February 2009
IMF Country Report No. 09/58

Rwanda: 2008 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion—Staff Report; Staff Supplement and Statement; Public Information Notice and Press Release 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 a combined discussion of the 2008 Article IV consultation with Rwanda and the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility and a request for a waiver of nonobservance of a performance criterion, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on November 4, 2008, 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 December 19, 2008. 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 staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of January 12, 2009 updating information on recent developments.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its January 12, 2009, discussion of the staff report on issues related to the Article IV consultation and the review, respectively.

- A statement by the Executive Director for Rwanda.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Rwanda*
Memorandum of Economic and Financial Policies by the authorities of Rwanda*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

RWANDA

Staff Report for the 2008 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion

Prepared by the African Department
(In consultation with other Departments)

Approved by Mark Plant and Anthony Boote
December 19, 2008

Main topics

Article IV consultation. The key issue is how to sustain Rwanda's recent economic performance, encourage broad-based growth, and reduce poverty. This would require developing the country's production base, maintaining macroeconomic stability, and accelerating structural reforms.

Program review. The program is broadly on track. Economic growth and the external position are in line with program objectives, but inflation stemming from world commodity prices and domestic demand is higher than expected. All quantitative performance criteria for end-June 2008 were met and structural policies are generally proceeding as envisaged. Staff supports the authorities' request for waiver of nonobservance of a structural performance criterion for end-June 2008 and recommends the completion of the fifth review of the PRGF, based on remedial measures taken and policy commitments for the remainder of the program.

The exchange rate system is classified as a conventional peg. Rwanda has accepted the obligations of Article VIII, Sections 2, 3 and 4, and maintains a system free of restrictions on payments and transfers for current international transactions.

Mission

Discussions were held in Rwanda during October 22–November 4, 2008. The staff team comprised Ms. Murgasova (head), Messrs. Mitchell, Sobolev and Gorbanyov (all AFR), assisted by Mr. Engström, the resident representative. The mission met with Mr. Musoni, the Minister of Finance and Economic Planning, Mr. Kanimba, the Governor of the National Bank of Rwanda, other senior government and central bank officials, and representatives of the donor and business communities.

Contents Page

Boxes

Appendices

EXECUTIVE SUMMARY

Rwanda has sustained strong economic growth over the last decade, but the country is still very poor. Sound macroeconomic and structural policies backed by substantial donor assistance have led to macroeconomic stability, robust growth and low inflation, a comfortable level of international reserves, and significantly reduced external debt. Yet poverty is prevalent.

The main challenge for the medium term is to address Rwanda's development needs while maintaining macroeconomic stability. Stimulating higher growth requires addressing Rwanda's severe infrastructure gap and low agricultural yields, developing the financial and private sectors, and promoting savings. Yet the required scaling up of public investment must be pursued in a manner consistent with preserving macroeconomic stability and debt sustainability. Structural reforms must be accelerated to improve public sector efficiency and effectiveness.

Policy implementation under the PRGF program has been satisfactory. Growth in 2008 is expected to reach 8.5 percent primarily because of buoyant private sector activity. However, 12-month inflation gradually increased to over 20 percent in the third quarter as a result of the international commodity price pass-through and domestic demand pressures. All quantitative performance criteria for end-June 2008 were met. Because of administrative delays, the end-September indicative target for the net accumulation of domestic arrears was missed, but the authorities expect to eliminate the arrears by end-2008. Although structural policies are generally on track, the completion and publication of the Public Financial Management reform action plan for 2008-10, a structural PC for end-June, was not achieved until September. Staff recommends a waiver because the deviation was temporary.

Program risks have increased. Short-term risks to economic growth and the balance of payments have emerged because of the global financial crisis and economic slowdown. The Rwandan franc has also appreciated in real terms in 2008. The authorities have committed to monitoring developments closely and to increase the flexibility of the exchange rate as appropriate. Further, they have agreed to contain fiscal spending and tighten monetary policy to rein in inflation and maintain an adequate level of reserves.

Nevertheless, the medium-term economic outlook is favorable. Real GDP growth is projected at 6 percent and with supportive macroeconomic policies inflation could decline to 5 percent over the medium term. Continued progress in structural reforms would make the public sector more efficient and effective in tax policy and administration, public financial management, and capacity building, and create an enabling environment for private sector development. Progress in these areas would also help garner donor support. Rising government revenues and substantial donor assistance would allow for more government spending on priorities and infrastructure projects with limited domestic financing.

The staff recommends the completion of the fifth review of the PRGF.

I. BACKGROUND

1. **Rwanda has made great strides in economic performance in recent years, but poverty has not been significantly alleviated.**

- **Growth has been strong** (Figure 1)**.** Real GDP growth was broadly in line with that in the rest of Sub-Saharan Africa (SSA) over the last decade.[1] The main sectors driving economic activity—services and manufacturing—have been assisted by favorable terms of trade, and inflows of aid and foreign direct investment (FDI). However, agriculture, which supports 80 percent of the population, is highly susceptible to shocks, particularly weather-related, and has expanded slowly because of low productivity and poor land use practices.

Text Table 1: Rwanda, EAC and Sub-Saharan Africa: Macroeconomic Indicators, 1997-2007

	1997-2006 Average			2007		
	Rwanda	EAC[1]	SSA[2]	Rwanda	EAC[1]	SSA[2]
Real GDP growth (percent)	7.4	5.2	5.8	7.9	7.1	7.9
Real GDP per capita growth (percent)	3.6	2.8	3.4	5.7	4.7	5.5
Average inflation (percent)	8.3	8.0	11.9	9.1	8.2	7.7
Government revenue (percent of GDP)	11.9	15.5	21.4	13.6	17.4	25.6
Government expenditure (percent of GDP)	22.6	21.6	24.8	25.3	24.1	26.1
Fiscal balance, incl. grants (percent of GDP)	-1.4	-1.9	0.3	-1.5	-2.9	2.3
Current account balance (percent of GDP)	-7.4	-3.3	-1.6	-4.9	-5.0	-0.2
Foreign reserves (months of imports)	5.4	5.4	4.2	5.2	5.4	5.0
REER (percent change)	-22.5	-4.1	10.8	0.2	3.5	2.9

Source: REO, Sub-Saharan Africa, April 2008.

[1] East African Community

[2] Sub-Saharan Africa excluding Nigeria and South Africa.

- **Prudent macroeconomic policies have helped stabilize the economy (Figures 2–4).** Following the policy advice of the last Article IV consultation and subsequent PRGF reviews, sound fiscal spending and limited recourse to domestic financing facilitated a monetary policy stance that contained inflation on average to single digits but allowed moderate growth in credit to the private sector.[2] Rising revenues and assistance from international donors created fiscal space to scale up public spending, especially on pro-poor initiatives. The external position has strengthened as donor flows and FDI offset the trade deficit, allowing an adequate reserve cover. External debt was significantly reduced with the help of the HIPC Initiative and MDRI debt relief.

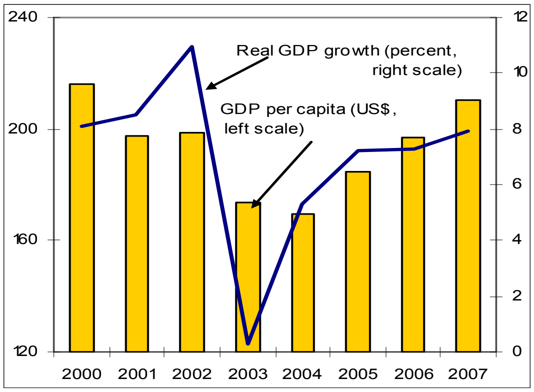
---

[1] On the recommendation of AFRITAC East, staff adopted the National Institute of Statistics' (NIS) revision to the national accounts for 2004 to 2007.

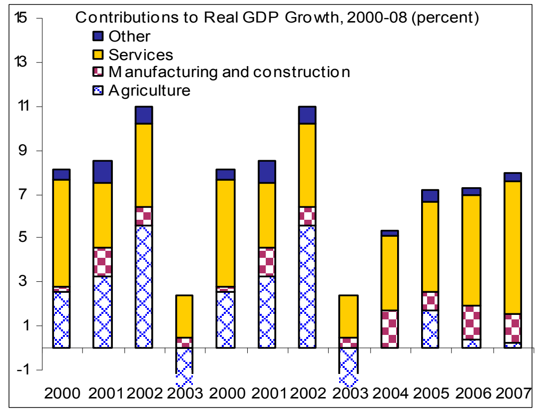
[2] In the second half of 2008 inflation rose to double digits as a result of rising world fuel and food prices and domestic demand pressures. See paragraph 17.

Figure 1. Rwanda: Recent Economic Performance and Achievements, 2000–07

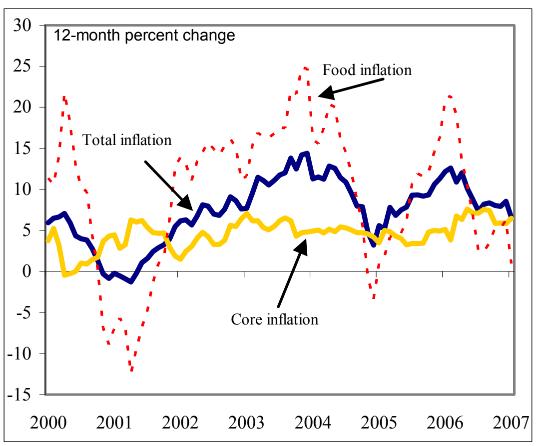
Growth has been robust…



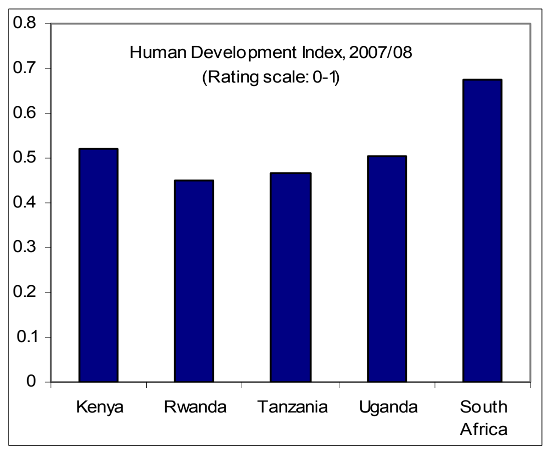
…driven by services and manufacturing, although volatility in agriculture had a dampening effect.



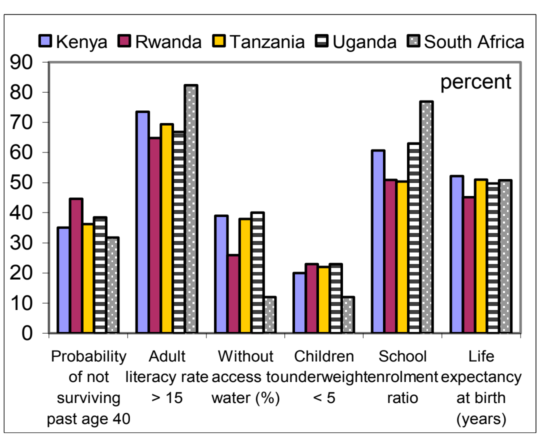
Food prices fluctuated, though core inflation remained moderate.



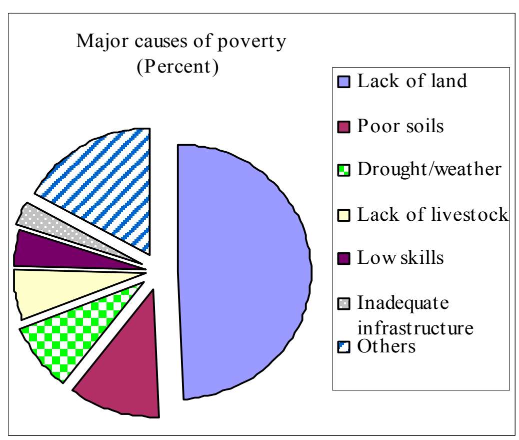
Rwanda continues to be a poor country…



…particularly compared to its peers.



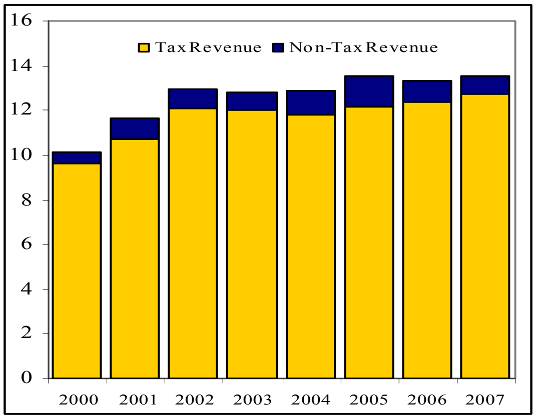
Problems related to land use are the main causes of poverty.



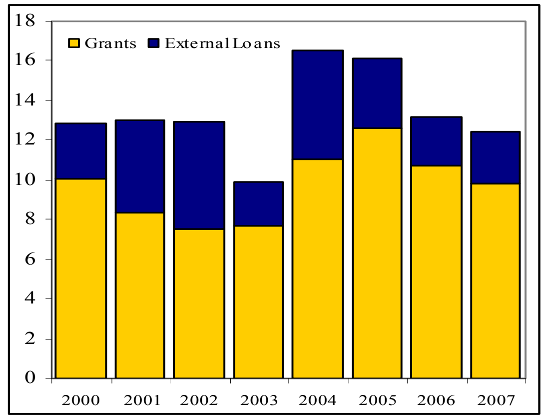
Source: Rwandan authorities, staff estimates, and UNDP Human Development and Poverty Indicators. The Human Development Index is a summary measure based on life expectancy, literacy rate and GDP per capita.

Figure 2. Rwanda: Fiscal Developments, 2000–07
(percent of GDP)

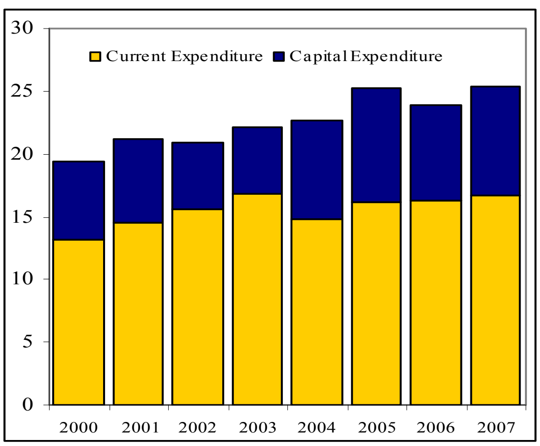
Steady growth of government revenues...



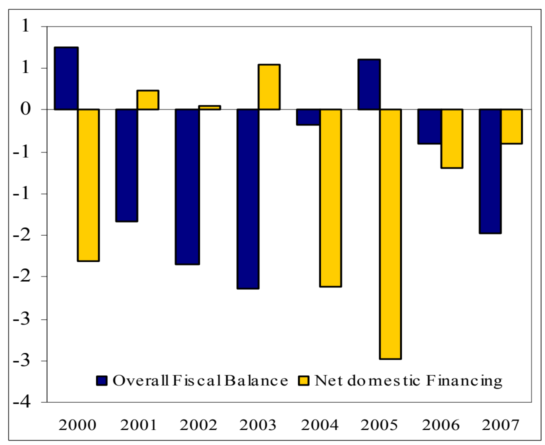
... and considerable donor assistance…



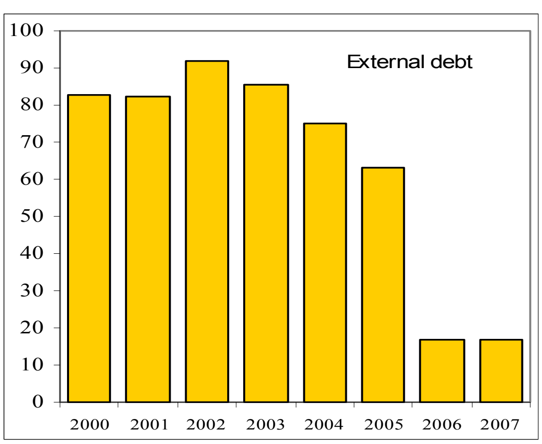
…have allowed increased spending…



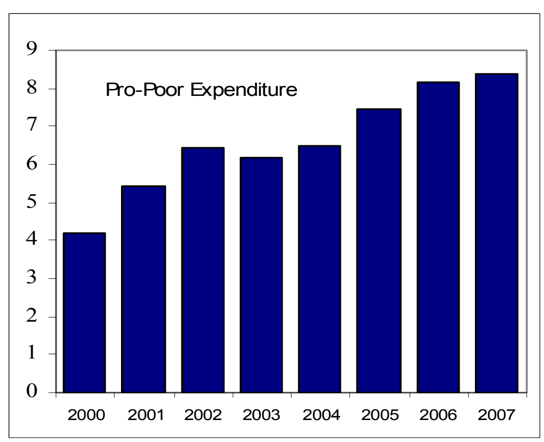
… without much domestic financing.



Debt relief has reduced debt levels...



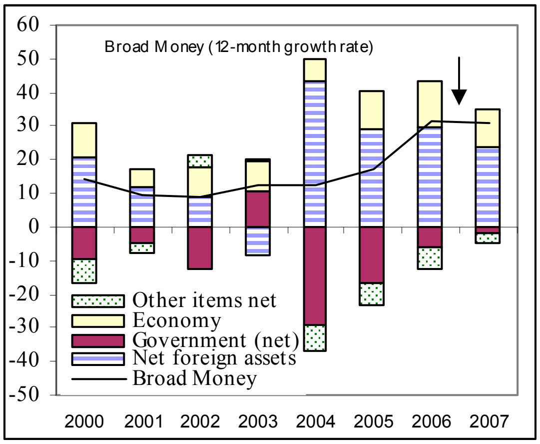
… and lower debt service contributed to the increase in pro-poor spending.



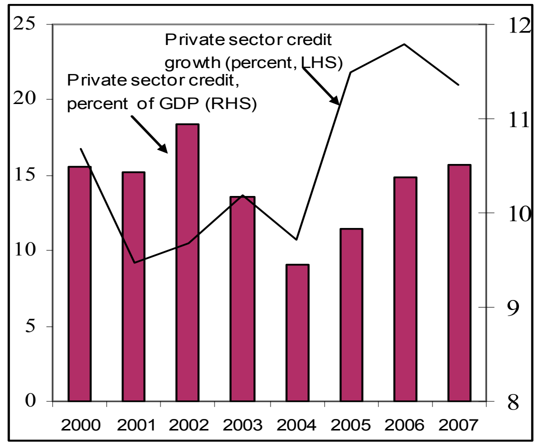
Source: Rwandan authorities, staff estimates.

Figure 3. Rwanda: Monetary and Financial Developments, 2000–07

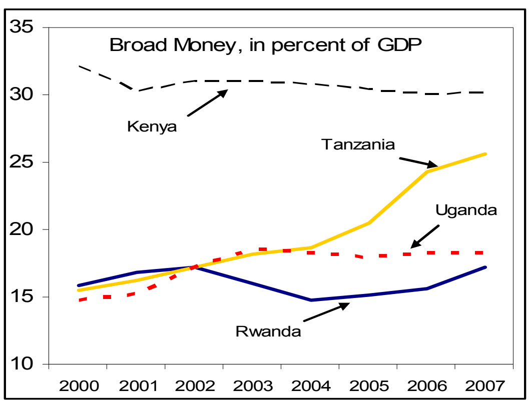
Accumulation of net foreign assets contributed to broad money growth...



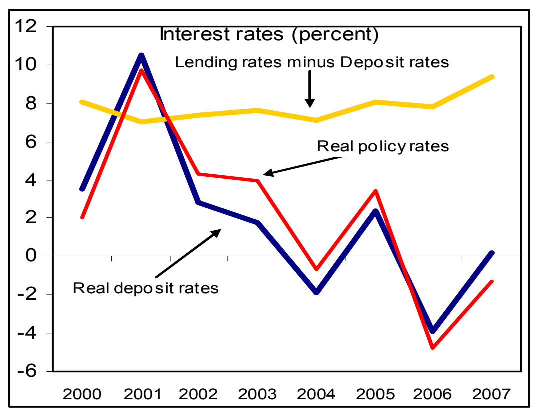
... while private sector credit grew at prudent rates in recent years.



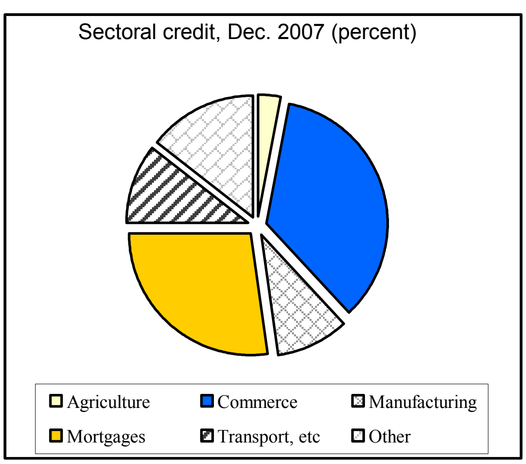
Rwanda's financial depth lags behind other EAC countries…



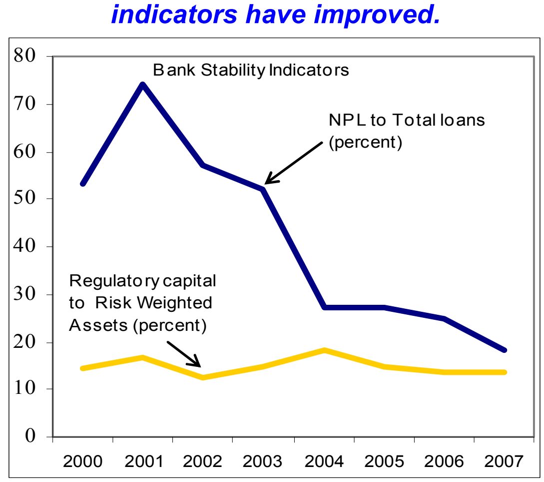
… partly because of negative real policy and deposit rates.



Credit is allocated primarily to commerce and construction.



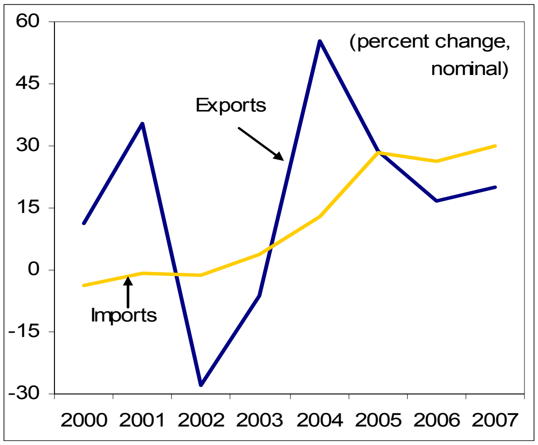
Although banks remain fragile, stability indicators have improved.



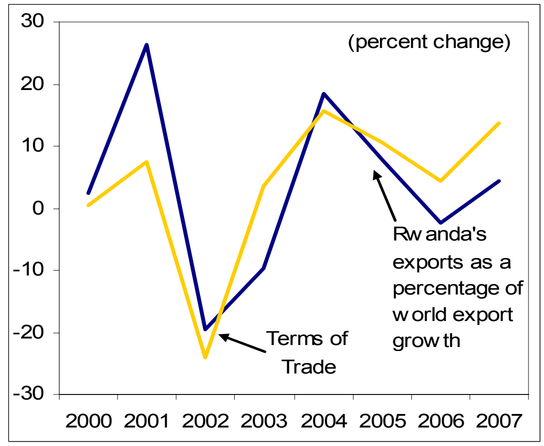
Source: Rwandan authorities, staff estimates.

Figure 4. Rwanda: External Sector Developments, 2000–07

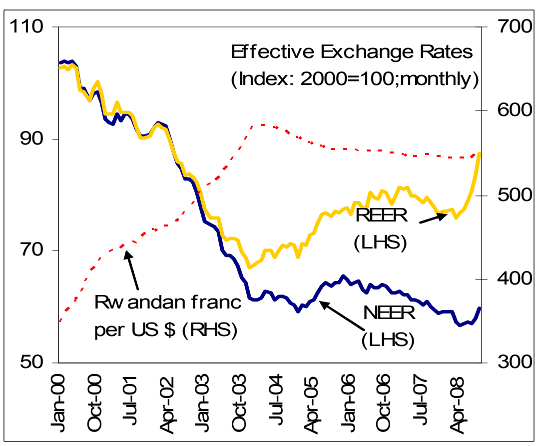
Trade flows have increased...



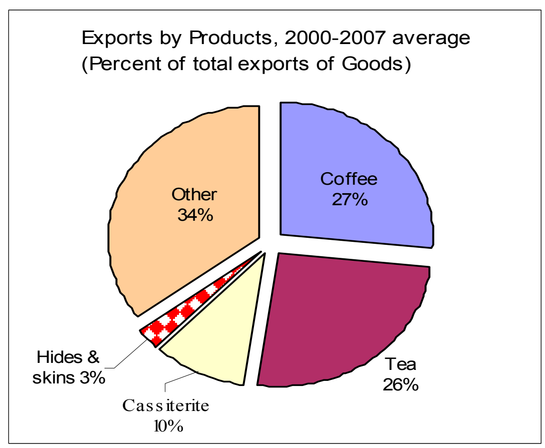
... reflecting improvements in the terms of trade…



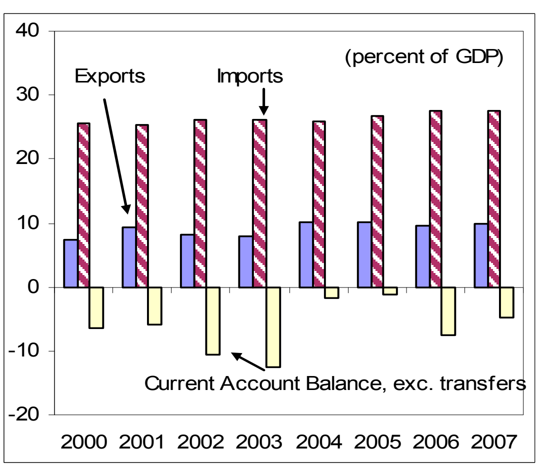
...and a broadly stable exchange rate.



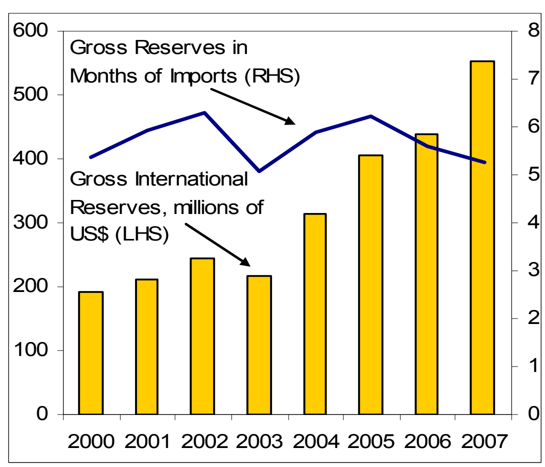
Exports remain heavily concentrated…



...but stable relative to GDP…



...while reserves provide a comfortable import cover.



Source: Rwandan authorities, staff estimates.

- **Structural reforms have been far-reaching, but capacity constraints have slowed implementation.** The structural reform agenda—economic liberalization, public expenditure management, and financial sector development—supported by the PRGF arrangement is on track, and good progress was made in responding to Fund advice (Box 1).

Box 1. Progress in Main Structural Reforms since 2006

Advice from the past Article IV consultation and previous PRGF reviews	Status
Strengthen public financial management.	Financial procedures manuals to accompany the Organic Law on State Finances and Property were issued in May 2007. The first consolidated government financial statement (covering 2006) was presented to the Office of the Auditor General in June 2007 and the statement for 2007 in March 2008. The new Law on Public Procurement, signed in December 2007, strengthened regulation, decentralized public procurement to government institutions, and established the Rwanda Public Procurement Authority. A revised medium-term PFM strategy and action plan was finalized.
Reform the civil service.	A comprehensive review of the wage structure of the public sector, including fringe benefits and wages, and transfers to local governments was completed in October 2007.
Deepen the financial sector and strengthen financial intermediation and bank soundness.	An over-the-counter debt market was established in February 2008 after passage of accounting legislation consistent with international standards. Capital requirements for banks and microfinancial institutions were increased in January 2008 further strengthening and consolidating the financial system. An insurance bill and a microfinance bill providing the legal and regulatory framework for *insurance companies* and *microfinance institutions* was submitted to Parliament in July 2008. The Union des Banques Populaires du Rwanda (UBPR), a large microfinance network, was restructured and reorganized into a commercial bank thus improving access to banking facilities.
Lower cost of doing business.	A commercial justice, business and land registration program was implemented in July 2007 and has been instrumental in eliminating company registration fees and reducing the number of procedures for land application, allocation and registration, building permits, and international trade.
Privatize public commercial enterprises.	Coffee and tea factories (among others) were privatized.

- **Poverty is still pervasive.** Despite the strong economic growth over the period, the incidence of poverty only declined by 3.5 percentage points in 2006 from 60.4 percent in 2000. The rate of poverty reduction will be insufficient to meet some of the MDGs, though Rwanda has made significant progress in achieving universal primary education, gender equality and empowering of women, and reducing child mortality (Table 5).

II. Key Economic Challenges

2. **The main challenge now for Rwanda is to address its development needs while maintaining macroeconomic stability.** Doing so will require:

- ***Increasing productive capacity,*** through investment in physical and human capital, and job-creating growth to reduce poverty.
- ***Following prudent macroeconomic policies.*** The required scaling up of public investment must be pursued in a manner consistent with preserving macroeconomic stability and debt sustainability, which are prerequisites to growth and poverty reduction.
- ***Accelerating structural reforms*** to improve public sector efficiency and effectiveness.

A. Increasing Productive Capacity

3. **To reach the medium-term objectives, Rwanda needs to address the most important obstacles to economic growth:** reduce its severe infrastructure gap and skilled-labor shortage, further develop the financial sector, and improve the business environment.

- ***Reducing the infrastructure gap***

   a. *Increase agricultural productivity.* Given little scope to increase arable land, vulnerability to shocks, and a high rate of population growth, Rwanda is planning investments to ease pressures on land, reduce soil erosion, and increase irrigation systems. The intent is to improve food production, create employment, and increase rural incomes.

Figure 5. Rwanda: Agricultural Productivity
Rwanda's cereal yield and irrigation are low.

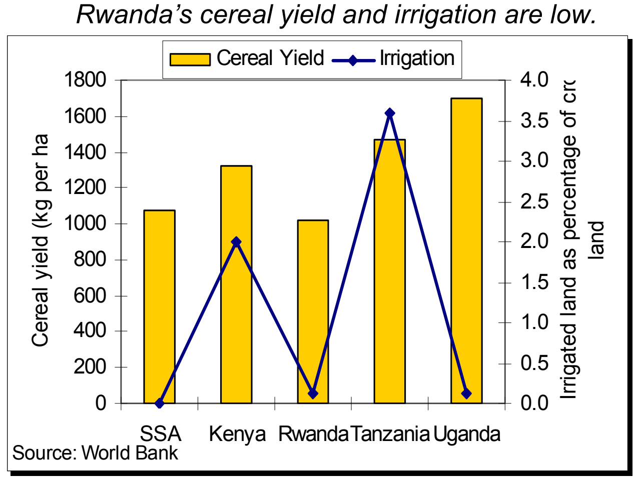
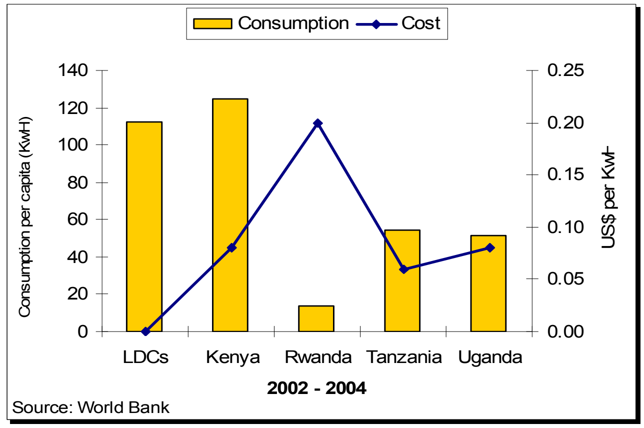


Figure 6. Rwanda: Electricity Consumption

Electricity consumption is low but costs are high.



b. *Increase the supply of electricity.* Rwanda has lower per capita electricity consumption and higher tariffs than most members of the East African Community (EAC). The Nyabarongo hydro-power project is expected to reduce dependence on expensive thermal power, but additional investments are needed to meet long-term demand.

c. *Improve transportation links.* Because Rwanda is landlocked, transportation costs are high and routes are slow. This severely limits the country's access to global markets. The domestic road network is being improved and Rwanda is expected to benefit from regional efforts to rehabilitate key corridors, such as the World Bank's East Africa Trade and Transport Facilitation project. Rwanda is also giving priority to developing information and communications technology and the services sectors to circumvent transportation constraints.

