June 2013
IMF Country Report No. 13/177

Rwanda: Sixth Review Under the Policy Support Instrument and Request for Extension of the Policy Support Instrument—Staff Report; Press Release.

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

- The staff report for the Sixth Review Under the Policy Support Instrument and Request for Extension of the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on April 18, 2013, 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 May 31, 2013. 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 Press Release dated June 17, 2013.

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

SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION OF THE POLICY SUPPORT INSTRUMENT

May 31, 2013

KEY ISSUES

Main challenges: Rwanda continues to face the challenge of adjusting to lower aid. Despite improved donor sentiment following the signing of a regional peace agreement in February 2013, a shortfall in budget support is expected this fiscal year and next.

Outlook and risks: Growth is projected to ease modestly in 2013 while inflation is expected to remain well contained, albeit rising in the course of the year. Risks to the outlook continue to center mainly around budget support and a weaker-than-expected global economic environment.

Policy discussions focused on the short and medium-term economic challenges:

- In the short term, the lower level of foreign aid requires adjustments in economic policies to align spending plans to available resources while preserving priority spending and leaving scope for private sector credit expansion. It also calls for a tightening of the monetary stance and greater exchange rate flexibility to preserve reserve buffers.

- In the medium term, the challenge will be the effective implementation of the government's second Economic Development and Poverty Reduction Strategy (EDPRS2). Mobilizing resources, including domestically, in support of the ambitious agenda embodied in the EDPRS2 will be crucial.

Extension of the PSI: The authorities requested an extension of the current PSI by seven months, to end-January 2014, to allow them time to prepare a medium-term economic program that could be supported by a new three-year PSI.

Approved By
Roger Nord (AFR) and Elliott Harris (SPR)

Discussions were held in Kigali during April 5-18, 2013. The mission comprised Messrs. Drummond (head), Arnason, Thakoor (all AFR), Raman (SPR), and Mr. Gupta (RES). Ms. Farahbaksh, resident representative, participated in the discussions and assisted the mission. The mission met with Minister of Finance and Economic Planning Gatete; National Bank of Rwanda Governor Rwangombwa; other senior officials; and representatives of the private sector, civil society, and development partners.

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THE CONTEXT

1. **Rwanda continues to face the challenge of adjusting to lower aid**. Since the suspension and delay of some bilateral and multilateral aid last year, donor sentiment toward Rwanda has improved after the signing of a regional peace agreement in February 2013. The World Bank and the African Development Bank (AfDB), as well as some bilateral donors, have resumed budget support disbursements, albeit in the form of sector support. Despite these positive developments budget support for FY2012/13 is expected to fall 1.2 percent of GDP short of the budgeted amount and by 3.2 percent of the previously expected amount for FY2013/14 (Text Table 1).

Text Table 1. Rwanda: Budget Support Grants and Loans, 2012-14

(Percent of GDP)

	FY2012/13		FY2013/14	
	Prog.	Proj.	Prog.	Proj.
Total budget grants	5.2	4.2	5.8	3.2
Bilateral budget grants	2.9	2.1	--	2.5
Multilateral budget grants	2.3	2.1	--	0.7
Budget support loans	0.6	0.4	0.6	--
Total grants and loans	5.8	4.6	6.4	3.2

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

2. **The authorities have responded to the aid shock by tightening policies and drawing on their foreign reserves to cushion the impact on the economy**. On the fiscal side, spending was re-phased and reduced through a supplementary budget approved by parliament in February. The National Bank of Rwanda (NBR) began tightening its monetary policy stance in the second half of 2012 by slowing reserve money growth and allowing real interest rates to rise. At the same time, the use of reserves to meet emerging pressures in the foreign exchange market led to a decline of the reserve cover to 3.4 months of prospective imports by end-2012.

RECENT DEVELOPMENTS

3. **Economic activity has been resilient despite lower aid inflows.** Real GDP growth was 8 percent in 2012, driven by the rapid expansion of the construction and services sectors (Figures 1 and 2, Table 1). However, growth began to slow in the second half of the year, while production in agriculture, which accounts for about a third of GDP, was modest due to relatively poor harvests.

4. **Inflationary pressures have eased** because the impact of the shock to food and fuel import prices has wound down, and in response to tighter monetary conditions. (Figure 3). The impact of the depreciation of the exchange rate of the Rwandan franc (RWF) against the US dollar in 2012—

about 4.5 percent—was partly offset by the rapid deceleration in inflation in the region, notably in Kenya and Uganda, which are important sources of Rwandan imports.

5. **Rwanda's overall balance of payments turned negative in 2012 as a result of the aid shortfall and high imports** (Table 2). Robust activities in the construction and industrial sectors and a bunching of investment projects fueled demand for imports of capital and intermediate goods. Export growth remained high, albeit from a small base, led by non-traditional exports, such as horticulture, while growth of traditional exports, particularly coffee, was weak.

6. **The implementation of fiscal policy in the first half of FY2012/13 (July-December 2012) was complicated by the suspension and delays in budget support** (Figure 4 and Table 3). Domestic revenue collection was broadly as projected at the time of the fifth review under the PSI in October 2012. Grant disbursements in this period, however, were about 1 percent of GDP lower than the October assumption. At the same time, total expenditure was in line with the program, with modest shifts in the composition of spending. To make up for the shortfall in grants, the government delayed payments (arrears for program purposes) of 0.7 percent of GDP by end-2012 and tapped temporarily into the central bank overdraft facility.

7. **The NBR tightened its policy stance in the course of 2012** (Figure 5 and Table 4). While the key repo rate has been kept unchanged at 7.5 percent since May 2012, the slowdown in inflation caused real rates to become significantly positive in the second half of the year. The government's need for funding also put upward pressure on treasury bill rates, helping drive interbank and deposit rates up. In terms of monetary aggregates, while reserve money growth was in line with target, broad money growth slowed below the program projection, to 14 percent at end-December 2012. The shortfall in aid inflows constrained the NBR's ability to meet robust market demand for foreign exchange. Despite some depreciation of the currency and the use of foreign exchange reserves, market pressures persisted and a spread of about 5 percent emerged between the official and market exchange rates by end-2012. By late-May, the spread had narrowed to about 1.6 percent.

8. **In late April 2013, the Rwandan government issued a US$400 million euro bond** (Box 1). The authorities will use half of the proceeds to repay unfavorable government-guaranteed loans for Rwandair and the Kigali Convention Center. The other half will be used to finance the completion of the Kigali Convention Center (US$150 million) in FY2013/14 and the Nyaborongo hydro-power plant (US$50 million) to increase electricity supply and reduce the cost of generation in Rwanda (Box 2).

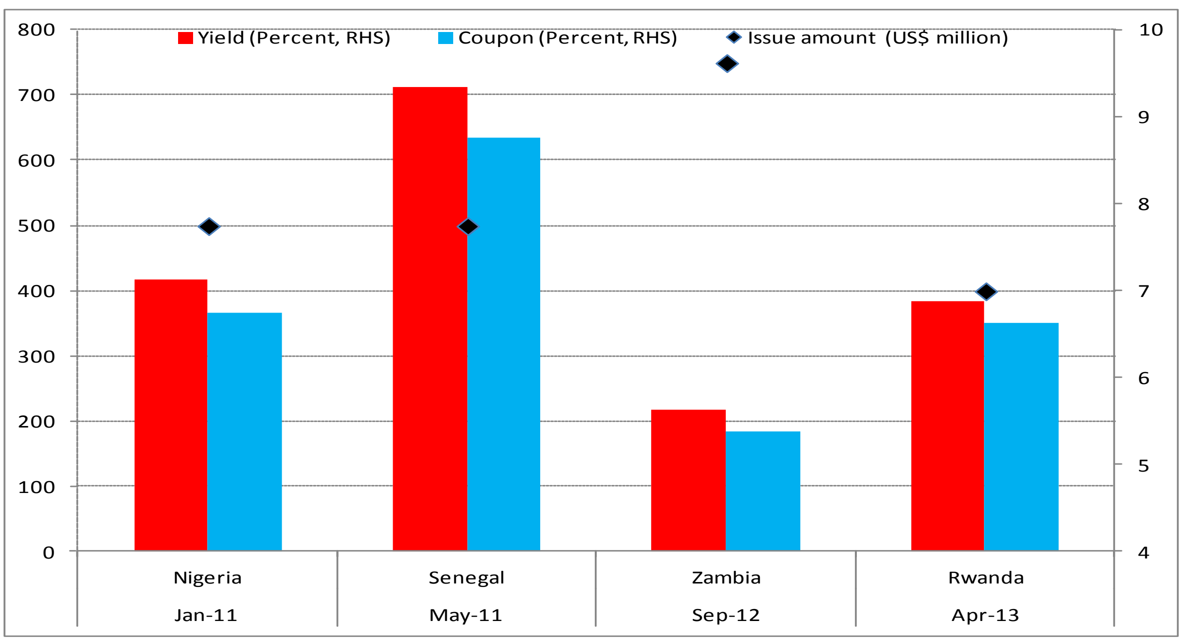
Box 1. Rwanda's Euro Bond

Rwanda's euro bond issue of US$400 million was rated B by Fitch and Moody's (following a sovereign rating of B for Rwanda). The 10-year notes carry a coupon of 6.625%. The issue was nine times oversubscribed and was priced at 98.213, to yield 6.875%, at the low end of analysts' expectations.

Rwanda's euro bond issue is somewhat smaller in amount than those of other Sub-Saharan African countries since 2011 (see Text Figure 1). However, the yield compares favorably with those obtained by Nigeria and Senegal.

