

Rwanda: 2004 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Rwanda

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Rwanda, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 19, 2004, with the officials of Rwanda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 22, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 6, 2004 discussion of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Rwanda.

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

Selected Issues Paper and Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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RWANDA

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Rwanda
(In collaboration with other departments)

Approved by Sharmini Coorey and Mark Plant (PDR)

November 30, 2004

A mission visited Kigali during July 5–19, 2004 to conduct discussions for the 2004 Article IV consultation.

The team comprised Messrs. Meyers (head), Bledowski, Christensen, and Hauner (EP) (all AFR), Messrs. Dicks-Mireaux and Rother (EP) (both PDR), and Mr. Vacher (MFD).

The mission met with the Minister of Finance, Central Bank Governor, Minister of State for HIV/AIDS, bankers, representatives of the donor community, NGOs, and various other government officials.

A three-year PRGF arrangement for SDR 4 million (5 percent of quota) was approved on August 12, 2002. Three reviews have been completed. In concluding the second and third reviews under the PRGF on June 9, 2004, Directors emphasized the importance of adhering to the 2004 program, and urged the authorities to strictly limit new external borrowing.

At the time of the 2002 Article IV consultation, which was completed on July 24, 2002, Directors emphasized the need for fiscal transparency and prudence, and urged action to avoid a deterioration in debt sustainability indicators. Progress has been made on fiscal transparency and revenue collection. Debt sustainability remains an issue.

Rwanda's statistical base has significant limitations for surveillance purposes; STA and AFRITAC East are providing assistance to strengthen national accounts and balance of payments data. Rwanda formally subscribed to the GDDS on October 31, 2003.

Staff reports for the PRGF and subsequent reviews have been published; the authorities have agreed to publication of this report.

Rwanda has accepted the obligations under Article VIII, sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

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LIST OF ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AML	Anti Money Laundering
BACAR	Continental African Bank of Rwanda
BCR	Commercial Bank of Rwanda
BRD	Development Bank of Rwanda
CHR	Caisse Hypothécaire du Rwanda
Coltan	Columbium-tantalum
COMESA	Common Market of East and Southern Africa
COPEC	Savings and Credit Cooperatives
DRC	Democratic Republic of the Congo
EAC	East African Community
EPZ	Export Processing Zone
EU	European Union
FARG	Fund for the Needy Victims of Genocide and Massacres
ICOR	Incremental capital/output ratio
ICT	Information and communication technology
MDG	Millennium Development Goals
MoF	Ministry of Finance and Economic Planning
NBR	National Bank of Rwanda
NPL	Non-performing loan
NPV	Net present value
OAG	Office of the Auditor General
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
RRA	Rwanda Revenue Authority
SADC	Southern African Development Community
SME	Small- and medium-scale enterprise
UBPR	Union des Banques Populaires

EXECUTIVE SUMMARY

- Rwanda has made great strides in the period since 1994. Having established the key elements of a market economy, and with significant progress in restoring macroeconomic stability, there is now a window for improving economic productivity, generating employment, and strengthening export performance. Failing this, Rwanda risks moving to a slow and, possibly, unsustainable growth trajectory.
- The implementation of Rwanda's growth strategy has lagged and, in recent years, real GDP growth performance has been erratic. GDP growth in 2004 may fall short of target, due to a slowdown in construction and the effects of a drought-induced electricity shortage.
- While the monetary overhang that developed during 2003 was largely eliminated by end-June 2004, concerns regarding monetary stability persist, following an unexplained shift in the structure of base money, and compression in bank reserves.
- Key risks over the medium term are that agricultural productivity gains will not be realized; export growth will be slower than envisaged and/or that the external terms of trade will deteriorate; and that the level of external grant assistance will not be adequate.
- Discussions focused on key macroeconomic challenges: achieving high and sustained GDP growth; assuring fiscal and external sustainability; and reducing poverty.
- In fiscal policy, the outlook for expanding the domestic revenue base is uncertain. Given this, the expansion of government programs in health, education, water and energy, would widen the structural deficit over the medium-term. Absent a long-term increase in external program grants, such deficits would not be sustainable.
- In money and banking, the recent sale of government shares in two banks should help to strengthen the commercial banking sector. Recent shift in the structure of the monetary base could weaken the effectiveness of central bank policy instruments.
- In the external sector, Rwanda's export base remains highly concentrated and vulnerable to climatic and international price shocks. Given this, maintaining a ceiling of 150 percent for the NPV of debt-to-exports ratio over the medium- to long-term would be prudent.

I. INTRODUCTION

1. **Rwanda, landlocked, lacking significant natural resources, and supporting the highest population density in Africa, faces the challenge of moving to high and sustainable economic growth.** The 2004 Article IV consultation discussions indicate that timely policy updates, strengthened economic governance, and the continued support of the international community will figure critically in the realization of this objective.

2. **Rwanda has made great strides in the period since 1994.** The next stage, the transition from recovery and reconstruction to sustained growth, will, however, present new and substantial risks. The 2004 Article IV consultation focuses on the key macroeconomic concerns for the period ahead: the outlook for improving economic productivity, and fiscal and external sustainability. The discussion assesses the steps needed to address both Rwanda's extreme poverty and the economic progress that will contribute to regional stability and welfare.

II. BACKGROUND

3. **Following the 1994 genocide, with an estimated one-third of its population dead or displaced, its human capital, economic infrastructure and government institutions in ruins, Rwanda undertook an extraordinary national regeneration.** The economic agenda included macroeconomic stabilization, the establishment of new economic and financial institutions, the development of human resource capacity, and repair of infrastructure. In addition to this, the demobilization of ex-combatants, and resolution of charges against the genocide-accused, and the establishment of a permanent political framework figured prominently in plans for the country's reconstitution.

4. **Key elements of the macroeconomic stabilization were achieved by 1998.** Inflation was reduced from about 50 percent in 1995 to 7 percent by 1998. Official reserves were reconstituted, rising from 1.3 months of import cover at end-1994 to 6 months at end-1998. Real GDP is estimated to have recovered to the 1993 level by 1999. Similarly, progress on the structural agenda was impressive: the exchange rate system was liberalized, with the export surrender requirement abolished in 1997; the central bank was rehabilitated, a new central bank law adopted, and indirect monetary policy instruments were introduced; and the trade system was reformed, with the number of tariff bands and maximum tariff rates drastically reduced. The trade restrictiveness index fell from 8 in 1995–97 to 3 in 1998.

Rwanda at a Glance

Population (2003, est.):	8.4 million
Percent urban population:	6%
Agriculture as a percent of GDP:	41%
Total fertility rate:	5.7 children per woman
Infant mortality rate (IMR):	118 per 1000 live births
Under five mortality rate (U5MR)	203 per 1000 live births
Maternal mortality rate (MMR)	1,400 per 100,000 live births
HIV prevalence:	11.2%
Primary school gross enrollment ratio:	106
Primary school completion rate:	74%
Access to safe water:	41%
Measles immunization:	75%
First antenatal visit:	90%

Sources: www.developmentgoals.org; *Les économies de l'Afrique centrale 2004*, United Nations

Note: As data sources and definitions in this table differ from Appendix VI, the data may not agree.

5. **Some aspects of the macroeconomic recovery, however, proved more challenging.** While the recovery in primary activities (largely agriculture) was relatively rapid, formal sector activity registered a mixed performance. While growth in most services was strong, neither manufacturing nor commerce had regained their 1993 levels by end-2003.¹ The massive destruction of Rwanda's human capital along with an initial phase of domestic security threats, followed by regional conflict, clearly contributed to this disappointing performance.

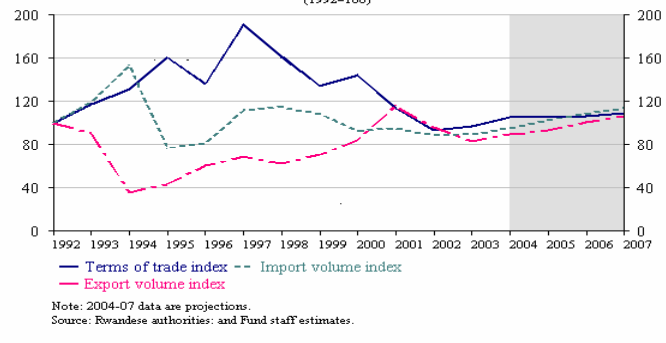
6. **The relatively slow rebound of the formal sector limited the recovery in the tax base.** Government revenue, estimated at about 13 percent of GDP in 1992, fell below 4 percent in 1994 and stood at just 12.2 percent of GDP in 2002, even after an increase in the VAT rate from 15 percent to 18 percent and the substantial strengthening of revenue administration (Box 1).

7. **With spending on economic recovery, fiscal imbalances remained high.** Current spending averaged about 12 1/2 percent of GDP during 1995–2000, before rising to 15 percent in 2002, as priority and exceptional outlays increased. Capital outlays remained substantial throughout the post-genocide period and, as a result, significant fiscal deficits were generated and financed by a combination of external grants and loans.

8. **The recovery of Rwanda's external sector proved, similarly, challenging.** After a strong improvement in the world market prices for coffee during 1995–96, the collapse of coffee prices in 1997 was followed by substantial export price declines, leading to a 42 percent (cumulative) deterioration in Rwanda's external terms-of-trade during 1995–2002 (Figure 1). With the passing of a short-lived boom in coltan (2000–01), and with the implementation of an export promotion strategy for the coffee and tea sectors delayed by management limitations, exports dropped in 2002,

Box 1. Key Structural Advances	
Money and Banking	
1997	New central bank law adopted
2001	Introduction of weekly foreign exchange auctions
2002	Full audits of three commercial banks
2002	First external audits of the NBR
Exchange and Trade Relations	
1995-99	Reduction in maximum tariff rate from 100% to 25%
1997	Export surrender requirement eliminated
1998	Article VIII accepted
1999	Export taxes eliminated; NTBs removed
2002	80% reciprocal reduction in COMESA import tariffs
2004	Entry into COMESA FTA
Fiscal Policy and Management	
1997	Revised direct tax code introduced
1997	Rwanda Revenue Authority established
1998	Establishment of the Office of the Auditor General
2000	Computerized tax data management (ASYCUDA) introduced
2001	VAT introduced
2002	Tax Code Revised
2004	Organic Budget Law approved
Privatization	
1998	Sale of PetroRwanda assets
2000	Establishment of Private Sector Federation
2001	Liberalization of telecommunications Sector
2003	Private management of electric utility
2004	Sale of BCR, BACAR
Other	
1998	Demobilization and reintegration program begins
1999	Adoption of Rwanda Investment Promotion Act
2000	Adoption of Revised Internal Trade Act
2002	Establishment of Public Utilities Regulatory Agency
2003	Adoption of new constitution

Figure 1. Terms of Trade, Export, and Import Volume Indices (1992=100)



¹ Significant strides were realized, however, in telecommunications, where the liberalization of the cellular phone market led to substantial private investment and rapid growth in value added.

leaving Rwanda with one of the lowest merchandise export-to-GDP ratios in the world (4 percent in 2003).

9. **With the import bill relatively steady (at about 25 percent of GDP) exports earnings covered only a fraction of the import bill, leaving Rwanda critically dependent on external assistance to finance its substantial balance of payments deficits.** Although Rwanda received US\$1.3 billion in public current transfers during 1995–2002 (10 percent of GDP on average), this fell short of requirements. Despite its post-conflict status and shaky export performance, Rwanda increased its external indebtedness by US\$273 million during this period, giving rise to a continued deterioration in its external debt sustainability.²

10. **In the banking sector, given the disorder in the operation of commercial law and the disruption consequent to the genocide, the quality of commercial bank assets was poor.**³ As lending by existing banks was encumbered, three new banks were established and credit to the economy increased rapidly. However, the reconstruction and relief activities that contributed to rapid economic recovery, at the end of the 1990s, led to a real estate boom. As NGOs pulled out of Rwanda, the real estate market collapsed, and bank portfolios further deteriorated. Restructuring plans and capital injections did not fully address weaknesses in the banking system. By end-2003, while improved, nonperforming loans were still equivalent to 17 percent of total assets (37 percent of gross loans), only half of which had been provisioned.

III. RECENT DEVELOPMENTS

A. Political and Social Developments

11. **Rwanda's PRSP set out key medium-term objectives for economic growth and poverty reduction, including the critical issues to be addressed in assuring the prerequisite macroeconomic conditions.** For the period 2003–04, the agenda was far-reaching: a transition to a constitutional democracy and the associated establishment and strengthening of government institutions, including at the local level; the completion of the demobilization operations; the resolution of cases against the genocide-accused (GACACA); major steps in the economic growth strategy, including the continued rebuilding of Rwanda's human resource capacity; the reduction of fiscal and external imbalances and strengthening of economic and financial institutions; and, more broadly, a substantial reduction in poverty.

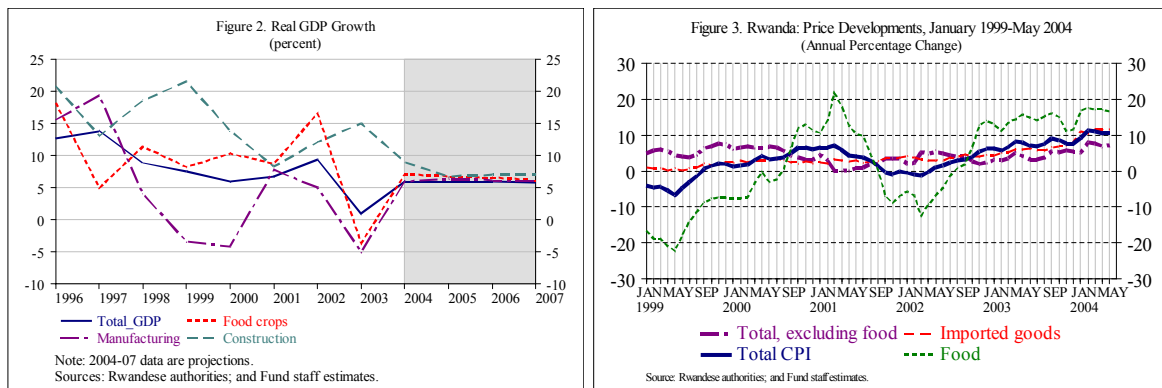
² The NPV of external debt, before HIPC Initiative relief, rose from US\$ 633 million percent in 1995 to US\$711 million (equivalent to 236 percent of exports) in 2001. Rwanda reached the decision point under the HIPC Initiative in December 2000, upon which associated relief would bring the debt ratio for end-1999 to 150 percent. However, by end-2000, as a result of new external drawings, including from the Fund, during the year, the debt ratio had risen to 174 percent.

³ Nonperforming assets were equivalent to 35 percent of gross lending, at end-1999.

12. **A significant part of the political agenda was realized.** In particular, a new constitution was adopted by popular referendum in May 2003, followed by presidential and legislative elections during August–October 2003. On the social agenda, the demobilization process, which was initiated in 1998, had succeeded in reaching only 55 percent of its target by end-2003, as the voluntary repatriation of ex-combatants did not materialize as planned. The GACACA process was introduced on a trial basis during 2003, about 30,000 out of 110,000 detainees were released during January–February 2004, with the completion of hearings planned for 2004–05. Assistance to widows and orphans of the 1994 genocide continued at a modest level.⁴ As set out in the PRSP and PRSP Progress Report, significant action has been taken under social initiatives.

B. Macroeconomic and Financial Developments during 2003–04

13. **As the implementation of Rwanda’s growth strategy lagged, reflecting continuing human resource constraints, the vulnerability of the real economy to exogenous shocks became evident during 2003-04** (Figure 2). Failed rains in 2003 led to a decline in agricultural output, which accounts for 40 percent of value added, and limited overall real GDP growth for the year to about 0.9 percent (Table 1).⁵ There is a risk that real GDP growth may also fall short of target in 2004. While growth in agricultural output may reach 6 percent, construction activity is slowing and, reflecting the impact of a drought-related electricity shortage, manufacturing activity is contracting (Figure 3).



⁴ The Fund to Assist Survivors of the Genocide (FARG) provides limited support to about 60 percent of victims, including basic housing, secondary school fees, and vocational training.

⁵ This figure is 1.5 percentage points below the authorities’ initial estimate, reflecting the staff’s evaluation that real growth in some agricultural components was well below the authorities’ estimate.

14. **While some progress was made toward strengthening the government revenue base during 2003-04, the structural fiscal imbalance remained large.** The revenue-to-GDP ratio rose to 13.5 in 2003 and is on-track to maintain that level in 2004, reflecting the impact of income tax reforms that went into effect in 2003, including the taxation of in-kind benefits (Table 2).⁶ Government spending was focused largely on social programs and capital expenditure (Text Table 1). However, while expenditure on the wage bill and several key structural elements of the budget were in line with targets in 2003, overruns accrued on election spending and, toward the end of the year, on purchases of goods and services.⁷ Data for the first half of 2004 indicate that the spending under the 2004 budget, which restrains growth in recurrent outlays while accommodating external grant-financed increases for social initiatives, is on track.⁸ With financing for government operations largely covered by external current and capital grants, external borrowing (equivalent to 4 percent of GDP in 2003) has been held below the level projected in the HIPC decision point document. Domestic bank financing was limited.

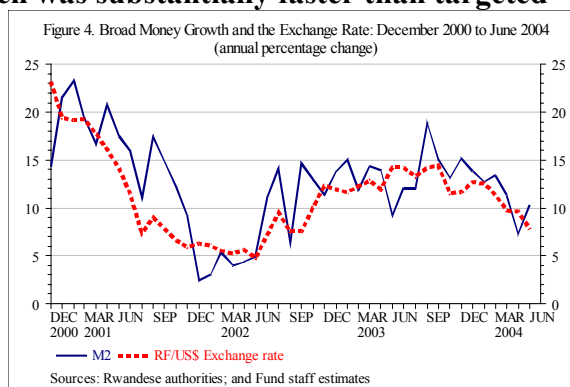
Text Table 1. Defense and Priority Spending
(recurrent, percent of GDP)

	2001	2002	2003	2004 Prog.
Defense	3.3	2.9	2.7	2.5
Priority	5.3	6.1	6.5	8.2

Sources: Rwandese authorities; and Fund staff estimates.

15. **Growth in monetary aggregates, which was substantially faster than targeted during 2003, slowed during the first half of 2004.**

In 2003, larger-than-programmed net credit to government from the banking system, increased bank lending to public enterprises and new commercial bank lending to finance a hotel project led to a rapid expansion in domestic credit. By end-year, the stock of broad money had increased by 15.2 percent (Table 3). During the first half of 2004, in line with monetary targets, net credit growth slowed substantially as the government amortized loans that it had guaranteed on the hotel project and, as a consequence, broad money growth had been brought down to 10.4 percent by end-June (Figure 4). Monetary expansion (and a fall in export revenue) contributed to a significant depreciation of the Rwanda franc in 2003. Inflation peaked at 11.2 percent in February 2004,



Sources: Rwandese authorities; and Fund staff estimates

⁶ The domestic revenue-to-monetized sector GDP ratio, which provided a clearer picture of tax efficiency, is estimated to have increased from 21.2 percent in 2001 to 25.4 percent in 2003.

⁷ The government also issued loan guarantees in mid-2003 (with a value equivalent to 1.6 percent of GDP) as part of the financing package for a hotel project.

⁸ The 2004 budget eliminated primary school fees, and increased funding for HIV/AIDS programs, hospital equipment, and support to vulnerable groups.

reflecting the impact of the decline in agricultural output on food prices and the pass-through of the exchange rate depreciation, before moderating modestly during March–June 2004, as the impact of these factors stabilized (Figure 4).⁹

16. **As the poor health of several commercial banks limited the recourse to increasing the reserve requirement, the central bank raised its discount window rates by 150 basis points during May–August 2003** and augmented government securities sales, which led to a significant increase in interest rates. This did not, however, adequately reduce liquidity. With nearly a third of the deposit base denominated in foreign exchange, the accelerating depreciation of the Rwanda franc gave rise to a revaluation of foreign exchange deposits that added to growth in bank deposits. Toward end-2003, the central bank significantly increased foreign exchange sales at auction, slowing the brisk depreciation of the Rwanda franc. As a result of this and the delayed disbursement of external program assistance, the import cover of official reserves fell from 6.3 months at end-2002 to 5.2 months at end-2003.¹⁰ In the first half of 2004, the Rwanda franc appreciated slightly against the U.S. dollar, reflecting stronger earnings from coffee and tin exports (paragraph 18) and slowing import demand for industrial inputs and consumer goods as money growth slowed. International reserves rose to US\$ 218.8 million (5.4 months of imports) at end-June 2004.

17. **The external current account widened during 2003, before narrowing modestly during the first half of 2004.** A moderate improvement in the external terms of trade during 2003, as market prices for coffee and tea rose, was more than offset by a drop in coltan and coffee export volumes. In the same year, the continued significant depreciation in the real effective exchange rate did little to slow import growth, given the substantial share of donor financed government- and project-related imports in the import bill, and the external current account deficit before grants increased by 3 percentage points of GDP to 19.2 percent of GDP (Table 4). During the first part of 2004, however, coffee export volumes increased substantially, as international market prices recovered from the previous year's lows, reflecting the poor harvest in Brazil. In addition, a jump in world market prices for tin led to a significant increase in cassiterite exports. At the same time, consistent with the reported weakness in formal sector activity, merchandise import data through May 2004 indicate that imports were lower than had been projected.

18. **Rwanda's external debt steadied in 2003, as new borrowing, excluding a new government loan guarantee, was limited** (Table 5). Nonetheless, according to preliminary estimates based on a debt sustainability analysis (DSA) update, Rwanda's net present value

⁹ Movements in world petroleum product prices are reflected in domestic retail prices with a 3-month moving lag. As energy products account for only 12 percent of merchandise imports (25 percent of GDP), the macroeconomic impact of oil price increases on the international market has been limited.

¹⁰ Delayed EU and World Bank disbursements were equivalent to one month of import cover.

(NPV) of debt-to-exports ratio rose to about 315 percent at end-2003, after enhanced HIPC Initiative relief.¹¹

19. **Substantial progress was made in addressing governance issues in Rwanda during 2003-04.** During 2003, the office of the Auditor General (AG), which was further strengthened, audited the 2002 accounts of most public entities, including the ministries of Finance and Defense, and issued a report to parliament in March 2004. A new Auditor General's Act is being considered by a parliamentary commission. In addition, a new chart of accounts was developed for government operations, an internal audit department was established at the Ministry of Finance, and a strengthened computerized accounting system (SIBET 2) is targeted for introduction by end-2004. In line with the agenda for strengthening legislation governing economics and finance, parliament approved a new organic budget law in August 2004. Substantial progress has been made in finalizing financial instructions supporting the new budget law, and the cabinet review of the core instructions is targeted for end-September 2004. A new tax law was drafted with assistance from Fund staff, incorporating tax provisions that were previously under the authority of the investment promotion agency. Similarly, new tax and customs legislation have been submitted, along with a revised investment code, to parliament for consideration. During the first part of 2004, tax administration was strengthened through the creation of a large taxpayers unit in the RRA. Beyond this, the central bank issued public notices for the closure of government dormant accounts, setting in motion a process that will continue through 2004.

20. **Steps were also taken to strengthen governance in the financial sector.** Beginning in 2003, the NBR conducted on-site audits of three commercial banks, established a microfinance sector supervision department, and hired additional supervisors. Bank regulation and supervision were strengthened with a new set of regulations issued at end-2003 including, in particular, an increase in the solvency ratio from 8 to 10 percent, and clarifications on credit concentration and asset quality. With a recapitalization in 2003, financed by the World Bank, Rwanda's key microfinance institution (UBPR) doubled its lending portfolio, mainly to borrowers in urban areas. At end-June 2004, the NBR reached agreements with five commercial banks on action plans that would bring them into full compliance with bank regulations by end-2004, and a provisional agreement with the sixth bank was reached in August 2004. At end-July 2004, agreements were reached for the sale of majority shares in the BCR and the BACAR to foreign investors.