- ***Developing the financial sector and promoting savings.*** The banking system has been significantly restructured in recent years. Banking soundness indicators have improved and the legal and supervisory framework has strengthened, but weaknesses remain (Box 2). The level of financial intermediation is relatively low and credit is concentrated in a few sectors. Reforms outlined in the Financial Sector Development Plan should promote domestic savings and improve access to credit, particularly for the agricultural sector.

- ***Improving the quality of labor***. Public spending needs to focus on primary and secondary education, vocational training and incentives for on-the-job training to reduce the shortage of skilled blue-collar workers; regional labor migration should help increase the supply of white-collar workers over the short and medium term.

Box 2. Banking Soundness and Financial Sector Development

(a) Banking Soundness

The soundness and performance of the banking system have strengthened significantly since 2005 (Table 6). Capital adequacy has improved because the capital requirement was raised in early 2008. Improvements in the quality of bank asset portfolios and the reduction in nonperforming loans (NPLs) mainly reflect the National Bank of Rwanda's (NBR) enforcement of the write-off regulation implemented in October 2007 requiring banks to clean up their loan portfolios; as well as banks' stronger loan recovery and collection efforts. The increase in bank profitability over the period is attributable to the increase in loans by 59.4 percent in the first quarter of 2008, improved efficiency in banks' operations, high net interest margins due to the low cost of funds, and declining NPLs. The efficiency ratio for banks improved from 79.9 percent at end-December 2005 to 38.6 percent at end-June 2008.

Nevertheless, credit and operational risks could jeopardize the banking system. The credit culture is weak and in most banks loan-underwriting standards, collection efforts, loan monitoring, and credit policies are weak. Operational risk is high as all banks suffer from cases of fraud. Inadequate internal controls and audits, and the lack of risk management systems all contribute to this situation. In general, inadequate staff capacity is a major problem.

The NBR has urged banks to establish risk management systems and train staff. The NBR plans to improve its supervisory tools through the establishment of (i) an early warning system to detect anomalies and financial difficulties to complement its risk-based supervision and continuous off-site monitoring and (ii) a prompt corrective action (PCA) program to address deteriorating financial conditions.

(b) Financial Sector Development Plan

The 2005 Financial Sector Assessment Program (FSAP) characterized Rwanda's financial sector as shallow, undiversified, and incapable of adequately supporting its developmental objectives. The assessment recognized that the financial sector was dominated by an oligopolistic banking sector with relatively high lending rates, extremely low insurance penetration, and undiversified financial products. The FSAP recommended that the Government establish an action plan and identify the need for policy changes, capacity building and technical assistance to implement these changes.

In response, the Government drafted a comprehensive Financial Sector Development Plan (FSDP) with support from the IMF, the World Bank, and other donors. The FSDP, finalized in May, 2007—following discussions with key stakeholders and approval by the Cabinet—is a comprehensive policy framework and a detailed action program to achieve the following objectives:

(a) Enhance access to and the affordability of banking and other financial services. This included the support for the development and outreach of a healthy and properly regulated and managed microfinance sector in order to extend financial services to the unbanked and help reduce poverty.

(b) Enhance savings mobilization by creating the appropriate environment, building institutions and fostering market incentives for the development of long-term financial instruments and an efficient capital market.

(c) Develop an appropriate legal, regulatory and policy framework for non-bank financial institutions (pension funds, insurance companies, etc.) involved in contractual savings regulation; and

(d) Reorganize and modernize the national payments system.

Many donors are providing support in accordance with the action matrices that identified activities and priority actions, responsibilities, technical assistance needs, sequencing and schedules.

Source: IMF MCM Report "Further Strengthening Monetary and Foreign Exchange Operations, and Banking Supervision", November 2008; and First Initiative "Rwanda Financial Sector Development Program Report", May 2007.

- ***Reducing the cost of doing business***. Rwanda scores high on ease of starting a business, dealing with construction permits, and enforcing contracts, but much lower in almost all other categories of the World Bank's Doing Business Report.[3] To reduce the costs of tax compliance for private sector companies, additional measures should be taken to improve efficiency of tax collection procedures and streamline the process of tax appeals. Further legal, institutional, and governance reforms are required to improve trade and property registration, commercial justice, and establish principles of modern corporate governance.

4. **The authorities have articulated a medium-term strategy in their PRSP that addresses these obstacles,** in consultation with development partners, through a Public Investment Program (PIP), a Financial Sector Development Plan, and a Rural Development Program to promote private-sector led growth and create employment over the medium term. They also recently consolidated and realigned the activities of eight government agencies into the Rwanda Development Board (RDB) to eliminate inefficiencies in operations and streamline the bureaucracy in order to advance private sector development initiatives (MEFP ¶8).

B. Preserving Macroeconomic Stability and Debt Sustainability

5. **While scaling up public investment is a critical requirement, it must be done in a manner that is consistent with macroeconomic stability.** Rwanda will require substantial resources to achieve its development aspirations and the MDGs.[4] Because the availability of grant financing for some infrastructure projects is uncertain, the authorities are considering external debt financing and public private partnerships (PPPs). Managing the impact of fiscal policies on domestic demand will be critical in containing inflation and preventing an undue crowding out of the private sector. The medium-term fiscal strategy should therefore:

- ***Use growing external aid for financing public investment to help achieve a supply response and manage the macroeconomic implications of increased aid.*** Scaling up of import-intensive public investment will mitigate the impact of aid flows on the real exchange rate in the short run and address Rwanda's infrastructure gap. Over the medium term, capital spending would be gradually reduced to allow for higher recurrent social spending, which would correspondingly increase the domestic demand impact of fiscal policies. To implement the spending shift, fiscal and monetary policies must be closely coordinated.

---

[3] Rwanda ranked 139 (of 181 countries) in the 2008 World Bank Doing Business report.

[4] The government's analysis suggests that a substantial scaling up of aid would be required to achieve all MDGs. The Fund analyzed the macroeconomic impact of scaling up aid to US$85 per capita, consistent with the G8 Gleneagles declaration. For Rwanda that would mean an increase in aid of about 1 percent of GDP, which would be insufficient to reach all MDGs.

- ***Improve the prioritization and efficiency of expenditures.*** The authorities indicated that they are strengthening the institutional framework for the PIP and are developing guidelines for identifying investment selection criteria and project prioritization that maximizes the return on investments and safeguards public debt sustainability. They agreed that the formulation of the PIP and better medium-term expenditure frameworks together with improvements in project monitoring and execution could encourage international donors to provide more grants or concessional financing.

- ***Properly assess and limit fiscal risks, which are not anticipated in budget estimates.*** The assessment of fiscal risk should extend to contingent liabilities, particularly those associated with government guarantees of public enterprises or with PPPs. Fiscal institutions and legal and accounting structures will require reinforcement to effectively limit such risks. Staff emphasized that transparency or disclosure will be enhanced by annexing a risk statement to the budget document. The authorities agreed with the proposals and indicated that they would include the assessment of contingent liabilities in the guidelines being developed for the PIP and the Debt Management Strategy.

6. **Monetary policy must be more proactive in managing liquidity and moderating inflation.** In the short term, the NBR must take steps to reduce inflation (which has risen in the third quarter of 2008 to over 20 percent as a result of increasing world commodity prices and domestic demand pressures) back to single digits. To do this the NBR must be vigilant in monitoring inflationary developments and liquidity forecasts and use suitable monetary policy tools to reduce the inflationary pressures. Concerned about undue exchange rate appreciation, the NBR relied through 2007 primarily on open market operations to sterilize excess liquidity, and the exchange rate remained stable.[5] This approach, however, is not consistent with reserve money targeting, which requires subordinating foreign currency sales to monetary policy objectives. Since mid-2008 the NBR has allowed more exchange rate flexibility.

7. **Increasing NBR policy interest rates to positive levels in real terms would help reduce inflationary pressures and mobilize domestic savings for investment.** In 2007 the NBR reduced its nominal rates and maturities on policy instruments in an attempt to lower the costs of sterilization. Consequently, commercial banks deposit rates, which typically follow the rates on policy instruments, also declined and in the high inflationary environment have become increasingly negative in real terms. Reversing this trend would also

---

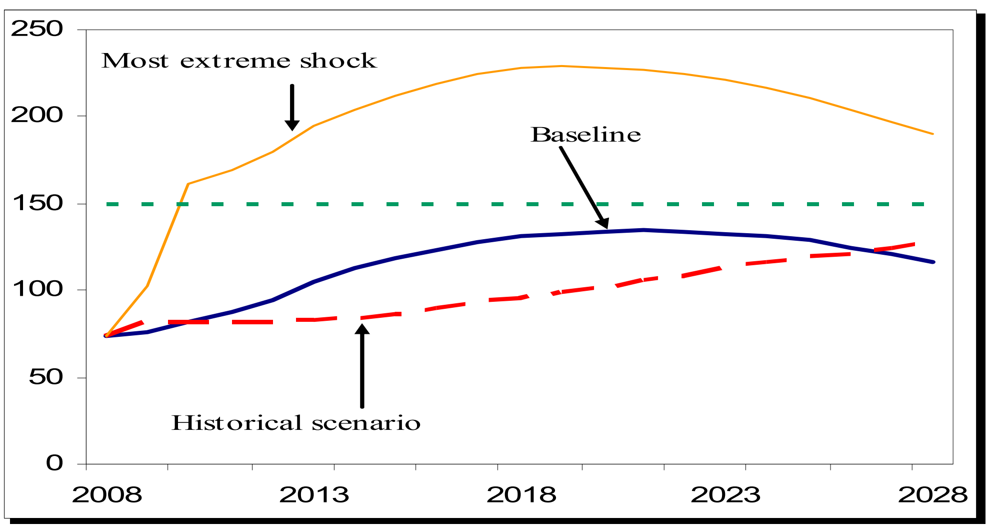
[5] Since October 2006 the exchange rate has been classified as a *de facto* conventional fixed peg relative to the US dollar.

complement the NBR's recent efforts to encourage savings mobilization by boosting confidence in the banking system and making it more competitive (MEFP ¶24).[6]

8. **Reaccumulation of unsustainable levels of debt must be prevented.** The DSA indicates that all external debt indicators are below the sustainability thresholds and consequently Rwanda's debt distress classification has been revised from high to moderate (Figure 7). This improvement over the previous DSA (Country Report No. 08/89) mainly reflects stronger export earnings in 2007 and 2008 and a lower external borrowing over the medium-term because of higher committed grants and lower primary deficits. While the debt indicators in the baseline scenarios are benign, shocks to the small export base or a reduction in the concessionality of financing would cause a protracted breach of the threshold on the present value of debt-to-export ratio. The authorities have stated that future borrowing will be guided by the principles established in their comprehensive debt management strategy. The main objective of the strategy is to ensure that the financing requirements and repayments are met at least cost with prudent risk considerations while keeping debt sustainable.[7]

Figure 7. Rwanda: NPV of External Debt-to-Exports Ratio (percent), 2008–28

Rwanda is at moderate risk of debt distress.



Source: Rwandan authorities and IMF and World Bank staff estimates.

---

[6] Staff advice is consistent with the recommendations of the MCM TA mission to Rwanda (September 22–October 7, 2008) for (i) improving the efficiency of monetary policy operations and managing bank liquidity; (ii) developing interbank markets in local currency and foreign exchange, and (iii) improving the financial health of banks and their compliance with prudential norms and regulations.

[7] In the MEFP (¶18) the authorities foreshadow their intention to seek financing from the Eximbank of China for rehabilitating roads, with concessionality below 50 percent. An evaluation of this borrowing will likely be made at the sixth PRGF review.

9. **Rwanda will need to enhance trade not only to increase growth and reduce poverty, but also to maintain external debt sustainability.** Despite a recent pick up in export receipts, Rwanda's export base (goods and services) is still small at less than 10 percent of GDP, which limits its capacity to carry external debt. The World Bank suggests that encouraging subsistence farmers to increase production for trade could significantly reduce poverty, diversify exports, and reduce Rwanda's vulnerability to shocks.[8] The authorities' export promotion measures are summarized in the MEFP (¶30).

10. **The authorities noted that trade integration was likely to advance under the Customs Union of the East African Community (EAC)**.[9] They (i) indicated that lowering the common external tariff and eliminating non-tariff barriers in the EAC common market agreement was planned from July 2009[10], and (ii) emphasized the membership offers scope for leveraging improvements in regional infrastructure, labor migration, and the business climate.[11] Staff assessed the potential revenue impact of Rwanda joining the EAC to be marginal, less than 0.4 percent of GDP. Discussions on a full Economic Partnership Agreement with the EU are expected to be finalized by mid-2009.

11. **The authorities agreed with staff that the real effective exchange rate (REER) was broadly consistent with economic fundamentals** (Box 3). Its appreciation since 2004 reflects the scaling-up of aid and the associated increase in fiscal spending (Figures 3 and 4). However, the acceleration of inflation to double-digits in 2008, the appreciation of the U.S. dollar relative to the Euro and other major reserve currencies, and the relative stability of the exchange rate of the Rwandan franc to the US dollar have added to the real appreciation pressures on the local currency. The authorities agreed that increasing flexibility of the nominal exchange rate would help the economy adjust to external shocks and keep the current account at a sustainable levels. Additionally, they emphasized that flexibility in the exchange rate must be supported by structural reforms and the removal of infrastructural impediments to safeguard external competitiveness and enhance trade.

---

[8] World Bank, "Rwanda -Toward Sustained Growth and Competitiveness; Volume 1: Synthesis and Priority Measures, October 12, 2007.

[9] Consistent with the EAC protocols, to protect local industries the authorities are drawing up a list of sensitive products on which higher tariffs than the maximum allowable rate will be applied.

[10] The trade regime under the EAC will be more liberal as it lowers the average tariff for third countries by about 5 percentage points upon implementation of the common external tariff.

[11] Besides liberalizing intraregional trade and giving its members access to a market of about 90 million people, the EAC promotes regional cooperation through: (1) addressing the region's infrastructure gaps; (2) setting phytosanitary and technical standards; (3) sharing and coordinating use of mineral, water, and energy resources; and (4) drafting investment, anticorruption and good governance codes and coordinating tax incentives.

Box 3. Exchange Rate Assessment

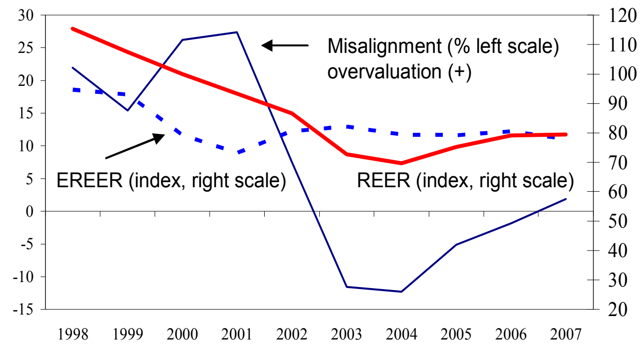
The exchange rate system was liberalized in 1998 and an auction system was introduced in 2001 to ensure the market determination of the exchange rate and the adoption of a policy to allocate foreign exchange guided by the NBR's net foreign asset target. Between 1998 and 2004, Rwanda's real effective exchange rate (REER) depreciated by some 45 percent. (This period also coincided with a marked deterioration in Rwanda's terms of trade). Subsequently, the REER has appreciated by about 20 percent as the authorities have increased the spending and absorption of scaled-up aid.

Equilibrium REER analysis using panel data estimates with model specifications relating the REER to a set of fundamentals (following Mongardini and Rayner (forthcoming)) yields a small overvaluation of about 2 percent as of 2007. The estimated equilibrium REER over the period has mainly been driven by Rwanda's GDP growth relative to its trading partners.

Staff analysis using the external sustainability approach–which estimates the level of the exchange rate consistent with stabilizing net foreign assets at the end-2007 level–suggests a slight undervaluation of about 2 percent.

On balance, the REER in Rwanda was broadly in line with its estimated equilibrium level in 2007. Since then, the REER for the first 8 months of 2008 appreciated by less than ½ percent on average compared to 2007.

Rwanda: Estimated Equilibrium and Actual REER



Recent performance of the external sector also indicates that Rwanda's exports are competitive. Measured in dollar terms, Rwanda's export of goods and nonfactor services (GNFS) has grown by an average of about 20 percent per year over the last five years. The high volatility of export growth reflects the concentration of exports (coffee, tea, and tin comprise over 60 percent of goods exports) and large terms of trade swings.

Rwanda: Growth of Exports of Goods and Services (percent)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total goods (Value)	-31.0	-3.3	11.3	35.5	-28.1	-6.3	55.4	27.6	17.8	20.1
Total nonfactor services (Value)	-8.0	8.9	17.1	6.2	2.8	17.0	19.9	12.2	24.0	21.8
Non coffee, non-tea goods (Volume)	-49.3	42.3	4.2	72.7	-20.7	-14.0	24.7	46.5	-3.8	51.8
Share of world exports (Value)	-21.5	-1.8	2.4	26.2	-19.6	-9.7	18.4	7.9	-2.7	4.2
Terms of trade index (deterioration -)	*-14.8*	*-16.3*	*0.4*	*7.6*	*-24.1*	*4.4*	*15.6*	*10.7*	*4.2*	*13.7*

The low level and high volatility of Rwanda's exports in the context of a relatively favorable real exchange rate trends in recent years suggest that over the medium term, export performance is likely to be constrained by structural bottlenecks–such as poor infrastructure and access to bank credit–rather than by external price competitiveness.

C. Accelerating Structural Reforms and Other Policies

12. **Sustaining high growth and reducing poverty requires that Rwanda accelerate the breadth and pace of structural reforms and leverage synergies from coordinating reforms across sectors.** Development, prioritization, sequencing, and implementation of reforms still remain a critical challenge. Closer alignment of development partners' activities and financial support with Rwanda's priorities established under the national development agenda would facilitate the implementation of reforms. The focus of public sector reforms should be on strengthening capacity building, increasing efficiency in resource allocation and improving fast feedback through better monitoring and evaluation mechanisms. In particular:

- ***Improving public service delivery***. Addressing capacity constraints and reforming the civil service, especially considering the recent decentralization initiative, will be essential for enhancing policy implementation as well as monitoring and performance management systems.[12] Further public service reforms may be necessary to attract and retain high quality staff.

- ***Strengthening public financial management (PFM).*** Substantial improvements in budget preparation, execution and monitoring are critical to ensure that public resources are allocated efficiently. Moreover, achieving greater budget flexibility in the form of budget-support aid should be directly related to the quality of the PFM. The government has finalized a medium-term PFM reform strategy that give priority to improving (i) accounting, recording, and reporting; (ii) external scrutiny and audit; and (iii) comprehensiveness and transparency. The prioritization and sequencing of reforms is being guided by the Public Expenditure and Financial Accountability (PEFA) Assessment made in 2007.

- ***Formulating an exit strategy from aid dependence over the long term***. The authorities plan to continue to strengthen tax and customs administration to increase the revenue-to-GDP ratio and reduce Rwanda's reliance on donor support. On domestic taxation, their efforts will focus on enhancing auditing and enforcement capacity, particularly for medium-sized tax payers, and widening the tax base to include the informal sector while improving collections of non-tax revenue. Reforms in customs administration should facilitate trade and strengthen compliance.

[12] Summary findings from a World Bank sponsored report from Oxford Policy Management—*Republic of Rwanda, 2007, Functional Reviews and Institutional Audit of Six Public Sector Institutions to Assess the Impact of Ongoing Public Sector Reforms.*

D. Macroframework and Risks

13. **Staff projects average growth for 2009–11 of about 6 percent.** This growth rate, which is 1¾ percentage points lower than the historical average over the past 4 years, reflects the dampening effects of the decline in world growth mainly through slowdown in the construction and service sectors. At the same time, the Rwandan economy is not strongly integrated into the world economy and subsistence agriculture has a large share. In the medium-term, agriculture production is likely to recover following the ongoing enhancement of the crop intensification program, while expansion of the public sector infrastructure program will mitigate the slowdown in construction activity. Staff's outlook for growth, which is lower than the 8 percent forecasted in the authorities' PRSP, is based on a more conservative projection that takes into account world economic growth and the pace of structural reform implementation. This also suggests that a significant reduction in poverty is likely to take considerable time.

14. **Inflation is projected to return to 5 percent over the medium term, after the impact of international fuel and food prices has passed through.** Achieving this objective also hinges on continued prudence in macroeconomic policies and the success of measures to boost agricultural output and reduce the price volatility of fresh food products.

15. **The external current account deficit is projected to remain at around 8-10 percent of GDP over the medium term.** It will be largely financed by international donor flows and FDI, which will keep reserves at an adequate level. Staff projections suggest an initial slowdown of export growth, reflecting a reduction in commodity prices and tourism, followed by an acceleration due to the implementation of growth and export enhancing structural reforms and the resumption of global economic growth. The growth of import volumes is expected to remain fairly high, reflecting capital imports related to infrastructure projects, and will be partly offset by the lower import prices. These projects will contribute to the expected rise in Rwanda's investment rate.

16. **The medium-term outlook is subject to a number of downside risks.** The global financial crisis and economic slowdown pose near-term risks for Rwanda's economic growth and balance of payments. Demand for Rwanda's exports, export prices and remittances may further decrease, which would reduce the foreign currency receipts. A more pronounced deterioration in the terms of trade would add to balance of payments pressures. Foreign direct investment could fall and trade credits could become more difficult to obtain. All these factors could bring economic growth in 2009 below the current projection of 6 percent and reduce government revenues, straining fiscal policy. Slower growth could result in rising credit risks and make Rwanda's banking sector more vulnerable.

Text Table 2. Rwanda: Medium-Term Framework, 2005–13

	2005	2006	2007	2008	2009	2010	2011	2012	2013
				Projection					
Economic growth and inflation (percentage change)									
Real GDP (percentage change)	7.2	7.3	7.9	8.5	6.0	6.0	6.0	6.0	6.0
Real GDP (per capita)	5.4	5.4	5.7	6.2	3.8	3.8	3.8	3.8	3.8
Consumer price index (eop)	5.6	12.2	6.6	22.0	6.0	5.0	5.0	5.0	5.0
Central government budget (percent of GDP)									
Revenue	13.5	13.3	13.6	14.2	14.4	14.6	14.7	14.8	15.0
Grants	12.6	10.7	9.9	13.0	13.6	9.4	8.1	7.5	7.4
Government expenditure and net lending	25.6	24.5	24.9	27.1	27.0	26.4	25.9	25.6	25.8
Current expenditure	16.1	16.3	16.8	15.8	15.9	15.6	15.5	16.2	16.6
Capital expenditure	9.1	7.6	8.6	10.9	10.9	10.5	10.1	9.1	9.0
Domestic fiscal balance (excl. demobilization spending)	-5.1	-5.4	-6.1	-6.5	-6.8	-6.6	-6.8	-5.1	-5.1
Overall balance (payment order)									
After grants	0.6	-0.4	-1.5	0.1	0.9	-2.5	-3.0	0.9	-2.5
Before grants	-12.0	-11.1	-11.3	-13.0	-12.6	-11.9	-11.2	-12.6	-11.9
National accounts (percent of GDP)									
Gross domestic investment	21.6	20.4	21.0	23.4	23.5	23.1	22.9	22.0	22.0
Of which : private	12.5	12.8	12.4	12.5	12.6	12.7	12.8	12.9	13.0
Gross national savings	6.0	4.3	5.4	5.0	5.1	6.1	6.6	5.7	6.0
Current account bal. (excl. grants)	-15.6	-16.1	-15.5	-18.4	-18.4	-17.0	-16.3	-16.3	-16.0
Balance of payments (percent of GDP)									
Exports of goods and services	10.2	9.7	9.7	9.0	8.7	9.3	9.5	9.6	9.5
Imports of goods and services	26.7	27.5	27.7	30.1	29.3	28.6	28.7	28.9	28.5
Current account balance (incl. grants)	-1.1	-7.4	-4.9	-7.1	-8.2	-9.4	-9.5	-10.6	-10.3
Overall balance	4.6	2.9	3.2	0.9	-0.5	0.9	0.9	0.7	0.8
Gross official reservess (months of imports of G&S)	6.2	5.6	5.2	5.1	4.6	4.6	4.6	4.6	4.6
Nominal GDP (billions of Rwandan francs)	1332.9	1563.8	1866.1	2333.1	2737.6	3049.5	3394.9	3775.6	4199.2

Sources : Rwandan authorities; and staff estimates and projections.

III. Program Issues

A. Macroeconomic Developments and Program Performance in 2008

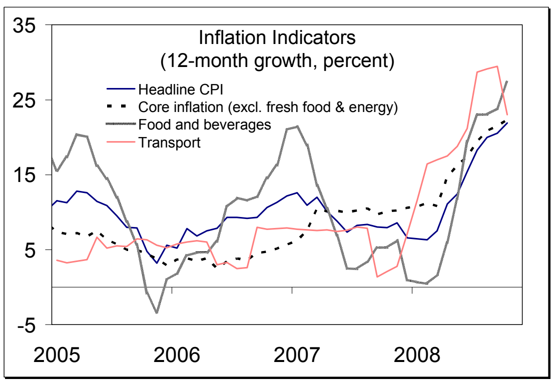
17. **Macroeconomic developments in 2008 have been mixed:**

- ***Growth in 2008 is expected to remain resilient to the global slowdown.*** The projection of 8.5 percent is supported by a substantial increase in agricultural production, expanding production of manufactured goods for the domestic market, construction of private and commercial property, growing demand for transport, and a revived financial sector now that Rwanda's banks have been recapitalized.

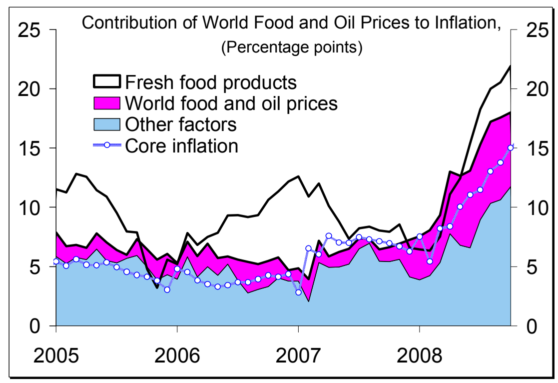
- ***Inflation has accelerated as a result of international commodity prices pass-through and domestic demand pressures***. The 12-month CPI inflation reached 21.9 percent in October, up from single digits in March, mainly because of rising transport charges, utility fees and food prices, and administered price increases in education and health services. Staff estimates suggest that rising international commodity prices explain about 1/3 of the overall inflation in recent months.[13] An accommodative monetary policy stance during the rapid fiscal expansion in the second half of 2007 is also a contributing factor, as evidenced by sharply rising nonfood and nonfuel factors of inflation. Average inflation is projected at around 15 percent in 2008, which underscores the need for macroeconomic policy actions to limit the possible second-round effects of the food and fuel price shock.

Figure 8. Rwanda: Inflation Developments, January 2005-October 2008

Inflation has risen sharply...



...owing to pass-through of world commodity prices and domestic factors.



Source: Rwandan authorities; and IMF staff estimates.

18. **Program performance was satisfactory through September.** All quantitative end-June performance criteria (PCs) for the fifth review were met (MEFP, Table 1).

19. **Fiscal policy in the first half of 2008 was tighter than envisaged and the end-year fiscal targets appear within reach because the government is committed to saving part of the additional revenues** (Table 2).

- ***Revenues overperformed throughout the year*** due to higher inflation and taxation of growing imports as well as faster-than-anticipated economic growth. This kept the domestic fiscal balance within program targets.

- ***Spending was broadly in line with the program during January-June, but accelerated thereafter***. In August, Parliament approved a supplementary budget for additional priority spending, largely financed by new IDA and AfDB grants, on imports of fertilizer, seeds and food storage (0.6 percent of GDP) to increase food

[13] These estimates are based on the findings of the accompanying Selected Issues Paper (SIP) studying the pass-through effects of global food and oil prices on inflation in EAC countries (Country Report No. 09/36).

production and create a food buffer.[14] Some of the contingency spending envisaged in the program and emergency spending on road maintenance will be financed by higher-than-expected tax collections.

- ***A substantial part of the additional revenues will be saved.*** This will improve the projected domestic fiscal balance for 2008 by 1.4 percent of GDP compared with the program target. Staff and the authorities concurred that restraining fiscal spending will alleviate domestic demand pressures and help return inflation to single digits.

- ***Because of administrative delays, the budget accumulated arrears of about 1 percent of GDP and the end-September indicative target on the net accumulation of domestic arrears was missed***. The authorities have taken measures to eliminate these arrears before year-end (MEFP ¶3).

20. **The monetary program remained broadly on track through end-September although inflation has accelerated (Figure 9).**

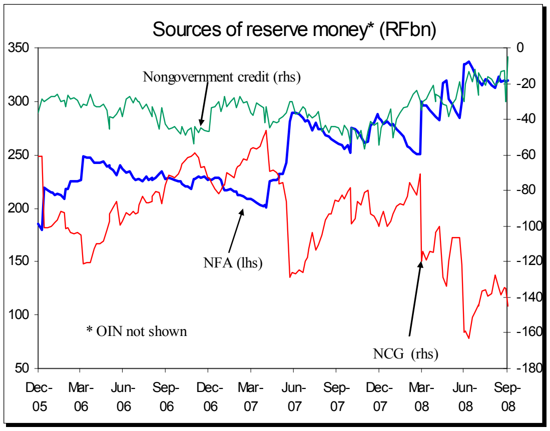
- ***The end-June and end-September targets on reserve money were observed.*** The NBR mainly relied on foreign exchange sales for sterilization and limited the use of domestic debt instruments. Money market interest rates increased by up to 250 basis points since end-2007 following the introduction of the key policy rate and repo market in July (MEFP ¶4).

- ***The pass-through from world food and fuel prices boosted inflation and thus reduced the liquidity overhang.*** Rising prices increased the nominal demand for money and currency in circulation, leading to tighter monetary conditions. In turn, banks' excess reserves decreased. Broad money declined to levels consistent with program projections, indicating that the monetary overhang that persisted through early 2008 has diminished.

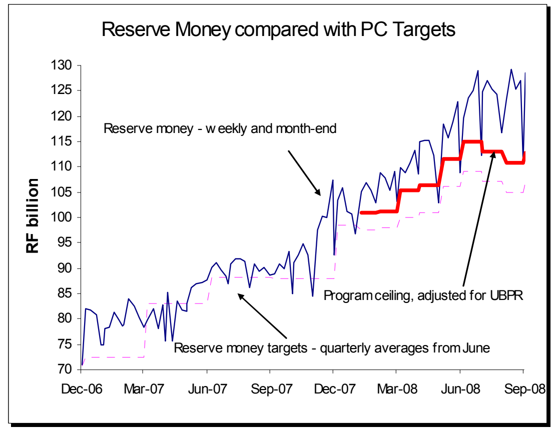
[14] The supplementary budget also institutionalized changes to the fiscal program that were built into the program during the fourth review (see MEFP Text Table 1 in Country Report No. 08/222).

Figure 9. Rwanda: Monetary Sector, 2006–08

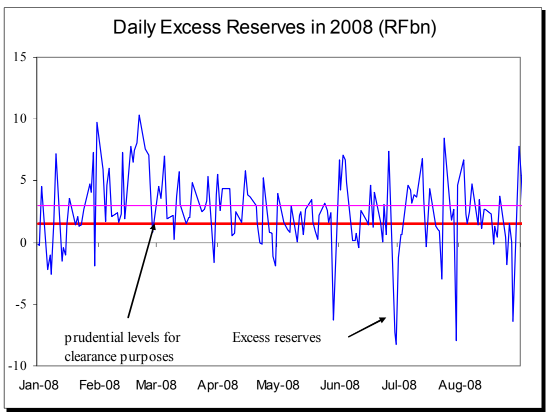
Tighter than envisaged fiscal policy in the first half of 2008 offset increases in NFA.



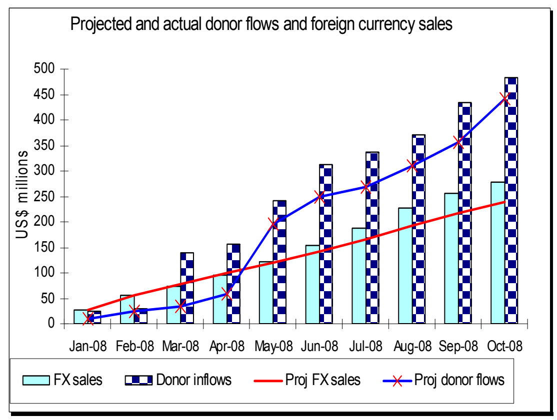
The reserve money targets were met...



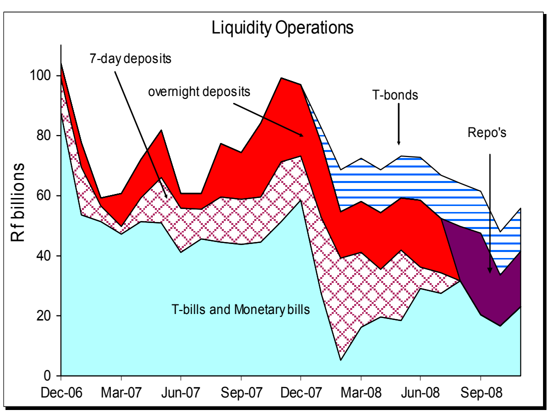
… and average excess reserves declined.



