January 2012
IMF Country Report No. 12/15

Rwanda: Third Review Under the Policy Support Instrument—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Rwanda.

In the context of the third review under the policy support instrument , the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on October 28, 2011, 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 7, 2011. 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 of December 23, 2011 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its January 9, 2012 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Rwanda.

The documents listed below have been or will be 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.

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RWANDA

Third Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria

Prepared by the African Department
(in consultation with other departments)

Approved by Saul Lizondo and Christian Mumssen

December 7, 2011

IMF relations. The Executive Board completed the second review of the Policy Support Instrument (PSI)-supported program on June 23, 2011.

Discussions. Discussions were held in Kigali October 13–28. The team included Ms. McAuliffe (head), Messrs. Opoku-Afari and Yabara, Ms. Saxena (all AFR), and Mr. Geiregat (SPR). Mr. Gershenson, resident representative, assisted the team. The team met with Minister of Finance and Economic Planning Rwangombwa; Governor of the National Bank of Rwanda Gatete; Deputy Governor Nsanzabaganwa; heads of key government agencies; other officials; and representatives of the private sector, commercial banks, and development partners.

Review. Staff recommends completion of the third review under the PSI, modification of end-December 2011 assessment criteria, setting of end-June 2012 assessment criteria, and approval of additional structural benchmarks for FY2011/12. All end-June 2011 and continuous quantitative assessment criteria were met, and structural benchmarks were partially met—one was met with delay and one was not met.

Outreach. The mission organized a half-day outreach event for members of parliament, cabinet ministers, civil society and donors. As a follow-up to the successful outreach event in 2010, participants appreciated the opportunity to discuss growth in the East African Community (EAC)—and the role of Rwanda—as well as spillovers on Rwanda from recent global economic developments.

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EXECUTIVE SUMMARY

Program performance was broadly satisfactory. All end-June quantitative assessment criteria were met. Structural benchmarks were partially met—one was met with delay and one was not met—as the pace of implementation of structural benchmarks has slowed somewhat either owing to technical difficulties or capacity bottlenecks.

Rwanda's economy in 2011 is poised for high growth—but also high inflation—with elevated risks for 2012. While strong agriculture and exports are driving high real GDP growth, aggregate demand pressures are also building up, increasing underlying inflation that has already pushed up core inflation. Growth is expected to slow in 2012, although risks from an uncertain global economy and further price shocks could bring lower growth and higher inflation.

The authorities have tightened monetary policy to contain inflation. They should remain vigilant and tighten monetary policy further if needed.

Fiscal consolidation in FY2011/12 and FY2012/13 remains on track and is expected to further anchor macroeconomic stability. The authorities have introduced additional revenue measures for FY2012/13 to preserve the revenue objective of the Policy Support Instrument (PSI).

Further capacity-building measures are planned. The effectiveness of monetary policy—namely the implementation of the reserve money program—will be enhanced through (i) improved forecasting of domestic liquidity and (ii) an action plan to develop the interbank money market to allow fully market-determined interest rates consistent with the inflation objective of the National Bank of Rwanda (NBR). Further improvements in national account statistics and Public Financial Management (PFM) are also planned.

Establishment of a transparent and sustainable institutional structure to supervise Savings and Credit Cooperatives (SACCOs) needs to be fast-tracked. The hiring and training of 60 supervisors was an important first step. Given the speed of rolling out SACCOs as full-fledged lending institutions, and the risks involved, it is imperative that the necessary institutional structure is put in place without delay.

Staff recommends the completion of the third review, modification of the assessment criteria for end-December 2011, setting of end-June 2012 assessment criteria, and approval of additional structural benchmarks for FY 2011/12 under the PSI program.

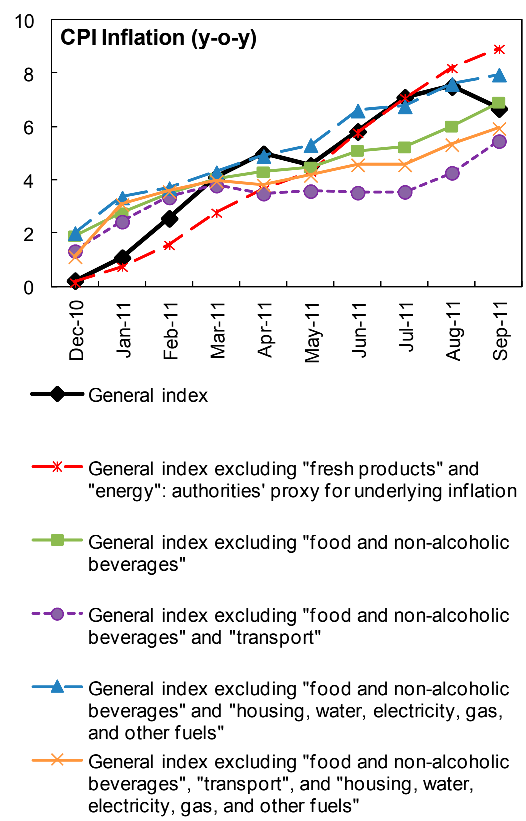
I. Recent Developments and Program performance

1. **Growth has been strong in 2011.** Real GDP growth is expected to reach 8.8 percent for the year, higher than previously expected, and up from 7.5 percent in 2010 (Table 1 and Figure 1). Economic activity was driven mainly by a strong harvest, robust exports, and strong domestic demand supported by an expansion of credit to the private sector (Figure 2).

2. **Inflation has risen rapidly during the year.** Headline inflation increased from 0.2 percent at end-2010 to 7.8 percent in October 2011, partly reflecting higher global food and fuel prices, and is projected to reach 8.7 percent by end-2011. The authorities have responded so far by reducing fuel taxes—starting in July 2011 with a second phase planned for January 2012—bringing forward an already planned measure intended to align Rwanda's fuel taxes with the rest of the region. At the same time, second-round effects of food and fuel prices have become embedded in the inflation process. Core inflation has risen sharply from 0.2 percent at end 2010 to 8.9 percent in October 2011, lately exceeding headline inflation (Box 1).

Box 1. Assessing Underlying Inflationary Pressures on the Basis of Various Measures of Core Inflation

Signs are present of underlying inflationary pressures. Looking at trends in core inflation, which excludes items in the CPI basket such as food and fuel that are considered directly affected by external prices, can provide an early indication of whether overall inflation is driven mainly by external factors, or whether underlying domestic pressures are also at play. In Rwanda, five different measures of core inflation (excluding different food and fuel items in the CPI basket) have all been trending upward since the beginning of 2011—markedly since July. The measure of core inflation the National Bank of Rwanda (NBR) monitors (the CPI excluding fresh products and energy) reached 8.9 percent y-o-y in September 2011, while headline inflation dropped to 6.6 percent. This suggests that second-round effects of rising food and fuel prices have indeed become embedded in the inflation process, and the rising trend in headline inflation this year has not been driven merely by external factors.



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3. **The balance of payment surplus is moderately lower than previously projected, but reserves are at comfortable levels (Table 2).** Exports in 2011 are on track to grow by more than a third compared to 2010 and exceed PSI projections, thanks to sharply higher prices, swift implementation of the mineral certification process,[1] increased fertilizer use in agricultural export crops, and strong informal cross-border exports, while tourism also is rebounding strongly. Imports are also up sharply, however, in part because of higher international prices for food and fuel, strong construction activity, and implementation of large capital projects. The current account deficit is expected to exceed 10 percent of GDP for 2011, while the overall balance is expected to end the year in surplus, thanks in part to inflows to finance large public and private investment projects. International reserve coverage is expected to stay above four months of prospective imports. The exchange rate has remained stable throughout 2011.

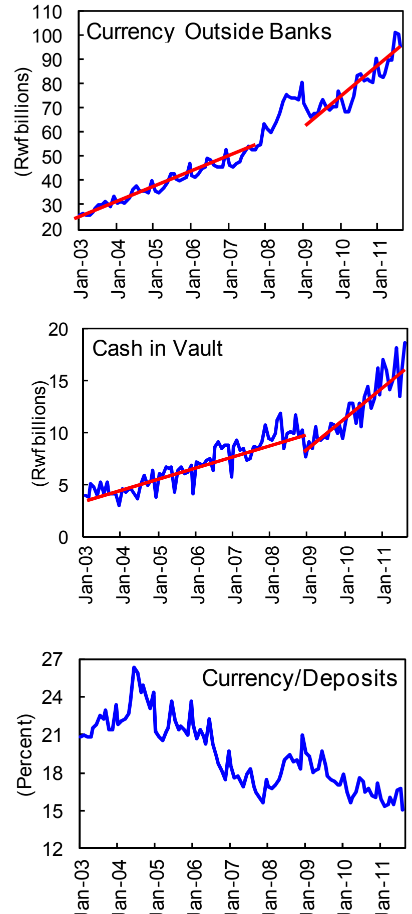
4. **Fiscal performance during the second half of FY 2010/11 (January–June 2011) was strong.** Total revenue (excluding grants) exceeded program levels for the second half of the fiscal year by 0.4 percent of GDP, mainly driven by higher direct taxes and taxes on goods and services. Meanwhile, the stronger revenue performance was offset by higher expenditure and net lending—exceeding targets by about 0.3 percent of GDP—leaving the overall fiscal deficit (excluding grants) for the fiscal year as a whole in line with the program (Table 3 and Figure 3).

5. **Monetary policy in 2011 has been accommodative (Table 4 and Figure 4)**. The NBR has been reluctant to increase interest rates to contain inflationary pressures, as it has been more concerned about supporting economic growth than price stability—viewing inflation as mainly exogenous. At the same time, the authorities have fully accommodated recent large unexpected shifts in currency in circulation—which accounts for the bulk of reserve money—without fully understanding what was driving the shift (Box 2). Meeting the end-June reserve money target—the main anchor of monetary policy—required significant absorption of liquidity which the authorities tried to achieve through repo transactions at unchanged interest rates—on both the policy rate and repo operations with banks. When they could not absorb the required amount of liquidity through repos, the NBR allowed some banks not to meet the mandatory reserve requirement levels—without the required penalties—implicitly reducing the reserve requirement ratio, thereby imparting a further loosening of monetary policy. Since early October, however, the NBR has increased its policy rate (the key repo rate or KRR) on two occasions, by a cumulative 100 basis points—the first increases since November 2010—but the KRR remains negative in real terms and reserve money has continued to exceed programmed levels.

[1] The U.S. Frank-Dodd Act requires U.S.-registered companies that use minerals in their production to exercise due diligence regarding the source and chain of custody of all materials and products used, by way of a formal certification process, to ban the use of "conflict minerals."

Box 2. Determinants of Growth of Currency in Circulation

Currency in circulation, which accounts for some 80 percent of total reserve money, has increased rapidly in recent years. Both currency outside banks and cash in vault in commercial banks have trended upward, especially since 2009. The currency-to-deposit ratio has been declining at the same time, given the ongoing monetization through the banking system.



NBR's liquidity forecasts do not take account of a number of factors that determine demand for currency. These are:

- **Increased economic activity in rural areas and higher coffee prices**. Higher agricultural production, improved quality of export crops, growing agribusiness, and increased government projects have meant the rural population has more opportunities to earn and hold cash. In 2011, a doubling of coffee prices paid to local farmers also sharply increased cash earnings.

- **Growth of branch banking and limited operation of the payment system**. Commercial banks are rapidly expanding branch networks outside the capital to tap into the growing cash pool. Cash in vault in rural branches has risen faster than expected because the payment system is not fully developed across the country.

- **Limited movement in interest rate**. Demand for currency would be lower at higher interest rates due to higher opportunity cost of holding cash balances. However, at unchanged interest rates, NBR accommodated higher demand for currency— emanating from the above factors— thus resulting in faster-than-programmed growth in reserve money which fueled the underlying inflationary pressures.

6. **The financial sector remains sound.** The banking system has remained well capitalized with nonperforming loans declining from 11.3 percent at end-2010 to 9.3 percent at end-September 2011, and profitability

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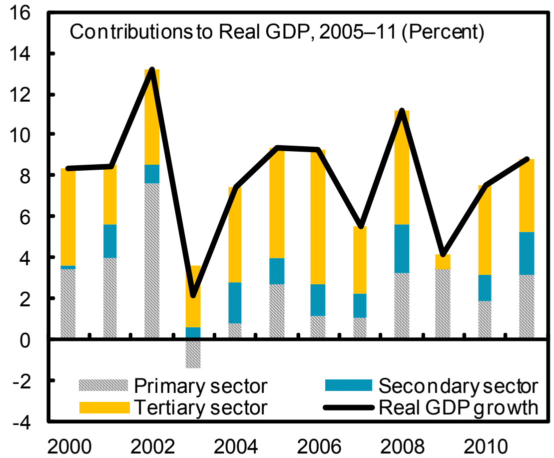
improving (Table 5). The authorities are accelerating financial intermediation in rural areas. Since March 2011, the NBR has licensed 381 of the 416 newly created Savings and Credit Cooperatives (SACCOs) to grant loans. The NBR continued efforts to strengthen its supervisory capacity by hiring and training new supervisors for banks and SACCOs (five bank supervisors and 60 inspectors for SACCOs). They have also introduced Access to Finance Forums at the district level which are forums for local level stakeholders (local government officials, SACCO representatives, consumers) to discuss problems arising from SACCOs. The NBR is also rolling out a nationwide financial sensitization campaign.

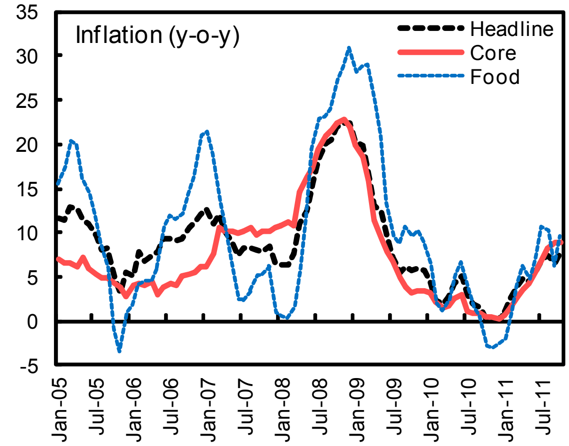
7. **Performance under the PSI remains satisfactory.** All end-June 2011 quantitative assessment criteria were met and structural benchmarks were partially met (MEFP Tables 1 and 2). One structural benchmark (preparation of quarterly budget execution report starting with the third quarter of FY 2010/11) was not met owing to technical difficulties shifting to the GFS 2001 fiscal reporting framework. The first quarterly budget execution report, covering the first quarter of FY2011/12, has since been completed and posted on the Ministry of Finance website as of end-November. The hiring of NBR bank supervisors, planned for end-June 2011, was met with a slight delay. More recently, the authorities have met most structural benchmarks set for September and October, although some delays have continued. The submission to Cabinet of draft legislation to transfer collection and audit functions of social security contributions (pension and RAMA) to the revenue authority (RRA) continues to be delayed (it had been revised from end-May to end-September 2011 in the second review), owing in part to lack of compatibility of IT systems, and is now expected to be completed by end-March 2012. The submission to Cabinet of the Medium-term Debt Strategy (MTDS) has also been delayed to end-December (from end-October) as preparing the strategy has proved more challenging than expected.

Figure 1. Rwanda: Recent Performance

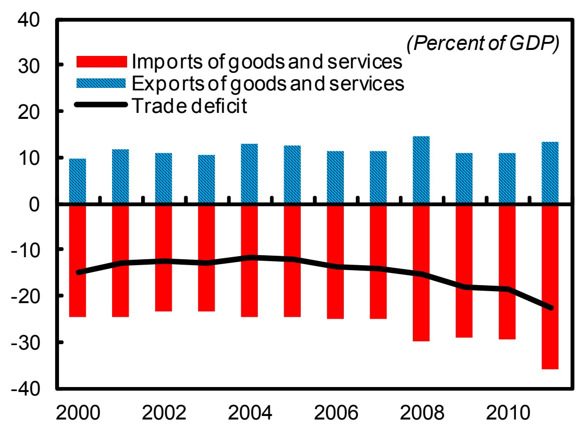
Output growth continues to accelerate in 2011, driven by agriculture and services sectors,...



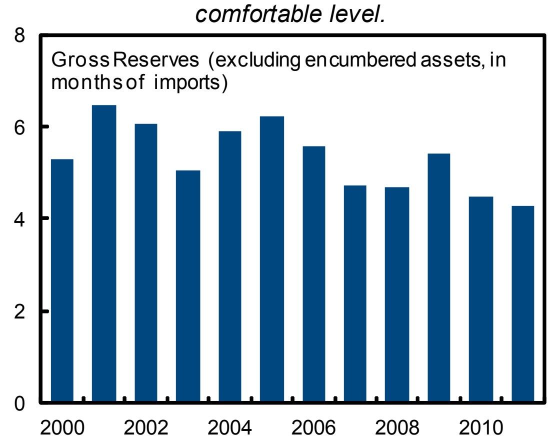
...while inflation rises as second-round effects of recent food and fuel price increases have become embedded in the inflation process.



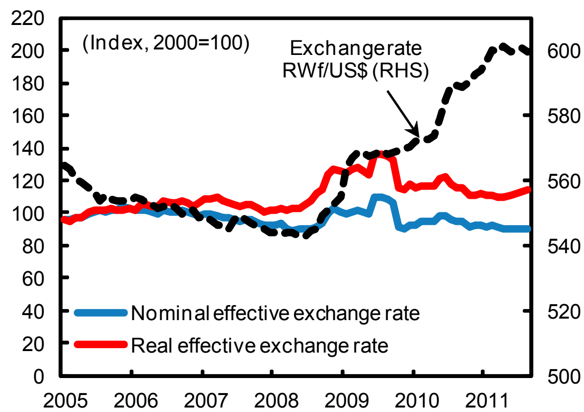
A narrow export base and growing imports have contributed to a large trade deficit.



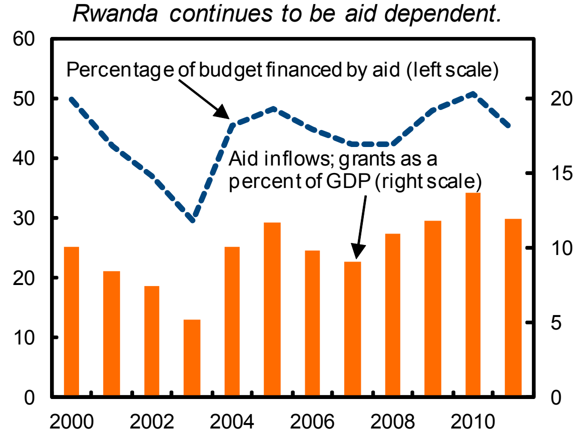
International reserve coverage is expected to decline somewhat but remains at a comfortable level.



The exchange rate has remained stable in 2011.

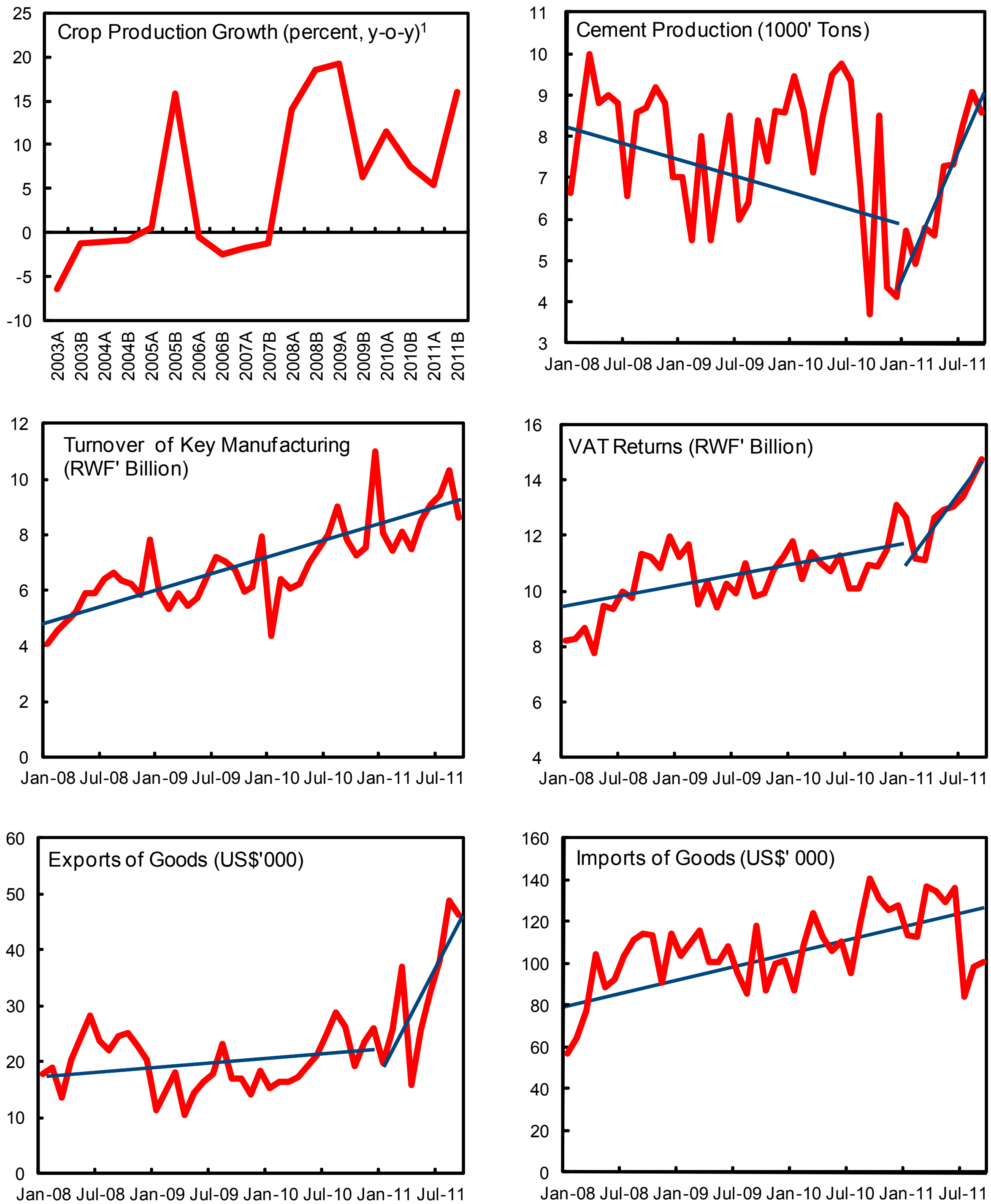


Donor support has remained robust in 2011, albeit Rwanda continues to be aid dependent.



