policy challenges that require actions. The proposed policy actions include increasing the adaptive capacities to all forms of climate change and variability hazards for both men and women, strengthening and promoting agriculture insurance across the country to increase farmers' adaptation capacity, and promoting decent housing and relocation of people from high-risk zones to planned areas taking into account gender related dimensions. Recent flagship projects include, Green Gicumbi, a project to strengthen climate resilience of rural communities in Northern Rwanda, which created 23,000 green jobs and distributed 19,900 improved cook stoves, with dominantly female beneficiaries. Moreover, an update to the National Investment Policy could be an opportunity to emphasize gender as a cross-cutting priority, alongside climate and nutrition.

Female Representation in Politics and Corporate Management
(Percent)



Sources: World Bank Gender Statistics Data Bank (2022) and IMF staff calculations.

[3] The Rwandan government established gender equality as a legal framework within the 2003 Rwandan Constitution, which guarantees equal gender rights and requires women to be granted "at least thirty (30) percent of posts in decision-making organs."

Annex IV. Capacity Development Strategy for FY23/24

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. Conduct a follow-up Fiscal Transparency Evaluation (FTE). 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 and the spending rationalization strategy. Assist the authorities with green PFM and fiscal risk analysis.
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.
FX market diagnostic exercise	Transition to greater exchange rate flexibility.
Strengthening Climate Risk Management for Financial Institutions	Strengthen crisis preparedness.
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.

Appendix I. Letter of Intent

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

Kigali, May 12, 2023

Dear Ms. Georgieva:

Rwanda's economy is gradually recovering from the legacy of the pandemic, but new imbalances have emerged. Our economy, supported by robust manufacturing and services sectors, grew strongly at 8.2 percent in 2022, well above its long-term average. Inflation continued to remain persistent at double digits in March, reflecting elevated global commodity prices and lingering effects of adverse weather conditions on domestic food production. Financial sector stability has been maintained, despite a challenging environment. However, with high commodity prices and a tight global financing condition, both domestic and external imbalances have emerged. Core inflation stayed elevated, and our external position weakened, bringing reserves just above to the adequate levels. Our debt level increased driven by loans envisaged in the first National Strategy for Transformation (NST-1), but also to respond to the fallout from the pandemic.

We remain committed to preserving macroeconomic and financial stability, as pre-requisites for sustainable, more inclusive, and green economic growth. In the recent months, we have intensified our efforts to implement the appropriate policy mix measures including a frontloaded fiscal consolidation and a tighter monetary policy stance using all monetary policy tools to rebuild our buffers to adequate levels, rein in inflation, and improve debt sustainability. We are also advancing our ambitious reform agenda, supported by the Policy Coordinated Instrument (PCI) and the Resilience and Sustainability Facility (RSF) to build resilience against future socio-economic and climate-related shocks.

The Government of Rwanda requests the completion of the first reviews of the PCI and the RSF arrangements based on the satisfactory implementation of both programs' targets and reforms. All end-December 2022 quantitative targets (QTs) and standard continuous targets set for the completion of the first review of the PCI were met. All reform targets (RTs) under the PCI and three reform measures (RMs) under the RSF envisaged for the first reviews were completed. To better reflect economic developments, we are proposing to modify the end-June 2023 QTs on the ceiling on the debt-creating overall deficit, the floor on the stock of net foreign assets (NFA), and the ceiling on the present value of new public and publicly guaranteed external debt. We are also proposing to re-define the NFA QT for end-June 2023 to exclude RSF disbursements and to modify the period over which headline inflation is averaged for the Monetary Policy Consultation Clause for end-June

2023. We have also re-phased the implementation of one reform measure under our RSF, originally due at the second PCI/RSF reviews, namely the publication of new guidelines for appraisal and selection criteria, including climate considerations. We would, therefore, request approval for the above-mentioned proposed modifications to the end-June 2023 QTs and to bring forward to the first reviews the completion date of this reform measure and the associated disbursement.

The Government remains fully committed to meeting the objectives and the targets of both programs. Attached to this letter is the Program Statement, describing recent developments in the Rwandan economy, presenting performance under both programs, and updating the specific policies to meet the PCI and the RSF objectives. We will adhere to the Memorandum of Understanding (MOU) between 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 targets and reform targets. Financing under the RSF is expected to be available once the proposed reforms measures are implemented as described in the attached Program Statement and Technical Memorandum of Understanding (TMU). The 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. The RSF-supported program reviews 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. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies[1]

Kigali, Rwanda, May 12, 2023

I. CONTEXT

1. **This Program Statement describes recent economic developments and our policy objectives and priorities under the Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility (RSF).** Under this instrument and arrangement, we continue to aim at maintaining macroeconomic stability, advancing our reform agenda, and building greater resilience against future shocks including climate resilience. With the uncertain external environment and the spillovers from the war in Ukraine already being felt, our program would allow us to build on the progress in macroeconomic, fiscal, and financial resilience and continue with reforms initiated under the previous PCI.

II. RECENT DEVELOPMENTS

2. **Economic growth has remained strong, while unemployment continues to be high.** GDP growth came higher than expected at 8.2 percent in 2022, well above its long-term average. The strong performance was mainly driven by a robust manufacturing and services sectors and a strong private consumption, offsetting weaker-than-usual agricultural production due to unfavorable weather conditions and a contraction in construction. The unemployment rate at the end of 2022 remained high at 24.3 percent, above the pre-pandemic level of around 15 percent. The female unemployment rate was particularly high at 28.3 percent. Our working age population continues to grow especially youth and we are striving to ramp up our job opportunities.

3. **Inflation has remained elevated, driven by rising food prices.** Headline inflation rose from 15.9 percent in August 2022 to a peak of 21.7 percent in November 2022, and slightly decelerated to 19.3 percent in March 2023, year-on-year, reflecting elevated global commodity prices and subdued domestic food production. Food inflation spiked to 45.3 percent in November 2022 before slightly easing to 41.3 percent in March, mainly due to lower-than-expected performance of 2022/23 agricultural season A. Core inflation remains high but easing (from a peak of 15.4 in December 2022, to 12.2 percent in March 2023) amid high supply costs and persistent demand pressures. The Monetary Policy Committee (MPC) raised the policy interest rate by 50 basis points to 7.0 percent in February 2023.

4. **The fiscal deficit in the first half of FY22/23 was lower than anticipated primarily due to lower expenditure execution.** Lower grants to the local government were primarily responsible for the lower expenditure execution. Above expectations growth in nominal tax revenues were not matched by buoyant nominal GDP leading to a decline in the tax to GDP ratio. Some external loan disbursements came later than was initially programmed, leading to higher-than-expected domestic financing. The loans were subsequently disbursed in the third quarter.

[1] Letter of Intent and Memorandum of Economic and Financial Policies are the “Program Statement” under the PCI.

5. Our financial sector remains sound and stable. Despite the war in Ukraine, high inflation, and the uncertain global environment that pose challenges on financial stability, the financial system has continued to demonstrate resilience to these shocks. As at end December 2022, assets of the financial sector grew by 17.7 percent to RWF 8,909 billion. The banking sector, which continues to dominate the financial sector with a share of 67 percent, also grew by 18.3 percent. Loans are key component of assets of Banks and MFIs, accounting for 52 percent and 62 percent respectively. In both sectors, lending continued to grow driven by robust domestic demand. The financial sector continued to be sound and stable, on the back of sufficient capital and liquidity buffers, and improved quality of assets. As at end December 2022, the capital adequacy for banks and MFIs stood at 21.7 percent and 34.5 percent, higher than the 15 percent minimum regulatory requirement, respectively. The liquidity coverage for banks was 215.9 percent while the liquidity ratio of MFIs was 90.9 percent, well above the minimum prudential requirements of 100 percent and 30 percent, respectively. Return on average assets and return on average equity for banks was 3.0 and 17.8 percent. Credit quality continued to improve, with NPLs for banks and microfinance institutions falling to 3.1 percent and 3.5 percent in December 2022, from 4.6 percent and 4.8 percent in December 2021, respectively. The financial sector is expected to remain resilient, and the NBR will continue to monitor shocks that could originate from global and domestic macro financial uncertainties and stands ready to take appropriate measures to contain any risks that may arise.

6. Our external position weakened significantly in 2022. The current account deficit (CAD) expanded by 5.1 percent y-o-y on widening goods deficit despite significant improvement in service deficit and rising transfer inflows. Merchandise exports continued its recovery from the Covid-19 pandemic, growing by 33.2 percent largely, driven by higher global commodity prices and good performance of manufacturing exports. Similarly, service exports increased significantly by 52.3 percent on the back of strong rebound in travel and air transport services, as travel restrictions from Covid-19 pandemic eased. However, the war in Ukraine has contributed to the continued elevated food and oil prices, increasing Rwanda's imports bill amid the resumption of travels in the aftermath of the pandemic. As a result, the overall trade deficit from goods and services widened by 11.1 percent. The impact on the current account from the expansion in trade deficit was partially offset by rising inflows from government current transfers and diaspora remittances. The financial account surplus also decreased by 30 percent, given lower government borrowings which were partially offset by the surge in private inflows, largely FDI, which rose by 71 percent. Consequently, the official reserves declined by USD 129 million. However, the level of reserves remained adequate, covering 4.2 months of prospective imports of goods and services as of end 2022.

III. PROGRAM PERFORMANCE

7. Program implementation under the new PCI and RSF arrangements is off to a good start.

- *PCI QTs and RTs.*
  - All end-December quantitative targets (QTs) and standard continuous targets set for the completion of the 1st review of the PCI were met.