Markets welcomed Rwanda's decision to cap the size of the bond at US$400 million, short of the US$500 million minimum required to qualify for inclusion in global emerging market bond indices.

Text Figure 1. Euro bonds issuance since 2011



Box 2. The Electricity Sector in Rwanda

The government of Rwanda has decided to complete the 28 MW Nyabarongo hydro-power plant in FY 2013/14 using proceeds from the euro bond (US$50 million). This project was started in 2009 with a US$100 million loan from the Export-Import Bank of India It is a core element of the government's strategy to sharply increase power generation capacity and access to electricity under the EDPRS2. A major objective is also to reduce reliance on costly diesel and heavy fuel oil-based electricity generation and eliminate the fiscal subsidy to thermal generation, which amounted to about 0.5 percent of GDP in FY2012/13.

Electricity use in Rwanda is currently limited as less than 20 percent of the population has access to electricity and the economy comprises few electricity-intensive activities. However, demand is expected to grow substantially over the medium term with improved electricity access and the projected transformation of the economy toward more electricity-intensive activities. The potential for electricity generation in Rwanda based on indigenous sources of energy—hydro, lake-based methane, and geothermal—is also large but harnessing these energy resources will require substantial financial resources.

According to World Bank staff, the economic rationale for completing the Nyabarongo power plant is strong. It will add capacity to Rwanda's electricity sector and bring the average cost of generation down sharply by allowing the retirement of some expensive thermal capacity. Installed electricity generation capacity in Rwanda is about 100 MW, with hydro accounting for about 60 percent and thermal about 40 percent. The average (unsubsidized) cost of generating electricity is US$0.25-0.3 per kWh, above the already high electricity tariff in Rwanda of close to US$0.2 per kWh (compared to tariffs in other EAC countries of US$0.1-0.15 per kWh). By comparison, the cost of electricity generation at the Nyabarongo plant is projected to be around US$0.1 per kWh. The plant will help narrow the gap between the average tariff and the average cost of generation and reduce the fiscal subsidy.

9. **Rwanda's second Economic Development and Poverty Reduction Strategy (EDPRS2) was approved by cabinet in early May 2013.**[1] The strategy has an ambitious agenda of sustaining high, inclusive growth through economic transformation, rural development, productivity and youth employment, and accountable governance. Eradicating extreme poverty by 2018 is a major objective of the EDPRS2.

MEFP ¶16

PROGRAM PERFORMANCE

10. **Progress in implementing the PSI remains satisfactory.** All quantitative assessment criteria (QAC) for the sixth review except two were met. The NFA target was missed by a small margin (less than 5 percent of the stock of reserves) reflecting strong market demand for foreign exchange and reduced aid inflows. The minor nature of the deviation along with the authorities' commitment to greater exchange rate flexibility to preserve international reserves (see paragraph 17 below and MEFP paragraph 12) provides a basis for a waiver for the non-observance of this criterion. The continuous ceiling on non-concessional borrowing was breached because the government decided to expand the size of the euro bond by US$50 million, to US$400 million, to cover the cost of completing a hydro-power project. The impact of this additional borrowing on Rwanda's debt sustainability outlook is minimal (see paragraph 20 below) which provides a basis for a waiver of the non-observance of this criterion. All quantitative indicative targets were met except those on consolidated domestic debt (owing to greater-than-planned recourse to domestic borrowing) and domestic arrears (on account of the cash constraint the government faced as a result of the shortfall in aid inflows). Of six structural benchmarks (SB), five were completed. The SB on the specification of the technical design of the integrated financial management and information system (IFMIS) suffered implementation delays and has been re-phased to September 2013.

OUTLOOK AND RISKS

MEFP ¶7

11. **The macroeconomic outlook for 2013 has weakened somewhat since the fifth review under the PSI.** The growth of the service and construction sectors is expected to slow in response to tighter economic policies. This is expected to be partly offset by a higher rate of growth in agriculture, for which the first harvest of food crops was good, and by an acceleration of foreign-financed investment projects. Real GDP is projected to grow by 7.5 percent in 2013, and converge to about 7 percent annually over the medium term (Figure 6). While this growth rate is attainable, it is subject to downside risks stemming mainly from possible further cutbacks in aid, delays in project implementation, as well as a more challenging global environment.[2] Inflation is expected to average 5.6 percent in 2013, rising on the back of the exchange rate pass-through.

[1] See Box 3 in Country Report No. 13/77 for a discussion of the EDPRS2.

[2] In Country Report No. 13/77, staff estimated that, for each 1 percent of GDP in budget support not disbursed, growth would be ½ percentage point lower.

A. Policy Discussions

12. **The discussions focused on adjustments needed to economic policies in response to the short- and medium-term economic challenges.** For the short term, the authorities and staff agreed that the lower level of foreign aid required policy adjustments aimed at aligning spending plans to available resources while preserving priority spending. In addition, the need to preserve reserve buffers would require a tight monetary stance and greater exchange rate flexibility. For the medium-term, it was agreed that the main challenge would be to effectively implement the EDPRS2, especially to mobilize resources, including domestic revenue, in support of the strategy.

B. Fiscal Policy

13. **In response to the budget support shortfall in FY2012/13, the government passed a supplementary budget reducing and identifying contingent spending**. Disbursements of budget support (grants and loans) for FY2012/13 are now expected to be 1.2 percent of GDP lower than in the original budget. To close this resource gap, the government introduced a hiring freeze and cut non-priority current spending allocations across line ministries and public institutions in the February 2013 supplementary budget to preserve the overall fiscal deficit target of the original budget, excluding net lending operations related to the euro bond (Text Table 2). The authorities explained that, with the World Bank and AfDB and some bilateral donors resuming budget support disbursements, most of the contingent spending identified in the supplementary budget would likely be implemented. Moreover, the authorities are intent on eliminating by the end of the fiscal year (end-June 2013) the arrears recorded at end-2012 (0.7 percent of GDP).[3] These arrears were already reduced by two-thirds by March 2013 and the fiscal program is consistent with no accumulation of new arrears.

MEFP ¶10

[3] In addition to the new domestic arrears accrued in the July-December 2012 period, the Rwandan government has an older stock of domestic arrears that it has been paying down gradually in recent years. These down payments will continue in FY2013/14.

Text Table 2. Rwanda: Fiscal Framework 2012/13

	2012/13H1		2012/13H2		2012/13	2012/13
	PSI 5th Rev.	Prel. Est.	PSI 5th Rev.	Rev. Proj.	PSI 5th Rev.	Rev. Proj.
	(Percent of FY GDP)					
Revenue and grants	12.3	11.4	13.0	12.9	25.3	24.3
Revenue	7.2	7.2	7.7	7.7	14.9	15.0
Tax revenue	6.4	6.4	7.0	7.2	13.4	13.6
Non-tax revenue	0.8	0.9	0.7	0.5	1.5	1.4
Grants	5.1	4.2	5.3	5.2	10.4	9.4
Budgetary grants	2.5	2.0	2.6	2.2	5.2	4.2
Capital grants	2.6	2.2	2.7	3.0	5.3	5.2
Total expenditure and net lending	13.8	12.3	18.6	17.8	32.4	30.2
Excl. sovereign bond	12.2	12.3	15.9	14.8	28.1	27.1
Current expenditure	6.5	6.8	7.6	6.6	14.1	13.4
Contingency	--	--	--	0.2	--	0.2
Captial expenditure	5.6	5.3	8.0	7.9	13.7	13.2
Contingency	--	--	0.4	1.6	0.4	1.6
Net lending	1.7	0.2	2.9	3.3	4.6	3.5
Sovereign bond	1.6	--	2.7	3.1	4.3	3.1
Overall deficit (after grants, cash basis)	-1.6	-0.2	-5.5	-5.7	-7.1	-5.9
Excl. sovereign bond	--	-0.2	-2.8	-2.6	-2.8	-2.9

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

14. **The agreed budget framework for FY2013/14, approved by cabinet in early May, is in line with PSI objectives**. It sustains efforts on revenue mobilization, adjusts current spending to available resources, minimizes domestic financing, protects priority spending, and is based on prudent assumptions regarding budget support disbursements. Based on indicative commitments from donors, budget support disbursements (grants and loans) are expected to be about 3.2 percent of GDP lower than previously expected. To bridge this gap, the authorities project an increase in revenue of 0.3 percent of GDP (through changes to the investment code, the adoption of a royalty tax on mining, the roll-out of electronic billing machines, and the renegotiation of a double taxation treaty with Mauritius), a cut in current spending by 1.4 percent of GDP and in domestically-financed capital spending by 0.7 percent of GDP, and resort to limited domestic financing of 0.8 percent of GDP to lessen the immediate adjustment need, a measure supported by the mission. On the other hand, the authorities expect an increase in capital grants of 0.8 percent of GDP, which, along with the additional proceeds from the euro bond for the hydro-power project, will help boost foreign financed capital spending. Given the large shortfall in budget support incorporated into the budget framework, staff agreed that, should budget support turn out greater than assumed, the additional resources could be allocated to spending. At the same time, and in view of risks to the outlook, the authorities indicated that they stood ready to take additional spending or revenue measures if downside risks to growth or budget support were to materialize.

MEFP ¶11

15. **In the face of increasing aid uncertainty, the government is determined to increase domestic revenue mobilization and prioritize spending in support of development**. The authorities highlighted the challenge posed by the loss of revenue associated with increasing regional free trade. They also agreed that success in this area will likely require a concerted effort to

broaden the tax base and further improve revenue administration. To this end, the government is committed to preparing a comprehensive revenue mobilization strategy by end-June 2013 (structural benchmark), drawing on technical assistance provided by FAD. On the spending side, the major focus of policy is the completion of strategic investment and the effective implementation of social projects and programs. Relative to earlier projections, this involves some reallocation of current spending into capital spending, partly foreign-financed. Overall spending is, nevertheless, projected to decline relative to GDP over the medium-term in line with the expected availability of resources.