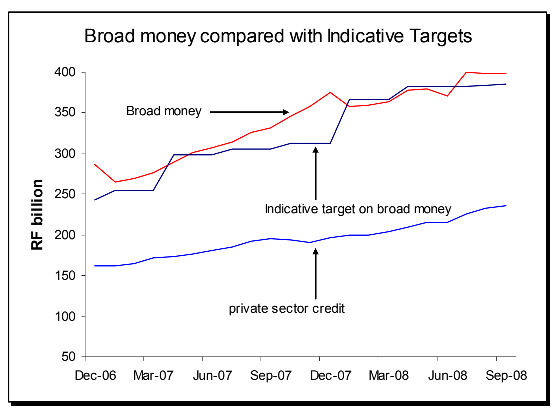
Foreign exchange sales were higher than projected...



.. and the use of domestic instruments has declined, but maturities have lengthened.



Broad money and private sector credit growth is in line with projections.



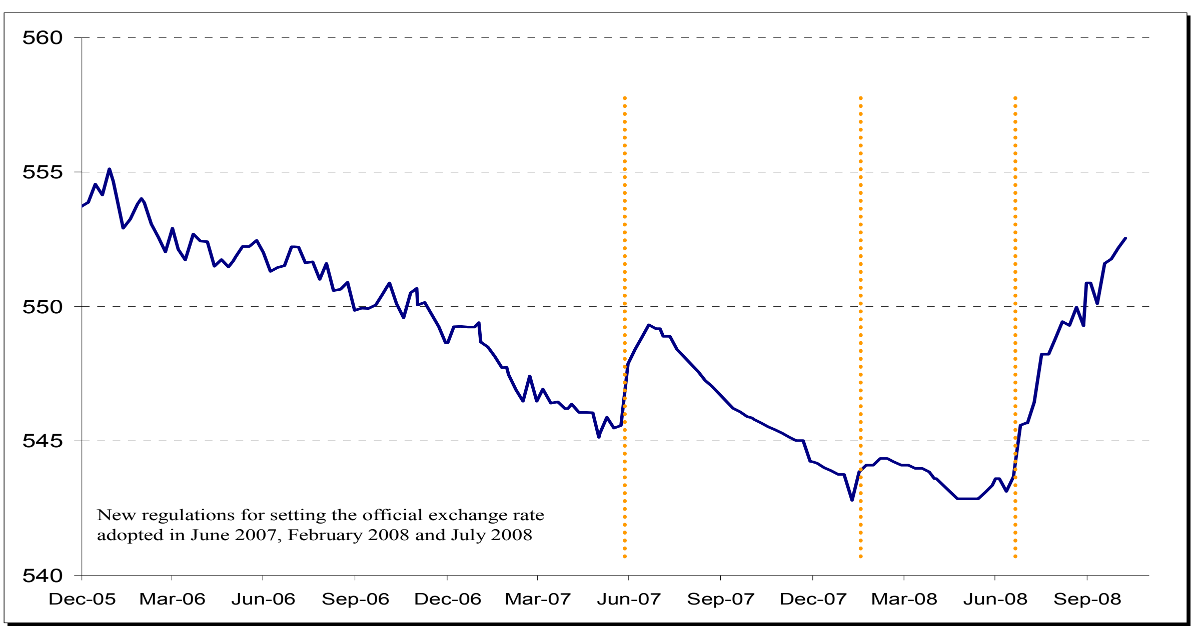
Source: Rwandan authorities, staff estimates.

21. **Monetary policy should aim at preventing second round inflationary effects from the world commodity price increase earlier in the year and bring back inflation to single-digit levels, including through exchange rate flexibility and close coordination of monetary and fiscal policy.**

- ***The NBR committed to further tightening the monetary stance by raising the key repo rate*** (MEFP ¶24). This would lead to the restoration of positive real interest rates once inflation has declined to a moderate level and would encourage savings. These changes should be implemented gradually and prudently so that the impact on the private sector credit is spread overtime. Simultaneously, the NBR should monitor credit expansion and the exposure of the banking sector to developments in the domestic economy particularly the sectors that may have benefited from rapid asset price increases in recent years.

- ***Greater flexibility of the nominal exchange rate will be essential to ensure adherence to quantitative monetary targets under the program and preclude excessive real appreciation of the local currency.*** The NBR modified the mechanism for determining the weekly average reference rate at which it sells foreign exchange to commercial banks in July (MEFP ¶5) and moved to setting the exchange rate on a daily basis from mid-November. This introduced more flexibility in the exchange rate and led to a moderate depreciation of the Rwandan franc relative to the US dollar (Figure 10). While these developments are welcome, staff urged the authorities to move swiftly toward an interbank foreign exchange market in coordination with banks and further increase exchange rate flexibility.

Figure 10. Rwanda: Exchange Rate Movements, May 2005-October 2008
(Rwanda francs per U.S. dollar, weekly)



22. **All but one structural reform measure through end-June 2008 were met.** The completion and the publication of the PFM reform action plan for 2008-10, a PC for end-June (MEFP, Table 3), was delayed until September, allowing the Ministry of Finance sufficient time to solicit and incorporate input from development partners. The National Payments Strategy designed to improve the payments infrastructure and address the development of basic payment services in Rwanda (end-September benchmark) was prepared on time but was posted on the website of the NBR only in October. The debt management strategy (end-November benchmark) was published on the MINECOFIN website on November 28 after incorporating comments provide by Bank and Fund staff following reviews of earlier drafts.

B. Macroeconomic Policies for 2009

23. **Macroeconomic policies in the short term need to ensure a smooth adjustment to volatility in commodity prices and changes in the uncertain global economic environment, while advancing the medium-term agenda.** In light of the risks, careful monitoring of domestic developments and policy coordination between the Ministry of Finance and the NBR will be necessary to safeguard macroeconomic stability**.**

24. **Fiscal policy in the first half of 2009 will be geared towards limiting the potential risks to the economic outlook** (MEFP ¶¶15-17)**.** The minibudget for January-June 2009[15] allows for the full use of aid inflows to scale up spending (by 0.6 percent of GDP) on priority sectors, including infrastructure, agriculture, education, health, and information and communications technology, but precludes recourse to domestic financing.[16] If necessary, the government is prepared to reduce spending during the course of 2009 to ensure macroeconomic stability. The revenue-to-GDP ratio is projected to increase in line with the long-term objective of gradually widening the tax base. In the event of an unanticipated revenue shortfall, the authorities have committed to implement offsetting measures. Considering current uncertainties, additional revenues beyond those projected through mid-2009 will be saved for future use.

25. **Monetary policy will aim at mitigating the impact of fluctuations in world commodity prices and reducing inflation to single digits in the second half of 2009.** Reserve money will continue to anchor monetary policy, and broad money is projected to grow in line with nominal GDP. The NBR will increase nominal exchange rate flexibility to meet its monetary targets and ensure that foreign exchange reserves remain adequate (MEFP

---

[15] The authorities are switching from the calendar fiscal year to the EAC budget cycle which covers July to June. A mini-budget covering January to June 2009, which allows the transition to the fiscal budget cycle, was submitted to parliament in October. The annual budget for July 2009 to June 2010 will be submitted for parliamentary consideration in April 2009; it will be discussed in detail during the sixth PRGF review.

[16] Spending measured as total expenditure and net lending excluding privatization proceeds.

¶¶21-24). Policy interest rates will be gradually increased to mitigate inflationary pressures. Monetary policy will accommodate private sector credit growth of about 23 percent.

C. Data Issues

26. **Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis**. Weaknesses permeate all areas, but particular attention is needed to improve statistics on national accounts, prices, government finance, and balance of payments.

D. Program Risks and Monitoring

27. **Program risks have increased.** The main risk is that macroeconomic stability could be derailed if the authorities do not appropriately adjust fiscal and monetary policies to shocks from the current global economic crises. Weak administrative capacity could delay structural reforms.

28. **Program monitoring for 2009 is described in the MEFP (¶¶33 and 34) and the technical memorandum of understanding.** The PRGF arrangement expires in June 2009 but an annual macroeconomic program with quarterly targets has been established to guide macroeconomic policies. Quantitative indicative targets reflecting the mini-budget period have been established for end-March and end-June 2009 (MEFP, Table 2).

29. **Staff discussed with the authorities Rwanda's relations with the Fund after the PRGF arrangement ends in June 2009**. The authorities are interested in a follow-up arrangement as a macroeconomic anchor, especially given the world economic crisis. They believe it would boost domestically owned structural reforms and help catalyze external financial support for meeting the MDGs. They are reviewing the relative merits of PRGF and PSI arrangements.

30. **An update safeguards assessment in 2007 proposed recommendations to address continuing vulnerabilities in the external audit and financial reporting areas.** The implementation of these measures is broadly on track and is being monitored by staff.

IV. Staff Appraisal

31. **Rwanda remains committed to sound economic policies that delivered strong economic performance and macroeconomic stability over the last decade.** Economic growth has been high relative to other members of the EAC, inflation was mostly moderate and debt relief improved the external position. This performance was underpinned by prudent macroeconomic policies and the implementation of structural reforms. When faced with inflation pressures or challenges to growth, the authorities promptly modified the policy stance so as to safeguard macroeconomic stability.

32. **Nevertheless, Rwanda remains a poor country with pressing social needs and significant capacity constraints**. It is continuing with social rehabilitation and is making progress toward the MDGs. The challenge now is to maintain sound policies and structural reforms that will mobilize and efficiently use resources, including scaled-up aid, to boost long-term growth and significantly reduce poverty.

33. **While Rwanda's development needs are vast, spending in support of growth and poverty reduction should not jeopardize macroeconomic stability.** The 2009 mini-budget gives priority to spending on infrastructure and social objectives while limiting the domestic demand impact on inflation and undue crowding out of the private sector. Given current uncertainties the government should carefully monitor domestic developments and the volatile external environment and be prepared to promptly adjust the fiscal policy as needed. Looking forward, staff urges the authorities to embed their policies in a medium-term expenditure framework and a supporting PIP.

34. **To safeguard debt sustainability, recourse to external financing should be generally limited to grants or concessional borrowing.** Given Rwanda's susceptibility to external shocks, staff supports the authorities' cautious stance toward nonconcessional borrowing and commends them on the development of a debt management strategy. To reinforce the analytical framework for assessing the risks of debt distress and evaluating projects, staff recommends that the debt management strategy and the PIP policy guidelines incorporate the fiscal risks associated with contingent liabilities, particularly those associated with planned PPPs.

35. **The REER is broadly in line with fundamentals.** However the current high inflation environment and the recent real appreciation of the Rwanda franc will require more flexibility in the exchange rate, particularly if the current account should widen more than is projected. Staff supports the authorities' intention to limit foreign exchange interventions to smoothing excessive short-term volatility and meeting the foreign exchange reserves target.

36. **The NBR needs to tighten monetary policy to bring inflation back to single digits.** While the recent decline in world commodity prices is conducive to disinflation, prudent fiscal and monetary policies will be essential if inflation is to fall to single digits by end-2009. Staff commends the introduction of the repo market in July 2008 but a better mix of available instruments will be required to limit monetary growth and offset the inflationary impact if the franc were to depreciate. Such actions would also raise the cost of private sector credit and must be implemented gradually.

37. **The authorities must be vigilant in the uncertain and changing global economic environment.** The NBR must continue to scrutinize the credit exposure of banks and be prepared to implement appropriate measures to minimize the possible adverse effect of the slowing global economy and the financial crisis on banks and the wider financial sector.

38. **Structural reforms that make the public sector more effective and efficient will be critical to Rwanda's success.** The authorities need to prioritize policies and structural reforms to address the major obstacles to growth. Staff welcomes the development of the public financial management reform strategy and the implementation of the financial sector development plan and encourages the authorities to accelerate efforts to improve public service delivery. While tax administration has improved substantially, further increases in the revenue ratio should come from strengthening audit and enforcement capacity and widening the tax net to the informal sector.

39. **The efforts to improve the investment climate are commendable.** The recent establishment of the Rwanda Development Board to promote private sector development, projects to augment Rwanda's electricity supply, actions to develop the capital market and improve the soundness of commercial bank, and the overhaul of business-related laws are all commendable. Moreover, EAC membership should leverage regional improvements in infrastructure, provide better access to skilled labor, and improve the business climate; and sectoral export promotion strategies should enhance Rwanda's competitiveness.

40. **Staff recommends that the requested waiver be granted—its nonobservance was temporary—and that the fifth review of the PRGF arrangement be completed.**

41. **Staff proposes that the next Article IV consultation with Rwanda take place within 24 months, subject to the provision of the Decision on Consultation Cycles in program countries**.

Table 1: Rwanda: Selected Economic and Financial Indicators, 2006–09

	2006	2007	2008		2008[1]	2009
			Prog.	Proj.	Proj.	Proj.
	(Annual percentage changes, unless otherwise indicated)					
Output and prices						
Real GDP growth	7.3	7.9	6.0	8.5	8.5	6.0
Real GDP (per capita)	5.4	5.7	3.8	6.2	6.2	3.8
GDP deflator	9.4	10.5	7.5	15.3	15.3	10.7
Consumer prices (period average)	8.9	9.1	8.7	15.0	15.0	12.0
Consumer prices (end of period)	12.2	6.6	10.5	22.0	22.0	6.0
External sector						
Export of goods, f.o.b (in U.S. dollars)	16.9	20.1	21.0	25.4	25.4	6.2
Imports of goods, f.o.b (in U.S. dollars)	26.2	30.2	31.4	43.9	43.9	5.9
Export volume	12.7	6.2	19.1	13.0	13.0	19.3
Import volume	27.0	31.0	19.4	24.0	24.0	14.6
Terms of trade (deterioration = -)	4.3	13.7	-7.7	-4.4	-4.4	-3.7
Money and credit[2]						
Net domestic assets[3]	1.3	7.3	14.3	1.3	23.2	14.1
Domestic credit[3]	7.8	9.7	15.2	1.3	29.1	10.2
Government[3]	-6.0	-2.1	2.1	-9.5	-10.0	-5.3
Economy[3]	13.8	11.8	13.1	10.8	39.1	15.5
Broad money (M2)	31.5	30.8	12.3	13.6	35.0	17.0
Reserve money[4]	11.9	30.7	15.4	22.3	22.3	18.0
Velocity (GDP/M2; end of period)	5.4	5.0	4.9	5.5	4.6	4.6
	(Percent of GDP)					
National income accounts						
National savings	4.3	5.4	3.7	5.0	5.0	5.1
Gross investment	20.4	21.0	24.3	23.4	23.4	23.5
Of which: private (including public enterprises)	12.8	12.4	12.5	12.5	12.5	12.6
Government finance						
Total revenue (excluding grants)	13.3	13.6	14.2	14.2	14.2	14.4
Total expenditure and net lending	24.5	24.9	29.2	27.1	27.1	27.0
Total expenditure and net lending excluding privatization proceeds	24.5	26.1	30.0	27.7	27.7	27.0
Capital expenditure	7.6	8.6	11.8	10.9	10.9	10.9
Current expenditure	16.3	16.8	17.7	15.8	15.8	15.9
Primary fiscal balance[5]	-2.1	-3.5	-4.9	-3.1	-3.1	-4.5
Domestic fiscal balance[6]	-5.4	-6.1	-7.9	-6.5	-6.5	-6.8
Overall balance (payment order)						
After grants	-0.4	-1.5	-0.8	0.1	0.1	0.9
Before grants	-11.1	-11.3	-15.0	-13.0	-13.0	-12.6
Domestic Debt	12.1	10.7	9.5	8.5	8.5	...
External sector						
External current account balance						
Including official transfers	-7.4	-4.9	-9.0	-7.1	-7.1	-8.2
Excluding official transfers	-16.1	-15.5	-20.6	-18.4	-18.4	-18.4
External debt (end of period)[7]	16.9	16.8	17.0	15.4	15.4	14.9
Net present value of external debt[7]						
(percent of exports of goods and services)	67.4	72.5	74.8	74.3	74.3	79.7
Scheduled debt-service ratio after HIPC Initiative debt relief						
(percent of exports of goods and services)	3.7	3.0	2.1	2.8	2.8	2.0
Gross reserves (in months of imports of goods and services)	5.6	5.2	4.8	5.1	5.1	4.6
	(Millions of U.S. dollars)					
External debt (end of period)[7]	477.6	574.2	660.2	652.8	652.8	726.2
Gross official reserves	439.6	552.4	535.8	599.0	599.0	581.0
Memorandum item:						
Nominal GDP (billions of Rwanda francs)	1,563.8	1,866.1	2,081.1	2,333.1	2,333.1	2,737.6

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

[1] Reflects the operations of the Union Banques Populaires du Rwanda (UBPR)—a large microfinance network— which was transformed into a commercial bank in Frebuary 2008.

[2] Data for 2006 are based on program exchange rate of RF 553.7/US$, RF 549.9/US$ for 2007, RF 545/US$ for 2008, and RF 555/US$ for 2009.

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

[4] Increase in 2007 reflects rebasing of the monetary program; reserve money growth was limited to 13 percent after correcting for the rebasing at end-2006.

[5] Revenue excluding grants minus current expenditure except interest due and exceptional expenditure (AU peacekeeping expenditures and spending on demobilizing and intergrating militia groups) minus domestically financed capital expenditure.

[6] Revenue excluding grants minus current expenditure (excluding external interest) minus domestically financed capital expenditure and net lending.

[7] After rescheduling, including arrears and new debt.

Table 2a. Rwanda: Operations of the Central Government, Calendar Year Basis, 2006–08

	2006	2007				2008							
		June		December		March		June		September		December	
		Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Proj.
	(Billions of Rwandan francs)												
Revenue and grants	376.0	227.9	237.4	433.2	436.8	144.9	148.6	316.4	319.6	450.7	448.0	590.2	634.8
Total revenue	208.2	109.4	124.3	226.6	252.9	67.2	70.4	151.9	161.5	223.8	247.9	294.9	330.5
Tax revenue	193.6	103.1	116.3	214.5	237.8	62.2	68.3	139.0	150.7	206.0	233.4	272.6	309.5
Direct taxes	64.5	34.5	43.5	72.0	85.8	22.3	24.7	49.3	60.9	73.5	90.9	96.6	114.3
Taxes on goods and services	95.5	51.9	57.4	108.2	121.0	32.1	34.9	73.2	71.3	107.4	112.8	142.0	153.3
Taxes on international trade	33.6	16.7	15.4	34.3	31.0	7.8	8.7	16.5	18.5	25.2	29.7	34.0	41.9
Nontax revenue	14.6	6.3	8.1	12.1	15.1	5.0	2.1	13.0	10.8	17.8	14.5	22.3	21.0
ID receipts	…	…	…	…	…	1.2	0.0	4.2	0.0	5.5	0.0	5.5	4.0
Grants	167.8	118.5	113.1	206.6	183.8	77.7	78.2	164.5	158.2	226.9	200.1	295.3	304.3
Budgetary grants	71.9	93.0	87.5	144.9	133.3	58.6	59.1	126.2	123.3	168.0	144.5	187.2	196.2
Of which: HIPC Initiative assistance	12.3	2.1	2.7	4.8	2.5	0.9	0.9	2.1	1.8	2.8	2.1	3.2	3.3
Capital grants	95.9	25.6	25.6	61.7	50.5	19.1	19.1	38.2	34.9	58.9	55.5	108.1	108.1
Project grants	53.5	25.6	25.6	61.7	50.5	19.1	19.1	38.2	34.9	58.9	55.5	108.1	108.1
Total expenditure and net lending	382.5	219.9	213.3	464.5	464.5	140.0	132.1	282.7	271.0	435.5	445.5	607.6	632.7
Total expenditure and net lending excluding privatization receipts	382.5	219.9	213.3	464.5	486.6	140.0	132.1	286.2	284.6	439.0	459.1	624.7	646.3
Current expenditure	254.1	142.6	137.6	304.7	312.6	90.2	82.2	184.4	174.0	276.3	274.5	369.0	368.2
Of which: priority	127.7	76.7	71.3	165.5	161.0	40.9	45.0	90.6	89.8	141.8	145.3	193.0	213.3
Wages and salaries	62.2	34.3	37.1	68.6	73.4	20.9	19.6	41.9	40.1	62.8	62.4	83.7	83.7
Civil	41.2	24.0	26.8	47.5	53.7	15.0	13.9	30.1	28.6	45.1	45.1	60.1	60.1
Defense	21.0	10.3	10.3	21.1	19.7	5.9	5.7	11.8	11.5	17.7	17.3	23.6	23.6
Purchases of goods and services	71.6	32.0	31.1	71.5	77.5	19.6	17.4	39.3	34.9	59.1	58.4	78.2	78.0
Civil	62.4	26.7	25.8	60.8	66.8	16.4	15.1	32.8	29.1	49.2	49.3	64.8	64.6
Defense	9.1	5.2	5.2	10.7	10.7	3.2	2.3	6.4	5.8	9.9	9.1	13.4	13.4
Interest payments	14.8	2.5	3.3	9.9	11.0	1.8	2.1	3.8	5.1	6.7	6.8	12.8	13.2
Domestic debt (due)	8.6	1.7	1.5	8.1	8.7	1.3	1.7	2.0	3.2	4.2	4.4	9.6	9.6
External debt (due)	6.2	0.8	1.7	1.8	2.3	0.5	0.5	1.7	1.9	2.5	2.4	3.2	3.6
Transfers	71.9	50.6	46.3	107.4	103.8	33.3	30.2	66.8	65.2	101.2	100.1	136.2	132.0
Exceptional expenditure	33.7	23.2	19.9	47.3	46.9	14.6	12.8	32.8	28.8	46.5	46.8	58.1	61.3
Of which: FARG	9.0	5.5	5.5	11.1	11.1	3.2	3.1	6.4	8.9	9.6	12.4	12.8	12.8
Demobilization	3.4	1.9	2.0	4.6	3.9	1.2	1.1	2.4	2.6	3.7	4.6	5.0	5.0
African Union peacekeeping	10.9	5.1	4.0	10.7	11.0	2.4	3.7	5.0	5.3	7.6	9.8	10.0	14.6
Capital expenditure	118.7	67.9	67.8	149.4	159.9	47.8	47.1	95.9	96.0	154.8	164.5	245.7	255.0
Of which: priority	19.8	16.0	15.2	41.5	48.4	15.9	17.0	36.5	38.3	57.9	73.7	79.3	90.9
Domestic	35.7	21.8	21.6	53.2	63.7	21.0	20.3	42.1	45.5	70.6	83.6	99.7	109.0
Foreign [1]	83.0	46.1	46.1	96.2	96.2	26.7	26.7	53.8	50.5	84.2	80.9	145.9	146.0
Net lending and privatization receipts [2]	9.6	9.4	8.0	10.4	-8.1	2.0	2.8	2.3	1.0	4.5	6.5	-7.0	9.5
Of which: priority	4.1	1.5	1.1	3.2	4.8	0.6	1.3	1.3	1.3	2.0	1.7	2.8	2.8
Of which: Rwandatel net receipts	--	--	--	--	22.1	--	--	--	13.6	--	13.6	13.6	13.6
Of which: BK receipts	--	--	--	--	--	--	--	3.5	--	3.5	--	3.5	0.0
Primary balance [3]	-33.2	-30.7	-11.8	-68.2	-65.4	-27.6	-17.2	-38.1	-24.1	-69.9	-56.6	-103.0	-72.2
Domestic fiscal balance [4]	-85.1	-63.6	-41.2	-139.9	-113.0	-45.5	-34.5	-75.2	-57.1	-125.0	-114.3	-163.6	-152.6
Excluding demobilization and peacekeeping expenditures [5]	-70.8	-56.6	-35.2	-124.6	-98.2	-41.9	-29.8	-67.8	-49.2	-113.7	-99.9	-148.6	-133.0
Net liquidity impact [6]	-13.4	-23.2	-12.1	-49.5	-62.5	-23.6	-12.5	-36.1	-28.4	-55.0	-28.4	-67.7	-56.6
Overall deficit (payment order)													
After grants	-6.5	8.0	24.1	-31.2	-27.7	4.9	16.5	33.7	48.7	15.2	2.5	-17.5	2.1
Excluding MDRI grants	--	--	--	--	--	--	--	--	--	--	--	--	--
Before grants	-174.3	-110.5	-89.0	-237.9	-211.5	-72.8	-61.7	-130.8	-109.5	-211.7	-197.6	-312.8	-302.2
Change in arrears [7]	-7.5	-3.9	-3.9	-7.0	-8.5	-3.0	5.9	-4.0	-4.5	-5.5	12.5	-7.0	-7.0
Domestic	-7.5	-3.9	-3.9	-7.0	-8.5	-3.0	5.9	-4.0	-4.5	-5.5	12.5	-7.0	-7.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deficit (-)	-14.0	4.1	20.2	-38.2	-36.2	1.9	22.4	29.7	44.1	9.7	15.0	-24.5	-4.9

Table 2a. Rwanda: Operations of the Central Government, Calendar Year Basis, 2006–08 (concluded)

	2006	2007				2008							
		June		December		March		June		September		December	
		Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Proj.
	(Billions of Rwandan francs)												
Financing	15.2	-4.1	-26.6	38.2	36.2	-1.9	-18.1	-29.7	-44.1	-9.7	-15.0	24.5	4.9
Foreign financing (net)	25.9	19.6	18.8	31.0	43.7	10.2	11.0	17.1	16.9	25.7	26.6	37.9	37.0
Drawings	37.7	21.5	21.1	36.4	48.2	11.4	11.5	19.4	19.8	29.1	30.1	41.8	42.7
Budgetary loans	8.2	0.9	0.6	1.9	0.6	3.8	3.9	3.8	4.2	3.8	4.8	3.8	4.9
Project loans	29.5	20.6	20.6	34.5	47.7	7.6	7.6	15.6	15.6	25.3	25.3	38.0	37.8
Amortization	-11.8	-1.9	-2.3	-5.4	-4.5	-1.3	-0.5	-2.3	-2.9	-3.4	-3.5	-3.9	-5.7
Net domestic financing	-10.7	-23.7	-45.4	7.2	-7.5	-12.1	-29.0	-46.8	-61.0	-35.4	-41.5	-13.4	-32.2
Banking system treasury operations (monetary survey)	-11.2	-26.7	-41.0	0.4	4.8	-12.7	-22.2	-44.4	-59.6	-35.0	-36.9	-15.3	-34.0
Nonbank sector (including CSR repayment) [8]	0.5	3.0	-4.4	6.8	-12.3	0.6	-6.8	-2.4	-1.4	-0.4	-4.6	1.8	1.8
Errors and omissions / Financing gap [9]	1.2	0.0	-6.4	0.0	0.0	0.0	4.4	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)												
Memorandum items:													
Revenue and grants	24.0	12.9	12.7	24.4	23.4	7.0	6.4	15.2	13.7	21.7	19.2	28.4	27.2
Revenue, excluding grants	13.3	6.2	6.7	12.8	13.6	3.2	3.0	7.3	6.9	10.8	10.6	14.2	14.2
Revenue, excluding grants (percent of monetized sector GDP)	27.3	13.5	13.4	28.1	27.3	10.0	6.3	19.9	14.3	29.9	22.0	28.9	29.4
Total expenditure and net lending	24.5	12.4	11.4	26.2	24.9	6.7	5.7	13.6	11.6	20.9	19.1	29.2	27.1
Total expenditure and net lending excluding privatization receipts	24.5	…	…	26.2	26.1	6.7	5.7	13.8	12.2	20.9	19.7	30.0	27.7
Of which: total priority expenditures	9.7	5.3	4.7	11.9	11.5	2.8	2.7	6.2	5.5	9.7	9.5	13.2	13.2
Current expenditure	16.3	8.0	7.4	17.2	16.8	4.3	3.5	8.9	7.5	13.3	11.8	17.7	15.8
Of which: wage bill	4.0	1.9	2.0	3.9	3.9	1.0	0.8	2.0	1.7	3.0	1.8	4.0	3.6
goods and services	4.6	1.8	1.7	4.0	4.2	0.9	0.7	1.9	1.5	2.8	1.7	3.8	3.3
Of which: defense/security	1.9	0.9	0.0	1.8	1.6	0.4	0.3	0.9	0.7	1.3	0.8	1.8	1.6
exceptional expenditure	2.2	1.3	1.1	2.7	2.5	0.7	0.5	1.6	1.2	2.2	0.9	2.8	2.6
Capital expenditure	7.6	3.8	3.6	8.4	8.6	2.3	2.0	4.6	4.1	7.4	7.0	11.8	10.9
Domestic fiscal balance	-5.4	-3.6	-2.2	-7.9	-6.1	-2.2	-1.5	-3.6	-2.4	-6.0	-4.9	-7.9	-6.5
Excluding demobilization and peacekeeping expenditures [5]	-4.5	-3.2	-1.9	-7.0	-5.3	-2.0	-1.3	-3.3	-2.1	-5.5	-4.3	-7.1	-5.7
Of which : domestic expenditure	17.8	9.4	8.5	19.8	18.8	5.2	4.3	10.6	9.0	16.2	14.9	21.3	19.9
Net liquidity impact[6]	-0.9	-1.3	-0.6	-2.8	-3.3	-1.1	-0.5	-1.7	-1.2	-2.6	-2.3	-3.3	-2.4
Primary balance [3]	-2.1	-1.7	-0.6	-4.2	-3.5	-1.3	-0.7	-1.8	-1.0	-3.4	-2.4	-4.9	-3.1
Overall deficit (payment order)													
After grants	-0.4	0.5	1.3	-1.8	-1.5	0.2	0.7	1.6	2.1	0.7	0.1	-0.8	0.1
Before grants	-11.1	-6.2	-4.8	-13.4	-11.3	-3.5	-2.6	-6.3	-4.7	-10.2	-8.5	-15.0	-13.0
Before grants (percent of monetized sector GDP)	-22.8	-13.7	-17.9	-29.5	-22.8	-9.5	-5.5	-17.1	-9.7	-28.3	-17.6	-31.8	-26.8
Nominal GDP (RF billions)	1,563.8	1,772.0	1,866.1	1,772.0	1,866.1	2,081.1	2,333.1	2,081.1	2,333.1	2,081.1	2,333.1	2,081.1	2,333.1
Net credit to government from banking system (RF billions)	-13.1	-21.1	-48.5	15.4	-6.1	-26.0	-20.2	-35.9	-65.9	-37.9	-46.2	8.0	-35.8
Of which: treasury operations	-11.2	-26.7	-41.0	0.4	4.8	-12.7	-22.2	-44.4	-59.6	-35.0	-36.9	-15.3	-34.0
project accounts	-1.9	5.6	-7.5	15.0	-10.9	-13.3	2.0	8.5	-6.3	-2.9	-9.3	23.3	-1.8
MDRI debt service savings	0.0	0.2	0.2	0.5	0.4	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3
MDRI debt service savings from AfDB (RF billions)	0.0	0.9	0.9	1.8	1.9	0.5	0.5	1.0	1.0	1.4	1.5	1.9	2.0
MDRI debt service savings from IMF (RF billions)	0.0	2.2	2.2	4.4	4.4	0.7	0.7	1.3	1.3	2.0	2.0	2.6	2.7
MDRI debt service savings from IDA (RF billions)	0.0	0.7	0.7	1.4	1.4	0.4	0.4	0.7	0.7	1.1	1.1	1.4	1.5

Sources: Rwandese authorities, and IMF staff estimates and projections.

[1] For 2008, the increase partially reflects improvements in recording funds for projects.

[2] Net lending in 2007 incorporates RF22.1 billion in receipts from the privatization of Rwandatel.

[3] Definition excludes exceptional expenditures, defined as total revenue (excluding privatization proceeds) minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital expenditure.

[4] Revenue excluding grants minus current expenditure, domestically financed capital expenditure, and net lending, excluding external interest.

[5] For 2006, peacekeeping activities of Rf 2.9 billion were not covered by grants.

[6] Total expenditure and net lending (excluding privatization receipts) less revenues, foreign financed project spending, and current spending on imports.

[7] A negative sign indicates a reduction.

[8] CSR = *Caisse Sociale du Rwanda.*

[9] A negative number implies an underestimate of financing.