  - All reform targets (RTs) envisaged for the review are progressing well and expected to be completed. Revisions to the CIT law were submitted to the Cabinet in April 2023. We expanded the coverage of quarterly fiscal reporting in GFS 2014 format to include all general government entities including RSSB. The report was published on our website at end-April 2023 as planned. The Monetary Policy Strategy (MPS) was approved and published on the NBR's website in February 2023 and a summary of it will be appearing in all our monetary policy reports. NBR management approved a roadmap for Global Master Repurchase Agreement (GMRA) implementation at end-April 2023 and the document has been endorsed by all stakeholders.
- *RSF Reform Measures.*
  - All RSF supported reform measures (RMs) are well on track and three of those set for the first review were completed as expected. With Fund support, we incorporated a quantitative climate risk assessment into the fiscal risk statement which has been submitted to the Fiscal Risk Committee in April (RM1). As of April 20, 2023, we have an updated National Investment Policy which integrates the climate agenda-based PIMA/C-PIMA recommendations (RM2). On May 8, 2023, we adopted a new National Disaster Risk Reduction and Management Policy, delineating responsibilities between institutions and providing a framework for community-based disaster risk reduction and management (RM3). On April 27, 2023, ahead of schedule, we published guidelines for the appraisal and selection criteria to reflect PIMA/C-PIMA recommendations (2nd review, RM5).

IV. OUTLOOK AND POLICIES

A. Outlook

8. **We foresee a temporary softening of economic growth driven by needed tighter fiscal and monetary policies.** Economic growth is projected to decelerate to 6.2 percent and 6.7 percent in 2023 and 2024, respectively. The output gap is projected to turn negative in the beginning of 2024, as additional fiscal consolidation and monetary policy tightening to rebuild external buffers will weigh on growth. Private consumption and investment are expected to be the main growth drivers in the medium term as fiscal consolidation ensues.

9. **We expect inflationary pressures to moderate in the second half of 2023.** Headline inflation is projected to significantly decline from 20.8 percent recorded in February 2023 to 7.8 percent by end-2023, within the 2–8 percent NBR band. The projected decline will be driven by the cumulative effects of the monetary policy tightening, easing pressures from better domestic food production in agricultural season B as well as expected easing in global inflation and lower commodity prices. Headline inflation is projected to decline and be maintained within the NBR band in 2024 under a no-shock scenario supported by an adequate monetary policy stance.

10. **Our external sector position is projected to worsen in 2023 and improve thereafter.** The CAD is expected to widen to 11.3 percent of GDP in 2023 largely driven by trade deficit as

global fuel and food prices are estimated to remain elevated amidst higher demand for imports as domestic economic activities rebound. Helped by the needed policy adjustment to reduce aggregate demand, the increase in imports is expected to be moderated and partially offset by expected increase in merchandise exports and continued strong recovery of service exports. In 2024 and over the medium term, the trade balance and, hence, the current account are expected to improve with higher domestic savings (from the envisaged tightening of the policy mix) 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 borrowings will be partially offset by the increase in private flows, mainly FDI. Gross official reserves are projected to remain adequate, close to 4.2 months of prospective imports. Over the medium term, the trade balance and the current account are expected to improve with higher domestic savings (from the fiscal consolidation) and productivity growth, helping to boost gross official reserves to 5 months of imports.

11. We see our outlook clouded by many emerging downside risks. They include another bout of volatility in global energy and fertilizer prices, a steeper decline in trading partners growth, or global financial market developments that adversely affect the affordability of our external financing. Rwanda's dominantly rain-fed subsistence agriculture sector also makes our economy highly exposed to weather events that are likely to become more intense and frequent with climate change. We are particularly concerned with geopolitical risks affecting the near-term availability of concessional resources as these are diverted to support Ukraine.

B. Fiscal Policies and Structural Reforms

12. We remain committed to the objectives of fiscal policies and structural reforms under the PCI aimed at supporting macroeconomic stability, keeping our debt at sustainable levels, strengthening our fiscal framework, and preserving the needed fiscal space to implement our development priorities under the first National Strategy for Transformation (NST-1). To this end, we plan to continue the needed fiscal consolidation supported by the implementation of domestic revenue mobilization (DRM) measures under the Medium-Term Revenue Strategy (MTRS) and spending rationalizing measures. In addition, we will proceed with reforms aimed at improving the transparency and the efficiency of our public financial management and investment practices and enhancing the management of fiscal risks.

Fiscal Consolidation Strategy

13. Our near-term fiscal strategy aims at mitigating the impact of external shocks on the most vulnerable, while preserving fiscal sustainability, through a mix of domestic revenue mobilization and spending rationalization measures. With continued high uncertainty, persistently high inflation and weakened external buffers, the FY22/23 deficit is projected at 7.3 percent of GDP (against 8.1 percent envisaged at program approval), primarily reflecting lower recurrent and capital expenditures more than offsetting lower tax revenues and budgetary grants. To help reduce inflation and replenish our external buffers, we will further reduce the fiscal deficit to

6.5 and 4.8 percent of GDP in FY23/24 and FY24/25 respectively. The aggregate fiscal deficits over the three years to FY24/25 is 1.1 percent of GDP lower than at program approval.

14. Domestic revenue mobilization measures and tax exemptions. We continued to implement measures under the approved MTRS, as approved by the Cabinet in May 2022. As these measures become effective, we expect to permanently collect additional 1 percent of GDP. We aim to phase out tax exemptions.

- A draft revised law on Excise Duty was submitted and approved by Cabinet on the 20th April 2023 and it is expected to be broadly revenue neutral, while reducing prices of basic food such as rice and maize flour, and promoting tourism.
- We submitted a revised draft Corporate Income Tax law to Cabinet in line with IMF recommendations. The version approved by the Cabinet in April 2023 includes the provision of reducing the statutory CIT rate from 30 to 28 percent with a gradual target of 20 percent in the medium term. To achieve the revenue gains envisaged at the PCI approval and to ensure that MTRS domestic revenue mobilization and other program objectives are met, in consultation with the IMF, Cabinet will approve alternative revenue generating and predominantly tax policy measures for the completion of the second review (proposed end-September 2023 RT). Such measures include increases to property tax, rationalization of exemptions, tax base broadening measures, as well as credible new tax administration measures. Moreover, to reverse the erosion of our tax base, we are reviewing our investment code to eliminate some year-to-year tax incentives and grandfathering of tax incentives allowed for a multi-year period. The review is expected to be completed by November 2023.
- The Rwanda Revenue Authority (RRA) has continued 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 (CIPs) targeted at the manufacturing sector, large businesses, customs, and to combat tax evasion by individuals. A revised draft law on VAT was approved by Cabinet on 20th April 2023, which includes VAT rebates in favor of consumers who claim electronic invoices, and a reward for consumers who denounce businesses that do not issue electronic invoices. We will also increase penalties for VAT taxpayers that do not issue receipts. These measures are expected to increase the use of our electronic billing system and VAT collection. To tackle revenue leakages and contain the build-up of VAT refund arrears, we raised the amount retained from VAT collections to be refunded. We also ended the implicit fuel subsidy since April 5 and have committed to not extending the MBRP beyond the end-December 2024 application deadline (see below).
- The RRA will continue to incorporate any new administration measures highlighted in the MTRS into its strategic plan. It will continue to rely on the existing monitoring and enforcement framework to assess the implementation of these measures, while considering opportunities to further strengthen it. 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 measures to be implemented in the subsequent period.

- We phased out a subsidy on diesel that was introduced in October 2022. The government provided a subsidy on diesel prices to smooth out the volatility of international prices of fuel on domestic retail prices. Since April 3, 2023, this subsidy has been removed, and excises on diesel have returned to their previous rate of RWF 150 per liter. To recoup the losses from this temporary subsidy, we have taken advantage of declining international prices and have introduced a stabilization fee on petroleum prices. All revenue that was lost on the temporary diesel subsidy are anticipated to be recouped in FY23/24 through the stabilization fee. In line with our commitment under the RSF program to transition to a green economy, we will refrain from providing any further subsidies on fuel prices going forward and, instead, will support poor and vulnerable households through other targeted measures.
- The Manufacture and Build to Recovery Program (MBRP) was extended for a further two calendar years to help participating investors complete their projects delayed by disruptions in international supply chains for their imported inputs and is now expected to expire by December 2024. The MBRP will continue to provide tax incentives (import duty and VAT) for increasing production in the agro-processing, construction materials, light manufacturing, and cross-cutting enablers such as paper packaging and plastic packaging. The program has attracted 110 projects with total investment of US$1.9 billion (47 projects in manufacturing; 35 projects in construction, including 46,000 housing units; and 28 projects in agro-processing) with the expected creation of over 38,000 jobs. No new projects will be added to the scheme beyond 2024. The estimated impact on revenue over the period of extension is the same as at PCI program approval.

15. Spending rationalization measures. We recently enacted a new Organic Law on Public Finance Management (PFM law) replacing the previous Organic Budget Law (OBL) that entails reforms to budget processes, including a new Pre-Budget Outlook Paper that sets expenditure ceilings for spending ministries earlier in the process, supporting strategic expenditure prioritization. We are committed to implement measures to rationalize our spending including streamlining and gradually reducing subsidies particularly those related to energy and fuel, and export promotion, and state-owned-enterprises (SOEs). The latter by strengthening the oversight and governance of SOEs. We are taking steps to enhance the digitalization in the delivery of public goods and services. Based on the Public Investment Management Assessment (PIMA) and the Public Expenditure Review (PER), we have started to implement an action plan to promote efficiency and greater value-for-money based on selection, prioritization, and execution of public projects. Envisaged measures will include (i) automating and publishing a pipeline of major appraised projects to be compared and selected within and across sectors in a transparent and competitive by publishing the project selection criteria. (ii) increasing the selection of larger and medium-size projects over smaller projects of a short duration; and (iii) strengthening project implementation oversight to avoid cost overruns, abandonment, and inadequate enforcement of contract clauses. We are on track to submit a spending rationalization strategy as part of the FY24/25 Budget Framework Paper based on the medium-term fiscal policy outlined by our Planning and Budget Outlook Paper, which will start to be produced in the coming FY24/25.