C. Monetary and Exchange Rate Policy

16. **The authorities and staff agreed on the need to maintain a tight monetary stance.** Monetary policy was responsive to the aid shock in the second half of 2012, and the tighter stance was amplified by the deceleration in inflation in recent months. Real interest rates have appropriately moved into positive territory, pushed up also by tighter liquidity conditions in money markets, particularly for treasury bills. The monetary program for 2013 targets a growth rate of reserve and broad money at about 15 percent by year-end**.** Growth in credit to the private sector is projected to slow from about 34 percent at end-2012 to about 14 percent at end-2013.

MEFP ¶12

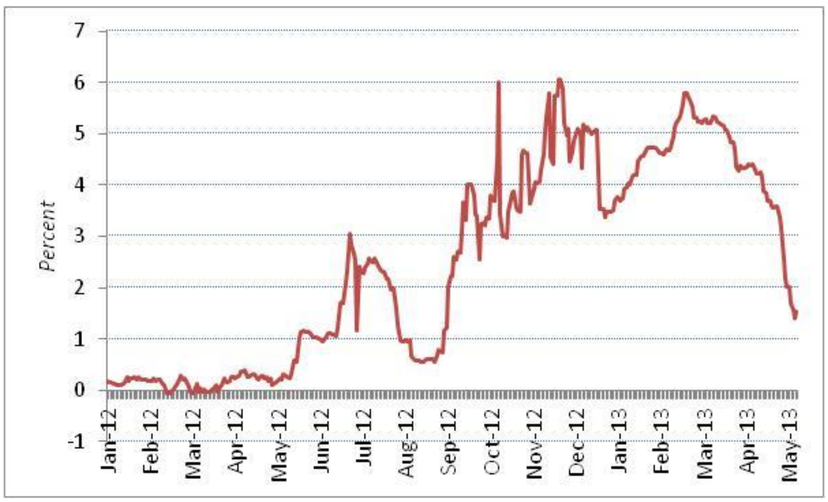
17. **The mission underscored the need for greater exchange rate flexibility.** The authorities noted that the aid shortfall and buoyant demand for foreign exchange, due in part to strong private sector credit and import growth in the second half of 2012, had contributed to market pressures that led to an emerging spread between the official and market exchange rates (Box 3). The spread was around 5 percent in March 2013 despite some depreciation of the currency and interventions by the NBR. The authorities concurred that greater exchange rate flexibility would help mitigate the impact of the aid shortfall on reserves and contribute to the narrowing of the spread. Going forward, they committed to strengthening the implementation of the exchange rate corridor by allowing market developments to be fully reflected in the official exchange rate. In their view, this, coupled with the resumption of aid disbursements, will lead to the narrowing of the spread with the open market to the levels prevailing before mid-2012 of below 2 percent. By late-May, the spread had narrowed to about 1.6 percent.

Box 3. Exchange Rate Developments

The NBR is the main player in Rwanda's foreign exchange market. While there is a fledgling interbank market, the NBR determines the exchange rate within a corridor, based on the previous day's exchange rate, the interbank rate, and international economic developments.

The exchange rate of the RWF against the US dollar was broadly stable for the first half of 2012. However, demand for foreign exchange from commercial banks was increasing (due in part to strong private sector credit growth) from the first quarter of 2012. The NBR, which traditionally had met the full demand of commercial banks, started managing the supply of foreign exchange. While commercial banks initially turned to the interbank market, the available supply was insufficient to meet demand. The excess demand increased gradually and peaked in October 2012, as the aid shortfall started to bite, with the interbank market itself drying up from September 2012.

Text Figure 2. Rwanda: Evolution of market spreads, January 2012 – May 2013



Source: IMF staff, based on data from Rwandan authorities.

The NBR initially used its reserve buffers to maintain the value of the RWF, but allowed greater exchange rate flexibility from August 2012. The RWF depreciated by about 4.5 percent over 2012, mostly in the last few months of the year. However, with the inflow of foreign exchange from donors ceasing, the market pressures persisted. Between September 2012 and March 2013, a spread of about 5 percent emerged between the official and market exchange rates (see text figure 2). Since then, the spread has narrowed to about 1.6 percent by late-May, reflecting the resumption of aid disbursements and a more effective use of the exchange rate corridor by the NBR.

18. **The authorities expressed satisfaction with the early experience with a more flexible reserve money targeting framework**. The authorities noted that the move to a reserve money band of +/-2 percent around a central reserve money target had been functioning smoothly as far as liquidity management was concerned by obviating their need to focus excessively on a point target for reserve money. However, the functioning of the monetary framework was still hampered by weaknesses in the transmission of monetary policy, as the shallowness of the markets, particularly the low level of transactions in the interbank market, remained a key structural impediment. The NBR recognizes the requirements for the eventual adoption of an inflation targeting framework and has sought technical assistance from MCM. Capacity building, including on forecasting inflation, is already underway (Box 4).

MEFP ¶13

D. Financial Sector Policy

19. **Capital adequacy and asset quality indicators for the financial sector have continued to improve** (Table 5). The authorities pointed to the continued banking expansion, and declining ratio of non-performing loans. However, high overheads still represent a drag on profitability. The authorities concurred with the mission on the need to bolster supervisory capacity within the NBR, including by better managing the turnover of bank examiners and enhance cross border supervision of regional banks. A memorandum of understanding regarding cross border supervision has been signed between eligible countries and the first joint inspections are set to start shortly. Plans to consolidate the SACCOs into one cooperative bank by end-2014 are broadly on track. The authorities emphasized that their second financial sector development plan (FSDP2) aims to promote financial sector development to foster financial inclusion and mobilize domestic savings. Other priorities include supporting consumer protection, crisis identification and preparedness, and capacity building.

MEFP ¶14

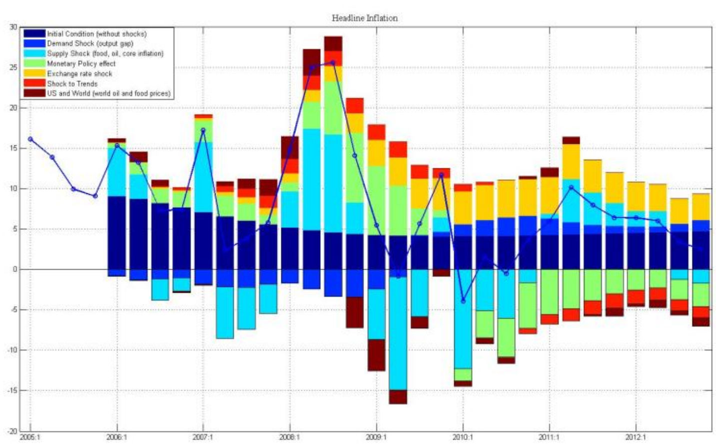
Box 4. Forecasting and Policy Analysis System for Rwanda

A forecasting and policy analysis system (FPAS) is being applied to Rwanda to construct consistent forecasts, perform scenario analysis, and inform monetary policy formulation. The system is being built around a core model of the economy that captures the basic channels of monetary policy transmission and provides a framework for discussing the risks around the forecast.

The model for Rwanda consists of four basic behavioral equations:

- IS curve: relates monetary policy and real economic activity (aggregate demand);
- Phillips curve: relates real economic activity and inflation (aggregate supply);
- Monetary policy rule (Taylor rule): describes the response of the central bank to deviations of inflation from target and the phase of economic activity; and
- Modified uncovered interest parity (UIP): describes the behavior of the exchange rate, allowing for deviations from UIP.

Text Figure 3. Contributors to Inflation



The model is calibrated to reflect stylized facts about the Rwandan economy. A filtration exercise helps determine the contribution of various factors to inflation and deviations from the 5 percent target (dark blue) (see text figure 3). In 2012, the monetary tightening (light green) and the decline in food inflation (light blue) reduced inflationary pressures. The latter was driven mainly from the demand side, particularly buoyant private sector credit growth, and the exchange rate developments (yellow) associated with the aid shortfall. The depreciation of exchange rate had only limited impact on oil inflation.