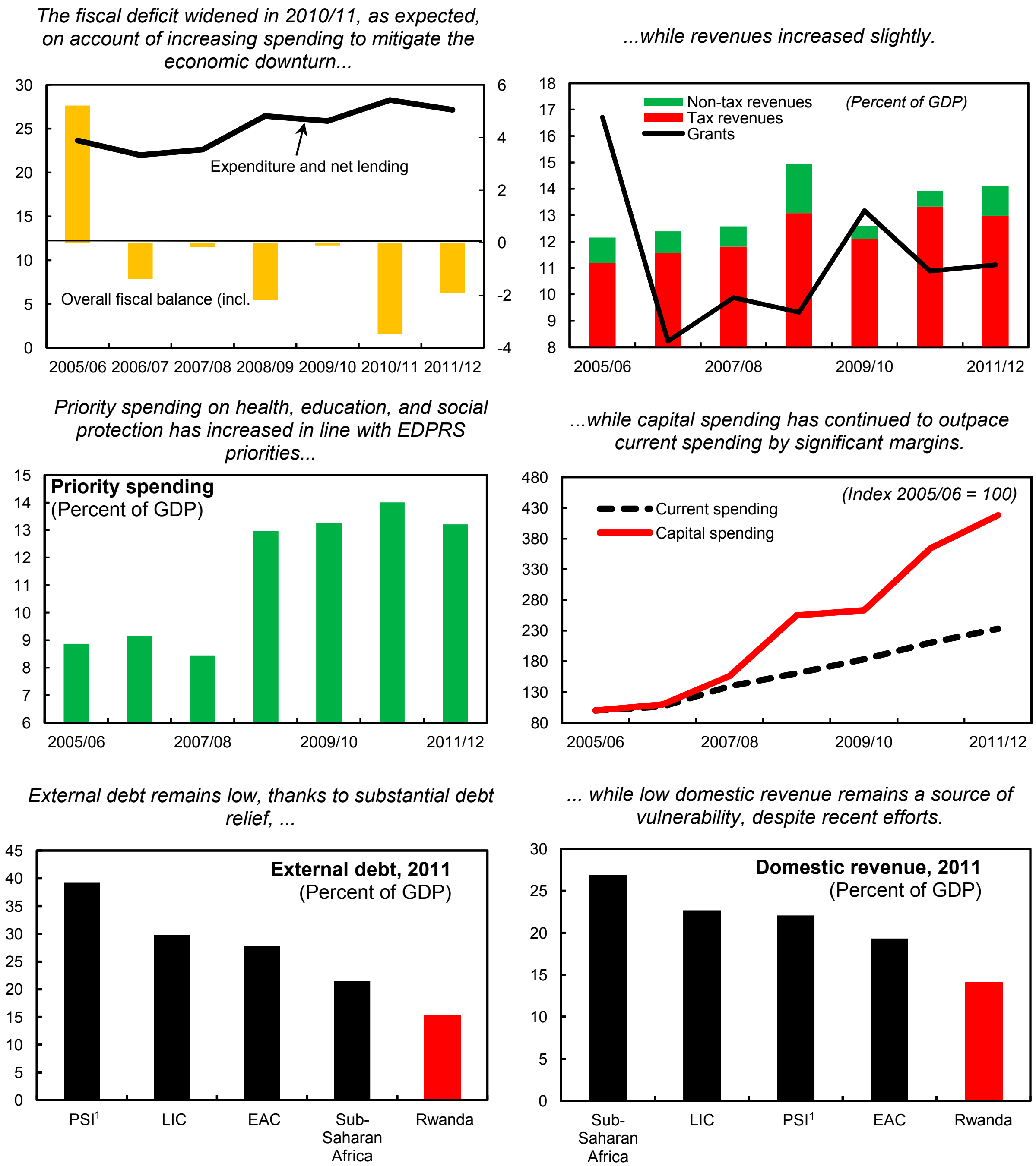
Sources: Rwandan authorities, IMF staff estimates, the IMF, *World Economic Outlook,* and AFR's *Regional Economic Outlook*.

Figure 2. Rwanda: Selected High-Frequency Indicators of Economic Activity, Jan 2008–Sep 2011



Sources: IMF staff and Rwandan authorities estimates.
[1] A denotes Season A (Sep–Jan/Feb) and B denotes Season B (Mar–Jun/Jul).

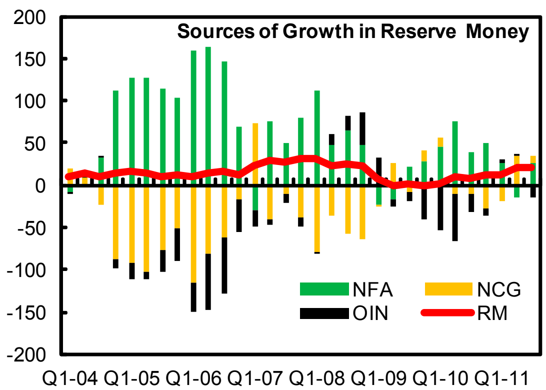
Figure 3. Rwanda: Fiscal Developments, 2005/06–2011/12



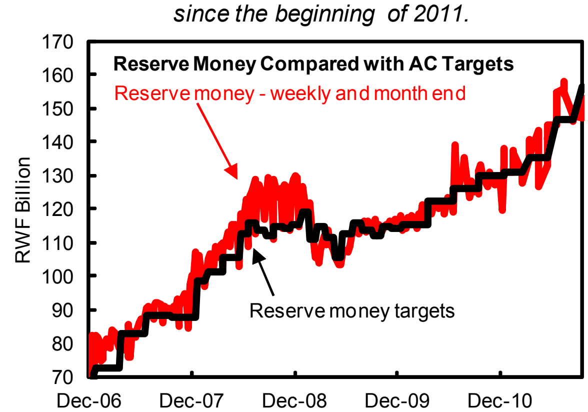
[1] PSI countries are Cape Verde, Mozambique, Senegal, Tanzania, and Uganda.
Sources: IMF staff and Rwandan authorities estimates.

Figure 4. Rwanda: Monetary and Financial Developments

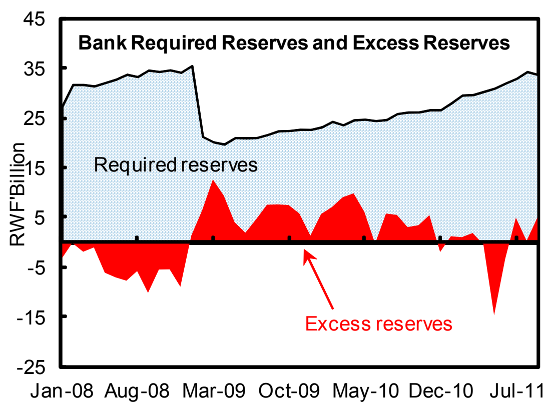
NFA control has improved over the last two years …



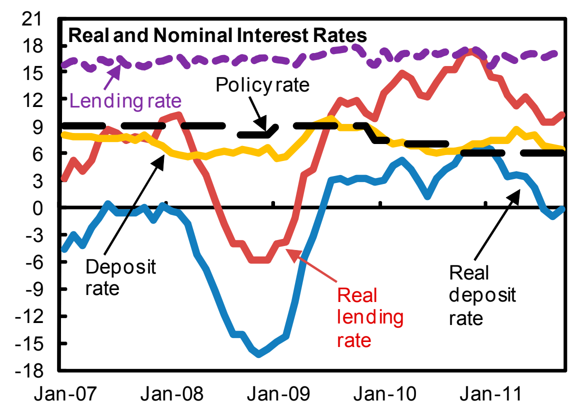
… although the implementation of the reserve money program has become more challenging since the beginning of 2011.



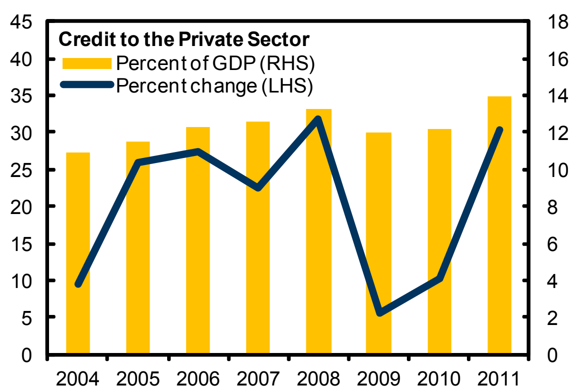
Excess reserves turned negative in May and June 2011, without penalty, as the authorities strived to meet the reserve money target…



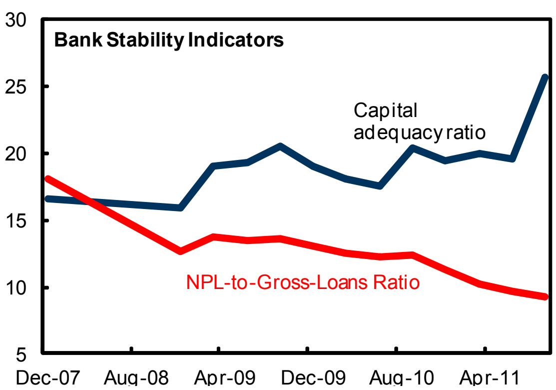
… while rising inflation has reduced real interest rates, making the deposit rate negative in real terms since August 2011.



Credit to the private sector recovered strongly in 2011 …



… and banking stability continues to improve.



Sources: Rwandan authorities and IMF staff estimates.

II. Policy Discussions

A. Overview and Outlook

8. **The medium-term outlook remains positive, although staff's and the authorities' views differ on inflation risks.** Real GDP growth is projected to slow to 7.6 percent in 2012, as planned fiscal consolidation slows aggregate demand (Figure 5 and Text Table 1). Risks are on the downside amid uncertainties about further weakening of the global economy that could lead to a slowdown in export demand (Box 3). Inflation is projected to decline to 7.5 percent in 2012 and is expected to return to the authorities' inflation objective of 5 percent over the medium term. While the authorities saw little inflation risk, and viewed recent inflation as solely exogenous, staff cautioned that the recent trend in core inflation, combined with uncertainties in global food and fuel prices, could further pressure domestic inflation. The balance of payments is expected to be in deficit in the near term, reflecting rising imports from large investment projects. Although lower than recent years, reserve coverage would not fall below three months of prospective imports.

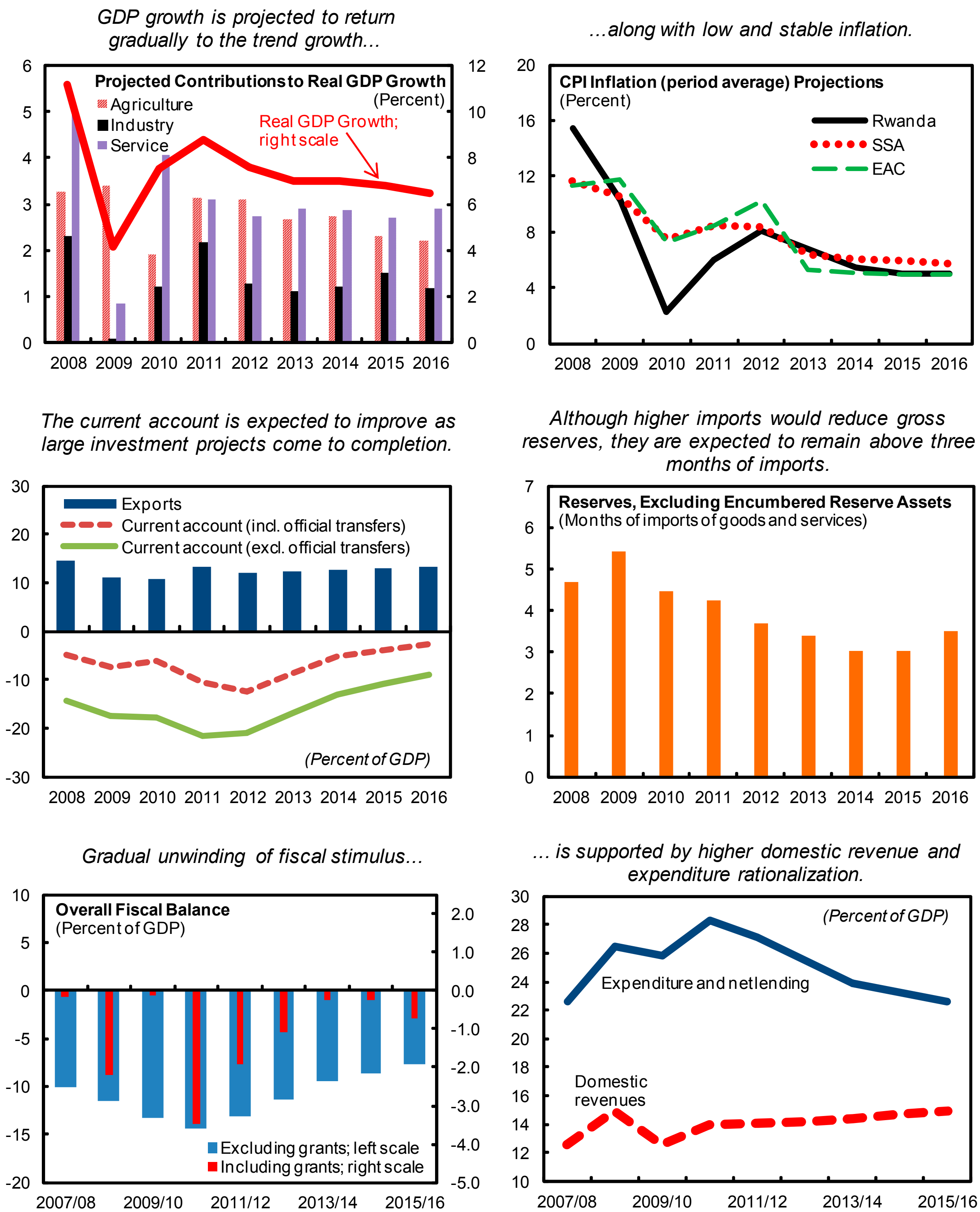
Text Table 1. Rwanda: Medium-Term Framework, 2008–16

	2008	2009	2010	2011 EBS/11/90	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
	(Annual percent changes)									
Real GDP	11.2	4.1	7.5	7.0	8.8	7.6	7.0	7.0	6.8	6.5
Consumer prices (end of period)	22.3	5.7	0.2	7.5	8.7	7.5	6.0	5.0	5.0	5.0
	(Percent of GDP, unless otherwise indicated)									
Revenues[1]	12.6	14.9	12.6	13.7	13.9	14.1	14.2	14.4	14.7	14.9
Grants[1]	9.9	9.3	13.2	10.8	10.9	11.1	10.3	9.2	8.3	6.9
Government expenditure and net lending[1]	22.6	26.4	25.9	28.7	28.3	27.2	25.5	23.9	23.3	22.6
Overall fiscal balance (incl. grants)[1]	-0.2	-2.2	-0.1	-4.2	-3.5	-1.9	-1.1	-0.3	-0.2	-0.7
Overall fiscal balance (excl. grants)	-10.0	-11.5	-13.3	-15.0	-14.4	-13.0	-11.3	-9.5	-8.6	-7.7
Current account balance (incl. official transfers)	-4.9	-7.3	-6.0	-5.2	-10.6	-12.7	-8.9	-5.3	-4.0	-2.7
Gross official reserves (months of imports of G&S)	4.7	5.4	4.5	5.7	4.6	4.2	3.7	3.0	3.0	3.5
Gross reserves excluding encumbered assets (months of imports of G&S)	4.7	5.4	4.5	5.7	4.3	3.7	3.4	3.0	3.0	3.5

[1] On a fiscal-year basis (July–June). For example, the column ending in 2011 refers to FY2010/11 fiscal data. Other data are on a calendar-year basis.

Sources: Rwandan authorities and IMF staff estimates and projections.

Figure 5. Rwanda: Medium-Term Outlook, 2008–16

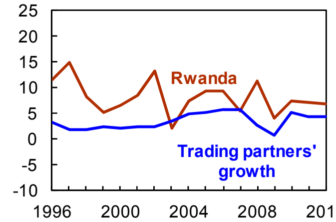


Sources: IMF staff and Rwandan authorities estimates.

Box 3. Possible Spillovers from Adverse Global Economic Developments

Growth in Rwanda has become increasingly dependent on growth in key trading partner countries. Even though Rwanda's financial markets are not well integrated into global markets, its concentrated export base and heavy dependence on foreign aid, leaves the country vulnerable to sharp global downturns, as in 2009.

Rwanda and Trading Partners: Real GDP Growth (Percent)

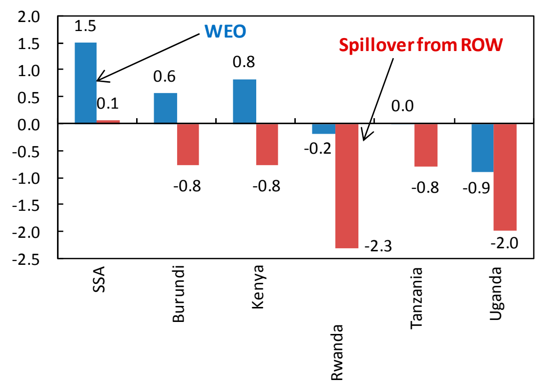


Source: IMF, *World Economic Outlook;* and Drummond and Ramirez.

A sharp downturn in global growth and/or sharp increases in commodity prices could transmit to Rwanda's economy through the following channels: (i) slowdown in global demand for exports; (ii) reduction in foreign direct investments; (iii) slowdown in tourism receipts; (iv) inward remittances; and (v) contraction of the aid envelope.

Estimates show that further downward revision in global growth by one percentage point and maintaining crude oil and commodity prices at January 2011 levels could result in a reduction of 2.3 percentage points in domestic output growth in 2012. This was estimated using a model by Drummond and Ramirez (2009)[1] that relates Rwanda's real growth in domestic output to world growth weighted by trading partner countries, controlling for oil prices, non-oil prices, a measure of global financial stress, and country fixed effects.

EAC and the Spillovers from the Rest of the World (ROW): (Percentage point change in real GDP growth, from 2011 to 2012)

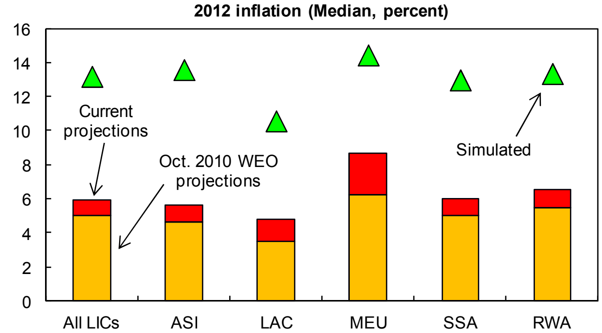


Source: IMF, *World Economic Outlook;* and Drummond and Ramirez.

Rwanda's estimated growth spillover is higher than those of some neighboring countries in the EAC owing to Rwanda's highly concentrated export base and dependence on aid. Kenya and Tanzania had relatively lower spillover thanks to a relatively diversified export base for Kenya and the initial positive shock in metal prices for Tanzania. The estimated spillover for Rwanda and Uganda are about the same because of relatively similar narrow export bases and high dependence on aid; whereas Burundi had a lower spillover owing to its lower integration into the global economy.

Similarly, there are risks to higher inflation in Rwanda in 2012 from possible further spikes in oil and commodity prices compared to the current (September 2011) WEO projections. The potential impact on inflation is simulated using Rwanda-specific pass-through elasticities for crude oil and exchange rate shocks.

2012 inflation (Median, percent)



Sources: the IMF, *World Economic Outlook*, and IMF staff estimates.
Note: Based on an exercise that simulates the impact of higher international food and fuel prices (from the September 2011 WEO) on the October 2010 WEO projections for 2012 for domestic inflation, based on historical pass-through rates.

Appropriate policy responses are needed to contain the impact of these shocks. Export diversification and lower dependence on aid would reduce Rwanda's vulnerability over the medium to long term; and proactive monetary policy could contain any second-round effects from further spikes in commodity and crude oil prices.

[1] Paulo Drummond and Gustavo Ramirez (2009), "Spillovers from the Rest of the World into Sub-Saharan African Countries," IMF Working Paper No. 09/155.

B. Enhancing Revenue Mobilization to Support Fiscal Consolidation

9. **The planned fiscal consolidation for FY2011/12 is on track**. The reduction in fuel taxes in FY 2011/12 results in a permanent and previously unprogrammed loss in revenue (0.4 percent of GDP). For FY2011/12, this shortfall will be more than offset by a one-off non-tax receipt from a new telecom license (0.7 percent of GDP). With expenditure as a share of GDP unchanged from the program, the overall fiscal deficit (including grants) for FY2011/12 is projected to decline to 1.9 percent, in line with the original program, from 3.5 percent of GDP in FY2010/11. There will be a significant decline in net domestic financing owing to higher-than-programmed external borrowing from AFDB, and bilateral donors.

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10. **The authorities agreed to a number of upfront revenue measures for FY2012/13, to preserve the PSI's medium-term revenue targets, and the planned fiscal consolidation.** To stay the course with the domestic revenue targets agreed to under the PSI—in order to reduce dependency on donor aid and create fiscal space for needed development spending—the authorities propose to introduce new measures, including revisions to the investment code to reduce exemptions (structural benchmark) and removal of specially negotiated lower tax rates for priority sectors. These are expected to bolster domestic revenue by some 0.6 percent of GDP, keeping revenue at 14.2 percent of GDP in FY2012/13—with the overall fiscal deficit declining to 1.1 percent of GDP in line with the objectives of the PSI program. The authorities will finalize, by December 2011, a study to broaden the tax base (structural benchmark). This study may include a proposal by the authorities to introduce a flat tax, starting as early as FY2012/13. The mission cautioned that any new tax policy measure should be, at a minimum, revenue neutral.

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C. Enhancing the Monetary Policy Framework and Implementation

11. **Monetary policy has been tightened to contain inflation.** While the authorities considered the current monetary policy stance as appropriate given the economy's development needs and their perceived low risk of further inflation, staff cautioned that rising inflation—and especially underlying inflationary pressures—could slip into double digits and jeopardize gains from short-run growth. In the end, the mission and the authorities agreed to a slowdown in reserve money growth in 2012—17 percent compared with 19.6 percent in 2011—and an inflation target of 7.5 percent for 2012 that strikes a balance between containing inflation and supporting economic growth. Credit to the private sector is projected to grow by 16.6 percent in 2012—almost half the projected level in 2011—in line with projected nominal GDP growth. Going forward, however, more tightening may be needed if the current underlying inflationary pressures continue. The NBR is committed to remain vigilant and use all available instruments, including further changes in the policy rate as and

MEFP ¶41-42

when needed—the second and latest increase in the NBR's policy rate took place at end-November, ahead of the regular December monetary policy committee meeting—to achieve the inflation objective for 2012.

12. **Improving liquidity forecasting is essential to effective implementation of the reserve money program.** With technical assistance (TA) from the IMF's Monetary and Capital Markets Department (MCM), the NBR will put in place a consistent framework to forecast the main components of domestic liquidity (including currency outside banks, cash in vault, and bank reserves)—the main challenge in meeting reserve money targets in 2010 and 2011—as well as extend the forecast horizon (structural benchmark). Improved liquidity forecasts will provide early signals of the need to take proactive measures, including changing the policy rate to address excess demand for liquidity, when there are deviations from the underlying assumptions in the reserve money program. In addition, the NBR will continue to identify indicators to better track changes in short-term aggregate demand to support monetary policy implementation.

MEFP ¶44-45

13. **The implementation of the reserve money program also requires efforts to develop interbank markets (both money and foreign exchange markets).** NBR will finalize a detailed time-bound action plan to further develop the interbank money market, including measures to enhance repo operations to allow interest rates to respond more flexibly to changes in underlying economic fundamentals and NBR's inflation objective (Box 4). Specifically, NBR is committed to intervening at a single point on the short end of the yield curve and allowing interest rates on other maturities to be fully market determined. The action plan should be elaborated by end-February 2012 (structural benchmark) and immediately implemented.