IV. ECONOMIC OUTLOOK AND RISKS

21. **Rwanda, under its long-term strategy exercise (Vision 2020), has set the attainment of middle-income status by 2020 a key objective.**¹² In addition, programs and

¹¹ The deterioration in the NPV indicator, compared with the decision point projection (190 percent), reflects the impact of the lower reference discount rate and the sharp decline in exports from a small base. A full DSA based on loan-by-loan data will be completed ahead of Rwanda's HIPC Initiative completion point consideration.

¹² This corresponds to a GDP target of US\$900 per capita by 2020.

projects that would support the attainment of the millennium development goals (MDGs) are being scaled up and/or developed with the assistance of the international community. On the general policy level, medium-term objectives have been reflected in Rwanda's PRSP.

22. The baseline scenario for the medium-term, reflecting financing constraints, targets strong GDP growth (6 percent in real terms), led by improvements in agricultural productivity, which would be accompanied by progressive reductions in Rwanda's fiscal and external deficits.¹³

Under this base scenario, relatively strong growth in formal sector activities would yield a rising domestic revenue-to-GDP ratio, while the domestic fiscal deficit would decline (from a targeted 8 percent in 2004 to 3 percent in 2007), as exceptional spending would tail off and growth in other spending would increase more slowly than real GDP.¹⁴ External sector imbalances would narrow in tandem with the merchandise deficit, as rapid export growth would follow the implementation of Rwanda's export promotion strategy (Table 1 and Text Table 2).¹⁵

Text Table 2: Medium-term Outlook
(in percent of GDP, unless otherwise stated)

	2004	2005	2006	2007
	Prog.			
Baseline Scenario				
GDP (growth rate, percent)	6.0	6.0	6.0	5.8
Investment	21.3	22.3	22.7	23.2
Government	8.7	9.5	9.7	10.0
Private	12.6	12.8	13.0	13.2
Domestic Saving	-0.1	2.5	3.6	5.2
Current Account deficit/GDP	-21.4	-19.8	-19.1	-18.0

Source: IMF Country Report No. 03/192; and Fund staff projections.

23. The introduction of new programs and policies that would be supported under a World Bank poverty reduction strategy credit (PRSC) and related programs with the African Development Bank (AfDB) could lead spending to increase from the baseline. Based on preliminary discussions, it appears that government spending could increase by 2 percentage points of GDP (half of which would be capital), with higher social outlays on health, education, and water. It seems likely that investment in these areas would have a significant growth impact only over the longer term and domestic investment would only marginally exceed that in the base scenario. Thus, targeted real GDP rates would not vary substantially from the base scenario in the medium-term as a result of these new programs.

¹³ Growth targets for the medium-term scenario are drawn from the PRSP. The agriculture strategy includes land tenure reforms, the introduction of improved seeds, intensified fertilizer use, and increased access to rural credit. The electricity shortage that dampened manufacturing sector activity during the first part of 2004 is being addressed with World Bank assistance. With the introduction of land tenure reforms and a new fertilizer program scheduled for 2005, the 6 percent medium-term growth track appears to be feasible.

¹⁴ Exceptional spending, beginning with the 1998 PRGF program, covered spending on assistance to victims of the genocide, demobilization and reintegration of soldiers, civil service reform, educational assistance to returning refugees, and the establishment of governance institutions.

¹⁵ Rwanda's export promotion strategy, which focuses on the coffee, tea and tourism sectors, targets the development of niche markets, including specialty coffees, packaged teas, and ecotourism.

¹⁷ Topping up to bring the NPV of debt-to-exports ratio to 150 percent at end-2003 would reduce the NPV ratio from 363 percent to 224 percent at end-2006.

Although it is envisaged that additional external grants would finance part of the increased deficit, firm commitments are limited. As a result, external borrowing could increase relative to the base scenario.

24. **Even under optimistic assumptions about export growth, staff project that the external debt ratio would rise above the reference range over the next few years.**¹⁷

Assuming a modest increase in the level of external grant financing, the NPV of debt-to-exports ratio on a post-enhanced HIPC Initiative basis would rise to 363 percent in 2006 before topping up (Table 6). However, given the ten-year grace period on new external borrowing, the debt-service ratio would not exceed 10 percent over the medium term.

25. **Preliminary staff analysis also indicates that Rwanda's long-term objectives of reaching middle income status can be achieved only with substantially increased grant assistance from development partners, even with a workable strategy and the achievement of the targeted productivity improvements.** Alternative scenarios illustrate that NPV of debt-to-export ratios would rise to unsustainably high levels if investment (public and private) needed to achieve per capita income levels of US\$630 to US\$900 by 2020 were financed by external borrowing (Appendix IV). Indeed, external grant financing would need to increase substantially over an extended period in order to finance investment.

26. **Over the medium-term, the three major risks faced by Rwanda are that (i) gains in agricultural productivity will be more modest than envisaged; (ii) export growth will be slower than targeted, and/or that the external terms of trade will deteriorate; and (iii) the level of external grant assistance will not increase substantially.** Given Rwanda's high population density, setbacks in the agricultural growth strategy would have a direct and significant impact on poverty and could be destabilizing. Poor agricultural performance would be likely to generate pressure to expand the labor-intensive rural works program, which, in the absence of a comprehensive framework, might be little more than an income transfer program. Weak export performance, as a result of further delays in implementation of the export promotion program and/or faltering coffee prices, could undermine external debt sustainability. At the same time, shortfalls in external grants would need to be compensated by spending reductions or additional borrowing.

V. POLICY DISCUSSIONS

27. **The 2004 Article IV discussions focused on the key challenges facing Rwanda: realizing the productivity improvements that will drive high and sustained GDP growth; assuring external and fiscal sustainability; and reducing poverty.** Actions supporting these objectives, addressed during the discussions, included the introduction of strengthened economic legislation; civil service and land tenure reforms; strengthening financial intermediation and banking sector soundness; and the continued privatization of commercial public enterprises.

A. Economic Growth

28. **In noting that real GDP growth slowed in 2003 and that there is a risk that the 2004 growth rate could fall short of the targeted 6 percent, the authorities acknowledged their concerns regarding lower-than-envisaged agricultural output, the current electricity shortage, and the continuing weak position of Rwanda's manufacturing sector.** They also pointed to continuing vulnerabilities, including variations in weather. In this regard, they viewed that key constraints to growth were structural and would need to be addressed over the medium- to long-term.

29. **Discussions of the long run growth prospects indicated that, while a general orientation had been identified, little or no action has been taken to make the growth strategy operational.** The authorities and staff agreed that while medium-term growth targets were ambitious, they would be achievable with a sound policy strategy and sustained implementation. The authorities explained that the long-term strategy has three key foci: (i) the institutional environment; (ii) basic infrastructure; and (iii) social investment. Institutional development would target the extension of financial intermediation and the full implementation of land reforms. In responding to staff concerns regarding the prospects for private investment and employment generation, the outlook was less clear. The authorities viewed information and communications technology (ITC), and tourism to be areas of comparative advantage, and indicated that there was considerable potential for the development of small- and medium-sized enterprises (SMEs). However, in ITC, while a work is in progress to connect Rwanda to an intercontinental fiber optic network, an analysis of its implications for business development is missing and, so far, activity in the sector has largely targeted services to NGOs and official representations. A similar situation was reported for tourism and, while UNIDO was said to have prepared a report on SME development, neither the scale nor the timeframe had been projected.

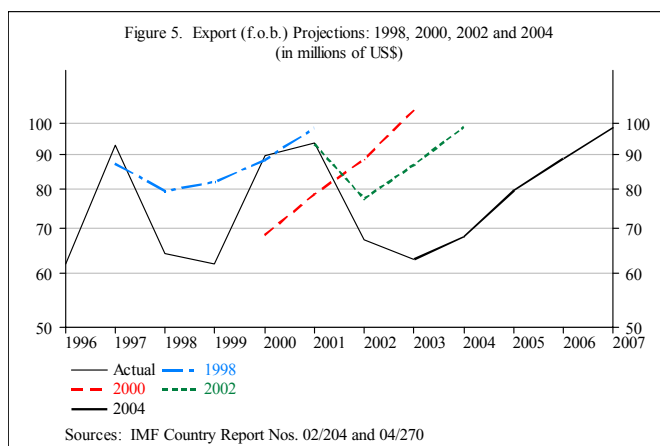
30. **In response, staff noted two critical concerns: (i) that, given continuing human resource constraints, delays in moving from strategy to implementation could be expected to continue; and (ii) that, while a number of supporting studies had been conducted, significant uncertainties remain regarding the productivity improvements that can be realized and their timing.** In particular, staff pointed out that, in addition to a stable macroeconomic environment, the planning and management capacity for setting out detailed policies and associated time-bound action plans, and for their implementation would need to be set in place. Given the delays that had been already experienced in this regard, work with supporting partners to promptly address this concern was seen as critical. In discussing the analysis underpinning the growth strategy, which is now under review, staff stressed that there is a risk that productivity growth could be weaker than envisaged.

B. External Viability

31. **The Rwandan authorities recognized that the sustainability of their growth strategy would, even in the best of circumstances, hinge critically on reducing external imbalances over the medium term.** They also recognized that raising export growth was key to reducing these imbalances. Reflecting this, they stated that cabinet had approved a

revised export promotion strategy in August 2004, that an action plan for the strategy is being finalized, and that an inter-ministerial group is coordinating its implementation and monitoring.¹⁸ Additional steps that were seen as supporting improved export performance include the establishment of an EPZ, and entry into the East African Community (EAC) and the Southern African Development Community (SADC).¹⁹ Supporting these steps, the authorities noted that discussions to establish a direct railway link to Rwanda were under way, and that a project to use methane gas trapped under Lake Kivu for electricity generation would help to limit the growth of energy imports in the period ahead. Beyond this, a diagnostic trade integration study for Rwanda, under the umbrella of the World Bank's Integrated Framework is scheduled to be initiated during the fourth quarter of 2004.

32. **While acknowledging the logic of selectively addressing constraints in the coffee, tea and tourism sectors and expanding regional market, staff stressed that, unless policy implementation in the export sector was strengthened substantially, Rwanda's external imbalances could become unsustainable.** As Rwanda's export base is small in relation to its GDP, staff noted that export growth would need to be both rapid and sustained to bring the NPV of external debt down to a prudent level. In these circumstances, Rwanda's history of delays in improving export performance, which reflect in some measure continuing human resource constraints, was a cause for concern (Figure 5). While coffee and tin exports are above the level that had been projected for 2004, other commodities, including tea and nontraditional exports, remain weak.²⁰ Given this, staff urged the authorities to strengthen cooperation with the international community, both on the implementation of the export strategy and on strengthening export performance more broadly. Furthermore, staff noted that, given the proximity and resource base of the eastern DRC, the expansion of commerce that would accompany peace in the Great Lakes region would form a critical element in the success of Rwanda's external strategy.



¹⁸ Rwanda's trade regime is relatively open with a score of four on the trade restrictiveness index. Rwanda has made some progress in reducing the level and dispersion of tariff rates and there are currently no explicit nontariff barriers.

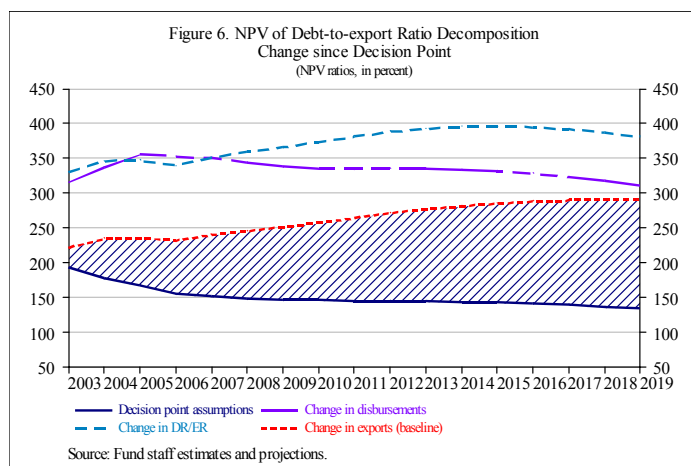
¹⁹ It is envisaged that the EPZ would be used as a staging area for regional wholesaling activities. In addition, the authorities noted that a decision was pending on their application for membership in the EAC.

²⁰ Coltan exports, which peaked at US\$41 million in 2001, are projected at about US\$5 million in 2004.

33. **In reviewing external debt sustainability, the authorities recognized that slower-than-envisaged export growth and discount rate changes had led to a deterioration in Rwanda’s net present value of debt-to-exports ratio which, according to a preliminary estimate under the HIPC methodology, rose to 315 percent at end-2003 (Figure 6).**

Nonetheless, they were confident that export growth would improve and argued that under realistic borrowing projections the debt-service ratio would not exceed 10 percent during the next decade. In response, staff noted that even if the ten-year grace period on new external borrowing provided a period in which growth in debt-service payments would be limited, sustained borrowing above US\$100 million per year over the medium-term would entail substantial long-term risks given Rwanda’s limited export diversification and continued vulnerability to exogenous shocks.²¹

Staff stressed that, in view of the substantial risk that the productivity of the investments financed with this borrowing would turn out lower than currently projected, external viability and the sustainability of their growth strategy required a shift to grant financing rather than borrowing until growth had been placed on a firmer footing and the NPV debt-to-exports ratio had improved. Staff thus urged the authorities to retain the objective of limiting the NPV of debt-to-exports ratio to 150 percent over the medium to long term and to persuade external partners to provide additional grants to substantially finance the planned expansion in government programs.²²



C. Public Finances

34. **In reviewing the fiscal outlook, authorities recognized that, following the implementation of key tax reforms during 2002–03, the revenue-to-GDP ratio appears to have reached a plateau at about 13.5 percent.** In view of this and as no new tax measures are currently under consideration, staff underscored the importance of improving

²¹ A debt sustainability update based on the standard debt sustainability template for low-income countries (Appendix VI) shows that, in a baseline scenario, Rwanda’s external debt ratios would be elevated and remain a source of vulnerability: without additional topping up at the HIPC Initiative’s completion point, the NPV of debt-to-exports ratio would only slowly decline to 229 percent by 2024, while the debt service-to-exports ratio would climb above 10 percent after 2020. In addition, several stress tests indicate that adverse shocks to the macroeconomy (growth and export performance, in particular) would lead to a significant deterioration in external debt sustainability.

²² The NPV of debt-to-exports ratio provides an accurate measure of the Rwanda’s external debt burden, given the low interest rates and long grace periods which characterize its borrowing.

tax efficiency through the reform of tax, customs, and investment code legislation, and policies that support the relative shift in economic activity from the informal to the formal economy. As this would depend on the fair and predictable application of the law, the authorities were urged to maintain their commitment to avoiding any new tax exemptions and to continue with strengthening the revenue authority. The authorities noted their agreement with this assessment.

35. **In discussing government spending, the authorities noted that substantial spending increases over the medium term, including for health, education, energy, water, roads, transfers to local government and, possibly, for the development of the EPZ were under consideration.** Taking this into account, and reflecting further delays in the demobilization activities to 2005 and beyond, staff noted that the government's domestic fiscal deficit, which rose steadily from 4.2 percent of GDP in 2002 to a targeted 7.8 percent in 2004, could remain at an elevated level for an extended period. Given the need to assure adequate credit to the economy and avoid inflationary financing, staff observed that such a decision would mark a policy shift from the progressive reduction in fiscal imbalances targeted under the PRGF to a continuing reliance on external grant and loan resources to finance a major share of its budget. The authorities, while recognizing the importance of moving toward fiscal balance, were convinced that the benefit that would be derived from scaled up operations would substantially exceed the cost.

36. **In these circumstances, the authorities, noting the limited prospects for additional external grant commitments, viewed an increase in external indebtedness, with such borrowing rising from US\$92 million in 2004 to US\$107 million in 2005, as a viable option.** Staff advised that this level of borrowing substantially exceeds that envisaged in the decision point document for the HIPC Initiative and, given current uncertainties about growth and external viability, would not be prudent. Given this, staff urged the authorities to work with the international community to identify additional grant resources and to limit new external public borrowing, until the potential for export and productivity growth is established.

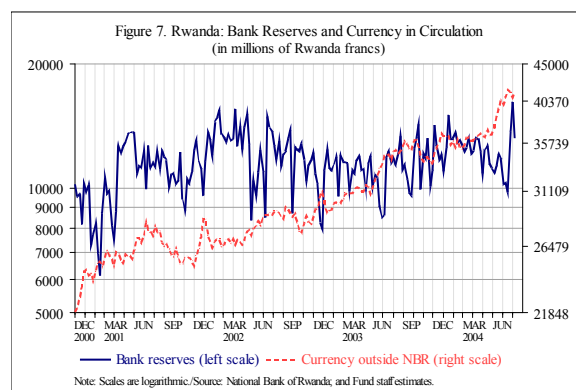
37. **Regarding the 2005 budget, while basic elements had not been fixed at the time of the mission, the authorities recognized the appropriateness of the indicative fiscal balance targeted under the PRGF.** Discussions indicated, however, that the revenue outlook is not encouraging. The impact of the electricity crisis on corporate profits and a softening of banking sector profitability, in part associated with the stabilization of the Rwanda franc exchange rate, are expected to have a deleterious impact on direct tax collections in 2005. Beyond this, while the fiscal impact of the anticipated entry into the East African Community and, possibly, SADC has not yet been estimated, there is a chance that they could reduce tax revenue modestly.

D. Monetary and Exchange Rate Policies

38. **In discussing monetary developments, the authorities stated that the monetary overhang that had developed during 2003 had been largely eliminated by end-June 2004.** They pointed to the limited extension of net credit to government from the

banking system, as non-demobilization program grants exceeded projections, and increased central bank foreign exchange sales and money market interventions to achieve the reserve money target as explanatory factors. The authorities noted their concern, however, about changes in the structure of monetary aggregates—the share of currency in M2 has risen by 3 percentage points, to 23 percent, over the past year, while the share of foreign currency denominated deposits has increased by 3½ percentage points, to 28 percent, over that same period. The increased importance of currency was seen as a possible indication that the banking system’s role in financial intermediation was diminishing, while the relative increase in foreign currency deposits, despite the recent appreciation of the Rwanda franc, may weaken the central bank's ability to control monetary aggregates.

39. **Staff noted that bank reserves, which at end-June 2004 did not meet statutory requirement and had fallen to a very low level (Figure 7), reflected weakness in the enforcement of prudential regulations that, unless corrected, could complicate the conduct of monetary policy.** While the monetary base appeared to be in line with the performance criterion set for end-June 2004, staff shared the authorities’ concerns about the rapid expansion in currency, and noted that the narrowing of bank reserves could make it difficult to sterilize government spending increases programmed for the second half of 2004, as the health of some banks had limited the operation of the interbank market and participation in securities and foreign exchange auctions had narrowed. Given this, staff pointed out that bringing banks into compliance with prudential regulations, which is key for assuring banking soundness, would be critical to enhancing the effectiveness of NBR policy actions. In this regard, the authorities were urged to promptly reach agreement with all commercial banks on action plans that would ensure this objective.²³



40. **In discussing inflation, which since the final quarter of 2002 remained above the targeted range, the authorities pointed to the impact of food price increases, which were linked to poor weather and viewed as outside of their control.** They pointed to a moderation in food prices in recent months and reaffirmed their commitment to the prompt reduction of inflation. Staff noted that, while non-food price increases appear to have moderated in recent months, the delayed feed-through of depreciation of the Rwanda franc in 2003 and lagged adjustments in utility tariffs and energy price increases could be expected to put upward pressure on inflation in the period ahead. Staff stressed, therefore, that projected

²³ The central bank had reached agreements with five out of six commercial banks on action plans that would bring them into full compliance with bank regulations by end-2004. Reserves, however, fell substantially short of the 8 percent of the deposit base for three banks.

substantial fiscal spending increases in the period ahead will need to be effectively sterilized, if inflation objectives are to be achieved.

41. **In discussing exchange rate developments, staff noted its concern that unnecessarily tight restrictions set on the bidding process for central bank foreign exchange auctions could limit the speed of exchange rate adjustment to changing market fundamentals.** In response, the national authorities indicated that they had modified the out-of-market limits on auction bids, as a step toward increasing exchange rate flexibility.²⁴

E. Commercial Banking

42. **In the commercial banking sector, the authorities noted that with the sale of the BCR and the BACAR to foreign investors, the health and competitiveness of Rwanda's banking sector were set to improve significantly.** They added that the planned recapitalization of the Rwanda Development Bank (BRD) could further strengthen options for financial intermediation. While acknowledging these advances, staff indicated that the situation of the banking sector remains fragile, with the share of nonperforming loans in gross lending (35.6 percent at end-March 2004) still higher than the level at end-2002. Risk concentration limits were regularly breached and few banks met new regulations on capital. Staff noted that one bank, in particular, consistently failed to comply with a large number of banking regulations for an extended period, and underscored the importance of the strict enforcement of the regulatory and supervisory framework.²⁵ In addition, they recommended that the Rwanda Development Bank (BRD) should not be exempted from the regulatory and tax obligations that apply to other financial institutions, and urged the authorities to promptly bring the UBPR into compliance with the new regulation on credit and saving cooperatives (COPECs) without delay, and called for strengthening the regulatory framework for a mortgage bank (CHR), and the Poste du Rwanda.

F. Structural Issues

43. **The authorities stated that, following the successful sale of the Pfunda tea estate earlier this year, prompt action is envisaged in completing the privatization of the tea sector, as envisaged in the PRSP and in line with the export promotion strategy for tea.** In addition, the authorities indicated that government shares in the telecommunications parastatal (Rwandatel), the coffee exporter (Rwandex), and the hotel holding company (Prime Holdings) would be privatized as rapidly as feasible.

²⁴ Rwanda's foreign exchange rate is market determined with the NBR occasionally intervening to smooth out disturbances. The formal foreign exchange market in Rwanda is dominated by commercial banks and foreign exchange bureaus. Weekly foreign exchange auctions for banks were introduced in January 2001, with the central bank offering a predetermined amount of foreign exchange on a marginal price basis.

²⁵ In response to a request from the authorities, MFD will provide technical assistance to assess the financial position of a bank and propose remedial actions.

44. **In other structural matters, the authorities indicated that civil service reforms, including a substantial reduction in force outside of teachers and health workers, are nearing the implementation phase.** While several of Rwanda's development partners have signaled misgivings regarding the accelerated pace of reform, noting that it could impair the government's ability to implement its operations, the authorities viewed this effort as a critical support to the decentralization of government and indicated that they were confident that it would succeed. On the subject of land reform, the authorities stated that land reform legislation, which would assign transferable title, is being reviewed by parliament.

G. Statistical Issues and Technical Assistance

45. **Staff welcomed steps taken to improve the quality of national accounts, price and balance of payments statistics.** In particular, it was noted that the introduction of a revised consumer price index, beginning with January 2004, should improve the reliability of inflation estimates. The authorities noted that efforts were continuing to improve the statistical basis for national accounts estimates, including an improved frame for agricultural data. In reviewing inconsistencies between the export data collected by the RRA and the NBR, discussions focused on approaches to more fully recording trade and the comprehensive capture of external project financing. While acknowledging the substantial progress achieved, staff recommended that strengthening of statistics continue in the context of the GDDS, with technical assistance from Fund staff, including through East AFRITAC.

46. **The authorities recognized the substantial contributions provided by Fund technical assistance.** They noted that Fund staff had provided critical support in strengthening revenue administration and internal accounting and auditing at the Ministry of Finance, as well as in the drafting of the organic budget law, financial instructions, and revised tax, customs and investment codes. The constructive role played by Fund long term advisors in the areas of monetary policy and internal accounting at the central bank was also commended. Staff welcomed the authorities' productive use of technical assistance resources.

H. Staff Appraisal

47. **The Rwandese economy is nearing a turning point.** Having established the key elements of a market economy, and given progress towards macroeconomic stability, there is now a window for improving economic productivity, generating employment, and strengthening export performance. However, uncertainty remains regarding the timing and magnitude for such growth.