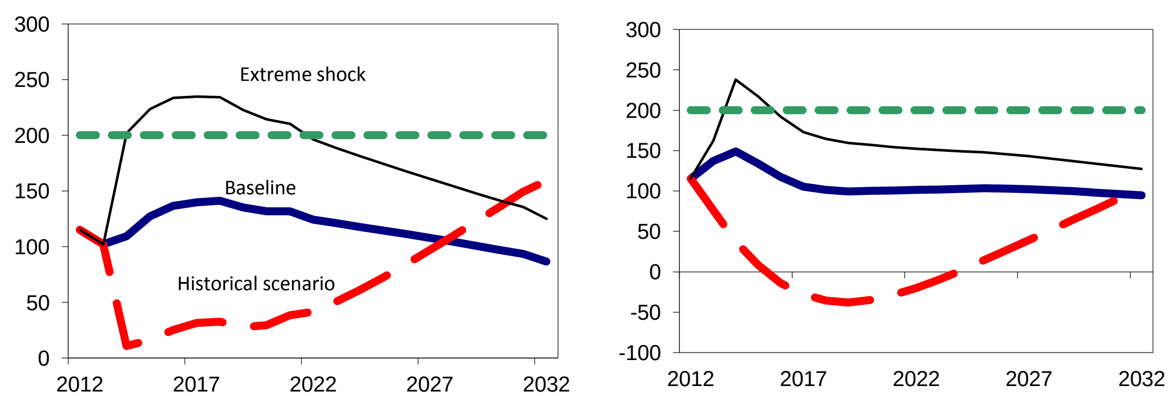
E. External Policy

20. **Staff assessed the impact of the augmented euro bond and the greater use of concessional budget and project loans in the near term using the LIC debt sustainability framework.** The DSA shows that Rwanda's debt remains sustainable under a baseline scenario (Appendix II).[4] However, Rwanda continues to exhibit vulnerabilities related to its small export base. While no threshold is breached in the baseline scenario, a shock to exports leads the PV-to-exports indicator to breach its threshold, similar to the outcome of previous exercises. However, with the larger borrowing, the breach will both be larger and of longer duration than estimated at the time of the fifth review (see Text Figure 4). Based on current estimates, the breach will now peak at about 234 percent of exports (218 percent previously) and will last for eight years (two years previously). The incremental impact of the larger euro bond does not contribute much to this deterioration (only about 1 percentage point). Rather, it is the larger recourse to concessional financing in the face of a decline in budget grants and transfers that leads to higher debt levels. Other indicators do not raise significant concerns, even under extreme scenarios.

Text Figure 4. Implications of New External Borrowing on Debt Sustainability

(Present value of external debt, as a percentage of exports of goods and services)

Current assessment | *Assessment from the 5th Review*



Source: IMF staff calculations and authorities' data.

[4] See Box 7 in IMF Country Report No. 13/77 for a fuller discussion of the impact of the euro bond on debt sustainability prospects.

PROGRAM ISSUES

21. **The authorities requested an extension of the current PSI by seven months, to end-January 2014, to allow them time to prepare a medium-term economic program that could be supported by a new three-year PSI**. The authorities and the mission agreed on new QACs and quantitative indicative targets for end-June 2013 and quantitative indicative targets for end-December 2013 (Appendix I, Table 1), including a higher ceiling on the contracting of non-concessional debt to reflect the larger euro bond issue. It was also agreed to re-phase the structural benchmark on IFMIS to end-September 2013 and to include a new benchmark on the preparation of a domestic revenue mobilization strategy by end-June 2013 (Appendix I, Table 2).

MEFP ¶15

STAFF APPRAISAL

22. **The authorities are to be commended for their continued satisfactory performance under the PSI in challenging circumstances**. Their response to the suspension and delays in budget support from bilateral and multilateral donors was broadly appropriate. Spending in FY2012/13 was re-phased and eventually reduced, monetary policy was tightened, while the authorities tapped into their reserve buffers to minimize the impact of the aid shortfall on economic activity.

23. **The economy, however, remains vulnerable, and the room for maneuver has diminished.** The scope for further reliance on the reserves to cushion adverse shocks to aid inflows has been reduced. Policies need to be guided by the twin requirements of adjusting to available financing and preserving policy buffers. In this context, full use of monetary policy instruments, especially greater exchange rate flexibility, will be crucial.

24. **The agreed framework for the FY2013/14 budget is in line with PSI objectives**. It appropriately sustains efforts to mobilize additional domestic revenue, adjusts current spending to available resources, minimizes domestic financing, protects priority spending, and is based on prudent assumptions regarding budget support disbursements. Should additional resources become available, they could be allocated to spending through the supplementary budget.

25. **The authorities' intention to develop a comprehensive plan for enhancing domestic revenue mobilization over the medium term is timely**. Additional domestic resources will be required to sustain priority spending, including domestically-financed capital spending and investment projects.

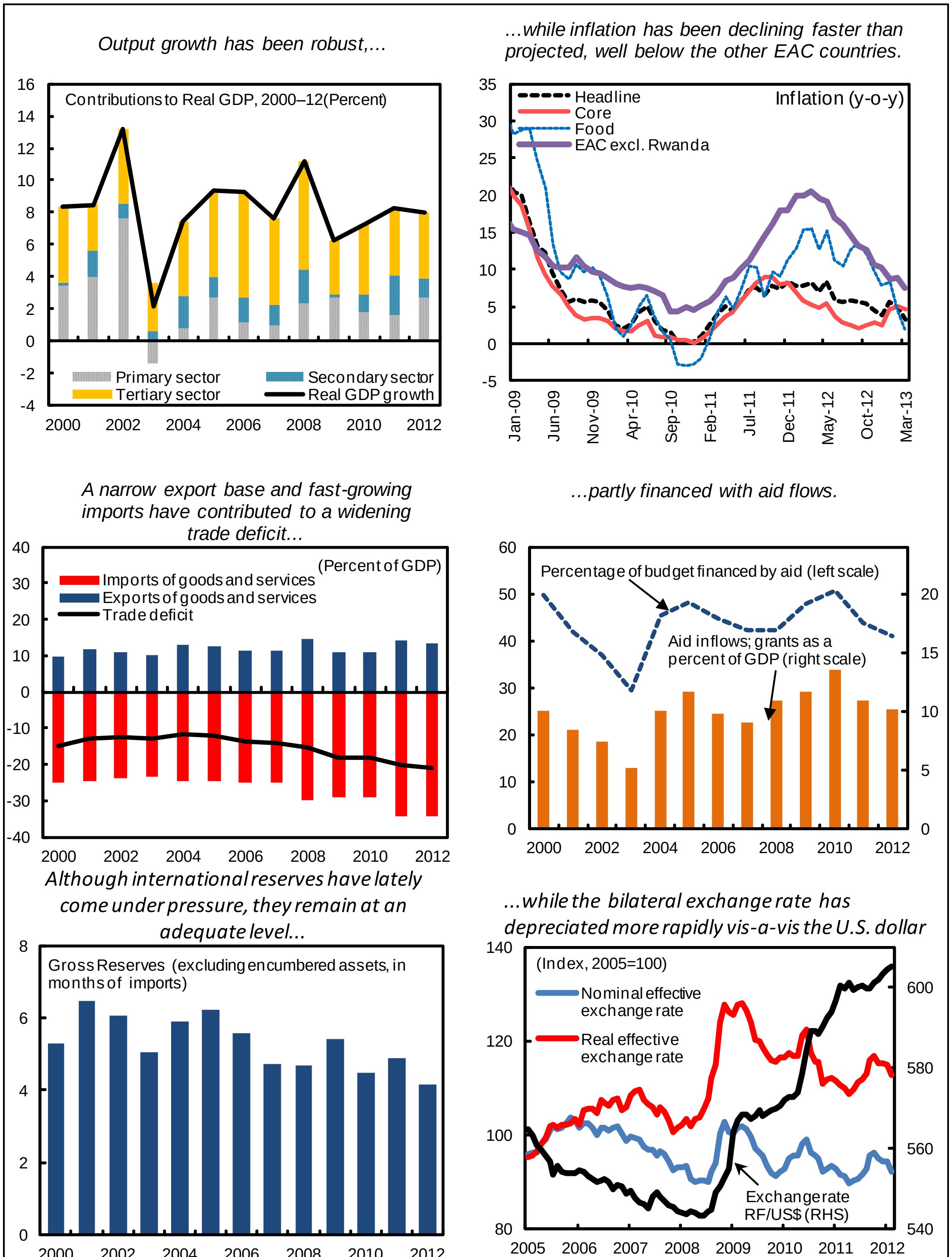
26. **Staff welcomes Rwanda's new poverty reduction strategy (EDPRS2)**. The new strategy builds on the impressive reduction in poverty in Rwanda under the EDPRS1. The renewed emphasis on inclusive growth and the eradication of extreme poverty within five years is particularly commendable. Mobilizing resources to support the ambitious economic strategy will be crucial to its success.

27. **The authorities' commitment to tighten the monetary stance while allowing greater exchange rate flexibility is welcome**. A more flexible exchange rate that reflects economic fundamentals should simultaneously help preserve an adequate reserve cushion, avoid exchange rate misalignments, and contribute to the closing of the spread between the official and market exchange rates. In this regard, the recent narrowing of this spread is welcome.

28. **The proceeds of the euro bond should be used exclusively for the agreed purposes of retiring unfavorable government-guaranteed debt and completing strategic investment projects that will provide immediate benefits to the Rwandan economy**. Staff encourages the authorities to continue to develop and apply their medium-term debt management strategy.