MEFP ¶46

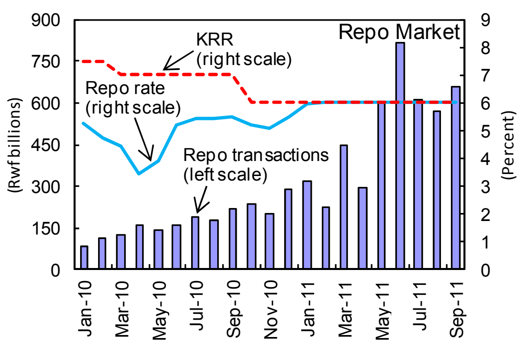
14. **At the same time, the NBR will further enhance foreign exchange market operations under the exchange rate corridor framework.** While the exchange rate corridor framework, put in place with assistance from MCM, has worked well in the past year, exchange rates have been slow to move in line with macroeconomic fundamentals owing to the dominant role of the NBR in the market, both with respect to prices and quantity, which discourages banks from trading among themselves. As a start, within the existing corridor framework, the NBR should gradually shift its intervention method from a price-maker to a price-taker in the foreign exchange market as the intervention rate moves in line with underlying macroeconomic fundamentals. It is expected that further enhancement of the interest rate and exchange rate corridors will improve the effectiveness of monetary policy instruments.

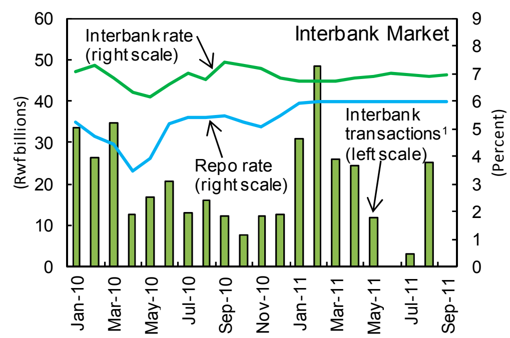
MEFP ¶46

Box 4. Challenges of Developing the Interbank Money Market

Developing an interbank money market, where the National Bank of Rwanda's (NBR's) policy rate is able to steer short-term interest rates in line with market developments, has been a priority since the 2005 Financial Sector Assessment Program (FSAP). The current role of the NBR in the interbank money market corridor, however, hampers the development of an interbank money market and market determination of interest rates.

NBR's main tool of monetary operations is repo transactions with commercial banks. The NBR conducts daily repo auctions (for 1-14 day maturities) to mop up liquidity by soliciting bids and interest rates from commercial banks.[1] The NBR accepts bids until it has mopped up enough liquidity to meet its reserve money target. The repo rate, in turn, provides a signal for interbank transactions within an interest rate corridor—a fixed margin of ±2 percent around the Key Repo Rate (KRR—also the NBR's policy rate). By design, the NBR can revise the width of the corridor and/or the KRR if the interbank rate goes beyond the fixed margin—i.e. the KRR would be responsive to market developments. In practice, however, in its repo operations, NBR does not accept repo bids for any maturity at rates higher than the KRR. As a result, the interest rate corridor has not moved with rising inflation and aggregate demand pressures. Commercial banks have no incentive to do liquidity planning and engage in interbank trading—there were no interbank transactions at all in June and September 2011.





[1] Excluding transactions with the Discount House.

Using the policy rate to steer short-term interest rates in the money market, to respond to fundamental economic developments, should help the NBR implement the reserve money program and develop the interbank market. At present, NBR is trying to simultaneously control both quantity (reserve money) and prices (interest rate). Ultimately, as markets develop depth and liquidity and the NBR is no longer perpetually present at one end of the market, there should be no need for formal bid limits for repo and reverse repo auctions. With deeper horizontal transactions, the NBR would simply monitor the conditions in the interbank market and perform mop-ups and injections when the market-determined interbank rate itself hits corridor limits.

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[1] The NBR also has an instrument of reverse repos for liquidity injection, which rarely has been used.

D. Financial Sector—Next Steps After 2011 FSAP Update

15. **The authorities are developing an action plan to implement recommendations of the 2011 Financial Sector Assessment Program (FSAP) Update and putting in place a formal supervisory structure for SACCOs.** The authorities are expecting technical assistance from the Financial Sector Reform and Strengthening Initiative (FIRST) by the end of 2011 to develop an action plan to implement recommendations of the 2011 FSAP Update. In addition, a consultant is finalizing a report on the sustainability and supervisory options for SACCOs. Building on this report, the authorities intend to create a high-level steering committee and agree on an action plan, by end-march 2012 (structural benchmark), to provide the overall structure for SACCO supervision.

MEFP ¶55

E. Securing Financing in a Challenging Global Financial Environment

16. **The authorities confirmed that they have used US$180 million of the US$240 million (4 ½ percent of GDP) non-concessional borrowing (NCB) ceiling allowed under the program.**[2] This includes a loan from the regional PTA bank (the Eastern and Southern African Trade and Development Bank) for US$60 million signed in June 2011, used to purchase of new airplanes for Rwandair. There was also a loan of US$20 million loan from PTA bank secured in December 2010, and a bridge loan—signed in August 2011—of US$100 million from Citibank, which were used to finance the construction of the Kigali Convention Center. The agreement with Citibank requires the NBR to escrow at Citibank 100 percent of disbursed amounts.[3] The authorities explained that the decision to fully collateralize the bridge loan with foreign reserves was a temporary measure to allow construction to proceed while they continue their search for additional partners in the project. Staff cautioned that the decision to encumber foreign assets sets a worrisome precedent—particularly in the context of significant downside global risks that could impact Rwanda's exports and its availability of foreign currency and given uncertainties as to whether the bridge loan can be replaced quickly with longer-term financing. The program does not envisage similar bridge loans with encumbered reserve assets to finance government projects.

17. **The authorities are proceeding with an ambitious agenda of large investment projects and are exploring various financing options.**[4] They are exploring other sources to

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[2] These are tied to two projects: the Kigali Convention Center and the purchase of a new fleet of airplanes for Rwandair.

[3] For the purposes of the program, as per the technical memorandum of understanding (TMU), encumbered foreign assets are not included in the definition of Net Foreign Assets (NFA) of the central bank.

[4] See Box 2 in the joint IMF-World Bank Debt Sustainability Analysis of June 1, 2010 (a supplement in Country Report No. 10/200) for a discussion of the authorities' large investment projects.

meet the remaining financing needs—within the PSI—including public-private partnerships (PPP) to build a new international airport near the capital, although the plans are still preliminary.

18. **The authorities welcomed the recently approved upgrade to "higher" capacity for non-concessional borrowing (NCB) under the IMF's debt limit policy.** However, they agreed to continue with the current NCB limit under the PSI, at least through the next review, while they gain experience implementing their medium-term debt strategy (MTDS), and conducting their own debt sustainability analysis (DSA) (structural benchmark).

F. Furthering the Structural Reform Agenda to Support Policy Objectives

19. **The quality of national account statistics continues to improve**. The 2011 GDP estimates is based on more accurate statistics of food crop production, thanks to the recently introduced ex-post crop assessment surveys, while the share of GDP estimated by population growth rates has been reduced from 19 to 7.4 percent. Further improvements to national account statistics will come from incorporating the results of the recently completed Establishment Survey 2011, which has been officially published on the National Institute of Statistics Rwanda (NISR) website, and the upcoming Enterprise Survey planned for October 2012 (structural benchmark). The NISR has also strengthened its human capacity by recruiting new staff—90 out of 100 permanent positions at NISR have been filled as of August 2011, including economists for the Economic Statistics department.

MEFP ¶61

20. **PFM reforms are also proceeding.** The authorities are on track to complete the road map for the implementation of the Integrated Financial Management Information Systems (IFMIS) for the full set of fiscal accounts (structural benchmark).

MEFP ¶29-34

III. Risks to the Program

21. **Risks to the program have increased amid growing uncertainties in the global outlook, and rising underlying inflationary pressures.** Further weakening in global economy could lead to a slowdown in export demand. At the same time, difficulties in securing financing for key public investments, or scaling back of donor support—in response to tightened aid envelopes—could also jeopardize growth prospects. Further increases in global food and fuel prices and increased regional demand for Rwanda's food products—as a result of the impact of a more severe drought in the region—could further increase domestic inflationary pressures. Failure to act promptly with proactive monetary policy also risks further inflationary pressures. Additional tax policy measures—to the extent that they result in lower revenue—could jeopardize meeting the program's revenue objectives—a key pillar of the PSI. Although international reserves are expected to remain at comfortable levels, downside risks remain.

IV. Program Issues

22. **Revised quantitative assessment criteria, indicative targets, and structural measures proposed for FY2011/12 are presented in the authorities' MEFP (Attachment I of the Letter of Intent)**. In particular, some quantitative assessment criteria for end-December 2011 established at the time of the second PSI review (Country Report No. 11/164) are proposed to be adjusted to reflect changes in economic conditions. These adjustments include: (i) the net foreign assets (NFA) of the central bank has been lowered to reflect the escrowing of part of foreign reserves and lower donor disbursements than originally projected; (ii) reserve money has been adjusted upward to account for higher-than-originally-programmed increase in demand for currency and the expected upgrading of two large microfinance institutions to commercial banks; and (iii) net domestic financing (NDF) has been adjusted downward to reflect higher-than-originally-programmed external borrowing (MEFP Table 1).

23. **The technical memorandum of understanding (TMU) has been updated to accommodate some changes and modifications to the assessment criteria for end-December 2011 relative to the last staff report (Country Report No. 11/164).** Specifically, an adjuster has been introduced to the assessment of the NFA target to reflect the escrow of central bank foreign assets.

24. **Structural conditionality continues to support capacity building in key macrocritical areas.** In addition to the structural benchmarks already agreed to for 2011/12 at the time of the second PSI review, staff and the authorities agreed to additional measures in tax policy, the monetary policy framework, public financial management and national accounts statistics (Text Table 2).

Text Table 2. Rwanda: Additional Structural Benchmarks for 2011–12

Policy Measure	Target Date	Macroeconomic Rationale
Public financial management (PFM)		
1. Complete the road map for implementation of the IFMIS for a full set of fiscal accounts	End-March 2012	To improve budget preparation, implementation, and reporting.
Revenue measures		
2. Submit to Cabinet revised investment code with a view to streamlining exemptions	End-June 2012	To improve revenue performance.
Monetary policy		
3. Put in place a consistent framework to forecast the main components of domestic liquidity (including currency outside banks, cash in vault, and bank reserves) and extend the forecasting horizon to 2–4 weeks (to be updated weekly) and 3–6 months (to be updated monthly)	End-February 2012	To improve the implementation of monetary policy.
4. Finalize a detailed time-bound action plan to further develop the interbank money market, including enhancing repo operations and allowing fully market-determined interest rates	End-February 2012	To allow fully market-determined interest rates and strengthen the signaling role of the policy rate (Key Repo Rate).
Financial sector		
5. Agree on the action plan for overall structure of the SACCOs and their supervision	End-March 2012	To expedite supervision of the Umurenge SACCOs.
Statistics		
6. Complete the Enterprise Survey	End-October 2012	To improve measurement of GDP.

V. Staff Appraisal

25. **Program performance was broadly satisfactory**. All end-June quantitative assessment criteria were met and structural benchmarks were partially met—one structural benchmark (preparation of a quarterly budget execution report) was not met owing to technical difficulties in shifting to the GFS 2001 fiscal reporting framework, and another (hiring bank supervisors) was met with a slight delay. More recently, submission to Cabinet of the MTDS has been delayed until end-December (from end-October), and the submission to Cabinet of the draft legislation to transfer collection and audit functions of social security contributions to RRA has been delayed until March 2012 (from September 2011) owing to ongoing difficulties of compatibility of information technology (IT) systems.

26. **Stepped-up efforts are needed to implement structural measures in a timely manner.** The authorities remain committed to implementation of structural measures, but further delays could postpone the anticipated macroeconomic gains.

27. **Rwanda's economy in 2011 is poised for higher growth but also higher inflation.** While a strong harvest and solid export performance are contributing to high real GDP growth, aggregate demand pressures are building up, increasing underlying inflationary pressures that have already led to rising core inflation.

28. **Uncertainties about further weakening of the global economy could jeopardize the growth momentum.** Further weakening of the global economy could lead to a slowdown in demand for Rwanda's exports. Meanwhile, scaling back of donor support—in response to the weakening global economy—remains a potential risk.

29. **Monetary policy should be proactive to contain inflation and prevent the erosion of recent gains in macroeconomic stability**. While staff recognizes the authorities' concern for achieving high growth given the development needs, this should be achieved in the context of price stability in order to protect gains made so far. Going forward, the balance of risks to inflation is on the upside. Staff welcomes the authorities' commitment in the program to tightening monetary policy, and underscores the need to remain vigilant and take preemptive action if needed.

30. **The fiscal program for FY2011/12 remains appropriate but greater effort is needed to stay the course with the PSI's domestic revenue objectives.** Staff welcomes the authorities' commitment to introducing additional revenue measures in FY2012/13 to begin closing the gap created by the recent permanent reduction in fuel taxes. The authorities should avoid embarking on tax policy reforms that would endanger the revenue objective of the PSI. In particular, possible implementation of a flat tax for FY2012/13 should be at least revenue neutral. This would also support fiscal consolidation as agreed under the PSI program.

31. **Staff welcomes the authorities' commitment to enhancing liquidity forecasting to support the reserve money program.** Staff welcomes the authorities' decision to finalize an action plan to further develop the interbank money market. The plan would enhance NBR's repo operations by allowing interest rates to respond more flexibly to changes in underlying economic fundamentals and NBR's inflation objective. Foreign exchange sales should be used to support the reserve money program. NBR is therefore encouraged to allow the intervention rate in the foreign exchange market to move in line with underlying macroeconomic fundamentals and the inflation objective.

32. **Establishment of a transparent and sustainable institutional structure for the supervision of SACCOs should be fast-tracked.** The hiring and training of 60 new inspectors for SACCOs is a step in the right direction, but there is a need for fast-tracked establishment of a transparent and sustainable institutional structure for the supervision of SACCOs now that more than 80 percent of the SACCOs have been given provisional licenses to collect deposits and lend. Given the speed of SACCO's implementation and the risks involved, it is imperative that the necessary institutional structure be in place without delay.

33. **While staff understands the need to advance the investment agenda uninterrupted, it is not prudent to use the central bank's foreign assets as collateral for external borrowing.** Staff notes significant risks in the global environment which could adversely impact Rwanda's exports and central bank balance sheet. Going forward, it will be important to secure financing upfront in the planning phase of investment projects and avoid any further encumbering of central bank's foreign assets.

34. **Staff agrees with the authorities' decision to delay implementation of the move towards greater flexibility in non-concessional borrowing following the recent upgrade of Rwanda's capacity for macroeconomic and public finance management from low to high under the Fund's debt limit policy.** The decision would give the authorities time to assess the pros and cons of the flexibility while gaining experience in implementing their new MTDS and conducting their own DSA.

Staff recommends completion of the third review, modification of the assessment criteria for end-December 2011, setting of end-June 2012 assessment criteria, and approval of additional structural benchmarks for FY 2011/12 under the PSI program based on Rwanda's continued strong performance and commitment to the program.

Table 1. Rwanda: Selected Economic and Financial Indicators, 2008–16

			Est.	Prog.	Proj.	Prog.	Proj.				
	2008	2009	2010	2011	2011	2012	2012	2013	2014	2015	2016
	(Percent changes; unless otherwise indicated)										
Output and prices											
Real GDP growth	11.2	4.1	7.5	7.0	8.8	6.8	7.6	7.0	7.0	6.8	6.5
Real GDP (per capita)	8.9	2.0	5.3	4.8	6.6	4.6	5.4	4.8	4.8	4.6	4.3
GDP deflator	12.6	11.0	2.1	4.7	4.8	6.1	7.7	6.0	4.9	4.6	4.5
Consumer prices (period average)	15.4	10.3	2.3	3.9	6.0	6.5	8.1	6.8	5.5	5.0	5.0
Consumer prices (end of period)	22.3	5.7	0.2	7.5	8.7	5.5	7.5	6.0	5.0	5.0	5.0
External sector											
Export of goods, f.o.b (in U.S. dollars)	51.4	-12.2	26.5	26.3	36.1	9.5	4.2	7.7	9.2	3.7	10.2
Imports of goods, f.o.b (in U.S. dollars)	51.5	13.5	8.5	29.2	45.4	-4.5	4.9	-3.6	-5.0	-2.2	3.0
Export volume	21.8	-20.0	11.6	5.6	9.2	12.9	9.0	9.2	12.6	9.2	11.2
Import volume	6.4	7.4	3.8	14.6	32.0	0.4	4.8	-2.8	-4.4	-0.7	2.6
Terms of trade (deterioration = -)	-12.8	3.8	8.5	6.1	13.1	2.0	-4.5	-0.6	-2.4	-3.7	-1.2
Money and credit[1]											
Net domestic assets[2]	10.3	4.9	2.2	7.0	11.4	19.1	25.7	23.2	20.2	11.6	4.9
Domestic credit[2]	20.5	3.8	9.4	4.7	10.8	23.1	24.1	24.3	20.7	12.0	5.3
Government[2]	-18.1	0.2	2.4	-7.9	-8.9	16.2	12.5	0.0	0.0	0.0	0.0
Economy[2]	38.6	3.6	7.0	12.6	19.7	6.9	11.6	24.3	20.7	12.0	5.3
Broad money (M2)	24.2	13.1	16.9	16.0	19.6	15.3	17.0	14.4	13.2	12.7	12.3
Reserve money[3]	23.5	0.3	12.5	16.0	19.6	15.3	17.0	14.4	13.2	12.7	12.3
Velocity (GDP/M2; end of period)	5.5	5.6	5.3	5.1	5.0	5.0	5.0	4.9	4.9	4.9	4.8
	(Percent of GDP)										
National income accounts											
National savings	9.1	5.1	4.2	7.0	3.8	7.7	4.3	6.8	9.6	12.0	13.8
Gross investment	23.5	22.4	21.9	25.1	25.3	23.3	25.1	23.6	22.7	22.7	22.6
Of which: private (including public enterprises)	13.1	12.4	10.9	11.1	12.0	11.4	13.6	13.9	14.2	14.5	14.8
Government finance[4]											
Total revenue (excl. grants)	12.6	14.9	12.6	13.7	13.9	13.9	14.1	14.2	14.4	14.7	14.9
Total expenditure and net lending	22.6	26.4	25.9	28.7	28.3	27.4	27.2	25.5	23.9	23.3	22.6
Capital expenditure	8.2	11.1	10.2	13.1	12.6	13.0	12.6	10.7	8.7	8.4	8.0
Current expenditure	15.1	14.5	14.8	14.9	15.1	14.4	14.6	14.3	14.7	14.4	14.4
Primary fiscal balance[5]	-3.3	-2.2	-5.2	-5.2	-5.1	-4.6	-4.4	-3.6	-4.2	-3.8	-3.3
Domestic fiscal balance[6]	-5.6	-5.3	-8.1	-8.1	-7.9	-6.7	-6.4	-5.8	-6.3	-5.7	-5.0
Overall fiscal balance (payment order)											
After grants	-0.2	-2.2	-0.1	-4.2	-3.5	-1.8	-1.9	-1.1	-0.3	-0.2	-0.7
Before grants	-10.0	-11.5	-13.3	-15.0	-14.4	-13.5	-13.0	-11.3	-9.5	-8.6	-7.7
External sector											
External current account balance											
Including official transfers	-4.9	-7.3	-6.0	-5.2	-10.6	-9.1	-12.7	-8.9	-5.3	-4.0	-2.7
Excluding official transfers	-14.4	-17.3	-17.7	-18.1	-21.7	-15.7	-21.4	-17.4	-13.5	-10.9	-9.1
External debt (end of period)	14.8	14.8	14.9	17.7	18.5	19.2	19.1	20.4	18.5	17.3	16.4
Net present value of external debt											
(percent of exports of goods and services)	…	…	101.1	98.1	100.5	108.7	118.9	132.5	114.9	104.9	94.8
Scheduled debt service ratio											
(percent of exports of goods and services)	2.1	2.6	3.4	5.7	5.6	5.0	5.7	7.5	9.3	10.4	9.4
Gross reserves (months of imports of goods and services)[7]	4.7	5.4	4.5	5.7	4.6	5.3	4.2	3.7	3.0	3.0	3.5
Gross reserves excluding encumbered assets											
(months of imports of goods and services)[7]				5.7	4.3	5.3	3.7	3.4	3.0	3.0	3.5
	(Millions of U.S. Dollars)										
Gross reserves	596.4	742.2	814.2	899.2	894.2	847.6	786.6	651.9	534.6	552.5	705.4
Memorandum item:											
Nominal GDP (billions of Rwanda francs)	2,565	2,964	3,253	3,643	3,709	4,128	4,300	4,878	5,475	6,116	6,806

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

[1] Projections are based on the program exchange rate of RwF per US dollar of RWF571.24 for 2010 and RWF594.45 thereafter.

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

[3] 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.

[4] On a fiscal-year basis (July–June). For example, the column ending in 2011 refers to FY2010/11.

[5] Revenue excluding grants minus current expenditure except interest due and exceptional expenditure (AU peacekeeping expenditures and spending on demobilizing and integrating 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] Data from 2009 onward includes SDR allocation.