Table 2b. Rwanda: Operations of the Central Government, Fiscal Year Basis [1], 2006/07–09/10

	2006/07	2007/08			2008/09			2009/10
		Total	Q1 2008	H1 2008	Total	Q1 2009	H1 2009	
					Projection	Projection	Projection	Projection
	(Billions of Rwandan francs)							
Revenue and grants	388.0	519.0	148.6	319.6	678.8	182.4	363.6	710.2
Total revenue	233.2	290.1	70.4	161.5	362.0	94.6	193.0	417.5
Tax revenue	217.6	272.3	68.3	150.7	334.8	86.3	176.0	388.0
Direct taxes	73.6	103.2	24.7	60.9	118.4	31.9	65.0	143.2
Taxes on goods and services	109.8	134.9	34.9	71.3	169.2	42.8	87.2	192.4
Taxes on international trade	34.2	34.2	8.7	18.5	47.2	11.7	23.8	52.4
Nontax revenue	15.7	17.8	2.1	10.8	27.2	8.3	17.0	29.5
ID receipts	…	…	0.0	0.0	4.0	0.7	1.5	…
Grants	154.8	228.9	78.2	158.2	316.8	87.8	170.6	292.7
Budgetary grants	101.4	169.1	59.1	123.3	188.1	60.6	115.2	168.6
Of which: HIPC Initiative assistance	7.1	1.6	0.9	1.8	3.4	0.0	1.9	3.2
Capital grants	53.4	59.8	19.1	34.9	128.7	27.1	55.4	124.1
Project grants	53.4	59.8	19.1	34.9	128.7	27.1	55.4	124.1
Total expenditure and net lending	414.2	522.1	132.1	271.0	711.5	171.9	349.8	768.0
Total expenditure and net lending excluding privatization receipts	414.2	557.9	132.1	284.6	711.5	171.9	349.8	771.4
Current expenditure	266.5	349.1	82.2	174.0	400.7	101.7	206.5	452.0
Of which: priority	139.7	151.7	45.0	89.8	226.5	50.4	103.0	...
Wages and salaries	71.5	76.3	19.6	40.1	92.3	24.4	48.7	106.6
Civil	48.5	55.5	13.9	28.6	66.8	17.7	35.3	77.8
Defense	22.9	20.8	5.7	11.5	25.5	6.7	13.4	28.8
Purchases of goods and services	66.4	81.3	17.4	34.9	93.6	24.7	50.5	113.3
Civil	57.5	70.1	15.1	29.1	79.0	21.3	43.5	97.9
Defense	8.9	11.2	2.3	5.8	14.6	3.4	7.0	15.4
Interest payments	12.8	12.8	2.1	5.1	13.7	2.7	5.6	11.5
Domestic debt (due)	8.7	10.4	1.7	3.2	10.4	2.0	4.0	8.6
External debt (due)	4.1	2.4	0.5	1.9	3.3	0.8	1.6	2.9
Transfers	82.4	122.8	30.2	65.2	145.2	38.4	78.4	172.7
Exceptional expenditure	33.5	55.9	12.8	28.8	55.8	11.4	23.3	47.9
Of which: FARG	10.0	14.4	3.1	8.9	13.0	4.5	9.1	20.1
Demobilization	4.2	4.5	1.1	2.6	4.8	1.2	2.4	3.6
African Union peacekeeping	6.7	12.3	3.7	5.3	17.3	3.9	8.0	20.0
Capital expenditure	131.8	188.1	47.1	96.0	298.9	68.6	139.9	310.3
Of which: priority	28.0	38.9	17.0	38.3	108.2	27.2	55.6	...
Domestic	42.5	87.5	20.3	45.5	130.8	33.0	67.3	145.1
Foreign [2]	89.3	100.6	26.7	50.5	168.1	35.6	72.6	165.2
Net lending and privatization receipts [3]	15.9	-15.1	2.8	1.0	11.9	1.7	3.4	5.7
Of which: priority	4.8	3.9	1.3	1.3	2.6	0.6	1.2	...
Of which: Rwandatel net receipts		35.7		13.6				
Of which: BK receipts								3.4
Primary balance [4]	-29.5	-77.8	-17.2	-24.1	-100.0	-25.9	-51.9	-120.2
Domestic fiscal balance [5]	-87.5	-129.0	-34.5	-57.1	-178.1	-40.9	-82.6	-182.4
Excluding demobilization and peacekeeping expenditures [6]	-76.6	-112.3	-29.8	-49.2	-156.0	-35.8	-72.2	-158.8
Net liquidity impact [7]	-26.5	-78.8	-12.5	-28.4	-50.4	-14.5	-22.2	-58.7
Overall deficit (payment order)								
After grants	-26.1	-3.1	16.5	48.7	-32.7	10.5	13.8	-57.9
Before grants	-180.9	-232.0	-61.7	-109.5	-349.5	-77.3	-156.8	-350.5
Change in arrears [8]	-7.0	-9.1	5.9	-4.5	-5.8	-1.6	-3.3	-7.0
Domestic	-7.0	-9.1	5.9	-4.5	-5.8	-1.6	-3.3	-7.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deficit (-)	-33.1	-12.2	22.4	44.1	-38.5	8.9	10.5	-64.9

Table 2b. Rwanda: Operations of the Central Government, Fiscal Year Basis[1], 2006/07–09/10 (concluded)

	2006/07	2007/08			2008/09			2009/10
		Total	Q1 2008	H1 2008	Total	Q1 2009	H1 2009	
					Projection	Projection	Projection	Projection
	(Billions of Rwandan francs)							
Financing	40.7	11.4	-18.1	-44.1	38.5	-8.8	-10.5	64.9
Foreign financing (net)	38.7	41.8	11.0	16.9	33.8	6.7	13.7	93.1
Drawings	44.2	46.9	11.5	19.8	40.2	8.4	17.2	99.1
Budgetary loans	8.3	4.2	3.9	4.2	0.7	0.0	0.0	58.0
Project loans	36.0	42.7	7.6	15.6	39.5	8.4	17.2	41.1
Amortization	-5.6	-5.1	-0.5	-2.9	-6.3	-1.7	-3.5	-6.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	2.1	-30.5	-29.0	-61.0	4.7	-15.6	-24.2	-28.3
Banking system treasury operations (monetary survey)	-7.2	-13.8	-22.2	-59.6	1.4	-15.6	-24.2	-28.3
Nonbank sector (including CSR repayment) [9]	9.3	-16.7	-6.8	-1.4	3.3	0.0	0.0	0.0
Errors and omissions / Financing gap [10]	7.6	-0.9	4.4	0.0	0.1	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)							
Memorandum items:								
Revenue and grants	22.6	24.7	6.4	13.7	26.8	6.7	13.3	24.5
Revenue, excluding grants	13.6	13.8	3.0	6.9	14.3	3.5	7.0	14.4
Revenue, excluding grants (percent of monetized sector GDP)	27.6	28.3	6.3	14.3	30.1	7.4	15.1	31.0
Total expenditure and net lending	24.1	24.9	5.7	11.6	28.1	6.3	12.8	26.5
Total expenditure and net lending excluding privatization receipts	24.1	26.6	5.7	12.2	28.1	6.3	12.8	26.7
Of which: total priority expenditures	10.1	9.3	2.7	5.5	13.3	2.9	5.8	...
Current expenditure	15.5	16.6	3.5	7.5	15.8	3.7	7.5	15.6
Of which: wage bill	4.2	3.6	0.8	1.7	3.6	0.9	1.8	3.7
goods and services	3.9	3.9	0.7	1.5	3.7	0.9	1.8	3.9
Of which: defense/security	1.9	1.5	0.3	0.7	1.6	0.4	0.7	1.5
exceptional expenditure	2.0	2.7	0.5	1.2	2.2	0.4	0.9	1.7
Capital expenditure	7.7	9.0	2.0	4.1	11.8	2.5	5.1	10.7
Domestic fiscal balance	-5.1	-6.1	-1.5	-2.4	-7.0	-1.5	-3.0	-6.3
Excluding demobilization and peacekeeping expenditures [5]	-4.5	-5.3	-1.3	-2.1	-6.2	-1.3	-2.6	-5.5
Of which: domestic expenditure	18.1	19.2	4.3	9.0	20.4	4.8	9.7	19.9
Net liquidity impact[7]	-1.5	-3.8	-0.5	-1.2	-2.0	-0.5	-0.8	-2.0
Primary balance [4]	-1.7	-3.7	-0.7	-1.0	-3.9	-0.9	-1.9	-4.2
Overall deficit (payment order)								
After grants	-1.5	-0.1	0.7	2.1	-1.3	0.4	0.5	-2.0
Before grants	-10.5	-11.1	-2.6	-4.7	-13.8	-2.8	-5.7	-12.1
Before grants (percent of monetized sector GDP)	-21.4	-22.6	-5.5	-9.7	-29.1	-6.1	-12.3	-26.0
Nominal GDP (RF billions)	1,715.0	2,099.6	2,333.1	2,333.1	2,535.4	2,737.6	2,737.6	2,893.6
Net credit to government from banking system (RF billions)	-15.2	-23.5	-20.2	-65.9	28.8	-3.1	-3.1	-28.3
Of which: treasury operations	-7.2	-13.8	-22.2	-59.6	1.4	-15.6	-24.2	-28.3
project accounts	-8.0	-9.7	2.0	-6.3	27.4	12.5	21.1	0.0

Sources: Rwandese authorities, and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.
[2] For 2008/09, the increase partially reflects improvements in recording funds for projects.
[3] Net lending in 2007/08 incorporates RF35.7 billion in receipts from the privatization of Rwandatel.
[4] Definition excludes exceptional expenditures, defined as total revenue (excluding privatization proceeds) minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital expenditure.
[5] Revenue excluding grants minus current expenditure, domestically financed capital expenditure, and net lending,
[6] For 2006/07, peacekeeping activities were not fully covered by grants.
[7] Total expenditure and net lending (excluding privatization receipts) less revenues, foreign financed project spending, and current spending on imports.
[8] A negative sign indicates a reduction.
[9] CSR = *Caisse Sociale du Rwanda.*
[10] A negative number implies an underestimate of financing.

Table 3. Rwanda: Monetary Survey, 2006–09

	2006	2007	2008								2008 [1]	2009			
			March		June		September		December		**December**	March	June	September	December
			Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Proj.	**Proj.**	Proj.	Proj.	Proj.	Proj.
							(Billions of Rwanda francs)								
Monetary authorities															
Net foreign assets	226.6	284.8	257.5	296.5	321.8	331.0	314.8	319.2	275.7	309.2	309.2	311.6	298.0	369.8	298.4
Foreign assets	243.0	303.7	276.1	318.6	338.1	358.7	331.2	343.3	292.0	332.4	332.4	335.7	322.1	393.9	322.4
Foreign liabilities [2]	16.4	19.0	18.6	22.1	16.4	27.7	16.4	24.1	16.4	23.2	23.2	24.1	24.1	24.1	24.1
Net domestic assets	-154.8	-190.9	-159.5	-191.5	-215.5	-220.9	-209.9	-206.8	-167.4	-194.4	-194.4	-184.9	-166.7	-235.6	-162.9
Domestic credit	-120.2	-153.4	-119.5	-154.2	-175.5	-189.8	-169.9	-165.5	-131.4	-163.3	-163.3	-154.6	-139.7	-210.6	-140.6
Government (net)	-72.4	-99.6	-55.9	-120.7	-116.5	-159.8	-119.1	-135.7	-73.6	-126.4	-126.4	-132.7	-134.2	-205.1	-157.2
Claims	41.8	41.2	41.0	41.2	41.0	39.7	41.0	39.7	41.0	39.7	39.7	38.9	38.9	38.9	38.9
Deposits (excluding autonomous bodies) [2]	114.2	140.8	96.9	161.9	157.5	199.5	160.1	175.4	114.6	166.1	166.1	171.6	173.1	244.0	196.1
Public nongovernment deposits (-)	-2.0	-1.3	-0.5	-0.2	-1.3	-0.5	-0.2	-0.5	-0.9	-0.3	-0.3	-0.3	-0.3	-0.7	-0.8
Nongovernment credit	-45.8	-52.5	-63.1	-33.3	-57.7	-29.5	-50.6	-29.3	-56.9	-36.6	-36.6	-21.6	-5.2	-4.8	17.4
Private sector	3.5	4.8	4.8	4.7	4.8	5.1	4.7	5.4	4.0	5.3	5.3	5.8	5.8	5.8	5.8
Public enterprises	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Commercial banks	-49.3	-57.3	-68.0	-38.0	-62.5	-34.7	-55.3	-34.7	-60.9	-41.9	-41.9	-27.4	-11.0	-10.6	11.6
Discount window	1.2	1.3	1.3	1.3	1.3	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Money market (- = absorption)	-50.5	-58.6	-69.3	-39.2	-63.8	-36.2	-56.6	-36.0	-62.2	-43.2	-43.2	-28.7	-12.3	-11.9	10.3
Other items (net; asset +)	-34.6	-37.5	-40.0	-37.3	-40.0	-31.1	-40.0	-41.3	-36.0	-31.1	-31.1	-30.3	-27.0	-25.0	-22.3
Reserve money [3, 4]	71.8	93.9	98.0	104.9	106.2	110.1	104.9	112.4	108.3	114.8	114.8	126.7	131.3	134.2	135.5
Currency in circulation	54.6	67.3	63.4	64.4	72.8	74.7	67.9	77.0	72.0	78.4	78.4	78.2	85.1	88.8	94.4
Commercial bank reserves	15.1	24.0	32.0	34.2	27.1	32.5	30.7	26.3	34.0	30.8	34.3	46.4	44.1	43.3	39.3
Nonbank deposits	2.1	2.6	2.6	6.4	6.4	2.9	6.4	9.1	2.3	5.6	2.1	2.1	2.1	2.1	1.8
Of which: autonomous public agencies	0.4	3.6	1.0	3.3	1.0	3.2	1.0	4.7	--	--	--	--	--	--	--
Commercial banks															
Net foreign assets	60.6	70.4	50.0	70.7	70.3	73.9	70.2	74.4	72.2	90.5	90.5	92.1	90.6	104.0	116.2
Foreign assets	71.5	87.7	65.6	86.7	86.8	91.8	86.8	92.6	89.6	109.0	109.0	110.6	111.7	124.4	137.3
Foreign liabilities	10.9	17.4	15.6	16.0	16.6	17.9	16.6	18.2	17.4	18.5	18.5	18.5	21.1	20.5	21.1
Reserves	15.1	24.0	32.0	34.2	27.1	32.5	30.7	26.3	34.0	30.8	34.3	46.4	44.1	43.3	39.3
NBR deposits	11.3	18.6	28.0	26.0	24.1	24.9	27.7	17.4	31.0	21.9	25.4	37.9	35.8	35.1	31.3
Required reserves	18.8	24.4	25.2	26.3	27.0	27.1	28.0	28.1	30.4	31.9	35.6	38.3	38.7	41.3	37.8
Excess reserves	-7.5	-5.8	2.8	-0.3	-2.9	-2.2	-0.3	-10.7	0.6	-10.0	-10.2	-0.4	-2.9	-6.2	-6.5
Cash in vault	3.8	5.4	4.0	8.1	3.0	7.6	3.0	8.9	3.0	8.9	8.9	8.5	8.3	8.2	8.0
Net credit from NBR (rediscount; liability -)	49.3	57.3	68.0	38.0	62.5	34.7	55.3	34.7	60.9	41.9	41.9	27.4	11.0	10.6	-11.6
Domestic credit	158.7	211.9	214.6	220.1	209.4	225.3	223.9	241.1	243.4	241.9	346.6	360.7	386.4	409.0	429.3
Government (net)	-2.3	18.8	4.1	19.7	-0.2	13.0	0.3	8.6	0.8	9.8	8.1	11.3	12.8	10.9	11.8
Credit	25.6	40.6	19.5	37.4	27.0	30.2	30.2	24.9	33.4	25.7	25.5	27.2	28.7	24.5	24.2
Deposits	27.9	21.8	15.4	17.6	27.2	17.2	29.9	16.2	32.6	15.9	17.4	15.9	15.9	13.7	12.4
Public enterprises	2.4	1.7	3.4	1.4	1.4	1.4	1.4	1.5	1.7	1.4	1.5	1.5	1.5	2.9	3.4
Private sector	158.7	191.3	207.2	199.0	208.3	210.9	222.2	231.0	240.9	230.7	337.0	347.9	372.1	395.2	414.1
Other items (net; asset +)	-53.1	-57.5	-64.7	-70.0	-59.0	-72.7	-60.0	-63.6	-62.5	-63.7	-86.3	-63.8	-63.8	-63.8	-75.4
Deposits	230.6	306.0	299.9	292.8	310.4	293.7	320.1	312.9	348.0	341.5	427.1	462.8	468.3	503.1	497.7
Private	186.2	247.5	236.4	242.8	251.9	248.6	261.6	255.1	289.6	277.3	362.9	397.3	410.1	434.9	428.2
Public (nongovernment)	44.4	58.4	63.5	50.1	58.4	45.2	58.4	57.8	58.4	64.2	64.2	65.5	58.2	68.2	193.7

Table 3. Rwanda: Monetary Survey, 2006–09 (concluded)

	2006 [1]	2007	2008								2008 [1]	2009			
			March		June		September		December		**December**	March	June	September	December
			Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Proj.	**Proj.**	Proj.	Proj.	Proj.	Proj.
						(Billions of Rwanda francs)									
Net foreign assets	287.2	355.1	307.5	367.1	392.0	404.9	385.0	393.6	347.9	399.8	399.8	403.8	388.6	473.8	414.6
Net domestic assets	0.2	20.8	58.4	-3.5	-2.5	-33.6	9.3	5.4	74.4	25.7	107.8	139.3	166.8	120.2	179.4
Domestic credit	87.9	115.8	163.1	103.8	96.5	70.2	109.3	110.3	172.9	120.5	225.2	233.4	257.6	209.0	277.1
Government (net)	-74.7	-80.8	-51.8	-101.0	-116.7	-146.7	-118.8	-127.1	-72.8	-116.6	-118.3	-121.4	-121.4	-194.2	-145.4
Public nongovernment deposits (-)	-2.0	-1.3	-0.5	-0.2	-1.3	-0.5	-0.2	-0.5	-0.9	-0.3	-0.3	-0.3	-0.3	-0.7	-0.8
Public enterprises	2.4	1.8	3.4	1.4	1.4	1.4	1.4	1.5	1.7	1.4	1.5	1.5	1.5	2.9	3.4
Private sector	162.2	196.2	212.0	203.6	213.1	216.0	226.9	236.4	244.9	236.0	342.3	353.7	377.9	401.0	419.9
Other items (net; asset +)	-87.7	-95.0	-104.7	-107.3	-99.0	-103.8	-100.0	-105.0	-98.5	-94.8	-117.4	-94.1	-90.8	-88.8	-97.7
Broad money[5, 6]	287.4	375.9	365.9	363.6	389.5	371.3	394.3	399.0	422.3	425.5	507.6	543.1	555.4	594.0	593.9
Currency in circulation	54.6	67.3	63.4	64.4	72.8	74.7	67.9	77.0	72.0	78.4	78.4	78.2	85.1	88.8	94.4
Deposits	232.7	308.6	302.5	299.2	316.7	296.6	326.4	322.0	350.3	347.1	429.2	464.9	470.4	505.2	499.5
Of which: foreign currency deposits	52.9	63.4	35.0	64.6	67.8	67.4	70.0	84.3	72.2	90.5	90.5	91.9	89.4	101.8	116.2
						(Annual changes in percent of beginning-of-period broad money)									
Net foreign assets	29.4	24.6	16.4	38.8	13.5	18.7	18.5	22.7	-1.9	11.9	11.9	8.2	2.9	18.2	2.9
Net domestic assets	2.0	6.5	15.6	-7.4	13.5	2.5	0.3	-2.3	14.3	1.3	23.2	40.7	14.1	30.1	14.1
Domestic credit	7.8	9.7	17.7	-5.4	13.4	3.8	-2.6	-4.3	15.2	1.3	29.1	35.5	10.2	24.6	10.2
Government (net)	-6.0	-2.1	2.9	-16.7	3.1	-7.7	-12.6	-17.1	2.1	-9.5	-10.0	-5.6	-5.3	-16.8	-5.3
Economy	13.8	11.9	14.8	11.2	10.2	11.5	10.0	12.8	13.1	10.8	39.1	41.1	15.5	41.4	15.5
Other items (net; asset +)	-5.8	-3.3	-2.1	-2.0	0.1	-1.3	2.9	2.0	-0.9	0.1	-6.0	5.1	3.9	5.5	3.9
Broad money	31.4	31.0	31.9	31.4	27.0	21.2	18.7	20.5	12.3	13.2	35.0	48.9	17.0	48.3	17.0
						(Annual percent changes)									
Net foreign assets	28.9	24.7	17.3	41.3	12.8	16.5	20.0	23.7	-2.0	12.6	12.6	8.0	3.7	18.2	3.7
Net domestic assets	-102.2	11,650.0	284.6	-123.2	-94.2	-23.4	10.8	-49.1	258.4	24.0	419.4	-4,061.5	66.3	2,144.5	66.3
Domestic credit	24.0	31.7	43.1	-12.7	74.1	19.8	-7.4	-11.4	49.4	4.1	94.5	124.9	23.0	89.5	23.0
Government (net)	21.3	8.2	-30.9	84.1	-7.6	19.1	54.6	80.4	-10.0	44.3	46.4	20.2	22.9	52.9	22.9
Economy	22.8	20.9	17.6	17.9	17.3	19.3	17.0	21.8	25.0	20.6	74.7	73.2	23.0	69.9	23.0
Other items (net; asset +)	17.0	10.9	6.0	5.4	2.5	4.0	-6.8	-6.0	3.7	-0.2	23.5	-16.6	-16.8	-19.7	-16.8
						(In percent, unless otherwise indicated)									
Memorandum items:															
Currency/broad money ratio	19.0	17.9	17.3	17.7	18.7	20.1	17.2	19.3	17.0	18.4	15.4	14.4	15.3	15.0	15.9
Reserve money annual growth	11.9	30.7	23.0	31.7	18.7	23.0	16.4	24.6	15.4	22.3	22.3	20.7	19.2	19.5	18.0
Reserves/deposits	31.2	30.7	32.7	35.8	34.2	37.5	32.8	35.9	31.1	33.6	26.9	27.4	28.0	26.7	27.2
Money multiplier	4.0	4.0	3.7	3.5	3.7	3.4	3.8	3.6	3.9	3.7	4.4	4.3	4.2	4.4	4.4
Reserve/deposits	6.1	7.5	11.9	10.7	9.6	10.0	10.6	6.8	10.7	7.9	--	--	--	--	--
Currency/deposits	29.3	27.2	26.8	26.5	28.9	30.1	26.0	30.2	24.9	28.3	--	--	--	--	--
Velocity of broad money (end of period)	5.4	5.0	4.9	6.4	4.9	6.3	4.9	5.8	4.9	5.5	4.6	4.6	4.6	4.6	4.6
Velocity of broad money (average of period)	6.2	5.8	5.3	7.3	5.3	6.9	5.3	6.4	5.3	6.0	4.6	4.8	4.8	4.8	4.8
Net open position of the NBR (RF billion)	220.8	278.5	252.6	289.7	316.3	324.0	309.2	319.2	269.9	302.5	302.5	304.3	290.9	361.7	289.1
Net open position of commercial banks (RF billion)	13.5	13.3	15.0	5.0	2.5	2.5	0.2	0.2	2.0	0.0	0.0	0.2	1.2	2.2	0.0
Extended broad money (RF billion)[7]	334.2	437.1	425.5	422.8	452.9	431.8	458.5	463.9	491.1	494.8	…	…	…	…	…
Nominal GDP (RF billion)	1,563.8	1,866.1	…	…	…	…	…	…	2,081.1	2,333.1	2,333.1	…	…	…	2,737.6

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

[1] Reflects the operations of the Union Banques Populaires du Rwanda (UBPR)—a large microfinance network— which was transformed into a commercial bank in Frebuary 2008.

[2] The IMF's MDRI reduced foreign liabilities at the NBR by RF 42.4 million with a counter entry in government deposits (in January 2006).

[3] The definition of reserve money as performance criterion 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. It includes old notes demonetized at the end of 2004 but in circulation until the end of 2005.

[4] The reserve money target for 2007 is derived by applying the programmed growth rate of 13 percent to the rebased 2006 outcome. The rebased 2006 outcome was calculated by allowing banks to meet the legal reserve requirement on deposits (banks' reserves at the end of December 2006 fell short of the requirement by RF 7.5 billion, they met the requirement because it is based on an average over two weeks; plus (2) a liquidity reserve of RF 3 billion to ensure sufficient financing in banks' branches.

[5] From December 2005 on, includes *Caisse Hypothecaire du Rwanda* (BHR) deposits (RF 1 billion at end-2005).

[6] End-2006 broad money includes RF5 billion temporary build up of local government deposits, which were unwound by February 2007.

[7] Broad money plus deposits in the *Union de Banques Populaires de Rwanda* (UBPR) through December 2008 and Rwanda Development Bank (BRD).

Table 4. Rwanda: Balance of Payments, 2006-13
(Millions of U.S. dollars, unless otherwise indicated)

	2006	2007	2008		2009	2010	2011	2012	2013
		Est.	Program	Proj.			Projection		
Exports, f.o.b.	147.3	176.8	213.9	221.7	235.4	278.9	306.5	333.6	349.7
Of which: coffee	54.0	35.7	53.0	48.1	73.4	95.7	99.0	105.0	105.9
tea	31.9	31.6	38.8	47.6	43.2	46.5	50.4	54.3	58.5
Imports, f.o.b.	446.4	581.2	763.9	836.5	885.7	946.9	1020.4	1090.5	1178.0
Trade balance	-299.1	-404.4	-550.0	-614.8	-650.3	-668.0	-713.9	-756.9	-828.2
Services (net)	-206.4	-207.6	-335.5	-282.3	-348.5	-347.3	-377.1	-423.5	-430.6
Income	-28.7	-17.2	-22.6	-23.7	-29.8	-19.3	-11.4	-10.6	-10.3
Of which: interest on public debt[1]	-10.2	-6.3	-6.1	-6.7	-6.4	-7.1	-4.5	-4.4	-4.3
Current transfers (net)[2]	323.9	461.3	557.8	617.3	627.8	543.0	563.9	542.9	585.0
Private	77.2	98.8	109.6	140.2	133.7	141.0	178.8	193.8	209.8
Public	246.8	362.5	448.2	477.1	494.1	402.0	385.1	349.1	375.2
Of which: HIPC grants	22.2	4.5	5.9	6.6	5.9	5.4	5.0	5.5	6.1
Current account balance (including official transfers)	-210.3	-167.9	-350.2	-303.5	-400.7	-491.6	-538.6	-648.1	-684.1
Current account balance (excluding official transfers)	-457.0	-530.4	-798.4	-780.6	-894.8	-893.6	-923.7	-997.2	-1059.3
Capital account	1323.7	92.3	201.7	196.7	210.7	205.9	199.1	237.8	247.4
Capital transfers	173.7	92.3	201.7	196.7	210.7	205.9	199.1	237.8	247.4
IMF-MDRI relief	76.6								
Debt forgiveness (IDA and AfDF-MDRI Relief)	1150.0								
Financial account	-1030.4	183.4	132.8	146.1	168.0	335.0	393.4	456.1	492.5
Direct investment	30.6	82.3	83.4	100.5	80.5	85.8	99.5	129.5	122.4
Public sector capital	46.1	79.9	70.6	67.3	60.0	159.2	163.8	199.2	224.4
Long-term borrowing[3]	68.4	88.2	77.9	77.8	67.8	167.4	176.2	214.3	240.9
Scheduled amortization[4]	22.3	8.3	7.3	10.5	7.8	8.3	12.3	15.1	16.5
Other capital[5]	-1107.0	21.2	-21.2	-21.7	27.5	90.0	130.1	127.4	145.7
IDA and AfDF-relief	-1150.0								
Capital and financial account balance	293.3	275.8	334.5	342.8	378.7	540.9	592.5	693.9	740.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	83.0	107.9	-15.7	39.3	-22.0	49.3	53.9	45.7	55.9
Financing	-82.5	-107.9	12.0	-39.3	18.3	-49.3	-53.9	-45.7	-55.9
Change in net foreign assets of NBR (increase -)	-82.5	-107.9	12.0	-39.3	18.3	-49.3	-53.9	-45.7	-55.9
Net credit from the Fund	-72.5	3.4	1.8	3.7	0.0	-0.1	-0.6	-1.0	-1.7
Disbursements/purchases	4.1	3.4	1.8	3.7	0.0	0.0	0.0	0.0	0.0
Repayments/repurchases	-76.6	0.0	0.0	0.0	0.0	-0.1	-0.6	-1.0	-1.7
Change in other gross official reserves (increase -)	-33.8	-112.7	16.5	-46.6	18.0	-49.2	-53.3	-44.7	-54.1
Change in other foreign liabilities (increase +)	23.8	1.5	-6.3	3.6	0.3	0.0	0.0	0.0	0.0
Change in arrears (decrease -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing need	0.0	0.0	3.7	0.0	3.7	0.0	0.0	0.0	0.0
Memorandum items:									
Current account deficit (percent of GDP)									
Excluding official transfers	-16.1	-15.5	-20.6	-18.4	-18.4	-17.0	-16.3	-16.3	-16.0
Including official transfers	-7.4	-4.9	-9.0	-7.1	-8.2	-9.4	-9.5	-10.6	-10.3
Gross official reserves	439.6	552.4	535.8	599.0	581.0	630.2	683.5	728.2	782.3
Gross official reserves (months of imports of G&NFS)	5.6	5.2	4.8	5.1	4.6	4.6	4.6	4.6	4.6
Overall balance (percent of GDP)	2.9	3.2	-0.4	0.9	-0.5	0.9	0.9	0.7	0.8
Total external debt[6]	477.6	574.2	660.2	652.8	726.2	892.5	1091.7	1250.1	1447.0
Total external debt (percent of GDP)	16.9	16.8	17.0	15.4	14.9	17.0	19.2	20.4	21.9
Debt service ratio (after HIPC and MDRI debt relief [7])	3.7	3.0	2.1	2.8	2.0	2.0	2.2	2.4	2.3

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

[1] Including interest due to the Fund.

[2] Current transfers include disbursed budgetary and HIPC grants and humanitarian and technical assistance.

[3] Includes project and budgetary loans.

[4] Excluding payments to the Fund.

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

[6] After rescheduling, including arrears and new debt.

[7] Reflects traditional debt relief from bilateral creditors and MDRI and enhanced HIPC Initiative assistance from both multilateral and bilateral creditors. Also includes additional bilateral debt relief delivered at the completion point.

Table 5. Rwanda: Millennium Development Goals

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	*79*	82	77	*73*
Employment to population ratio, ages 15-24, total (%)	*63*	70	62	*58*
Income share held by lowest 20%	..	..	5.3	..
Malnutrition prevalence, weight for age (% of children under 5)	*24.3*	..	20.3	*18.0*
Poverty headcount ratio at national poverty line (% of population)	..	*51.2*	60.3	..
Prevalence of undernourishment (% of population)	*43*	*51*	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	..	..	77	..
Literacy rate, youth male (% of males ages 15-24)	..	..	79	..
Persistence to last grade of primary, total (% of cohort)	..	..	27	..
Primary completion rate, total (% of relevant age group)	45	..	21	..
Total enrollment, primary (% net)	..	..	*69*	*74*
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	17	*17*	17	49
Ratio of female to male enrollments in tertiary education	..	..	44	*62*
Ratio of female to male primary enrollment	*93*	..	97	*104*
Ratio of female to male secondary enrollment	*73*	..	94	*89*
Ratio of young literate females to males (% ages 15-24)	..	..	98	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	32.4	33.0	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	83	84	74	*95*
Mortality rate, infant (per 1,000 live births)	106	122	110	*98*
Mortality rate, under-5 (per 1,000)	176	205	183	*160*
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*58*	50	*41*
Births attended by skilled health staff (% of total)	*26*	..	31	*39*
Contraceptive prevalence (% of women ages 15-49)	*21*	*14*	13	*17*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*1,300*
Pregnant women receiving prenatal care (%)	*94*	..	92	*94*
Unmet need for contraception (% of married women ages 15-49)	*39*	..	36	*38*
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	13	*12*
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	3	*5*
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	24	*19*
Incidence of tuberculosis (per 100,000 people)	159	237	344	*397*
Prevalence of HIV, female (% ages 15-24)	..	..	..	1.4
Prevalence of HIV, total (% of population ages 15-49)	..	..	*4.3*	2.8
Tuberculosis cases detected under DOTS (%)	..	35	33	*27*
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	*1.6*	..
CO2 emissions (kg per PPP $ of GDP)	0.1	0.2	0.1	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Forest area (% of land area)	13	..	14	*19*
Improved sanitation facilities (% of population with access)	29	26	25	*23*
Improved water source (% of population with access)	65	64	65	*65*
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	39	123	39	*62*
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	9.9	20.0	24.9	*3.5*
Internet users (per 100 people)	0.0	*0.0*	0.1	*1.1*
Mobile phone subscribers (per 100 people)	0.0	0.0	0.5	6.5
Telephone mainlines (per 100 people)	0.1	0.1	0.2	0.2
Other				
Fertility rate, total (births per woman)	7.4	6.4	6.0	*5.9*
GNI per capita, Atlas method (current US$)	350	220	240	320
GNI, Atlas method (current US$) (billions)	2.5	1.3	2.0	3.1
Gross capital formation (% of GDP)	14.6	13.4	18.3	22.5
Life expectancy at birth, total (years)	32	31	40	*46*
Literacy rate, adult total (% of people ages 15 and above)	*58*	..	65	..
Population, total (millions)	7.3	5.6	8.2	9.7
Trade (% of GDP)	19.7	31.0	34.4	37.1

Source: World Development Indicators database

Figures in italics refer to periods other than those specified.