16. Our fiscal path ensures convergence to our debt anchor keeping our debt sustainable. We will broadly maintain the fiscal consolidation path discussed at the time of the PCI approval with convergence to our 65 percent of GDP debt anchor achieved by 2030, backed by credible measures under the FY23/24 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. Our FY23/24 budget and medium-term fiscal framework has also identified a number of recurrent and capital expenses whose execution will be put on hold in the event original measures cannot be timely implemented. These include limits on new staff recruitments (excluding statutory promotions, and vital sectors such as health, education and public administration), further cuts on non-essential/ non-efficient non-wage recurrent expenditure, and the discontinuation of underperforming domestic projects.

17. 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 with expansion of debt coverage (inclusion of local Government debts) and develop domestic capital markets. To contain the debt service burden and solvency risks and prevent debt from deviating from the agreed debt path, should the opportunity to contract additional highly concessionally financed projects to finance our development priorities arise, this would be done by prioritizing the implementation of these projects over domestically or commercially financed projects.

Fiscal Structural Reforms

18. Implementation of our new PFM law is on course. Its full implementation will be critical for (i) improvements in the budget/medium-term expenditure framework (MTEF), (ii) the institutionalization of fiscal risk management practices and structures, and (iii) the adoption of best-practices in fiscal reporting. This will require the issuance of Ministerial Order on public financial management by December 2023 and other financial regulations by end-June 2023. In the area of fiscal reporting, a Ministerial Circular implementing the new PFM law aligning SOE reporting periods to the fiscal year calendar adopted by other government agencies has been issued.

19. We continued to strengthen our public financial management system (PFM).

- *MTEF*. To instill greater prioritization and top-down orientation to our budget process, we have developed MTEF user manuals and started to adopt in the FY23/24 budget planning cycle guidelines for budget baseline costing and related templates in our first Planning and Budget Call Circulars (PBCC1). This has allowed us to anticipate to November 2022 the setting of expenditure ceilings for line ministries and other government budgetary agencies.

Looking ahead, we plan to integrate the budget costing framework to IFMIS in subsequent years.

- *Accrual Accounting Migration.* As the original timeline of end-June 2024 was deemed too ambitious by IMF/AFE TA partners, we plan to finalize an assessment of a feasible timeline for the implementation of remaining activities by end-October 2023. Key outstanding activities include the valuation and recognition of fixed assets, accrual accounting of taxes revenues, and integrating SOEs into annual consolidated financial statements.
- *IFMIS Rollout.* The IFMIS rollout to primary and secondary schools continues. Through its subsidiary accounting systems named SDMS (Schools Data Management System), we have completed the rollout of financial modules to 1,836 secondary schools out of 1,924 schools, and plan to complete the rollout to secondary schools by June 2023. For the primary schools, rollout through World Bank PFM Reform Project, an assessment will be done in June 2023 which will inform the feasibility and value for money given the small budget allocated to these schools.

20. The new Ministry of Public Investment and Privatization (MININVEST) is playing a key role in strengthening the institutional framework and technical capacity to oversee and manage fiscal risks from SOEs.

- *Institutional and Legal Framework.* MININVEST, which is responsible for strengthening the governance, oversight, management, including of fiscal risks, of SOEs has become operational. A total of 15 staff members have already been selected and appointed since February. The hiring process of additional technical staff is on-going. MININVEST has contributed to the review of the legal framework underpinning SOE governance, which encompasses the following instruments: (i) the National Investment Policy, (ii) the Privatization Law, and (iii) the Privatization Policy. Accordingly, MININVEST has reviewed and incorporated all key ownership principles in the approved National Investment Policy. Other ownership principles will be captured in the draft Presidential Order, which is being reviewed in close collaboration with the World Bank team. The Presidential Order shall be submitted to Cabinet by end-November 2023. The draft Privatization Law and Policy are both expected to be submitted to Cabinet by end-July 2023. To ensure fiscal risk management activities are properly coordinated, MINECOFIN will issue Terms of Reference to determine the roles and responsibilities of all stakeholders, including MININVEST, in the process of quantification and management of fiscal risks by end-August 2023.
- *Technical Capacity.* MININVEST has set up a team to conduct SOE health check and health stress exercises previously conducted by the MINECOFIN's Government Portfolio Management Unit (GPMU), including previous GPMU staff. SOE health checks have been resumed helping to identify high-risk SOEs. MININVEST has committed to conduct stress tests in at least two previously identified high-risk SOE stress to be submitted to the Fiscal Risk Committee by end-November (proposed 2nd review RT) with a view to continue conducting in 2024 SOE health-checks for all SOEs and stress tests for at least two high-risk SOEs every quarter thereafter. MININVEST also plans to develop mitigation measures to

address key vulnerabilities identified in the stress tests by end-April 2024 to be published in the FY24/25 fiscal risk statement.

21. Strengthening transparency in fiscal reporting remains a cornerstone of our PCI. To underscore the progress achieved since the 2019 Fiscal Transparency Evaluation (FTE), we plan to conduct an FTE follow up mission and publish the subsequent report together with the original FTE report by the second half of 2024. We remain committed to the expansion of the coverage of our fiscal reports in GFS 2014 and, to this effect, we published quarterly budget execution reports under GFS 2014 for the whole general government, including RSSB by end-April (1st review RT). We plan to continue publishing these reports quarterly up to 60 days after the end of each quarter thereafter. Conflicting capacity building priorities led us to postpone the preparation of a feasible action plan originally scheduled for March 2023. Supported by IMF TA, we are working to develop this action plan by end-September 2023 to further expand the coverage, frequency, and timeliness of fiscal reports in GFS 2014 formats, including on functional expenditures (COFOG) and balance sheets. We made progress towards the RSSB asset allocation review. The timeline has not changed, and the review remains on track for October 2023 (2nd review RT) as planned. A consulting firm was recruited in November 2022 to provide support in this exercise. The inception report from this firm was received and shared with IMF mission.

22. We are taking solid steps to enhance our public investment management practices. We have reviewed the PIMA from which we have created an action plan that we have started to implement. Its implementation report is under preparation and will be published.

23. We remain committed to the use of public resources transparently.

- *Auditing of government expenses.* The Office of the Auditor general (OAG) audited all government expenditures, including those financed by the new SDR allocation, and published the audit reports by end-May 2023 as part of a full audit of all government expenditures and public procurement for FY21/22.
- *Beneficial ownership.* Consistent with our international commitments in terms of exchange of 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: (i) an electronic reporting portal for BO disclosure to the Registrar General was launched in March 2023, (ii) a revised Company Law and a revised Partnerships Law were enacted in March 2023 to capture BO information; and (iii) we have started inspections, audits, and shall apply sanctions for non-compliance with BO and accounting obligations.

C. Monetary, Exchange Rate, and Financial Sector Policies

24. Under the PCI we will bring continuity to the implementation of our forward-looking monetary framework and reforms to promote the development, stability, and inclusion of 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

25. Containing inflationary pressures remains an urgent priority for our monetary policy. With continued uncertainty and pressures from global commodity prices and from weaker than expected domestic food production due to unfavorable weather conditions, persistently high core inflation reflecting high imported costs and emerging threats of second round effects, the National Bank of Rwanda (NBR) raised its policy interest rate by a cumulative 250 basis points since February 2022. In the beginning of the year, inflationary pressures have continued to remain elevated, mainly due to fresh food inflation driven by unfavorable weather conditions which affected poor agricultural season. The NBR is committed to ensuring that monetary policy remains data driven. To this effect, the MPC will monitor inflation projections to ensure that headline inflation returns and is maintained within the NBR band of 2 to 8 percent from 2024 Q1 going forward. In line with this, NBR has already increased the reserve requirement ratio by 100 basis points from 4.0 to 5.0 percent effective from January 2023 and shall continue to use all its monetary policy tools to contain inflation in the short and medium-term.

26. We remain committed under the PCI to strengthen monetary policy formulation, and communications to ensure the implementation of the forward-looking interest-rate-based monetary policy framework.

- We adopted and published the NBR's Monetary Policy Strategy (end-March 2023 RT) in November 2022 and February 2023, respectively, that describes the central bank's primary and additional monetary policy targets, the process of monetary policy decision-making, and monetary policy communication strategy.
- We have continued to develop the Forecasting Policy and Analysis System (FPAS), including steps to improve economic analysis, and forecasting capabilities at the NBR and better integrate it with monetary policy decision-making. Clear external communications ultimately depend on coherent, timely, and transparent monetary policy decision-making for which guidance under the FPAS will remain critical.
- We are proposing to change the period over which headline inflation is averaged under our MPCC from current twelve months to three months as this measure is more appropriate for capturing the inflationary environment and price movements.
- Additionally, we are considering developing a consumer price expectations survey to improve the quality of forecasts with a view to launch the survey in 2024. This will be an important project about which we plan to request IMF TA support to explore the best practices to conduct such survey.