Table 2. Rwanda: Balance of Payments, 2007–16
(Millions of U.S. dollars, unless otherwise indicated)

	2007	2008	2009	2010	2011		2012		2013	2014	2015	2016
	Est.	Est.	Est.	Est.	Country Report No. 11/164	Proj.	Country Report No. 11/164	Proj.	Proj.	Proj.	Proj.	Proj.
Exports (f.o.b.),[1] *of which:*	176.8	267.7	235.0	297.3	375.6	404.4	411.4	421.4	453.7	495.5	513.8	566.4
Coffee and tea	67.2	92.0	85.6	111.8	138.9	137.0	150.1	149.0	150.7	162.7	147.0	157.2
Minerals	70.6	91.7	55.4	67.9	102.2	117.6	117.8	118.4	137.9	156.2	174.5	200.8
Imports (f.o.b.), *of which:*	581.2	880.7	999.2	1,084.0	1,400.5	1,575.7	1,336.9	1,653.6	1,593.6	1,514.4	1,481.3	1,525.6
Capital goods	152.7	275.5	283.9	268.2	408.7	477.8	369.7	499.4	488.3	428.7	392.5	406.9
Energy goods	87.2	121.1	135.7	158.2	231.8	234.1	248.1	244.0	258.1	263.6	271.5	279.2
Trade balance	-404.4	-613.0	-764.2	-786.7	-1,024.9	-1,171.3	-925.6	-1,232.2	-1,139.8	-1,018.9	-967.5	-959.2
Services (net)[2]	-123.2	-100.6	-181.6	-246.2	-135.0	-209.7	-134.1	-265.1	-177.4	-97.9	-39.6	22.0
Of which: tourism receipts	151.6	186.0	174.5	201.6	233.9	251.0	269.0	276.1	317.5	365.1	419.9	482.9
Income	-17.2	-35.1	-36.8	-45.9	-60.3	-50.1	-78.1	-62.0	-83.9	-98.8	-103.3	-96.8
Of which: interest on public debt[3]	-6.2	-6.9	-7.3	-9.6	-11.6	-12.0	-15.4	-16.0	-19.7	-31.1	-33.9	-31.2
Current transfers (net)[4]	461.3	518.6	600.0	745.4	911.8	789.7	549.6	723.5	765.9	802.1	775.1	784.5
Private	98.8	72.6	79.7	90.7	141.2	120.4	123.9	142.7	156.0	170.9	188.9	207.8
Of which: remittance inflows	98.5	63.3	88.1	98.2	103.1	140.3	111.4	145.9	159.0	170.8	185.0	199.9
Public	362.5	446.0	520.3	654.7	770.6	669.3	425.7	580.8	609.9	631.2	586.2	576.8
Of which: HIPC grants	4.5	5.6	5.2	4.5	4.5	4.6	4.9	5.0	5.3	5.5	5.5	5.4
Current account balance (incl. official transfers)	-83.4	-230.1	-382.7	-333.5	-308.5	-641.4	-588.2	-835.8	-635.1	-413.5	-335.3	-249.4
Current account balance (excl. official transfers)	-445.9	-676.1	-902.9	-988.1	-1,079.0	-1,310.7	-1,013.9	-1,416.6	-1,245.1	-1,044.8	-921.4	-826.2
Capital account	92.0	210.1	200.0	197.6	99.5	174.1	225.2	189.1	227.3	178.0	172.6	167.6
Project grants	92.0	210.1	200.0	197.6	99.5	174.1	225.2	189.1	227.3	178.0	172.6	167.6
Financial account	104.7	106.1	327.5	246.3	294.6	547.9	312.5	540.2	275.0	120.8	183.6	237.3
Direct investment	82.3	103.4	118.7	42.3	88.1	60.0	66.2	150.0	78.5	101.2	131.5	163.4
Public sector capital	80.4	104.8	182.1	99.0	181.7	419.3	195.9	279.4	153.6	-1.9	22.4	37.5
Long-term borrowing[5]	88.7	112.2	88.8	110.1	212.5	450.2	222.2	325.2	232.0	89.4	87.5	109.2
Scheduled amortization[6]	-8.3	-7.5	-7.5	-11.1	-30.8	-31.0	-26.3	-45.8	-78.4	-91.3	-65.0	-71.7
SDR allocation			100.7									
Other capital[7]	-58.0	-102.0	26.8	104.9	24.7	68.7	50.4	110.8	42.9	21.6	29.6	36.3
Capital and financial account balance	196.7	316.1	527.5	443.9	394.1	722.1	537.7	729.3	502.3	298.8	356.2	404.8
Errors and omissions	-5.4	-21.3	0.0	-38.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	107.9	64.7	144.8	72.0	85.6	80.7	-50.5	-106.5	-132.9	-114.8	20.9	155.4
Financing	-107.9	-64.7	-144.8	-72.0	-85.6	-80.7	50.5	106.5	132.9	114.8	-20.9	-155.4
Change in net foreign assets of NBR (increase -)	-107.9	-64.7	-144.8	-72.0	-85.6	-80.7	50.5	106.5	132.9	114.8	-20.9	-155.4
Net credit from the Fund	3.5	3.6	3.6	-0.1	-0.6	-0.6	-1.1	-1.1	-1.8	-2.5	-3.0	-2.4
Disbursements/purchases	3.5	3.6	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments/repurchases	0.0	0.0	0.0	-0.1	-0.6	-0.6	-1.1	-1.1	-1.8	-2.5	-3.0	-2.4
Change in other gross official reserves (increase -)	-112.7	-44.1	-145.8	-71.9	-85.0	-80.0	51.5	107.6	134.7	117.3	-17.9	-152.9
Change in other foreign liabilities (increase +)	1.4	-24.2	-2.6	0.0	0.0	0.0	0.0	0.0	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	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	0.0	0.0	0.0
Financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Current account deficit (percent of GDP)												
Excluding official transfers	-11.9	-14.4	-17.3	-17.7	-18.1	-21.6	-15.7	-20.9	-16.8	-13.1	-10.7	-8.9
Including official transfers	-2.2	-4.9	-7.3	-6.0	-5.2	-10.6	-9.1	-12.3	-8.6	-5.2	-3.9	-2.7
Gross official reserves (including SDR allocation)	552.4	596.4	742.2	814.2	899.2	894.2	847.6	786.6	651.9	534.6	552.5	705.4
Gross official reserves (months of prospective imports of G&S)	4.7	4.7	5.4	4.5	5.7	4.6	5.3	4.2	3.7	3.0	3.0	3.5
Excluding encumbered assets	*4.7*	*4.7*	*5.4*	*4.5*	*5.7*	*4.3*	*5.3*	*3.7*	*3.4*	*3.0*	*3.0*	*3.5*
Overall balance (percent of GDP)	2.9	1.4	2.8	1.3	1.4	1.3	-0.8	-1.6	-1.8	-1.4	0.2	1.7

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

[1] From 2010 onwards includes the results of the informal cross-border trade survey.

[2] Revision of methodology resulted in sharp increase of tourism revenues from 2008, thus increasing export of services.

[3] Including interest due to the Fund.

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

[5] Includes project and budgetary loans.

[6] Excluding payments to the Fund.

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

Table 3. Rwanda: Operations of the Central Government, Fiscal Year Basis,[1] 2006/07–15/16

	2006/07	2007/08	2008/09	2009/10	2010/11 Country Report No. 11/164	2010/11 Prel.	2011/12 Country Report No. 11/164	2011/12 Rev. Proj	2012/13 Proj.	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.
					(Billions of Rwandan francs)							
Revenue and grants	388.0	518.2	670.7	800.7	844.2	863.4	993.9	1,010.6	1,122.5	1,224.0	1,334.8	1,412.4
Total revenue	233.2	290.3	413.0	391.4	471.7	484.4	538.4	565.1	651.5	745.5	852.0	964.5
Tax revenue	217.6	272.4	361.4	376.4	449.1	463.8	510.4	519.7	619.4	709.2	811.4	919.3
Direct taxes	73.6	103.3	130.1	148.8	175.8	180.9	199.9	207.3	251.0	284.7	324.6	374.8
Taxes on goods and services	109.8	135.0	179.3	195.0	234.3	245.1	270.5	271.4	325.8	377.9	434.7	497.5
Taxes on international trade	34.2	34.2	52.0	32.6	39.0	37.8	40.0	41.0	42.5	46.6	52.2	47.0
Nontax revenue	15.7	17.8	51.7	15.0	22.6	20.6	28.0	45.4	32.1	36.2	40.6	45.2
Grants	154.8	227.9	257.7	409.3	372.5	379.0	455.5	445.5	471.0	478.5	482.7	447.9
Budgetary grants	101.4	168.1	167.0	283.0	208.5	215.0	271.2	261.2	287.6	354.8	361.3	325.4
Capital grants	53.4	59.8	90.7	126.3	164.0	164.0	184.4	184.3	183.4	123.7	121.4	122.6
Of which: Global Fund	...	...	...	...	47.2	0.0	70.7	70.7	65.9	4.3	0.0	0.0
Total expenditure and net lending	414.2	521.8	731.2	804.2	988.2	984.3	1,062.8	1,087.6	1,171.4	1,237.1	1,348.9	1,459.2
Current expenditure	266.5	349.0	401.7	459.2	514.9	527.0	557.9	583.7	657.0	762.6	836.5	931.1
Of which: priority	139.7	151.7	232.2	280.4	310.8	310.8	323.6	350.8	...	...	...	...
Wages and salaries	71.5	76.3	90.8	106.9	120.5	122.0	126.5	131.2	146.9	170.8	191.3	210.4
Civil	48.5	55.5	66.1	77.5	90.9	91.4	95.3	99.2	105.6	124.2	139.1	152.2
Defense	22.9	20.8	24.7	29.4	29.7	30.6	31.2	32.0	41.3	46.6	52.2	58.2
Purchases of goods and services	66.4	81.6	103.2	106.3	119.2	124.1	131.2	144.5	160.6	207.1	230.2	256.5
Civil	57.5	70.4	82.9	94.3	106.3	109.5	116.2	129.5	142.3	181.2	197.1	222.7
Defense	8.9	11.2	20.2	12.0	12.8	14.6	15.0	15.0	18.4	25.9	33.2	33.8
Interest payments	12.8	13.6	11.4	14.7	15.2	15.6	16.0	16.0	19.1	17.0	18.6	19.6
Domestic debt	8.7	11.1	7.4	10.1	10.6	10.9	10.1	10.1	8.8	9.9	11.1	12.4
External debt	4.1	2.4	4.0	4.6	4.6	4.7	5.9	5.9	10.3	7.2	7.5	7.1
Transfers	82.4	121.8	141.6	179.6	193.2	197.2	216.2	223.9	261.6	295.1	324.6	359.4
Exceptional expenditure	33.5	55.7	54.7	51.6	66.9	68.1	68.1	68.1	68.8	72.5	71.9	85.2
Capital expenditure	131.8	188.2	306.6	316.7	452.9	438.6	503.3	503.2	492.3	449.8	484.7	518.5
Of which: priority	28.0	38.9	124.4	129.2	176.6	176.6	170.7	175.7	...	...	...	...
Domestic	42.5	87.6	139.7	159.3	219.4	218.9	243.6	243.6	247.8	289.9	324.6	353.0
Foreign	89.3	100.6	167.0	157.4	233.5	219.7	259.8	259.6	244.5	159.9	160.1	165.4
Of which: Global Fund	...	...	...	...	47.2	47.8	70.7	70.4	0.0	4.3	0.0	0.0
Net lending and privatization receipts	15.9	-15.4	22.9	28.2	20.3	18.7	1.6	0.7	22.0	24.7	27.7	9.7
Of which:												
Priority spending	4.8	3.9	2.1	2.9	3.6	0.0	...	2.4	...	...	...	0.0
Kigali Convention Center	0.0	0.0	0.0	18.0	9.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RwandAir	0.0	0.0	0.0	4.5	25.0	25.2	17.0	17.0	0.0	19.8	22.1	0.0
Primary balance[2]	-29.5	-77.1	-62.2	-160.8	-180.5	-177.8	-179.0	-178.1	-165.4	-217.5	-218.6	-214.8
Domestic fiscal balance[3]	-87.5	-128.5	-147.2	-250.7	-278.4	-275.5	-258.8	-257.0	-265.0	-324.6	-329.3	-322.2
Excluding demobilization and peacekeeping expenditures	-76.6	-112.0	-121.8	-224.3	-235.1	-238.7	-220.0	-215.9	-265.0	-324.6	-329.3	-322.2
Overall deficit (payment order)												
After grants	-26.1	-3.6	-60.5	-3.5	-143.9	-120.9	-69.0	-77.0	-48.8	-13.1	-14.2	-46.8
Before grants	-180.9	-231.6	-318.1	-412.8	-516.4	-499.9	-524.5	-522.5	-519.9	-491.6	-496.9	-494.7
Change in arrears[4]	-7.0	-8.6	-9.0	-11.2	-11.2	-11.9	-8.0	-11.7	-8.0	-8.0	-7.0	-7.0
Overall deficit (incl. grants, cash basis)	-33.1	-12.2	-69.4	-14.7	-155.1	-132.8	-77.0	-88.7	-56.8	-21.1	-21.2	-53.8
Financing	41.2	11.3	69.4	14.7	155.1	132.8	77.0	88.7	56.8	21.1	21.2	53.8
Foreign financing (net)	39.2	42.8	72.5	26.1	81.8	68.6	64.5	116.7	56.8	21.1	21.2	26.8
Drawings	44.7	47.9	77.0	31.1	89.9	76.5	75.4	127.6	70.0	36.2	38.7	42.9
Budgetary loans	8.8	5.2	0.7	0.0	20.4	21.4	0.0	52.2	8.9	0.0	0.0	0.0
Project loans	36.0	42.7	76.3	31.1	69.5	55.1	75.4	75.4	61.1	36.2	38.7	42.9
Amortization	-5.6	-5.1	-4.4	-5.0	-8.1	-7.9	-10.9	-10.9	-13.2	-15.1	-17.5	-16.1
Net domestic financing	2.1	-31.5	-3.1	-11.4	73.3	64.2	12.5	-28.0	0.0	0.0	0.0	27.0
Net credit from banking system	-7.2	-13.4	18.0	8.4	59.3	77.8	2.5	-28.0	0.0	0.0	0.0	0.0
Nonbank sector	9.3	-18.1	-21.2	-18.1	5.6	-19.6	10.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions[5]	8.1	-0.9	0.0	-1.7	8.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Priority spending	172.5	194.5	358.7	412.5	491.0	487.4	494.4	528.9	...	...	...	

Sources: Rwandan authorities and IMF staff estimates and projections.

(continued)

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital investment.

[3] Total revenue minus current expenditure (excluding interest ion external debt) , domestically financed capital expenditure, and net lending.

[4] A negative sign indicates a reduction.

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

Table 3. Rwanda: Operations of the Central Government, Fiscal Year Basis,[1] 2006/07–15/16 (concluded)

	2006/07	2007/08	2008/09	2009/10	2010/11 Country Report No. 11/164	2010/11 Prel.	2011/12 Country Report No. 11/164	2011/12 Rev. Proj	2012/13 Proj.	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.
	(Percent of fiscal year GDP)											
Revenue and grants	20.6	22.5	24.3	25.8	24.5	25.0	25.6	25.2	24.5	23.6	23.0	21.9
Total revenue	12.4	12.6	14.9	12.6	13.7	14.0	13.9	14.1	14.2	14.4	14.7	14.9
Tax revenue	11.6	11.8	13.1	12.1	13.0	13.4	13.1	13.0	13.5	13.7	14.0	14.2
Direct taxes	3.9	4.5	4.7	4.8	5.1	5.2	5.1	5.2	5.5	5.5	5.6	5.8
Taxes on goods and services	5.8	5.8	6.5	6.3	6.8	7.1	7.0	6.8	7.1	7.3	7.5	7.7
Taxes on international trade	1.8	1.5	1.9	1.0	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.7
Nontax revenue	0.8	0.8	1.9	0.5	0.7	0.6	0.7	1.1	0.7	0.7	0.7	0.7
Grants	8.2	9.9	9.3	13.2	10.8	11.0	11.7	11.1	10.3	9.2	8.3	6.9
Budgetary grants	5.4	7.3	6.0	9.1	6.0	6.2	7.0	6.5	6.3	6.9	6.2	5.0
Of which: HIPC Initiative assistance	0.4	0.1	0.1	0.0	0.1	0.1	...	...	...	...	...	...
Capital grants	2.8	2.6	3.3	4.1	4.8	4.7	4.7	4.6	4.0	2.4	2.1	1.9
Of which: Global Fund	...	...	...	...	1.4	0.0	1.8	1.8	1.4	0.1	0.0	0.0
Total expenditure and net lending	22.0	22.6	26.4	25.9	28.7	28.5	27.3	27.2	25.5	23.9	23.3	22.6
Current expenditure	14.2	15.1	14.5	14.8	14.9	15.2	14.4	14.6	14.3	14.7	14.4	14.4
Of which: priority	7.4	6.6	8.4	9.0	9.0	9.0	8.3	8.8	...	...	...	...
Wages and salaries	3.8	3.3	3.3	3.4	3.5	3.5	3.3	3.3	3.2	3.3	3.3	3.3
Civil	2.6	2.4	2.4	2.5	2.6	2.6	2.5	2.5	2.3	2.4	2.4	2.4
Defense	1.2	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9	0.9	0.9
Purchases of goods and services	3.5	3.5	3.7	3.4	3.5	3.6	3.4	3.6	3.5	4.0	4.0	4.0
Civil	3.1	3.0	3.0	3.0	3.1	3.2	3.0	3.2	3.1	3.5	3.4	3.4
Defense	0.5	0.5	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.5
Interest payments	0.7	0.6	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Domestic debt	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
External debt	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1
Transfers	4.4	5.3	5.1	5.8	5.6	5.7	5.6	5.6	5.7	5.7	5.6	5.6
Exceptional expenditure	1.8	2.4	2.0	1.7	1.9	2.0	1.8	1.7	1.5	1.4	1.2	1.3
Capital expenditure	7.0	8.2	11.1	10.2	13.1	12.7	13.0	12.6	10.7	8.7	8.4	8.0
Of which: priority	1.5	1.7	4.5	4.2	5.1	5.1	4.4	4.4	...	...	...	...
Domestic	2.3	3.8	5.1	5.1	6.4	6.3	6.3	6.1	5.4	5.6	5.6	5.5
Foreign	4.7	4.4	6.0	5.1	6.8	6.4	6.7	6.5	5.3	3.1	2.8	2.6
Of which: Global Fund	...	...	...	...	1.4	1.4	1.8	1.8	0.0	0.1	0.0	0.0
Net lending and privatization receipts	0.8	-0.7	0.8	0.9	0.6	0.5	0.0	0.0	0.5	0.5	0.5	0.2
Of which:												
Priority spending	0.3	0.2	0.1	0.1	0.1	0.0	...	...	...	...	...	...
Kigali Convention Center	0.0	0.0	0.0	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RwandAir	0.0	0.0	0.0	0.1	0.7	0.7	0.4	0.4	0.0	0.4	0.4	0.0
Primary balance[2]	-1.6	-3.3	-2.2	-5.2	-5.2	-5.1	-4.6	-4.4	-3.6	-4.2	-3.8	-3.3
Domestic fiscal balance[3]	-4.6	-5.6	-5.3	-8.1	-8.1	-8.0	-6.7	-6.4	-5.8	-6.3	-5.7	-5.0
Excluding demobilization and peacekeeping expenditures	-4.1	-4.9	-4.4	-7.2	-6.8	-6.9	-5.7	-5.4	-5.8	-6.3	-5.7	-5.0
Overall deficit (payment order)												
After grants	-1.4	-0.2	-2.2	-0.1	-4.2	-3.5	-1.8	-1.9	-1.1	-0.3	-0.2	-0.7
Before grants	-9.6	-10.0	-11.5	-13.3	-15.0	-14.5	-13.5	-13.0	-11.3	-9.5	-8.6	-7.7
Change in arrears[4]	-0.4	-0.4	-0.3	-0.4	-0.3	-0.3	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1
Overall deficit (incl. grants, cash basis)	-1.8	-0.5	-2.5	-0.5	-4.5	-3.8	-2.0	-2.2	-1.2	-0.4	-0.4	-0.8
Financing	2.2	0.5	2.5	0.5	4.5	3.8	2.0	2.2	1.2	0.4	0.4	0.8
Foreign financing (net)	2.1	1.9	2.6	0.8	2.4	2.0	1.7	2.9	1.2	0.4	0.4	0.4
Drawings	2.4	2.1	2.8	1.0	2.6	2.2	1.9	3.2	1.5	0.7	0.7	0.7
Budgetary loans	0.5	0.2	0.0	0.0	0.6	0.6	0.0	1.3	0.2	0.0	0.0	0.0
Project loans	1.9	1.9	2.8	1.0	2.0	1.6	1.9	1.9	1.3	0.7	0.7	0.7
Amortization	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Net domestic financing	0.1	-1.4	-0.1	-0.4	2.1	1.9	0.3	-0.7	0.0	0.0	0.0	0.4
Net credit from banking system	-0.4	-0.6	0.7	0.3	1.7	2.3	0.1	-0.7	0.0	0.0	0.0	0.0
Nonbank sector	0.5	-0.8	-0.8	-0.6	0.2	-0.6	0.3	0.0	0.0	0.0	0.0	0.0
Errors and omissions[5]	0.4	0.0	0.0	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Priority spending	9.2	8.4	13.0	13.3	14.2	14.1	12.7	13.2	...	...	...	...
GDP (Billions of RwF), FY basis	1,883	2,307	2,765	3,108	3,448	3,456	3,886	4,005	4,589	5,177	5,796	6,461

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital investment.

[3] Total revenue minus current expenditure (excluding interest on external debt) , domestically financed capital expenditure, and net lending.

[4] A negative sign indicates a reduction.

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

Table 4. Rwanda: Monetary Survey[1], 2006–13

	2006	2007	2008	2009	2010				2011						2012				2013
					March	June	Sep	Dec	March	March	June	June	Sept	Dec	March	June	Sept	Dec	Dec
					Est	Est	Est	Est	Est	Country Report No. 11/164	Est	Country Report No. 11/164	Est	Prog	Prog	Prog	Proj	Proj	Proj
	(Billions of Rwanda francs)																		
Monetary authorities																			
Net Foreign Assets[2]	225.0	281.8	325.6	358.0	322.6	384.7	390.5	414.9	353.5	357.7	377.6	391.2	424.1	460.2	440.5	371.9	474.8	396.3	321.0
Foreign assets	241.2	300.6	333.4	424.0	386.9	447.2	458.3	483.5	424.5	428.7	450.9	462.5	495.7	531.6	511.8	443.2	546.1	467.6	387.5
Of which: encumbered assets[6]													16.1	42.3	51.0	59.4	59.4	59.4	29.7
Foreign liabilities[3]	16.3	18.8	7.8	66.0	64.2	62.5	67.8	68.6	71.1	71.0	73.4	71.3	71.6	71.3	71.3	71.3	71.3	71.3	66.5
Net domestic assets	-153.1	-187.9	-209.6	-241.6	-206.1	-277.5	-265.5	-283.9	-222.9	-227.0	-232.7	-249.8	-273.4	-303.7	-277.9	-198.9	-297.2	-213.0	-111.3
Domestic credit	-119.4	-152.6	-168.7	-201.5	-157.3	-211.9	-211.4	-231.2	-167.8	-167.5	-178.9	-186.0	-221.5	-251.0	-225.3	-146.3	-233.4	-160.4	-48.7
Government (net)	-71.6	-98.8	-158.5	-143.5	-110.2	-143.2	-157.7	-176.3	-132.3	-132.2	-102.8	-113.2	-153.2	-161.6	-143.5	-97.6	-156.7	-126.8	-126.8
Claims	41.8	41.2	39.7	50.2	60.9	39.3	39.3	57.9	71.9	71.9	72.2	69.3	45.5	38.7	53.2	66.5	44.3	38.7	38.7
Deposits (excluding autonomous bodies)[3]	113.4	140.0	198.3	193.7	171.1	182.5	197.0	234.2	204.2	204.1	174.9	182.5	198.7	200.3	196.7	164.1	201.0	165.5	165.5
Public nongovernment deposits (-)	-2.0	-1.3	-0.5	-1.9	-1.9	-4.3	-4.3	-0.8	-0.6	-0.6	-0.6	-1.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Nongovernment credit	-45.8	-52.5	-9.7	-56.6	-45.2	-64.4	-49.4	-54.1	-35.0	-34.7	-75.6	-70.9	-67.6	-88.6	-81.1	-47.9	-75.9	-32.9	78.9
Private sector	3.5	4.8	5.4	7.9	5.3	5.4	5.7	4.8	5.2	6.9	5.2	6.5	6.0	6.5	6.5	6.5	6.5	6.5	6.5
Public enterprises	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Commercial banks	-49.3	-57.3	-15.1	-64.0	-52.9	-71.7	-56.9	-60.6	-41.8	-41.6	-82.4	-77.4	-73.6	-95.1	-87.6	-54.4	-82.4	-39.4	72.4
Discount window	1.2	1.3	1.5	9.6	12.0	13.6	12.6	8.7	6.3	6.3	6.4	5.0	2.9	2.9	3.0	3.0	3.0	3.0	3.0
Money market (- = absorption)	-50.5	-58.6	-16.6	-73.5	-64.9	-85.3	-69.4	-69.3	-48.1	-47.9	-88.7	-82.4	-76.4	-98.0	-90.6	-57.4	-85.4	-42.4	69.4
Other items (net; asset +)	-33.8	-35.4	-41.0	-40.2	-48.8	-65.5	-54.3	-52.7	-55.1	-59.5	-53.9	-63.8	-51.9	-52.7	-52.6	-52.6	-63.8	-52.6	-62.6
Reserve money[4.]	71.8	93.9	116.0	116.4	116.6	118.9	124.9	130.9	130.6	130.7	144.8	141.4	150.7	156.6	162.6	173.0	177.6	183.2	209.7
Currency in circulation	54.6	67.3	80.9	77.0	77.0	77.0	94.1	104.1	98.1	82.0	115.1	105.2	110.2	117.6	121.5	131.2	134.2	139.6	134.2
Commercial bank reserves	15.1	24.0	32.7	24.1	30.9	24.2	29.3	24.7	31.6	47.7	28.6	35.8	38.8	38.6	40.7	41.4	43.0	43.2	49.1
Nonbank deposits	2.1	2.6	2.3	6.1	2.4	0.7	1.6	2.1	1.0	1.0	1.2	0.4	1.7	0.4	0.4	0.4	0.4	0.4	0.4
Of which: autonomous public agencies	0.4	0.1	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Commercial banks																			
Net foreign assets	60.1	69.6	78.2	83.7	85.1	78.1	94.4	104.0	110.9	104.1	107.7	88.0	87.0	109.1	86.2	106.2	86.2	109.1	109.1
Foreign assets	70.9	86.8	96.8	107.5	107.8	98.9	114.1	146.8	131.7	146.8	134.1	120.0	113.0	132.9	110.0	130.0	110.0	133.1	133.1
Foreign liabilities	10.8	17.2	18.6	23.8	22.7	20.9	19.8	42.7	20.7	42.7	26.4	32.0	26.0	23.8	23.8	23.8	23.8	24.0	24.0
Reserves	15.1	24.0	32.7	33.7	45.6	34.8	41.6	38.3	45.7	63.8	42.1	52.8	52.8	54.6	57.3	61.9	65.0	66.8	75.1
NBR deposits	11.3	18.6	25.1	24.1	32.8	24.2	29.3	24.7	31.6	47.7	28.6	35.8	38.8	38.6	40.7	41.4	43.0	43.2	49.1
Required reserves	18.8	24.4	34.2	22.8	23.7	24.6	26.3	26.7	29.8	31.4	32.1	31.8	35.3	36.0	38.1	38.5	40.8	40.8	46.1
Excess reserves	-7.5	-5.8	-9.1	1.3	9.1	-0.3	3.0	-2.0	1.8	16.3	-3.5	4.0	3.5	2.5	2.7	2.9	2.2	2.5	3.1
Cash in vault	3.8	5.4	7.6	9.5	12.8	10.6	12.3	13.7	14.1	16.1	13.5	17.0	14.0	16.0	16.6	20.5	22.0	23.6	25.9
Net credit from NBR (rediscount; liability -)	49.3	57.3	15.1	64.0	52.9	71.7	56.9	60.6	41.8	41.6	82.4	77.4	73.6	95.1	87.6	54.4	82.4	39.4	-72.4
Domestic credit	158.7	218.5	352.9	354.6	351.3	383.2	398.5	438.8	449.4	458.2	497.4	466.8	537.3	488.9	571.6	586.9	637.8	631.6	841.3
Government (net)	-2.3	25.4	16.2	-0.4	-9.7	16.4	25.2	45.0	33.7	45.0	54.6	46.7	40.2	-24.8	11.9	21.4	0.8	32.1	32.1
Credit	25.6	40.6	29.3	31.6	31.6	58.5	61.6	86.1	85.1	86.0	103.1	87.8	87.0	37.2	52.9	62.5	41.9	78.1	78.1
Deposits	27.9	15.2	13.1	32.0	41.3	41.1	36.3	41.0	51.3	41.0	48.6	41.1	46.8	62.0	41.0	41.1	41.1	46.0	46.0
Public enterprises	2.4	1.7	1.6	3.0	2.8	2.9	2.8	3.2	1.1	3.0	2.6	3.0	3.0	3.0	3.0	1.7	3.0	3.0	3.0
Private sector	158.7	191.3	335.0	352.0	358.2	363.9	370.5	390.6	414.6	410.2	440.2	417.1	494.1	510.7	556.7	563.8	634.0	596.5	806.2
Other items (net; asset +)	-53.1	-64.1	-96.0	-92.0	-103.0	-96.9	-103.6	-118.5	-106.3	-122.7	-119.7	-122.7	-116.8	-113.2	-106.3	-103.9	-120.2	-101.4	-101.4
Deposits	230.2	305.3	382.9	444.0	431.8	470.8	487.7	523.3	541.6	545.0	609.9	562.3	633.8	634.4	696.4	705.5	751.1	745.4	851.7
Private	185.8	246.9	326.0	383.2	368.8	400.3	419.1	453.9	471.2	485.0	527.8	492.4	551.7	551.4	614.3	620.5	664.1	656.4	762.7
Public (nongovernment)	44.4	58.4	56.9	60.8	63.0	70.5	68.6	69.4	70.4	60.0	82.1	69.9	82.1	83.0	82.1	85.0	87.0	89.0	89.0