Table 6. Rwanda: Financial Soundness Indicators for the Banking Sector, 2005–June 2008
(Ratios)

Financial soundness indicators	2005	2006	2007	June 2008
Capital adequacy				
Solvency ratio	13.7	13.7	16.6	16.6
Off balance items/Total qualifying capital	518	334.8	305.6	103.8
Insider loans/Core capital	38.4	45.2	57.9	9.7
Large exposures/Core capital	140.3	131.6	127.7	82.3
Asset quality				
NPL’s/Gross loans	30.9	25.0	18.1	12.0
Provisions/NPL’s	34.4	83.5	67.0	75.5
Earning assets/Total assets	79.0	85.3	59.6	80.9
Large exposures/Gross loans	18.6	20.2	21.2	15.3
Profitability and earnings				
Return on assets	1.9	2.4	1.5	3.0
Return on equity	22.2	27.0	15.5	24.5
Net interest margin	n.a.	8.0	5.2	10.1
Cost of deposits	1.4	2.4	2.4	0.9
Cost to income	98.5	76.7	80.2	61.0
Overhead to income	79.9	46.2	44.2	38.6
Liquidity				
Short-term gap	12.2	34.2	21.5	25.5
Liquid assets/Total deposits	57.5	64.7	76.4	60.4
Interbank borrowings/Total deposits	11.7	11.3	10.3	5.7
NBR borrowings/Total deposits	0.4	0.3	0.2	0.1
Gross loans/Total deposits	74.5	71.1	63.3	85.2
Market sensitivity				
Forex exposure/Core capital	0.3	9.0	38.6	57.2
Forex loans/Forex deposits	0.0	0.8	1.0	0.5
Forex assets/Forex liabilities	104.3	104.4	112.0	105.4

Source: National Bank of Rwanda.

Table 7. Rwanda: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2009

Date	Conditions necessary for disbursement	Amount (In millions of SDRs)	Amount (In percent of quota)
January 15, 2009	Observance of quantitative and structural performance criteria for June 30, 2008, completion of the fifth review under the arrangement.	1.14	1.42
April 15, 2009	Observance of quantitative performance criteria for December 31, 2008, completion of the sixth review under the arrangement.	1.17	1.46
	Total	2.31	2.88

Table 8. Rwanda: Work Program, 2009

Executive Board 2008 Article IV and 5th PRGF Review	January 2009
Executive Board 6th PRGF Review	June 2009

Appendix I. Letter of Intent

Kigali, December 18, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. The fourth review of our financial and economic program supported by the Fund's Poverty Reduction and Growth Facility (PRGF) was completed on June 16, 2008. In the attached Memorandum of Economic and Financial Policies (MEFP), we review recent economic developments and progress in the implementation of our program through the third quarter of 2008; and set out policies the Government intends to pursue in 2009.

2. Program implementation under the PRGF arrangement has been broadly on track. All quantitative and structural performance criteria for the completion of the fifth review were met except for the performance criterion (PC) on publication of the PFM reform action plan for 2008-10. However, it is to be mentioned that the first[1] draft PFM action plan was published on the website of Ministry of Finance and Economic Planning in June 2008. As the nonobservance was temporary, we are requesting a waiver for the nonobservance of the structural PC on the publication of the PFM reform action plan.

3. In support of our policies as described in the MEFP, the Government of Rwanda requests the completion of the fifth review of the PRGF arrangement and the disbursement of the sixth loan of SDR 1.14 million.

4. The Government of Rwanda believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program but will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

5. The Government of Rwanda authorizes publication and distribution of this letter, the MEFP and the TMU together with the related staff report and debt sustainability analysis and the selected issues paper.

[1] The first draft was not discussed with the development partners. A final version was published in September 2008 after thorough consultations with them.

Sincerely yours,

/ s /	/ s /
François Kanimba	James Musoni
Governor	Minister of Finance and
National Bank of Rwanda	Economic Planning

APPENDIX I—ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES (MEFP) OF THE GOVERNMENT OF RWANDA

December 18, 2008

1. Rwanda's medium-term economic program is supported by the Poverty Reduction and Growth Facility arrangement for 2006–09. We are committed to reducing poverty through preserving macroeconomic stability, boosting economic growth, and implementing policies targeted at improving the livelihood of the poor. This memorandum is consistent with the goals established in the new Economic Development and Poverty Reduction Strategy (EDPRS), which was launched in November 2007. The memorandum reviews recent performance under the program through the third quarter of 2008 and describes policies for 2009.

I. RECENT ECONOMIC DEVELOPMENTS

2. **Growth remains strong, but inflation has accelerated.** GDP growth is expected to reach about 8½ percent in 2008, owing to buoyant activity in agriculture, construction, and services. Inflation, led by rising prices of food, transport, and housing and utilities, has accelerated from 6.6 percent at end-2007 to 21.9 percent in October. These developments partly reflect the pass-through from elevated international food and fuel prices amid higher local and regional demand for food products, which, despite the favorable harvest, led to rapid price increases for locally produced food. Domestic demand pressures also played a role. Average inflation in 2008 is expected to be about 15 percent.

3. **The fiscal program has remained broadly on track through September 2008.**

- *Fiscal policy in the first half of 2008 was tighter than programmed because of higher revenues and lower spending.* The larger revenues reflected an increase in collections from income and consumption taxes, as well as higher inflation and GDP growth. Given the build up of inflationary pressures, we made an effort to restrain spending across the board. Nevertheless, the target on priority spending was achieved. The tighter fiscal stance led to a larger than programmed reduction of credit to government and also made it possible to keep domestic debt below targeted levels.

- *Spending accelerated in the third quarter of the year and the strong revenue performance continued.* Spending through September was higher than programmed because of the purchase of seed and fertilizer and spending on food storage (largely financed by grants from IDA and AfDB) and maintenance of the road network. As a result, the target on priority spending was met by a wide margin. The end-September indicative targets on domestic fiscal balance and net credit to the government were met. Because of administrative delays associated with the general elections, the budget accumulated domestic arrears totaling about 1 percent of GDP in July–August. Even though about a third of this amount was already cleared in September, the end-September indicative target for arrears repayment was missed. The Government continued to repay domestic arrears in the fourth quarter and is confident that the program target for arrears repayment for end-2008 will be reached.

- *Domestic petroleum prices have been adjusted periodically in response to world oil market developments.* From end-2007 through September 2008, the cumulative increase in retail petroleum prices amounted to 35 percent. However, the recent fall in world oil prices prompted us to reduce retail petroleum prices by 15 percent between September and November. Despite these price changes, we remain committed to generating stable revenues from petroleum taxes.

4. **The reserve money targets for end-June and end-September 2008 were met.** The National Bank of Rwanda (NBR) overhauled monetary operations in July when it introduced the key policy rate, which was set at 8 percent, and a new corridor structure for the interbank rate based on daily repo operations of 1–14 days maturity. This replaced weekly liquidity auctions (7-day deposits) and overnight deposits. The NBR has increased sales of foreign exchange relative to projections and is relying less on issuance of domestic instruments to meet the reserve money target. Broad money was consistent with program targets for end-June and marginally higher for end-September.

5. **The Rwandan franc depreciated somewhat against the U.S. dollar**. In July the NBR modified the mechanism for determining the weekly average reference rate at which it sells foreign exchange to commercial banks. The new mechanism sets the reference rate as the weighted average of the rate applied by the NBR and commercial banks in their foreign exchange transactions with clients during the week, but it excludes all transactions between banks. As a result, the exchange rate has become more flexible.

6. **The external current account has deteriorated somewhat relative to 2007.** During the first half of the year, exports and imports of goods grew faster than anticipated in the program due to significant increases in the prices of main commodities. Despite the strong increase in export receipts from coffee, tea, minerals and tourism, the widening of the trade deficit was caused by the surge in food and fuel prices, and is expected to persist for the rest of the year, causing an overall deterioration of the current account.

7. **Progress was made on the structural agenda:**

- *Our efforts in public financial management (PFM) reforms are beginning to show results, and we will be accelerating the pace of reforms as we address capacity constraints.* The operational manual for the Medium Term Expenditure Framework was produced and published on the MINECOFIN website in June (June 30 performance criterion). After consultations with development partners, the PFM reform strategy and action plan for 2008–12 (June 30 performance criterion) was published in September, and we initiated work to establish a new framework for strategic guidance, implementation, monitoring, and financing of the PFM reform strategy. This should guarantee more coherent implementation and reduce the risk of bottlenecks delaying progress in some areas. In line with identified needs, capacity building and training in PFM continued throughout the year.

- On tax administration, two structural benchmarks for end-June were completed on time: (i) a comprehensive compliance program--that identifies the main compliance risks associated with the large, medium, and small taxpayer segments, and describes planned Rwanda Revenue Authority (RRA) initiatives to address those risks based on risk analysis--was developed and published on the RRA website, and (ii) an expedited clearance scheme (super green/gold card) for compliant importers contributing a cumulative 40 percent of import value was implemented.

- Further progress was made in reforms to develop and strengthen the financial sector:

  - **Payment systems**. The Cabinet adopted a National Payments Strategy to improve the payments infrastructure and develop basic payment services in Rwanda before end-September 2008, although publication of the strategy on the NBR website (end-September benchmark) was delayed until October. A payment system bill that would establish a clear oversight framework for the NBR over key components of the Rwandan payment system and ensure settlement finality was submitted to Parliament in September 2008. The company operating the switch to national card-based payment changed management in August and 70 percent of the shares are now owned by a German-based company. The new management, fully supported by the NBR, should be able to develop a modern system for electronic payments.

  - **Legal reforms**. Parliament passed laws governing organization and supervision of the insurance industry in July and the Anti-Money Laundering and Combating the Financing of Terrorism Legislation in June 2008.

  - The NBR continued its work to prepare the implementation of consolidated banking and insurance supervision in conformity with international standards, and developed a comprehensive internal audit manual.

  - A private credit bureau that also operates in Tanzania and Uganda was granted a license in October.

8. **Rwanda is determined to build a culture of innovation and entrepreneurship, in which an expanded private sector can create jobs and increase opportunities for all Rwandans.** The Rwanda Development Board (RDB) was created to advance these goals by making Rwanda a compelling global hub for business and investment. The RDB is a new institution that is charged with leading the Government's efforts to accelerate Rwanda's strategic growth and development. The RDB will work to create a world-class business climate that will build on the country's assets, expand the private sector, create jobs, and increase opportunities for all Rwandans. The RDB incorporates elements of eight government agencies: Rwanda Investment and Export Promotion Agency (RIEPA); Rwanda Office of Tourism and National Parks (ORTPN); Privatization Secretariat; Rwanda Commercial Registration Services Agency; Rwanda Information and Technology Authority (RITA); Center for Support to Small and Medium Enterprises (CAPMER); Human Resource and Institutional Capacity Development Agency (HIDA); and the Environmental Impact Assessment Division of the Rwanda Environmental Management Authority (REMA). Realignment of these agencies will allow the Government of Rwanda to gain greater

efficiency and productivity. RDB will drive legal and regulatory reforms to eliminate inefficiencies and streamline bureaucracy that might hinder private sector development. RDB will also work to expand the infrastructure needed for economic growth, including transportation, information communications technology (ICT), conservation, and human and institutional capacity.

9. **In order to achieve effective and sustainable social protection for the poor and vulnerable, Rwanda began implementation of the Vision 2020 Umurenge Program (VUP program)**. This is an integrated rural development program designed to eradicate extreme poverty in Rwanda by 2020. It is being piloted in 30 of the poorest sectors (imirenge) of the country (about 600,000 people). The program is organized around three components: (i) The first component (50 percent revives planned public works using community-based participatory approaches (e.g., Ubudehe) to build community assets and create off-farm employment infrastructure. (ii) The second (30 percent) innovates with credit packages to tackle extreme poverty and foster entrepreneurship and off-farm employment opportunities. (iii) The third component (20 percent) includes direct supports to improve access to social services or to provide for landless households in which no members qualify for public works or credit packages; such unconditional support seeks to expand health and education coverage and encourage the development of skills, handicrafts, or social services activities. A number of donors (WorldBank, DFID, European Union, and Sweden) are supporting this program.

II. MEDIUM-TERM STRATEGY

10. **Our medium-term policy agenda will focus on reducing poverty by improving food security and creating social protection schemes, removing impediments to growth, and preserving macroeconomic stability.** The policies, which are based on the Vision 2020 development plan, are elaborated in the new EDPRS. The main elements seek to:

- *Address severe infrastructure bottlenecks,* including the insufficient and expensive energy supply, poor road network, shallow financial system, and the high costs of doing business.

- *Enhance agricultural development and trade* as vehicles to empower the poor by having them participate in economic activity.

- *Improve the delivery of public services* through better expenditure management and better analyses and monitoring of the links between policies, growth and poverty reduction. Through better monitoring we will identify worthy programs and projects that can be scaled up.

- *Remove obstacles to private sector development* to make it the engine of growth. To this end, we will continue building human capital through better health and education and address skill shortages.

- *Rely on sustainable financing sources* with an emphasis on grant financing and raising the revenue ratio in the long run.

11. **While our medium-term macroeconomic framework is based on prudent projections for growth and external assistance, we believe that steadfast implementation of our reform agenda is likely to lead to growth that is substantially higher than projected, and we hope it could facilitate higher levels of external assistance.** Moreover, to further improve the policy dialogue with stakeholders and development partners, we will maintain a rolling medium-term expenditure and macroeconomic framework.

III. Policies for the Remainder of 2008

12. **We expect to meet all end-2008 fiscal targets.** Revenue overperformance and higher budget support grants are expected to cover unanticipated spending for fertilizer, seeds, storage facilities, road maintenance, and water supply (Text Table 1). To limit the fiscal stimulus on domestic demand, the remaining revenue will be saved.

13. **The NBR will maintain a tight monetary policy.** It will continue to monitor inflation and private sector credit and be prepared to tighten the policy stance. The exchange rate will be sufficiently flexible to meet the reserve money target and ensure that foreign exchange reserves remain at or above their target. Furthermore, a committee comprising representatives of the various financial institutions has been established to monitor and assess financial sector trends and advise on measures to limit the impact of the global financial crises on Rwanda.

Text Table 1: Additional Budget Revenues and Spending, 2008
(Billions of Rwanda francs and percent of GDP)

	Billions of francs	Percent of GDP[1]
New resources	**40.6**	**1.7**
Higher revenue	35.6	1.5
Tax revenue	36.9	1.6
Direct taxes	17.7	0.8
Taxes on goods and services	11.3	0.5
Taxes on international trade	7.9	0.3
Non tax revenue	-1.3	-0.1
Lower privatization receipts	-3.5	-0.1
Higher budget grants	8.4	0.4
New spending	**21.2**	**0.9**
Current spending	-1.2	-0.1
Of which:		
Transfers	-4.2	-0.2
Peacekeeping operations	4.6	0.2
Domestic capital spending	9.3	0.4
Of which:		
Fertilizer imports	8.9	0.4
Food security storage	2.5	0.1
ICT project	0.8	0.0
Import of seeds	0.4	0.0
Nyabarongo project	-1.5	-0.1
Net lending	13.1	0.6
Of which:		
Financing to Rwandatel to clear tax arrears	7.6	0.3
Repayment of liabilities to CSR[3]	2.4	0.1
Change in domestic balance excluding demobilization and peacekeeping expenditures[2]	15.6	0.7
Adjustment for privatization receipts	3.5	0.1
Reduction of fiscal deficit	**19.4**	**0.8**

Source : Rwandese authorities.

[1] The changes in the program as a share of GDP are with respect to the new 2008 GDP of RF 2,333.1 billion.

[2] TMU definition of the domestic fiscal balance.

[3] CSR = Caisse Sociale du Rwanda.

IV. The Program for the First Half of 2009

14. **Our policies from January to June 2009 will continue to safeguard macroeconomic stability while laying the basis for stronger medium-term growth and poverty reduction.** We expect real economic growth of 5.5–6.5 percent.[2] We will focus our efforts on reducing inflation to single digits in the second half of 2009, which should be aided by the likely decline in world food and fuel prices. Nevertheless, average inflation is expected to remain at about 12 percent in 2009. As a precaution against possible balance of payments pressures arising from the global economic crises, we will target a level of international reserves of about 4½ months of imports. Structural policies will focus on improving public financial management, developing the financial sector, and making growth-enhancing investments and reforms.

A. Macroeconomic Program for January-June 2009

15. **Managing the domestic demand impact of fiscal policies will be at the heart of our macroeconomic policies.**[3] While the domestic deficit (excluding spending on demobilization and peacekeeping) is projected to expand to 2.6 percent of GDP, the net liquidity impact will be reduced to 0.8 percent of GDP, compared with 1.2 percent of GDP in the first half of 2008. This will result from increasing allocation of budget resources to investment projects with high import component. The budget envisages an accumulation of government deposits in the NBR of nearly 0.9 percent of GDP in the first half of 2009, which should reduce inflationary pressures and contribute to the maintenance of adequate reserve levels. If grants or revenues in the first half of 2009 exceed program projections, they will be saved and allocated toward the 2009/10 budget for expenditures if a careful assessment of macroeconomic conditions suggests that such expenditures are prudent.

Fiscal policy for January–June 2009

16. **On the revenue front, we will increase the revenue-to-GDP ratio by 0.2 percentage points to 7.1 percent of GDP in the first half of 2009.** We will monitor government cash flow on monthly basis. Should unanticipated revenue losses arise, we will implement offsetting measures, such as increasing fees and charges and taxes on petroleum products, so that the revenue target can be attained. Furthermore, we will safeguard the agreed targets for domestic fiscal balance by cutting or postponing non-priority expenditure and adopting a more gradual approach to releasing the domestic component of the budget. Our measures to further widen the tax base are described in paragraph 19.

---

[2] The macroeconomic program is rebased using revisions to the national accounts data prepared by the National Institute of Statistics (NIS). The national accounts have been revised from 2006 to reflect omissions in the compilations of imports and corrections to VAT data.

[3] To harmonize its budget cycle with that of other EAC countries, Rwanda is switching from a calendar to a fiscal year budget. Budget operations in January-June 2009 will be guided by minibudget for these six months only; and subsequently Rwanda will approve annual budgets covering periods from July to June.

17. **The focus of expenditure lies in increasing public investments.** The mini-budget allows for an increase in investment spending by 1 percent of GDP compared with the first half of 2008, largely financed by foreign grants and concessional loans. To mitigate the impact on domestic demand, we will cooperate with donors to postpone some spending from off-budget project accounts. In case of an unexpected build-up of pressures on the exchange rate or persistently high inflation, we will reduce government spending.

18. **The increase in investments will go alongside with maintaining priority spending and improving the quality of public services.** To strengthen private-sector-led growth, especially in rural areas, we will dedicate more resources to public infrastructure as well as to agriculture, education, health, electricity, and water supply. If expenditure cuts become necessary, we will safeguard priority spending while cutting or postponing outlays on non-priority items. The fiscal program will be reviewed at the time of the sixth review under the PRGF arrangement in light of developments in key macroeconomic indicators in late 2008 and early 2009. Should additional grants or regular revenues materialize, we will save them for future use and not do any additional spending in the first half of 2009. The main factors related to key spending areas are these:

- *Priority spending* will remain at about 6 percent of GDP in the first half of 2009 (Text Table 2). It will focus on agriculture, infrastructure, health, education, and energy.

    - *Agriculture.* We are currently in discussions with donors to initiate pilot projects for enhancing land husbandry, water harvesting, hillside irrigation and seeds improvement. We expect that these pilot projects will confirm the viability of the large three-year investment project in agriculture that is being prepared. The preliminary overall cost estimate is US$200 million. We will proceed with the project only if the World Bank provides a favorable assessment of its economic and financial feasibility. We are exploring all possible sources of financing, including grants and concessional borrowing from our development partners.

    - *Information and communication technologies (ICT).* We will invest a portion of the proceeds from privatization of RwandaTel in the ICT sector. The objective of the project is to provide a robust nationwide broadband backbone using fiber optics. Over time it is expected that the availability of this ICT backbone will also provide a platform to induce new economic activity, especially in rural areas with little current service.

    - To address the issue of *limited and insufficient energy,* we have begun the construction of the Nyabarongo hydro dam and will support other microdam projects. We project that implementation of these projects will make it possible to reduce the electricity tariff by half after 2010 as well as cut the subsidy to Electrogaz by 0.5 percent of GDP in 2010–12.

    - We are planning a project on *upgrading and rehabilitating key road networks* in Kigali and the surroundings. To finance this project, the Government is considering contracting a government interest-subsidized concessional loan from China Exim Bank of approximately US$32.5 million. Negotiations on the terms of the loan are currently ongoing. At present it is estimated that the grant element may reach 40.7 percent. The World Bank will conduct an assessment of the financial viability of the project. If we decide to proceed with it, we intend to request a modification of the PRGF program to accommodate this borrowing at the time of the sixth review.

Text Table 2. Priority Spending, 2008-09
(Percent of GDP)

	2008				2009
	January - June		January - December		January - June
	Prog.	Act.	Prog.	Proj.	Proj.
Wages and salaries	1.1	0.9	2.2	2.0	1.0
Purchases of goods and services	0.9	0.8	2.1	2.0	0.7
Transfers	2.2	2.0	4.8	4.3	1.9
Exceptional expenditure	0.1	0.1	0.2	0.8	0.1
Net lending	0.06	0.06	0.13	0.12	0.04
Capital expenditure	1.8	1.6	3.8	3.9	2.0
Total	6.2	5.5	13.2	13.2	5.8

Sources: Rwandan authorities.

Other Spending

- *AU peace keeping in Darfur***.** We will continue to monitor the costs associated with our peacekeeping activities. The Auditor General will publish by end-July 2009 an audit of spending in 2008.

Fiscal structural reforms for 2009

19. **We plan to continue improving the efficiency of tax administration to widen the tax base and further raise the tax-to-GDP ratio.** Our goal is to increase revenue to GDP ratio by at least 0.2 percent per year over the medium term. To achieve this, we focus our efforts on three broad areas:

- *Enhancing taxpayer compliance.* We will vigorously implement the measures envisaged in the Comprehensive Tax Payers Compliance Strategy adopted in mid-2008. To improve monitoring, we will refine taxpayer segmentation by allocating more companies to the groups of large and medium-sized companies subject to enhanced surveillance. From January 2009, we shall adopt a block management system to bring more businesses into the tax net and extend services closer to the businesses.

- *Increasing efficiency of operations and minimizing transaction costs*. To reduce congestion in the offices of the RRA, we plan to open two additional offices in Kigali in 2009. We will also expand the network of payment points located in banks, so that taxpayers can make a payment directly from their bank without visiting the RRA office.

- *Facilitating trade*. In 2009 we will further refine the operations and eligibility criteria for using the expedited clearance scheme (blue channel) for compliant exporters, which accounted for about two-thirds of imports in September 2008. We have already extended the working hours of the customs offices and plan to switch to a 24 hour operating schedule in 2009, which would minimize cargo dwelling time.

20. **The government will begin implementing its new medium-term strategy for public financial management (PFM) reform.** An institutional framework for strategic guidance, implementation, monitoring, and financing of the PFM reform strategy will be finalized during the course of 2009. As part of our broader strategy, the PFM action plan for 2009 includes measures in the following areas:

- **Economic management and budgeting.** Build capacity for research and macroeconomic modeling and establish a macro database; align the budget calendar to practices within the East African Community (EAC); clarify reporting relationships and reporting formats for sub-national government units; and increase the efficiency of the tax appeal mechanism.

- **Financial management and reporting.** Reorganize and strengthen the Office of the Accountant General and the Office of the Director of Administration and Finance in ministries, departments, and agencies; develop a policy and strategy for government portfolio management and clear guidelines on borrowing; start introducing SmartGov (the new integrated financial management information system); and approve the software for the new integrated personnel and payroll information system.

- **Public procurement.** Adopt the new organizational structure for the Rwanda Public Procurement Authority, and conduct a capacity needs assessment in central government ministries and agencies and sub-national government units to ensure sufficient staffing.

- **Budget execution oversight.** Conduct an organizational review of the Office of the Government Chief Internal Auditor and internal audit units in ministries, departments, and agencies and sub-national government units; and prepare external audit regulations.

Monetary and exchange rate policy

21. **The NBR will maintain a tight monetary policy in 2009.** It will continue to monitor inflation, government spending and private sector credit and will stand ready to tighten the monetary stance by raising the key repo rate, if needed. With the current global financial crises and the onset of global recession, we will be more vigilant in monitoring credit expansion and the exposure of the banking sector to domestic sectors that may have benefited from rapid asset price increases in recent years (property market) or to the retail sector.

22. **The NBR will continue to use reserve money as the operational target to control inflation.** To reduce inflation to about 14 percent by mid-2009 and to single digits in the second half of 2009, it will limit reserve money growth (12-month) to 15 percent at end-June

and 18 percent at end-2009. This should help create sufficient room for an expansion of credit to the private sector. The NBR will continue to follow inflationary developments closely and mop up excess liquidity, in particular through sales of foreign exchange.

23. **We will allow more flexibility in the exchange rate and increase the frequency of adjustments.** Exchange rate movements will be guided by developments in the retail market and will ensure that the targets on foreign currency reserves of the NBR are met. This will be necessary to reduce any pressures for appreciation of the franc and to ensure that Rwanda's exports remain competitive. We will be guided by the recommendations of the technical assistance mission from the IMF's Monetary and Capital Markets Department in our efforts to revitalize the foreign exchange market. Our interventions in the market will be orderly and focused on smoothing short-term market fluctuations.

24. **The NBR will improve liquidity management**. We are committed to gradually increasing the policy interest rates, with the intention of restoring real interest rates to positive levels once inflation has come down to a moderate level. Higher interest rates will also counteract the inflationary impact that higher import prices would have on the economy and sustain the reduction in inflation arising from declining world commodity prices. These changes will be done gradually and prudently so that private sector credit is not adversely affected. Additionally, we will communicate our intentions to the financial sector in a timely manner so as to avoid disruptions in the financial markets arising from asymmetric information.

25. **We will strengthen the Treasury Management Committee (TMC)**. The TMC has been holding meetings with the MoF and NBR to coordinate fiscal and monetary policy weekly at the technical level and monthly between the Minister and the Governor.

External sector

26. **We expect the external current account deficit (excluding official transfers) to remain at about 18 percent of GDP in 2009.** Reflecting the reduction in international prices, receipts from export of goods and services are projected to grow by 11 percent in U.S. dollars, driven mainly by increased volumes of traditional exports and the strong performance of the tourism industry. However, there are considerable downside risks as a consequence of the projected slowdown in world economic growth. Given the reduction in the prices of oil, food, and other commodities imported by Rwanda, we project the value of imports of goods to increase by some 6 percent. At the same time, import volumes will increase by some 15 percent, buoyed by the robust economic growth and growing public investment. Despite the efforts of NBR to lower inflation, which would help reverse the current trend of real appreciation, real appreciation will continue until inflation in Rwanda is significantly reduced to a level close to that of inflation in trading partner countries. This appreciation will boost import volumes in 2009.

27. **Rwanda has received debt relief under the enhanced HIPC Initiative and benefited from MDRI.** In addition to IMF, IDA and AfDB, completion point and topping-up assistance have been provided by BADEA and the OPEC Fund. IFAD, the Kuwait Fund, the Saudi Fund and the EU have already provided completion point assistance. Bilateral agreements have been signed with all Paris Club creditors except France. China cancelled all

outstanding loans, totaling about US$32 million, in 2007. Debts owed to the Abu Dhabi Fund, France, Libya, Saudi Arabia and Kuwait are under negotiation.

28. **Preparations for joining the EAC Customs Union have intensified.** Rwanda became a member of the EAC on July 1, 2007. The necessary provisions for entrance into the Customs Union will be completed by June 2009**.** The list of sensitive products and raw materials exempted from the common external tariff has been compiled. Preliminary estimates suggest that the annual revenue loss from reduced external tariffs could amount to some 0.4 percent of GDP. Rwanda has signed an interim agreement with the European Union to continue negotiations on an Economic Partnership Agreement in line with the EAC common position.

B. Structural Policies

29. **The focus on the structural side will remain on enhancing the productivity of the agricultural and export sectors and improving conditions for the private sector.**

Export promotion

30. **Our export promotion strategy will continue to focus on enhancing the productivity in traditional sectors and diversifying our export base**.

- **Coffee**. To improve yields, use will be made of industrial fertilizers and pesticides, for which training will be provided to farmers. To increase value added, the number of washing stations will be further increased. Existing stations are being made more efficient through more training, an improved water supply, and an upgrade of feeder roads. A Coffee Marketing Alliance will be established to improve marketing.

- **Tea**. To increase export volume and quality, efforts aimed at improving harvesting methods and expanding nursery beds and tea plantations will be intensified. To increase value added, a blending industry will be established. Efforts at direct marketing will be intensified to improve market prices.

- **Tourism**. A tourism master plan is being developed with the assistance of the World Tourism organization.

Financial sector

31. **The agenda for medium-term financial sector reform is based on our Financial Sector Development Plan.** Our plans for 2009 include the following:

- **Modernizing the national payments system.** We anticipate that the Rwanda Integrated Payments System Processing System (RIPPS), which will integrate the Automated Clearing House, Real Time Gross Settlements and the Central Securities Depository, will become operational in 2009.

- **Developing long-term finance and capital markets.** We hope to enact legislation for securities exchange and regulator. Once that is passed we will transform the Capital Market Advisory Council (CMAC), which was established earlier in 2008, into the regulator of the securities industry and spin off its market operations into a privately owned securities exchange. We also anticipate that we can begin to integrate the trading platform and settlement systems with those in other EAC member countries.

- **Contractual savings and investments.**

    - By mid-2009, we plan to submit to Parliament legislation for private pension funds and collective investment schemes (mutual funds, unit trusts, and investment companies) to further strengthen the legal and regulatory framework to support development of a market for (a) the contractual savings industry and (b) long-term saving and investment instruments.

    - We also plan to enact an insurance contract law for consumer protection and a mandatory insurance law to protect the public.

- **Secondary mortgage facility.** We plan to transform the Rwanda Housing Bank (BHR) into a secondary mortgage facility by end-2009 to further develop the mortgage industry and providing liquidity to commercial banks. To this end we signed a Memorandum of Understanding with the International Finance Corporation in July 2008 and began receiving support to develop the market.

- **Financial stability.** To assist in the promotion of financial stability we plan to implement deposit insurance in 2010 to protect less financially sophisticated depositors of commercial banks and non-bank financial institutions.

Cost of doing business

32. **We will make further efforts to improve the business climate and remove obstacles to business development.** The Rwanda Commercial and Registry Services will be made operational. The agency will provide a comprehensive registration system aimed at improving business registration, securitization of assets, and registration of intellectual property rights. The office of the Registrar of Land Titles has been operational since the beginning of 2008, simplifying the land registration process.

V. Program Monitoring

33. **Conditionality and program reviews**. The sixth review of the PRGF arrangement, scheduled for completion by June 2009, will review quantitative performance as of end-December 2008.

34. **Technical memorandum of understanding (TMU).** The attached TMU lays out the details of program design and terminology. We have maintained the broad design of the program for 2008.

Att. 1. Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks for 2008
(Billions of Rwandan francs, unless otherwise indicated)
(Quantitative benchmarks* and performance criteria on test dates**)

	2008			
	March*	June**	September*	December**
Benchmarks and performance criteria				
Net foreign assets of the NBR (floor on stock)[1]				
Actual (program exchange rate)	296.5	331.0	319.2	
Adjusted program	257.5	321.8	314.8	
Program	257.5	321.8	314.8	275.7
Reserve money (ceiling on stock)[2]				
Actual	101.0	106.6	112.2	
Adjusted program	100.3	107.7	113.8	
Program	98.0	102.4	107.1	107.6
Net credit to the government (ceiling on flow)[3]				
Actual	-29.0	-61.0	-41.5	
Adjusted program	47.5	-56.9	-32.4	
Program	47.5	-46.8	-35.4	-13.4
Domestic fiscal balance (floor on flow)[3, 4]				
Actual	-29.8	-49.2	-99.9	
Adjusted program	-42.4	-67.8	-110.9	
Program	-42.4	-67.8	-113.7	-148.6
Total priority spending (floor on flow)[3, 4]				
Actual	63.3	129.5	220.7	
Adjusted program	57.3	128.4	200.3	
Program	57.3	128.4	201.7	275.1
New nonconcessional external debt[5]				
Actual	0.0	0.0	0.0	
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock)[5, 6]				
Actual	0.0	0.0	0.0	
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock)[7]				
Actual	0.0	0.0	0.0	
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow)[3]				
Actual	5.9	-4.5	12.5	
Program	-3.0	-4.0	-5.5	-7.0
Indicative targets				
Broad money (ceiling on stock)[1]				
Actual	363.6	371.3	399.0	
Program	365.9	389.5	394.3	422.3
Extended broad money (ceiling on stock)[1]				
Actual	422.8	431.8	463.9	
Program	425.5	453.7	459.3	491.1
Net Present Value of the Stock of Outstanding Debt (Millions of US$)[8]				
End-December 2007--Actual		240.9		240.9
End-December 2008--Actual				
End-December 2009--Actual				
End-December 2007--Program		200.4		200.4
End-December 2008--Program		286.4		286.4
End-December 2009--Program		405.6		405.6
Ceiling on stock of domestic debt[9]				
Actual	172.0	159.1	149.1	
Adjusted program	208.6	189.7	187.6	
Program	208.6	189.7	187.6	198.6
Memorandum items:				
General budget support (Millions of US$)[4,10]				
Received	104.2	222.8	261.8	
Expected	104.1	219.3	289.1	317.5
Of which: budget support grants (received)	97.2	215.1	253.0	
Of which: budget support grants (expected)	97.1	212.3	282.1	310.5
Baseline privatization receipts (RF billion)	…	3.5	3.5	17.1

Sources: Rwandese authorities and IMF staff estimates and projections.