Monetary Policy Operations and Market Development

27. We continue to focus on developing money, bond, and foreign-exchange markets to strengthen our monetary policy transmission mechanism. With the assistance of the IFC, we have identified and analyzed the legal gaps in insolvency, payment system and banking laws and formulated a roadmap endorsed by all stakeholders to implement for Global Master Repurchase Agreement (GMRA) (end-April 2023 RT). The NBR and Capital Market Authority (CMA) will be leading the legal review of relevant legislation. We envisage enacting the full GMRA rollout, including securing the signing of the GMRA by all banks, by end-December 2024 (proposed RT).

28. 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. We expect FX pressures to continue in 2023 driven by increases in the import bill and lower than expected external financing flows. We expect exchange rate pressures to subside over the medium term as external demand recovers, particularly in the tourism sector, and the reserve coverage to remain 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 foreign exchange markets in the context of our new monetary policy framework, we plan to undertake a diagnostic assessment of the FX market by end-November 2023 (proposed RT). Based on the diagnostic assessment, we will establish a framework for foreign exchange interventions.
- To preserve external sustainability, we will work towards building up reserves gradually with the objective to reach 5 months of imports coverage in the medium-term as recommended in the last IMF's External Sustainability Assessment.

Financial Sector Policies

29. We will continue to fine tune our macroprudential analysis, standards, and processes to safeguard financial stability. Considering recent global banking developments, safeguarding the resilience of banking sector to shocks remains a top supervisory priority of the NBR. Onsite examinations will continue to focus on credit risks, adequate loan classification and provisioning, and scrutinize banks' assessment of borrowers, including related to personal loans and in the commercial real estate sector. This will be pre-empted by the continued offsite surveillance to ensure the above key risks are managed and track any emerging risks. Further, we will continue to monitor the macro-prudential tools on commercial real estate are adhered to as well as conduct surveys on real estate and credit surveys to the private sector to inform further policy measures to be taken. The NBR continues to conduct macro stress-test on a quarterly basis, and the banks have submitted the second annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) by the end of April 2023 for review. The ICAAP includes banks' risk appetite and projected capital positions for the year 2023/24, while ILAAP provides for the contingency plans on liquidity. The NBR will focus its policy actions to ensure that supervised institutions adequately manage risks and comply with regulatory requirements. The NBR will also continue to monitor closely the implication of the global banking distress on the domestic financial institution and take appropriate macroprudential policies to contain potential risks.

30. Expanding access to digital financial services remains instrumental to implement our financial inclusion strategy. We consider financial inclusion as an integral enabler for achieving our development and poverty reduction objectives, and target achieving 90 percent of formal financial inclusion by 2024. To this end, the NBR developed new financial inclusion strategy that focuses on measures to promote financial inclusion through greater digitalization and gender balance in accessing financial services. The strategy is expected to be finalized by end-2023. The NBR also updated the National Financial Education Strategy to be implemented from 2023-2027. The NBR conducted capacity building programs to the financial sector (Leasing Seminar, Credit Reporting) and will complete other two programs on Corporate Governance of SACCOs and Micro-insurance underwriting. In partnership with Rwanda Finance Limited, a national financial sector skills council was established to champion all skilling intervention of the financial sector. The complaints handling system (INTUMWA Chatbot) and comparator website (Gereranya) are operational- supporting financial service consumers to lodge complaints and compare financial services and products respectively. Finscope Survey 2024 work has started and is expected to be launched in the first quarter of 2024. This is a demand side survey that measures financial inclusion. Mobile payments market is fast-growing with mobile payments more than quadrupled since the pre-COVID levels. In support of women access to finance, NBR with support from the World Bank is developing a guideline for women finance for the financial sector to follow. This guideline will be finalized by May 2023.

D. Structural Policies

31. We have stepped our efforts under the new PCI to address pandemic scarring and making our people and economy more resilient. We have improved the design and delivery of our social safety nets, improving the access and quality of health and education among vulnerable groups, and promoting economic diversification.

- In the near term, to temporarily offset the impact of rising fuel and food prices, we have increased monthly cash transfer from RWF 7,500 to RWF 10,000 and from RWF 10,000 to RWF 15,000 for Nutrition Sensitive Direct Support (NSDS) and Expanded Public Works (ePW) beneficiaries, respectively. We have also expanded the NSDS from eighteen districts to twenty districts. The number of workdays was increased to more than 120.
- We continued our efforts to enhance the existing social protection programs regarding coverage, benefits, shock-adaptability and targeting through the social registry rollout. Programs under the Vision 2020 *Umurenge* Program (VUP) safety nets continue to perform well. Since July 2022, 112,190 households have received direct support, while 201,789 households participated in the classic or expanded public work. About 153,156 households are under the Nutrition Sensitive Direct Support program. About 43,695 households have received financial services (mainly micro/small loans), while 100,000 households have

benefited from emergency cash transfers. We have also undertaken initiatives to reduce poverty and unemployment, targeting specific vulnerable groups. In the City of Kigali, unemployed women and single mothers, whose poor living conditions expose them and their children to many risks, are organized in the formal trading and provided with trainings/capacity building, financial education, and support through concessional micro loans.

- We are on track with the roll-out of the dynamic social registry to improve the targeting and efficiency our social sector programs (end-May 2024 RT). We completed the pilot phase in the districts of Gasabo and Bugesera and are gearing to start the next phase by developing and operationalizing the system. The second phase will be finalized by end-June 2023. Roll out to the remainder 28 districts and the CBHI is expected to start in July 2023 and be finalized within the envisaged timeline. We are improving our shock-adaptability by focusing on climate-sensitive projects (e.g., agricultural terracing) in areas more prone to disasters and increasing the coverage of emergency cash transfers.
- We are also working to address learning losses accumulated during the COVID-19 pandemic. We recently introduced a school feeding program subsidized which boosted school attendance. We will continue to improve its delivery and targeting system. With the support of the development partners, we are reinforcing remote learning to minimize present and future pandemic scars as well as in-person remedial learning.
- We continue to strengthen our economic resilience by adopting policies favorable to regional integration. As part of the ongoing trade integration policy reforms, we are reviewing the Industrial Policy, the National Trade Policy, the National Export Strategy, and the Cross-border Trade Policy. We are also developing an e-Commerce Strategy. To implement our trade-logistics strategy and attract private investments in trade logistics and export-oriented activities, we are fast-tracking major projects such as Kigali Logistic Platform (a large-scale inland container depot) and the Bugesera International Airport. Currently, about 37 bonded warehouses and 8 cross-border markets across the country are operational. With support from the World Bank and development partners, we are working to reduce tariff and non-tariff barriers and seize opportunities for Rwandan exporting firms stemming from the AfCTA preferential market access. We are also stepping up our efforts on building more skilled labor force and considering easing entry barriers for skilled EAC workers.
- We continue our efforts to strengthen our capacities for pandemic preparedness and response. On February 13, 2023, the Government of Rwanda and the World Health Organization (WHO) signed a collaboration agreement to implement three Emergency Preparedness and Response Flagship Initiatives, namely: (i) strengthening and utilizing response groups for emergencies and (ii) transforming the surveillance system and (iii) promoting resilience of systems for emergencies. The two-year project will strengthen epidemic intelligence, focusing on indicator-based, event-based, community-based, lab-based and One Health (OH) based surveillances. We remain on track with our initiative to construct the first African mRNA vaccine manufacturing facility to supply vaccines not only in

Rwanda, but also in the region. Six mobile vaccine production units by German pharma company BioNTech already arrived in April 2023. The containers will also pioneer treatments in the development phase against diseases like malaria, tuberculosis and HIV that are among the leading killers in Africa.

E. Building Resilience to Climate Change

32. Our RSF-supported reforms have progressed significantly

- *Integrating climate risks into fiscal risk statement (1st review RM1).* We successfully integrated climate risks into our fiscal risk statement with the assistance of comprehensive CD support delivered by the IMF Fiscal Department (FAD) in January 2023. We submitted a quantitative climate risk analysis in the Fiscal Risk Statement to the Fiscal Risk Committee by end-April 2023. Going forward there were further recommendations to better quantify discrete risks from climate (including natural disasters) that could lead to unexpected expenditure or revenues of the government. We will request assistance from the IMF to help meet subsequent reform targets in this area (expanding to SOEs and PPPs by May 2024).
- *Improving climate-sensitivity of PIM (1st review RM2*). Our Cabinet approved an updated National Investment Policy to integrate climate agenda on April 20th (1st review RM). The updated policy improves coherence with existing PIM practices and discusses how to catalyze private climate financing. With support from FAD experts, we published guidelines for the appraisal and selection criteria to reflect PIMA/C-PIMA recommendations (2nd review, RM5) on April 27th within the first PCI/RSF review window.
- *Strengthening disaster risk reduction and management (1st review RM3).* On May 8th, 2023, we adopted a revised National Disaster Risk Reduction and Management Policy. This revised strategy replaces 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. The new policy document is centered on the following pillars: (i) improve risk knowledge to make sure all sectors understand what are risks and factors (topography, urbanization and population density, poverty) behind those risks and how they can adapt, (ii) risk governance (how decisions are taken) in terms of investment, harmonization of programs integration of planning, (iii) community-based DRM, (iv) risk financing (central, district, community level). The National Disaster Committee is at the ministerial level under which there is a coordination entity including ministerial agencies and non-governmental organizations (private sector and civil society). This organization will help harmonize plan and interventions on a quarterly basis.