Table 4. Rwanda: Monetary Survey, 2006–13 (concluded)

	2006	2007	2008	2009	2010				2011						2012				2013
					March	June	Sep	Dec	March	March	June	June	Sept	Dec	March	June	Sept	Dec	Dec
					Est	Est	Est	Est	Est	Country Report No. 11/164	Est	Country Report No. 11/164	Est	Prog	Prog	Prog	Proj	Proj	Proj
									(Billions of Rwanda francs)										
Net Foreign Assets[2]	285.1	351.5	403.8	441.8	407.8	474.5	484.9	519.0	464.4	461.8	485.3	479.2	511.1	569.3	526.7	478.1	561.0	505.4	430.1
Net domestic assets	1.9	23.8	62.3	85.3	96.6	82.1	87.7	96.9	162.0	166.2	227.3	173.7	220.6	167.1	274.9	338.5	302.8	356.5	556.2
Domestic credit	88.7	123.2	199.3	217.1	246.8	243.0	244.0	268.2	323.4	332.3	400.9	358.2	389.3	333.0	433.8	495.0	486.8	510.5	720.2
Government (net)	-73.9	-73.4	-142.3	-143.9	-119.9	-125.8	-132.5	-131.3	-98.6	-87.2	-48.2	-66.5	-113.0	-186.4	-131.6	-76.2	-155.9	-94.7	-94.7
Public nongovernment deposits (-)	-2.0	-1.3	-0.5	-1.9	-1.9	-4.3	-4.3	-0.8	-0.6	-0.6	-0.6	-1.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Public enterprises	2.4	1.8	1.6	3.0	2.8	2.9	2.8	3.2	1.1	3.0	2.6	3.0	3.0	3.0	3.0	1.7	3.0	3.0	3.0
Private sector	162.2	196.2	340.5	357.3	365.9	371.2	378.0	397.1	421.4	417.1	447.0	423.6	500.1	517.2	563.2	570.3	640.5	603.0	812.7
Other items (net; asset +)	-86.8	-99.4	-137.0	-132.2	-150.2	-160.8	-156.3	-169.5	-161.4	-166.1	-173.5	-184.5	-168.7	-165.9	-158.9	-156.5	-184.0	-154.0	-164.0
Broad money[5]	287.0	375.2	466.1	527.1	504.4	556.5	571.0	615.9	626.5	628.0	712.7	652.9	731.7	736.4	801.6	816.6	863.8	861.8	986.3
Currency in circulation	54.6	67.3	80.9	77.0	68.4	83.5	81.8	90.5	83.9	82.0	101.5	90.2	96.2	101.6	104.9	110.7	112.2	116.0	134.2
Deposits	232.3	307.9	385.2	450.1	436.0	473.1	489.3	525.4	542.5	546.0	611.1	562.7	635.5	634.8	696.8	705.9	751.5	745.8	852.1
Of which: foreign currency deposits	52.5	62.7	74.7	83.5	94.8	92.9	104.3	99.2	115.8		112.3		117.6	118.0	134.3	130.2	136.3	136.4	153.3
									(Annual changes in percent of beginning-of-period broad money)										
Net foreign assets	28.7	23.1	13.9	9.7	-6.5	6.2	32.0	14.6	11.2	10.7	1.9	0.8	4.6	8.2	9.9	-1.0	6.8	-8.7	-8.7
Net domestic assets	2.6	7.6	10.3	23.4	2.1	-0.6	2.4	2.2	13.0	13.8	26.1	16.5	23.3	11.4	18.0	15.6	11.2	25.7	23.2
Domestic credit	8.2	12.0	20.5	28.4	5.6	4.9	6.5	9.7	15.2	17.0	28.4	20.7	25.5	10.5	17.6	13.2	13.3	24.1	24.3
Government (net)	-5.6	0.2	-18.1	-0.3	4.5	3.4	-1.9	2.4	4.2	6.5	13.9	10.7	3.4	-8.9	-5.3	-3.9	-5.9	12.5	--
Economy	13.8	11.9	38.6	28.0	1.6	2.2	8.5	7.8	10.9	10.5	14.2	9.9	22.0	19.5	22.9	17.1	19.2	11.6	24.3
Other items (net; asset +)	-5.6	-4.4	-10.2	-5.0	-3.4	-5.4	-4.1	-7.1	-2.2	-3.2	-2.3	-4.3	-2.2	0.6	0.4	2.4	-2.1	1.6	-1.2
Broad money	31.3	30.8	24.2	33.2	-4.3	5.6	33.9	16.8	24.2	24.5	28.1	17.3	28.1	19.6	28.0	14.6	18.0	17.0	14.4
									(Annual percent changes)										
Net foreign assets	28.2	23.3	14.9	9.4	16.9	21.8	14.3	17.5	13.9	13.2	2.3	1.0	5.4	9.7	13.4	-1.5	5.4	-11.2	-14.9
Net domestic assets	-150.0	1,164	162.1	36.9	16.1	80.6	112.0	13.6	67.7	72.1	176.9	111.6	151.6	72.3	69.7	48.9	161.3	113.4	56.0
Domestic credit	25.2	38.9	62.8	8.9	11.8	28.4	33.7	23.5	31.0	34.6	65.0	47.4	59.6	24.2	34.2	23.5	72.8	53.3	41.1
Government (net)	20.0	-0.7	91.7	1.1	0.4	-9.7	-5.9	-8.7	-17.8	-27.3	-61.7	-47.1	-14.7	41.9	33.5	58.1	-18.7	-49.2	0.00
Economy	22.8	20.9	73.7	44.7	7.5	11.9	15.7	11.5	15.1	14.4	21.4	14.9	33.4	30.0	34.0	27.2	37.9	16.5	34.7
Credit to the Private Sector	23.7	21.0	73.6	4.9	7.8	12.7	16.2	11.1	15.2	14.0	20.4	14.1	32.3	30.2	33.7	27.6	28.1	16.6	34.8
Other items (net; asset +)	16.3	14.5	38.9	6.8	9.1	11.9	10.7	28.2	7.4	10.6	7.9	14.7	8.0	-2.1	-1.5	-9.8	19.8	-7.2	6.5
									(In percent, unless otherwise indicated)										
Memorandum items:																			
Currency/broad money ratio	19.0	17.9	17.4	14.6	13.6	15.0	14.3	14.7	13.4	13.1	14.2	13.8	13.1	13.8	13.1	13.6	13.0	13.5	13.6
Reserve money annual growth	11.9	30.7	23.5	0.3	4.0	8.4	8.6	12.5	12.1	12.1	21.8	18.9	20.6	19.6	24.5	19.5	17.8	17.0	14.4
Broad money annual growth	31.3	30.8	24.2	13.1	16.5	27.4	22.2	16.8	24.2	24.5	28.1	17.3	28.1	19.6	28.0	14.6	18.0	17.0	14.4
Reserves/deposits	31.2	30.8	30.3	26.2	27.0	25.3	25.6	25.0	24.1	24.0	23.7	25.2	23.8	24.7	23.3	24.5	23.6	24.6	24.6
Money multiplier	4.0	4.0	4.0	4.5	4.3	4.7	4.6	4.7	4.8	4.8	4.9	4.6	4.9	4.7	4.9	4.7	4.9	4.7	4.7
Velocity of broad money (end of period)	6.0	5.5	5.5	5.6	6.4	5.8	5.7	5.3	5.9	5.8	5.2	5.6	5.1	5.0	5.4	5.3	5.0	5.0	5.2
Velocity of broad money (average of period)	6.8	6.2	5.5	6.0	6.3	6.0	6.5	6.2	6.6	6.3	5.8	6.8	5.7	5.5	6.0	6.5	5.4	5.4	5.3
Net open position of the NBR (RF billion)	219.1	275.6	317.9	352.7	317.1	391.0	384.5	408.9	347.1	353.6	371.2	387.1	418.7	455.1	435.0	366.1	469.5	390.8	315.3
Net open position of commercial banks (RF billion)	13.5	13.2	11.2	5.4	-4.2	-9.4	-4.0	10.8	1.4	--	1.8	--	-16.4	11.1	-17.6	-3.2	-14.7	5.0	0.5
Nominal GDP (RF billion)	1,716	2,049	2,565	2,964	3,253	3,253	3,253	3,253	3,709	3,643	3,709	3,643	3,709	3,709	4,300	4,300	4,300	4,300	4,878

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 Febuary 2008.

[2] For program purposes NFA from December 2011 onwards are at program exchange rates.

[3] 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).

[4] Reserve money as an Assessment Criteria is measured as the average of the months in the quarter. The actual reserve money is measured as the daily average of all the three months in the quarter.

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

[6] Projected escrow amount with Citibank based on projected disbursements of Citibank loan for the KCC project.

Table 5. Rwanda: Financial Soundness Indicators for Banking Sector, 2006–11

	2006 Dec	2007 Dec	2008 Dec	2009 Mar	2009 June	2009 Sep	2009 Dec	2010 Mar	2010 Jun	2010 Sep	2010 Dec	2011 Mar	2011 Jun	2011 Sep
	(Percent)													
Capital adequacy														
Solvency ratio	13.7	16.6	15.9	19.1	19.3	20.5	19.0	18.1	17.6	20.3	19.4	19.9	19.5	25.7
Off balance sheet items/total qualifying capital	334.8	305.6	210.2	182.5	160.7	164.0	184.1	197.6	224.4	203.1	206.1	209.7	246.0	199.4
Insider loans/core capital	45.2	57.9	16.7	9.2	17.0	7.3	19.7	15.7	13.5	8.7	5.9	6.7	5.7	7.0
Large exposure/core capital	131.6	127.7	103.1	92.7	82.8	72.9	65.1	93.9	103.0	80.0	72.5	78.5	59.9	40.3
Asset quality														
NPLs/gross Loans	25.0	18.1	12.6	13.8	13.4	13.6	13.1	12.5	12.2	12.4	11.3	10.2	9.6	9.3
NPLs net/gross loans	12.5	14.3	10.5	11.0	11.1	11.7	11.4	11.0	10.4	10.7	9.7	8.7	8.0	7.3
Provisions/NPLs	83.5	67.0	66.3	67.6	70.9	65.9	55.2	57.2	56.8	57.0	53.1	50.5	49.7	49.4
Earning assets/total asset	85.3	59.6	81.3	78.4	77.3	77.1	81.7	78.2	81.1	77.6	78.1	79.2	80.1	71.2
Large exposures/gross loans	20.2	21.2	17.4	18.4	17.5	16.9	13.9	18.5	20.4	17.4	15.1	17.8	13.5	10.1
Profitability and earnings														
Return on average assets	2.4	1.5	2.4	1.6	0.9	1.0	0.7	-0.2	1.3	1.6	1.9	2.5	2.4	2.3
Return on average equity	27.0	15.5	18.5	11.4	6.4	7.0	5.0	-1.4	10.3	12.2	13.7	17.2	16.7	11.9
Net interest margin	8.0	5.2	9.5	10.3	10.2	9.9	9.1	9.6	8.8	8.8	8.7	8.6	8.6	9.4
Cost of deposits	2.6	2.6	1.8	1.7	2.1	2.3	2.4	2.8	2.7	2.6	2.5	2.3	2.2	2.4
Cost to income	76.7	80.2	77.5	83.7	89.8	89.8	91.0	98.6	89.3	86.2	83.2	79.1	77.3	79.9
Overhead to income	46.2	44.2	48.6	52.2	53.4	55.5	54.9	57.5	54.0	53.8	55.2	61.4	55.8	54.9
Liquidity														
Short term gap	34.2	21.5	21.3	17.2	20.1	20.1	20.0	16.8	21.2	17.4	18.5	14.5	24.1	22.5
Liquid assets/total deposits	64.7	76.4	61.1	65.4	59.3	61.7	65.3	51.7	58.4	47.9	57.8	52.1	56.0	49.3
Interbank borrowings/total deposits	11.3	10.3	8.1	9.3	9.1	8.2	9.8	7.3	10.3	9.0	8.5	8.7	6.8	8.3
BNR borrowings/total deposits	0.3	0.2	0.2	0.1	0.1	0.4	0.8	0.8	0.0	0.0	0.0	0.3	0.0	0.6
Gross loans/total deposits	71.1	63.3	87.8	88.6	82.8	76.1	73.9	74.0	71.6	69.3	67.0	68.7	65.6	84.7
Market sensitivity														
Forex exposure/core capital[1]	9.0	8.7	-4.6	0.6	5.9	0.8	1.9	4.9	1.5	2.4	6.8	7.2	7.0	3.0
Forex loans/Forex deposits	0.8	1.0	0.5	0.4	0.6	0.5	2.8	2.6	4.2	2.1	0.4	1.0	5.5	7.4
Forex assets/Forex liabilities	104.4	112.0	102.6	93.5	107.7	102.8	103.6	105.8	101.0	103.9	106.0	106.7	112.8	99.1

Source: National Bank of Rwanda.

[1]Data from 2007 and 2008 have been revised.

APPENDIX. LETTER OF INTENT

Kigali, Rwanda
November 23, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Ms. Lagarde,

1. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments in Rwanda and implementation of Rwanda's economic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on June 16, 2010. The attached MEFP is an update of the previous MEFP and sets out policies and programs the Rwandan government intends to implement for the fiscal year 2011/12 and the medium term. The PSI is set to expire on June 29, 2013.

2. We continue to make progress with our economic program. All quantitative assessment criteria and structural benchmarks for end-June 2011 were met, with the exception of one measure (preparation of quarterly budget execution report) which has been delayed owing to technical difficulties shifting to the GFS 2001 fiscal reporting framework. The first quarterly budget execution report is now planned to be completed by end-November 2011, covering the first quarter of FY2011/12. The hiring of bank supervisors for the central bank, planned for end-June 2011, was met with a slight delay. We also met most structural benchmarks set for September and October 2011; one with delay and another has been postponed for March next year.

3. In light of the satisfactory program implementation and performance outlined in the attached MEFP, the government requests completion of the third review under the PSI. The Government also requests approval of the modification of the assessment criteria for end-December 2011 with respect to (i) NFA of the central bank to reflect the escrowing of part of foreign reserves; (ii) reserve money to account for structural increase in currency; and (iii) NDF to account for changes in timing of donor inflow disbursements. The government also requests approval of end-June 2012 assessment criteria and structural benchmarks for FY2011/12.

4. The Government believes that the policies and measures set forth in the attached Memorandum will deliver the objectives of the program. We stand ready to take any further measures that may become appropriate for this purpose. The Government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

5. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the fourth review will take place before end-June 2012, and the fifth review before end-December 2012.

6. The Government of Rwanda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by the Fund staff.

Sincerely yours,

/s/	/s/
John Rwangombwa	Claver Gatete
Minister of Finance and Economic Planning	Governor, National Bank of Rwanda

Attachment I. Memorandum of Economic and Financial Policies

November 23, 2011

UPDATE

1. In this updated Memorandum of Economic and Financial Policies (MEFP), the Government of Rwanda remains committed to achieving sustained broad based economic growth and making a dent on poverty. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy (EDPRS) for 2008–12 and Rwanda's Vision 2020. To this end, the Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support macroeconomic policies and structural reforms that underlie strategies in the EDPRS. This MEFP reviews performance during January-June 2011—and the status of targets set for end-June 2011— and describes policies and targets for end-December-2011 and end-June 2012, and the medium term. Specific targets and benchmarks for December 2011 and June 2012 are in the attached table.

I. Performance under the PSI

2. At end June 2011, all quantitative assessment criteria have been met and the structural benchmarks were broadly met (Tables 1 and 2). One of the structural benchmarks—quarterly report on budget—has been delayed due to the introduction of a new Chart of Account (consistent with GFS 2001) that will provide a platform for integrating, planning, budgeting and accounting functions of government. The Medium-Term Debt Strategy (MTDS) is being finalized and will be submitted (with delay) to Cabinet by end-December 2011.

3. The structural benchmark on submitting to Cabinet draft legislation to transfer collection and audit functions of social security contributions (pension (CSR) and (medical insurance (RAMA)) to the Rwanda Revenue Authority (RRA), initially set for May 2011, has been delayed following two key factors: (i) the merger of CSR and RAMA which was not part of the initial MOU; (ii) compatibility and inter-operability of the IT systems of CSR and RAMA (now RSSB-Rwanda Social Security Board) and that of RRA. RRA is rolling out a new IT system (electronic filing). This has yet to be tested for compatibility with both CSR and RAMA IT systems, before a decision on finalizing the draft legislation is taken. The new deadline for finalizing the draft legislation is end-March 2012.

Growth

4. For the year 2011, economic growth was initially expected to decline marginally to 7 percent from 7.5percent achieved in 2010, reflecting expected adverse impact of rising fuel and food prices. However, according to current developments in key indicators of economic activities during the first 3 quarters of this year, the economic performance in 2011 is projected to 8.8 percent. This growth is mainly driven by better performance in agriculture and industry.

Inflation

5. Due to high international oil and food prices, inflation in Rwanda has been increasing in 2011 but maintained at relatively moderate levels considering high inflationary pressures in the EAC region. Whereas inflation has reached double digit in the other EAC countries, Rwanda's headline inflation increased from 0.2 percent in December 2010 to 6.6 percent in September 2011 and is projected to reach 8.7 percent in December 2011 against 7.5 percent initially projected. This upward trend is mainly due to imported goods of which prices increased on annual basis by 10.7 percent in September whereas during the same period, prices for locally produced goods increased by 5.6 percent. The annual average headline inflation was 3.7 percent in September compared to 2.3 percent in December of last year.

6. Rwanda has managed to limit inflationary pressures mainly due to a good agriculture sector performance that sustained the food supply, a stable RWF exchange rate which limited the pass through of imported inflation to domestic market, reduction in fuel taxes as well as well coordinated monetary and fiscal policies. Furthermore, in response to rising inflation and persistent uncertainties in short term perspectives in international and regional economic environment, the NBR Monetary Policy Committee (MPC) decided to increase the central bank policy rate (Key Repo Rate) to 6.5 percent on 7th October 2011 from 6 percent in force since November 2010.

Fiscal Performance

7. **Fiscal performance for the second half of FY 2010/11 (January-June) was strong.** Total revenue (excluding grants) exceeded program by 0.4 percent of GDP, driven mainly by higher direct taxes and taxes on goods and services. Non-tax revenues, however, fell short as a result of the waiving of dividends payment by Bank the Kigali in order to strengthen its balance sheet in preparation for the IPOs. The stronger revenue performance was offset by higher expenditure and net lending—exceeding targets by about 0.3 percent of GDP—leaving the overall fiscal deficit (excluding grants) in line with the program. Actual grants for the period also exceeded the program target (by 0.2 percent of GDP).

External Sector

8. Exports recovered significantly during the first half of 2011. In September 2011, exports value increased by 52.3 percent led by coffee and minerals. Imports also increased by 21.2 percent in value during the same period, dominated by capital goods, intermediate goods and energy. Capital inflows are expected to allow the overall balance of payments to close with a surplus for 2011.

Monetary and Exchange rate Developments

9. In 2011, NBR has implemented a proactive monetary policy to support financing the economy, as long as inflation does not pose a threat to the macroeconomic stability. NBR also continued to ensure that real interest rates remain positive to further support domestic savings mobilization and the financial deepening.