48. **Rwanda will need to both strengthen substantially the implementation of its economic policies and shift to grant-based financing of its growth strategy.** Even with strengthened implementation and improved productivity, there is a considerable risk that the productivity of investments financed by additional borrowing will turn out lower than projected. Given Rwanda's present high net present value of debt-to-exports ratio, external viability and the achievement of medium- and long-term growth objectives therefore require a substantial shift to grant assistance on the part of development partners. Borrowing—even

on highly concessional terms and with long grace periods—would only postpone potential external debt service problems.

49. **While Rwanda has made substantial advances in the design and implementation of programs for the health and education sectors, the agricultural growth strategy needs to be expeditiously updated, in consultation with the World Bank and other partners.** The export promotion strategy, which appears to be feasible, should be implemented urgently. Jump-starting growth in these sectors, which account for the largest part of the economy, is key to the realization of faster economic growth and external sustainability.

50. **Achieving sustained high growth rates for GDP could require significant increases in investment over a long period.** At present, the focus of attention is on public investment in health and education, infrastructure, and government support for energy and tourism initiatives. However, signs that private investment is set to increase—a critical element in the realization of sustained growth in a market economy—are not readily apparent. Despite strengthened economic legislation and institutions, outside of cellular telecommunications and the methane energy project, the formal sector has foundered. This may point to the critical role of regional peace in creating conditions conducive for private investment.

51. **Given Rwanda's lack of natural resources and scarce human capital, the achievement of a durable peace and the associated expansion of commerce with the eastern DRC remain critical prerequisites for growth and investment.** A number of the initiatives that are under way to expand regional commerce, including entry into the EAC and SADC and the establishment of an EPZ, are targeted at increasing market size and creating competitive niches. However, escape from a tragic history will depend on the efforts of Rwanda, its neighbors, and the international community to establish the conditions for peace.

52. **Looking forward, Rwanda's fiscal sustainability remains a serious concern. Given the lackluster performance of the formal sector, the achievement of domestic revenue targets is likely to prove challenging.** At the same time, the planned scaling-up of programs, including for health, education, water, and infrastructure, would increase the structural deficit. While increased borrowing from the World Bank and AfDB could finance part of this expansion, this policy departs from the progressive reduction in imbalances targeted under the PRGF, the availability of such resources is not assured over the long run, and continued borrowing at the level projected for 2005 would be imprudent, given Rwanda's vulnerability to shocks and debt sustainability considerations. In these circumstances, the Rwandese authorities and supporting partners should work to increase external grant financing, to the full extent possible. Beyond this, the authorities will need to clearly prioritize budgetary operations, establish contingencies and limit spending to a sustainable level.

53. **The recent slower-than-targeted money growth is appropriate, given the slowdown in formal sector activity that was induced, in large measure, by an electricity**

shortage. Nonetheless, as a result of the unexplained shift in the structure of the monetary base, the money multiplier has fallen and the effectiveness of central bank security auctions has been reduced. In these circumstances, given the skew of government spending to the second half of the year, it will be a challenge to maintain monetary stability in the months ahead. The authorities will need to improve their understanding of the increase in currency in circulation, further strengthen coordination between the central bank and Treasury to assure that spending increases are not destabilizing, and work to improve the responsiveness of the banking system to changes in economic fundamentals.

54. **The current floating exchange rate regime continues to serve Rwanda well. Given Rwanda's continued vulnerability to external shocks and Rwanda's demonstrated capacity to limit inflation to moderate levels, a market-based exchange rate system appears to be a natural choice for the country.** However, with large government spending increases in prospect, financed by external assistance, the operation of the weekly foreign exchange auction will need to improve in order to assure the effectiveness of central bank policy implementation. In this regard, the authorities' recent step to increase the out-of-market limits is welcome. The prompt implementation of the export promotion strategy should help to improve the competitive position of Rwanda's export sector.

55. **The recent sale of majority shares in BCR and BACAR marks a significant step towards strengthening the health of the banking system, and could help to reinvigorate the interbank market.** Nonetheless, compliance with banking regulations during the first half of 2004 remained partial and uneven. When commercial banks do not provide acceptable action plans for moving into compliance and/or when those action plans are not implemented, the central bank should act promptly, instituting close supervision and enforcing cascading sanctions as necessary.

56. **With solid macroeconomic performance during 2004, Rwanda could reach the completion point under the enhanced HIPC Initiative.** With this, Rwanda's external debt stock could be reduced to a sustainable level. While the government's commitment to improving export performance is clear, as performance during 2002–03 shows, the realization of high growth rates for exports is not assured. Rwanda continues to be vulnerable to climatic and international price shocks. Given this, borrowing plans should take such risks into account and aim to stay below the 150 percent NPV of debt-to-exports ratio over the medium to long term.

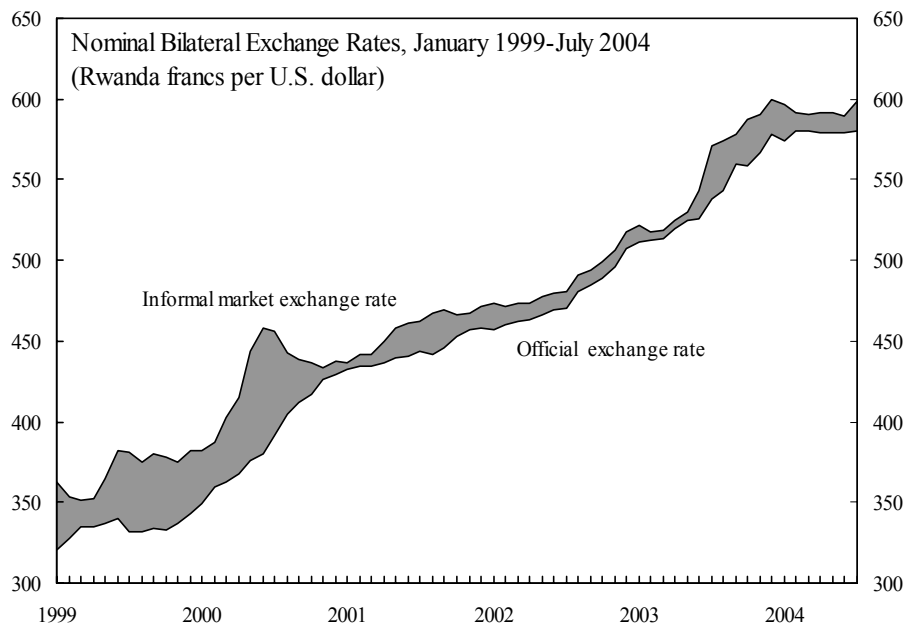
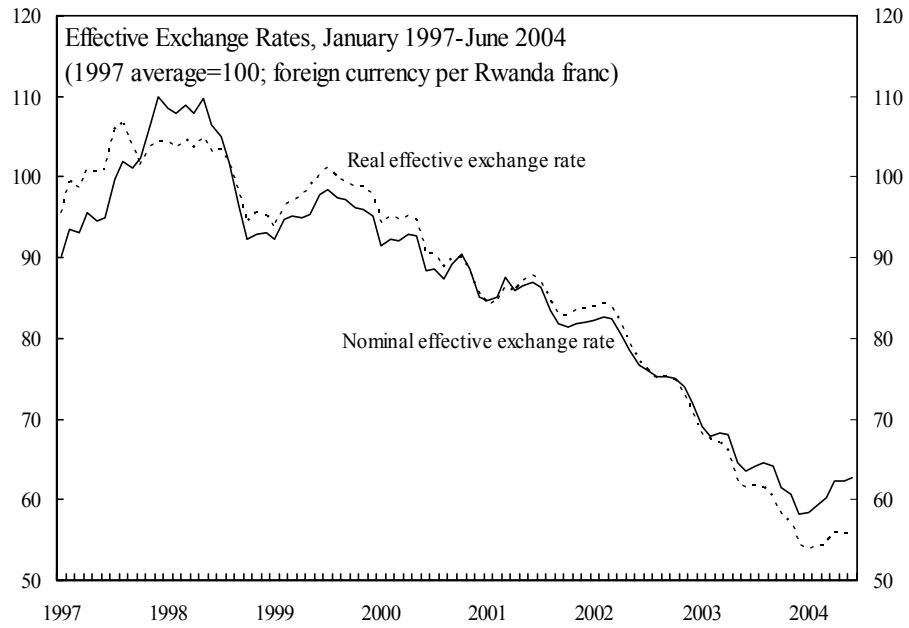
57. **Rwanda's statistical base suffers from significant limitations for surveillance purposes.** Further strengthening, particularly in the areas of national accounts, government finance, balance-of-payments, and banking sector statistics remains a priority of the authorities. Given this, they should take full advantage of available technical assistance, including from the Fund.

58. **Rwanda's productive use of Fund technical assistance is commendable.** Given the limited human resource base and the agenda for further strengthening government institutions and building capacity in the civil service, it is important that the authorities

continue to efficiently use the technical assistance resources provided by the Fund and other partners.

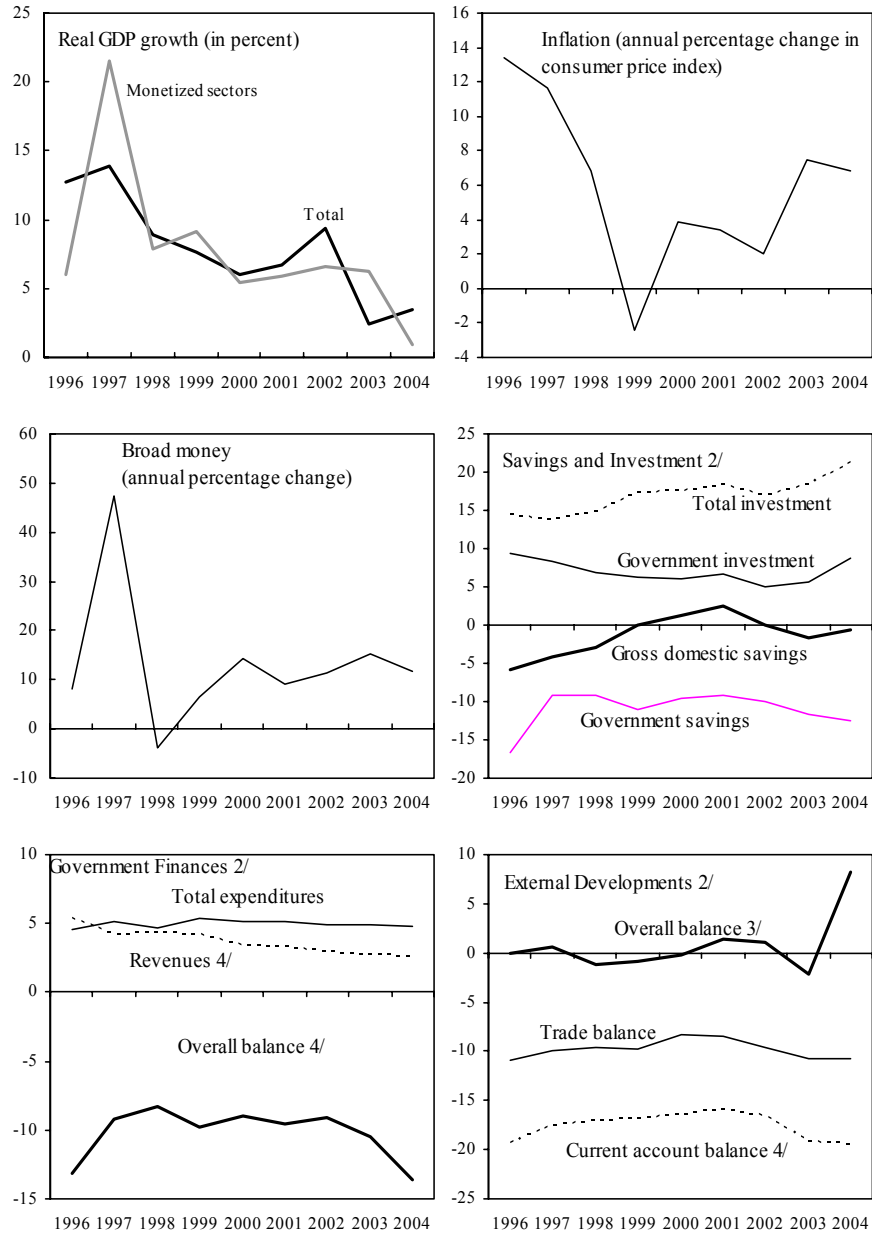
59. It is recommended that the next Article IV consultation with Rwanda be held in accord with the provisions of Board Decision No. 12793-(02-76) approved on July 15, 2002.

Figure 8. Rwanda: Selected Exchange Rates, 1997-2004



Sources: Rwandese authorities; and IMF, Information Notice System.

Figure 9. Rwanda: Selected Economic and Financial Indicators, 1996-2004



Source: Rwandese authorities; and Fund staff estimates and projections.

1/ In percent of beginning of period stock of broad money.

2/ In percent of GDP.

3/ Forecast includes all committed external financing.

4/ Excluding grants.

Table 1. Rwanda: Selected Economic and Financial Indicators, 2001-07

	2001	2002		2003		2004			2005	2006	2007
		PRGF 1/	Act.	PRGF 1/	Prog. 1/	Act.	Prog. 1/	Rev. prog.			
(Annual percentage changes, unless otherwise indicated)											
Output and prices											
Real GDP growth	6.7	7.3	9.4	6.1	3.2	0.9	6.0	6.0	6.0	6.0	5.8
GDP deflator	0.2	1.9	0.0	3.5	4.9	8.7	2.7	5.0	4.0	4.0	3.0
Consumer prices (period average)	3.4	2.0	2.0	3.0	4.7	7.4	3.0	6.9	4.0	4.0	3.0
Consumer prices (end of period)	-0.2	3.0	6.2	3.0	3.0	7.7	3.0	5.0	4.0	4.0	3.0
External sector											
Export, f.o.b (in U.S. dollars)	4.2	-16.9	-28.1	12.1	6.6	-6.3	10.6	8.0	3.8	9.0	9.8
Imports, f.o.b (in U.S. dollars)	-0.8	0.5	-1.3	3.2	8.5	4.0	2.8	16.0	7.8	5.5	5.2
Export volume	36.8	-13.8	-17.1	6.5	1.2	-13.2	4.1	2.6	3.5	8.3	6.0
Import volume	2.3	-0.4	-6.4	2.9	3.4	0.4	3.8	11.8	7.7	5.9	4.9
Terms of trade (deterioration -)	-21.5	-4.5	-17.7	5.1	0.4	4.2	7.2	1.4	0.2	1.0	3.3
Government finance											
Revenue	25.5	16.9	16.9	14.0	18.5	21.4	10.7	10.8	11.0	9.4	8.9
Total expenditure and net lending	20.0	15.5	11.3	9.6	15.1	23.8	-3.7	30.8	15.2	-3.8	3.8
Current expenditure	20.4	16.6	15.2	7.3	20.7	31.5	-8.3	9.9	25.0	-11.2	-0.9
Money and credit 2/											
Net domestic assets 3/	-2.6	1.3	-6.1	...	-17.0	14.8	...	11.0	...	...	...
Domestic credit 3/	0.3	0.7	-4.0	...	-15.5	19.7	...	9.7	...	...	...
Government 3/	-5.1	-7.0	-12.4	...	-20.2	10.7	...	3.2	...	...	...
Economy 3/	5.4	7.6	8.5	...	4.7	9.0	...	6.5	...	...	...
Broad money (M2)	9.2	6.9	11.4	...	8.0	15.2	...	11.0	...	...	...
Reserve money	6.6	6.3	11.9	...	7.1	12.2	...	11.6	...	...	...
Velocity (GDP/M2; end of period)	5.8	5.9	5.7	...	5.7	5.4	...	5.4	...	...	...
(In percent of GDP, unless otherwise indicated)											
National income accounts											
National savings (excluding official transfers)	2.5	1.8	0.3	3.5	1.2	-0.8	2.6	-0.1	2.5	3.6	5.2
Of which: private (including public enterprises)	5.4	4.9	4.5	5.8	4.8	4.1	3.2	6.1	7.9	5.3	5.5
Gross investment	18.4	18.8	16.9	19.3	19.9	18.4	20.0	21.3	22.3	22.7	23.2
Of which: private (including public enterprises)	11.8	12.0	12.0	12.2	12.2	12.8	12.4	12.6	12.8	13.0	13.2
Government finance											
Total revenue	11.4	12.2	12.2	12.7	13.4	13.5	13.6	13.5	13.7	13.7	13.7
Total expenditure and net lending	21.0	22.1	21.3	22.1	24.7	24.1	21.9	28.3	28.5	25.2	24.0
Capital expenditure	6.6	7.0	4.9	7.3	7.7	5.6	7.7	8.7	9.5	9.7	10.0
Current expenditure	14.2	15.2	15.0	14.8	16.7	18.0	14.1	17.8	18.9	15.4	14.0
Primary fiscal balance 4/	-0.1	-0.2	-1.6	0.7	0.8	-0.3	1.4	-2.6	-4.0	-1.6	-1.1
Domestic fiscal balance 5/	-2.7	-3.3	-4.2	-2.8	-4.4	-5.5	-1.1	-7.8	-7.6	-3.9	-2.5
Overall balance (payment order)											
After grants	-1.3	-1.1	-1.9	-0.6	0.9	-2.5	0.7	-2.2	-1.9	-0.1	0.1
Before grants	-9.5	-9.9	-9.1	-9.4	-11.3	-10.5	-8.2	-14.8	-14.9	-11.5	-10.3
External sector											
External current account balance											
Including official transfers 6/	-5.9	-11.3	-6.7	-11.5	-11.3	-7.8	-12.3	-6.9	-6.0	-7.6	-8.0
Excluding official transfers	-15.9	-17.0	-16.6	-15.7	-18.7	-19.2	-17.4	-21.4	-19.8	-19.1	-17.9
External debt (end of period) 7/	78.4	73.2	80.9	66.8	86.1	85.1	82.2	86.6	85.4	82.5	78.0
Net present value of external debt											
(in percent of exports of goods and services) 8/	236.2	190.3	287.2	203.5	222.2	315.2	242.1	354.5	365.8	363.2	359.5
Scheduled debt-service ratio after HIPC Initiative debt relief											
(in percent of exports of goods and services)	9.3	15.4	13.8	9.1	9.1	9.3	10.0	9.6	12.0	10.5	11.1
Gross reserves (in months of imports of goods and services)	6.0	5.9	6.3	6.2	7.4	5.2	6.9	4.6	5.2	5.5	6.0
(In millions of U.S. dollars, unless otherwise indicated)											
External debt (end of period) 7/	1,336.1	1,295.1	1,401.0	1,268.4	1,471.4	1,432.8	1,493.0	1,485.5	1,556.2	1,592.3	1,608.8
Gross official reserves	212.1	223.6	243.6	236.6	299.1	214.2	282.5	208.6	242.1	265.2	300.3
Memorandum item:											
Nominal GDP (in billions of Rwanda francs)	754.3	825.2	825.0	906.4	893.4	905.3	971.9	1,004.9	1,100.5	1,201.3	1,308.6

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ 2002-03 PRGF: see IMF Country Report No. 02/204; and 2003-04 prog.: see IMF Country Report No. 03/192.

2/ Numbers up to 2003 are based on current exchange rates, while 2004-07 numbers are based on the program exchange rate of RF 580.3/U.S. dollar.

3/ As a percent of the beginning-of-period stock of broad money.

4/ Revenue excluding grants; minus current expenditure except interest due and exceptional expenditure; minus domestically financed capital expenditure.

5/ Revenue excluding grants; minus current expenditure (excluding external interest), minus domestically-financed capital expenditure and net lending.

6/ In the "Prog." and "PRGF" columns for 2002 and 2003, official transfers exclude expected but not yet disbursed budgetary assistance.

7/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2004-07). The data under the "PRGF" and the "Prog./"Est." columns are not comparable since they are based on a different treatment of projected loan disbursements. Data are preliminary and do not reflect changes in the exchange rate.

8/ Based on assumptions about expected new borrowing. For illustrative purposes, the numbers are shown as if HIPC Initiative assistance had been delivered unconditionally as of 1999 (data available at the time of the decision point). The exports denominator is calculated using a three-year backward-looking average. Data are preliminary, pending a full debt sustainability analysis.