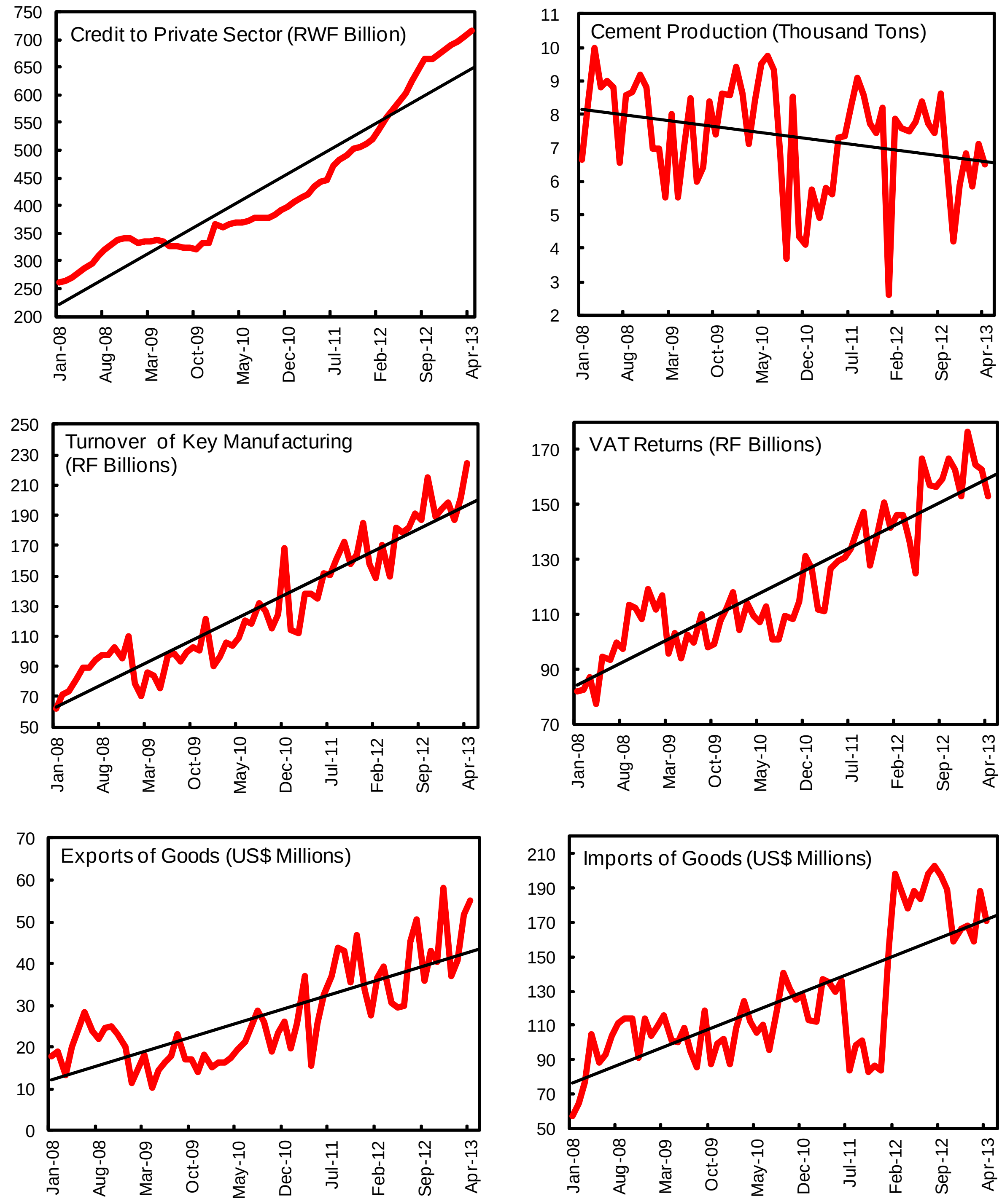
29. **Staff recommends the completion of the sixth review under the PSI**. Staff supports waivers for the non-observance of the QAC on NFA at end-2012 and the continuous QAC on non-concessional borrowing. Staff also supports the authorities request for an extension of the PSI by seven months, to end-January 2014.

Figure 1. Rwanda: Recent Performance



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

Figure 2. Rwanda: Selected High-Frequency Indicators of Economic Activity



Sources: IMF staff and Rwandan authorities estimates.

Figure 3. Rwanda: Inflation Developments and Outlook

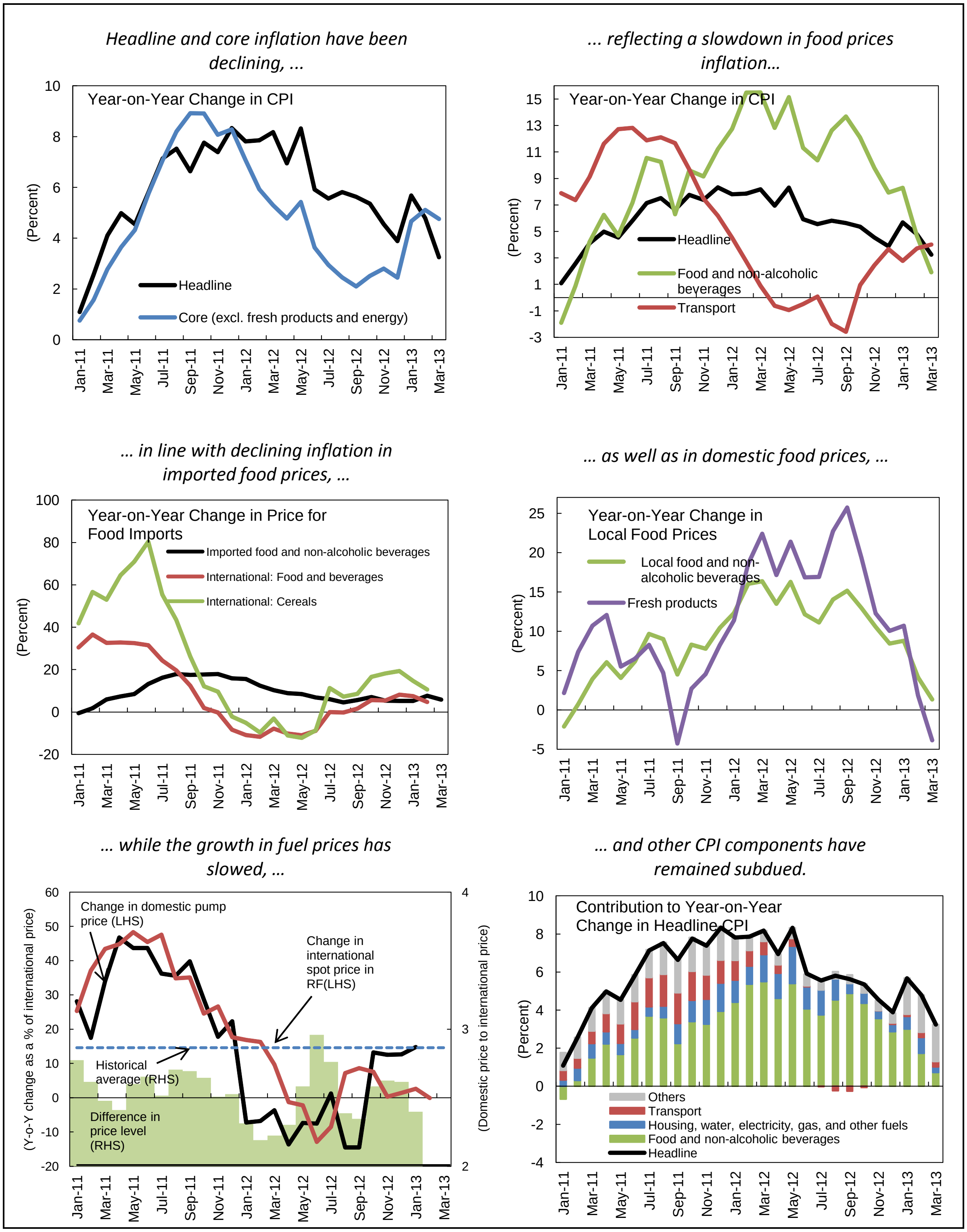
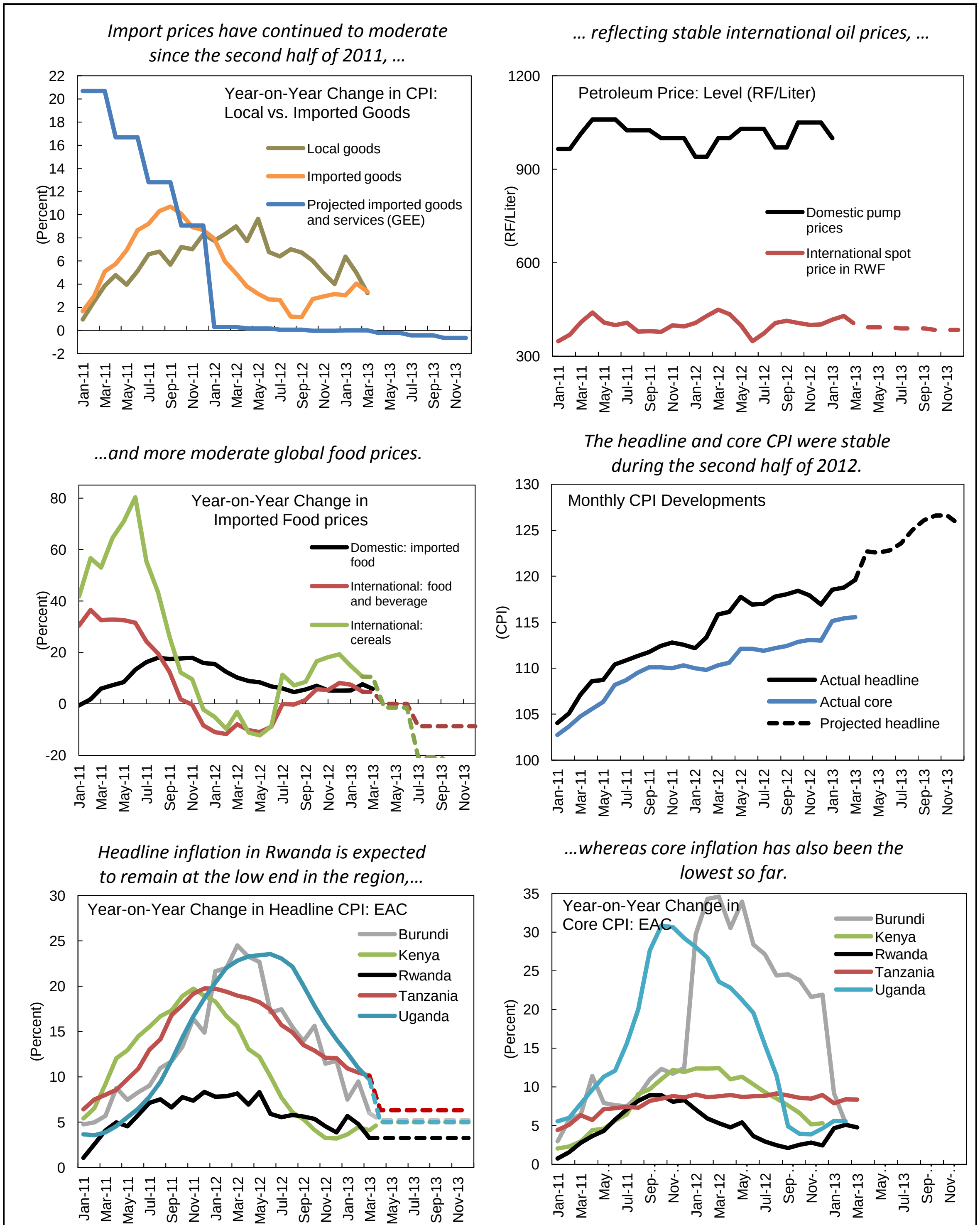
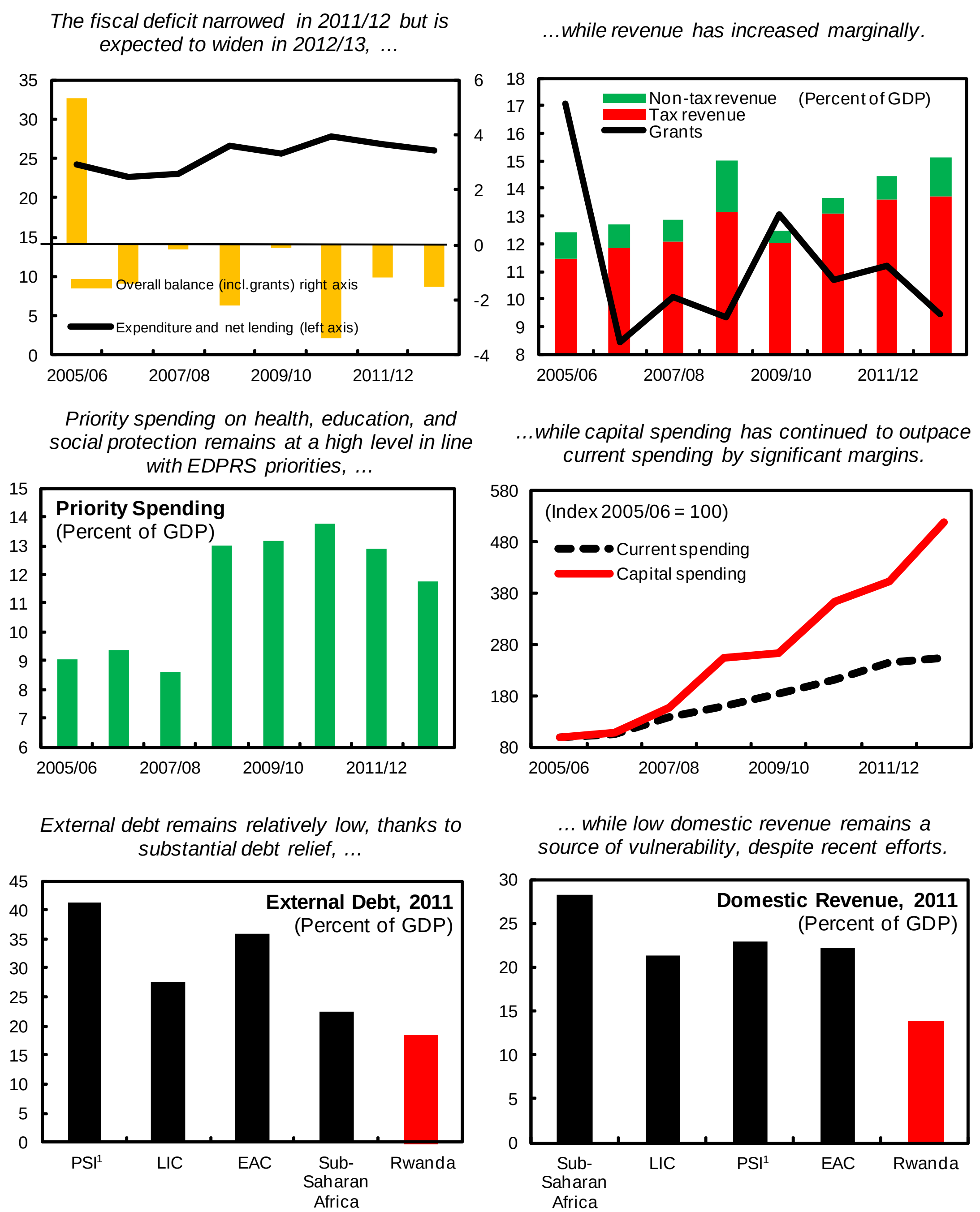