[1] At the program exchange rate of RF545/US$ for 2008.
[2] Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter. Program projections are done quarterly.
[3] Numbers are cumulative from December 31, 2007.
[4] The domestic fiscal balance targets will be adjusted by the amount of grants exceeding or below programmed grants with the adjusters as specified in the TMU of February 12, 2008. Also the priority spending targets will be adjusted by the amount of grants exceeding or below programmed grants.
[5] This is a continuous performance criterion. Excluded from the criterion are changes in indebtedness resulting from refinancing credits and rescheduling operations of existing debt, credits extended by the Fund, and US$97.7 million in credit from the Exim Bank of India with concessionality of 40 percent for the construction of the hydro power plant at Nyabarongo.
[6] Excludes arrears on obligations that are subject to rescheduling.
[7] Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.
[8] Figures indicate the NPV projections based on debt contracted at the test date.
[9] Numbers show end of period stocks. The stock of debt at end-2007 was revised from RF200.3 billion to RF236 billion, which prompted revision of the program numbers for September and December 2008.
[10] Excluding external donor financing for demobilization and peacekeeping.

Att.1. Table 2. Rwanda: Quantitative Indicative Targets and Benchmarks for 2009
(Billions of Rwandan francs, unless otherwise indicated)

	2009	
	March	June
Net foreign assets of the NBR (floor on stock)[1]		
Program	311.6	298.0
Reserve money (ceiling on stock)[2]		
Program	123.2	128.3
Net credit to the government (ceiling on flow)		
Program	-15.6	-24.2
Domestic fiscal balance (floor on flow)		
Program	-35.8	-72.2
Total priority spending (floor on flow)		
Program	78.2	159.8
New nonconcessional external debt[3]		
Program	0.0	0.0
New external payment arrears (ceiling on stock)[3, 4]		
Program	0.0	0.0
Short-term external debt (ceiling on stock)[5]		
Program	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow)		
Program	-1.6	-3.3
Broad money (ceiling on stock)[1]		
Program	543.1	555.4
Net Present Value of the Stock of Outstanding Debt (Millions of US$)[6]		
End-December 2007--Actual		240.9
End-December 2007--Program		200.4
End-December 2008--Program		286.4
End-December 2009--Program		405.6
Ceiling on stock of domestic debt[7]		
Program	183.3	168.4
Memorandum items:		
Expected general budget support (Millions of US$)[8]	96.2	173.7
Of which: budget support grants	96.2	173.7
Baseline privatization receipts (RF billion)	0.0	0.0

Sources: Rwandese authorities and IMF staff estimates and projections.

[1] At the program exchange rate of RF555/US$ for 2009.

[2] Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter.

[3] This is a continuous indicative target.

[4] Excludes arrears on obligations that are subject to rescheduling.

[5] Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.

[6] Figures indicate the NPV projections based on debt contracted at the test date.

[7] Numbers show end of period stocks.

[8] Excluding external donor financing for demobilization and peacekeeping.

Att. 1. Table 3. Rwanda: Structural Conditionality, 2008

Public Expenditure Management	**Target date**	**Type of condition**	***Status***
Complete and publish on MINECOFIN website a revised PFM reform action plan for 2008–2010, as specified in paragraph 17 of the MEFP of February 12, 2008.	June 30, 2008	Performance criterion	*Not met, completed September 12, 2008*
Produce and publish on the MINECOFIN website the MTEF operational manual, as specified in paragraph 17 of the MEFP of February 12, 2008.	June 30, 2008	Performance criterion	*Met*
Develop and publish on the MINECOFIN website a debt management strategy (DMF) with clear limits for loans and guarantees that are consistent with the provisions in the Organic Budget Law.	November 30, 2008	Benchmark	*Met*
Tax Administration			
Develop and publish on the RRA website a comprehensive compliance program which identifies key compliance risks associated with the large, medium, and small taxpayer segments, together with a description of the planned RRA initiatives to address the identified risks based on risk analysis.	June 30, 2008	Benchmark	*Met*
Implement an expedited clearance scheme (super green/gold card) for *compliant* importers contributing a cumulative 40 percent of import value.[1]	June 30, 2008	Benchmark	*Met*
Financial Sector			
Publish on the NBR's website a national payments strategy to improve the payments infrastructure and address the development of basic payment services in Rwanda.	September 30, 2008	Benchmark	*Not met, completed with a delay in October, 2008.*

[1] This structural benchmark has been changed from "cumulative 60 percent of import taxes" to "cumulative 40 percent of import value", which is consistent with a FAD recommendation and the objective of trade facilitation.

APPENDIX I—ATTACHMENT II

RWANDA: TECHNICAL MEMORANDUM OF UNDERSTANDING

December 18, 2008

1. This technical memorandum of understanding (TMU) supplements the TMU of June 16, 2008. It (a) sets the quantitative program targets for end-March 2009 and end-June 2009 (Table 2 of the MEFP) and (b) updates the definitions and adjusters of these targets. Unless an update is provided in this TMU, the definitions, adjusters and reporting requirements outlined in the TMU of June16, 2008 apply to the program targets set for 2009.

A. Quantitative Program Targets

2. Indicative targets for March 31, 2009, and June 30, 2009 are proposed to be established with respect to:

- floors on the domestic fiscal balance of the central government (DFB)
- ceilings on the net credit to the central government (NCG)
- floors on priority spending
- ceilings on the net accumulation of domestic arrears of the central government
- floors on the net foreign assets (NFA) of the National Bank of Rwanda (NBR)
- ceilings on reserve money
- ceilings on the outstanding stock of external debt with original maturities of one year or less owed or guaranteed by the public sector
- ceilings on broad money
- ceilings on the consolidated domestic debt of the public sector.

3. Indicative target for end-June 2009 is proposed to be established with respect to the ceiling on the contracting or guaranteeing of concessional external debt.

4. Indicative targets that apply on a continuous basis are proposed to be established with respect to the ceilings on new external payment arrears of the public sector and new nonconcessional debt of the public sector.

B. Targets Related to Execution of the Fiscal Program

Domestic fiscal balance of the central government (DFB)

5. A floor applies to the DFB, which is measured cumulatively from December 31, 2008 for the end-March 2009 and end-June 2009 targets.

Net credit to the central government (NCG)

6. A ceiling applies to the NCG, which is measured cumulatively from December 31, 2008 for the end-March 2009 and end-June 2009 targets.

7. **Definition.** For program monitoring purposes, the NCG will be calculated as the change from end-December 2008 of net credit from the banking system and the change of holdings of treasury bills and other government securities by the nonbank sector.

Priority expenditure

8. A floor applies to priority spending of the central government, which is measured cumulatively from December 31, 2008 for the end-March 2009 and end-June 2009 targets.

9. **Definition.** Central government priority spending is defined as the sum of those recurrent expenditures, domestically financed capital expenditures, and net lending that the government has identified as priority in line with the PRSP process. The definition of priority expenditures is based on the program classification of the annual budget. Table 1 provides a summary of the SIBET output[4] and a list of the main programs.

Net accumulation of domestic arrears of the central government

10. A ceiling applies to the net accumulation of domestic arrears of the central government, which is measured cumulatively from December 31, 2008 for the end-March 2009 and end-June 2009 targets.[5]

11. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding on December 31, 2008 (including repayment of float in 2008 and the repayment of older arrears).

Domestic debt of the central government and the National Bank of Rwanda (DD)

12. A ceiling applies to the DD for the end-March 2009 and the end-June 2009 targets.

---

[4] The computerized SIBET expenditure management system tracks priority spending at the program level.

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

C. Targets for Monetary Aggregates

Net foreign assets of the National Bank of Rwanda (NFA)

13. A floor applies to the NFA of the NBR for the end-March 2009 and end-June 2009 targets.

14. **Definition.** NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standards (SDDS) template, as external assets readily available to or controlled by the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets are to be excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate.[6] Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/PRGF disbursements).

Reserve money

15. A ceiling applies to the stock of reserve money for the end-March 2009 and end-June 2009 targets.

16. **Adjuster:**

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks by the amount of (new reserve ratio - program baseline reserve ratio) multiplied by reservable deposit liabilities in commercial banks.

Broad money

17. A ceiling applies to the stock of broad money for the end-March 2009 and end-June 2009 targets.

18. **Definition**. Broad money is defined as the sum of currency in circulation, deposits in commercial banks, and nonbank deposits in the NBR.

[6] The program exchange rate for January – June 2009 is projected at RF555 = US$1.

D. Limits on External Debt

Limit on short-term external debt of the public sector

19. A zero ceiling applies to the outstanding stock of external debt with original maturities of one year or less owned or guaranteed by the public sector or other agencies on behalf of the central government. The ceiling is measured cumulatively from December 31, 2008 for the end-March 2009 and end-June 2009 targets.

Contracting or guaranteeing of concessional external debt

20. A ceiling applies to the contracting or guaranteeing of concessional external debt of the public sector or other agencies on behalf of the central government for the end-June 2009 target. The ceiling on contracted debt becomes binding through a disbursement profile over 2007-09.

Att.2. Table 1. Priority Spending, January-June 2009
(Billions of Rwandan francs)

1. EMPLOYEE COST	**27,000,542,613**
04 PRIMATURE	93,767,418
07 MININTER	68,521,219
0701 NATIONAL POLICE	3,585,588,738
09 MINAGRI	65,132,014
10 MINICOM	345,409,259
11 MINISTR	88,265,946
14 MINEDUC	594,234,531
140- DECENTRALISE EDUCATION	14,818,652,955
1401 NATIONAL CURRICULUM DEVELOPMENT CENTER (NCDC)	181,555,734
1402 GENERAL INSPECTION OF EDUCATION (IGE)	155,046,532
1403 RWANDA NATIONAL COMMISSION FOR UNESCO CNRU	40,426,300
1404 NATIONAL TEACHER SERVICE COMMISSION TSC	139,032,217
1405 NATIONAL EXAMINATION COUNCIL	172,694,423
1433 TUMBA COLLEGE OF TECHNOLOGY	101,423,603
1436 RUKARA NATIONAL COLLEGE OF EDUCATION	127,240,935
1437 KAVUMU NATIONAL COLLEGE OF EDUCATION	124,972,365
15 MINISPOC	19,361,073
1501 NATIONAL COMMISSION FOR THE FIGHT AGAINST GENOCIDE	8,009,027
1503 RWANDA NATIONAL MUSEUM	5,273,019
16 MINISANTE	188,977,921
160- DECENTRALISE SANTE	5,641,409,511
22 MINIRENA	127,028,490
23 MINALOC	123,473,697
230- DECENTRALISE MINALOC	185,045,686
2. GOODS AND SERVICES	**11,161,818,784**
04 PRIMATURE	299,627,736
040- DECENTRALISE MIGEPROF	41,881,788
07 MININTER	76,949,176
0701 NATIONAL POLICE	1,536,469,944
0702 NATIONAL PRISON SERVICE	37,994,476
09 MINAGRI	250,176,188
090- DECENTRALISE AGRICULTURE	15,830,440
0902 INSTITUT DES SCIENCES AGRONOMIQUES DU RWANDA (ISAR)	4,810,088
10 MINICOM	1,220,332,912
100- DECENTRALISE COMMERCE	30,975,312
11 MINISTR	486,190,920
1101 RWANDA INFORMATION TECHNOLOGY AUTHORITY (RITA)	157,327,380
14 MINEDUC	6,194,324,724
140- DECENTRALISE EDUCATION	325,928,112
1401 NATIONAL CURRICULUM DEVELOPMENT CENTER (NCDC)	94,999,136
1402 GENERAL INSPECTION OF EDUCATION (IGE)	244,263,636
1436 RUKARA NATIONAL COLLEGE OF EDUCATION	90,289,784
1437 KAVUMU NATIONAL COLLEGE OF EDUCATION	53,447,032

Table 1. Priority Spending, January-June 2009 (Continued)
(Billions of Rwandan francs)

15 MINISPOC	191,746,264
150- DECENTRALISE MIJESPOC	21,643,440
16 MINISANTE	1,340,217,748
160- DECENTRALISE SANTE	496,373,384
18 MININFRA	678,756,214
180- DECENTRALISE MININFRA	927,503,724
1801 ROAD MAINTENANCE FUND	3,412,531,911
19 MINIYOUTH	8,099,096
22 MINIRENA	469,532,096
220- DECENTRALISE MINITERRE	415,584,392
23 MINALOC	911,191,782
230- DECENTRALISE MINALOC	232,594,592
2320 NATIONAL DECENTRALIZATION IMPLEMENTATION SECRETARIAT	34,801,868
2321 NATIONAL REFUGEE COUNCIL	48,513,472
3. TRANSFER AND SUBSIDIES	**0**
04 PRIMATURE	106,788,130
07 MININTER	847,388
070- DECENTRALISE PRISON	636,097,031
0701 NATIONAL POLICE	16,947,753
0702 NATIONAL PRISON SERVICE	1,038,461,136
09 MINAGRI	580,039,733
090- DECENTRALISE AGRICULTURE	460,881,051
0902 INSTITUT DES SCIENCES AGRONOMIQUES DU RWANDA (ISAR)	1,243,772,305
10 MINICOM	62,045,345
100- DECENTRALISE COMMERCE	81,033,780
1002 RWANDA BUREAU OF STANDARDS	597,150,560
1003 RWANDA INVESTMENT AND EXPORT PROMOTION AGENCY	537,759,266
1019 RWANDA BUSINESS REGISTRATION AGENCY	171,585,169
1101 RWANDA INFORMATION TECHNOLOGY AUTHORITY (RITA)	1,299,139,180
1103 IRST (INSTITUTE OF SCIENTIFIC AND TECHNOLOGICAL RESEARCH)	666,427,624
14 MINEDUC	744,242,741
140- DECENTRALISE EDUCATION	13,667,328,162
1401 NATIONAL CURRICULUM DEVELOPMENT CENTER (NCDC)	127,512,810
1403 RWANDA NATIONAL COMMISSION FOR UNESCO CNRU	58,327,593
1404 NATIONAL TEACHER SERVICE COMMISSION TSC	40,821,616
1405 NATIONAL EXAMINATION COUNCIL	42,409,957
1406 NATIONAL COUNCIL FOR HIGHER EDUCATION (NCHE)	207,384,371
1407 SFAR (STUDENT FINANCING AGENCYOF RWANDA)	11,193,170,193
1433 TUMBA COLLEGE OF TECHNOLOGY	132,329,851
1436 RUKARA NATIONAL COLLEGE OF EDUCATION	1,797,350
15 MINISPOC	18,060,827
1501 NATIONAL COMMISSION FOR THE FIGHT AGAINST GENOCIDE	164,172,447
1503 RWANDA NATIONAL MUSEUM	105,016,240

Table 1. Priority Spending, January-June 2009 (Concluded)
(Billions of Rwandan francs)

16 MINISANTE	1,702,779,344
160- DECENTRALISE SANTE	6,375,846,349
1601 CENTRAL UNIVERSITY HOSPITAL OF KIGALI (CHUK)	261,006,238
1602 CENTRAL UNIVERSITY HOSPITAL OF BUTARE (CHUB)	212,737,697
1603 KING FAYCAL HOSPITAL (HRF)	605,173,789
1606 RESEARCH CENTER FOR AIDS, MALARIA AND TUBERCULOSIS TREATMENT (TRAC)	54,135,959
1607 NATIONAL REFERAL LABORATORY(LNR)	86,413,791
1611 NATIONAL BLOOD TRANSFUSION PROGRAMME (PNTS)	79,340,471
1612 NATIONAL COMMISSION FOR THE FIGHT AGAINST AIDS (CNLS)	42,887,967
1613 RWANDA PHARMACEUTICAL LABORATORY (LABOPHAR)	55,614,292
18 MININFRA	6,143,062,816
180- DECENTRALISE MININFRA	1,688,204,160
1901 PAN AFRICAN ORGANISATION OF YOUTH AGAINST AIDS	11,198,741
23 MINALOC	863,170,317
230- DECENTRALISE MINALOC	489,798,914
2302 POLITICAL CONSULTATIVE FORUM	262,640,979
2320 NATIONAL DECENTRALIZATION IMPLEMENTATION SECRETARIAT	57,842,126
2321 NATIONAL REFUGEE COUNCIL	25,826,538
7.1 DEVELOPMENT BUDGET	**55,646,483,167**
0701 NATIONAL POLICE	0
0702 NATIONAL PRISON SERVICE	600,000,000
09 MINAGRI	5,582,054,452
10 MINICOM	70,000,000
1101 RWANDA INFORMATION TECHNOLOGY AUTHORITY (RITA)	8,495,212,992
1103 IRST (INSTITUTE OF SCIENTIFIC AND TECHNOLOGICAL RESEARCH)	216,619,744
14 MINEDUC	2,900,000,000
1407 SFAR (STUDENT FINANCING AGENCYOF RWANDA)	3,095,825,128
15 MINISPOC	160,000,000
16 MINISANTE	5,424,300,000
18 MININFRA	20,739,972,276
23 MINALOC	8,362,498,575
7.2 NET LENDING	**1,160,975,612**
12 GAZ METHANE	1,160,975,612
9. EXCEPTIONAL EXPENDITURE	**2,625,305,528**
23 MINALOC	1,400,000,000
2301 ELECTORAL COMMISSION	1,225,305,528
TOTAL PRIORITY EXPENDITURES	**97,595,125,704**

INTERNATIONAL MONETARY FUND

RWANDA

Staff Report for the 2008 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion—Informational Annex

Prepared by the African Department
(In collaboration with other Departments)

Approved by Mark Plant and Anthony Boote
December 19, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding Fund credit was SDR7.41 million (9.25 percent of quota) at end-October 2008. Completion of the fifth review would allow the disbursement of SDR1.14 million.

- **Joint World Bank–IMF Work Program.** Outlines the Joint Management Action Plan.

- **Statistical Issues.** Assesses the quality of statistical data. Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis.

Contents Page

APPENDIX I. RWANDA: RELATIONS WITH THE FUND

(As of October 31, 2008)

I. Membership Status: Joined: September 30, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve Position	0.00	0.00
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	13.70	100.00
Holdings	20.37	148.72

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	7.41	9.25

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun 12, 2006	Jun 11, 2009	8.01	5.70
PRGF	Aug 12, 2002	Jun 11, 2006	4.00	4.00
PRGF	Jun 24, 1998	Apr 30, 2002	71.40	61.88

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal			0.06	0.40	0.68
Charges/Interest	0.02	0.04	0.04	0.04	0.03
Total	0.02	0.04	0.10	0.44	0.72

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII.	**Implementation of HIPC Initiative**:	Enhanced framework
	I Commitment of HIPC assistance	
	Decision point date	Dec 2000

Assistance committed by all creditors (US$ million)[23]	695.50
Of which: IMF assistance (US$ million)	63.40
(SDR equivalent in millions)	46.79
Completion point date	Apr 2005

II Delivery of IMF assistance (SDR million)

Amount disbursed	46.79
Interim assistance	14.45
Completion point	32.34
Additional disbursement of interest income[24]	3.77
Total disbursements	50.56

VIII. Implementation of MDRI Assistance

I Total Debt Relief (SDR Million)[25]	52.74
Of which: MDRI	20.19
HIPIC	32.55

II Debt Relief by Facility (SDR million)

Delivery Date	GRA	PRGF	Total
January 2006	NA	52.74	52.74

Decision point—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

[23]Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[24] 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.

[25] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

Interim assistance—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 3 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

IX. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the National Bank of Rwanda (NBR) was subject to a safeguards assessment with respect of the PRGF arrangement approved on June 12, 2006. The update assessment proposed recommendations to address continuing vulnerabilities in the external audit and financial reporting areas. The implementation of these measures is being monitored by IMF staff.

X. Exchange System:

The Rwandan franc was pegged to the SDR until March 6, 1995, when Rwanda adopted a market-determined exchange rate system. In 2006, the exchange rate regime was reclassified to a conventional fixed peg in the IMF's Quarterly Report on Exchange Arrangements. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF and maintains a system free of restrictions on the making of payments and transfers for current international transactions. Since 2001, the NBR has been operating a weekly auction to sell foreign exchange to commercial banks and published a reference exchange rate based on its results. From June 2007, the auction was abolished and replaced by a new arrangement whereby the NBR stood ready to trade with commercial banks in foreign exchange in unlimited amounts at the price quoted by the NBR. The exchange rate was set daily as a combination of the previous day's reference rate, the interbank rate on the previous day and the five-day moving average of the commercial banks' exchange rates with their clients. From February 2008, the exchange rate of the NBR was adjusted weekly according to the difference between the targeted foreign exchange sales and the actual amounts sold. From July, the reference rate has been determined by the weighted average of the rate applied by the NBR and commercial banks in their foreign exchange transactions with clients during the week, but excluding all transactions between banks. From mid-November 2008, the NBR moved to setting the exchange rate on a daily basis.

XI. Article IV Consultation:

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2006 Article IV consultation (Country Report No. 07/80) on January 29, 2007.

XII. 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) took place in February 2005. Rwanda has not had an Offshore Financial Center (OFC) assessment.

XIII. Technical Assistance:

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	AFRITAC East expert on Organic Budget Law.
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.
2003	FAD mission on revenue administration.
2004	AFRITAC East expert on financial regulations.
2004	AFRITAC East mission on treasury reforms.
2004	AFRITAC East expert on implementing cash flow planning and banking arrangements.
2004	FAD tax administration expert on strengthening of revenue administration.
2004	FAD mission on revenue administration.
2004	MFD/LEG mission on Anti-Money Laundering and Combating the Financing of Terrorism.
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.
2005	AFRITAC East expert follow up on cash management.

2005	MFD/LEG mission on Anti-Money Laundering and Combating the Financing of Terrorism.
2005	MFD mission on financial statements of specific bank.
2005	MFD-WB joint FSAP mission.
2005	LEG mission on customs legislation.
2005	STA mission on Balance of Payments statistics.
2005	LEG mission on tax legislation.
2005	FAD mission on public accounting: decentralized accounting for central government.
2005	FAD expert on tax administration.
2005	MFD resident expert on monetary operations, monetary policy, money markets.
2005	MFD expert on banking supervision.
2005	LEG mission on drafting an amendment to the banking law.
2005	MFD mission on banking supervision and bank restructuring.
2006	AFRITAC East experts on establishing intergovernmental fiscal unit in the MOF.
2006	FAD advisor trade facilitation.
2006	MFD FSAP-follow up advisory mission on monetary and foreign exchange operations and NBR internal audit.
2006	LEG mission to strengthen legal and regulatory framework for bank supervision.
2006	AFRITAC East advisors on finalization of OBL and financial regulations
2007	AFRITAC East advisors on workshops for implementation of OBL and financial regulations.
2007	MCM expert on bank restructuring.
2007	MCM expert on foreign exchange operations.
2008	LEG mission to assist the Ministry of Finance in modernizing the tax system.
2008	LEG mission on banking legislation.
2008	MCM expert on foreign exchange operations.
2008	MCM mission to assist in building up internal audit in the central bank.
2008	FAD expert on revenue administration.
2008	AFRITAC East advisors on (i) improving the budget preparation process and budget accounting, and (ii) changing to the *GFS2001*- based economic classification (jointly with STA).
2008	MCM mission on monetary policy operations, foreign exchange operations, and assessment of the financial health of banks.
2008	AFRITAC East advisors on enhancement of national accounts estimation.

XIV. Resident Representative:

Mr. Lars Holger Engström assumed his duties as Resident Representative in February 2005.

XV. Management Visit:

The Deputy Managing Director, Mr. Portugal, visited Rwanda during May 3-5, 2007.

APPENDIX II. RWANDA: JOINT MANAGEMENT ACTION PLAN: JULY 2008–JUNE 2009

Title	Products /Activity	Provisional timing of mission (if relevant)	Expected delivery date
	I. Mutual Information on Relevant Work Program		
Bank Work Program	A. Strategy and Analytical Work		
	Country Assistance Strategy		August 2008
	Science and Technology Needs Assessment		October 2008
	Education – Country Status Report		June 2009
	Investment Climate Survey		June 2009
	Regional trade policy in the context of the EAC, COMESA and EPA		June 2009
	Technical Assistance for Public Expenditure Management in Rwanda		June 2010
	B. Ongoing and New Projects		
	Urban Infrastructure and City Management		March 2009
	Urgent Electricity Rehabilitation		July 2009
	Decentralization and Community Development		September 2009
	Public Sector Capacity Building Project		December 2009
	E-Rwanda		December 2010
	Regional Trade Facilitation		June 2011
	Transport Sector Development		June 2012
IMF Work Program	A. Missions		
	Article IV Consultation and fifth review of PRGF	October 22 – November 4, 2008	December 2008
	Sixth review of PRGF and likely discussion on prospective new program arrangement	February/March 2009	June 2009
	B. Analytical Work		
	EAC Selected Issues Paper on Inflation and Exchange Rate Pass-Through in the EAC	No mission needed	October 2008

Title	Products /Activity	Provisional timing of mission (if relevant)	Expected delivery date
	Assessment of Rwanda's external stability and competitiveness	No mission needed	October 2008
	Assessment of financial development and growth	No mission needed	December 2008
	C. Technical Assistance		
	Fiscal		
	- Tax and customs administration	November 2008	December 2008
	- Revision of VAT Law	TBD	
	- Revenue forecasting	TBD	April 2009
	- Public Financial Management	Ongoing	Ongoing
	Monetary		
	- Monetary policy operations and bank liquidity	October 2008	
	- Interbank markets in local currency and foreign exchange	October 2008	
	Financial		
	- Payment system regulation, rules and procedures	2 to 3 missions during 2009	Ongoing
	- Bank Supervision		
	- Nonbank supervision	October 2008	
	Statistics		
	- National Accounts - Government Finance	About 3 missions per year	

II. Request for Work Program Inputs (as needed)

Bank Request to Fund	Impact of Global Economic Crisis on key Macro Indicators and Growth in Rwanda	To share work being done	
Fund Request to Bank	Food and fuel price increases – impact on poverty and growth, policy assessment and response.	To share work done at the region level. No Rwanda-specific work planned.	Ongoing
	Investment needs and their implications for development spending; quality of spending; and assessment of key infrastructure projects outlined in the Public Investment Program.	To share work being done in response to specific requests.	Ongoing
	Assessment of the public service reform	To share work	

Title	Products /Activity	Provisional timing of mission (if relevant)	Expected delivery date
	program and medium-term pay strategy	being done	
	Assessment of performance on fiscal decentralization, particularly in context with other countries	To share work being done	
	Regional trade policy in the context of the EAC, COMESA and EPA	To share TA/Analytical work being prepared for the EAC secretariat.	Ongoing

III. Agreement on Joint Products

Joint products	Public and External Debt Sustainability Analysis	October/November 2008	December 2008
	JSAN of annual poverty reduction strategy (EDPRS) implementation report.		
	Collaborate on PFM reform program.		Ongoing
	Collaborate on financial sector reform program.		Ongoing
	Review the PIP to ensure that investment selection criteria and prioritization are clear	October/November 2008	December 2009

Appendix III. Rwanda: Statistical Issues

Data provision has some shortcomings, but is broadly adequate for surveillance. National accounts, prices, government finance, and balance of payments statistics have various weaknesses which hamper economic analysis. Monetary statistics and data relevant for banking supervision are adequate for program monitoring, but there is some scope for improvements in quality and timeliness. The country has participated in the General Data Dissemination System since October 2003. In August 2005, the National Institute of Statistics (NIS) was established following the passage of the new Statistics Law.

National Accounts and Price Statistics

Annual GDP estimates in current and constant prices are compiled and disseminated by the NIS, based on the 1968 System of National Accounts methodology. Work is primarily carried out by a United Nations Development Programme advisor as NIS staff have little training in national accounts compilation. Data quality is weak, reflecting inadequate human and material resources. While considerable effort has been made to improve the reliability of GDP estimates using the production approach, significant weaknesses in data collection on expenditures and income hinder the assessment of savings and investment. The reliability of national accounts estimates is also reduced by weak external sector statistics.

Since 2003, the East AFRITAC has advised the authorities on real sector statistical issues. This assistance is focused on capacity building to enable the construction of short-term indicators such as a monthly PPI for the manufacturing sector, which is a joint project with the National Bank of Rwanda (NBR). The results have not yet been integrated in the national accounts. A UK Department For International Development project is also supporting the NIS with a component on national accounts, aiming to establish a program of economic surveys and the development of leading indicators that can serve as source data for national accounts. Work is currently underway to rebase the national accounts to base year 2006. Work on the development of supply and use tables is due to begin in early 2009.

The consumer price index (CPI, 2003=100) utilizes expenditure weights derived from a 2000-01 survey of 6,450 households. Work is under way to rebase the CPI using data from the 2005/06 Household Living Conditions Survey which the NIS plans to publish in mid 2009. A quarterly PPI (base Q4 2003 = 100) is produced for manufacturing activities.

Real sector data are reported regularly for publication in *International Finance Statistics* (*IFS*), although with some lag, particularly for GDP estimates. Data on employment and wages are not collected, except for the central government.

Government Finance Statistics

Detailed monthly revenues and expenditures are reported to AFR with a lag of three to four weeks. These data are compiled by the flash-reporting unit of The Ministry of Finance and Economic Planning (MINECOFIN). A functional classification of government expenditure has been available since the 2003 budget. Within the economic classification, expenditures on PRSP-designated "priority areas" are clearly identifiable. The fiscal data do not capture capital expenditure consistently because capital projects (almost entirely externally financed) are mainly carried out by line ministries outside the regular budget process. Compilation of data on external budgetary assistance as well as on external debt would benefit from strengthened coordination between the finance ministry and the central bank. Efforts are underway to integrate the development budget into the normal budgetary procedures. Fiscal data often exhibit discrepancies between deficit and financing estimates. To address these issues, the authorities have made adjustments for changes in the balance of non-core government accounts, changes in cash in vault at the revenue authority, accounting errors, and other factors.

No sub-annual data are reported to STA for publication in the *IFS*, and annual government finance statistics have not been reported for publication in the *GFS Yearbook* since 1993.

Monetary and Financial Statistics

The balance sheet of the NBR and detailed data on money market transactions are transmitted to AFR on a weekly basis with a lag of one week, while the monetary survey and the consolidated balance sheet of commercial banks are transmitted on a monthly basis with a lag of about five weeks. Detailed data on interbank money market transactions are also provided upon request. Monetary data used to be reported separately to STA and published in the *IFS*. The reporting of monetary statistics to STA has been delayed during the migration to the Standardized Report Forms (SRFs) undertaken by the NBR. The interruption in reporting has been longer than initially planned as the progress of the SRF migration has been hampered by the scarcity of skilled staff.

An August 2007 STA mission found that (i) a new chart of accounts for commercial banks was enacted in 2005 and the call report forms sent to the NBR were improved, better reflecting the methodology of the *Monetary and Financial Statistics Manual*; (ii) the data on the Union des banques populaires du Rwanda—a countrywide mutual bank network—were included in the broad money survey beginning January 2004; (iii) the data on credit and savings cooperatives and other microfinance institutions are still not included in monetary statistics.

External Sector Statistics

Balance of payments statistics are affected by weaknesses in the collection of source data (treatment of customs data and bank settlement reports, questionnaires) and insufficient staffing. The June 2003 multisector statistics mission recommended: (1) reorganizing data entry and production of external trade statistics, using ASYCUDA and Eurotrace software; (2) adapting survey forms sent to companies to the *BPM5* methodology; and (3) collaborating with Central Public Investments and External Finance Bureau (CEPEX) to obtain data on international and bilateral aid. Subsequently, STA balance of payments statistics missions followed up in January 2004 and June 2005, as did AFRITAC missions in October 2006 and June 2007.

Technical assistance resulted in significant improvements. In particular, the collection of data through direct surveys now seems to be well established, and the rate of response is satisfactory (except for embassies). The NBR has started compiling BOP/IIP statistics in conformity with the BMP5 methodology. Annual balance of payments and IIP data through 2007 have been reported to STA for publication in the *IFS* and the *Balance of Payments Statistics Yearbook.*

Nevertheless, some weaknesses remain, particularly in the compilation of trade data. Data compilation was the main focus of the June 2006 AFRITAC mission, and many adjustments to customs data were introduced to improve coverage and valuation. The treatment of bank settlement reports is not effective, because of incomplete automation of the collection of declarations.

The coverage of external aid remains a cause of concern. Data produced by the CEPEX do not include aid from important UN agencies and from certain countries. Only the external aid registered in the Government budget is fully covered. Concerning the NGO sector, the data should result from the survey of NGOs, but its coverage is insufficient.