10. In line with the dynamics in economic activities, monetary aggregates have shown an upward trend over the year 2011. Between December 2010 and August 2011, the Broad Money had increased by 18 percent against 16 percent initially projected for the whole year. This development in money supply is attributed to a strong increase of 130 percent in domestic assets contributing 30.7 percent in total liquidity in the banking system by end August while the Net foreign assets which accounted for 69.3 percent declined by 2.7 percent following delays recorded in external budget support disbursements. Sustaining over-performing economic activities, the credit to the private sector increased by 21.5 percent by end August compared to 19.2 percent initial projected for the whole year.

11. With regard to 2011 Monetary Program implementation, end June Reserve Money target was achieved standing at RWF 137.3 billion on quarterly average against PSI assessment criterion of RWF 137.5 billion. This target was achieved with challenges due to over performance of the economy compared to initial projection and higher-than programmed currency in circulation which makes up for the bulk of reserve money. However, at end-September, reserve money stood at Rwf 150.9 billion, exceeding the indicative target of Rwf 146.8 billion. Given that it would be difficult to reduce reserve money in the last quarter of the year, end December Reserve Money target was revised upward from RWF 149.6 billion to RWF 156.3 billion.

12. End June NBR Net Foreign Assets was estimated at RWF 372.51 billion at program exchange rate, exceeding the adjusted PSI target[1] of RWF 343.64 billion from initial NFA Program of RWF 391.2 billion. The indicative NFA target at end September

[1] The adjustment is the external budget support from Global Fund of USD 67.36 million which was not disbursed while it was considered when setting the end June NFA target.

(Rwf 409.5 billion), however, was missed standing at RWF 404.2 billion (program exchange rate) as a result of escrowing reserves at Citibank as collateral for the loan to finance the Kigali Convention Center.[2] Taking into account recent developments in external budget support disbursements and the projected further escrowing of part of NBR's foreign reserves, end December NFA target was reviewed downward from RWF 463.2 billion to RWF 417.9 billion.

13. Concerning the exchange rate management, the NBR continued to maintain a flexible exchange rate regime in 2011, only intervening at the margins of the market to smoothen out temporary volatility in the exchange market. During the first three quarters of 2011, the Rwanda franc remained quite stable, depreciating by 0.9 percent against the US dollar.

14. Regarding the recommendations from the IMF Monetary and Capital Markets (MCM) technical assistance (July 2011), the Bank has maintained the corridor system and the commercial banks have continued to access foreign exchange resources without any barrier. Besides, a standing deposit facility (Intraday Liquidity Facility—ILF) has been introduced to facilitate interbank transactions. After the successful implementation of the Central Securities Depository (CSD), all treasurers and staff of commercial banks have been trained in securities trading.

15. The NBR has significantly strengthened the analytical skills of its staff to support the monetary policy committee process. The NBR has entered into partnership with the Center for Central Banking Studies of the Bank of England and the Reserve Bank of South Africa to organize joint training programs for NBR staff. In the same spirit, the NBR has agreed with the International Growth Center to carry out a joint research program on stability of money demand in Rwanda, transmission mechanism of monetary policy. This institution also agreed to assist NBR in developing a simple macroeconomic model to forecast key macroeconomic variables, in particular the inflation.

Financial sector

16. The banking system continues to be highly liquid and profitable with nonperforming loans declining from 10.8 percent at end 2010 to 9.2 percent at end-June 2011. The authorities are accelerating financial intermediation in rural areas with the roll-out of 416 Savings and Credit Cooperatives (SACCOs). The National Bank of Rwanda already hired 60 inspectors to supervise the SACCOs. They received training in May and August 2011 and were provided with necessary equipments to facilitate them in the monitoring and supervision of these SACCOs. So far, 381 SACCOs out of 416 are authorized to grant loans including the 17 fully licensed as at 10th October 2011.

[2] For the purposes of the PSI program, the calculation of NFA excludes amounts of NBR's escrowed foreign reserves (see TMU).

17. During quarter 3 of 2011, BK launched its IPO and has opened 6 new places of business. The IPO which was launched on June 30th was closed on July 29th 2011. It was 274.7 percent subscribed despite the rather challenging global market environment. The total shares sold represent 45 percent of the total shares, out of which 20 percent were for the Government and 25 percent were new in order to increase its share capital. International investors took 40 percent of the sold total shares whereas 60 percent were taken by domestic and EAC investors. Since its listing at the Rwanda Stock Exchange, the price per share has been ranging between RWF 130 and 190 whereas the offer price was RWF 125. In addition, Equity Bank which was licensed to begin operations in Rwanda in March 2011 has completed preparation and effectively started in October 2011 with 5 branches.

18. Aiming to strengthen its capacity of supervision, the NBR has continued to enhance the use of electronic software system on both off-site and on-site surveillance for banks, insurance and microfinance.

19. In the third quarter of 2011, 5 regulations approved by the Board were published in the Official Gazette while one regulation was approved by the Board at end September 2011 and is currently under translation for publication. The above regulations are the following: regulation on consolidated supervision; regulation on opening and closing of a place of business; regulation on major investment in banks; regulation on Discount house activities; regulation on publications of conditions of banks and regulation on supervision of forex bureau (under translation). In addition, a guideline on agent banking was approved by the Board of Directors.

20. All components of the Rwanda Integrated Payments Processing System (RIPPS) have been implemented. These are the Automated Transfer System (ATS) which has been operational since February 2011 and the Central Securities Depository (CSD) that was launched in July 2011. In addition, payment cards increased from 41,377 in December 2010 to 126,654 by August 2011. The number of ATMs increased from 84 in December 2010 to 133 by August 2011 and 183 POS machines are now operational as compared to 99 ones in December 2010. Several banks and Telecoms are now offering mobile payments/banking services.

Statistical Issues

21. Efforts to improve the quality of statistics including national accounts are continuing. Revised 2010 GDP estimates have been released in the first week of October 2011, after incorporating livestock Work In Progress (WIP) estimates. For food crops, WIP estimates were developed for some of the main crops and similar estimates for the other major export and food crops are now being developed. The WIP estimates from the model will be used in the supply-use tables for the GDP rebase and for ongoing quarterly GDP compilation. The share of GDP estimated by population growth rates has been reduced from 19 percent to 7.4 percent. The metadata for the GDDS has been updated. NISR is conducting the

2010-2011 household budget survey (EICV3) since November 2010 and data collection and data processing are on track with 95 percent and 90 percent coverage respectively as of end September 2011. The NISR has recently completed the data collection for the 2010 National Demographic Health Survey and the survey data should help in improving gross value added (GVA) estimates for the non-government health industry. The NISR has completed data collection for the 2011 Establishment Census and results of the Establishment Census 2011 have been officially published on 24th August 2011 and the report is published on NISR website.

22. To support these ambitious work targets, the NISR is strengthening its human capacity. NISR has recruited new staff including economists and strengthened the Economic Statistics department, which has now a director, and three Principal Statisticians in charge of National Accounts, Prices and Agricultural/Industrial Statistics. NISR has completed the recruitment process for 21 permanent positions and, as of end August 2011; we have 90 permanent positions filled out of the 100 in NISR structure.

II. Objectives and Policies Looking Forward

23. The macro framework has been revised to reflect the better than expected domestic economic performance. Real GDP is now expected to reach 8.8 percent in 2011 and projected at 7.6 percent in 2012. These changes reflect strong growth in all sectors particularly in agriculture and Industry.

24. Inflation which declined from 7.5 percent in August to 6.6 percent in September 2011 is now projected to reach 8.7 percent at end December 2011, reflecting the continuing first round pass-through of rising fuel and international food prices. In 2012, inflation is expected to decline to 7.5 percent.

A. Fiscal Policy

25. The **2011/12 budget remains in line with the program.** Offsetting a reduction in fuel taxes which is expected to result in a permanent revenue loss of 0.4 percent of GDP—the Government reduced fuel tax rates in two installments during the fiscal year 2011/12 with a view to start the harmonization of the fuel tax rates in Rwanda with EAC levels and at the same time contain the impact of transport costs on inflation in 2011 and 2012—there are higher-than-expected gains from a newly-introduced gaming tax, improved VAT efficiency, and broadening of income tax base (together totaling 0.2 percent of GDP). The revised 2011/12 budget also includes a "one off' non-tax receipt (0.4 percent of GDP) from a new telecom license (Airtel) that was not previously programmed. As a result, total revenues in 2011/12 are expected to remain at about 14 percent of GDP. Total expenditure and net lending is projected to remain at 27.2 percent of GDP (including additional priority expenditures comprising allocations for education, energy and the fiber optic project), in line with the program, while the overall budget deficit (including grants) remains at 1.9 percent of GDP, in line with the program.

26. Reflecting previously unprogrammed external budgetary loans (amounting to 1.3 percent of GDP), net domestic financing now shows a retirement of debt (by 0.7 percent of GDP) rather than borrowing.

Progress towards revenue administration measures in 2011/12 approved budget

- Introduce Electronic Sales Register (ESR) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers. (Structural benchmark for end-January 2012); the process is at the level of acquiring the devices to use and the consultant to help in the installation and training of users. Installation of the devices is projected for January 2012.

- Conduct a study to identify potential areas to widen the tax base and estimate the tax gap (structural benchmark for end-December 2011); the consultant has been identified and the study to identify potential areas to expand the tax base and consequently raise more revenues will be completed by end December 2011.

- Introduce e-filing and e-payment systems to reduce on the time spent in serving taxpayers, compliance costs incurred by the taxpayers and improve service delivery; tests are ongoing and launching is scheduled for November 2011.

- Conduct a customer satisfaction survey to inform our next areas of focus for strategic planning purposes; the study has been concluded and the first draft was presented to RRA's senior management and the final report is due mid-November 2011.

- Introduce new tax compliance risk assessment system in the Domestic Taxes Department (DTD) that will orient audit function to high risk taxpayers; a number of risk management tools were developed and are being used by the department in the data matching exercise that orients audit plans. Furthermore, a plan was laid down to put in place a data warehouse and acquire advanced risk management tools in order to improve analysis and data matching for audit planning.

- Implement electronic single window system at customs that will allow parties involved in trade & transport to lodge standardized information & documents using a single point; development has commenced and data is being migrated from ASYCUDA++ to ASYCUDA World and business process re-engineering is going at the same time staff are undergoing training.

- Establish a One-Stop-Border concept at Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross border trade; feasibility studies have been concluded and construction will be embarked during the first half of 2012.

- Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination; the procurement process is at the tendering stage to acquire the equipment.

- Fully automate collection of pension funds and RAMA and bring those out of the PAYE net into the system; the full automation will be completely effective by July 2012 when both RSSB and RRA systems are interfaced and information in both databases is merged.

27. Fiscal policy in 2012/13 will continue to improve fiscal consolidation as agreed in the PSI. Consistent with this objective, additional tax revenue measures will be implemented to recoup the permanent loss resulting from the lowering of fuel taxes. Accordingly, total revenue collections for 2012/13 will remain at 14.2 percent of GDP, as initially envisaged in the PSI.

New 2012/13 tax policy measures

- Increase in tax rates, starting July 2012, for imported construction materials by 5 percent on average on import duties, VAT and excise duties. This increase would be expected to yield around RwF 12 billion (0.3 percent of GDP) during the 2012/13 fiscal year.

- Levy a VAT (18 percent) on rent paid by all occupants of RSSB buildings starting July 2012. The measure would yield around RwF 2 billion (0.05 percent of GDP) in the 2012/13 fiscal year.

- Revision of the investment code, by June 2012 (new structural benchmark) (Table 3)—to be included in the 2012/13 Budget Framework Paper presented to Parliament in June 2012—will be expected to yield additional RwF 8.9 billion (0.2 percent of GDP) for fiscal year 2012/13.

28. The Government plans to push forward the commitment to prepare and publish on its website quarterly budget execution reports within 45 days from the end of each quarter, to improve its communication strategy. Although expected to start since end May 2011 as a structural benchmark, there were difficulties, especially in reporting against program targets, as a new chart of accounts (following GFS 2001) was introduced and still in the process of being mapped to the program classification. A full year 2010/11 budget execution report has been finalized and put on the website in October 2011. Publication of the first quarter 2011/12 budget execution report experienced a delay as a result but has been completed and posted on the MINECOFIN website at end-November. Going forward, budget execution reports will be available 45 days after the end of each quarter.

Public Financial Management

29. After the 2010 PEFA, a midterm evaluation of the PFM Reforms strategy was conducted. The overall results of the GoR PFM Reform Strategy Mid-Term Review (PFMRS MTR) reinforced the conclusions of the PEFA 2010 assessment of improvements in the performance of the GoR's PFM systems since 2007. The PFMRS MTR concluded that the GoR PFM Reform Strategy (2008–2012) and its implementation modalities are sound. It however noted that there are still challenges which need to be mitigated if GoR is to achieve its desired goal of having an enhanced PFM system that is efficient, effective and one that provides for accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. The major areas of concern that were identified were:

- Constraint in recruitment and retention of technical and professional staff;
- Disconnect between strategic plans and budgets in MDAs;
- Addressing PFM capacity constraints in the sub-national government unit;
- Difficulties in ensuring reach to service delivery units;
- Securing adequate funding for the PFMRS implementation;
- Difficulties in automating all public financial management operations;

The government effort is currently concentrated around implementing the recommendations of the PFMRS MTR and the just concluded IFMIS Quality Assurance Mission and the PFM Annual Independent Review (PFM AIR).

30. The Smart Financial Management Information System (SmartFMIS) has been subject to three external reviews by an international "Quality Assurance Group" (QAG), the most recent in May 2010. In its report, the QAG recommended that the Government prepare an "IFMIS Blueprint" to ensure that government undertake a thorough review of its business needs and how best to meet them and map this to the future direction for the Government's financial systems.

31. Accordingly, the IFMIS Blue print has been prepared by reviewing the current system, providing financial management processes and reporting requirements and suggests a number of options forward. From the recently concluded Quality Assurance Group mission of August 2011 a further review of the IFMIS implementation was carried out including the consideration of the recommendation made by the blueprint exercise and three principal recommendations have been made by the QAG for the future of the IFMIS project as follows:

– The need to stabilize the current SmartFMS functionality (and performance) in the short term;

- In the medium term, deal with all the necessary prerequisites to any successful IFMIS implementation and;
- For the longer term design and choose the future IFMIS solution.

32. Both the IFMIS blueprint and the QAG August 2011 mission report are to be submitted for consideration and necessary approval at the next PFM steering committee meeting planned mid November 2011, upon which a roadmap shall be developed for the implementation of the agreed recommendations. The road map will be completed by March 2012 (new structural benchmark).

33. To date, the existing SmartFMS functionality has been reconfigured to integrate it with the new Government of Rwanda Chart of Accounts (CoA) (consistent with GFS 2001) and permit the budget preparation and execution, accounting and reporting for the new financial year 2011/12 in line with the requirements of the new CoA.

34. Consultations continue with donors to integrate donor project accounts into the single treasury accounts (TSA) and this will be done where possible.

B. External Sector Policies

35. Despite the high imports dominated by capital, (including goods for the strategic investment projects) intermediate goods and energy products, the overall balance of payments is expected to end 2011 with a surplus on account of substantial official and private capital inflows as well as higher export receipts. The value of exports increased by 36 percent led by coffee and minerals (export of stocks). Gross official reserves will be comfortable at about 4.6 months of imports at end 2011. Turning to 2012, the recovery in exports will continue even though the value will increase by only about 4 percent. Responding to the investment needs of the country imports are projected to rise in value terms by about 5 percent, led by capital and intermediate goods as well as energy products. As a result of lower expected official capital flows, the overall balance of payments will be expected to close with a deficit, resulting in a draw-down of reserves. Reserves coverage is projected to decline slightly to about 4 months of imports by end 2012.

36. Consistent with the growth objectives of the Government the value of exports is expected to grow on average by about 8 percent over the medium term led by coffee, tea and minerals as well as nontraditional products. The National Export Strategy approved by Cabinet recently is being updated with new investment outlays and production targets. These updates will be expected to result in further growths in exports beyond these baseline projected levels in the medium term. On the other hand imports in value terms are expected to decline slightly on average by about 3 percent per annum even though the share of capital goods in imports is expected to grow in line with the investment needs of the country. As a result, the current account deficit (excluding grants) will be expected to decline significantly in the medium term. To ensure that gross external reserves remain at comfortable levels

covering about 4 months of imports of goods and services, the Central Bank will continue to implement its market driven exchange rate policy.

37. In the area of external debt, we will explore all avenues for concessional financing. However given the large requirement of resources for the financing of our development agenda, some nonconcessional financing will be necessary. We have already agreed to a ceiling of US$240 million of non concessional borrowing during the PSI period for RwandAir and the Kigali Conference Center (KCC). So far, $180 million of the ceiling ($120 million for KCC and $60 million for Rwandair) has been used. For KCC, US$ 20 million was borrowed from PTA (December 2010) whilst the US$100 million is from Citibank (August 2011). Rwandair has borrowed US$ 60 million from PTA (June 2011).

38. The GOR is encouraged by the fact that Rwanda's capacity for macroeconomic and public financial management has been upgraded from low to high as assessed recently by the World Bank and IMF under their flexible debt policy. The upgrade would provide additional flexibility for debt management. However, the government has decided to stay within the existing NCB ceiling already approved under the PSI pending further consideration of the implications of the upgrade.

39. The NES clearly elaborates the priority sectors or clusters, developed with a view to improve export quantity, quality and increase export diversification. RDB has already started meeting the relevant stakeholders to ensure concrete actions are developed and implemented to achieve annual targets as per the NES while the Industrial Development and Export Council (IDEC), which was created in October 2011by Prime Minister's order[3] will provide oversight, coordination and guidance related to policies and strategies that quintessentially cut across multiple ministries and require public and private sectors to work towards a common goal.

Medium Term Debt Strategy

40. A revised MTDS is being re-drafted following recommendations of the IMF/WB mission held in August 2011 and is expected to be submitted for Cabinet's approval by end of December 2011 (before submission of IMF staff report to Board). With the MTDS in place, Government through the debt management committee (DMC) chaired by the Macroeconomic Policy unit will begin to conduct regular assessment of maturity and exchange rate risks and cash flow and roll-over risks of non concessional borrowing. The Committee meets at least once per quarter, and as often as deemed necessary, to discuss pertinent issues affecting public debt administration such as providing analysis and advice

[3] Composed by Ministers of Commerce, Finance, Agriculture, Infrastructure, Education, Public Service and Labor; the Governor of the National Central Bank, the CEO of RDB and the chairperson of the Private sector Federation.

regarding loan agreements, contingent liabilities, borrowing ceilings and other areas related to public debt management. In line with the revision of the MTDS, a consultant has been hired to refine the debt management procedures manual by January 2012.

41. As part of furthering our debt capacity building, we plan to conduct our first full DSA in March 2012 and are receiving training to do so in January or February 2012 in Tunis. The Macroeconomic Policy unit at MINECOFIN will coordinate the work to prepare the DSA. The unit will set up the macroeconomic framework (and prepare the debt data) needed to integrate the DSA with internally consistent macroeconomic projections.

C. Monetary and Exchange Rate Policies

42. Considering the current developments and outlook in economic fundamentals, monetary policy will be tightened in 2012 to avoid any exacerbation of inflationary exogenous shocks. As the anchor of monetary policy, reserve money has been programmed to increase by 17 percent in 2012, compared to 19.6 percent in 2011, in line with nominal GDP growth and allowing for some moderate increase in monetization of the economy in line with rapidly changing structure of the financial sector. The NBR will also continue to use all available monetary policy instruments, including the policy rate, to ensure that real interest rates in the economy remain positive, including to further support domestic savings mobilization and the financial sector deepening.

43. The research team of the Bank will continue to regularly monitor the development in domestic, regional and international economic environment to advise the Monetary Policy Committee (MPC) on actions to be taken in due time to ensure underlying inflationary pressures are well anchored. The MPC also decided to meet anytime when it is necessary and not only on quarterly basis as it is the practice.

44. The NBR is committed to improve the implementation of the reserve money program since it remains the main monetary policy tool. With TA from MCM mission of November 2011, NBR will put in place, by end-February 2012, a consistent framework for forecasting domestic liquidity and extend the forecast horizon (new structural benchmark). Specifically, this will include:

- judgmental forecasts of currency in circulation;
- forecasting the main components of domestic liquidity (including currency outside banks, cash in vault, and bank reserves); and
- identifying underlying factors causing changes in demand.

45. The framework will be used to generate reports, updated on a weekly basis, showing forecasts of these main components of domestic liquidity for 1–4 weeks ahead, as well as reports, updated monthly, showing forecasts for 3–6 months ahead. To inform the forecasts, Treasury will provide, on rolling basis, detailed weekly cash flow forecasts, and monthly aggregate cash flow forecasts. Once this framework is in place, the liquidity forecasting

analysis will inform the quarterlization of annual reserve money programs and will be the basis for any revisions to the reserve money targets. NBR will ensure the necessary additional resources are allocated to the implementation of the forecasting framework, as more in-depth analysis of underlying trends will be required to make the longer term forecasts and the procedures will be much more demanding than simply focusing on developments one week ahead. NBR has also developed a methodology to compute a Monetary Condition Index (MCI) in Rwanda to regularly assess the developments in the banking liquidity.

46. NBR will continue to support the development of the interbank markets (both money and foreign exchange markets) which will improve the liquidity management and the implementation of the reserve money program. To this end, NBR will finalize a detailed time-bound action plan to further develop the Interbank Money Market based on the MCM Technical assistance report of November 2011, findings from NBR research papers and ongoing discussion at EAC level on harmonization of monetary policy operations. Specifically, the action plan will specify measures to further enhance repo operations by selecting one point on the short-end yield curve corresponding to the Key Repo Rate (KRR) and allowing interest rates on other maturities to be fully market determined. The action plan should be elaborated by end-February 2012 with a view to immediate implementation (new structural benchmark).

47. In 2012, the Broad Money is projected to grow by 17.0 percent, driven by Net Domestic Assets by 113.4 percent while the Net Foreign Assets expected are projected to decline by 11.2 percent following a lower budget support expected in 2012. Boosted by new comers, namely Equity Bank, the biggest regional bank, Unguka and Agaseke, 2 big microfinance banks, the banking system will continue to supporting the economic growth by an increase of 16.6 percent in credit to the private sector but much lower than 30.8 percent projected for 2011.

48. To further build and shape market expectations, the NBR will continue to enhance its communication strategy by creating an interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and the business community. In addition, the communication will focus on educating the public about the ongoing financial deepening reforms such as credit reporting bureau activities, the Umurenge SACCO program, capital market development and payment systems modernization. NBR will also start in near term to conduct a regular survey on market expectations of inflation.

49. Regarding the exchange rate policy orientation in short and medium term perspectives, the NBR remains committed to maintain a market driven exchange rate. The NBR will continue to intervene from time to time on forex market to smoothen the exchange rate volatility. The Bank will also continue to ensure that the exchange rate policy remains supportive of external sector competiveness and prospects for export diversification.

50. NBR will enforce the reserve requirements and penalize banks that do not meet their obligation. If a commercial bank or a group of commercial banks are allowed not to meet their prudential reserve requirements at any given time, the NBR will document this as a formal forbearance signed by the managements of the NBR and the respective commercial bank, providing detailed reasons for the allowance.

51. The reserve requirement maintenance period is currently one week. Discussions are underway at the EAC regional level to harmonize the reserve requirement maintenance period across the region. This is expected to be implemented by end 2012.

D. Financial Sector Reforms

52. Further capacity building at NBR is planned for 2011/12, implementing the recently adopted action plan to improve the compensation scheme and professional development.