Figure 3. Rwanda: Inflation Developments and Outlook (continued)



Sources: IMF staff and Rwandan authorities' estimates.

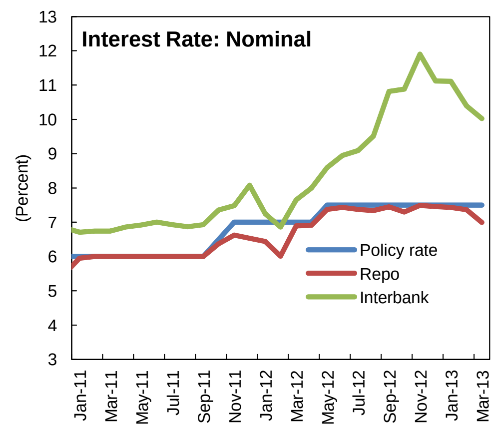
Figure 4. Rwanda: Fiscal Developments



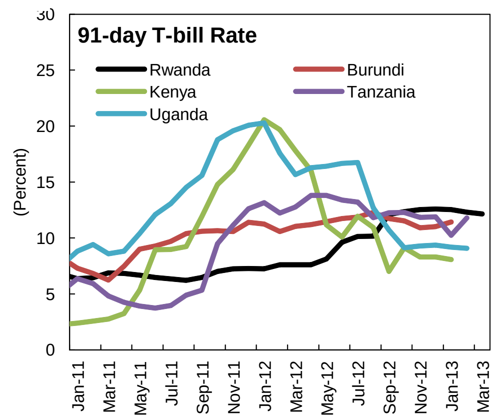
[1] PSI countries are Mozambique, Senegal, Tanzania, and Uganda.
Sources: IMF staff and Rwandan authorities' estimates.

Figure 5. Rwanda: Monetary Developments

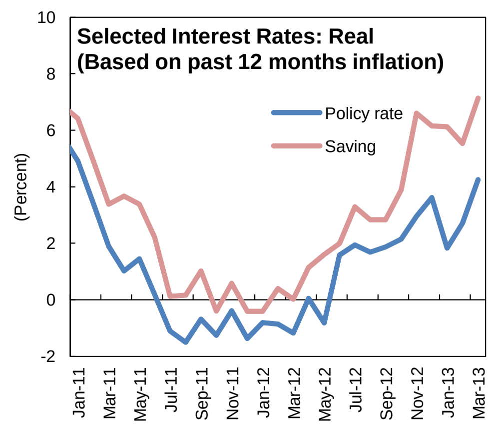
In response to rising inflation, the NBR raised the policy rate three times since October 2011, …



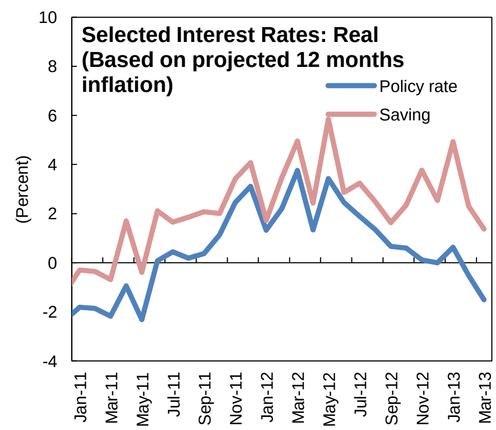
…triggering a gradual increase in T-bill rates.



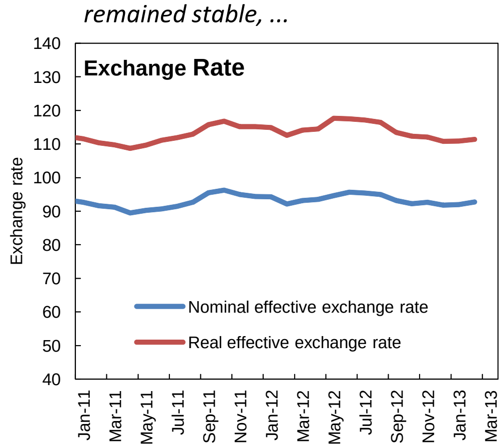
Real interest rates returned to positive territories in H1:2012, …



… but the projected rebound in inflation calls for continued vigilance



The effective exchange rate has remained stable, …



… while the exchange rate with the US$ depreciated.