33. Our reforms to strengthen the monitoring and reporting of climate-related spending are progressing well. In the context of reforms towards a comprehensive climate budget tagging system under the RSF, we are progressing with producing internal guidelines, including changes to the budget circulars and user requirements for the Integrated Financial Management Information System (IFMIS) (2nd review RM4). Both the Ministry of Economy and Finance and the Ministry of Environment are working to issues the guidelines for the implementation of climate tagging system and make it consistent with the Green Taxonomy which has been brought forward to end-2023. Once fully-implemented the budget tagging system will allow for the monitoring of climate related activities at both the budget preparation and execution phases and will result in the publication of climate budget statement. This will improve transparency for the public and development partners looking to further support the climate agenda.

34. We have started to implement the agreed measures to enhance the management of climate risks for financial institutions. As a first step towards issuing guideline for climate-related risk managements for financial institutions to better manage climate-related risks (3rd review RM), BN is preparing a diagnostic review to understand if the institutions already understand the existing frameworks on place. This diagnostic review should be concluded by end-June.

35. We have also started to actively explore options, including with international partners, to scale up climate financing. Our near-term focus is to scale up Rwanda's already established Green Investment Facility ("Ireme Invest"). The scaling up will occur via a combination of (i) blending non-concessional and concessional resources, (ii) de-risking and (iii) issuance of sustainability-linked bonds (SLBs). We expect to agree on the terms and conditions of the scaled-up facility, including pledges by international partners by June 2023. We are also committed to ensure that any fiscal risks stemming from government's financial exposure through equity contributions or guarantees are well-identified, transparently reported, and mitigated.

V. PROGRAM MONITORING UNDER THE PCI AND RSF

36. Policy Coordination Instrument. Progress in the implementation of the policies under this instrument 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.

37. Resilience and Sustainability Facility. 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

	end-December 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]	-631	27	-659	-586	Met
2. Floor on stock of Net Foreign Assets	1,143	-124	1,019	1,099	Met
3. Ceiling on net accumulation of domestic arrears	0			0	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]	759			735	Met
Monetary Policy Consultation Band[1,4]					
CPI Inflation target	11.0			13.9	Met
Inflation, upper inner-bound, percent	14.0				
Inflation, lower inner-bound, percent	8.0				
Inflation, upper bound, percent	15.0				
Inflation, lower bound, percent	7.0				
Memorandum items:					
Total priority spending[2]	790			801	Met
Floor on domestic revenue collection[2,,5]	1,145			1,232	Met
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700			32.4	Met
Total budget support (US$ million) [2]	362			98	
Budget support grants (US$ million)	112			85	
Budget support loans (US$ million)	250			13	
of which 'RSF Disbursements (US$ million)	0			0	
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) for the PCI and RSF approval.

[2] Numbers are cumulative from June 30, 2022.

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

[4] When the year-on-year inflation, averaged for the past 12-months, 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: Quantitative Targets, June–December 2023

	end-June 2023		end-December 2023
	Prog. CR 22/381	Rev Prop Prog	Prop. Prog
(Billions of Rwandan francs, unless otherwise indicated)			
Half-yearly Quantitative Targets[1]			
1. Ceiling on the debt-creating overall deficit, including grants[2]	-1,128	-1,090	-375
2. Floor on stock of Net Foreign Assets, excluding RSF disbursements	1,191	1,009	988
3. Ceiling on flow of net accumulation of domestic arrears	0	0	0
Continuous Targets			
4. Ceiling on stock of external payment arrears (US$ million)	0	0	0
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt[3] (US$ million)	390	188	1,069
Monetary Policy Consultation Band[1 4]			
CPI Inflation target	11.0	11.0	6.0
Inflation, upper inner-bound, percent	14.0	14.0	9.0
Inflation, lower inner-bound, percent	8.0	8.0	3.0
Inflation, upper bound, percent	15.0	15.0	10.0
Inflation, lower bound, percent	7.0	7.0	2.0
Memorandum items:			
Total priority spending[2]	1,590	1,600	800
Floor on domestic revenue collection[2 5]	2,393	2,453	1,363
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700	700	700
Total budget support (US$ million) [2]	743	705	138
Budget support grants (US$ million)	319	310	85
Budget support loans, excluding RSF disbursements (US$ million)	424	395	53
RSF Disbursements (US$ million)	74	75	50
RWF/US$ program exchange rate	1,024	1,071	1,071

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, 2023
[3] Numbers are cumulative from the beginning of calendar year 2023.
[4] When the year-on-year inflation, averaged for the past 3-months, 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 1c. 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: Policy Coordination Instrument Reform Targets, End-March 2023–End December 2024

Actions	Target Date	Status	Objective
1) Fiscal Pillar			
Submit revisions to the corporate income tax law to Cabinet	end-May 2023	Met	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	Met	Improve fiscal transparency/PFM
Approve by Cabinet a package of revenue generating and predominantly tax policy measures, in consultation with staff , that ensures MTRS domestic revenue mobilization and other objectives are met.	end-September 2023	Proposed new RT	Improve DRM
Conduct a review of RSSB asset allocation and submit the associated report to RSSB management.	end-October 2023		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		Improve credibility of fiscal consolidation
MININVEST to conduct stress-tests of at least two high-risk SOEs to be submitted to the Fiscal Risk Committee	end-November 2023	Proposed new RT	Contain fiscal risks
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		Improve credibility of fiscal consolidation
2) Monetary and Financial Pillar			
Publication of a Monetary Policy Strategy approved by Monetary Policy Committee	end-March 2023	Met	Strengthen monetary policy communication
NBR management to approve a roadmap for GMRA implementation endorsed by all stakeholders	end-April 2023	Met	Strengthen monetary policy operations
Finalize a diagnostic study of foreign exchange markets	end-November 2023		Strengthen monetary policy operations
Enact the full GMRA rollout, including the signing of the GMRA by all banks	end-December 2024	Proposed new RT	
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		Build resilience through social safety nets

Table 3. Rwanda: Resilience and Sustainability Facility Reform Measures

	Reform measure (RMs)	Review	Status
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	Met
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	Met
RM5	Publish the guidelines for the appraisal and selection criteria, including climate considerations, at MINECOFIN website.	Proposed for the 1st Review	Met
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	Met
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]

	January-June 2023		January-December 2023	
	Program		Program	
	Nominal	PV	Nominal	PV
(Millions of USD)				
By sources of debt financing	**264**	**188**	**1932**	**1069**
Concessional debt, of which [2]	**118**	**53**	**1103**	**381**
Multilateral debt	38	16	581	199
Bilateral debt	80	37	522	182
Other	0	0	0	0
Non-concessional debt, of which	**147**	**135**	**829**	**688**
Semi-concessional [3]	147	135	829	688
Commercial terms [4]	0	0	0	0
By Creditor Type	**264**	**188**	**1932**	**1069**
Multilateral	138	111	1237	742
Bilateral - Paris Club	75	51	623	292
Bilateral - Non-Paris Club	52	26	72	36
Other	0	0	0	0
Uses of debt financing	**264**	**188**	**1932**	**1069**
Infrastructure	127	77	1477	819
Social Spending	0	0	70	24
Budget Financing	100	95	348	211
Other	38	16	38	16

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, May 12, 2023

1. This memorandum defines the quantitative targets described in the Program Statement (PS) for the period: July 1, 2022—December 31, 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-December 2022 in the IMF's International Financial Statistics database will apply (see Table 1 for major currencies).

Table 1. Rwanda: Program Exchange Rates from December 31, 2022
(US$ per Currency Unit, Unless Indicated Otherwise)

Rwanda Franc (per US$)	1,070.7
Euro	1.067
British Pound	1.207
Japanese Yen (per US$)	132.7
Korean Won (per US$)	1,267.3
Saudi Riyal (per US$)	3.75
SDR	1.331

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 June 30, 2023, is cumulatively measured from July 1, 2022, and the ceiling for December 31, 2023, is cumulatively measured from July 1, 2023.

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 ceiling on the debt-creating overall deficit will be adjusted upward to a maximum of 137 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 July 1, 2023, and December 31, 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. RSF disbursements are excluded from both the foreign assets and the foreign liabilities side.

Adjustors

- The floor on NFA will be adjusted downward by the amount of any shortfall between actual and programmed budgetary loans (excluding RSF disbursements) 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.

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 assets that

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

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 July 1, 2023, is cumulative from January 1, 2023. The ceiling for December 31, 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

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

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. 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 for the duration of the program. 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 3-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-June 2023 and end-December 2023 as specified 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-June 2023, and end-December 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 and reverse 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).

RWANDA

May 15, 2023

FIRST REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR THE MODIFICATION OF END-JUNE 2023 QUANTITATIVE TARGETS, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER UPDATE FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update to the RSF Assessment Letter—Rwanda (dated November 28, 2022) highlights relevant changes that have occurred since the issuance of the Assessment Letter.

A. Country Vulnerability to Climate Change Including Human, Social, and Economic Costs for the Country Arising from Climate Change Vulnerabilities

1. **The importance of investing in measures to augment the resilience of Rwanda was recently underscored by the severe floods and landslides that were experienced in the Western, Northern and Southern Provinces of Rwanda on May 2 and 3, 2023.** The floods affected 10 of Rwanda's 30 districts, with 130 deaths reported, many more injured, 5,174 houses either destroyed or damaged, 2,510 houses needing to be evacuated, 8 national and 9 district road sections damaged by the landslides, and 26 bridges damaged by the floods.[1] Damages to assets of households and enterprises have yet to be quantified, and the cost of recovery also needs to be determined.