Table 2. Rwanda: Operations of the Central Government, 2001-07

	2001	2002	2003						2004	2005	2006	2007
			June		Sep.		Dec.					
			Prog. 1/	Prel.	Prog. 1/	Prel.	Prog. 1/	Est.				
(In billions of Rwanda francs)												
Revenue and grants	148.2	160.3	101.2	93.2	159.3	134.4	228.5	195.5	262.4	292.8	300.9	315.5
Total revenue	86.2	101.2	57.6	59.9	88.4	90.3	119.4	122.3	135.6	150.5	164.7	179.4
Tax revenue	79.5	94.6	53.4	55.4	82.8	83.9	112.4	114.6	126.3	141.2	154.5	168.2
Direct taxes	24.5	30.5	15.3	17.6	24.0	25.4	32.0	35.1	37.8	39.8	43.3	47.3
Taxes on goods and services	41.0	47.4	27.5	27.4	42.6	42.4	58.2	57.5	63.8	72.3	79.5	87.3
Taxes on international trade	14.0	16.7	10.6	10.4	16.2	16.1	22.3	22.1	24.7	29.1	31.7	33.6
Nontax revenue	6.7	6.6	4.2	4.6	5.6	6.4	7.0	7.7	9.3	9.3	10.2	11.2
Grants	62.0	59.1	43.6	33.3	71.0	44.1	109.1	73.1	126.9	142.3	136.2	136.1
Budgetary grants	33.9	39.3	25.9	22.2	44.4	27.5	73.6	51.0	92.1	95.8	82.8	75.8
Of which: HIPC Initiative assistance	10.6	12.2	5.1	5.8	9.0	9.3	11.6	11.5	15.9	19.3	0.0	0.0
Capital grants	28.1	19.8	17.7	11.1	26.6	16.6	35.4	22.1	34.8	46.5	53.4	60.3
Total expenditure and net lending	158.1	175.9	112.0	100.6	166.1	160.9	220.5	217.8	284.7	314.1	302.3	313.9
Current expenditure	107.4	123.7	75.5	73.4	112.3	118.5	149.3	162.7	178.8	208.5	185.2	183.5
Of which: priority	40.1	50.4	30.3	30.6	42.6	44.8	56.2	59.1	82.7	93.5	105.6	105.8
Wages and salaries	38.9	40.6	21.0	21.8	31.6	32.8	42.1	44.0	48.0	51.3	54.5	71.0
Civil	22.8	24.1	13.9	13.8	20.8	21.0	27.8	28.3	31.4	34.7	37.4	53.4
Defense	16.2	16.5	7.2	7.9	10.8	11.8	14.3	15.7	16.5	16.6	17.1	17.6
Purchases of goods and services	29.4	35.2	21.1	22.1	26.6	32.1	33.6	45.8	52.6	70.4	53.4	50.4
Civil	20.4	27.3	15.1	16.6	19.4	25.0	24.9	37.1	43.5	60.7	43.1	39.8
Of which: contingent 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.4	0.0	0.0	1.0
Defense	9.0	7.8	6.0	5.5	7.2	7.1	8.7	8.6	9.1	9.7	10.3	10.6
Interest payments	6.2	8.3	4.3	5.2	6.5	7.1	9.5	10.5	14.7	15.1	15.5	15.8
Domestic debt (due)	1.3	2.1	1.1	1.5	1.6	1.8	2.1	3.17	6.6	6.5	6.4	6.4
External debt (due)	5.0	6.2	3.2	3.7	4.9	5.3	7.3	7.32	8.1	8.6	9.0	9.4
Transfers	15.1	20.4	11.5	10.6	16.8	16.2	22.3	22.2	36.2	40.1	41.8	35.0
Exceptional expenditure	17.7	19.2	17.6	13.7	30.7	30.4	41.8	40.2	27.3	31.5	20.0	11.2
Of which: demobilization/reintegration/reeducation	3.4	3.4	7.7	3.8	10.6	4.6	13.7	7.3	12.6	14.4	0.0	0.0
one-off: referendum / elections / health	0.0	0.0	3.2	2.2	5.6	13.0	9.3	14.8	0.3	0.0	0.0	0.0
Capital expenditure	50.0	40.7	35.3	26.2	52.1	38.9	69.0	51.1	87.2	104.7	116.2	130.5
Of which: priority	0.0	1.0	1.2	0.5	2.4	2.0	4.0	3.0	5.5	7.0	8.0	0.0
Domestic	3.5	6.9	8.0	7.3	11.1	10.5	14.3	13.2	24.9	33.0	33.9	37.5
Of which: Common Development Fund (CDF)	0.0	1.0	1.2	0.5	2.4	2.0	4.0	3.0	5.5	7.0	8.0	6.3
strategic petroleum reserve	0.0	0.0	3.9	1.9	3.9	1.4	3.9	0.8	0.0	0.0	1.0	1.0
contingent 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.6	0.0	0.0	0.0
Foreign	46.5	33.8	27.3	19.0	41.0	28.4	54.7	37.9	62.3	71.6	82.3	93.0
Net lending	0.6	0.6	1.2	0.9	1.7	3.5	2.3	4.0	18.7	1.0	1.0	0.0
Troop withdrawal	0.0	10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Primary balance 3/	-0.8	-12.9	-4.0	-1.8	2.2	-1.2	7.1	-2.8	-26.1	-44.3	-18.8	-14.5
Domestic fiscal balance 4/	-20.4	-34.8	-23.9	-18.0	-31.8	-36.8	-39.1	-50.2	-78.7	-83.4	-46.3	-32.1
Overall deficit (payment order)												
After grants	-9.9	-15.6	-10.8	-7.3	-6.8	-26.4	8.0	-22.3	-22.3	-21.4	-1.4	1.6
Before grants	-71.9	-74.8	-54.4	-40.6	-77.7	-70.6	-101.1	-95.4	-149.2	-163.7	-137.6	-134.5
Change in arrears 5/	-31.7	-1.7	-9.3	-9.0	-9.3	1.6	-22.5	-13.2	-20.1	-7.0	-7.0	0.0
Domestic	-15.0	-3.9	-8.9	-9.0	-8.9	1.6	-7.9	-1.0	-17.0	-7.0	-7.0	0.0
External	-16.7	2.2	-0.4	0.0	-0.4	0.0	-14.6	-12.1	-3.1	0.0	0.0	0.0
Deficit (-) (cash basis)	-41.6	-17.4	-20.1	-16.3	-16.1	-24.9	-14.5	-35.4	-42.4	-28.4	-8.4	1.6

Table 2. Rwanda: Operations of the Central Government, 2001-07 (concluded)

	2001	2002	2003						2004	2005	2006	2007
			June		Sep.		Dec.					
			Prog. 1/	Prel.	Prog. 1/	Prel.	Prog. 1/	Est.				
(In billions of Rwanda francs)												
Financing	42.6	30.9	15.2	18.0	10.1	21.6	13.9	27.2	42.4	28.4	8.4	-1.6
Foreign financing (net)	40.9	30.5	9.4	8.0	12.0	9.7	43.7	22.0	45.0	50.3	41.1	29.1
Drawings	34.7	41.7	14.5	13.2	19.5	17.3	39.5	21.3	54.1	64.4	56.9	46.2
Budgetary loans	16.3	27.7	4.9	5.3	5.1	5.4	20.3	5.5	26.6	39.3	28.0	28.5
Project loans	18.4	14.0	9.6	7.9	14.4	11.9	19.2	15.8	27.5	25.2	28.9	17.7
Amortization	-9.2	-14.0	-7.3	-7.5	-11.0	-11.3	-14.7	-15.0	-17.3	-19.2	-19.8	-20.9
Exceptional financing	15.4	2.8	2.3	2.3	3.5	3.7	18.9	15.7	8.3	5.0	4.0	3.8
Domestic financing	1.7	0.4	5.7	10.0	-1.8	12.0	-29.8	5.2	-2.6	-21.9	-32.7	-30.7
Banking system treasury operations (monetary survey)	-0.4	2.8	5.7	3.0	-1.8	13.1	-29.3	5.3	5.3	-15.1	-25.8	-30.7
Nonbank sector (including CSR repayment) 6/7/	2.1	-2.4	0.0	7.1	0.0	-1.1	-0.5	0.0	-8.0	-6.8	-6.9	0.0
Errors and omissions 8/	1.0	13.5	...	1.7	...	-3.2	...	-8.2	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items: (In percent of GDP, unless otherwise indicated)												
Revenue and grants	19.6	19.4	11.4	10.3	17.8	14.8	25.6	21.6	26.1	26.6	25.1	24.1
Revenue, excluding grants	11.4	12.2	6.5	6.6	9.9	10.0	13.4	13.5	13.5	13.7	13.7	13.7
Revenue, excluding grants (percent of monetized sector GDP)	21.2	23.0	12.3	12.4	18.6	18.8	25.1	25.4	25.4	25.8	25.8	25.8
Total expenditure and net lending	21.0	21.3	12.5	11.1	18.6	17.8	24.7	24.1	28.3	28.5	25.2	24.0
Current expenditure	14.2	15.0	8.5	8.1	12.6	13.1	16.7	18.0	17.8	18.9	15.4	14.0
Of which: wage bill	5.2	4.9	2.4	2.4	3.5	3.6	4.7	4.9	4.8	4.7	4.5	5.4
goods and services	3.9	4.3	2.4	2.4	3.0	3.5	3.8	5.1	5.2	6.4	4.4	3.9
Of which: defense/security	3.3	2.9	1.5	1.5	2.0	2.1	2.6	2.7	2.5	2.4	2.3	2.2
priority expenditure (recurrent)	5.3	6.1	3.4	3.4	4.8	4.9	6.3	6.5	8.2	8.5	8.8	8.1
exceptional expenditure	2.3	2.3	2.0	1.5	3.4	3.4	4.7	4.4	2.7	2.9	1.7	0.9
Capital expenditure	6.6	4.9	4.0	2.9	5.8	4.3	7.7	5.6	8.7	9.5	9.7	10.0
Domestic fiscal balance	-2.7	-4.2	-2.7	-2.0	-3.6	-4.1	-4.4	-5.5	-7.8	-7.6	-3.9	-2.5
Primary balance 3/	-0.1	-1.6	-0.5	-0.2	0.2	-0.1	0.8	-0.3	-2.6	-4.0	-1.6	-1.1
Overall deficit (payment order)												
After grants	-1.3	-1.9	-1.2	-0.8	-0.8	-2.9	0.9	-2.5	-2.2	-1.9	-0.1	0.1
Before grants	-9.5	-9.1	-6.1	-4.5	-8.7	-7.8	-11.3	-10.5	-14.8	-14.9	-11.5	-10.3
Before grants (percent of monetized sector GDP)	-17.6	-17.1	-11.4	-8.4	-16.4	-14.7	-21.3	-19.8	-27.9	-28.1	-21.6	-19.4
Nominal GDP (in billions of Rwanda francs)	754.3	825.0	893.4	905.3	893.4	905.3	893.4	905.3	1,004.9	1,100.5	1,201.3	1,308.6
Of which: monetized sectors	407.2	437.7	475.3	481.6	475.3	481.6	475.3	481.6	534.0	582.9	637.2	694.4
Net credit to government (in billions of Rwanda francs)	-6.1	-16.2	5.7	4.1	-1.8	19.1	-29.3	15.6	5.3	-15.1	-25.8	-30.7
Of which: treasury operations	-0.4	2.8	...	3.0	...	13.1	...	5.3	5.3	-15.1	-25.8	-30.7
nontreasury operations of central government	-4.6	-18.2	...	2.2	...	6.8	...	10.3	0.0	0.0	0.0	0.0
other government	-1.1	-0.8	...	-1.1	...	-0.7	...	0.0	0.0	0.0	0.0	0.0

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Program numbers refer to IMF Country Report No. 03/192 (May 2003).

2/ Planned to be executed only in case of sufficient additional external budgetary grants.

3/ Definition excludes exceptional expenditures; defined as total revenue (excluding privatization proceeds) minus noninterest current expenditure domestically financed capital expenditure. In 2002, the definition includes the cost of the troop withdrawal.

4/ Revenue excluding grants; minus current expenditure, domestically financed capital expenditure and net lending; excluding external interest. In 2002, including the cost of the troop withdrawal.

5/ A negative sign indicates a reduction. Arrears are shown here in a fiscal accounting sense which may deviate from the definition of the TMU used for benchmarks and performance criteria.

6/ CSR = Caisse Sociale du Rwanda

7/ Includes RF 8.8 billion in temporary credits from Union des Banques Populaires du Rwanda (UBPR) in June 2003.

8/ A negative number implies a discrepancy that is consistent with underestimation of financing.

Table 3. Rwanda: Monetary Survey, 2003-04

	2003					2004						
	Sep. 1/		Dec.			Mar. 2/		Jun.			Sep.	Dec.
	Prog.	Est.	Prog. 1/	Est. 1/	Est. 2/	Prog.	Est.	Prog. 2/	Est. 2/	Est. 3/	Prog. 2/	Prog. 2/
(In billions of Rwanda francs)												
Monetary authorities												
Net foreign assets	70.3	54.6	101.0	57.8	65.5	65.0	66.7	55.4	70.3	70.2	64.5	62.3
Foreign assets	122.8	105.8	153.1	109.7	124.3	123.7	124.3	114.2	127.0	126.8	123.3	121.0
Foreign liabilities	52.5	51.2	52.1	51.8	58.8	58.8	57.6	58.8	56.7	56.7	58.8	58.8
Net domestic assets	-24.9	-4.5	-54.1	-7.4	-15.1	-12.0	-15.3	-1.4	-17.2	-17.1	-8.6	-6.0
Domestic credit	-2.2	17.5	-28.5	15.6	15.6	16.8	9.7	27.4	8.6	8.6	20.2	22.8
Government (net)	-0.3	15.3	-27.1	12.7	12.7	19.6	11.0	20.2	7.3	7.3	13.3	18.0
Claims	43.1	51.2	43.1	43.9	43.9	50.8	44.4	60.2	42.1	42.1	59.7	70.7
Of which: overdraft	--	8.8	--	1.5	1.5	--	2.3	--	...	--	--	--
Deposits (excluding autonomous bodies)	43.3	35.9	70.2	31.2	31.2	31.2	33.5	40.0	34.8	34.8	46.4	52.7
Public nongovernment deposits (-)	-0.9	-1.0	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Nongovernment credit	-1.0	3.1	-0.4	3.9	3.9	-1.8	-0.3	8.2	2.3	2.3	7.8	5.8
Private sector	1.7	2.3	1.5	2.4	2.4	2.4	2.5	2.4	3.0	3.0	2.4	2.4
Public enterprises	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Commercial banks	-2.8	0.7	-2.0	1.4	1.4	-4.3	-3.0	5.7	-0.9	-0.9	-0.6	3.3
Discount window	1.2	1.4	1.2	1.4	1.4	1.0	1.6	1.0	1.5	1.5	1.0	1.4
Money market (= absorption)	-4.0	-0.7	-3.2	--	--	-5.3	-4.6	4.7	-2.4	-2.4	4.3	1.9
Other items (net; asset +)	-22.7	-22.0	-25.6	-23.0	-30.7	-28.8	-25.0	-28.8	-25.8	-25.7	-28.8	-28.8
Reserve money 4/	44.1	50.1	46.9	50.4	50.4	53.0	51.3	54.0	53.0	53.0	55.9	56.3
Currency in circulation	26.9	32.1	29.0	34.1	34.1	34.6	31.9	35.1	37.5	37.5	36.9	37.6
Commercial bank reserves	14.7	14.9	14.2	13.4	13.4	15.4	15.4	15.9	13.2	13.2	16.0	15.8
Nonbank deposits	3.7	3.2	3.7	3.0	3.0	3.0	4.0	3.0	2.4	2.4	2.4	3.0
Of which: autonomous public agencies	1.0	0.4	1.0	0.7	0.7	--	0.7	--	0.2	0.2	--	--
Commercial banks												
Net foreign assets	35.5	29.4	33.5	34.0	38.7	37.5	36.6	44.5	39.1	39.0	39.7	41.9
Foreign assets	43.4	39.2	41.5	43.9	49.8	48.7	49.9	55.6	52.0	51.9	52.6	53.0
Foreign liabilities	8.0	9.8	8.0	10.0	11.1	11.1	13.3	11.1	12.9	12.9	11.1	11.1
Reserves	14.7	14.9	14.2	13.4	13.4	15.4	15.4	16.0	13.2	13.2	16.1	15.8
NBR deposits	11.5	11.6	11.3	11.0	11.0	13.2	11.9	13.6	10.6	10.6	13.7	13.4
Required reserves	9.2	11.4	9.4	11.9	11.9	11.6	11.8	12.0	11.5	11.5	12.0	12.4
Excess reserves	2.3	0.1	1.9	-0.9	-0.9	1.6	--	1.6	-0.9	-0.9	1.7	1.0
Cash in vault	3.2	3.3	2.8	2.4	2.4	2.4	3.5	2.4	2.6	2.6	2.4	2.4
Net credit from NBR (rediscount; liability -)	2.5	-0.7	2.0	-1.4	-1.4	4.3	3.0	-5.7	0.9	0.9	-5.3	-3.3
Domestic credit	88.1	103.8	94.0	104.4	104.4	101.5	96.6	108.9	98.6	98.6	113.3	115.2
Government (net)	0.3	5.7	-0.2	4.8	4.8	4.8	-2.7	4.8	-1.2	-1.2	4.8	4.8
Credit	9.4	16.6	8.0	15.2	15.2	15.2	10.4	15.2	11.5	11.5	15.2	15.2
Deposits	9.1	10.9	8.2	10.4	10.4	10.4	13.1	10.4	12.7	12.7	10.4	10.4
Public enterprises	2.3	4.6	2.3	4.8	4.8	4.8	4.0	4.8	5.0	5.0	4.8	4.8
Private sector	85.5	93.4	91.9	94.8	94.8	91.9	95.4	99.4	94.8	94.8	103.7	105.7
Other items (net; asset +)	-22.6	-27.1	-22.2	-24.7	-25.0	-24.7	-24.8	-24.7	-30.1	-30.1	-24.7	-24.7
Deposits	118.2	120.3	121.4	125.6	130.0	134.0	126.8	139.0	121.6	121.6	139.0	144.9
Private	103.0	99.3	105.8	105.8	110.1	113.1	104.9	116.9	103.0	103.0	115.8	125.1
Public (nongovernment)	15.4	21.0	15.4	19.9	19.9	21.0	21.9	22.1	18.6	18.6	23.2	19.9

Table 3. Rwanda: Monetary Survey, 2003-04 (concluded)

	2003						2004					
	Sep. 1/		Dec.		Mar. 2/		Jun.			Sep.	Dec.	
	Prog.	Est.	Prog. 1/	Est. 1/	Est. 2/	Prog.	Est.	Prog. 2/	Est. 2/	Est. 3/	Prog. 2/	Prog. 2/
(In billions of Rwanda francs)												
Monetary survey												
Net foreign assets	105.7	84.0	134.5	91.8	104.2	102.5	103.2	99.9	109.4	109.2	104.3	104.2
Net domestic assets	43.4	71.5	20.9	70.9	62.9	69.1	59.5	77.2	52.1	52.2	74.6	81.3
Domestic credit	88.7	120.5	67.5	118.6	118.6	122.6	109.3	130.7	108.0	108.0	128.1	134.7
Government (net)	0.1	21.0	-27.4	17.5	17.5	24.4	8.2	25.0	6.1	6.1	18.1	22.8
Public nongovernment deposits (-)	-0.9	-1.0	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Public enterprises	2.4	4.8	2.4	4.9	4.9	4.9	4.1	4.9	5.1	5.1	4.9	4.9
Private sector	87.1	95.7	93.4	97.2	97.2	94.3	97.9	101.8	97.8	97.8	106.1	108.1
Other items (net; asset +)	-45.3	-49.1	-46.6	-47.7	-55.7	-53.5	-49.8	-53.5	-55.9	-55.8	-53.5	-53.5
Broad money	148.9	155.5	155.4	162.7	167.1	171.6	162.7	177.1	161.5	161.4	178.9	185.4
Currency in circulation	26.9	32.1	30.3	34.1	34.1	34.6	31.9	35.1	37.5	37.5	36.9	37.6
Deposits	122.0	123.5	125.1	128.6	133.0	137.0	130.8	142.0	124.0	124.0	142.0	147.9
Of which: foreign currency deposits	34.0	35.2	31.9	37.1	41.5	38.3	37.7	39.5	35.9	35.9	40.7	41.9
(Annual changes in percent of beginning-of-period broad money)												
Net foreign assets	26.8	4.7	25.0	-8.2	0.3	-10.0	-9.5	-9.1	-2.8	3.7	5.6	0.0
Net domestic assets	-14.1	10.6	-17.0	20.4	14.8	26.4	19.9	27.5	10.6	6.7	6.0	11.0
Domestic credit	-10.3	13.5	-15.5	19.7	19.7	23.1	14.0	22.8	7.7	7.8	4.7	9.7
Government (net)	-15.0	0.7	-20.2	10.7	10.7	12.8	1.8	12.7	0.0	0.0	-1.8	3.2
Economy	4.8	12.8	4.7	9.0	9.0	10.3	12.2	10.1	7.6	7.8	6.6	6.5
Other items (net; asset +)	-3.9	-2.9	-1.5	0.7	-4.9	3.3	5.8	4.7	2.9	-1.2	1.3	1.3
Broad money	12.7	15.3	8.0	12.2	15.2	16.4	10.4	18.3	7.8	10.4	11.6	11.0
(Annual percent changes)												
Net foreign assets	48.7	8.1	34.9	-1.1	0.5	-12.6	-12.0	-12.0	-3.7	5.2	9.4	0.0
Net domestic assets	-31.5	15.4	-59.6	44.2	52.1	72.9	48.8	73.2	17.0	23.0	4.4	29.3
Domestic credit	-13.4	17.8	-24.9	31.8	31.8	38.4	23.4	35.3	11.9	11.9	6.3	13.6
Government (net)	-99.6	4.7	-1,525.8	810.6	810.6	339.4	48.7	313.9	1.2	1.2	-14.1	30.3
Economy	7.7	21.0	7.8	14.8	14.8	18.3	21.7	16.7	12.6	12.6	10.6	10.7
Other items (net; asset +)	12.1	8.6	4.5	16.9	14.6	-8.4	-14.7	-12.0	-8.0	3.1	-3.8	-4.0
(In percent, unless otherwise indicated)												
Memorandum items:												
Currency/broad money ratio	17.9	20.6	19.3	21.0	20.4	20.2	19.6	19.8	23.2	23.2	20.6	20.3
Reserve money annual growth	13.9	26.0	7.1	12.2	12.2	14.0	10.4	16.2	14.1	14.1	11.5	11.6
Reserves/deposits	38.0	41.7	39.2	40.1	38.8	39.5	40.5	38.8	43.6	43.6	40.2	38.8
Money multiplier	3.3	3.1	3.3	3.2	3.3	3.2	3.2	3.3	3.0	3.0	3.2	3.3
Velocity of broad money (end of period)	...	...	5.7	5.6	5.4	...	...	...	...	...	...	5.4
Velocity of broad money (average of period)	...	...	5.9	7.0	7.0	...	...	...	...	...	...	6.2
Net open position of the NBR (in RF billion)	69.8	51.3	102.4	54.1	61.4	61.9	62.3	52.2	66.1	66.0	61.3	58.9
Net open position of commercial banks (in RF billion)	4.2	-2.4	4.3	0.6	1.3	-0.8	3.2	5.0	7.3	7.3	-1.0	0.0
Extended broad money (in FR billion) 5/	...	179.0	...	183.7	188.1	193.8	182.4	200.0	182.4	182.4	202.0	208.8
Nominal GDP (in RF billion)	...	...	893.4	905.3	905.3	...	...	...	...	...	...	1,004.9

Source: National Bank of Rwanda (NBR).

1/ Converted at the program exchange rate for 2003 (equal to the end-year rate 2002) of Rwanda franc (RF) 511.9/U.S. dollar.

2/ Converted at the program exchange rate for 2004 (equal to the end-year rate 2003) of RF 580.3/U.S. dollar.

3/ Converted at the nominal exchange rate.

4/ The definition of reserve money as performance criteria or structural benchmark differs from the definition in the monetary program in that it excludes the deposits of a defunct savings bank, import deposits, and dormant accounts. For 2003, the performance criteria benchmark is based on a three-week average, while data in this table refer to the last day of the period.

5/ Broad money plus deposits in UBPR and Rwanda Development Bank (BRD).