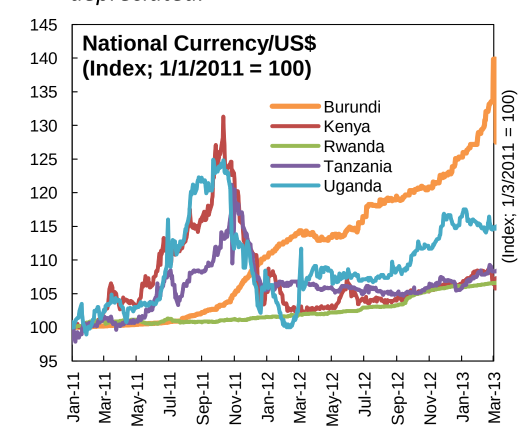
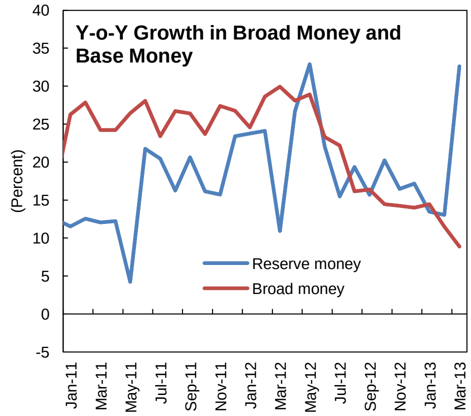
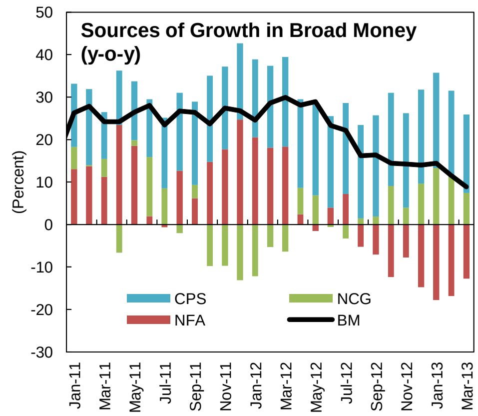


Figure 5. Rwanda: Monetary Developments (continued)

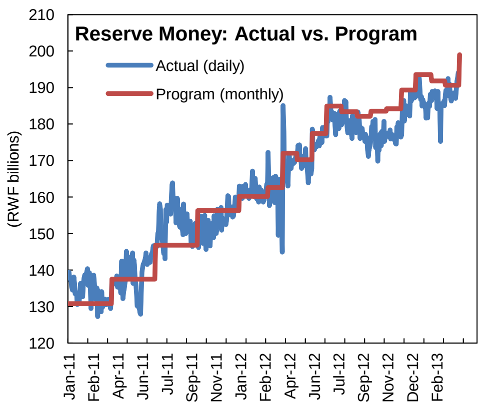
Broad money growth has continued to slowdown, ...



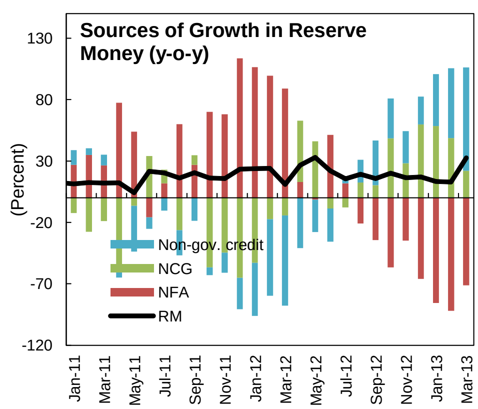
... while private sector credit growth remained buoyant.



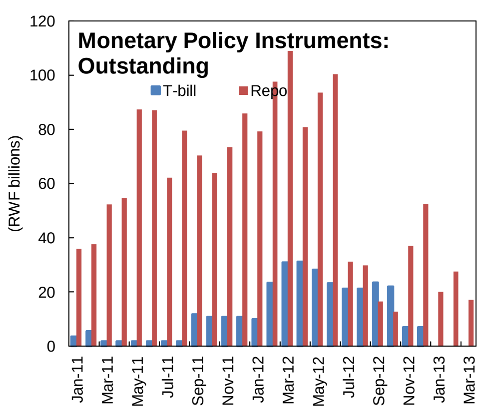
Reserve money has been contained in line with program targets, ...



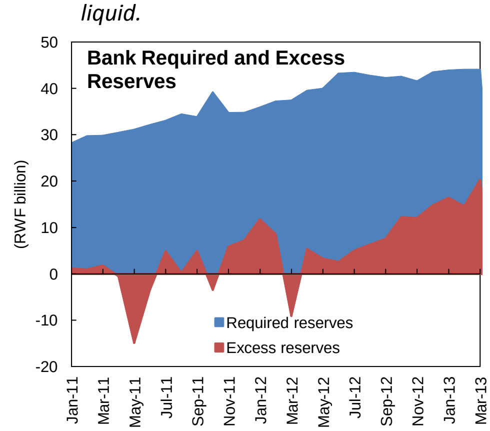
... helped by the slowdown of net foreign assets .



A slowdown in repo operations, ...

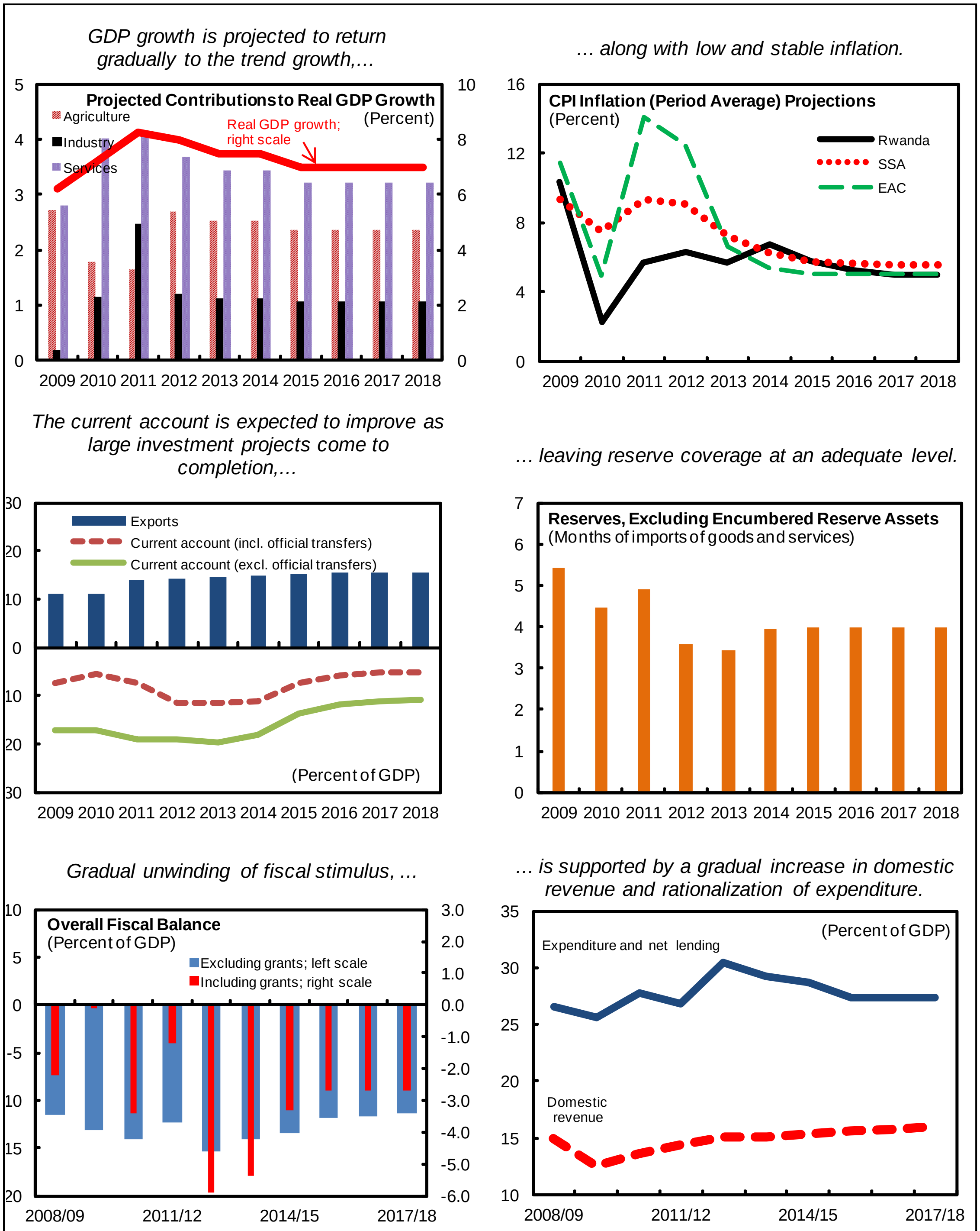


... ensured markets remained amply liquid.



Sources: IMF staff and Rwandan authorities' estimates.

Figure 6. Rwanda: Medium-Term Outlook



Sources: IMF staff and Rwandan authorities' estimates.