Databases on external public debt are maintained by both MINECOFIN and the NBR. A committee, composed of staffs from the ministries of finance and economic planning, foreign affairs, and the NBR, is responsible for collecting, harmonizing, and monitoring information on external public debt.

Table 1. Rwanda: Table of Common Indicators Required for Surveillance

(As of December 5, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	12/03/08	12/05/08	D	W	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/03/08	12/05/08	W	W	M
Reserve/Base Money	12/03/08	12/05/08	W	W	M
Broad Money	09/30/08	11/05/08	M	M	M
Central Bank Balance Sheet	11/28/08	12/05/08	W	W	M
Consolidated Balance Sheet of the Banking System	09/30/08	11/05/08	M	M	M
Interest Rates[2]	November 08	12/04/08	M	M	M
Consumer Price Index	October 08	11/18/08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	September 08	10/22/08	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/07	03/27/08	A	A	A
External Current Account Balance	2007	03/21/08	A	SA	A
Exports and Imports of Goods and Services	2007	03/21/08	A	A	A
GDP/GNP	2007	09/19/08	A	SA	A
Gross External Debt	NA	NA	NA	NA	NA
International Investment Position [6]	2007	10/09/2008	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I); Not Available (NA).

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

RWANDA

Joint IMF/World Bank Debt Sustainability Analysis

Prepared by the Staffs of the International Monetary Fund and
the International Development Association

Approved by Mark Plant and Anthony Boote (IMF) and
Carlos Braga and Sudhir Shetty (IDA)

December 19, 2008

This debt sustainability analysis (DSA) assesses the sustainability of Rwanda's external and domestic public debt. It was conducted jointly by the staffs of the IMF and the World Bank using the Bank-Fund framework for debt sustainability analysis for low-income countries. The analysis concludes that Rwanda is at a moderate risk of debt distress.

VI. Background

21. **Rwanda's debt distress classification has been revised from high to moderate.** The last joint DSA, undertaken in February 2008, concluded that Rwanda was at high risk of debt distress, as the PV of debt to exports ratio breached its policy dependent threshold under the baseline scenario. Given Rwanda's small export base and vulnerability to shocks, the last DSA concluded that continued high level of grants was needed to maintain the PV of external debt-to-exports ratio at sustainable levels. In the current update of the DSA, Rwanda's PV of debt to GDP ratio in 2007 is higher than that projected in the previous DSA.[1] At the same time, the long-term outlook has somewhat improved: (i) grants committed for 2009-11 are now higher, taking into account the new multiyear commitments by donor countries, (ii) exports are higher mainly due to a better outturn in 2007 and higher projections for 2008, and (iii) the projected fiscal financing gap is lower, due to higher budget revenues (reflecting better-than expected collection in 2008 and the authorities' efforts to widen the revenue base) and lower current expenditure path (due to the government's plans to reduce exceptional expenditures related to the demobilization and reintegration of former rebels). Consequently, the current DSA projects the PV of debt to exports ratio and other external

[1] The projections of future debt service and the outstanding stock of debt in U.S. dollar terms have been revised upward to reflect actual borrowings in 2007 and the depreciation of U.S. dollar against other major currencies.

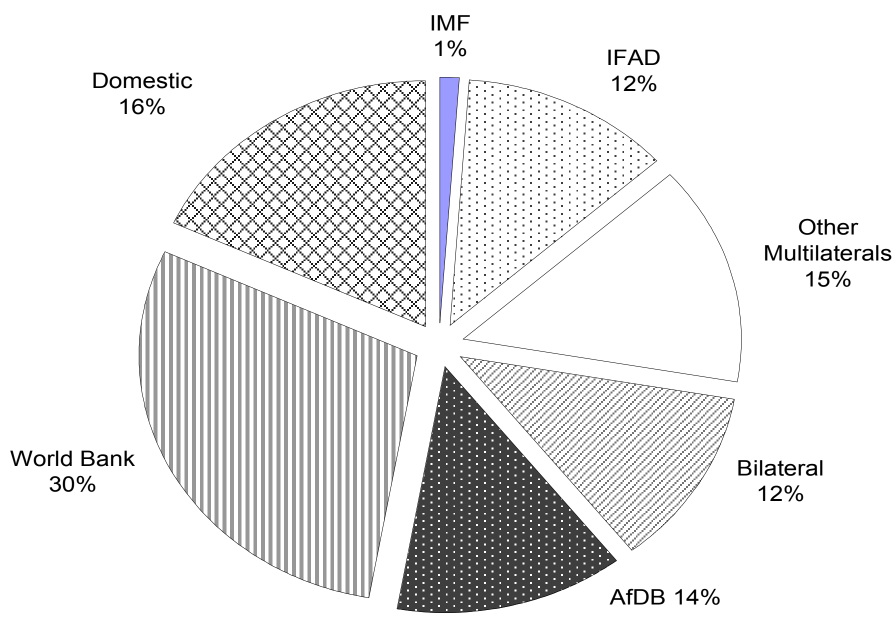
debt indicators to stay below the relevant policy-based indicative thresholds throughout the entire projection period.

22. **Rwanda reached the HIPC completion point in April 2005 and qualified for the Multilateral Debt Relief Initiative (MDRI) in January 2006, which substantially improved its debt indicators.**[2] By end-2006, Rwanda's public debt had declined to 29 percent of GDP from 84 percent in the previous year. In 2007, the pace of debt accumulation slightly exceeded the nominal GDP growth, and the ratio of public sector debt to GDP marginally increased. External debt outstanding amounted to nearly 17 percent of GDP at end-2007, broadly unchanged from end-2006.

23. **At end-2007, Rwanda's liabilities to international multilateral institutions comprised the largest share of its debt.** In terms of the creditor composition, about 72 percent of the public debt at end-2007 was owed to multilaterals, while 12 percent was owed to official bilateral creditors. Domestic debt comprised the remaining 16 percent of the public debt (Figure 1).

Figure 1. Public Sector Debt at end-2007

(Shares in U.S. dollars)



[2] The implementation of debt relief under the enhanced HIPC initiative is at an advanced stage. In addition to the IMF, IDA, and AfDB, completion point and topping up assistance have been provided by BADEA and the OPEC Fund. IFAD, the Kuwait Fund, the Saudi Fund and the EU have already provided completion point assistance. Bilateral agreements have been signed with all Paris Club creditors, except France. China has canceled all outstanding loans, while debts owed to the Abu Dhabi Fund, France, Libya, Saudi Arabia and Kuwait are under negotiation.

VII. Macroeconomic Framework

24. **The macroeconomic framework is more favorable over the long term than the one presented in the last DSA** (Box 1). The new baseline reflects:

a. Higher level of nominal and real GDP due to an upward revision in the real GDP growth for 2006-07 and projections for 2008 (from 6.0 to 8.5 percent). The projected growth rate over the medium term takes into account the likely impact of the global crisis (Box 1). Inflation projections for 2008 and 2009 are also higher than envisaged in the previous DSA, but from 2010 inflation reverts to the long-term trend after the impact of international fuel and food prices has passed through and corrective domestic policies are implemented. The exchange rate is projected to depreciate somewhat faster in 2008-09 during the period of high inflation and remain unchanged in real terms from 2010 onward.

b. Higher export receipts, reflecting the actual outturn for 2007 and the higher projection for 2008 due to higher commodity prices and export volumes of coffee, tea, and minerals as well as an increase in tourism arrivals. Consequently, projections of export receipts over the medium to long term are somewhat higher. Nevertheless, these results take into account the likely impact of the global slowdown (Box 1).

c. Lower borrowing requirements because

   i. revenue collections are higher than projected for 2008, and the authorities have stepped up efforts to widen the revenue base and boost efficiency of tax collection over the medium-term. The revenue-to-GDP ratio is projected to average 16.7 percent over the long term (Table 3a), as compared with 15.7 percent in the last DSA;

   ii. total expenditures are projected to be lower than in the last DSA, largely reflecting the expected cuts in non-priority and exceptional expenditures projected from 2009 (Text Table 1). The total public expenditure is projected to average 25.5 percent of GDP, as compared with 26.1 percent of GDP in the last DSA;

   iii. a new and higher multi-year commitment of grants from major donors satisfies most of Rwanda's financing needs in the short-term (Text Table 1).[3] Reflecting available information, the proportion of loans in external financing gradually increases from about 12 percent and 9 percent

[3] As agreed in the Memorandum of Understanding Governing the Provision of Direct Budget Support in the Implementation of Rwanda's Economic Development and Poverty Reduction Strategy signed by the government and major donors in September 2008.

in 2008 and 2009 respectively, to an average of about 26 percent in 2010-11 and annual average of about 33 percent from 2012 onward. In 2008 and 2009 the budget support from IDA is in the form of grants and is assumed as loans from 2010 onward.[4] Financing for the Nyabarongo project, which is on non-concessional terms, is considered as part of the baseline rather than as an alternative scenario. All other government borrowing is assumed to be financed with loans at an average concessionality of 61 percent reflecting the government's plans to largely rely on borrowing from IDA and AfDB, in line with recent trends.

Text Table 1. Rwanda: Medium-Term Framework, 2005–13

	2005	2006	2007	2008	2009	2010	2011	2012	2013
				Projection					
Economic growth and inflation (percentage change)									
Real GDP (percentage change)	7.2	7.3	7.9	8.5	6.0	6.0	6.0	6.0	6.0
Real GDP (per capita)	5.4	5.4	5.7	6.2	3.8	3.8	3.8	3.8	3.8
Consumer price index (eop)	5.6	12.2	6.6	22.0	6.0	5.0	5.0	5.0	5.0
Central government budget (percent of GDP)									
Revenue	13.5	13.3	13.6	14.2	14.4	14.6	14.7	14.8	15.0
Grants	12.6	10.7	9.9	13.0	13.6	9.4	8.1	7.5	7.4
Government expenditure and net lending	25.6	24.5	24.9	27.1	27.0	26.4	25.9	25.6	25.8
Current expenditure	16.1	16.3	16.8	15.8	15.9	15.6	15.5	16.2	16.6
Capital expenditure	9.1	7.6	8.6	10.9	10.9	10.5	10.1	9.1	9.0
Domestic fiscal balance (excl. demobilization spending)	-5.1	-5.4	-6.1	-6.5	-6.8	-6.6	-6.8	-5.1	-5.1
Overall balance (payment order)									
After grants	0.6	-0.4	-1.5	0.1	0.9	-2.5	-3.0	0.9	-2.5
Before grants	-12.0	-11.1	-11.3	-13.0	-12.6	-11.9	-11.2	-12.6	-11.9
National accounts (percent of GDP)									
Gross domestic investment	21.6	20.4	21.0	23.4	23.5	23.1	22.9	22.0	22.0
Of which : private	12.5	12.8	12.4	12.5	12.6	12.7	12.8	12.9	13.0
Gross national savings	6.0	4.3	5.4	5.0	5.1	6.1	6.6	5.7	6.0
Current account bal. (excl. grants)	-15.6	-16.1	-15.5	-18.4	-18.4	-17.0	-16.3	-16.3	-16.0
Balance of payments (percent of GDP)									
Exports of goods and services	10.2	9.7	9.7	9.0	8.7	9.3	9.5	9.6	9.5
Imports of goods and services	26.7	27.5	27.7	30.1	29.3	28.6	28.7	28.9	28.5
Current account balance (incl. grants)	-1.1	-7.4	-4.9	-7.1	-8.2	-9.4	-9.5	-10.6	-10.3
Overall balance	4.6	2.9	3.2	0.9	-0.5	0.9	0.9	0.7	0.8
Gross official reservess (months of imports of G&S)	6.2	5.6	5.2	5.1	4.6	4.6	4.6	4.6	4.6
Nominal GDP (billions of Rwandan francs)	1332.9	1563.8	1866.1	2333.1	2737.6	3049.5	3394.9	3775.6	4199.2

Sources : Rwandan authorities; and staff estimates and projections.

[4] This assumption for IDA financing avoids the endogeneity problem in IDA's decision to allocate grants.

Box 1. Macroeconomic Assumptions

Rwanda's real GDP growth is projected to stabilize at about 6 percent for the projection period. This growth rate is 1¾ percentage points lower than the historical trend over the past 4 years (Text Table 1) and assumes that the global slowdown results in lower remittances and slower growth in the construction and tourism sectors and other services. At the same time, subsistence agriculture comprises a large share of the Rwandan economy, which is not strongly integrated into the world economy. In light of the Government's plans to adopt measures to improve agriculture productivity (through improving water management, controlling soil erosion, intensifying the use of fertilizer and seed inputs, integrating livestock development into crop farming, and enhancing extension services), growth in the agriculture sector is projected to be strong over the medium term and is expected to be the driving force of the overall economic growth. Over the long term, measures to facilitate trade and reduce transaction costs as well as investments in infrastructure and human capital are expected to sustain growth in the services and manufacturing sectors. Rwanda is also consulting with donors on an energy sector strategy to systematically address its energy constraints in a sustainable manner. In addition, government is elaborating a strategy to develop vocational education and training, and ensure that the education system is producing the types of graduates that are most needed for employment and growth.

Exports of goods and services are projected to grow at an average rate of about 10 percent in U.S. dollar terms—less than half of the average annual export growth over the past 5 years (23 percent). While the export prices are projected to decline from the high levels of 2008, the growth of export volumes is expected to remain robust, as the government's export promotion strategy takes effect. Export growth in the future is expected to be affected by interventions aimed at increasing yield and value added in the coffee and tea industry through increased utilization of fertilizers, improved harvesting methods and better seed quality. With support from both the EU and the World Bank, investments in road construction should help reduce the costs of transport, as should regional projects through the Nile Basin Initiative and a regional Bank project on transport. Services exports are likely to remain buoyant on account of improved marketing efforts and increased hotel room capacity.

Imports of goods and services are projected to grow by 9 percent on average over the period 2008-28, mostly due to growing demand for capital good imports in the medium term from the private sector, which is partly offset by substantially lower transportation costs because of better infrastructure links both internally and with neighboring countries.

VIII. External Debt Sustainability Analysis

A. Baseline

25. **The external DSA indicates that all Rwanda's debt indicators are below the policy-dependent indicative thresholds.**[5] Rwanda's PV of debt-to-exports ratio is projected to peak at 138 percent in 2021 and decline thereafter (Figure 2). This improvement over the previous DSA results (where the ratio breached the policy dependent threshold in 2018) mainly reflects the improved long-term macroeconomic framework. At the same time, the PV of external debt-to-GDP and the PV of debt-to-revenue ratios remain well below their thresholds throughout the forecast period, while debt service payments continue to be manageable at below 10 percent of exports.

B. Stress Tests

26. **Rwanda's debt dynamics would deteriorate sharply if external financing were delivered on less favorable terms.** A 2 percentage point increase in interest rates on all new borrowing (reflecting borrowing at less concessional terms) starting in 2008 would substantially increase Rwanda's PV of debt-to-exports ratio, which would breach the threshold by 2018 and remain above the threshold until 2025 (Table 3b).[6] This indicates that Rwanda should rely to a large extent on grants to finance its development efforts.

27. **Shocks to the small export base would substantially worsen Rwanda's PV of debt-to-exports ratio.** If exports were to grow at the historical average less one standard deviation in 2009 and 2010 (equivalent to a 20 percent reduction in exports in 2009 relative to the baseline), Rwanda's PV of debt-to-exports ratio would exceed 150 percent from 2010 onward, peaking at over 230 percent in 2019 (Figure 2). This scenario highlights the importance of effective export promotion to set Rwanda on a sustainable debt path.

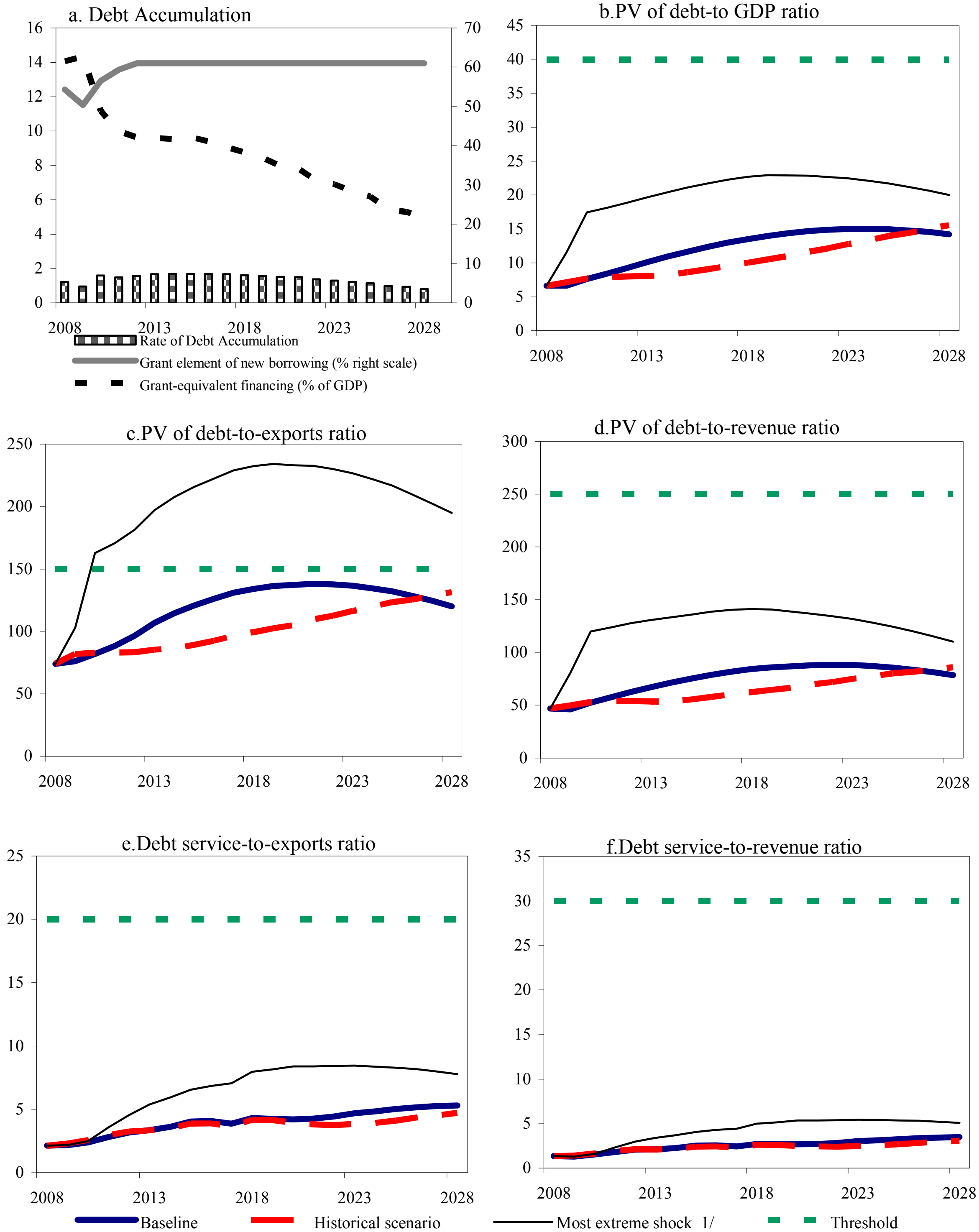
28. **In the historical scenario, the indicators of debt sustainability remain below the policy-based thresholds.** The improvement in the historical scenario as compared to the last DSA largely resulted from changing projections for the private capital flows. The better than expected outcome of 2007 and improved projections for 2008 led to a shift of the path for foreign direct investment and private debt-creating flows over the long term.

---

[5] The World Bank's three-year average CPIA classifies Rwanda as a medium policy performer.

[6] The 2 percent increase in interest rates would be equivalent to lowering the grant element to fewer than 35 percent from 2009 onward (which is below the grant element of 50 percent required under the Rwanda's PRGF).

Figure 2. Rwanda: Public and Publicly Guaranteed External Debt, 2008-28



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In Figure b. it corresponds to a Combination shock; in Figure c. to a Exports shock; in Figure d. to a Combination shock; in Figure e. to a Terms shock and in Figure f to a Terms shock

IX. Public Debt Sustainability Analysis

A. Baseline

29. **Rwanda's public debt burden (including domestic debt) is expected to stabilize over the projection period.**[7] With moderate domestic financing over the long term, the PV of domestic debt is expected to stabilize at about 5 percent of GDP from 2018 onward. This trend is partly offsetting the increase in external debt, so that the PV of total public debt-to-GDP ratio would increase from 15 percent in 2008 and stabilize at about 20 percent in the long term. The debt service-to-revenue ratio would remain below 4 percent (Figure 3).

B. Stress Tests

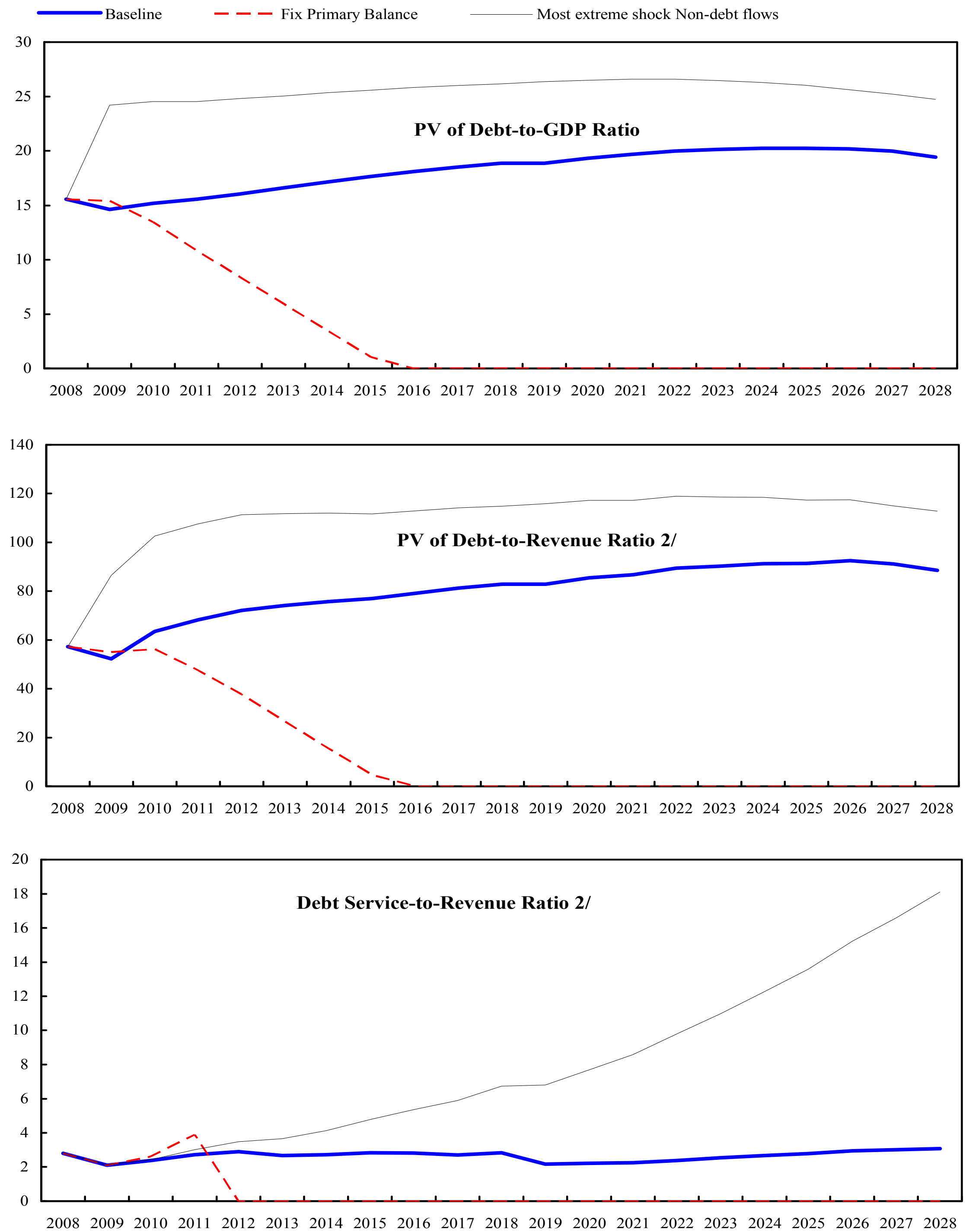
30. **Lower GDP growth would result in much less favorable debt dynamics.** Both growth-related stress tests (assuming growth at the historical average less one standard deviation in 2009-10 and permanently lower growth during 2009-28) imply a substantial worsening in all debt indicators (though all indicators stay below debt burden thresholds). This underscores the importance of selecting and investing only in infrastructure projects with a high rate of return and undertaking structural reforms to set the stage for robust private sector growth.

31. **Debt indicators would worsen under the bounds test, where there is a 10 percent of GDP increase in debt-creating flows in 2009.** The PV of debt-to-GDP ratio would climb to 38 percent by 2028. The PV of debt-to-revenue ratio and debt service-to-revenue ratio would accelerate reaching 104 percent and 27 percent, respectively, in 2011. This scenario demonstrates the impact of contingent liabilities, such as the recapitalization of banks or systematically important private or public sector entities, and highlights the need for appropriately accounting for fiscal risks and maintaining contingency reserve funds for addressing the shocks.

32. **However, the scenario with fixed primary deficit suggests that reining in government spending can significantly improve the debt dynamics.** In this scenario, the primary balance for 2009-28 is assumed to be in a small surplus as projected for 2008 (while the baseline scenario projects a modest primary deficit). This together with the high level of grants received by Rwanda in the baseline scenario implies that the financing need in the scenario is exclusively covered by grants. Over time, this would cause the public debt to decrease.

[7] The DSA excludes contingent liabilities of the pension fund and possible government guarantees for the public power utility Electrogaz, which are not yet quantifiable because projects in the sector are still at an early stage.

Figure 3. Rwanda: Indicators of Public Debt Under Alternative Scenarios, 2008-28



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

1/ The most extreme stress test is the test that yields the highest ratio in 2018.

2/ Revenues are defined inclusive of grants.

X. CONCLUSION

33. **The baseline, alternative scenarios and stress tests confirm that Rwanda faces a moderate risk of debt distress.** Despite reduced risk of debt distress, owing to recent debt relief and favorable debt developments in the last year, exogenous shocks to exports or imprudent borrowing on nonconcessional terms could cause a rapid deterioration in the medium-term outlook. The alternative scenarios and stress tests indicate that debt indicators are highly sensitive to less concessional financing and lower growth, particularly in exports. This indicates that Rwanda should rely on concessional borrowing and grants to finance its development efforts.

34. **The DSA suggests that investment and structural reforms should focus on enhancing private-sector led exports and growth and protecting Rwanda against shocks.** Reducing the cost of doing business, financial sector reform and infrastructure investments will be critical. These efforts, together with measures to promote exports, should not only raise overall growth, but also help improve the business and investment climate, and facilitate a strengthening and diversification of the export base. At the same time, the authorities are committed to reforms to improve expenditure and debt management and raise the revenue-to-GDP ratio for an eventual exit from donor flows.

Table 1a.Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	83.7	28.9	29.4			24.4	22.9	24.5	25.8	27.4	29.1		35.2	34.6	
o/w foreign-currency denominated	70.1	16.8	16.7			15.5	15.1	17.1	18.8	20.8	22.8		30.0	29.6	
Change in public sector debt	-0.1	-54.8	0.5			-5.0	-1.4	1.6	1.3	1.6	1.7		0.8	-0.8	
Identified debt-creating flows	-16.1	-53.9	-3.4			-5.6	-4.0	0.7	1.1	1.1	1.1		0.6	-1.0	
Primary deficit	-1.1	-0.3	0.9	0.8	1.6	-0.2	-1.0	2.4	2.9	3.0	3.1	1.7	3.0	1.5	2.5
Revenue and grants	26.2	24.0	23.4			27.2	28.0	23.9	22.8	22.3	22.4		22.8	21.9	
of which: grants	12.6	10.7	9.9			13.0	13.6	9.4	8.1	7.5	7.4		6.7	3.8	
Primary (noninterest) expenditure	25.0	23.7	24.3			26.9	26.9	26.3	25.7	25.2	25.6		25.8	23.5	
Automatic debt dynamics	-13.7	-12.2	-4.2			-5.2	-2.8	-1.6	-1.7	-1.8	-1.9		-2.4	-2.5	
Contribution from interest rate/growth differential	-7.8	-8.0	-2.9			-3.6	-2.1	-1.5	-1.7	-1.8	-1.9		-2.4	-2.5	
of which: contribution from average real interest rate	-2.2	-2.3	-0.8			-1.3	-0.7	-0.3	-0.3	-0.3	-0.4		-0.5	-0.5	
of which: contribution from real GDP growth	-5.6	-5.7	-2.1			-2.3	-1.4	-1.3	-1.4	-1.5	-1.6		-1.9	-2.0	
Contribution from real exchange rate depreciation	-5.8	-4.1	-1.2			-1.5	-0.7	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-1.3	-41.4	-0.1			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.3	-41.4	-0.1			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	16.0	-0.9	4.0			0.5	2.6	0.9	0.2	0.5	0.5		0.3	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	19.7			15.6	14.6	15.2	15.6	16.1	16.6		18.9	19.4	
o/w foreign-currency denominated	...	...	7.0			6.7	6.7	7.7	8.5	9.4	10.3		13.7	14.4	
o/w external	...	...	7.0			6.7	6.7	7.7	8.5	9.4	10.3		13.7	14.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-0.2	0.6	1.6			0.5	0.1	3.4	4.0	4.1	4.2		4.1	2.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	84.0			57.2	52.3	63.5	68.3	72.1	74.1		82.9	88.6	
PV of public sector debt-to-revenue ratio (in percent)	…	…	145.1			109.9	101.6	104.3	106.1	108.5	110.5		117.5	107.3	
o/w external 3/	…	…	51.8			47.4	46.8	53.1	58.2	63.5	68.3		85.4	79.8	
Debt service-to-revenue and grants ratio (in percent) 4/	3.5	3.8	3.3			2.8	2.1	2.4	2.7	2.9	2.7		2.8	3.1	
Debt service-to-revenue ratio (in percent) 4/	6.8	6.8	5.6			5.4	4.1	3.9	4.2	4.4	4.0		4.0	3.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	54.4	0.3			4.8	0.4	0.8	1.6	1.4	1.5		2.1	2.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.2	7.3	7.9	7.0	2.8	8.5	6.0	6.0	6.0	6.0	6.0	6.4	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	0.3	0.3	1.2	0.6	0.4	1.0	0.9	1.1	0.8	0.8	0.8	0.9	0.8	0.7	0.8
Average real interest rate on domestic debt (in percent)	...	-4.2	-5.4	-4.8	0.8	-10.4	-6.7	-1.8	-1.9	-2.0	-2.4	-4.2	-3.5	-3.7	-3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.7	-6.5	-8.0	1.4	13.3	-10.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.2	9.4	10.5	6.0	8.4	15.3	10.7	5.1	5.0	4.9	4.9	7.7	4.9	4.9	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.1	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	54.3	50.3	56.5	59.4	61.0	61.0	57.1	61.0	61.0	61.0

Sources: Country authorities; and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2a.Rwanda: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	16	15	15	16	16	17	19	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	16	15	14	12	10	4	-1
A2. Primary balance is unchanged from 2008	16	15	13	11	8	6	-6	-18
A3. Permanently lower GDP growth 1/	16	15	16	16	17	18	25	40
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	16	15	16	17	18	19	24	29
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	16	18	19	19	19	20	22	21
B3. Combination of B1-B2 using one half standard deviation shocks	16	17	17	18	18	19	21	23
B4. One-time 30 percent real depreciation in 2009	16	17	17	16	16	16	16	18
B5. 10 percent of GDP increase in other debt-creating flows in 2009	16	24	25	25	25	25	26	25
PV of Debt-to-Revenue Ratio 2/								
Baseline	57	52	63	68	72	74	83	89
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	57	59	64	60	55	47	16	-5
A2. Primary balance is unchanged from 2008	57	55	56	47	38	27	-24	-84
A3. Permanently lower GDP growth 1/	57	53	65	71	77	81	106	177
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	57	54	68	75	81	85	104	129
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	57	64	78	83	86	88	95	97
B3. Combination of B1-B2 using one half standard deviation shocks	57	62	72	77	81	84	94	103
B4. One-time 30 percent real depreciation in 2009	57	61	70	72	73	72	72	83
B5. 10 percent of GDP increase in other debt-creating flows in 2009	57	86	103	108	111	112	115	113
Debt Service-to-Revenue Ratio 2/								
Baseline	2.8	2.1	2.4	2.7	2.9	2.7	2.8	3.1
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2.8	2.1	2.9	6.8	-0.7	-0.8	-10.5	-11.3
A2. Primary balance is unchanged from 2008	2.8	2.1	2.6	3.9	-4.2	-5.9	-19.2	-27.4
A3. Permanently lower GDP growth 1/	2.8	2.1	2.4	3.0	3.5	3.7	6.7	18.1
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	2.8	2.1	2.5	3.6	4.5	4.8	6.7	10.1
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	2.8	2.1	3.4	11.3	4.6	7.8	4.1	4.9
B3. Combination of B1-B2 using one half standard deviation shocks	2.8	2.1	3.2	9.1	2.3	6.6	4.1	5.7
B4. One-time 30 percent real depreciation in 2009	2.8	2.3	2.8	3.4	3.8	3.7	4.8	6.8
B5. 10 percent of GDP increase in other debt-creating flows in 2009	2.8	2.1	5.3	26.9	6.9	16.9	6.2	8.1