Table 4. Rwanda: Balance of Payments, 2001-07
(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002		2003			2004	2005	2006	2007
		Prog.	Est.	PRGF	Prog.	Est.				
Exports, f.o.b.	93.5	77.5	67.3	87.0	71.8	63.0	76.6	79.6	86.7	95.2
<i>Of which:</i> coffee	19.4	22.6	14.6	28.9	16.8	15.0	21.1	22.0	26.2	31.5
tea	22.7	23.6	22.0	24.8	24.6	22.5	23.2	24.9	27.6	32.1
coltan	41.1	20.2	14.0	20.4	11.3	6.4	4.7	3.7	3.0	2.5
Imports, f.o.b.	237.9	256.5	234.7	264.7	253.6	244.0	260.1	280.4	295.7	311.1
Trade balance	-144.4	-179.0	-167.4	-177.7	-181.8	-181.0	-183.5	-200.8	-209.0	-215.9
Services (net)	-125.3	-120.8	-125.1	-120.1	-140.0	-143.4	-148.9	-159.7	-166.2	-164.1
Income	-22.5	-24.6	-19.1	-25.4	-24.3	-30.5	-31.1	-29.6	-24.6	-23.5
<i>Of which:</i> interest on public debt 1/	-12.6	-12.2	-13.5	-11.6	-14.6	-14.0	-14.3	-14.7	-14.9	-15.1
Current transfers (net) 2/	191.9	124.0	194.8	106.8	152.7	223.8	256.8	280.0	252.7	237.5
Private	21.7	23.0	24.5	24.4	26.0	31.3	27.9	29.6	31.3	33.2
Public 2/ 3/	170.1	101.0	170.3	82.5	126.8	192.5	228.9	250.4	221.4	204.3
<i>Of which:</i> HIPC Initiative grants	23.9	10.5	25.6	0.0	4.7	23.0	27.2	32.0	38.8	39.9
Current account balance (including official transfers)	-100.3	-200.4	-116.7	-216.4	-193.4	-131.1	-106.7	-110.1	-147.2	-166.0
Current account balance (excluding official transfers)	-270.5	-301.4	-287.0	-298.8	-320.2	-323.6	-335.6	-360.5	-368.5	-370.3
Capital account	67.0	68.8	41.6	74.3	67.8	41.1	59.4	76.9	85.7	95.1
Capital transfers	63.4	68.8	41.6	74.3	67.8	41.1	59.4	76.9	85.7	95.1
Debt forgiveness	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal not yet due forgiven	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	78.3	11.4	66.6	33.5	29.7	25.8	35.0	65.1	91.1	116.6
Direct investment	3.8	4.8	2.6	5.0	2.7	4.7	3.6	14.2	14.9	15.6
Public sector capital	55.4	11.1	54.5	10.0	14.7	11.9	62.4	75.0	59.6	39.9
Long-term borrowing 3/ 4/	78.4	37.3	83.9	40.2	42.8	39.9	91.9	106.7	91.4	72.9
Principal not yet due rescheduled 5/	8.8	0.0	0.0	0.0	6.7	6.7	0.0	0.0	0.0	0.0
Scheduled amortization 6/	19.4	26.2	29.4	30.3	28.0	28.0	29.5	31.7	31.8	32.9
Principal not yet due 5/	12.4	0.0	0.0	0.0	6.7	6.7	0.0	0.0	0.0	0.0
Other capital 7/	19.1	-4.5	9.5	18.5	12.2	9.3	-31.0	-24.1	16.6	61.1
Capital and financial account balance	145.3	80.2	108.1	107.8	97.5	66.9	94.4	142.0	176.9	211.7
Errors and omissions	-20.6	0.0	27.9	0.0	0.0	27.3	0.0	0.0	0.0	0.0
Overall balance	24.4	-120.1	19.3	-108.6	-96.0	-36.9	-12.3	31.9	29.7	45.7
Financing	-24.4	-27.3	-19.2	-11.6	-75.2	36.9	0.9	-40.1	-36.1	-51.7
Change in net foreign assets of NBR (increase -)	-25.1	-5.0	-29.7	-11.6	-55.6	28.8	3.6	-40.1	-36.1	-51.7
Net credit from the Fund	1.5	5.8	-6.0	0.1	-0.1	-0.9	-3.6	-8.1	-14.7	-18.3
Disbursements/purchases	12.1	-0.7	0.7	-1.4	1.6	0.8	1.7	1.7	0.8	0.0
Repayments/repurchases	-10.6	6.5	-6.7	1.5	-1.6	-1.7	-5.3	-9.8	-15.5	-18.3
Change in other gross official reserves (increase -)	-21.4	-10.8	-31.6	-11.7	-55.5	29.4	5.7	-33.5	-23.2	-35.2
Change in other foreign liabilities (increase +)	-5.3	0.0	7.9	0.0	0.0	0.3	1.5	1.6	1.7	1.8

Table 4. Rwanda: Balance of Payments, 2001-07 (concluded)
(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002		PRGF	2003		2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
		Prog.	Est.		Prog.	Est.				
Change in arrears (decrease -) 8/	-37.8	-22.3	4.6	0.0	-27.9	-22.6	-5.3	0.0	0.0	0.0
Accumulation	2.9	0.0	5.6	0.0	0.0	1.3	0.0	0.0	0.0	0.0
Reduction	40.8	-22.3	1.0	0.0	27.9	23.8	5.3	0.0	0.0	0.0
Exceptional financing 9/	38.6	0.0	5.9	0.0	8.3	30.7	2.7	0.0	0.0	0.0
Cancellation	13.4	0.0	0.6	0.0	0.6	0.6	0.3	0.0	0.0	0.0
Stock of arrears	12.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current debt service	0.6	0.0	0.6	0.0	0.6	0.6	0.3	0.0	0.0	0.0
Rescheduling	25.2	0.0	5.3	0.0	7.7	30.1	2.4	0.0	0.0	0.0
Stock of arrears	21.8	0.0	0.0	0.0	2.9	23.1	0.0	0.0	0.0	0.0
Current debt service	3.4	0.0	5.3	0.0	4.8	7.0	2.4	0.0	0.0	0.0
Other HIPC relief	0.0	0.0	0.0	0.0		4.7	0.0	0.0	0.0	0.0
Financing need	0.0	147.4	0.0	120.2	171.2	0.0	11.4	8.2	6.4	6.0
Identified financing 10/	0.0	147.4	0.0	120.2	171.2	0.0	11.4	8.2	6.4	6.0
Grants expected	0.0	84.0	0.0	93.4	110.6	0.0	0.0	0.0	0.0	0.0
<i>Of which: HIPC Grants expected</i>	0.0	12.4	0.0	29.1	17.5	0.0	0.0	0.0	0.0	0.0
Loans expected	0.0	33.6	0.0	17.0	32.8	0.0	0.0	0.0	0.0	0.0
<i>Of which: exceptional financing (assumed) 11/</i>	0.0	29.8	0.0	9.8	27.7	0.0	11.4	8.2	6.4	6.0
Financing gap 12/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account deficit (in percent of GDP)										
Excluding official transfers	-15.9	-17.0	-16.6	-15.7	-18.7	-19.2	-19.6	-19.8	-19.1	-18.0
Including official transfers 3/	-5.9	-11.3	-6.7	-11.4	-11.3	-7.8	-6.2	-6.0	-7.6	-8.0
External budgetary assistance to central government (in percent of GDP)	6.7	7.2	7.9	5.8	10.5	6.3	10.5	12.3	9.2	8.0
Gross official reserves	212.1	223.6	243.6	236.6	299.1	214.2	208.6	242.1	265.2	300.4
Gross official reserves (in months of imports of goods and services)	6.0	5.9	6.3	6.2	7.4	5.2	4.6	5.2	5.5	6.0
Overall balance (in percent of GDP)	1.4	-6.8	1.1	-5.7	-5.6	-2.2	-0.7	1.7	1.5	2.2
Total external debt 13/	1,336.1	1,295.1	1,401.0	1,268.4	1,471.4	1,432.8	1,485.5	1,556.2	1,592.3	1,608.8
Total external debt (in percent of GDP)	78.4	73.2	80.9	66.8	86.1	85.1	86.6	85.4	82.5	78.0
Scheduled debt service ratio after HIPC Initiative debt relief 14/	9.3	15.4	13.8	9.1	9.1	9.3	8.4	12.0	10.5	11.1

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Including interest due to the Fund.

2/ Current transfers include budgetary and HIPC Initiative grants, and humanitarian and technical assistance.

3/ In the "Prog." and "PRGF" columns for 2002 and 2003, official transfers and/or budgetary loans exclude expected but not yet disbursed budgetary assistance.

4/ Includes disbursed project and budgetary loans through end-2003 and committed loans thereafter. For 2004, including two tranches of a World Bank IRC credit (US\$ 40 million), for which the conditionality has been substantially met.

5/ In 2003, representing the restructuring of loans by the OPEC Fund. The restructuring of one such loan is part of the HIPC relief granted by the OPEC Fund, resulting in an NPV reduction of US\$2.44 million.

6/ Excluding Fund.

7/ Other capital includes long-term private capital, commercial credit, the change in the net foreign assets of commercial banks, and unrecorded imports.

8/ The program assumes clearance of all outstanding arrears (including arrears to non-Paris Club creditors) in 2004.

9/ Signed rescheduling and cancellation, as well as reschedulings expected to be signed with Paris Club creditors before the end of the June 30, 2004 deadline for the conclusion of bilateral agreements.

10/ Data in the "Prog." and "PRGF" columns for 2002 and 2003 include expected but not yet disbursed budgetary assistance.

11/ Tentative rescheduling by non-Paris Club creditors. For the years 2004-06, it also includes assumed debt relief by Paris Club creditors on Cologne terms, in the form of flow rescheduling delivered after the end of the current consolidation period. Following the completion point, the data for "debt service due" will be revised to reflect the impact of the stock-of-debt operation.

12/ The financing gap refers to the difference between the overall balance and the identified financing (actual and expected).

13/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2004-07). The data under the "PRGF" and the "Prog.," "Est." columns are not comparable since they are based on a different treatment of projected loan disbursements. Data are preliminary and do not reflect changes in exchange rates.

14/ In percent of exports of goods and services. Data are preliminary.

Table 5. Rwanda: External Financing Requirement and Sources, 2001-07
(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007
Resource balance	-269.7	-292.5	-324.4	-332.3	-360.6	-375.2	-380.0
Exports goods and nonfactor services	157.1	132.7	139.5	158.1	169.1	183.4	198.7
Imports goods and nonfactor services	426.8	425.2	463.9	490.4	529.7	558.6	578.7
Noninterest current account (excluding official transfers) 1/	-257.9	-273.5	-309.6	-321.2	-345.8	-353.6	-355.2
Scheduled interest	-12.6	-13.5	-14.0	-14.3	-14.7	-14.9	-15.1
Capital and financial account 2/	-26.0	10.6	6.5	-56.9	-41.6	-0.3	43.8
Scheduled amortization	-19.4	-29.4	-28.0	-29.5	-31.7	-31.8	-32.9
Other capital	-6.6	40.0	34.5	-27.4	-9.9	31.5	76.7
Increase in net official reserves (excluding IMF -)	-26.7	-23.7	29.7	7.2	-31.9	-21.5	-33.4
IMF repurchases/repayments	-10.6	-6.7	-1.7	-5.3	-9.8	-15.5	-18.3
Changes in arrears (decrease = -)	-37.8	4.6	-22.6	-5.3	...	...	...
External financing requirements	-371.5	-302.3	-311.6	-395.9	-443.9	-405.8	-378.3
Disbursements-existing	324.1	296.5	274.3	232.6	210.4	220.4	207.8
Grants (project and nonproject)	233.6	211.9	233.6	185.4	168.8	174.0	179.9
Project (Public Investment Program)	63.4	41.6	41.1	59.4	76.9	85.7	95.1
Nonproject 3/	170.1	170.3	192.5	126.0	91.9	88.3	84.8
Central government	76.1	81.0	93.9	30.5	...	...	...
Other	94.0	89.3	98.6	95.5	91.9	88.3	84.8
Loans (project and nonproject)	78.4	83.9	39.9	47.2	41.7	46.4	27.9
IDA	52.5	77.1	25.4	42.9	36.4	40.0	40.0
Project	21.7	26.5	20.7	42.9	36.4	40.0	40.0
Nonproject 4/	30.8	50.6	4.7	...	...	...	...
Other multilateral banks	25.9	6.8	14.4	4.3	5.3	6.4	-12.1
Project	19.9	2.8	8.7	4.0	5.3	6.4	-12.1
Nonproject	6.0	4.0	5.7	0.2	...	...	...
Purchases from IMF	12.1	0.7	0.8	...	...	...	...
Exceptional financing (signed)	38.6	5.9	30.7	2.7	...	...	...
Principal not yet due rescheduled 5/	8.8	...	6.7	...	...	...	...
Disbursements-Expected	...	...	...	149.3	225.2	178.9	164.5
Grants	...	...	...	102.8	158.6	133.1	119.5
Project (public investment program) 6/	...	...	...	...	...	...	...
Budgetary assistance (central government)	...	...	...	102.8	158.6	133.1	119.5
Loans	...	...	...	44.8	65.0	45.0	45.0
IDA	...	...	...	40.0	50.0	30.0	30.0
Project (public investment program) 6/	...	...	...	...	...	...	...
Nonproject	...	...	...	40.0	50.0	30.0	30.0
Other multilateral banks (excluding IMF)	...	...	...	4.8	15.0	15.0	15.0
Project	...	...	...	...	...	...	...
Nonproject	...	...	...	4.8	15.0	15.0	15.0
Disbursements from IMF 7/	...	...	...	1.7	1.7	0.8	...
Exceptional financing (assumed)	...	...	...	11.4	8.2	6.4	6.0
Available financing	371.5	302.3	311.6	395.9	443.9	405.8	378.3
Residual financing gap 8/	...	...	...	...	...	...	...

Sources: Rwandese authorities; and staff estimates and projections.

1/ Excludes budgetary and HIPC Initiative grants already disbursed, and humanitarian and technical assistance.

2/ Excludes project grants and loans and budgetary loans that have already been disbursed. Includes errors and omissions for past years.

3/ Includes disbursed budgetary grants to the central government (including HIPC Initiative grants) as well as grants in the form of humanitarian and technical assistance. Budgetary grants (including HIPC Initiative grants) not yet disbursed are listed under the expected financial support. Amounts are shown net of outflowing public transfers.

4/ Budgetary loans not yet disbursed are listed under the expected financial support.

5/ In 2003, it reflects the debt rescheduling agreement with the OPEC Fund.

6/ All project grants and loans are not programmed financing and are therefore recorded under existing commitments.

7/ Includes expected Fund disbursements under the current PRGF arrangement.

8/ A negative sign implies a financing gap.

Table 6. Rwanda: External Public Debt and Debt Service, 2001-07
(In millions of U.S. dollars, unless otherwise indicated; end of period)

	2001	2002	2003	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
Total external debt outstanding 1/	1,336.1	1,401.0	1,432.8	1,485.5	1,556.2	1,592.3	1,608.8
Multilateral	1,185.2	1,249.0	1,273.6	1,338.2	1,414.9	1,455.4	1,475.9
<i>Of which:</i> IDA	767.4	833.9	847.3	917.4	989.7	1,043.8	1,084.8
IMF	84.3	84.9	91.9	87.5	79.5	65.1	46.8
Bilateral	150.4	151.5	158.6	146.8	140.7	136.3	132.4
Paris Club 2/	74.1	75.5	76.7	73.2	70.0	68.1	66.2
Non-Paris Club	76.3	76.0	81.8	73.6	70.7	68.2	66.2
Commercial 3/	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Debt service after bilateral rescheduling 4/	38.6	43.8	36.2	40.7	48.1	55.8	60.4
Principal	27.3	32.3	24.0	28.7	35.6	43.0	45.3
Interest	11.3	11.5	12.2	12.0	12.5	12.8	15.1
HIPC Initiative assistance	23.9	25.6	23.3	27.5	36.0	43.1	44.3
Multilateral	23.9	25.6	23.0	27.2	32.0	38.8	39.9
Bilateral 5/	0.0	0.0	0.3	0.3	4.0	4.3	4.4
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service after HIPC Initiative assistance 4/	14.7	18.2	12.9	13.2	20.2	19.2	22.1
Principal	10.4	13.4	8.6	9.3	15.0	14.8	16.6
Interest	4.3	4.8	4.4	3.9	5.3	4.4	5.5
Memorandum items:							
Total debt stock (in percent of GDP)	78.4	80.9	85.1	86.6	85.4	82.5	78.0
Debt service after bilateral rescheduling (in percent of exports of goods and services)	24.6	33.0	25.9	25.6	28.4	30.4	30.4
Government revenue 6/	19.8	20.7	15.9	17.6	19.3	21.1	21.4
Government current expenditure and net lending	10.8	11.9	8.9	8.7	9.2	11.5	12.2
Debt service after HIPC Initiative (in percent of exports of goods and services)	9.3	13.8	9.3	8.4	12.0	10.5	11.1
Government revenue 6/	7.5	8.6	5.7	5.7	8.1	7.2	7.8
Government current expenditure and net lending	4.1	4.9	3.2	2.8	3.9	3.9	4.5
Net present value (NPV) of debt (in US\$ million) 7/	330.6	420.7	450.9	505.7	569.1	618.2	660.5
NPV of debt-to-exports ratio 7/ 8/	236.2	287.2	315.2	352.6	365.8	363.2	359.5

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ After rescheduling, including arrears and new debt (the latter includes assumed project disbursements for the period 2004-07). Data are preliminary, pending a full debt sustainability analysis, and do not reflect changes in exchange rates.

2/ All Paris Club debt is pre-cutoff-date debt.

3/ Refers to loans by commercial creditors which were guaranteed by Paris Club creditors.

4/ Including Fund.

5/ Reflects impact of topping up to Cologne terms for non-ODA debt of Paris Club creditors from 2003. During 2005-07, the data include the effect of a stock-of-debt operation at the completion point on debt service.

6/ Excluding grants.

7/ Based on assumptions about expected new borrowing. For illustrative purposes, the numbers are shown as if HIPC Initiative assistance had been delivered unconditionally as of 1999 (data available at the time of the decision point). Data are preliminary, pending a full debt sustainability analysis

8/ The exports denominator is calculated using a three-year backward-looking average.

Rwanda: Relations With the Fund

(As of July 31, 2004)

I. Membership Status: Joined: 09/30/1963; Article VIII

II. General Resources Account:	<u>SDR million</u>	<u>percent Quota</u>
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve position in Fund	0.00	0.00

III. SDR Department:	<u>SDR million</u>	<u>percent Allocation</u>
Net cumulative allocation	13.70	100.00
Holdings	19.80	144.57

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>percent Quota</u>
PRGF arrangements	61.79	77.14

V. Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	08/12/2002	08/11/2005	4.00	2.29
ESAF/PRGF	06/24/1998	04/30/2002	71.40	61.88
SAF	04/24/1991	04/23/1994	30.66	8.76
Stand-by	10/31/1979	10/30/1980	5.00	0.00

VI. Projected Obligations to the Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	2.38	6.66	10.47	12.38	11.36
Charges/Interest	0.15	0.29	0.25	0.19	0.12
Total	2.53	6.95	10.72	12.56	11.48

VII. Implementation of HIPC Initiative:	Enhanced framework
Commitment of HIPC assistance	
Decision point date	12/22/2000
Assistance committed (end-1999 NPV terms) ²⁶	
Total assistance (US\$million)	452.00
<i>Of which:</i> Fund assistance (US\$million)	43.80
(SDR equivalent in millions)	33.81
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	14.45
Interim assistance	14.45
Completion point	...
Additional disbursement of interest income ²⁷	...
Amount applied against member's obligations (cumulative)	14.45

VIII. Safeguards Assessments:

Under the Fund's Safeguards Assessment policy, the Banque Nationale du Rwanda (BNR) is subject to a safeguards assessment under the PRGF arrangement. A Safeguards Assessment was completed on April 14, 2003, and the proposed recommendations have largely been implemented.

IX. Exchange System:

On March 6, 1995, Rwanda adopted a market-determined exchange rate system. Before then, the Rwanda franc was pegged to the SDR. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF, requiring it to ensure that the exchange system is free of restrictions on the making of payments and transfers for current international transactions. In 2001, a foreign exchange auction system was put in place with technical assistance from MFD. Since February 7, 2001, auctions have been taking place on a weekly basis.

²⁶ NPV terms at the decision point under the enhanced framework.

²⁷ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

X. Article IV Consultation:

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2002 Article IV consultation on July 24, 2002.

XI. FSAP Participation, ROSCs, and OFC Assessments:

A Report on Observance of Standards and Codes on Fiscal Transparency (ROSC) was issued in July 2003. A Financial Sector Assessment Program (FSAP) is planned in the latter half of 2004. Rwanda has not had an Offshore Financial Center (OFC) assessment.

XII. Technical Assistance:

- 1999 FAD long-term experts, on tax policy, on budget preparation, and on treasury management
- 1999 MFD long-term general advisor to governor of NBR
- 1999 MFD experts on banking supervision and foreign exchange market operations
- 2000 FAD experts on budget execution and on tax policy
- 2000 MFD experts on foreign exchange market operations, and banking supervision
- 2000 STA mission on money and banking statistics.
- 2000 STA mission on balance of payments statistics
- 2001 FAD experts on expenditure management and on tax policy
- 2001 FAD mission on tax policy
- 2001 MFD mission on foreign exchange policy, monetary policy, and banking supervision
- 2001 MFD expert on monetary policy implementation
- 2001 FAD mission on assessment of tracking of poverty reducing expenditure, and the fiscal ROSC
- 2001 MFD expert on banking supervision
- 2001 FAD experts on expenditure management, and on tax policy (until mid-year)
- 2002 MFD expert on banking supervision (until November)
- 2002 MFD expert on monetary and foreign exchange rate policy
- 2002 AFRITAC East work plan mission
- 2003 AFRITAC East mission on statistical issues
- 2003 FAD mission on fiscal ROSC and budget management system
- 2003 AFRITAC East mission on developing the market for government treasury bills
- 2003 FAD mission on reform of investment incentives and tax reform
- 2003 MFD expert on monetary and foreign exchange rate policy
- 2003 MFD expert on banking supervision and regulation
- 2003 MFD missions on banking supervision
- 2003 MFD mission on foreign reserves management
- 2003 STA multi-sector statistics mission.
- 2003 FAD mission on Decentralization
- 2004 FAD tax administration expert on strengthening of revenue administration
- 2004 MFD expert on banking supervision and regulation
- 2004 MFD expert on monetary policy, monetary operations, and money markets

2004 MFD missions on on-site banking supervision

XIII. Resident Representative:

Mr. Abdikarim Farah completed his posting as Resident Representative in Kigali on June 30, 2004. His replacement remains in process.

Rwanda: Relations with the World Bank (As of August 5, 2004)

Partnership for Rwanda's Development Strategy

Donor agencies have been key players in Rwanda since the genocide. With the support from the international community, Rwanda has made notable progress along an ambitious path of reconstruction, national reconciliation, and economic reform. In recent years, the Government has made some ambitious efforts, based on its Poverty Reduction Strategy Paper (PRSP), to reduce poverty and improve living conditions of the poor. The PRSP was completed in June 2002. This strategy was supported and discussed by the Boards of the IDA and the IMF on August 12, 2002. The PRSP targeted the halving of poverty by 2015 through a private sector and rural sector strategy. The strategy mainly focuses on six priority areas: (1) rural development and agricultural transformation; (2) human development; (3) economic infrastructure; (4) good governance; (5) private sector development; and (6) institutional capacity building—as the focus for public actions on poverty reduction. Civil society, government agencies and ministries, and donors have all been actively involved in the PRSP process and monitoring. The first PRSP progress report was issued in July 2003 and a Bank-Fund JSA produced in May 2004. The second PRSP progress report is currently under preparation and is expected to be issued end-August 2004.

World Bank Group Program and Portfolio

The last Country Assistance Strategy for Rwanda was discussed by the World Bank Board in December 2002. The CAS sets out an assistance program consistent with the country's PRSP and emphasizes the need to move progressively from project-based approaches to budget support. In line with this approach, a Poverty Reduction Strategy Credit (PRSC) is currently under preparation. The proposed credit would help strengthen GoR capacity to (i) plan and budget results-oriented public sector actions supporting the implementation of the Poverty Reduction Strategy; (ii) develop incentive frameworks through performance-based payments and contracting; (iii) establish strong accountability mechanisms enhancing the capacity of Rwandan citizens to monitor and provide feedback to service providers—both public and private; and (iv) implement a sound fiduciary framework, as well as a monitoring and evaluation system to facilitate transparency and accountability in the service delivery in the sectors of focus (i.e., health, education, water, energy). The credit is expected to go to the Board in October 2004.

International Development Agency (IDA) Program: Since 1970, Rwanda has received 58 IDA credits and grants totaling US\$1,268.6 million. As of end-July 2004, disbursements from IDA to Rwanda have totaled about US\$921.3 million, with a total undisbursed balance of US\$231.1 million. Rwanda's current portfolio of ten operations represents, as of July 2004, a total commitment value of US\$281.3 million of credits and grant facilities of US\$30.5 million for an HIV/AIDS project and US\$20 million for a decentralization and community development project.

Overall, IDA has financed projects in (i) infrastructure, particularly road construction and maintenance, electricity and water supply, and sanitation infrastructures; (ii) agriculture, rural development, and forestry; (iii) social infrastructure, including health and population, and education and training; (iv) private sector development, public enterprise reform, financial development, and technical assistance; and (v) two policy-based quick-disbursing operations. During the immediate post-genocide period, IDA financed two emergency budget support operations and a social fund-type project, and restructured its prewar portfolio of investment projects to meet the high-priority needs associated with the emergency and the transition from conflict to development.

International Finance Corporation (IFC) Program: The IFC has made some investments in Rwanda, in various industries. Investments have been made in the Rwandan match factory (SORWAL). In FY1998, IFC approved a US\$0.53 million investment in Highland Flowers and in FY2000, a US\$6.0 million in RWANDACELL. In December 2000, an investment of US\$0.8 million was approved for an apartment hotel in Kigali. In addition to these investments, IFC has also provided some technical assistance support to Rwanda focusing on privatization, SMEs, the financial and industrial sectors.

Multilateral Investment Guarantee Agency (MIGA) Program: Rwanda signed and ratified the MIGA Convention on October 27, 1989. On September 27, 2002, it became a full member of MIGA with the completion of its membership requirements, including payment of the usable currency and the local currency portions of its initial subscription, and deposit of the promissory note. The membership was followed by Rwanda's election to MIGA's Board of Directors during the World Bank/IMF annual meetings held in Washington. As one of its cooperative initiatives, MIGA seconded a senior underwriter for more than a year to COMESA (of which Rwanda is a member) to work on the creation of the Africa Trade Insurance Agency, which was officially launched in Uganda in July 2001. Rwanda is a founding member of ATI, along with seven other COMESA countries. Headquartered in Nairobi, Kenya, ATI provides political risk insurance for trade credits in African countries. All African countries are eligible to participate.