2. **However, limited fiscal space as well as the tightening of global financing conditions limit the government's capacity to respond to climate-related crisis.** While the country has engaged in ambitious fiscal consolidation to address the historically high level of public debt (73 percent of GDP in 2021), it has at the same time deployed fiscal policy measures to mitigate the effect of the ongoing cost-of-living crisis through increased subsidies allocated for fertilizers, fuel, public transportation, and school feeding programs.

[1] These numbers are based on data compiled on May 4, 2023.

These expenditures contributed to the expansion of Rwanda's overall deficit, which is estimated at 6.9 percent of GDP for FY23. Another challenge to the government's ability to respond to the crisis is the tightening of global financing conditions. Along with higher commodities prices, the reduction in concessional resources led to a reduction in reserves from 5.1 months of imports in 2021 to 4.1 months in 2022. Going forward, the effective implementation of the National Disaster Risk Reduction and Management Policy, a key recommendation from the Country Climate and Development Report (CCDR, 2022) adopted in early May, should strengthen institutional capacity to manage natural hazards. The Policy and the actions included cover fundamental disaster risk management system strengthening. The recommendations and the actions that the Policy identified to tackle mitigation and adaptation challenges are built on solid analytical underpinnings. They are in line with the Sendai Framework for Disaster Risk Reduction (SFDRR), which is a global framework for disaster risk management adopted by most countries and considered as good practice.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

3. The ongoing efforts related to government policies are relevant for climate change adaptation:

- The Parliament approved the Law Governing National Parks and Reserves in February 2023. Once operationalized, this law will facilitate private sector engagement in the management of national parks and nature reserves. Several of Rwanda's national parks and reserves are located in areas which are vulnerable to extreme weather events (such as the recent floods). Increased private sector engagement could improve management of the land and forests in the national parks and reserves, augmenting the resilience of such areas and the associated economic activities, including nature-based tourism and downstream activities such as agriculture.
- The government, under the leadership of MINECOFIN, has launched the process of developing an integrated Climate Finance Strategy designed to promote institutional coordination in scaling climate financing, as recommended by the CCDR, 2022. To close its climate finance gap, Rwanda is committed to promoting, designing, and adopting a range of policy, debt, and non-debt instruments, including innovative financing. These instruments can channel investments from public and private sources to scale climate and nature action. The preparations for use of these instruments have already benefited from engagement and support of several development partners, including the World Bank as well as the private sector. This calls for the adoption of a climate finance strategy to i) ensure coherence between Rwanda's strategic national plans and efforts led by agencies across specific sectors and geographies; and ii) lay out Rwanda's vision, goals, governance, roles, and responsibilities to mobilize financial resources at scale that are critical to achieving its national commitments. It will include an overview of roles and responsibilities, a work plan, and will define a climate finance taxonomy, project selection process, an information system to track and monitor financing of climate and environmental protection sensitive projects,

and a regulatory framework for climate-focused financial instruments, such as thematic bonds or Sustainability Linked Bonds (SBL).[2]

4. In February 2023, the Rwanda Green Fund launched the first call for proposals under INTEGO (Rwanda's nationally determined contributions (NDC) Facility). INTEGO is a fund currently capitalized with financing from the German Government. INTEGO provides public institutions in Rwanda, at central and local level, access to funding for climate change adaptation and mitigation projects on the priority issues identified in Rwanda's NDC.

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

5. The government, under the leadership of Rwanda Environmental Management Authority (REMA), is preparing a National Carbon Market Framework to facilitate Rwanda's participation in carbon markets both within and outside Article 6 and in non-market approaches. The goal is to provide a new vision and resource mobilization strategy to support a coordinated and expedited resource mobilization effort focused on the private sector. The Framework will establish a governance and institutional structure that will guide Rwanda's participation in the carbon markets. In addition, the Framework will guide the operationalization of key technical elements, such as determining specific procedures necessary to participate in carbon markets, including, among other criteria, the project cycle, requirements to ensure environmental integrity, and processes for reporting.

6. The Climate Finance Strategy and INTEGO, mentioned above, will also support delivery of the government's mitigation commitments.

D. Any Other Challenges, Including Inter or Cross-Sectoral, Policy Reversals or Institutional Capacity Issues, to Be Addressed to Make Progress in Tackling Climate Risks and Any Ownership/Policy Related Issues.

7. Mobilizing financing for the proposed investments in Rwanda's 2020 NDC, mentioned in the November 2022 Assessment Letter (Annex 1), remains an important challenge. The most recent efforts to tackle this issue include, as mentioned above, the adoption of a National Carbon Market Framework and the preparation of a National Climate Finance Strategy. The ongoing efforts to systematically assess fiscal risks from climate change and mainstreaming into the public investment management system the appraisal of climate change projects, supported by the RST, are also likely to support meeting Rwanda's climate commitments.

[2] This will mark an important contribution to ongoing green and climate reforms and capital mobilization efforts, including the implementation of the National Fund for Environment (FONERWA), the Ireme Investment Facility which was created with the Development Bank of Rwanda which has already secured commitments of USD104 million, and other government efforts led by MINECOFIN and other agencies. In addition, various agencies and organizations in the country are working to test and mobilize new investments. For example, the Kigali International Financial Center (KIFC) has developed a Sustainable Finance Roadmap and is working with partners to deploy resources for green and resilient assets.

E. WB Engagement in the Area of Climate Change

8. The World Bank engagements mentioned in the November 2022 Assessment Letter are still ongoing. Having supported the design and operationalization of Ireme Invest**,** technical assistance on climate finance continues with a focus on innovative financing instruments, which has expanded to dedicate greater attention to supporting Rwanda's ambitions in the carbon market. Through the Additional Finance–Access to Finance for Recovery and Resilience Project (AFIRR) (P179999) that is expected to be approved in FY23, the World Bank and the Rwanda Development Bank (BRD) plan to develop a Sustainability Linked Bond (SLB) to increase mobilization of private capital needed for climate and development priorities. BRD's first issuance is expected to be conducted before the end of Q3 2023. With PROGREEN financing, the World Bank has launched technical assistance for REMA and related ministries, districts and other government agencies (MDAs) to deliver on the NDC commitment on landscape restoration. The TA will support the formulation of a strategic government program focused on landscape management and natural asset-based economic activities. In addition, important progress has been made in the preparation of the new Private Sector Green Growth Development Policy Financing series that is expected to incorporate climate measures, through unlocking climate finance, and improved management of national parks, nature reserves and buffer zones.

9. The Bank has also continued its efforts to disseminate climate-related knowledge. The 20th Rwanda Economic Update (REU) (issued on February 18, 2023) had a special focus on nature-based tourism, a climate-sensitive sector. The REU identified the key measures for promoting climate resilient nature-based tourism and ensuring the subsector generates local and national development benefits. In addition, the forthcoming Country Economic Memorandum will make recommendations for policy reforms to boost climate resilience and advance the low-carbon transition.

Annex I. Resilience and Sustainability Facility—World Bank Assessment Letter on Rwanda

November 28, 2022

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) 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.

[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.

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

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 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.

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[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.

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

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 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.

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[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

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

RWANDA

May 18, 2023

FIRST REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR THE MODIFICATION OF END-JUNE 2023 QUANTITATIVE TARGETS, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—SUPPLEMENTARY INFORMATION

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

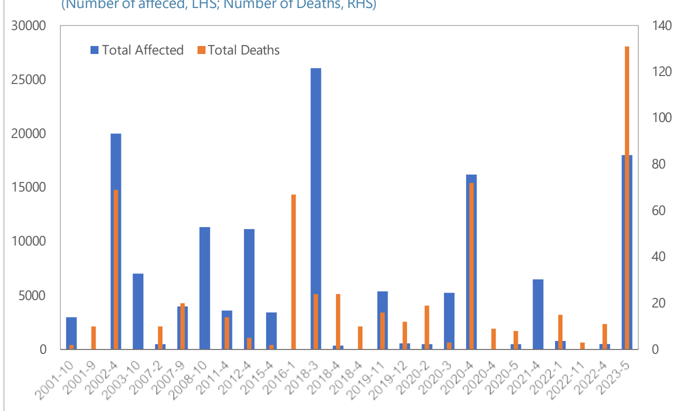
Prepared by the Rwanda team

This supplement provides information that became available after the Staff Report was issued to the Executive Board on May 15, 2023. This supplementary information does not alter the thrust of the staff appraisal but, in staff's view, the risks to the baseline have increased. Tighter and more forward-looking monetary policy is critically needed to help contain persistent inflationary pressures and preserve external stability.

Deadly Disaster

1. **The recent natural disaster is expected to take a heavy toll on Rwanda's economy, but the exact impact remains uncertain.** On May 2–3, 2023, Rwanda was hard hit by a severe and deadly floods and landslides with 131 deaths and 5,963 houses damaged placing this disaster among the severe events category when adjusted for the economic and population sizes.[1]

The Impact of Floods in RWA since 2000
(Number of affeced, LHS; Number of Deaths, RHS)



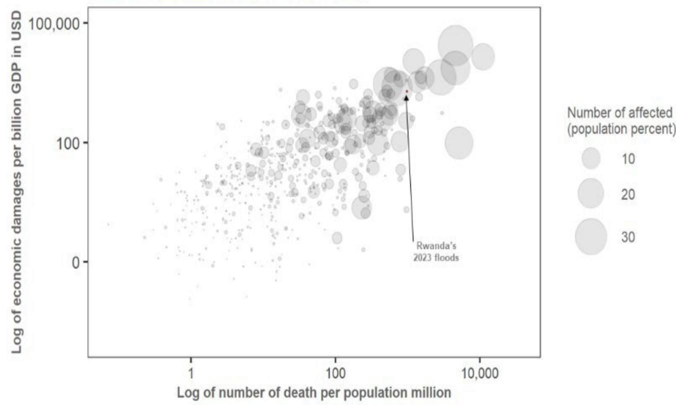
Source: The Emergency Events Database (EM-DAT), WEO, Rwandan authorities, Staff calculations.
Notes:
Each bar indicates a hydrological flood event that meets EM-DAT criteria to be considered as a significant disaster event.
Rwanda's 2023 floods reflects estimates from the authorities on the impact of floods and landslides during May 2-3.