53. With the aim of reinforcing the banking supervision team, the NBR recruited five staff in July 2011, a slight delay from the end-June 2011 structural benchmark. The newly recruited five Inspectors are pursuing training courses. In addition, two principal inspectors were appointed to reinforce the same team. Capacity building efforts for examiners will be maintained in 2011/2012 through various training courses, attachments and workshops. Inspectors also participated in various courses and 4 of them visited the regional Central Banks under attachments. The capacity building and staff motivation initiatives will enable NBR to achieve the PSI objective of being able to conduct on-site inspections for each bank at least once in every 24 month cycle. For 2011, the NBR is planning to conduct 9 on-site inspections (6 full scope inspections and 3 targeted scope). As at end September2011, five on-site inspections were conducted (4 full scope and 1 targeted).

54. NBR is committed to ensure an orderly roll-out of the Umurenge SACCOs program to protect the stability of the financial system. To this effect, the NBR is commited to follow through carefully the requirements in Regulation on the Organization of Microfinance Activity (No. 02/2009), and ensure that key managers and directors of all MFIs (including SACCOs) that are granted licenses to lend, possess the minimum training and experience needed to identify, measure, control and oversee the risks associated with the operations of SACCOs. The NBR in the analysis of any application for license ensures that managers and directors have the necessary qualifications and experience. Furthermore, NBR hired and trained 60 inspectors to supervise Umurenge SACCOs at the district level (end-September 2011 structural benchmark). The 60 Inspectors were hired and trained in May and August 2011.

55. The NBR, with the funding from DFID, undertook a SACCO Sustainability Study to inform the creation of the appropriate structures to support the SACCO program. The draft study was discussed at *t*he stakeholders' workshop on 3 October 2011. By end November 2011 the consultant will submit the final report with clear recommendations on the appropriate structure and its supervision cost implications for policymakers to decide on the

SACCO structure. The Government plan for SACCOs is to strengthen their capacity in terms of governance, management and controls by the help of the Technical Control Unit (TCU). Thereafter, SACCOs will be consolidated at district level with the help of Access to Finance Forum (AFF) and eventually a consolidation at the national level is envisaged in the form of a cooperative bank. NBR will agree on an Action Plan to provide overall structure for SACCO organization by end-March 2012 (new structural benchmark). To closely monitor and coordinate the consolidation process of SACCOs in an overall structure, a High-level Steering Committee for SACCOs will be created by March 2012.

56. The FSAP final report became available in June 2011. The NBR has already sent a formal request to First Initiative to provide the TA to put in place an action plan to implement the FSAP key recommendations by end December 2011. The NBR has already started implementing some FSAP recommendations mainly pertaining to strengthening supervision and regulation of banks, MFIs and SACCOs. Financial literacy programme is also envisaged to address the issue of access to finance, NPLs as well as consumer rights.

57. The MINECOFIN also submitted a draft law on pension to Cabinet in May 2011 and will issue implementing regulations as soon as the pension law is enacted. The draft law on pension was approved by the Cabinet and submitted to Parliament for the legislative process. The Board of Directors for RSSB was put in place in November 2011. Thereafter, investment guidelines on pension will be developed and approved by the RSSB Board of Directors by June 2012 (Structural benchmark).

58. The NBR requested a mission from IMF to assess progress and check compliance with the AML/CFT framework and the Fund confirmed to carry out the onsite visit in June 2012.

59. To promote regional payment systems integration the Rwanda Integrated Payments Processing System RIPPS will be connected to EAPS (East African payment System) and REPPS (COMESA Regional Payment and Processing System); Cheque truncation system will be in implemented; foreign currency cheques will be cleared in RIPPS and the CSD will be linked to the Automated Trading System as well. In addition, efforts are being made so that during 2012 and 2013 payment cards use will continue to increase. Lastly, plans are underway to further encourage the usage of mobile payment services and interoperability within the mobile payments service providers as well.

60. In addition to the NBR's monetary policy and financial stability communication strategy, a Financial Literacy Program will be launched beginning next year. Areas to be covered include access to finance, insurance, pension, capital market—investment in stocks and bonds, card based payment systems and the functioning and benefits of the credit reference bureaus.

E. Statistics

61. The NISR will continue to improve the quality of its economic statistics in general and the national accounts in accordance with the improvement action plan of the national accounts. The NISR is currently preparing for hiring a consultant to review agricultural statistics including sampling methodology. The final report and recommendations are to be complete and published by end-March 2012 (structural benchmark). The results of the recently completed Establishment Census 2011 will be used to develop the sampling frame for the planned 2011 Business Survey and Non Profit Institutions Survey to be completed by end-October 2012 (new structural benchmark). The data from these benchmark surveys, combined with other source data, will be used to develop detailed input-output (I-O) and supply-use tables (SUT) and to rebase the GDP estimates in 2011 constant prices.

F. Policy Coordination

62. The NBR and MINECOFIN are committed to continue improving collaboration at both the technical and policy levels to enhance the development of the macroeconomic framework.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2010/11 and 2011/12[1]
(Billions of Rwandan francs, unless otherwise indicated)

	2010						2011							2012	
	June			Dec			June			Sep		Dec		Mar	June
	Prog	Adj Prog	Est	Prog	Adj Prog	Est	Prog	Adj Prog	Est	Prog	Est	Prog	Rev Prog	Prog	Prog
Assessment Criteria [2]															
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	369.3	368.1	384.7	352.6	338.9	398.7	391.2	343.6	372.6	409.5	404.2	463.2	417.9	389.5	312.5
Reserve money (ceiling on stock) [5]	122.5	122.5	121.7	129.9	129.9	129.4	137.5	137.5	137.3	146.8	150.9	149.6	156.3	161.0	166.4
Net domestic financing (ceiling on flow)[4, 6]	-7.5	-6.3	-11.2	22.7	36.5	35.2	74.0	97.7	66.3	28.0	…	-34.2	-64.4	54.6	110.5
New nonconcessional and government guaranteed external debt (US$ Millions) (ceiling on stock) [7, 8]	240.0	240.0	0.0	240.0	240.0	20.0	240.0	240.0	80.0	240.0	180.0	240.0	240.0	240.0	240.0
External payment arrears (US$ Millions) (ceiling on stock) [8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets															
Domestic revenue collection (floor on flow) [6]	197.9	197.9	204.3	424.0	424.0	430.9	245.2	245.2	257.5	379.8	…	514.4	541.5	141.4	281.1
Net accumulation of domestic arrears (ceiling on flow) [6]	-3.0	-3.0	-6.1	-13.1	-13.1	-13.3	-4.0	-4.0	-4.7	-6.0	…	-8.0	-11.7	-2.0	-4.0
Consolidated domestic debt of public sector (ceiling on stock, eop) [4,9]	211.1	212.3	264.8	219.0	232.7	218.9	291.7	291.7	245.8	264.9	…	221.2	192.0	222.1	245.4
Total priority spending (floor on flow) [6]	212.0	212.0	228.7	458.7	458.7	472.4	230.1	230.1	259.2	352.6	392.2	477.2	517.5	135.6	274.0
Memorandum items:															
General budget grants (US$ Millions) [6,10]	218.2	218.2	216.1	418.0	418.0	394.0	203.1	123.7	83.9	393.0	…	586.0	463.5	95.5	135.5
Encumbered reserve assets (US$ Millions)										26.9	…	…	71.2	85.8	100.0

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).

[2] Test dates for assessment criteria are for end-June and end-December, otherwise indicative targets.

[3] Numbers for 2010 are at program exchange rate of RWF 571.24 per US dollar; and numbers for 2011 and 2012 are at program exchange rate of RWF 594.45 per US dollar.

[4] Subject to adjustors. See TMU for details.

[5] Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. See TMU for details.

[6] Numbers for 2010 are cumulative from December 31, 2009; numbers for 2011 are cumulative from December 31, 2010; and numbers for 2012 are cumulative from December 31, 2011.

[7] Cumulative from end-June 2010. The ceiling applies to the duration of the three-year PSI and is tied to two projects as specified in the MEFP. It excludes the IFC SWAP agreement of US$50 million as well as US$13.1 million for purchase of two small airplanes both of which were contracted in 2009 and external borrowing by the Bank of Kigali.

[8] This is a continuous assessment criterion.

[9] Excluding NBR's debt issued for monetary policy purposes, starting on September 2010. See TMU for details.

[10] Excluding demobilization and AU peace keeping operations, HIPC grant and COMESA compensation grant.

Table 2. Rwanda: Status of the Structural Benchmarks for 2011–12

Policy Measure	Target Date	Macroeconomic rationale	Status
PFM			
1. Submit to Cabinet for approval a revised public debt policy and MTDS	End-October 2011	To assess costs and benefits of scaled-up nonconcessional financing and analyze fiscal risks associated with PPPs.	Not met. Expected to be completed by end-November.
2. Complete pilot project for integrating donor project accounts into the TSA	End-December 2011	To improve the coverage of fiscal operations and fiscal management of the central government.	Progress to be reviewed
3. Develop and adopt a blueprint for the future development of the IFMIS	End-December 2011	To improve budget preparation, implementation, and reporting.	Progress to be reviewed
Fiscal Performance			
4. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially, the quarterly budget execution reports may exclude foreign-financed projects.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Not met. Expected to commence by end-November.
Revenue Administration			
5. Submit to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions (pension and RAMA) to RRA	End-September 2011	To improve compliance and widen the tax base.	Not met. Expected to be completed by end-March 2012.
6. Complete study on widening the tax base and estimate the potential revenue gap	End-December 2011	To improve revenue performance.	Progress to be reviewed
7. Introduce electronic tax registry to improve issuance of VAT invoices by taxpayers	End-January 2012	To improve VAT buoyancy.	Progress to be reviewed
Financial Sector			
8. NBR to hire 5 additional bank supervisors to reinforce the banking supervision department	End-June 2011	To keep up with both on- and off-site prudential oversight of banks, consistent with the risk-based supervision framework.	Met with a delay. Recruitment was completed in July 2011 and a resident advisor is in place to train new staff.
9. NBR to hire and train 60 inspectors (1 per district) to supervise Umerenge SACCOs at district level	End-September 2011	To expedite supervision of the Umergenge SACCOs with licenses to lend and take deposits.	Met
10. Approve investment guidelines by the board of CSR/RAMA	End-June 2012	To improve the corporate governance of CSR/RAMA and contain potential fiscal liabilities.	Progress to be reviewed
External sector			
11. Conduct own DSA using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper	Continuous from end-March 2012	To enhance ability to monitor debt sustainability.	Progress to be reviewed
Statistics			
12. Publish results of the Establishment Survey	End-August 2011	To improve measurement of GDP.	Met
13. Limit the share of GDP estimated by population growth rate to no more than 12 percent	End-October 2011	To improve measurement of GDP.	Met
14. Complete and publish review of agricultural statistics, including sampling methodology	End-March 2012	To improve measurement of GDP.	Progress to be reviewed

Table 3. Rwanda: Additional Structural Benchmarks for 2011–12

Policy Measure	Target Date	Macroeconomic Rationale
Public financial management (PFM)		
1. Complete the road map for implementation of the IFMIS for a full set of fiscal accounts	End-March 2012	To improve budget preparation, implementation, and reporting.
Revenue measures		
2. Submit to Cabinet revised investment code with a view to streamlining exemptions	End-June 2012	To improve revenue performance.
Monetary policy		
3. Put in place a consistent framework to forecast the main components of domestic liquidity (including currency outside banks, cash in vault, and bank reserves) and extend the forecasting horizon to 2–4 weeks (to be updated weekly) and 3–6 months (to be updated monthly)	End-February 2012	To improve the implementation of monetary policy.
4. Finalize a detailed time-bound action plan to further develop the interbank money market, including enhancing repo operations and allowing fully market-determined interest rates	End-February 2012	To allow fully market-determined interest rates and strengthen the signaling role of the policy rate (Key Repo Rate).
Financial sector		
5. Agree on the action plan for overall structure of the SACCOs and their supervision	End-March 2012	To expedite supervision of the Umurenge SACCOs.
Statistics		
6. Complete the Enterprise Survey	End-October 2012	To improve measurement of GDP.

Attachment II. Technical Memorandum of Understanding

November 23, 2011

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–June 30, 2013 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This Technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 11/164.

I. Quantitative Program Targets

2. The quantitative program will be assessed through assessment criteria (AC) and indicative targets (IT) for the duration of the program.

3. AC will apply to the following indicators for end-June and end-December (the test dates) throughout the program period; other dates are IT:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector; and
- Ceiling on stock of external payment arrears of the public sector.

4. IT targets apply to the following indicators throughout the program period:

- Floor on flow domestic revenue collection of the central government;
- Ceiling on flow net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow priority spending.

5. Assessment criteria on contracting or guaranteeing of new nonconcessional external debt by the public sector and stock of external payment arrears of the public sector are applicable on a continuous basis for the duration of the program.

6. **Program exchange rates**. For accounting purposes, the following program exchange rates, which are end-December 2010 rates, apply for 2011 and 2012:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2011/12
Rwanda Franc (per US$)	594.45
Euro	1.3219
British Pound	1.5621
Japanese Yen (per US$)	83.4255
SDR	1.5356

A. Institutional Coverage of the Fiscal Sector

7. The **central government** fiscal operation table comprises the treasury and line ministries, hereafter referred to as the government unless specified otherwise.

B. Targets related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government

8. A ceiling applies to NDF. The ceiling for December 31, 2011 is cumulatively measured from December 31, 2010, and the ceiling for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

9. **Definition**. NDF of the government is defined as *change* in the sum of (i) net banking sector credit to the government and (ii) non-bank holdings of the government domestic debt.

10. Net banking sector credit to the government is defined as

- credit to the government from the banking system (as recorded in the monetary survey), including credit to the government, provinces and districts, outstanding consolidated government debt held by the banking system,[1] government debt to the NBR incurred as a result of the 1995 devaluation (Rwf 9 billion), the overdraft to the

[1] Consisting of bank holdings of treasury bills, bonds (domestic), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

prewar government (Rwf 2 billion)[2], and overdraft with the NBR. Credit to the government will exclude treasury bills issued for monetary policy purposes by the NBR, and the proceeds of which are sterilized in deposits held as other NBR liabilities.

- minus total government deposits with the banking system (as recorded in the monetary survey), including the main treasury account, line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, privatization account, and any other autonomous public enterprises and public agencies over which the government has direct control over their deposits. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for project accounts, Global Funds money meant for private sector, counterpart funds and *fonds publics affectés*).

11. Non-bank holdings of the government domestic debt consists of non-bank holdings of treasury bills, bonds (domestic and nonresident), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

12. Grants extended by the Global Fund that are under the control of the central government are programmed at US$152 million for FY2011/12, corresponding to RWF 70.7 billion as shown in the Fiscal table for the central government under capital grants. [3]

Adjusters to the NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[4] (defined in Table 1 of Quantitative AC and IT), up to a maximum adjustment of US$80 million, evaluated in Rwanda francs at the program exchange rate. The ceiling will be adjusted *downward* by the amount of any excess of actual over programmed budgetary loans and grants above US$24 million, evaluated in Rwanda francs at the program exchange rate.

- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

[2] The authorities will inform Fund staff of any substantive changes in government accounts with the banking system, which may affect the calculation of net bank claims.

[3] Quarterly distributions of US$152 million are as follows: US$0 (July–Sep 2011), US$85.2 million (Oct–Dec 2011), US$66.6 (Jan–March 2012), and US$0 million (Apr–June 2012).

[4] Budgetary grants exclude COMESA grants, HIPC grants, and peacekeeping operations, but include Global Fund.

13. **Reporting requirement**. Data on NDF (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits), each type of debt to be shown by debt holder, and its adjusters will be transmitted on a monthly basis within five weeks from the end of each month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies and agencies that the government does not have any direct control over.

Floor on flow of domestic revenues

14. A floor applies to domestic revenue. The floor for December 31, 2011 is cumulatively measured from December 31, 2010, and the floor for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

15. **Definition**. The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the central government fiscal operation table, but excluding external grants, and privatization receipts.

16. **Reporting requirement.** Detailed data on domestic revenues will be transmitted on a monthly basis within five weeks of the end of each month.

Floor on priority expenditure

17. The floor applies to priority spending of the government. The floor for December 31, 2011 is cumulatively measured from December 31, 2010, and the floor for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

18. **Definition.** 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 EDPRS. Priority expenditures are monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

19. **Reporting requirement.** Data on priority expenditure will be transmitted on a monthly basis within five weeks of the end of each month.

Net accumulation of domestic arrears of the government

20. A ceiling applies to net accumulation of domestic arrears of the government.[5] The ceiling for December 31, 2011 is cumulatively measured from December 31, 2010, and the ceiling for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

21. **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 since the beginning of the year under review (including repayment of float during the review year and the repayment of older arrears).

22. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous-year stock of arrears will be transmitted on a monthly basis within five weeks of the end of each month.

C. Limits on External Debt

Limit on New Nonconcessional External Debt of the Public Sector

23. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1 of the MEFP which applies continuously from end-June 2010 to end-June 2013; it excludes the swap agreement of US$50 million signed in November 2009 between the NBR and the IFC and US$13.1 million for purchase of two air planes in 2009. The ceiling also excludes non concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

24. **Definition of the public sector**. The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake—owning more than 50 percent of the shares or the ability to determine general corporate policy.[6] This definition of public sector excludes the Bank of Kigali.

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

[6] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options;

(continued)

25. For program purposes, the guarantee of a debt arises from any *explicit* legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any *implicit* legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

26. **Definition of concessionality** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[7] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

27. **The definition of debt,** for the purposes of the limit in the AC, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt, effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

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

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

(vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

[7] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Limit on the stock of external payment arrears

28. A continuous assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the public sector. External payment arrears consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements, but shall exclude arrears on obligations that are subject to rescheduling.

Consolidated Domestic Debt of the Public Sector (DD)

29. For program purposes, DD excludes treasury bills issued by the NBR for monetary policy purposes. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official guarantees have been extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 12), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 12.

- The ceiling on the DD will be *adjusted upward* by the amount of expenditure for food imports in the case of a food emergency.

30. **Reporting requirement.** Data on domestic debt of the public sector, including treasury bills issued by the NBR for monetary policy purposes, will be transmitted on a monthly basis within five weeks of the end of each month.

D. Targets for Monetary Aggregates

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

31. A floor applies to the NFA of the NBR for December 31, 2011, and June 30, 2012 targets.

32. **Definition.** NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standard (SDDS) template, as external assets readily available to, or controlled by, the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps) 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. 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/ECF disbursements).

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants (per footnote 4). This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate. In the case of excess of actual over programmed budgetary loans and grants, the floor of the NFA remains unchanged for the first US$24 million. Subsequently, the floor will be adjusted upwards by any amount in excess of US$24 million, evaluated in RWF at the program exchange rate.

- The floor on NFA will also be *adjusted upward (downward)* by the amount of shortfall (excess) between actual and programmed encumbered reserve assets, evaluated in Rwanda francs at the program exchange rate.[8]

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[8] The programmed amounts of encumbered reserve assets, on a quarterly basis, stand at: US$26.9 million (September 2011); US$71.2 million (December 2011); US$85.8 million (March 2012); and US$100 million (June 2012).

- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports in the case of a food emergency, evaluated in Rwanda francs at the program exchange rate.

33. **Reporting requirement.** Data on foreign assets and foreign liabilities of the NBR will be transmitted on a weekly basis within seven days of the end of each week, including breakdown of assets that are pledged or encumbered. This transmission will include daily and weekly data on the NBR's foreign exchange liabilities to commercial banks (including required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

Reserve money

34. A ceiling applies to the stock of reserve money for the December 31, 2011 and June 30, 2012 targets.

35. The stock of reserve money target for a given quarter will be calculated as the arithmetic average of the stock of reserve money at the end of each calendar month in the quarter. Daily average of all the three months in the quarter will constitute the actual reserve money to be compared with the target.

36. **Reserve money** is defined as the sum of currency in circulation, commercial banks' reserves, and other nonbank deposits at the NBR.

Adjuster:

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks. The adjustor will be calculated as (new reserve ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

37. **Reporting requirement.** Data on reserve money will be transmitted on a weekly basis within seven days of the end of each week. This transmission will include a daily and a weekly balance sheet of the NBR which will show all items listed above in the definitions of reserve money.

II. Other Data Reporting Requirements

38. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in Table 1 below, weekly data within seven days of the end of each week; monthly data within five weeks of the end of each month; annual data as available.

39. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Rwanda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such

policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the NBR, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to the Fund (email: afrrwa@imf.org).

Table 1. Summary of Reporting Requirements

	Frequency of Data[10]	Frequency of Reporting[10]	Frequency of Publication[10]
Exchange Rates[1]	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates[3]	M	M	M
Volume of transactions in the interbank money market and foreign exchange markets and sales of foreign currencies by NBR to commercial banks	D	W	W
Liquidity Forecast Report[4]	W	W	-W-
Consumer Price Index[5]	M	M	M
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6] – General Government[7]	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6]– Central Government	M	M	M
Comprehensive list of tax and non tax revenues[8]	M	M	M
Comprehensive list of domestic arrears of the government	M	M	M
The ten (10) largest components of transfers in the fiscal table	M	M	M
Social security contributions (RAMA and CSR)	M	M	M
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR[9]	A	A	A
Privatization receipts	M	M	M
External Current Account Balance	A	SA	A
Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A
GDP/GNP	A, Q	Q, SA	Q

[1] Includes the official rate; Forex Bureau Associations rate; weighted average of the interbank money market rates; and weighted average of the intervention rate by the NBR.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, interbank money market rate, rates on treasury bills, notes and bonds.
[4] One-week ahead forecasts of liquidity submitted on weekly basis. For example, in reporting data as of the last week of April, liquidity forecasts for the first week of May should be reported. The forecasted liquidity should be classified by net foreign assets, net credit to government, nongovernment credit, reserve money, currency in circulation, net credit to commercial banks broken down into discount window and money market (absorption or injection), and other item net.
[5] Includes General Index; Local Goods Index; Imported Goods Index; Fresh Products Index; Energy Index; General Index excluding Fresh Products and Energy; and their breakdowns as published by the NISR.
[6] Foreign, domestic bank, and domestic nonbank financing.
[7] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[8] Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.
[9] Includes debts of the Bank of Kigali. Also Includes currency and maturity composition.
[10] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

INTERNATIONAL MONETARY FUND

RWANDA

Third Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Informational Annex

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

Approved by Saul Lizondo and Christian Mumssen

December 7, 2011

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system.

- **Joint World Bank–IMF Work Program.** Outlines the Joint Management Action Plan through June 2012.

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ANNEX I. RWANDA: RELATIONS WITH THE FUND
(As of October 31, 2011)

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 Tranche Position	0.00	0.00

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	76.82	100.00
Holdings	83.26	108.39

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements[1]	9.44	11.78

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	June 12, 2006	August 07, 2009[2]	8.01	8.01
PRGF	August 12, 2002	June 11, 2006	4.00	4.00
PRGF	June 24, 1998	April 30, 2002	71.40	61.88

VI. Projected Payments to Fund[3]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.17	0.68	1.14	1.60	1.89
Charges/Interest		0.02	0.02	0.02	0.01
Total	0.17	0.71	1.16	1.61	1.90

VII. Implementation of HIPC Initiative: Enhanced framework

I. Commitment of HIPC assistance

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[1] Now known as Extended Credit Facility (ECF).

[2] On June 4, the PRGF was extended from June 11, 2009 to August 14, 2009, to allow time for the completion of the sixth and final review, and for making the final disbursement under the PRGT arrangement.

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

Decision point date	December 2000
Assistance committed by all creditors (US$ million) [4]	695.50
Of which: IMF assistance (US$ million)	63.40
(SDR equivalent in millions)	46.79
Completion point date	April 2005

II. Disbursement of IMF assistance (SDR million)

Assistance disbursed	46.79
Interim assistance	14.45
Completion point balance	32.34
Additional disbursement of interest income[5]	3.77
Total disbursements	50.56

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.