World Bank-IMF Collaboration in Specific Areas

The World Bank and IMF are closely coordinating their lending and policy advice to the Government of Rwanda. This collaboration has deepened in recent years especially in the context of the PRSP and HIPC processes.

Areas in which the Fund leads: The IMF leads the policy dialogue on macroeconomic policies, including fiscal and monetary policies. The IMF has supported Rwanda through several arrangements under ESAF/PRGF. The Government had requested a new three-year arrangement, which started in August 2002. The second and third review of the arrangement were completed in June, 2004. This new arrangement under the PRGF is to support a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty in Rwanda. Structural reforms under the PRGF center around

measures to raise revenue to make sufficient room for increased poverty-related spending and development needs, and to strengthen public expenditure management and financial governance.

Areas in which the World Bank leads: The Bank leads the policy dialogue on structural and institutional reforms in a number of areas. These include: infrastructure, including roads, communication, water, sanitation, and energy; private sector development; agriculture and rural development; social sectors, including health and HIV/AIDS, education, community development, and demobilization and reintegration.

- **Broad Structural and Policy reforms:** The first structural adjustment loan for Rwanda was approved in June 1991. In 1995 and 1997, the World Bank approved two emergency recovery credits (US\$50 million each) as quick-disbursing budget support to assist in the rehabilitation and recovery efforts. In March 1999, an economic recovery credit (ERC) equivalent to US\$75 million was approved to support the economic reform efforts and the overall transition from conflict to peace. The credit was disbursed in three tranches; the last one was at end-March 2001. The Board also approved a supplement to the ERC in the equivalent of US\$15 million in December 2000, which was disbursed in full in March 2001.

Supported by the new CAS, an Institutional Reform Credit (IRC) of US\$85 million was approved on December 2, 2002, with the first tranche of US\$45 million disbursed in December 2002 and the second tranche in May 2004 to support the implementation of the government's poverty reduction strategy. Many key institutional and structural reforms have been identified as triggers for the tranches release. Important measures identified are the adoption of an MTEF approach to budget planning and execution, completion of a Financial Accountability Review and Action Plan, which is now under implementation, privatization of key government undertakings in energy, telecommunications, tea factories, legal reforms to promote gender equality, and privatization of the Banque Commercial de Rwanda (BCR). Although progress on some of these measures has been slow, a number of measures are either at advanced stages or have been completed. Privatization of the BCR—which is a specific condition for the floating tranche—was completed at the beginning of August 2004; hence the disbursement of the remaining US\$20 million is expected very soon.

In addition to strengthening the reforms initiated under previous adjustment credits, the upcoming PRSC will focus on the following key areas: (i) pro-poor public expenditures—in education, health, water/sanitation, and energy; (ii) improved quality, efficiency, and equity of service delivery; and (iii) policies to promote sustainable economic growth that support increased productivity of rural populations, through increased access to social services, and support to export agriculture.

- **Infrastructure and private sector development:** A number of World Bank-supported infrastructure projects that closed recently helped to strengthen capacity

and rebuild infrastructure in post-genocide Rwanda. The Transport Sector Project helped to reform sector policies, develop the planning capacity of the government, improve road maintenance ability, and promote private sector activity in the sector. The project supported main road construction, improved road maintenance, and promotion of communal activities. The Second Communications Project, which closed on June 30, 1999, promoted efficient communications through institutional reform and investments. It sought to create autonomous, commercially oriented operating entities for the telecommunications and postal services, and to provide a regulatory framework to permit the entry of the private sector into the telecommunications industry. The Energy Sector Project helped to establish national energy policies as the basis for efficient utilization of Rwanda's energy resources and provided a framework for private sector participation in the sector. The Second Water Supply Project helped to repair damaged water supply systems, financed an evaluation of the water needs in secondary cities, and rehabilitated rural water supply systems. The Rural Water Supply and Sanitation, approved by the Board in June 2000, will continue the activities of the Second Water Supply Project in a framework that emphasizes greater community participation. The Bank is preparing new projects in transport, energy, and urban infrastructure to continue the support of the closed projects. In addition, an upcoming Poverty Reduction Support Credit will support key reforms and policies in water/sanitation, and energy to improve the quality, efficiency and equity of service delivery.

- **Private Sector Development:** The emphasis of the Bank's support in private sector development has been on enabling the establishment of a liberal institutional, legal, and policy environment to accelerate private sector activity and enhance external competitiveness. In this vein, the Private Sector Development Project, which closed in September 2000, sought to promote expansion of the private sector through the provision of both incentives and means to engage in labor-intensive, export-oriented activities within an improved economic and legal framework. A follow-on project, the Competitiveness and Enterprise Development Project (CEDP), was approved by the Board on April 19, 2001. The CEDP will continue to support the reform of the telecommunications sector and the privatization of the current telephone monopoly, and tea factories. It will also provide support to the energy and water sector by providing management and rehabilitation funds (including management contract fees), and assist the government in privatizing the remaining state-owned enterprises. One of the main components of this project is support to financial sector reforms, which aims at (i) addressing certain issues in the commercial banking sector, and (ii) strengthening the micro-finance sector. Another key component of the project is the support to private sector development of enterprises, associations and institutions that support private sector development including investment promotion and improvement of the business environment in Rwanda. Many of the components are well advanced. In addition, the Regional Trade Facilitation Project (RTFP) aims to contribute to poverty alleviation through private sector led growth in participating countries by improving access to financing for productive transactions and cross-border trade.

- **Agriculture and Rural Development:** The World Bank has been supporting government efforts through the Rural Sector Support Project, which was approved in March 2001. The aims of this operation are to reduce the smallholders' incentives for autarchy, to promote the adoption of improved inputs, and to raise productivity and incomes among rural populations. Furthermore, the RSSP has been supporting programs that increase agricultural productivity, develop rural agricultural and nonagricultural enterprises, and promote farmers' organizations as agents for the adoption and dissemination of new farming technologies.
- **Social sector:** The World Bank's activities have been aimed at restoring social infrastructure and services in the aftermath of the 1994 genocide through the Education Sector Project, approved in 1991, and the Health and Population Project, also approved in 1991. The Education Project was finalized in June 2000, and on June 6, 2000 the Board approved a US\$35 million Human Resources Development Project (HRDP) aimed at improving quality and access to education. The Health and Population Project supported the operation of six health districts, the supply of essential drugs, a national information, education, and communications (IEC) capacity, and the restructuring and decentralization of the National AIDS Control Program. US\$7 million supplemental to this project was approved by the Board at end-2000 to continue activities pending the design of a new project. The Community Reintegration and Development Project (CRDP), approved in October 1998, has promoted community reintegration and development through community participation. CRDP is strengthening the capacity of local communities and the administration at the communal and national levels to identify, design, and implement development projects. This has supported the decentralization process. The Bank recently approved a grant of US\$30.5 million for HIV/AIDS Prevention to support the fight against the pandemic. In addition, the HRDP, and the CEDP have HIV/AIDS components that are used to assist the relevant ministries to spread the message of prevention among their staff and clients. The Demobilization and Reintegration project, which was approved by the Board on April 25, 2002, is to help demobilize and subsequently reintegrate ex-combatants into civilian life. Additional support to reforms in the social sectors, and implementation of the PRSP will be provided through an upcoming PRSC.
- **Community Development.** The Decentralization and Community Development Project (DCDP), funded by a US\$20 million grant approved in June 2004, will consolidate a framework in four provinces and two districts in a fifth province, to boost the emergence of a dynamic local economy, through communities who are empowered to lead their own development process under an effective local government. This is a key plank in the national poverty reduction strategy and is underpinned by the government's decentralization policy. The project therefore contributes to Rwanda's long-term goal for decentralization and a realigned mandate for central government, through the empowerment and improved accountability of local governments and communities. The project will help to strengthen District capacity for planning, and consultation with local communities. It will also support

local procedures for project finance and management, while promoting transparency and public awareness.

Areas of Shared Responsibility: The IMF and the World Bank staff continue to collaborate in supporting the government's structural reforms in the areas of budgeting, expenditure and financial management, revenue control, and financial sector management.

- **Budgeting, public expenditure management, and revenue control.** A joint World Bank-Fund assessment of the government's capacity to track poverty expenditures was completed in 2001, which highlighted the key areas for improvement. An update of the 2001 exercise is planned for May 2004. IMF technical assistance missions have been fielded in the areas of financial management, fiscal decentralization, and revenue management. The Bank has provided support in this area under the Institutional Reform Credit, with the completion of a Financial Accountability Review. Based on the results of this review, a detailed action plan for strengthening the public financial management system was recently completed. This action plan was developed through a highly consultative and participative process that engaged all stakeholders. The Bank will support implementation of the action plan through the IDA Public Sector Capacity Building Project (PSCBP) currently under preparation.
- **Public Sector Reform and Capacity Building.** The Fund follows public service reforms through their impact on macroeconomic aggregates, and engages in discussion with government on the trade-offs. Currently, the government is in the process of consulting various partners to launch a number of reforms in the sector. DfID as the lead donor in public service reform is preparing a sizable program to support implementation of Rwanda's Public Sector Reform Strategy. The Bank will join DfID and other development partners in supporting public service reform in Rwanda through the Public Sector Capacity Building Project (PSCBP), whose US\$20 million credit was approved by the Bank Board in July 2004. The PSCBP aims to support public sector entities at the central level to strengthen the capacity for more efficient, effective, transparent, and accountable performance of their redefined roles and functions and to achieve their strategic objectives contributing to the PRSP. More specifically, the PSCBP aims to (i) attract, manage, and retain qualified staff; (ii) seek to improve the quality and efficiency of service delivery through support to "contracting for performance" based on functional reviews of all ministries, departments, and agencies to identify functions to be contracted out to the private sector and civil society and those to be decentralized; and (iii) use financial resources in an effective, transparent and accountable manner toward achieving the objectives of their intended use. PSCBP attention to issues of public accountability and monitoring impacts will further be complemented by the Bank's PRSC.
- **Financial Sector.** In this area, the World Bank has provided support in the restructuring of the banking sector, and in addressing the problem of nonperforming loans. The Bank has also supported the government to complete reviews of the micro-

finance sector, to feed into the development of a sector strategy. Upcoming technical assistance will support the central bank in dealing with issues pertaining to money laundering. The IMF has supported technical assistance in banking supervision and prudential regulation. A Financial Sector Assessment Program is planned later in 2004. Currently, the IMF is providing long-term technical assistance to the Central Bank in monetary policy analysis, banking supervision, and internal audit. The Fund is also providing technical assistance on the development of securities markets.

World Bank staff

Questions may be referred to Emmanuel Mbi (Tel. 202-473-4953) and Kene Ezemenari (Tel. 202-458-5559).

Status of World Bank Group Operations in Rwanda
(As of August 5, 2004)

A. Statement of IDA Credits

Status of Credit	Fiscal Year	Purpose	Original Credit Amount in US\$ Million (Less Cancellations)	Undisbursed
Closed credits: (48 credits closed)			795.5 ²⁸	0.0
Active credits:				
	2001	Competitiveness and Enterprise Dev	40.8	31.05
	2000	Rural Water Supply and Sanitation	20.0	18.57
	2001	Regional Trade Facility	7.5	5.95
	2000	Human Resource Development	35.0	22.96
	2001	Rural Sector Support Project	48.0	44.68
	2002	Demobilization & Reintegration	25.0	18.60
	2003	HIV/AIDS	30.5	26.90
	2003	Institutional Reform Credit	85.0	22.12
	2004	Decentralization & Community Development	20.0	20.11
	2005	Public Sector Capacity Building	20.0	20.18
			331.8	231.12
Total: active projects:				
Total approved amount ²⁹			1,268.6	
<i>Of which:</i> repaid			84.1	
Total held by the Bank and IDA			929.5	

B. Statement of IFC Investments in Rwanda

The IFC's pending commitments in Rwanda comprise those in Rwandacell, AEF Dreamland, and AEF Highland, amounting to US\$5.326 million.

²⁸ Includes two emergency recovery credits of US\$50 million each, approved in 1995 and 1997, respectively, and fully disbursed.

²⁹ Total approved amount, covering closed and active credits which also included cancellations.

Rwanda: Statistical Issues

60. The macroeconomic database of Rwanda is weak, in part due to the destruction caused by the 1994 war. Since the end of the war, Rwanda has received considerable technical assistance in rebuilding the country's statistical database, and there has been some progress in the compilation and dissemination of economic and financial statistics. The authorities are fully cooperative in providing data to the Fund. Rwanda has very few statistical publications, but the authorities initiated in 1998 a new annual publication covering most of the major economic and financial statistics. The publication includes historical data (or estimates based on partial, available data) dating back to 1990. National accounts and price statistics, government finance, and balance of payments statistics suffer from significant quality weaknesses. Monetary statistics are adequate for surveillance and program monitoring, but their quality and timeliness likewise need to be further improved. There is also scope for improving the data relevant for banking supervision.

61. Significant technical assistance is being provided to Rwanda. A DFID project is supporting the establishment of the "Institut National des Statistiques de Rwanda" with a component on national accounts. The objective of this is to establish a program of economic surveys and to develop leading economic indicators which will provide the basic data to feed into the compilation of GDP.

62. East AFRITAC assistance is focused on capacity building to enable the construction of short term indicators on the formal sector, starting with a monthly PPI for the manufacturing (formal) sector. This is a joint project with the central bank (BNR). DFID is providing financial support. PPI for the months of October 2003-June 2004 have been computed and are currently being analyzed.

Real sector

63. The Statistics Directorate of the Ministry of Finance and Economic Planning (MINECOFIN) prepares data on national accounts. After the 1994 war, the authorities compiled national accounts data starting from 1990. Nevertheless, the quality of these data is weak, reflecting shortages of human and material resources. While considerable effort was made to improve the reliability of GDP estimates using the production approach, significant weaknesses in data collection on expenditures, and income remain. These weaknesses are reflected in uncertainties regarding the composition of GDP and they complicate, in particular, an adequate assessment of developments in savings and investment. The reliability of national accounts estimates are further hampered by weak external sector statistics. In 2003, an East AFRITAC mission visited Kigali to advise the authorities on real sector statistics issues, especially in the area of secondary sector statistics. In February 2004 the EREBS group (Equilibre resources-emploi des biens et services) assisted the MINECOFIN to develop new benchmarking GDP estimates (2001) and the manufacturing PPI. The new GDP estimates show an increase by about 7 percent as compared to previous ones, with greater differences in many of the component categories.

64. The NBR has set up an improved consumer price index (CPI). The index addresses problems regarding regional and consumption basket coverage and covers 438 goods, for which a total sample of more than 25,000 is observed in Kigali (weighted 77 percent) and in eleven provincial towns. The index is based on a survey of 6,450 households in 2000/01 (the last survey had been done in 1989) and on average 2003 prices. Local goods amount to 70 and imported goods to 30 percent, while food and drinks amount to 37, and housing and energy amount to 16 percent. Shortcomings remain, however: The index aggregates infrequently purchased products in groups with all products in the respective group assigned the same weight; and the index of underlying inflation is too narrow as it excludes 53 percent of the goods as seasonal or exchange-rate-determined. In 2003, the old and the new index developed closely in line, although the old index indicated higher inflation pressures during the period of monetary overhang during the last quarter of 2003 than the new index.

65. Data on employment and wages are not collected, except for the central government and for daily informal work.

66. Real sector data are reported regularly for publication in *International Finance Statistics (IFS)*, although with some lags, particularly for GDP estimates.

Government finance statistics

67. The authorities report to the African Department detailed monthly data on revenue and expenditure with a lag of three–four weeks. These data are compiled by a flash-reporting unit which was established in the MINECOFIN, with the assistance of the Fund, in 1996. A functional classification of government expenditure has been designed and was presented with the 2003 budget. Within the economic classification, expenditures belonging to areas identified by the PRSP as “priority areas” are clearly identifiable. The fiscal data do not capture consistently capital expenditure data because capital projects (almost entirely foreign financed) are mainly carried out by line ministries outside the regular budget procedures. Efforts are under way to integrate the development budget into the normal budgetary procedures. Fiscal data have often shown a discrepancy between the deficit as derived from above the line with that derived from below the line (i.e., its financing). Together with the Fund staff, the authorities have made adjustments for changes in the balance of non-core government accounts, for changes in cash in vault at the revenue authority, for accounting errors, and for other factors.

68. Selected aggregates on annual central government operations through 2002 have been reported to the Statistics Department (STA) and are published in *IFS*. These data exhibit large statistical discrepancies, mainly due to the time of recording of expenditures. No sub-annual data are reported to STA and government finance statistics (GFS) have been reported for publication in the *GFS Yearbook* only through 1993.

Monetary statistics

69. The balance sheet of the NBR is transmitted to the African Department on a weekly basis with a lag of one week, and the monetary survey and the consolidated balance sheet of

the country's commercial banks are transmitted on a monthly basis with a lag of about four weeks. Detailed data on interbank money market transactions are also provided upon request to mission staff. Monetary data are reported separately to the Statistics Department on a timely basis and published in *IFS*. The NBR established a working group to implement the recommendations of previous STA and MFD missions in the area of collection, compilation and dissemination of monetary and financial statistics, including, a monetary and financial statistics mission which visited Kigali in November 2000. The NBR has effectively implemented the medium-term action plan of the November 2000 mission and continues to make progress on the longer-term recommendations. For example, it adopted in June 2002 an improved classification of the central bank balance sheet accounts, specifically those related to transactions with the government. In addition, in early 2004, the NBR successfully adapted its existing compilation framework to that of the *Monetary and Financial Statistics Manual*. These actions have contributed to, among other things, improved inter-sectoral consistency of the monetary and financial statistics.

Balance of payments statistics

70. Foreign trade data are provided to Fund missions by the NBR. There are inconsistencies between data reported by the NBR and data recorded by customs. There is also significant unrecorded trade, and information on invisible transactions is scarce. There are indications of significant under recording of official external transfers, and data on the level and composition of private flows are poor. The lack of well-trained staff for balance-of-payments compilation is a major impediment for improvement of the quality of data. Trade in goods data are mostly collected by customs with the major exception of imports and exports of electricity, tea, and coffee. Customs is expected to take over responsibility for the reporting of the latter goods in the near future. The implementation of supplementary surveys to companies, recommended by a STA mission to Kigali in September 2000, is currently being implemented: the NBR launched a unit in charge of these surveys, which, however, still lacks adequate training.

71. A recent multisector statistics mission to Kigali (June 2003) identified the following areas of improvements in the short run: (1) reorganizing data entry and production of external trade statistics, using ASYCUDA and Eurotrace softwares; (2) adapting survey forms to companies to the *BPM5* methodology, and (3) work with CEPEX to obtain exhaustive data on international and bilateral aid. A follow-up mission visited Kigali in January 2004

72. Annual balance of payments and quarterly import and export data are reported to STA, albeit with some lags, and are published in *IFS*. Rwanda sent methodology notes describing the compiling methods for balance of payments statistics which were included in Part 3 of the 2002 Balance of Payments Statistics Yearbook (BOPSY).

73. Databases on external public debt are maintained by both MINECOFIN and the NBR. The authorities have established a committee, composed of the staffs of the ministries of Finance and Economic Planning and Foreign Affairs and the NBR, to collect, harmonize, and monitor information on external public debt.

Rwanda: Core Statistical Indicators
(As of September 14, 2004)

	Exchange Rates	International Reserves 5/	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance 6/	GDP/GNP	External Public Debt 7/	Debt Service 7/
Date of Latest Observation	Current	9/3/04	9/3/04	9/3/04	6/30/04	6/04	6/04	06/04	2003	07/04	2003 1/	12/02 1/	12/03 1/
Date Received	Current	9/10/04	9/10/04	9/10/04	8/11/04	8/11/04	8/11/04	9/10/04	3/04	09/04	7/04	2/03	4/04
Frequency of Data	Daily	Weekly	Weekly	Weekly	Monthly	Monthly	Monthly	Monthly	Annually	Monthly	Annually	Annually	Annually
Frequency of Reporting	Weekly	Weekly	Weekly	Weekly	Monthly	Monthly	Monthly	Monthly	Semi-annually	Monthly	Semi-annually	Semi-annually	Semi-annually
Source of Update	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	MFEP 3/	MFEP 3/	MFEP 3/	MFEP 3/
Mode of Reporting	Facsimile/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Mainly during missions	Facsimile/ missions/ e-mail	Mainly during missions	Mainly during missions	Mainly during missions
Confidentiality	No	4/	4/	4/	4/	No	No	4/	4/	4/	4/	4/	4/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	Annually	Annually

1/ Estimates.

2/ NBR = National Bank of Rwanda.

3/ MFEP = Ministry of Finance and Economic Planning.

4/ Preliminary data for staff use only; actual data are unrestricted.

5/ International Reserves refer to gross official reserve assets.

6/ The category Overall Government Balance refers to Central Government Balance.

7/ External public debt refers to external public debt owed or guaranteed by the central government, local governments or the National Bank of Rwanda. Normal import-related credits are excluded. The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance criteria with respect to foreign debt adopted on August 24, 2000.

Rwanda: Note on Medium- to Long-Term Scenarios

74. As a way to focus discussions on Rwanda's long-term economic challenges, scenarios were developed to assess investment requirements for achieving long-term development objectives and their implications for required donor assistance and fiscal and external debt sustainability. Each of the resulting scenarios is anchored by one explicit target to be reached by 2020. The targets are (i) GDP per capita of US\$900; (ii) GDP per capita of US\$630; (iii) NPV of debt-to-exports ratio of 150 percent. Each of these scenarios further incorporates three additional paths of export growth ("optimistic," "base," and "status quo"), which extend the range of debt sustainability outcomes.

75. The framework incorporates several simple-to-understand assumptions and is bound firmly by past historical trends and statistical averages applicable to a developing economy such as Rwanda. The objective of the exercise is to match the requisite capital resources with the borrowing requirements, fiscal stability rules, and prudential balance of payments management. Overall, the targets set are ambitious but the assumptions are realizable.

76. The central relationship is a production function that converts public and private investment into output. Labor supply adjusts to changes in capital resources one-to-one and labor productivity growth matches exactly that of capital. This assumption eliminates labor input from consideration and allows policymakers to focus entirely on capital resources, which are the constraining factor. Private capital mobilization is difficult in a country with historically low saving ratios and widespread poverty. For this reason, private sector investment (both domestic and foreign) is assumed to grow moderately faster than GDP throughout the period under study. This makes public investment flow one of the key policy variables and a focus for the income generation part of the model.

77. The framework assumes that Rwanda's population growth slows gradually from today's 2.7 percent annual rate to 2 percent by 2010 and then stays there until 2020. The investment growth relationship is set on the basis of an assumed incremental capital-output ratio (ICOR) of 3.5 (compared to a realized ICOR of 4.8 during 2000-03), which corresponds to a 29.5 percent rate of return on investment (on aggregate).³⁰ The scenarios assume no change in the real exchange rate, with values projected in constant 2004 Rwanda francs.

78. In the first two scenarios (bound by the GDP target), public investment is set to increase faster than GDP but otherwise its growth path and annual levels are the outcomes of the exercise. In the third scenario (bound by the debt ratio), public investment is capped by the borrowing requirement in the fiscal sector.

³⁰ As some part of social investment will affect productivity only over the longer term, this assumption corresponds to a higher rate of return for other investment.