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3a.: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 0	Standard Deviation 0	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average
External debt (nominal) 1/	**70.1**	**16.8**	**16.7**			**15.5**	**15.0**	**16.9**	**18.6**	**20.5**	**22.4**		**29.3**	**28.8**	29.3
o/w public and publicly guaranteed (PPG)	70.1	16.8	16.7			15.5	15.0	16.9	18.6	20.5	22.4		29.3	28.8	
Change in external debt	-13.7	-53.3	0.0			-1.3	-0.5	1.9	1.6	1.9	1.9		1.0	-0.8	
Identified net debt-creating flows	-18.2	-10.6	-3.0			-1.0	1.8	3.0	3.3	3.6	3.6		1.7	-0.3	
Non-interest current account deficit	**0.9**	**7.2**	**4.8**	**6.2**	**3.7**	**7.0**	**8.1**	**9.2**	**9.4**	**10.5**	**10.2**		**8.7**	**5.8**	7.9
Deficit in balance of goods and services	16.4	17.8	17.9			20.8	20.6	19.3	19.2	19.2	19.0		17.0	12.0	
Exports	10.2	9.7	9.7			9.0	8.7	9.3	9.5	9.6	9.5	9.3	10.1	11.8	
Imports	26.7	27.5	27.7			29.8	29.3	28.6	28.7	28.9	28.5		27.1	23.9	
Net current transfers (negative = inflow)	-16.5	-11.4	-13.5	-11.7	3.0	-14.2	-12.9	-10.3	-9.9	-8.9	-8.8		-8.2	-5.9	-7.4
o/w official	-14.5	-8.7	-10.6			-10.9	-10.2	-7.6	-6.8	-5.7	-5.7		-4.9	-2.1	
Other current account flows (negative = net inflow)	0.9	0.8	0.3			0.4	0.5	0.2	0.1	0.1	0.0		-0.1	-0.3	
Net FDI (negative = inflow)	**-4.7**	**-7.2**	**-5.1**	**-3.9**	**1.7**	**-7.0**	**-5.7**	**-5.5**	**-5.2**	**-6.0**	**-5.6**		**-5.6**	**-4.7**	-5.3
Endogenous debt dynamics 2/	**-14.3**	**-10.6**	**-2.7**			**-1.0**	**-0.7**	**-0.7**	**-0.8**	**-0.9**	**-1.0**		**-1.4**	**-1.4**	
Contribution from nominal interest rate	0.2	0.2	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.2	
Contribution from real GDP growth	-5.0	-4.3	-1.1			-1.1	-0.8	-0.8	-0.9	-1.0	-1.1		-1.6	-1.6	
Contribution from price and exchange rate changes	-9.6	-6.4	-1.7			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**4.5**	**-42.8**	**3.0**			**-0.3**	**-2.3**	**-1.1**	**-1.7**	**-1.7**	**-1.7**		**-0.8**	**-0.5**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	7.1			6.6	6.6	7.6	8.3	9.1	10.0		13.2	13.8	
In percent of exports	...	...	72.5			73.9	75.8	81.3	87.5	95.0	105.2		131.0	116.9	
PV of PPG external debt	**...**	**...**	**7.1**			**6.6**	**6.6**	**7.6**	**8.3**	**9.1**	**10.0**		**13.2**	**13.8**	
In percent of exports	**...**	**...**	**72.5**			**73.9**	**75.8**	**81.3**	**87.5**	**95.0**	**105.2**		**131.0**	**116.9**	
In percent of government revenues	**...**	**...**	**52.1**			**46.8**	**46.0**	**51.9**	**56.7**	**61.7**	**66.2**		**82.2**	**76.4**	
Debt service-to-exports ratio (in percent)	**5.9**	**3.7**	**3.0**			**2.1**	**2.2**	**2.4**	**2.8**	**3.2**	**3.3**		**4.3**	**5.2**	
PPG debt service-to-exports ratio (in percent)	**5.9**	**3.7**	**3.0**			**2.1**	**2.2**	**2.4**	**2.8**	**3.2**	**3.3**		**4.3**	**5.2**	
PPG debt service-to-revenue ratio (in percent)	**4.5**	**2.7**	**2.2**			**1.3**	**1.3**	**1.5**	**1.8**	**2.0**	**2.1**		**2.7**	**3.4**	
Total gross financing need (Billions of U.S. dollars)	-0.1	0.0	0.0			0.0	0.1	0.2	0.3	0.3	0.3		0.3	0.4	
Non-interest current account deficit that stabilizes debt ratio	14.6	60.5	4.8			8.3	8.6	7.3	7.7	8.6	8.3		7.7	6.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.2	7.3	7.9	7.0	2.8	8.5	6.0	6.0	6.0	6.0	6.0	6.4	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	12.9	10.1	11.6	0.2	10.6	14.7	8.0	2.0	2.0	1.9	1.9	5.1	1.9	1.8	1.9
Effective interest rate (percent) 5/	0.3	0.3	1.2	0.6	0.4	1.0	0.9	1.1	0.8	0.8	0.8	0.9	0.8	0.7	0.8
Growth of exports of G&S (US dollar terms, in percent)	22.5	11.9	20.9	10.3	19.4	14.8	11.2	15.3	10.6	9.0	6.3	11.2	9.8	9.5	9.6
Growth of imports of G&S (US dollar terms, in percent)	24.1	22.0	21.0	7.6	11.2	33.8	12.6	5.7	8.5	8.5	6.5	12.6	6.8	6.8	9.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	54.2	50.0	56.4	59.3	61.0	61.0	57.0	61.0	61.0	61.0
Government revenues (excluding grants, in percent of GDP)	13.5	13.3	13.6			14.2	14.4	14.6	14.7	14.8	15.0		16.1	18.1	16.7
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.4			0.6	0.7	0.7	0.6	0.7	0.7		1.0	1.2	
o/w Grants	0.3	0.3	0.3			0.6	0.7	0.5	0.5	0.5	0.5		0.7	0.8	
o/w Concessional loans	0.1	0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.3	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			14.0	14.3	11.1	9.9	9.6	9.5		8.7	4.9	7.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			94.2	95.2	89.2	89.0	87.8	87.4		87.3	87.6	87.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.4	2.8	3.4			4.2	4.9	5.3	5.7	6.1	6.6		9.7	20.9	
Nominal dollar GDP growth	21.0	18.1	20.4			24.4	14.5	8.1	8.1	8.0	8.0	**11.8**	8.0	8.0	8.0
PV of PPG external debt (in Billions of US dollars)			0.2			0.3	0.3	0.4	0.5	0.6	0.7		1.3	2.9	
(PVt-PVt-1)/GDPt-1 (in percent)						1.2	0.9	1.6	1.4	1.5	1.6	1.4	1.6	0.8	1.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b.Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
PV of debt-to GDP ratio								
Baseline	6.6	6.6	7.6	8.4	9.3	10.1	**13.5**	14.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	6.6	7.2	7.7	7.9	8.0	8.1	**10.0**	15.6
A2. New public sector loans on less favorable terms in 2008-2028 2	6.6	6.7	8.1	9.3	10.4	11.6	**15.9**	16.8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	6.6	6.8	7.9	8.7	9.6	10.5	**14.0**	14.7
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	6.6	7.3	9.8	10.5	11.2	12.0	**15.1**	14.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	6.6	8.0	10.5	11.6	12.7	13.9	**18.6**	19.5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	6.6	10.1	13.1	13.7	14.4	15.1	**17.6**	15.9
B5. Combination of B1-B4 using one-half standard deviation shocks	6.6	11.6	17.5	18.1	18.9	19.7	**22.7**	20.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	6.6	9.2	10.6	11.6	12.8	14.0	**18.7**	19.7
PV of debt-to-exports ratio								
Baseline	74	76	82	88	96	107	**134**	120
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	74	82	83	83	83	85	**99**	131
A2. New public sector loans on less favorable terms in 2008-2028 2	74	77	87	97	109	122	**158**	142
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	74	76	82	88	96	107	**134**	120
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	74	103	163	171	181	197	**232**	195
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	74	76	82	88	96	107	**134**	120
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	74	115	141	144	150	159	**175**	134
B5. Combination of B1-B4 using one-half standard deviation shocks	74	128	192	195	202	213	**231**	173
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	74	76	82	88	96	107	**134**	120
PV of debt-to-revenue ratio								
Baseline	47	46	52	57	63	67	**84**	79
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	47	50	53	54	54	54	**62**	86
A2. New public sector loans on less favorable terms in 2008-2028 2	47	47	56	63	71	77	**99**	93
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	47	47	54	59	65	70	**87**	81
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	47	51	67	71	76	80	**94**	82
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	47	56	72	79	86	92	**116**	108
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	47	70	90	94	97	100	**110**	88
B5. Combination of B1-B4 using one-half standard deviation shocks	47	80	120	124	128	131	**141**	110
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	47	64	72	79	87	93	**117**	109

Table 3b.Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)
(In percent)

				Debt service-to-exports ratio				
Baseline	2.1	2.2	2.4	2.8	3.2	3.3	**4.3**	5.3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	2.1	2.3	2.6	2.9	3.3	3.3	**4.2**	4.7
A2. New public sector loans on less favorable terms in 2008-2028 2	2.1	2.2	2.5	3.6	4.5	5.4	**8.0**	7.8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	2.1	2.2	2.4	2.8	3.2	3.3	**4.3**	5.3
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	2.1	2.6	3.9	4.9	5.4	5.7	**7.0**	8.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	2.1	2.2	2.4	2.8	3.2	3.3	**4.3**	5.3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	2.1	2.2	3.0	3.7	4.0	4.2	**4.9**	6.4
B5. Combination of B1-B4 using one-half standard deviation shocks	2.1	2.4	3.8	5.0	5.3	5.5	**6.3**	8.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	2.1	2.2	2.4	2.8	3.2	3.3	**4.3**	5.3
				Debt service-to-revenue ratio				
Baseline	1.3	1.3	1.5	1.8	2.1	2.1	**2.7**	3.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	1.3	1.4	1.6	1.9	2.1	2.1	**2.6**	3.1
A2. New public sector loans on less favorable terms in 2008-2028 2	1.3	1.3	1.6	2.3	3.0	3.4	**5.0**	5.1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	1.3	1.3	1.6	1.9	2.1	2.2	**2.8**	3.6
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	1.3	1.3	1.6	2.0	2.3	2.3	**2.8**	3.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	1.3	1.6	2.1	2.5	2.8	2.9	**3.7**	4.8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	1.3	1.3	1.9	2.4	2.6	2.6	**3.1**	4.2
B5. Combination of B1-B4 using one-half standard deviation shocks	1.3	1.5	2.4	3.1	3.4	3.4	**3.9**	5.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	1.3	1.8	2.1	2.5	2.8	2.9	**3.7**	4.8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	56	56	56	56	56	56	**56**	56

Source: 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.

Statement by the IMF Staff Representative on Rwanda
January 12, 2009

This statement summarizes developments in Rwanda since the issuance of the staff report. The additional information does not change the thrust of the staff appraisal.

Signs of economic slowdown have emerged. While export growth remained strong up to October 2008, tourism bookings for 2009 have declined and some foreign investors reported difficulties in securing financing for planned FDI projects, confirming the projected deceleration of growth in 2009.

Rising food prices have kept headline inflation above 20 percent. Notwithstanding a significant reduction in retail petrol prices, inflation reached 22.4 percent year-on-year in November. Food prices increased despite a good local harvest, reflecting high demand for agricultural products from the neighboring countries. At the same time, the seasonally adjusted monthly core inflation declined sharply in November, a sign that the underlying inflationary pressures are subsiding.

A shortfall in budgetary grants has occurred, as several donors have recently put their budget assistance on hold. The amount of budgetary support currently on hold is about 0.7 percent of GDP for 2008, and about 0.3 percent of GDP for the first half of 2009. Staff's preliminary assessment suggests that this shortfall can be accommodated within the current program framework.

Elimination of domestic arrears appears to be on track. Preliminary information for mid-December suggests that the stock of domestic arrears accumulated in the third quarter has been repaid, and the end-2008 program target for domestic arrears repayment appeared to be within reach.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/14
FOR IMMEDIATE RELEASE
February 6, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Rwanda

On January 12, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Rwanda.[1]

Background

Over the past decade, Rwanda's economic performance has been strong, backed by sound macroeconomic and structural policies and substantial donor assistance. During this period, real GDP growth has been robust at 7 percent on average and inflation has been generally low. Rising revenues and assistance from international donors created fiscal space to scale up public spending, including on pro-poor initiatives. Rwanda qualified for debt relief under the HIPC Initiative in 2005 and benefited from MDRI in 2006, which significantly reduced its external debt. External position has strengthened with the aid flows, allowing an adequate reserve coverage of imports.

Rwanda is advancing toward the Millennium Development Goals (MDGs). It has made significant progress in achieving the objectives on universal primary education, gender equality and empowering of women, and reducing child mortality. Nonetheless, poverty remains pervasive.

The Rwanda's macroeconomic policies have been supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement, which was approved in June 2006. The program is designed to maintain macroeconomic stability while setting the stage for stronger growth and poverty reduction.

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Policy implementation under the PRGF-supported program in 2008 has been satisfactory. Growth is expected to reach 8.5 percent, reflecting buoyant activity in the agriculture, manufacturing, construction, and services sectors. Nevertheless, inflation accelerated to double digits in the second half of the year, reflecting the impact of international commodity prices and expansion of domestic demand. The fiscal stance was tighter than envisaged in the first half of the year, largely reflecting strong revenue performance. The monetary program also remained broadly in line with the program.

The authorities made good progress in implementing the structural reforms agenda. In particular, in the second half of 2008 the authorities finalized a medium-term action plan for the public financial management reform, the national payments strategy, designed to improve the payments infrastructure and address the development of basic payment services in Rwanda, and the debt management strategy, which sets the limits for external debt accumulation consistent with the medium-term fiscal policy objectives.

Executive Board Assessment

Directors commended the Rwandan authorities for implementing sound macroeconomic policies and important structural reforms over the past years. These policies and reforms helped achieve high economic growth, keep inflation relatively stable, and improve debt sustainability.

Downside risks to the near-term economic outlook have increased because of the global financial crisis and economic slowdown. Also, poverty remains widespread, and social indicators lag behind those of many other African countries, despite high economic growth rates. Over the medium term, Directors emphasized that the main challenge will be to maintain high and broad-based economic growth and reduce persistent poverty, while pursuing macroeconomic stability and debt sustainability.

Directors considered the authorities' macroeconomic policy framework and structural reform agenda to be appropriate for tackling these challenges. They encouraged the authorities to implement cautious fiscal and monetary policies that would ease inflation and possible balance of payments pressures without stifling economic growth. Continued determined implementation of structural reforms will be important to raise investment rates, expand the private sector, deepen the financial sector, and diversify the production and export base.

Directors commended the authorities' prudent fiscal stance, which focuses on priority spending while containing inflationary pressures and keeping debt at a sustainable level. They observed that while Rwanda's revenue collection has improved, it is still relatively low. They encouraged the authorities to monitor revenue developments carefully, and to further enlarge the tax base and strengthen tax administration in order to reduce over time Rwanda's substantial aid dependence. Directors underscored the importance of improving public financial management and, in this regard, welcomed the efforts to improve the institutional framework for formulating and executing the public investment program.

Directors supported a scaling up of public investment in view of Rwanda's substantial development needs. They encouraged the authorities to rely on grants and highly-concessional loans for its financing in order to safeguard debt sustainability gains. In this respect, Directors welcomed the authorities' development of a comprehensive debt management strategy, which sets limits for loans and loan guarantees. They recommended that the debt strategy incorporate the fiscal risks associated with contingent liabilities, particularly those relating to planned public-private partnerships. Directors stressed that the financing of infrastructure projects should be consistent with a well-prioritized medium-term expenditure framework.

Directors noted that domestic demand pressures and higher world food and fuel prices led to an acceleration of inflation in the second half of 2008. Although recent signs of easing core inflation are encouraging, Directors supported the authorities' tight monetary stance to contain the second-round effects of the commodity price shocks. They recommended that steps be taken to raise interest rates to positive levels in real terms. They encouraged efforts to improve liquidity forecasting and management, particularly through better coordination of monetary and fiscal policies.

Directors noted the staff assessment that the real exchange rate of the Rwandan franc is broadly in line with economic fundamentals, although rising inflation led to real appreciation pressures toward the end of 2008. In this context, they welcomed the authorities' commitment to increase nominal exchange rate flexibility and subordinate the foreign currency sales to monetary policy objectives. Directors underscored the importance of structural reforms and of the removal of infrastructure bottlenecks to safeguard Rwanda's external competitiveness.

Directors commended the measures taken in recent years to strengthen the banking sector, including the passage of legislation in October 2008 to counter money laundering and terrorism financing. Noting that credit and operational risks remain high, Directors welcomed the central bank's intention to improve banking regulation and supervision. They looked forward to the timely implementation of the financial sector development plan.

Directors welcomed the authorities' commitment to promote private sector-led diversified growth and employment generation. They supported the reforms to improve the investment climate, and attached high priority to measures aimed at addressing land use and other structural problems that hinder agricultural development. They encouraged further trade integration with the East African Community. Given Rwanda's financing and capacity constraints, Directors underlined the importance of properly calibrating the scope, timing, and pace of reforms.

Rwanda: Selected Economic and Financial Indicators, 2006–09

	2006	2007	2008 Proj.	2009 Proj.
(Annual percentage changes, unless otherwise indicated)				
Output and prices				
Real GDP growth	7.3	7.9	8.5	6.0
Real GDP (per capita)	5.4	5.7	6.2	3.8
GDP deflator	9.4	10.5	15.3	10.7
Consumer prices (end of period)	12.2	6.6	22.0	6.0
External sector				
Export of goods, f.o.b. (in U.S. dollars)	16.9	20.1	25.4	6.2
Imports of goods, f.o.b. (in U.S. dollars)	26.2	30.2	43.9	5.9
Export volume	12.7	6.2	13.0	19.3
Import volume	27.0	31.0	24.0	14.6
Terms of trade (deterioration = -)	4.3	13.7	-4.4	-3.7
Money and credit				
Net domestic assets[1]	1.3	7.3	1.3	14.1
Domestic credit[1]	7.8	9.7	1.3	10.2
Of which: Economy[1]	13.8	11.8	10.8	15.5
Broad money (M2)	31.5	30.8	13.6	17.0
Reserve money	11.9	30.7	22.3	18.0
(Percent of GDP)				
National income accounts				
National savings	4.3	5.4	5.0	5.1
Gross investment	20.4	21.0	23.4	23.5
Government finance				
Total revenue (excluding grants)	13.3	13.6	14.2	14.4
Total expenditure and net lending	24.5	24.9	27.1	27.0
Total expenditure and net lending, excl. privatization	24.5	26.1	27.7	27.0
Primary fiscal balance	-2.1	-3.5	-3.1	-4.5
Domestic fiscal balance	-5.4	-6.1	-6.5	-6.8
Overall balance, after grants	-0.4	-1.5	0.1	0.9
External sector				
External current account balance, including official transfers	-7.4	-4.9	-7.1	-8.2
External debt (end of period)	16.9	16.8	15.4	14.9
Gross reserves (in months of imports of goods and services)	5.6	5.2	5.1	4.6
(Millions of U.S. dollars)				
External debt (end of period)	477.6	574.2	652.8	726.2
Gross official reserves	439.6	552.4	599.0	581.0
Memorandum item:				
Nominal GDP (billions of Rwanda francs)	1,563.8	1,866.1	2,333.1	2,737.6

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

[1] As a percent of the beginning-of-period stock of broad money.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/07
FOR IMMEDIATE RELEASE
January 12, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review under PRGF with Rwanda and Approves US$1.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Rwanda's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 1.14 million (about US$1.7 million), bringing total disbursements under the arrangement to SDR 6.84 million (about US$10.4 million).

The Executive Board also granted a waiver for the nonobservance of a structural performance criterion for end-June 2008 related to publication of the Public Financial Management reform action plan for 2008-10. The action plan was published with a delay in September 2008.

The Executive Board also concluded the 2008 Article IV consultation with Rwanda. Details of the findings will be published in a Public Information Notice.

The three-year PRGF arrangement for Rwanda was approved by the Executive Board in June 2006 (see Press Release No. 06/121) in an amount equivalent to SDR 8.01 million (about US$12.2 million).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"The Rwandan authorities have continued to implement strongly their economic program in 2008. Economic growth accelerated and external public debt sustainability improved. While inflation increased in the second half of the year due to increases in world food and fuel prices and domestic demand pressures, preliminary signs of easing core inflation are encouraging. The medium-term outlook remains favorable, even though risks of contagion from the deteriorating external environment have increased.

"In 2009, the main challenges will be to mitigate the impact of the world economic crisis on the local economy, reduce inflation further and cope with possible balance of payments pressures without jeopardizing economic growth. To this effect, the authorities aim to continue to implement cautious and coordinated fiscal and monetary policies, as well as structural reforms that will help raise investment rates, expand the private sector, deepen the financial sector, and diversify the production and export base. These measures should make it possible for Rwanda to take full advantage of the recent steep decline in world commodity prices to lower inflation.

"The authorities intend to continue to rely mostly on grants and highly concessional borrowing in order to safeguard debt sustainability. Borrowing decisions will be guided by the new debt management strategy and a medium-term public expenditure management framework. Infrastructure projects that are needed to alleviate bottlenecks to private sector growth should be carefully evaluated on a case-by-case basis in terms of their cost effectiveness and impact on the public debt.

"Sustaining high growth and reducing poverty requires that Rwanda accelerate the breadth and pace of structural reforms, while maintaining the focus on improving public service delivery and creating a vibrant private sector. The ongoing and planned reforms in public financial management are encouraging, and will be essential to ensure that public resources are allocated efficiently. Enlarging the local tax base and improving tax administration will be key to increasing revenue collection and reducing aid dependence over time," Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Statement by Laurean Rutayisire, Executive Director for Rwanda
January 12, 2009

My Rwandan authorities would like to thank staff for the constructive discussions held in Kigali relating to the fifth review of the PRGF arrangement and the 2008 Article IV consultation. They would also like to thank the Executive Board and Management for the continued support to Rwanda in its endeavor to pursue the agenda for development and poverty reduction. My authorities broadly share the thrust of the staff report, which well documents the progress made so far in economic management as well as key strategic areas that need further effort to sustain performance.

After more than two years of steady reforms under the current PRGF, Rwanda has consolidated a decade-long performance of macroeconomic stability, and is laying firmer ground for robust growth and debt sustainability. Cognizant of the potential impact of the current global economic slowdown, especially on exports, my authorities have developed strategies to diversify partners and promote exports especially by targeting niche markets. My authorities are also fully aware of the challenges ahead, including promoting job-creating growth especially in agriculture, addressing the infrastructure gap and skilled-labor shortage. The policies laid out in their MEFP for 2009 and for the medium term have been set expressly to address these constraints.

I. Overview of Recent Economic Developments

Rwanda's macroeconomic performance in 2008 has been satisfactory amid many domestic constraints and a gloomy international environment. End-year growth is projected at 8.5 percent owing to buoyant agricultural production, expanding production of manufactured goods, construction, transport, and a more dynamic financial sector. Inflation recently accelerated, reaching 22.4 percent year-on-year in November. In addition to measures implemented to cope with world oil and food price shocks, my authorities are taking actions both on the fiscal and monetary fronts to bring inflation back to single digits.

My authorities have also recorded appreciable performance in the implementation of the PRGF program. All quantitative end-June performance criteria for the fifth review and all but one structural reform measure through end-June 2008 were met. Revenues outperformed throughout the year, owing to taxation of growing imports and faster-than-anticipated growth, but also as a consequence of higher inflation. My authorities are committed to save part of this revenue with the view of making-up the effect of higher spending stemming from financing emergency programs. In the monetary sector, the authorities intend to further tighten policy to tackle inflation with a view to restoring positive real interest rates. As regards structural reforms, my authorities have made important strides that will undoubtedly improve business in many areas. The PFM reform action plan for 2008-10 prepared with development partners is completed and published. In the financial sector, the National Payments Strategy designed to improve the payments infrastructure and address the development of basic payment services in Rwanda is also completed and posted on the website of the NBR. Many other reforms include a new legal framework to combat money laundering and the financing of terrorism, a better organization and supervision of the insurance industry, as well as the reinforcement of the oversight framework for the NBR. With the assistance of the World Bank and the Fund, my authorities have also developed a debt management strategy that was published on the MINECOFIN website.

II. Program 2009 and Medium Term Agenda

My Rwandan authorities' medium-term policies are embedded in the new EDPRS (2008-2012), which, in line with the Rwanda Vision 2020 development plan, focus on removing impediments to private sector-led growth, reducing poverty by improving food security, raising income of the poor especially in rural areas and creating social protection schemes, while preserving macroeconomic stability. The EDPRS key elements are: (i) addressing severe infrastructure bottleneck; (ii) enhancing agricultural productivity, linkages and trade; (iii) removing obstacles to the development of private businesses; (iv) improving the delivery of public services; and (v) mobilizing sustainable financing.

Macroeconomic policies for 2009

The authorities projected real GDP growth at 5.5–6.5 percent for 2009 against 8.5 percent in 2008. Recent developments showed an adverse impact of global slowdown on the tourism and FDI sectors in Rwanda, confirming the projected deceleration of growth. Despite a good local harvest and a significant reduction in retail petrol prices, a high food deficit in the surrounding region introduces some downward rigidity to achieving dramatic price decline from a domestic point of view. Nevertheless, my authorities intend to intensify their efforts in that regard. The international reserves target is set at about 4½ months of imports. Structural policies will broadly focus on improving public financial management, developing the financial sector, and making growth enhancing investments and reforms.

In the area of **fiscal policy,** my authorities' actions for 2009 will be geared towards increasing the revenue to GDP ratio by at least 0.2 percent to finance public investments. Actions will include a monthly monitoring of government cash flow and a set of structural measures, namely: (i) enhancing taxpayer compliance and refining taxpayer segmentation by allocating more companies to the groups of large and medium-sized companies subject to enhanced surveillance; (ii) increasing efficiency of operations and minimizing transaction costs; and (iii) facilitating trade by further refining the operations and eligibility criteria for using the expedited clearance scheme for compliant exporters, which accounted for about two-thirds of imports in September 2008.

My authorities intend to begin implementing their new medium-term strategy for PFM reform. As part of their broader strategy, the PFM action plan for 2009 includes measures in the areas of economic management and budgeting, financial management and reporting, public procurement and budget execution oversight. A broad range of activities will be carried out, such as building capacity for research and macroeconomic modeling, aligning the budget calendar to practices within the East African Community (EAC), clarifying reporting relationships and reporting formats for sub-national government units, introducing the new integrated financial management information system, SmartGov, or adopting the new organizational structure for the Rwanda Public Procurement Authority.

As regards **monetary and exchange rate policies**, my Rwandan authorities will maintain a tight monetary policy in 2009. In that regard, the NBR will continue to monitor inflation, government spending and private sector credit and will stand ready to raise the key repo rate, if needed. To reduce inflation to about 14 percent by mid-2009 and to single digits in the second half of 2009, the NBR will limit reserve money growth (12-month) to 15 percent at end-June and 18 percent at end-2009. It is also the authorities' intention to allow more flexibility in the exchange rate and increase the frequency of adjustments so as to reduce any pressures for appreciation of the franc and to ensure that Rwanda's exports remain competitive.

Medium term policies

In the implementation of their broad development agenda, my authorities, in consultation with development partners, have elaborated a Public Investment Program (PIP), a Financial Sector Development Plan, and a Rural Development Program to promote private sector led growth and create employment over the medium term. They also recently consolidated and realigned the activities of eight government agencies into the Rwanda Development Board (RDB) to eliminate inefficiencies in operations and streamline the bureaucracy in order to advance private sector development initiatives.

The **Public Investment Program** aims at supporting the accelerated delivery of strategic national infrastructure without jeopardizing debt sustainability. Its objectives evolve around aligning public investment and private investment with the long-term development agenda, enhancing efficiency in resources allocation, and the overall coordination of interventions. Particularly, the PIP framework highlights the major public projects that are planned over the course of 2009-2011, their likely costs and criteria for selection. The framework was discussed with development partners, some of whom (particularly DFID and the World Bank) are already providing technical assistance. Regarding infrastructure, the focus of the PIP in 2009 is to address the issue of limited and insufficient energy, continue improving ICT infrastructure, design and execute projects to upgrade key road networks in Kigali and the surroundings.

My authorities consider that public investment should be an engine for private investment, by helping to reduce systematically the operational cost of business, and increasing the private sector's capacity to innovate. The EDPRS targets an average level of public investment of 10% of GDP over 2009-12, whilst private investment will need to rise from 8.6% of GDP to 14.6% of GDP in 2012. The public spending is expected to be financed by a combination of domestic tax and non-tax revenues, external budgetary grants trough budgetary support, external project grants and loans trough project support, and external net borrowing.

In the same vein, my authorities have updated their **Strategic Plan for the Transformation of Agriculture** (PSTA-Phase II) for implementation over the 2009-2012 period. The government views the agricultural sector and animal husbandry as the main springboard for poverty reduction, through its capacity to improve food security, create employment and raise incomes especially for rural populations. The main focuses of the plan are four fold: (i) agriculture intensification and development of sustainable production systems; (ii) support to the professionalisation of producers; (iii) promotion of commodity chains and development of agribusinesses; and (iv) improvement in the institutional capacity of the supporting systems. Within the framework of this strategic plan, my authorities are planning investments to ease pressure on land, especially through crop intensification, reduce soil erosion and increase irrigation systems. Their approach is to implement over the short-term pilot projects in these areas, to help assess viability, before launching larger investment projects that are under preparation for implementation over a three-year period. As for export crops, the strategy is to promote value-added products targeting niche markets for the traditional sectors of coffee, tea and pyrethrum as well as other non-traditional export crops.

As for the **development of the private sector**, my Rwandan authorities are determined to advance their goal of making Rwanda a compelling hub for business and investment. Efforts to build a culture of innovation and entrepreneurship, as well as to improve the delivery of public services, will continue. It is in this regard that eight former government agencies were consolidated into the new Rwanda Development Board (RDB). RDB will drive legal and regulatory reforms to eliminate inefficiencies and streamline the bureaucracy. Furthermore, along with the progress already made in building institutions and process for land registration, steps are being taken to make the Rwanda Commercial and Registry Services operational, with the view to improving business registration, securitization of assets, and registration of property rights. Furthemore, the Rwanda Workforce Development Authority created in January 2008 – will continue to build its capacity and systems to fully spearhead the development of employable skills and entrepreneurship capacity, principally through vocational and on-the-job training, skills regulation and accreditation, labor market information systems and business incubation.

My authorities have also stepped up efforts to implement reforms outlined in their **Financial Sector Development Plan**, with the view to building a sound and dynamic financial sector capable of sustaining private sector activities. Banks have been recapitalized and stability indicators have improved. Actions in 2009 will cover the modernization of the national payments system, the development of long-term finance and capital markets, the development of contractual savings and investments, and the transformation of the Rwanda Housing Bank into a secondary mortgage facility. The government will also continue to work on the reform of the Rwandan Development Bank with a view to enhancing medium term lending. A law on non-bank financial institutions (such as private pensions, mutual funds) should come out in 2009, which will set the basis for the emergence of those institutions, twenty of which already operate informally. As for microfinance, a law passed in April 2008 should be gazetted in 2009.

As regards **debt management**, my authorities are committed to maintain the current favorable situation inherited from debt relief initiatives. Rwanda's debt distress classification has improved from high to moderate. My authorities intend to further improve this stance thanks to the guiding principles of their debt management strategy whose main objective is to ensure that the financing requirements and repayments are met at least cost with prudent risk considerations while keeping debt sustainable. In that regard, authorities have committed themselves to request, whenever possible, the assessment of the economic and financial viability of major agriculture and infrastructure projects from the World Bank before proceeding. The Rwandan authorities also plan to formulate a strategy to exit from aid dependence over the long term, of which increasing revenue-to-GDP ratio forms a key component.

Conclusion

With the continuous support of the donor community, my Rwandan authorities have made great strides on the path of macroeconomic stability and sustained growth. Nevertheless, Rwanda is still facing many impediments that preclude the country from significantly tackling pervasive poverty. My authorities are committed to steadily pursue their effort that yielded appreciable results other the last decade. Their comprehensive agenda going forward, encompassing all sectors is meant to sustain those efforts, especially in the field of infrastructure, PFM, banking and finance and cost of doing business.

In light of their good track record of policy implementation and sound policy agenda for the period ahead, my Rwandan authorities would like to request the support of the Board for the conclusion of the 2008 Article IV consultation, the completion of the fifth review under the PRGF arrangement and waiver of nonobservance of a performance criterion. My authorities are convinced that the policies set forth for the period ahead will help build a broad-based economy capable of bringing about substantial poverty reduction and achieving the remaining MDGs.