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 4 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

[4] 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 cannot be added.

[5] 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.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI)

I. MDRI -eligible debt (SDR Million)[6]	52.74
Financed by: MDRI Trust	20.19
Remaining HIPC resources	32.55

II. Debt Relief by Facility (SDR million)

Delivery Date	GRA	PRGT	Total
January 2006	N/A	52.74	52.74

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

X. Safeguards Assessments:

The 2007 safeguards update assessment noted that since 2003, the National Bank of Rwanda (NBR) strengthened its own safeguards: External audits were completed on time, the Committee of Auditors became operational, and the Internal Audit Department helped in the strengthening of controls over monetary program data. The update assessment's priority recommendations concerned timely publication of the audited financial statements, further improving external audit arrangements, and full implementation of IFRS. Safeguards policy does not require an update safeguards assessment in the case of the non-financial arrangement with the Fund. However, such assessment may be voluntary requested by the country, and the NBR has made a formal request for the update assessment.

XI. Exchange System:

The currency of Rwanda is the Rwandan franc. 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. As of October 31, 2011, the official exchange rate was RWF 601.88 per U.S. dollar. The exchange rate has remained stable throughout 2011. Under the revised classification of the exchange rate arrangements, effective May 1, 2011, the *de facto* exchange rate arrangement has been reclassified to a stabilized arrangement from a crawl-like arrangement. The *de jure* exchange rate arrangement is classified as floating. With effect from December 27, 2010, the official exchange rate is the weighted average computed from a previous foreign exchange interbank market transaction and an intervention transaction by the National Bank of Rwanda (NBR). The Average Reference Rate, formerly used for the official exchange rate, was eliminated. The NBR applies a margin of +/-0.8 percent to the official rate to

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[6] 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).

derive a customer rate. With a view to introducing more flexibility in its exchange rate policy, since March 24, 2010, NBR introduced an exchange rate corridor framework.

XII. Article IV Consultation:

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2010 Article IV consultation (IMF Country Report No. 11/19) on December 20, 2010.

XIII. 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, and a FSAP update was completed in June 2011. Rwanda has not had an Offshore Financial Center (OFC) assessment.

XIV. Policy Support Instrument (PSI):

A three-year PSI program was approved on June 16, 2010, with an effective date of June 30, 2010. The second review under the PSI was completed on June 23, 2011.

XV. Technical Assistance and Future Priorities:

List of Technical Assistance Missions (2010–)

2010 STA/AFRITAC East mission on national accounts statistics.
2010 LEG mission on payment & settlement systems.
2010 MCM/AFRITAC East mission to develop examination procedures.
2010 STA mission to review data reporting systems.
2010 FAD/AFRITAC East mission on the development of a central bank database.
2010 MCM mission on foreign exchange policies and operations.
2010 STA/AFRITAC East mission on national accounts statistics.
2010 MCM mission on supervision of Non-bank financial institutions.
2010 FAD mission on safeguards and fiscal investment
2010 MCM mission on bank supervision.
2010 MCM mission on foreign exchange policy.
2010 MCM mission on bank supervision.
2010 FAD mission on central bank database.
2010 MCM mission on consolidated supervision.
2010 FAD/EAST AFRITAC on PFM.
2010 FAD/EAST AFRITAC on Revenue administration.
2010 MCM mission on pension fund supervision and regulation.
2011 STA/AFRITAC East mission on national accounts statistics.
2011 MCM mission on payment systems oversight.
2011 STA mission on improving quality of fiscal data.
2011 FAD mission on improving customs administrative efficiency

2011 FAD mission on financial manual-legal requirements alignment
2011 STA mission on national accounts statistics
2011 MCM mission on strengthening regulatory framework
2011 FAD mission on strengthening HQ functions and customs risks management
2011 FAD mission on improving consistency of microeconomic databases
2011 FAD mission on tax administrative reform priorities for tax compliance
2011 FAD mission on regional workshop on strengthening systems and structures
2011 FAD mission on gaps and options of public financial aid
2011 FAD mission on tax administration capacity for auditing
2011 FAC mission on TSA project
2011 MCM mission on developing a medium term debt management strategy
2011 MCM mission on enhancing monetary operations, foreign exchange operations and markets, and banking supervision

Future priorities

The priorities for the Fund's technical assistance will remain in the area of monetary and exchange rate management, supervision of bank and nonbank financial institutions, public finance management, tax policy and administration, and compilation of national account statistics.

XVI. Resident Representative:

Mr. Dmitry Gershenson assumed his duties as Resident Representative in February 2009.

XVII. Management Visit:

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

ANNEX II. RWANDA: JOINT BANK-FUND WORK PROGRAM DECEMBER 2010–JUNE 2012

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	I. Mutual Information on Relevant Work Program		
Bank Work Program	A. Strategy and Analytical Work		
	Rwanda Economic Updates		Ongoing
	Employment and Growth Policy		Ongoing
	Rwanda Insolvency Assessment ROSC		December 2011
	Rwanda Land Sector Study		May 2012
	B. Ongoing and New Projects		
	Poverty Reduction Support Financing -VIII		November 2011
	Statistics for Results Project		December 2011
	Governance and Competitiveness TA Project		January 2012
	Economic Empowerment of Young Women		Ongoing
	Skills Development Project		Ongoing
	Public Sector Capacity Building Project		Ongoing
	Second Rural Sector Support Project		Ongoing
	Second Emergency Demobilization and Reintegration Project		Ongoing
	Land Husbandry, Water harvesting and Hillside Irrigation		Ongoing
	Rwanda Electricity Access Scale-up and Sector-wide approach Project		Ongoing
	Sustainable Energy Development Project (GEF)		Ongoing
	Transport Sector Development Project		Ongoing
	L.Victoria Environment Management Project (Ph. 2)		Ongoing
	EAC Financial Sector Development and Regionalization Project		Ongoing
	East Africa Public Health Laboratories Networking Project		Ongoing
	Regional Communications Infrastructure Project		Ongoing
	East Africa Trade and Transport Facilitation Project		Ongoing

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
IMF Work Program		A. Missions	
	Fourth Review Under the Policy Support Instrument	March 2012	June 2012
		B. Analytical Work	
	Prudential regulations on liquidity risk in developing countries: A case study of Rwanda		August 2011
	Understanding the Exchange Rate Pass-Through to Domestic Prices in the EAC Region: Implications for Prospects of Monetary Integration		June 2012
	Estimating the Behavioral Equilibrium Exchange Rate for the EAC Countries		June 2012
	Monetary Policy Transmission in EAC Countries		June 2012
		C. Technical Assistance	
	Fiscal: Tax policies; tax and customs administration; revenue forecasting and PFM, strengthen PPP Unit in MINECOFIN		Ongoing
	Monetary: Monetary policy operations; bank liquidity; interbank markets in local currency and foreign exchange		Ongoing
	Financial: Bank supervision		Ongoing
	Statistics: National accounts and balance of payments		Ongoing
	II. Request for Work Program Inputs		
Bank Request to Fund	Impact of the global economic crisis on key macro indicators and growth in Rwanda		Ongoing
	Sharing macro-framework updates		As needed
Fund Request to Bank	Assessment of key infrastructure projects undertaken by the government.		As needed
	Assessment of the PFM and public service reform program.		As needed

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	III. Agreement on Joint Products		
Joint products	Public and External Debt Sustainability Analysis.		June 2012
	Collaborate together with other development partners on the annual review of general budget support.		Ongoing
	Collaborate on PFM reform program.		Ongoing
	Collaborate on financial sector reform program.		Ongoing

INTERNATIONAL MONETARY FUND

Rwanda—Third Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Supplementary Information and Supplementary Letter of Intent

Supplement Information

Prepared by the African Department
(in consultation with other departments)

Approved by Saul Lizondo and Christian Mumssen

December 23, 2011

This supplement provides an update of economic policy developments since the staff report for the third review under the PSI was issued. New information received by staff indicates nonobservance of the continuous assessment criterion (AC) on the contracting and guaranteeing by the public sector of new nonconcessional external debt. However, on the basis of appropriate corrective action, staff supports the authorities' request for a waiver for breaching the AC. In other respects, this report does not alter the thrust of the staff appraisal and staff continues to recommend the completion of the third review. Staff also continues to recommend the modification of the assessment criteria for end-December 2011, setting the end-June 2012 assessment criteria, and approval of the additional structural benchmarks for FY 2011/12 under the PSI-supported program based on Rwanda's continued strong performance and commitment under the program.

1. **Staff learned last week that in September 2011 the Rwanda Development Bank (BRD), a state-owned bank, contracted a nonconcessional loan from the European Investment Bank**. The loan, amounting to Euro 8 million (0.18 percent of GDP), was not discussed with the staff during the October mission. The authorities attributed this oversight to weaknesses in information flows within the government which resulted in a failure to bring up the new loan contract to the fore of the policy discussions.

2. **The new loan results in nonobservance of the continuous quantitative assessment criterion on the contracting and guaranteeing by the public sector of new nonconcessional external debt**. Under the TMU the definition of public sector includes the BRD.[1] The US$240 million nonconcessional debt limit set under the three-year PSI-

[1] Under the TMU, the public sector comprise the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling state – owning more than 50 percent of the shares or the ability to determine general corporate policy.

supported program is tied to two projects, the Kigali Convention Center and the purchase of a new fleet of airplanes for Rwandair. While the credit line to BRD (Euro 8 million) does not exceed the ceiling (to date the authorities have borrowed US$180 million under the ceiling), it results in nonobservance of the assessment criteria as it was contracted outside the above mentioned two projects. Staff has calculated that the concessionality element of the loan is at most 17.13 percent (depending on the disbursement currency used in the calculation), falling well short of the minimum 35 percent threshold.[2]

3. **The new debt is a liability of the BRD and not directly of the central government, with minimal potential impact on the budget**. In the event the BRD fails to repay, the credit line would increase the external debt stock of the central government (which stood at 14.6 percent of GDP at end-2010) by just 0.18 percent of GDP. The BRD has a track record of non-concessional borrowing (contracted prior to the PSI program) and has repaid these loans without recourse to the government.

4. **Given the modest size of the new loan and the efforts the authorities have made to upgrade their debt management capacity, staff considers that the loan does not alter significantly the macroeconomic framework and does not pose a risk to external debt sustainability**. The latest DSA puts Rwanda at a moderate risk of debt distress and this additional borrowing by itself would not change that assessment. Moreover, the authorities have continued to make efforts to upgrade their debt and public financial management capacities. As a result, Rwanda was recently assessed as having stronger macroeconomic management capacity resulting in recent upgrade to higher capacity category under the Fund's debt limit policy.

5. **The authorities attributed this oversight to weaknesses in information flows within the government, and have committed to taking remedial measures to prevent reoccurrence of such an incident.** The BRD did not notify the government before contracting the line of credit. To prevent similar incidents from occurring in the future, the government has already communicated the terms of the PSI to all state-owned enterprises (SOEs) to ensure that they understand the consequences of such miscommunication. The authorities have also communicated a requirement for all SOEs to seek prior approval of the Ministry of Finance before contracting any new nonconcessional loan. In addition, over the medium term, the government will strengthen standardized reporting requirements for all SOEs.

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[2] The line of credit could be disbursed in multiple currencies (Euros, US$, and Rwandan Francs) and tranches with repayment maturities varying from 4 to 10 years, a grace period of a maximum of two years, and semi-annual repayment frequencies. The interest rate consists of a base rate, which can be fixed or floating, plus a margin ranging from 1.36 percent for the Euro/U.S. dollar tranches to up to 5.7 percent for the tranches in Rwandan francs.

6. **Staff supports the authorities' request for a waiver on the nonobservance of the continuous assessment criterion on nonconcessional borrowing and continues to recommend the completion of the third review. Staff also continues to recommend the modification of the assessment criteria for end-December 2011, setting the end-June 2012 assessment criteria, and approval of the additional structural benchmarks for FY 2011/12 under the PSI program based on Rwanda's continued strong performance and commitment under the program**.

SUPPLEMENTARY LETTER OF INTENT

Kigali, Rwanda
December 22, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Ms. Lagarde,

1. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments in Rwanda and implementation of Rwanda's economic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on June 16, 2010. The attached MEFP is an update of the previous MEFP and sets out policies and programs the Rwandan government intends to implement for the fiscal year 2011/12 and the medium term. The PSI is set to expire on June 29, 2013.

2. We continue to make progress with our economic program. All quantitative assessment criteria for end-June 2011 were met and all but one end-June structural benchmarks were met. Further to our letter of November 23, we would like to inform you that the continuous quantitative assessment criterion on the contracting and guaranteeing by the public sector of new nonconcessional external debt was missed. On the structural benchmarks, the preparation of quarterly budget execution report was delayed owing to technical difficulties shifting to the GFS 2001 fiscal reporting framework. The first quarterly budget execution report is now planned to be completed by end-November 2011, covering the first quarter of FY2011/12. The hiring of bank supervisors for the central bank, planned for end-June 2011, was met with a slight delay. We also met most structural benchmarks set for September and October 2011; one with delay and another has been postponed for March next year.

3. The nonconcessional loan was contracted by the Banque Rwandaise de Developpement (BRD), as part of the public sector, and aims at improving medium and long-term financing for businesses in Rwanda targeting crucial long-term investment by local companies, mainly SMEs, to support growth and job creation. Since the nonconcessional loan amounts to just 0.18 percent of GDP and Rwanda has been taking measures to upgrade its debt management capacity, the loan does not pose a risk to debt sustainability or the overall macroeconomic objectives of the program.

4. We regret the miscommunication that occurred and remain committed to regularly update the Fund on new developments for adequate monitoring of the program. As a remedy, the terms of the PSI have been communicated to all SOEs to ensure that they understand the consequences of such miscommunication. Also, to prevent this from occurring in the future, SOEs were asked to seek prior approval of the Ministry of Finance and Economic Planning before contracting any new nonconcessional external loan. In addition, over the medium term, the government will strengthen standardized reporting requirements for all SOEs.

5. In light of the satisfactory program implementation and performance outlined in the attached MEFP, and the corrective measures to strengthen communication within the government, the government requests a waiver of the nonobservance of the continuous assessment criterion on contracting and guaranteeing by the public sector of new nonconcessional external debt, and the completion of the third review under the PSI. The Government also requests approval of the modification of the assessment criteria for end-December 2011 with respect to (i) NFA of the central bank to reflect the escrowing of part of foreign reserves; (ii) reserve money to account for structural increase in currency; and (iii) NDF to account for changes in timing of donor inflow disbursements. The government also requests approval of end-June 2012 assessment criteria and structural benchmarks for FY2011/12.

6. The Government believes that the policies and measures set forth in the attached Memorandum will deliver the objectives of the program. We stand ready to take any further measures that may become appropriate for this purpose. The Government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

7. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the fourth review will take place before end-June 2012, and the fifth review before end-December 2012.

8. The Government of Rwanda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by the Fund staff.

Sincerely yours,

/s/ /s/

John Rwangombwa
Minister of Finance and Economic Planning

Claver Gatete
Governor, National Bank of Rwanda

Press Release No. 12/4
FOR IMMEDIATE RELEASE
January 9, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under Policy Support Instrument for Rwanda

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Rwanda's economic performance under the Policy Support Instrument (PSI). In completing the review, the Board approved the modification of the end-December 2011 assessment criteria.

The Executive Board approved a three-year PSI for Rwanda on June 16, 2010 (see Press Release No. 10/247). The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners.

Following the Executive Board's discussion on Rwanda, Naoyuki Shinohara, Deputy Managing Director and Acting Chair issued the following statement:

"Rwanda's economy in 2011 is poised for high growth—but also high inflation—with elevated risks for 2012. While strong agricultural output and exports are driving high real gross domestic product (GDP) growth, aggregate demand pressures are also building up and have already pushed up core inflation. Growth is expected to slow in 2012, although risks from an uncertain global economy and further price shocks could bring lower growth and higher inflation. Structural reforms efforts will have to be stepped up to boost growth prospects.

"The authorities have begun to tighten monetary policy in late 2011 to contain inflation. However, further tightening may be needed in 2012 to prevent the erosion of recent gains in macroeconomic stability. Monetary policy implementation is expected to be enhanced further, including by preparing an action plan to develop the interbank money market.

“Fiscal consolidation in FY2011/12 and FY2012/13 remains on track and is expected to further anchor macroeconomic stability. The authorities have introduced additional revenue measures for FY2012/13 to preserve the revenue objective of PSI. The new requirement for State-Owned Enterprises (SOEs) to seek prior approval of the Ministry of Finance before contracting new external debt will help further consolidate recent improvements in Rwanda’s debt management capacity.

“The establishment of a transparent and sustainable institutional structure to supervise Savings and Credit Cooperatives (SACCOs) needs to be fast-tracked. The hiring and training of 60 supervisors was an important first step. Given the speed of rolling out these cooperatives as full-fledged lending institutions, and the risks involved, it is imperative that the necessary institutional structure be put in place without delay.

“In light of significant risks in the global economic environment that could adversely impact Rwanda’s exports and international reserves, the central bank should avoid any further encumbering of the central bank’s foreign assets as collateral for loans to finance the government’s strategic investments,” Mr. Shinohara concluded.

Statement by Kossi Assimaidou, Executive Director for Rwanda
January 9, 2012

On behalf of my Rwandan authorities, I would like to thank the Board, Management and Staff for their continued support. My authorities very much appreciate the candid and open policy discussion with the staff, and value the exchange of views on key policy issues aimed at supporting the successful implementation of the PSI. The flexibility provided by the PSI framework has helped my authorities design policy responses to dampen the impact of the global crisis and allow the economy to rebound. Furthermore, over the past years, the hard-earned macroeconomic stability has been enhanced and significant dents made in the process of building a broad-based economy and reducing poverty. Staff's last visit in Kigali has offered another opportunity to discuss an array of recent developments as well as my authorities' policies going forward.

My authorities regret the miscommunication that occurred over a small nonconcessional loan contracted by Rwanda Development Bank, a state-owned enterprise (SOE). In view of the remedial measures being taken, my authorities request the Board's support for a waiver on the nonobservance of the continuous assessment criterion on nonconcessional borrowing.

Recent developments and performance under the PSI

Performance under the program was satisfactory. All PSI end-June quantitative assessment criteria were comfortably met. Structural benchmarks were partially met, some with delays due to technical difficulties. The authorities have now worked out these difficulties and are endeavoring to meet the capacity needs for an enhanced public service.

Growth has regained momentum, real GDP is expected to stand at 8.8 percent at end-2011, against 7.5 percent in 2010 - and after declining to 4.1 percent in 2009 due to the global crisis. The key drivers of this performance were robust exports and strong agriculture output. Moreover, my authorities' policy mix supported a steady expansion of private credit and a strong domestic demand over the past period. Inflation has risen somewhat recently, but is kept under check. High international food and fuel prices paired with some domestic factors have contributed to this upward push. My authorities have responded by raising the central bank policy rate and are closely monitoring developments on the ground of their medium term inflation objective and of regional and international factors as well. The external position exhibits a benign situation of the overall balance, investment capital inflows making up for the current account deficit.

My Rwandan authorities are committed to steadfastly implementing the program and to address the continued challenges, with the view to foster growth and to significantly reduce poverty. These goals determine their policy agenda for the coming period.

Policies Going Forward

Fiscal policy over the first half of 2011 was marked by a strong performance in revenue mobilization, with total revenue (excluding grants**)** exceeding program target by 0.4 percent of GDP. On the expenditure side, capital outlays are catching up in the second half after underperforming in the first half, compared to current spending.

The 2011/12 budget is built around a package of fiscal measures set to yield a total of 0.2 percent of GDP increase in revenue. This package includes a newly-introduced gaming tax, measures to improve VAT efficiency, and tax base broadening reforms that would derive from a study to be finalized by December 2011. Outlays will mainly finance priority expenditures in education, energy and growth-enhancing projects.

My authorities have also made progress in implementing revenue administration measures, some of which are set to proceed under the 2011/12 budget. These measures include: (i) introducing Electronic Sales Register for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers; (ii) introducing e-filing and e-payment systems to cut red tape for taxpayers and improve service delivery; and (iii) establishing a One-Stop-Border concept at Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross-border trade. Other measures are planned to enhance public financial management, taking account of the findings of the mid-term review of the government PFM reform strategy.

Monetary policy has been managed over the past years with the goal of striking the right balance between maintaining price stability and supporting economic growth. On this ground, and through a joint committee comprising the central bank (NBR) and the ministry of finance, my authorities have been coordinating monetary and fiscal policies accordingly. Appreciable results have been achieved, in light of high growth rates recorded and the decline in inflation. As a response to the current hedging up of inflation, the NBR increased the central bank policy rate (Key Repo Rate) from 6 to 6.5 percent last October. My authorities are closely monitoring inflation drivers, both domestic and external, and stand ready to take additional measures. It is their belief that the current developments need no further action, as inflation is still subdued.

Financial sector development remains a key objective for my Rwandan authorities. Past efforts to strengthen the banking sector for a better financing of economic activity have started to bear fruit. Banks remain highly liquid and profitable, credit to the private sector has been expanding and nonperforming loans declined from 10.8 percent at end-2010 to 9.2 percent at end-June 2011. My authorities attach a particular importance to the development of Savings and Credit Cooperatives (SACCOs) for improving access to finance for unbanked segments of the population, especially in rural areas. In this regard, they are taking steps to design a supervisory framework for SACCOs. Looking ahead, my authorities have begun to implement the recommendations of the recent FSAP, notably regarding the supervision and regulation of banks, MFIs and SACCOs. With the assistance of First Initiative, an action plan will be designed by year-end to implement the whole recommendations.

My authorities' **medium-term debt strategy** is being prepared for end-2011. The government has created a debt management committee aimed at conducting regular assessment of maturity and exchange rate risks and cash flow and roll-over risks of non concessional borrowing. As for the Euro 8 million nonconcessional loan contracted by Rwandan Development Bank, my authorities appreciate staff advice in addressing this issue, and their assessment that the loan is modest and does not affect Rwanda's debt profile. My authorities have taken remedial measures to avoid such developments going forward. Steps are being taken to improve the information flow within the government and to better inform SOEs on their PSI-related borrowing responsibilities. Looking forward, my authorities are committed to preserving medium-term debt sustainability.

The government's **large investment projects** were meant either to add capital to existing activities (Rwandair) or provide essential infrastructures which could encourage a variety of new private activities (Kigali Convention Center). Other specialized sectors, which can contribute significantly to growth, such as ICT and ecotourism are also being developed and would help to reduce the vulnerability of the economy. The financing of the projects in these sectors remains a key challenge for Rwanda, given the difficult international environment and debt sustainability concerns. My authorities appreciate and consider the recent changes in the IMF's debt limit policy as an important milestone in the right direction and a part of the response to a long-stalling issue facing Rwanda as well as other low-income countries.

Conclusion

Under difficult circumstances of domestic challenges and still adverse international developments, my Rwandan authorities have strived to develop their economy with appreciable results over the past period. The PSI-supported program is well on track, with strong output growth and the economy is making steady progress towards generating enough revenue to lessen the aid dependency. In this effort, my authorities are well aware of the challenges they still face to fine-tune the policy mix and encourage a more robust and sustained growth while maintaining price stability. They appreciate the Board's help and support in this regard. In view of the satisfactory implementation of the program, my Rwandan authorities request the Board's support for the completion of the third review of the PSI and a waiver on the nonobservance of the continuous assessment criterion on nonconcessional borrowing.