Table 1. Rwanda: Scenario 2020 Target

Derive necessary investment to reach the target of US\$900 in 2020

Key assumptions:

Average population growth (in percent)	2.2 percent
Investment productivity	29 percent
Private investment	Grows at a fixed rate above real GDP growth
Public investment	Grows faster than real GDP growth
Government borrowing	Residual from total resources (revenues and grants) and total expenditures
Real exchange rate	No change

Profile:

	2005	2006	2007	2010	2015	2020
GDP real growth rate (in percent)	6.1	6.4	6.7	7.7	10.1	13.5
Investment (in percent of GDP)	22.3	23.3	24.4	28.3	37.3	50.3
<i>Of which:</i> private	12.8	12.9	13.1	13.5	14.3	15.0
public	9.5	10.4	11.4	14.8	23.0	35.3
GDP per capita (in U.S. dollars)	207	221	237	301	487	901
Grants (in millions of U.S. dollars)	177	168	180	180	180	180
External public borrowing requirement (in millions of U.S. dol)	107	91	111	249	637	1,755
Sustainability						
Domestic revenue (in percent of GDP)	13.7	13.7	13.7	13.8	15.1	16.2
Government expenditures and financial transfers	32.7	29.1	27.7	30.7	36.1	44.5
Overall fiscal deficit and arrears clearance (in percent of GDP)						
including grants	-9.0	-6.4	-4.9	-9.6	-16.3	-25.6
excluding grants	-19.0	-15.4	-13.9	-16.9	-21.0	-28.3
NPV (in percent of exports)						
Optimistic	210	216	226	257	447	833
Base	214	226	242	330	644	1,259
Status quo	227	261	305	505	1,272	3,169
Debt service (in percent of exports)						
Optimistic	6.3	8.5	9.6	7.0	9.3	16.5
Base	6.7	9.2	10.4	9.7	13.6	25.2
Status quo	8.0	11.9	13.4	15.7	28.1	66.5

Table 2. Rwanda: Scenario 70 Percent of 2020 Target

Derive necessary investment to reach target of US\$630 in 2020

Key assumptions:

Population growth (in percent)	2.2 percent
Investment productivity	29 percent
Private investment	Grows at a fixed rate above real GDP growth
Public investment	Grows faster than real GDP growth
Government borrowing	Residual from total resources (revenues and grants) and total expenditures
Real exchange rate	No change

Profile:

	2005	2006	2007	2010	2015	2020
GDP real growth rate (in percent)	6.1	6.2	6.2	6.5	6.9	7.4
Investment (in percent of GDP)	21.6	21.9	22.1	23.0	24.5	26.1
<i>Of which:</i> private	12.8	12.9	13.1	13.5	14.3	15.1
public	8.8	8.9	9.1	9.5	10.2	11.0
GDP per capita (in U.S. dollars)	207	221	236	292	424	630
Grants (in millions of U.S. dollars)	177	168	180	180	180	180
External public borrowing requirement (in millions of U.S. dollars)	107	91	112	175	245	315
Sustainability						
Domestic revenue (in percent of GDP)	13.7	13.7	13.7	13.8	15.1	16.2
Government expenditures and financial transfers	32.7	29.1	27.8	28.1	27.4	26.0
Overall fiscal deficit and arrears clearance (in percent of GDP)						
including grants	-9.0	-6.4	-5.0	-6.8	-6.9	-6.0
excluding grants	-19.0	-15.4	-14.0	-14.3	-12.3	-9.8
NPV (in percent of exports)						
Optimistic	210	216	226	235	298	346
Base	214	226	242	301	430	522
Status quo	227	261	305	461	848	1315
Debt service (in percent of exports)						
Optimistic	6.3	8.5	9.6	6.7	7.3	9.7
Base	6.7	9.2	10.4	9.3	10.6	14.7
Status quo	8.0	11.9	13.4	15.0	22.0	38.9

Table 3. Rwanda: Scenario 150 Percent

Derive investment from available resources debt sustainability (150 percent of NPV to exports)

Key assumptions:

Population growth (in percent)	2.2 percent
Investment productivity	29 percent
Private investment	Grows at a fixed rate above real GDP growth
Public investment	Determined by borrowing constraint
Government borrowing	Residual from total resources (revenues and grants) and total expenditures
Real exchange rate	No change

Profile:

	2005	2006	2007	2010	2015	2020
GDP real growth rate (in percent)	6.1	5.3	6.7	6.5	6.2	6.6
Investment (in percent of GDP)	18.4	23.6	22.2	21.2	21.8	23.3
<i>Of which:</i> private	12.8	12.9	13.1	13.5	14.3	15.1
public	5.6	10.7	9.1	7.7	7.6	8.2
GDP per capita (in U.S. dollars)	207	219	235	290	410	587
Grants (in millions of U.S. dollars)	177	168	180	180	180	180
External public borrowing requirement (in millions of U.S. dollars)	107	91	20	20	20	20
Sustainability						
Domestic revenue (in percent of GDP)	13.7	13.7	13.7	13.8	15.1	16.2
Government expenditures and financial transfers	30.3	26.8	23.3	22.1	21.1	21.4
Overall fiscal deficit and arrears clearance (in percent of GDP)						
including grants	-6.5	-4.1	-0.5	-0.8	-0.4	-1.0
excluding grants	-16.6	-13.1	-9.6	-8.3	-6.0	-5.2
NPV (in percent of exports)						
Optimistic	210	216	203	152	124	100
Base	214	226	218	195	178	151
Status quo	227	261	275	299	352	380
Debt service (in percent of exports)						
Optimistic	6.3	8.5	9.3	5.6	5.0	4.9
Base	6.7	9.2	10.0	7.8	7.2	7.5
Status quo	8.0	11.9	13.0	12.6	15.0	19.7

Rwanda: Millennium Development Goals

	1990	1995	2001	2002
Eradicate extreme poverty and hunger (2015 target = halve 1990 US\$1 a day poverty and malnutrition rates)				
Population below US\$1 a day (in percent)	...	...	...	...
Poverty gap at US\$1 a day (in percent)	...	...	...	...
Percentage share of income or consumption held by poorest 20 in percent	...	...	...	...
Prevalence of child malnutrition (percent of children under 5)	29.4	27.3	24	...
Population below minimum level of dietary energy consumption (in percent)	34	...	40	...
Achieve universal primary education (2015 target = net enrollment to 100)				
Net primary enrollment ratio (percent of relevant age group)	65.9	...	97.3	...
Percentage of cohort reaching grade 5 (in percent)	60	...	39.1	...
Youth literacy rate (in percent ages 15-24)	72.7	78.6	84.2	84.9
Promote gender equality (2005 target = education ratio to 100)				
Ratio of girls to boys in primary and secondary education (in percent)	97.6	...	97.1	...
Ratio of young literate females to males (in percent, ages 15-24)	86.4	91.8	96.3	96.9
Share of women employed in the nonagricultural sector (in percent)	...	...	...	...
Proportion of seats held by women in national parliament (in percent)	17	17	26	26
Reduce child mortality (2015 target = reduce 1990 under 5 mortality by two-thirds)				
Under 5 mortality rate (per 1,000)	178	210	183	191
Infant mortality rate (per 1,000 live births)	107	122	96	99
Immunization, measles (in percent of children under 12 months)	83	84	78	...
Improve maternal health (2015 target = reduce 1990 maternal mortality by three-fourths)				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	2,300	...	...
Births attended by skilled health staff (in percent of total)	25.8	...	30.8	...
Combat HIV/AIDS, malaria and other diseases (2015 target = halt, and begin to reverse, AIDS, etc.)				
Prevalence of HIV, female (in percent, ages 15-24)	...	...	11.2	...
Contraceptive prevalence rate (percent of women ages 15-49)	21	...	13.2	...
Number of children orphaned by HIV/AIDS	...	...	260,000	...
Incidence of tuberculosis (per 100,000 people)	...	...	404.7	...
Tuberculosis cases detected under DOTS (in percent)	...	32	29	...
Ensure environmental sustainability (2015 target = various)				
Forest area (in percent of total land area)	18.5	...	12.4	...
Nationally protected areas (in percent of total land area)	...	14.6	14.7	14.7
GDP per unit of energy use (PPP dollars per kg oil equivalent)	...	...	...	...
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	...
Access to an improved water source (percent of population)	...	...	41	...
Access to improved sanitation (percent of population)	...	...	8	...
Access to secure tenure (percent of population)	...	...	...	...
Develop a Global Partnership for Development (2015 target = various)				
Youth unemployment rate (in percent of total labor force ages 15-24)	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	...	...	10.9	...
Personal computers (per 1,000 people)	...	...	...	...

Source: World Bank.

Table 1. Rwanda: External Debt Sustainability Framework, Baseline Scenario, 2001-2024 1/

	Actual										Est.	Projections							
	1997	1998	1999	2000	2001	2002	2003	Historical Average 6/	Standard Deviation 6/	2004		2005	2006	2007	2008	2009	2004-09 Average	2014	2024	2010-24 Average
External debt (nominal) 1/	61.6	58.5	65.8	40.4	47.5	51.3	55.0			59.1	61.3	61.8	60.8	59.6	58.5		53.4	36.8	
Change in external debt	-18.7	-3.1	7.3	-25.4	7.1	3.8	3.7			4.2	2.2	0.5	-1.0	-0.4	-1.2		-1.2	-1.7	
Identified net debt-creating flows	-17.0	0.3	6.2	-4.8	4.1	3.4	6.5			-1.2	-2.8	-1.5	-1.1	-0.4	-0.7		0.2	0.9	
Noninterest current account deficit	8.8	9.0	7.2	4.3	5.2	6.0	7.0	6.6	1.7	5.4	5.2	6.9	7.3	8.0	7.8		9.9	12.9	10.9
Deficit in balance of goods and services	17.9	17.7	17.3	16.3	15.8	16.9	19.3			19.4	19.8	19.4	18.4	17.5	16.7		16.4	16.4	
Exports	7.8	5.6	5.9	8.3	9.2	7.7	8.3			9.2	9.3	9.5	9.6	9.8	9.9		9.8	9.8	
Imports	25.7	23.3	23.2	24.6	25.1	24.5	27.6			28.6	29.1	28.9	28.1	27.3	26.6		26.3	26.3	
Net current transfers (negative = inflow)	0.2	-0.3	-8.4	-10.1	-11.3	-11.2	-13.3	-11.3	2.0	-15.0	-15.4	-13.1	-11.5	-9.8	-9.1		-6.5	-3.5	-5.6
Other current account flows (negative = net inflow)	-6.4	-5.2	-3.8	-4.5	-3.9	-2.6	-2.7	-4.5	1.5	-3.7	-5.0	-5.2	-5.4	-5.5	-5.7		-6.9	-10.5	-7.9
Net FDI (negative = inflow)	-19.4	-3.5	2.7	5.0	2.9	0.0	2.3			-3.0	-3.0	-3.1	-3.0	-2.9	-2.8		-2.8	-1.5	
Engagements debt dynamics 2/	0.7	0.6	0.5	0.7	0.7	0.8	0.8			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.6	
Contribution from nominal interest rate	-8.3	-5.1	-4.6	-4.2	-2.9	-4.4	-0.5			-3.2	-3.3	-3.5	-3.3	-3.2	-3.1		-3.1	-2.2	
Contribution from real GDP growth	-11.8	0.9	6.8	8.4	5.0	3.6	2.0			...	...	...	...	...	...		...	...
Contribution from price and exchange rate changes	-1.7	-3.4	1.1	-30.2	3.0	0.4	-2.8			5.4	4.9	2.0	0.1	-0.7	-0.5		-1.4	-2.7	
Residual (3-4) 3/	...	...	...	...	...	...	...			26.2	27.9	28.7	28.9	28.9	28.9		29.4	22.6	
NPV of external debt	...	...	...	...	...	...	...			284.2	300.6	302.5	299.5	295.1	291.6		298.2	229.3	
In percent of exports	25.5	31.4	39.7	26.6	20.3	32.4	30.1			6.5	6.7	9.2	10.2	9.7	9.1		7.8	19.5	
Debt service-to-exports ratio (in percent)	81.0	110.4	110.4	36.8	52.5	102.0	113.3			39.6	15.6	48.5	60.4	75.0	70.7		120.4	250.5	
Total gross financing need (billions of U.S. dollars)	27.6	12.1	-0.1	29.7	-2.0	2.2	3.2			1.2	3.1	6.4	8.3	9.1	9.0		11.1	14.7	
Noninterest current account deficit that stabilizes debt ratio																			
Key macroeconomic assumptions																			
Real GDP growth (in percent)	13.8	8.9	7.6	6.0	6.7	9.4	0.9	7.6	3.9	6.0	6.0	6.0	5.8	5.6	5.5		5.8	6.0	6.0
GDP deflator in US dollar terms (change in percent)	17.2	-1.5	-10.4	-11.3	-11.0	-7.1	-3.7	-4.0	10.1	-3.9	0.2	0.0	1.1	1.2	1.2		0.0	0.0	0.1
Effective interest rate (percent) 5/	1.2	1.1	0.9	1.1	1.7	1.7	1.6	1.3	0.3	0.5	0.6	0.6	0.6	0.6	0.6		0.6	0.6	1.7
Growth of exports of G&S (US dollar terms, in percent)	72.5	-22.9	1.9	32.3	5.0	-15.6	5.1	11.2	32.3	13.3	7.0	8.4	8.3	8.6	8.1		9.0	6.0	6.0
Growth of imports of G&S (US dollar terms, in percent)	30.8	-2.6	-4.1	-0.4	-3.2	-0.4	9.1	4.2	12.5	5.7	8.0	5.5	3.6	3.8	4.2		5.1	6.0	6.0
Grant element of new public sector borrowing (in percent)							13.3			56.4	56.4	56.6	56.9	56.9	56.9		56.7	56.9	56.9
Memorandum items:																			
Nominal GDP (millions of U.S. dollars)	1,846.4	1,980.6	1,908.9	1,793.6	1,703.6	1,732.0	1,683.8			1,714.8	1,821.5	1,929.8	2,062.8	2,204.8	2,354.5		3,170.0	5,677.1	

Source: IMF staff simulations.

1/ Only includes public sector external debt. Stock figures are derived from debt servicing profile on a post-enhanced HIPC initiative basis, excluding additional topping up at the Completion Point.

2/ Derived as $(1 - g - r) / (1 + r) \times \text{previous period debt ratio}$, with r = nominal interest rate, g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.

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

4/ Through 2004, debt service due as in BOP presentation (before multilateral HIPC Assistance and bilateral debt relief). From 2005, debt service due on a post-enhanced HIPC initiative basis.

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

6/ Historical averages and standard deviations are derived over the period 1997 to 2003.

Table 2. Rwanda: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2004-24
(In percent)

	Estimate		Projections					
	2004	2005	2006	2007	2008	2009	2014	2024
NPV of debt-to-GDP ratio								
Baseline	26	28	29	29	29	29	29	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005-24 1/	26	31	34	37	40	43	60	85
A2. New public sector loans on less favorable terms in 2005-24 2/	26	30	32	33	33	34	37	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005-06	26	29	30	30	30	30	31	24
B2. Export value growth at historical average minus one standard deviation in 2005-06 3/	26	29	32	32	31	31	32	24
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005-06	26	32	37	37	37	37	38	29
B4. Net non-debt creating flows at historical average minus one standard deviation in 2005-06 4/	26	32	35	35	35	35	35	25
B5. Combination of B1-B4 using one-half standard deviation shocks	26	35	44	44	44	44	43	31
B6. One-time 30 percent nominal depreciation relative to the baseline in 2005 5/	26	40	41	41	41	41	42	32
NPV of debt-to-exports ratio								
Baseline	284	301	303	300	295	292	298	229
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005-24 1/	284	333	362	389	412	438	606	865
A2. New public sector loans on less favorable terms in 2005-24 2/	284	318	332	338	340	343	377	336
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005-06	284	301	303	300	295	292	298	229
B2. Export value growth at historical average minus one standard deviation in 2005-06 3/	284	407	576	569	559	551	558	417
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005-06	284	301	303	300	295	292	298	229
B4. Net non-debt creating flows at historical average minus one standard deviation in 2005-06 4/	284	340	369	363	356	350	351	254
B5. Combination of B1-B4 using one-half standard deviation shocks	284	395	518	510	500	492	492	355
B6. One-time 30 percent nominal depreciation relative to the baseline in 2005 5/	284	301	303	300	295	292	298	229
Debt service ratio								
Baseline	7	7	9	10	10	9	8	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2005-24 1/	6	7	10	13	13	13	18	66
A2. New public sector loans on less favorable terms in 2005-24 2/	6	6	10	12	12	12	13	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005-06	6	6	9	10	9	9	8	16
B2. Export value growth at historical average minus one standard deviation in 2005-06 3/	6	8	16	18	17	16	16	30
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005-06	6	6	9	10	9	9	8	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2005-06 4/	6	6	9	11	10	10	11	18
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	13	15	15	14	15	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2005 5/	6	6	9	10	9	9	8	16
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	56	56	56	56	56	56	56	56

Source: IMF Staff projections and simulations.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

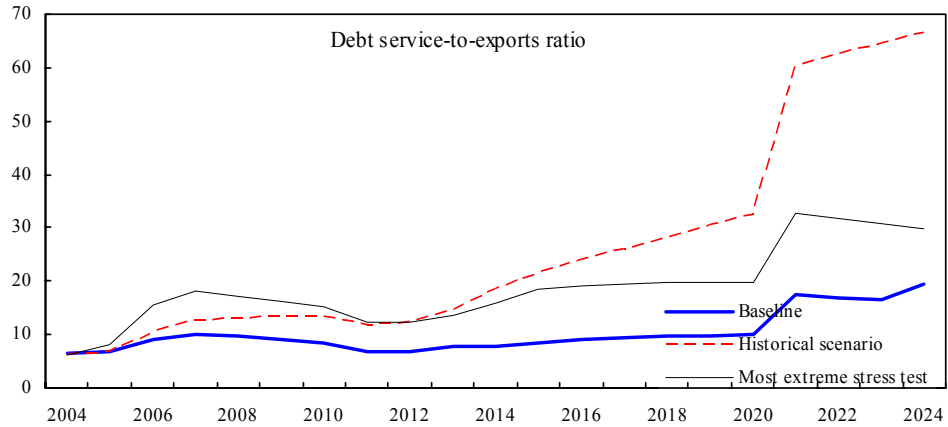
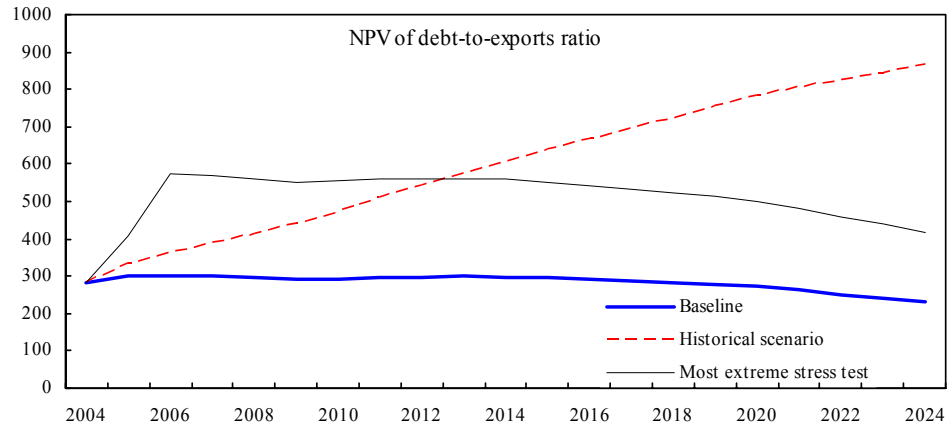
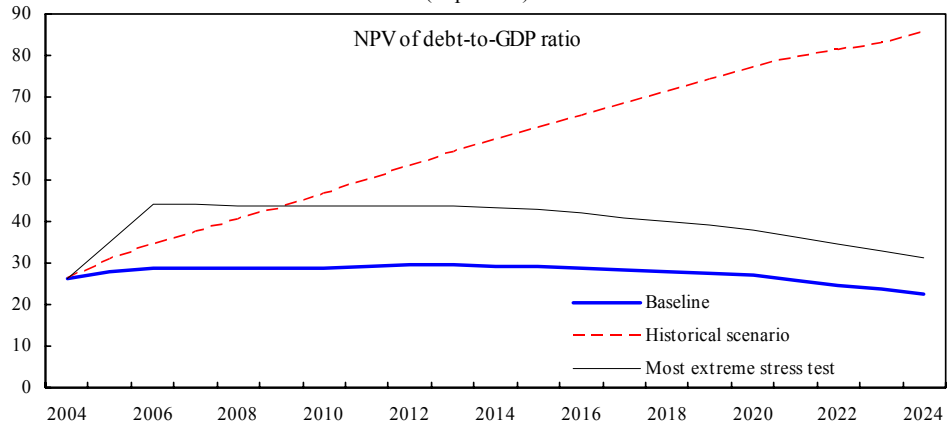
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Rwanda: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2004-24
(In percent)



Source: IMF staff projections and simulations.



INTERNATIONAL MONETARY FUND

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IMF Concludes Article IV Consultation with Rwanda

On October 6, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Rwanda.¹

Background

Rwanda undertook an extraordinary national regeneration following the 1994 genocide, with an estimated one-third of its population dead or displaced, its human capital, economic infrastructure, and government institutions in ruins. The economic agenda included macroeconomic stabilization, the establishment of new economic and financial institutions, the development of human resource capacity, and repair of infrastructure.

Some aspects of the macroeconomic recovery were achieved rapidly, while others proved more challenging. While the recovery in primary activities was relatively rapid, formal sector activity registered a mixed performance. While growth in most services was strong, neither manufacturing nor commerce had regained their 1993 levels by end-2003. The wholesale destruction of Rwanda's human capital, along with an initial phase of domestic security threats, followed by regional conflict, clearly contributed to this disappointing performance.

A significant part of the authorities' political agenda for 2003–04 was realized. In particular, a new constitution was adopted by popular referendum in May 2003, followed by presidential and legislative elections during August–October 2003. On the social agenda, proceedings against the genocide-accused were introduced on a trial basis during 2003, and the completion of hearings planned for 2004–05. The demobilization process is ongoing.

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The implementation of Rwanda's growth strategy lagged during 2003–04, reflecting continuing human resource constraints. In these circumstances, the vulnerability of Rwanda's real economy to exogenous shocks became evident during 2003-04. Failed rains in 2003 led to a decline in agricultural output, which accounts for 40 percent of value added, and limited overall real GDP growth for the year to about 0.9 percent. There is a risk that real GDP growth may also fall short of target in 2004 as construction activity is slowing and, reflecting the impact of a drought-related electricity shortage, manufacturing activity contracting.

While some progress was made toward strengthening the government revenue base during 2003-04, the structural fiscal imbalance remained large. The revenue-to-GDP ratio rose to 13.5 in 2003 and is on-track to maintain that level in 2004, reflecting the impact of income tax reforms that went into effect in 2003. Government spending has become increasingly focused on social programs and capital expenditure. The overall fiscal deficit after grants, which amounted to 2.5 percent of GDP in 2003, is programmed to decline modestly in 2004, to 2.2 percent of GDP. Data for the first half of 2004 indicate that the implementation of the 2004 budget was on track.

The external current account relative to GDP widened during 2003, before narrowing modestly during the first half of 2004. A moderate improvement in the external terms of trade during 2003, as market prices for coffee and tea rose, was more than offset by a drop in coltan and coffee export volumes. The continued significant depreciation in the real effective exchange rate did little to slow import growth during 2003, and the external current account deficit before grants increased by 3 percentage points of GDP, to 19.2 percent of GDP in 2003. During the first part of 2004, however, coffee export volumes increased substantially, as international market prices recovered from the previous year's lows.

Rwanda's external debt steadied in 2003, as new borrowing, excluding a new government loan guarantee, was limited. Nonetheless, according to preliminary estimates based on a debt sustainability analysis update, Rwanda's net present value (NPV) of debt-to-exports ratio rose to about 315 percent at end-2003, after enhanced HIPC Initiative relief. Slower-than-envisaged export growth and discount rate changes had led to this deterioration in Rwanda's net present value of debt-to-exports ratio.