[1] The Western, Northern, and Southern provinces were the most-affected regions. Costing of the damages and the reconstruction needs is underway.

The affected regions account for significant shares of domestic production of staple foods and tea, one of Rwanda major export crops. Unless food production, in other areas compensate for the loss, food inflation may reverse its recent declines. Damages to infrastructure and power supply may also add to the cost of production and transportation, further increasing inflationary pressures. The affected areas also host important tourism and mining sites, the two sectors that generate important foreign currency inflows.

The Impact of Riverine Floods since 2000

(Each dot is a riverine flood disaster event)



Source: The Emergency Events Database (EM-DAT), WEO, Rwandan authorities, Staff calculations.
Notes:
Each dot indicates riverine flood event that meets EM-DAT criteria to be considered as a significant disaster event.
Rwanda's 2023 floods reflects estimates from the authorities on the impact of floods and landslides during May 2-3.

2. **Fiscal deficits for FY22/23 and FY23/24 could deteriorate, depending on the extent of reprioritization of expenditure, reconstruction outlays, and support from donors.** The authorities' emergency response plan contains the preliminary costs of supporting affected residents and the rehabilitation of necessary infrastructure covering a period to the end of FY23/24. The total estimate is RFW 301 billion (1.8 percent of FY23/24 GDP). Staff estimate that short-term fiscal costs for FY22/23 could be in the range of RFW 30-75 billion (0.2-0.5 percent of GDP). This short-term estimate includes provision of basic needs to the affected residents; the resettlement of the almost 6,000 households whose housing was destroyed or badly damaged; medical expenses; cash transfers to residents; and the beginning of reconstruction. The remaining costs for FY23/24 cover the rebuilding of transport, water end education infrastructure as well as relocating high risk residents to less flood prone areas. Staff view that the authorities should strive to reprioritize existing expenditure, while protecting budgetary allocations to the most vulnerable. The recent disaster emphasized the need to accelerate reforms to strengthen disaster risks reduction management frameworks and fully integrate climate risks into building new infrastructure. Several reforms under the RSF are expected to support these efforts, including by increasing climate-resilient public investments.

3. **At this point, estimating the effect on the balance of payments and financing needs requires additional information.** The additional demand for imports stemming from fiscal expenditure on reconstruction is estimated to be about USD 50 million over the reconstruction period. Further pressures on the balance of payment could come from lower exports of coffee and tea and higher imports of food, with magnitudes of the impact still to be determined. Finally, the balance-of-payments effect will depend on the strength of the response of the international community, as additional grants and concessional loans would support the country's international reserves. Staff remain engaged to assess possible ramifications for the PCI program, including to re-evaluate policy priorities and firm up estimates of BOP financing needs and sources.

4. The UN and the World Bank are engaged with the authorities to determine the scale of emergency assistance needs. The World Bank is assessing options to provide rapid financial assistance, possibly by reallocating already committed resources from existing projects via the contingency emergency response framework. The reallocated project resources would later be replenished by activating the IDA crisis response window. Based on experience from other countries, the available envelope under the IDA crisis response window is estimated at USD 25-100 million. Any World Bank support is also conditional on burden-sharing by the authorities and other development partners.

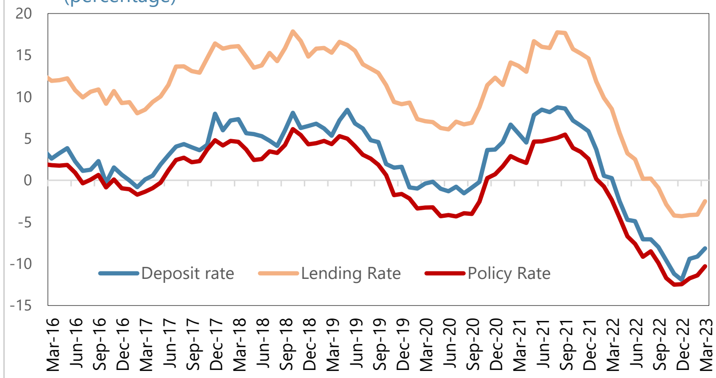
Monetary Policy Committee Decision

5. Inflation continued its downward trend, broadly in line with the National Bank of Rwanda's (NBR) forecast. The April CPI data release shows that inflation receded, with headline inflation decelerating from 19.3 percent in March to 17.8 percent in April. Core inflation also declined from 12.2 percent to 11.4 percent, somewhat lower than expected. Notwithstanding these positive trends, the assessment of instantaneous measures of inflation, which give more weight to recent inflation months, suggests that inflationary pressures are not firmly contained: instantaneous headline inflation has increased, while the downward trend observed in instantaneous core inflation has started to level off. Moreover, the end-June 2023 outer band of the MPCC is likely to be breached, triggering a formal consultation with the Executive Board.

6. The NBR kept the policy rate unchanged. On May 10th, the Monetary Policy Committee (MPC) maintained the policy rate at 7 percent despite inflation remaining significantly above the NBR's target band of 2–8 percent. The NBR justified this decision by the faster-than-expected downward path of both headline and core inflation rates, less inflationary domestic output gap, softening external demand, decreasing international commodity prices, and weak and delayed monetary policy transmission. The NBR acknowledged that inflationary pressures may re-emerge due to the natural disaster's impact on food inflation, damages to infrastructure, and exchange rate pressures. In this context, the MPC will continue monitoring second round effects from supply shocks. The NBR is committed to adjust the monetary policy stance, including in the context of an extraordinary MPC decision, should the projected inflation outlook come under pressures.

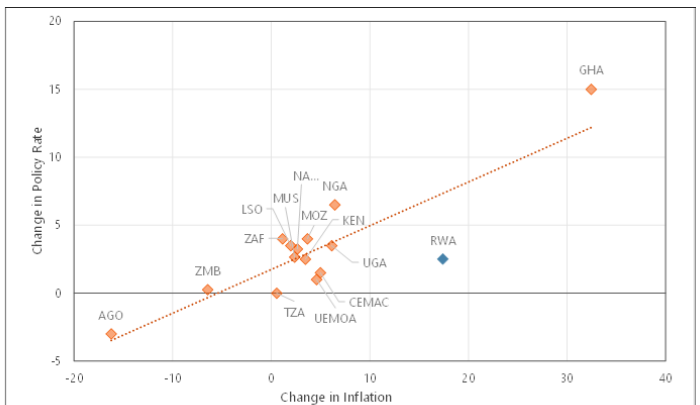
7. In staff's view, a decisive monetary policy tightening is critically needed to contain persistent inflationary pressures and preserve external stability. Staff assessed that the recent MPC decision falls short of what is warranted given the need to curb the double-digit credit growth, deeply negative real interest rates, the erosion of FX reserve buffers, and inflationary pressures arising from the disaster-related supply shocks. With the expansionary monetary policy stance, the much-needed external adjustment would need to be delivered through stronger fiscal consolidation and greater nominal exchange rate depreciation. This policy mix, however, may be suboptimal given the lingering global uncertainty and significant reconstruction-related fiscal spending needs. In this context, persistent inflationary pressures could slow down real exchange rate adjustment, adding to pressures on international reserves and increasing external stability risks. Moreover, the policy inaction could undermine the NBR's credibility in implementing data-driven and forward-looking monetary policy framework and increase the risks of de-anchoring inflation expectations. Should these risks materialize, a combination of stronger nominal exchange rate adjustment and tighter monetary and fiscal policy might be needed to restore internal and external stability of the economy.

Ex-post Real Interest Rates
(percentage)



Source: Rwandan authorities, Staff calculations,
Note: Real Interest Rates are calculated using headline CPI inflation.

Change in Monetary Policy and Inflation Rate since December 2021
(percentage points)



Source: IMF staff calculations and Haver Analytics
Note: Inflation and policy rate data updated as of end of March 2023.

Statement by the Executive Director, Mr. Facinet Sylla, the Senior Advisor of the Executive Director, Mr. Marcellin Koffi Alle, and by the Advisor of the Executive Director, Ms. Loy Nankunda
May 24, 2023

1. Our Rwandan authorities would like to express their gratitude to the IMF Executive Board for the continued support and to the Managing Director for her fruitful visit to Kigali last January. This visit provided the opportunity to the IMF leader to meet with Rwanda's high officials and thus to grasp the country's policies and issues from the ground. The authorities are also grateful to Deputy Managing Director Bo Li for his subsequent visit which helped catalyze the support and additional resources from development partners to the Resilience and Sustainability Facility. As well, they appreciated the thorough discussions held with Staff in the context of the first reviews under the Policy Coordination Instrument (PCI) and the arrangement under the Resilience and Sustainability Facility (RSF). The authorities broadly share the thrust of the Staff report.

2. The authorities are also grateful to the Fund for two recent opportunities: the first was the selection of Rwanda to the group of first five pilot countries to benefit from the RSF to support the country's implementation of its climate strategy. Second, the President of Rwanda, H.E Paul Kagame, was invited to share his views on the high-level Panel organized by the IMF at its Headquarters on the Resilience and Sustainability Trust (RST) and other sources of climate financing.

3. The authorities' large policy reform package and the Fund's continued support through Rapid Credit Facility (RCF) in April and June 2020, technical assistance, and successive PCIs have helped Rwanda limit the effects of the COVID-19 and contributed to strong post-pandemic recovery. The performance has been strong under these instruments, with notably a buoyant economic rebound in 2022. Likewise, the authorities kicked off well the reforms set in the RSF. Nonetheless, they are mindful of the challenges ahead, including those stemming from the domestic inflationary pressures and from external factors notably the geo-economic fragmentation, high commodity prices and tightening global financing conditions. In the same vein, the recent adverse climate-related events in Rwanda came as a severe wake-up call to accelerate even further the implementation of the climate agenda with the necessary support of technical and financial partners. Looking ahead, the Rwandan authorities are committed to pursuing efforts to adjust their policy mix according to macroeconomic developments, address the external headwinds, strengthen climate-related policies and pandemic preparedness. They will continue to build on their strong track record of reform implementation and achievements in economic transformation to further promote inclusive and resilient growth.

I. Recent Developments, Program Performance, and Outlook

4. In the night of May 2, that is one month after the end of the Staff mission in Kigali, the Western and Northern provinces of Rwanda were struck by **heavy rainfalls and flooding** which caused landslides, leading to the death of more than one hundred and thirty people, others left as casualties and thousands more homeless. This catastrophe is a vivid demonstration of the reality of climate change for Rwanda, and that the authorities and the

Fund were right in making the country one of the first beneficiaries of the RST based on its strong climate strategy.

5. Before the natural disaster, **recent economic developments** were dominated by a robust growth of 8.2 percent in 2022. This performance was driven by the dynamism of the manufacturing and services sectors, enhanced by the strong recovery of private consumption. As a result of high food and energy prices, inflation stood high at 19.3 percent in March 2023. It is worth mentioning that inflation is on a declining path, from its peak of 21.7 percent in November 2022, and new projections are showing that it is easing quite faster than earlier anticipated and should fall below its target band's upper end of 8 percent in 2023 Q4. The external position suffered competing negative and positive factors. At end-2022, reserves stood at 4.2 months of prospective imports, above the minimum adequate level. Though the current account deficit is expected to temporarily widen to 11.3 percent of GDP in 2023, the combination of the strong recovery of service exports and the increasing remittances will help lessen the pressures.

6. **Program performance** under the PCI/RSF was strong over the period of the first reviews. For the PCI, all end-December 2022 Quantitative Targets (QTs), standard continuous targets and Reform Targets (RTs) were met. The meeting of the PCI targets for the first review meant the implementation of important measures covering monetary policy, growth-friendly fiscal consolidation, and public financial management. Likewise, Reform Measures (RMs) for the RSF were met, with the authorities taking steps to expand the policy space to build resilience to climate change. In this regard, over the past period, climate risk assessments were made part of the fiscal risk statement, elements of the climate agenda fed the revised national investment policy, and clear institutional frameworks for community-based disaster risk management were provided under the revised National Disaster Risk Reduction and Management. Going forward, efforts will continue with the view to implementing climate-resilient policies in a more stable macroeconomic environment.

7. Regarding **the outlook**, the Rwandan authorities share staff's analysis of the mix of optimistic and pessimistic factors, as well as the Risk Assessment Matrix. They are committed to continuously improving or adjusting their macroeconomic policies and reforms to address the sources of risks which are under their control, such as potential monetary policy miscalibration or systemic financial instability. Regarding external factors like geo-economic fragmentation and extreme climate events, the authorities stay alert to implement adequate policy responses, including those recommended in the PCI and RSF to mitigate their effects on the Rwandan economy and population.

II. Macroeconomic and Structural Policies Looking Ahead

8. Cognizant of the volatile external factors and the significant uncertainty related to the global geo-economic environment, the Rwandan authorities are determined to maintain sound policymaking with tools at their disposal. As such, some of their policies envisaged for the period ahead are already frontloaded reforms and measures to address the uncertainty and downside risks pertaining to the outlook. The PCI and RSF provide the adequate anchors to respectively pursue a sustainable fiscal-monetary policy mix and further climate-resilient growth.

Pursuing a Sustainable Macroeconomic Policy Mix

9. **Fiscal policy and debt management.** In the face of the funding squeeze and scarce concessional resources, the authorities are committed to financing the country's development needs while pursuing a sustainable fiscal policy in the PCI framework. Their related fiscal consolidation strategy combines domestic revenue mobilization (DRM) and spending rationalization measures. The Medium-Term Revenue Strategy (MTRS) approved by the Cabinet in May 2022, is expected to yield additional revenue worth 1 percent of GDP per fiscal year. The DRM encompasses both tax policy and revenue administration measures and spans over FY22/23 to FY24/25. Important steps were made in the approval of tax policy and administrative measures implemented by the Rwanda Revenue Authority (RRA). Key strides include the implementation of the New Operating Model (NOM) which should increase digitalization and improve tax compliance, and of the improved Electronic Billing Machine (EBM) program, which should help broaden the tax base by including the untapped informal sector. The authorities also plan to analyze the feasibility of phasing out some tax exemptions and propose a new package of tax policy measures aimed at closing revenue gaps by the time of the second review. On spending rationalization, the focus will be on enhancing the efficiency of government services, streamlining subsidies, more efficient capital expenditure, and further advancing PFM reforms. Expenditure is expected to be cut by 3.4 percent of GDP in FY22/23 and by a further 1.8 percent of GDP in FY23/24.

10. To further ensure fiscal policy sustainability, the authorities are taking steps to quantify and manage fiscal risks arising from state-owned enterprises (SOEs) and to strengthen fiscal reporting and transparency. On fiscal risks, the newly created Ministry of Public Investment and Privatization will conduct SOE health checks and quarterly stress-test exercises to identify and address their operational and financial vulnerabilities. Regarding fiscal reporting, the authorities are planning to conduct a new Fiscal Transparency Evaluation and publish the related reports going forward. Furthermore, while the authorities take comfort in the fact that Rwanda's debt remains sustainable with a moderate risk of debt distress, they will complement fiscal consolidation with continued sound debt and fiscal risk management to preserve debt sustainability.

11. **Monetary and Financial Sector Policies.** The National Bank of Rwanda (NBR)'s tightening of monetary policy over the past months is yielding results in curbing inflation down. The NBR is strongly engaged in ensuring that monetary policy remains data driven and in bringing back inflation within the target band (2 to 8 percent). Its Monetary Policy Committee (MPC) will monitor any potential second-round effects from supply shocks on the core inflation outlook and stands ready to take appropriate decisions whenever necessary. The authorities remain committed to a flexible exchange rate regime, considered as their first line of defense against external shocks.

12. The authorities intend to maintain their intensive supervisory oversight which has helped safeguard financial stability, while the banking sector was kept profitable, well-capitalized, with improved credit quality and reduced NPLs in banks and microfinances. Going forward, the NBR's operations will consist of macroprudential analysis, standards, and processes, combined with onsite inspections. They will also continue to take steps to enhance financial inclusion, including through digitalization which has significantly boosted mobile payments. In the same vein, the authorities are continuing their reforms regarding

AML/CFT, including through the recent approval of the AML/CFT strategy to address legal gaps.

Addressing Pandemic Scars and Enhancing Resilience to Climate Change

13. The Rwandan authorities' structural agenda include the implementation of reforms to address the pandemic scars and enhance resilience to climate change. On eliminating scarring, they are determined to step up initiatives to support a private sector-led growth while enhancing social protection. The strategy for the private sector will focus on economic diversification aided notably by the accumulation of human capital, the implementation of the trade-logistics strategy, the easing of tariff and non-tariff barriers for Rwandan firms and leveraging the preferential market access opportunities offered by the African Continental Free Trade Area (AfCFTA). Regarding social protection, the authorities will continue progress in implementing the social registry in the context of the *Vision 2020 Umurenge Program (*VUP).

14. In the area of climate change, the authorities are committed to maintaining their reform momentum going forward. Achievements thus far include integrating climate-related issues in macroeconomic policy formulation; incorporating climate risks into fiscal risk statements, with IMF TA; strengthening disaster risk reduction and management; monitoring and reporting climate-related spending; and launching several green initiatives. Mitigation and adaptation policies will be pursued with IMF assistance under the RSF and other development partners such as the World Bank. The authorities' policy priorities in transitioning to greener growth, including by attracting private financing, have been positively assessed in the World Bank's Country Climate and Development Report (CCDR).

15. The implementation of reforms supported by the RSF is critical in building Rwanda's resilience to climate change. The authorities appreciate the ongoing IMF's steps to coordinate with other institutions such as the European Investment Bank, *Agence Française de Développement* and the World Bank to help catalyze climate finance in the context of the RSF. Thanks to the IMF's catalytic role and coordination, these stakeholders have so far identified some potential options for accelerating climate investments.

III. Conclusion

16. The Rwandan authorities are achieving a strong performance under the new PCI/RSF program amidst domestic challenges and external headwinds stemming notably from the geo-economic fragmentation, high food and energy prices and the financing squeeze. The post-pandemic recovery is robust and inflation, albeit still high, has been put on a downward path. Going forward, the authorities are committed to continuing their reform momentum with the view to maintaining macroeconomic stability, addressing the pandemic scars, enhancing resilience to climate change, and sustaining a strong and inclusive growth.

17. In view of the authorities' achievements and strong commitment to the program objectives, we would appreciate Executive Directors' support for the completion of the first reviews under the Policy Coordination Instrument and the arrangement under the Resilience and Sustainability Facility.