Rwanda's medium-term macroeconomic strategy is to gradually reduce the fiscal and current account deficits, and to bring its external debt to a sustainable level over the medium- to long-term. Supporting these objectives, Rwanda aims to strengthen regional relations and trade, and further improve the environment for private investment. Rwanda's economic program includes a comprehensive structural reform agenda, which has been set in line with its Poverty Reduction Strategy Paper, which was issued in June 2002.

Executive Board Assessment

Directors noted Rwanda's substantial strides since the 1994 genocide in macroeconomic stabilization, the establishment of key elements of a market economy, and the restoration of state institutions. Nevertheless, the economic base of the formal sector remains narrow, with the economy heavily dependent on agriculture, and extremely vulnerable to external and climatic shocks. Capacity limitations are acute and human capital constraints severe.

Directors noted that Rwanda now faces the major challenge of implementing further economic reforms aimed at faster and sustained economic growth to fight poverty, while aiming for achieving fiscal and external sustainability and stabilizing the very heavy debt burden. They looked forward to the realization of regional peace to help bolster confidence and encourage private investment.

Directors welcomed the substantial advances made in the design and implementation of essential social sector programs. They urged the authorities to update and implement the agricultural growth strategy and press ahead with the export promotion strategy. Improved productivity in the agricultural sector will be crucial for boosting economic growth. They welcomed the initiatives under way to develop new products for niche markets, establish an export processing zone, and expand export markets, including through Rwanda's prospective entry into the East African Community and Southern African Development Community (SADC).

On the fiscal side, Directors observed that revenue collection in Rwanda is constrained by the limited size of the formal sector and, accordingly, the achievement of government revenue targets remains a challenge. In light of this, Directors underscored the importance of continued efforts to improve tax efficiency by strengthening tax administration, reforming tax, customs, and investment code legislation, and avoiding new tax exemptions. In addition, budgetary operations will need to be clearly prioritized, spending contingencies established, and expenditure limited to a sustainable level.

Directors noted that the scaling up of spending programs currently under consideration could lead to a substantial increase in the structural deficit. Directors welcomed that borrowing targets under the PRGF-supported programs have been observed. However, most Directors expressed concern that significant further reliance on long-term external borrowing to finance the planned higher spending may both hinder achievement of the progressive reduction in imbalances targeted in Rwanda's PRGF-supported program, and be imprudent given the economy's vulnerability. Given that the outlook for debt sustainability has worsened, Directors urged the authorities to limit further external borrowing, and supported the view that Rwanda's development partners should be prepared to substantially shift their support for Rwanda toward grant assistance. Several Directors pointed to the importance of improved macroeconomic performance in 2004 to bring Rwanda to the completion point under the enhanced HIPC Initiative.

Directors indicated that the recent slowing of money growth is appropriate. They called on the authorities to further strengthen coordination between the central bank and Treasury to ensure that spending increases programmed for the second half of 2004 do not generate instability in the money market.

Directors considered that the current floating exchange rate regime continues to serve Rwanda well, given Rwanda's continued vulnerability to external shocks and the regime's success in limiting inflation to moderate levels. Directors welcomed the authorities' recent adjustment of the auction rules, and looked forward to further steps toward increasing exchange rate flexibility.

Directors commended the recent sale of the government's majority shareholdings in two commercial banks, and urged the central bank to act promptly to bring all commercial banks into compliance with banking regulations.

Directors looked forward to a continuation of the progress in governance and public financial management and accountability that has taken place since 2003. Directors urged the authorities to continue to utilize efficiently available technical assistance—including from the Fund—to address weaknesses in Rwanda's statistical base, which suffers from significant limitations for surveillance purposes.

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Rwanda: Selected Economic and Financial Indicators, 1999–2004

	1999	2000	2001	2002	2003	2004 Prog.
	(Annual percent changes, unless otherwise indicated)					
Real GDP growth	7.6	6.0	6.7	9.4	0.9	6.0
Consumer prices (period average)	-2.4	3.9	3.4	2.0	7.4	6.9
Export, f.o.b (in U.S. dollars)	-3.3	44.7	4.2	-28.1	-6.3	8.0
Real effective exchange rate (end-period; depreciation -)	2.2	-10.6	-3.7	-12.5	-3.8	...
Net domestic assets	10.0	-6.8	-2.6	-6.1	14.8	11.0
Money and quasi-money (M2)	6.5	14.3	9.2	11.4	15.2	11.0
Reserve money	13.3	-6.6	6.6	11.9	12.2	11.6
Velocity (ratio of GDP to M2; end-period)	6.2	5.9	5.8	5.7	5.4	5.4
	(In percent of GDP, unless otherwise indicated)					
Overall fiscal balance (payment order)						
After grants	-4.0	0.7	-1.3	-1.9	-2.5	-2.2
Before grants	-9.7	-8.9	-9.5	-9.1	-10.5	-14.8
External current account balance						
Including official transfers	-7.7	-5.0	-5.9	-6.7	-7.8	-6.9
Excluding official transfers	-16.9	-16.5	-15.9	-16.6	-19.2	-21.4
External debt (end of period)	68.1	79.3	78.4	80.9	85.1	86.6

Source: Rwandese authorities; and IMF Staff estimates and projections.

**Statement by Laurean W. Rutayisire,
Alternate Executive Director for
Rwanda
October 6, 2004**

1. Purpose and obligations under article IV: The extent of compliance

At the outset, we would like to express the appreciation of our Rwandese authorities to the staff for the constructive discussion they had during the 2004 Article IV consultation and for the excellent Selected Issues paper providing useful information on the economy. Our authorities also express their appreciation to Fund management for their continuous support and they are grateful for the continued assistance received from the international community in their efforts to fight poverty and achieve the Millennium Developments Goals (MDGs).

As indicated by staff, our authorities have in their policy implementation endeavors complied with the obligations under Article IV. As correctly documented by staff Rwanda's trade regime is open with tariff rates reduced and with no non-explicit tariff barriers. Moreover, Rwanda maintains a floating exchange rate regime, which continues to serve the country well. Authorities have furthermore adopted measures to ensure financial stability. Thus, inter alia they have adopted measures to increase tax effort, which has risen to 13.5 percent and are determined to maintain that level in 2004. Going beyond that level requires increasing the tax base, which is currently constrained by the limited size of the formal sector. As they pursue their efforts to bring about formal sector growth, our authorities are committed to avoiding any new tax exemption and to continue with strengthening the revenue authority. On the expenditure side, data for the first half of 2004 indicate that measures to restrain growth in recurrent outlays while accommodating external grant-financed increases in social spending are keeping the overall spending targets on track. External borrowing has also been held below the level projected in the HIPC decision point document. Regarding monetary aggregates there has been a curb in net credit to government and reduction in broad money. On the external front, the first half of 2004 experienced a favorable modest narrowing because of increase in exports volume for coffee and tea, terms of trade and decline of imports.

Structural reforms, which underpin financial stability, have also been implemented. On the financial sector, this includes privatization of BCR and BACAR, conclusion of bank recapitalization plans as well as compliance with other prudential regulation. On the public finance front, a new Auditor General' Act to enforce control on public finance has been submitted to Parliament for consideration, a new organic budget law has been enacted by Parliament and preparation of finance instructions to accompany the organic budget law is underway. With the assistance of Fund staff, a new tax law was drafted and a new custom registration has been submitted to Parliament.

Over the period 2003-04, the political and institutional framework underpinning a market-oriented economy has been strengthened as the political agenda set out by the authorities has been realized. Indeed, a new Constitution was adopted in May 2003 followed by presidential and legislative elections organized in August and October 2003. Concerning the

demobilization and the GACACA process considerable progress has been made as well as on the social front. Moreover, our authorities have not ceased to make their contribution towards peace in the region. However, they are concerned that the Security Council resolution 1493 (2003) of 28 July 2003 requiring all parties to take the necessary measures to prevent the supply, sale or transfer of arms or any related material and of any assistance or training to all armed groups and militias which are not parties to the global and all inclusive agreement, is not being enforced as required a fact which they believe would bring about the lasting peace.

2. Economic Performance and Challenges

The vulnerabilities of the Rwandese economy to shocks were evident in 2003-04. Due to rain shortfalls, the agriculture output declined sharply. Manufacturing activity also shrank, causing real output to grow by less than 1 percent, in 2003. In their resolve to achieve sustainable growth and poverty reduction, our authorities have identified poverty in Rwanda as being a rural phenomenon because 90 percent of the population live in rural sector. For this reason when articulating their strategy to achieve growth and poverty reduction, our authorities have emphasized achieving higher and sustained growth in agricultural production. We share the concern of staff that statistical base which has been used to set target growth rates in agricultural production can be inadequate due to limited resources and technical capacities. Therefore, we call upon Fund staff and the international community to provide the needed assistance.

We appreciate staff analysis in the issues paper which has identified the main constraints to the realization of the agriculture growth strategy namely limitation in the marketing and distribution of fertilizer input, limitation in the input credit system, limited agricultural extension services (farmers education, seed multiplication) and land tenure system. As already mentioned our authorities have prepared a land law which they submitted to Parliament for promulgation. As for other limitations, we also call upon the Fund and the Bank as well as the international community to provide needed assistance in establishing appropriate systems. We also appreciate the analysis done on coffee and the need for further diversification in the exports. The authorities are currently refining their export promotion strategy with the help of the World Bank and other donors. We take note of the staff's concern over the performance of the manufacturing and commerce sectors, which up to now have not achieved their previous peak output, achieved in 1993. It is true the decline in these sectors output is attributed to post genocide aftermath. However, it is also a fact that before the genocide, these sectors operated under a high protectionist policy and undoubtedly have failed to withstand stiff competition from imports as the government implemented market liberalization. In deed at the time when Rwanda would have benefited from such market friendly policies put in place, now new shocks which constrain private investment in the formal sector have set in namely shortage of electricity and oil price rises.

As we said earlier above, debt sustainability is an other challenge facing Rwanda's economy. We agree with staff that the new priority social spending, which our authorities have programmed, will, if not matched by increase in grant financing, likely worsen debt sustainability. However, there is a need to reiterate that our authorities have exercised restraint on other government expenditure and their not making such priority social spending

risk being a default on delivery on poverty reduction and the MDGs. We hope, the Fund will give this due consideration including assistance in mobilizing grant financing.

3. Policies for 2004-05 and Medium-Term Prospects and Policies

The Rwandese authorities agree that the main and immediate challenges are achieving high and sustained GDP growth, assuring fiscal and external sustainability as well as reducing poverty. They are cognizant of the need to further strengthen the implementation of structural reforms and adjustment measures in order to improve the institutional environment and develop the basic infrastructure and social investment.

Fiscal policy

Our Rwandese authorities are determined to reinforce fiscal reforms implemented in 2002-03 through enhancing revenue authority and reducing tax exemptions. They also recognize the importance to move towards fiscal balance. The authorities agree with staff that, given the country's debt sustainability problem, there is a need to limit external borrowing... Therefore, in close cooperation with supporting partners, the authorities will continue to look for external grant financing and Fund support is called for.

Monetary and Financial policies

The monetary objectives set out for 2004 are to contain inflation and build up the international reserves. In this regard, the authorities will ensure that monetary and fiscal policies operate effectively. To this end, efforts will continue to improve the responsiveness of the banking system to changes in economy. Regarding the exchange rate, the market – based exchange rate system will be enhanced in order to assure the effectiveness of central bank policy implementation. As we have already stated, the sale of majority shares in BCR and BACAR reflects not only the authorities' determination to strengthen the health of the sector but will also enhance the banking system's supervision by the central bank.

Structural reforms

As mentioned in previous Board discussions on Rwanda, the objectives pursued by the authorities in the structural area are to improve economic productivity, governance, efficiency and external sustainability. Efforts towards the attainment of these goals will be intensified in 2004 and beyond as outlined in the PRSP. After the successful sale of the Pfunda tea estate, the privatization process of the telecommunications parastatal (Rwandatel), and the Hotel company will be completed as rapidly as possible. Furthermore, it is worth noting that civil service reforms are nearing the implementation stage, and the land reform legislation including title transferability is being reviewed by the Parliament.

External viability

Our Rwandese authorities are cognizant of the need to reduce external imbalances over the medium term in order to sustain the growth strategy. To this end, measures to articulate an

appropriate export strategy are underway. Efforts are also being made to gain benefits of regional integration through entry in East African Community (EAC) and in South African Development Community (SADC).

4. Conclusion

We would like to reemphasize that our Rwandese authorities are fully cognizant of the challenges facing the economy and are committed to implement, under the PRGF Fund-supported program, all necessary measures in order to boost economic growth, stimulate economic diversification and fight against unemployment and poverty.

Our Rwandese authorities are hopeful that they can rely on the international community's assistance in their reform efforts. They hope that, in view of the efforts they have undertaken and the progress made in program implementation, they can reach the completion point under the enhanced HIPC initiative very soon, thus enabling them to devote more resources to poverty reduction.



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Some aspects of the macroeconomic recovery were achieved rapidly, while others proved more challenging. While the recovery in primary activities was relatively rapid, formal sector activity registered a mixed performance. While growth in most services was strong, neither manufacturing nor commerce had regained their 1993 levels by end-2003. The wholesale destruction of Rwanda's human capital, along with an initial phase of domestic security threats, followed by regional conflict, clearly contributed to this disappointing performance.

A significant part of the authorities' political agenda for 2003–04 was realized. In particular, a new constitution was adopted by popular referendum in May 2003, followed by presidential and legislative elections during August–October 2003. On the social agenda, proceedings against the genocide-accused were introduced on a trial basis during 2003, and the completion of hearings planned for 2004–05. The demobilization process is ongoing.

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Directors noted that Rwanda now faces the major challenge of implementing further economic reforms aimed at faster and sustained economic growth to fight poverty, while aiming for achieving fiscal and external sustainability and stabilizing the very heavy debt burden. They looked forward to the realization of regional peace to help bolster confidence and encourage private investment.

Directors welcomed the substantial advances made in the design and implementation of essential social sector programs. They urged the authorities to update and implement the agricultural growth strategy and press ahead with the export promotion strategy. Improved productivity in the agricultural sector will be crucial for boosting economic growth. They welcomed the initiatives under way to develop new products for niche markets, establish an export processing zone, and expand export markets, including through Rwanda's prospective entry into the East African Community and Southern African Development Community (SADC).

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Directors indicated that the recent slowing of money growth is appropriate. They called on the authorities to further strengthen coordination between the central bank and Treasury to ensure that spending increases programmed for the second half of 2004 do not generate instability in the money market.

Directors considered that the current floating exchange rate regime continues to serve Rwanda well, given Rwanda's continued vulnerability to external shocks and the regime's success in limiting inflation to moderate levels. Directors welcomed the authorities' recent adjustment of the auction rules, and looked forward to further steps toward increasing exchange rate flexibility.

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Rwanda: Selected Economic and Financial Indicators, 1999–2004

	1999	2000	2001	2002	2003	2004 Prog.
	(Annual percent changes, unless otherwise indicated)					
Real GDP growth	7.6	6.0	6.7	9.4	0.9	6.0
Consumer prices (period average)	-2.4	3.9	3.4	2.0	7.4	6.9
Export, f.o.b (in U.S. dollars)	-3.3	44.7	4.2	-28.1	-6.3	8.0
Real effective exchange rate (end-period; depreciation -)	2.2	-10.6	-3.7	-12.5	-3.8	...
Net domestic assets	10.0	-6.8	-2.6	-6.1	14.8	11.0
Money and quasi-money (M2)	6.5	14.3	9.2	11.4	15.2	11.0
Reserve money	13.3	-6.6	6.6	11.9	12.2	11.6
Velocity (ratio of GDP to M2; end-period)	6.2	5.9	5.8	5.7	5.4	5.4
	(In percent of GDP, unless otherwise indicated)					
Overall fiscal balance (payment order)						
After grants	-4.0	0.7	-1.3	-1.9	-2.5	-2.2
Before grants	-9.7	-8.9	-9.5	-9.1	-10.5	-14.8
External current account balance						
Including official transfers	-7.7	-5.0	-5.9	-6.7	-7.8	-6.9
Excluding official transfers	-16.9	-16.5	-15.9	-16.6	-19.2	-21.4
External debt (end of period)	68.1	79.3	78.4	80.9	85.1	86.6

Source: Rwandese authorities; and IMF Staff estimates and projections.

**Statement by Laurean W. Rutayisire,
Alternate Executive Director for Rwanda
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1. Purpose and obligations under article IV: The extent of compliance

At the outset, we would like to express the appreciation of our Rwandese authorities to the staff for the constructive discussion they had during the 2004 Article IV consultation and for the excellent Selected Issues paper providing useful information on the economy. Our authorities also express their appreciation to Fund management for their continuous support and they are grateful for the continued assistance received from the international community in their efforts to fight poverty and achieve the Millennium Developments Goals (MDGs).

As indicated by staff, our authorities have in their policy implementation endeavors complied with the obligations under Article IV. As correctly documented by staff Rwanda's trade regime is open with tariff rates reduced and with no non-explicit tariff barriers. Moreover, Rwanda maintains a floating exchange rate regime, which continues to serve the country well. Authorities have furthermore adopted measures to ensure financial stability. Thus, inter alia they have adopted measures to increase tax effort, which has risen to 13.5 percent and are determined to maintain that level in 2004. Going beyond that level requires increasing the tax base, which is currently constrained by the limited size of the formal sector. As they pursue their efforts to bring about formal sector growth, our authorities are committed to avoiding any new tax exemption and to continue with strengthening the revenue authority. On the expenditure side, data for the first half of 2004 indicate that measures to restrain growth in recurrent outlays while accommodating external grant-financed increases in social spending are keeping the overall spending targets on track. External borrowing has also been held below the level projected in the HIPC decision point document. Regarding monetary aggregates there has been a curb in net credit to government and reduction in broad money. On the external front, the first half of 2004 experienced a favorable modest narrowing because of increase in exports volume for coffee and tea, terms of trade and decline of imports.

Structural reforms, which underpin financial stability, have also been implemented. On the financial sector, this includes privatization of BCR and BACAR, conclusion of bank recapitalization plans as well as compliance with other prudential regulation. On the public finance front, a new Auditor General's Act to enforce control on public finance has been submitted to Parliament for consideration, a new organic budget law has been enacted by Parliament and preparation of finance instructions to accompany the organic budget law is underway. With the assistance of Fund staff, a new tax law was drafted and a new custom registration has been submitted to Parliament.

Over the period 2003-04, the political and institutional framework underpinning a market-oriented economy has been strengthened as the political agenda set out by the authorities has been realized. Indeed, a new Constitution was adopted in May 2003 followed by presidential and legislative elections organized in August and October 2003. Concerning the

demobilization and the GACACA process considerable progress has been made as well as on the social front. Moreover, our authorities have not ceased to make their contribution towards peace in the region. However, they are concerned that the Security Council resolution 1493 (2003) of 28 July 2003 requiring all parties to take the necessary measures to prevent the supply, sale or transfer of arms or any related material and of any assistance or training to all armed groups and militias which are not parties to the global and all inclusive agreement, is not being enforced as required a fact which they believe would bring about the lasting peace.

2. Economic Performance and Challenges

The vulnerabilities of the Rwandese economy to shocks were evident in 2003-04. Due to rain shortfalls, the agriculture output declined sharply. Manufacturing activity also shrank, causing real output to grow by less than 1 percent, in 2003. In their resolve to achieve sustainable growth and poverty reduction, our authorities have identified poverty in Rwanda as being a rural phenomenon because 90 percent of the population live in rural sector. For this reason when articulating their strategy to achieve growth and poverty reduction, our authorities have emphasized achieving higher and sustained growth in agricultural production. We share the concern of staff that statistical base which has been used to set target growth rates in agricultural production can be inadequate due to limited resources and technical capacities. Therefore, we call upon Fund staff and the international community to provide the needed assistance.

We appreciate staff analysis in the issues paper which has identified the main constraints to the realization of the agriculture growth strategy namely limitation in the marketing and distribution of fertilizer input, limitation in the input credit system, limited agricultural extension services (farmers education, seed multiplication) and land tenure system. As already mentioned our authorities have prepared a land law which they submitted to Parliament for promulgation. As for other limitations, we also call upon the Fund and the Bank as well as the international community to provide needed assistance in establishing appropriate systems. We also appreciate the analysis done on coffee and the need for further diversification in the exports. The authorities are currently refining their export promotion strategy with the help of the World Bank and other donors. We take note of the staff's concern over the performance of the manufacturing and commerce sectors, which up to now have not achieved their previous peak output, achieved in 1993. It is true the decline in these sectors output is attributed to post genocide aftermath. However, it is also a fact that before the genocide, these sectors operated under a high protectionist policy and undoubtedly have failed to withstand stiff competition from imports as the government implemented market liberalization. In deed at the time when Rwanda would have benefited from such market friendly policies put in place, now new shocks which constrain private investment in the formal sector have set in namely shortage of electricity and oil price rises.

As we said earlier above, debt sustainability is an other challenge facing Rwanda's economy. We agree with staff that the new priority social spending, which our authorities have programmed, will, if not matched by increase in grant financing, likely worsen debt sustainability. However, there is a need to reiterate that our authorities have exercised restraint on other government expenditure and their not making such priority social spending

risk being a default on delivery on poverty reduction and the MDGs. We hope, the Fund will give this due consideration including assistance in mobilizing grant financing.

3. Policies for 2004-05 and Medium-Term Prospects and Policies

The Rwandese authorities agree that the main and immediate challenges are achieving high and sustained GDP growth, assuring fiscal and external sustainability as well as reducing poverty. They are cognizant of the need to further strengthen the implementation of structural reforms and adjustment measures in order to improve the institutional environment and develop the basic infrastructure and social investment.

Fiscal policy

Our Rwandese authorities are determined to reinforce fiscal reforms implemented in 2002-03 through enhancing revenue authority and reducing tax exemptions. They also recognize the importance to move towards fiscal balance. The authorities agree with staff that, given the country's debt sustainability problem, there is a need to limit external borrowing... Therefore, in close cooperation with supporting partners, the authorities will continue to look for external grant financing and Fund support is called for.

Monetary and Financial policies

The monetary objectives set out for 2004 are to contain inflation and build up the international reserves. In this regard, the authorities will ensure that monetary and fiscal policies operate effectively. To this end, efforts will continue to improve the responsiveness of the banking system to changes in economy. Regarding the exchange rate, the market – based exchange rate system will be enhanced in order to assure the effectiveness of central bank policy implementation. As we have already stated, the sale of majority shares in BCR and BACAR reflects not only the authorities' determination to strengthen the health of the sector but will also enhance the banking system's supervision by the central bank.

Structural reforms

As mentioned in previous Board discussions on Rwanda, the objectives pursued by the authorities in the structural area are to improve economic productivity, governance, efficiency and external sustainability. Efforts towards the attainment of these goals will be intensified in 2004 and beyond as outlined in the PRSP. After the successful sale of the Pfunda tea estate, the privatization process of the telecommunications parastatal (Rwandatel), and the Hotel company will be completed as rapidly as possible. Furthermore, it is worth noting that civil service reforms are nearing the implementation stage, and the land reform legislation including title transferability is being reviewed by the Parliament.

External viability

Our Rwandese authorities are cognizant of the need to reduce external imbalances over the medium term in order to sustain the growth strategy. To this end, measures to articulate an

appropriate export strategy are underway. Efforts are also being made to gain benefits of regional integration through entry in East African Community (EAC) and in South African Development Community (SADC).

4. Conclusion

We would like to reemphasize that our Rwandese authorities are fully cognizant of the challenges facing the economy and are committed to implement, under the PRGF Fund-supported program, all necessary measures in order to boost economic growth, stimulate economic diversification and fight against unemployment and poverty.

Our Rwandese authorities are hopeful that they can rely on the international community's assistance in their reform efforts. They hope that, in view of the efforts they have undertaken and the progress made in program implementation, they can reach the completion point under the enhanced HIPC initiative very soon, thus enabling them to devote more resources to poverty reduction.