Table 1. Rwanda: Selected Economic and Financial Indicators, 2009-18

	2009	2010	Est. 2011	Country Report 13/77 2012	Prel. Est. 2012	Country Report 13/77 2013	2013	2014	2015	2016	2017	2018
	(Percent changes; unless otherwise indicated)											
Output and prices												
Real GDP growth	6.2	7.2	8.2	7.7	8.0	7.6	7.5	7.5	7.0	7.0	7.0	6.8
Real GDP (per capita)	4.0	5.0	6.0	5.5	5.8	5.4	5.3	5.3	4.8	4.8	4.8	4.6
GDP deflator	11.6	2.5	7.4	7.7	5.9	7.2	6.5	7.7	6.9	6.4	6.1	5.1
Consumer prices (period average)	10.3	2.3	5.7	7.9	6.3	7.0	5.7	6.8	5.8	5.3	5.0	5.0
Consumer prices (end of period)	5.7	0.2	8.3	7.5	3.9	6.5	7.5	6.0	5.5	5.0	5.0	5.0
External sector												
Export of goods, f.o.b. (U.S. dollars)	-12.2	37.2	44.0	16.2	27.3	9.4	10.1	13.6	9.2	9.0	10.4	8.5
Imports of goods, f.o.b (U.S. dollars)	13.5	8.5	44.5	20.1	25.6	7.8	8.9	6.2	-9.6	5.0	8.3	7.8
Export volume	-20.0	11.6	18.5	14.0	20.9	12.5	13.0	8.9	7.4	9.6	7.5	8.9
Import volume	7.4	3.8	18.8	16.6	13.3	9.0	14.4	4.6	-8.1	5.2	8.2	5.8
Terms of trade (deterioration = -)	3.8	17.7	-0.1	-1.0	-5.1	-1.7	2.4	2.8	3.3	-0.3	2.6	-2.2
Money and credit[1, 2]												
Net domestic assets	36.9	13.6	12.9	…	205.2	…	33.3	43.6	21.4	19.5	19.2	17.6
Domestic claims	8.9	23.5	10.9	…	82.9	…	20.2	29.6	11.4	16.0	17.2	15.2
Of which: Private sector	4.9	11.1	27.9	…	34.1	…	14.3	11.2	10.1	15.9	17.1	15.1
Broad money (M2)	13.1	16.8	26.8	16.5	14.0	16.3	15.5	15.5	15.4	14.8	14.5	13.2
Reserve money	0.3	12.5	23.4	16.5	17.2	16.3	14.5	14.5	14.5	14.5	14.5	14.5
Velocity (GDP/M2; end of period)	5.6	5.3	4.9	4.9	4.9	4.8	4.9	4.9	4.8	4.8	4.7	4.7
	(Percent of GDP)											
National income accounts												
National savings	5.1	4.6	3.2	2.8	3.8	3.3	4.7	7.1	11.3	12.6	13.5	14.4
Gross investment	22.3	21.7	22.2	23.7	22.9	23.0	24.2	25.0	24.9	24.5	24.8	25.0
Of which: private (including public enterprises)	12.4	10.8	9.9	9.5	10.2	9.8	10.5	10.8	11.1	11.4	11.7	11.9
Government finance[3]												
Total revenue (excl. grants)	15.0	12.5	13.7	14.3	14.5	14.9	15.1	15.2	15.3	15.5	15.7	15.9
Total expenditure and net lending	26.6	25.7	27.7	26.6	26.9	32.3	30.5	29.2	28.9	27.5	27.5	27.5
Capital expenditure	11.1	10.1	12.4	11.7	11.8	13.7	13.4	13.8	14.6	13.1	13.1	14.8
Current expenditure	14.6	14.7	14.9	14.9	15.0	14.0	13.6	13.2	13.4	13.4	13.4	15.2
Primary fiscal balance[4]	-2.3	-5.1	-5.0	-3.9	-3.9	-3.0	-1.7	-0.7	-1.5	-1.3	-1.1	-1.0
Domestic fiscal balance[5]	-5.3	-8.0	-7.8	-6.0	-6.1	-9.3	-7.0	-4.5	-3.9	-3.8	-3.6	-3.8
Overall fiscal balance (payment order)												
After grants	-2.2	-0.1	-3.4	-1.2	-1.2	-6.9	-5.9	-5.4	-3.5	-2.9	-2.9	-3.3
Before grants	-11.6	-13.2	-14.1	-12.3	-12.4	-17.4	-15.3	-14.1	-13.6	-12.0	-11.8	-13.1
External sector												
External current account balance												
Including official transfers	-7.3	-5.4	-7.2	-11.3	-11.4	-10.2	-11.3	-11.3	-7.3	-5.7	-5.2	-5.0
Excluding official transfers	-17.2	-17.1	-19.0	-20.9	-19.0	-19.7	-19.5	-18.0	-13.6	-11.9	-11.3	-10.7
External debt (end of period)	14.9	14.9	18.5	21.3	17.7	20.4	17.3	19.4	23.6	26.3	27.6	28.2
Net present value of external debt												
(Percent of exports of goods and services)	…	86.9	110.8	136.8	115.1	129.5	102.0	109.3	127.1	136.5	139.8	141.3
Scheduled debt service ratio												
(Percent of exports of goods and services)	2.6	3.0	2.6	22.9	11.3	11.5	20.3	4.0	4.6	4.6	4.6	4.6
Gross reserves (months of imports of goods and services)[6]	5.4	4.5	5.1	5.2	3.7	4.6	3.8	4.0	4.0	4.0	4.0	4.0
Gross reserves excluding encumbered assets in 2012 and unused euro bond proceeds in 2013 (months of imports of goods and services)[6]			4.9	4.2	3.4	4.6	3.4	4.0	4.0	4.0	4.0	4.0
	(Millions of U.S. dollars)											
Gross reserves	742.2	813.3	1050.0	1144.2	843.5	989.0	925.5	934.1	992.3	1075.2	1155.7	1226.2
Memorandum item:												
Nominal GDP (billions of Rwanda francs)	2,985	3,280	3,814	4,437	4,363	5,118	4,995	5,784	6,618	7,534	8,553	9,599

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Projections are based on the program exchange rate of RWF 604.14 per U.S. dollar.

[2] Figures for net domestic assets, domestic claims, domestic credit and private sector in Country Report 13/77 were in percent of broad money.

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

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

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

[6] Data from 2009 onward includes SDR allocation.

Table 2. Rwanda: Balance of Payments, 2009-18
(in millions of US dollars, unless otherwise indicated)

	2009	2010	2011	2012		2013		2014	2015	2016	2017	2018
	Est.	Est.	Est.	PSI 5th Rev.	Proj.	PSI 5th Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports (f.o.b.),[1]	235.0	322.4	464.2	539.6	590.8	590.2	650.7	739.3	807.1	879.5	971.0	1,053.3
Of which: coffee and tea	85.6	111.8	138.5	141.8	126.6	159.1	159.3	175.1	204.2	221.7	256.5	274.5
Minerals	55.4	67.9	151.4	131.9	136.1	153.0	139.3	135.8	138.7	147.6	157.2	173.0
Imports (f.o.b.)	999.2	1,084.0	1,565.8	1,880.8	1,967.0	2,028.0	2,142.1	2,274.2	2,056.5	2,159.6	2,338.0	2,521.4
Of which: capital goods	256.3	268.2	349.1	523.4	471.4	610.6	671.1	676.5	400.6	413.4	491.7	533.5
Energy goods	122.5	158.2	259.2	294.0	289.1	303.9	272.2	284.4	291.6	300.1	307.9	335.4
Trade balance	-764.2	-761.5	-1,101.6	-1,341.2	-1,376.2	-1,437.8	-1,491.5	-1,534.9	-1,249.4	-1,280.1	-1,367.0	-1,468.1
Services (net)	-181.6	-246.2	-187.0	-172.1	-85.2	-126.2	-110.9	-90.4	-154.4	-102.3	-82.4	-67.1
Of which: tourism receipts	174.5	201.6	251.8	276.0	281.8	317.0	317.0	365.0	419.8	482.7	555.1	610.6
Income	-36.9	-42.5	-51.8	-72.1	-73.8	-108.0	-93.7	-127.3	-121.3	-125.1	-123.7	-114.5
Of which: interest on public debt[2]	-7.3	-7.8	-8.1	-15.3	-9.2	-41.0	-27.7	-56.4	-47.3	-54.1	-60.3	-64.4
Current transfers (net)[3]	600.0	745.3	880.5	799.7	722.5	881.0	822.3	794.1	836.9	915.7	982.5	1,026.0
Private	79.7	90.7	133.3	134.9	183.0	137.7	191.3	223.4	247.2	273.4	288.5	320.0
Of which: remittance inflows	88.1	98.2	166.2	171.7	175.3	178.4	184.9	205.4	226.6	249.8	261.6	288.2
Public	520.3	654.6	747.2	664.9	539.5	743.3	631.1	570.7	589.7	642.3	694.0	706.0
Of which: HIPC grants	5.2	4.5	4.5	5.0	4.8	4.9	5.0	5.2	5.1	5.1	5.0	5.0
Current account balance (incl. official transfers)	-382.7	-305.0	-459.8	-785.6	-812.8	-791.0	-873.7	-958.4	-688.2	-591.9	-590.6	-623.6
Current account balance (excl. official transfers)	-903.0	-959.6	-1,207.0	-1,450.5	-1,352.3	-1,534.3	-1,504.8	-1,529.1	-1,277.9	-1,234.2	-1,284.6	-1,329.6
Capital account	200.0	197.6	196.7	189.1	171.2	263.0	262.7	332.8	441.8	444.6	488.8	534.0
Project grants	200.0	197.6	196.7	189.1	171.2	263.0	262.7	332.8	441.8	444.6	488.8	534.0
Financial account	327.5	213.7	485.8	690.6	411.2	374.5	694.7	636.6	307.4	232.5	184.2	161.2
Direct investment	118.7	42.3	106.2	150.0	159.8	120.8	165.4	172.2	208.9	248.8	296.1	342.0
Public sector capital	182.1	62.1	311.8	578.9	140.1	317.4	398.8	271.9	539.0	483.4	401.7	318.3
Long-term borrowing[4]	88.8	73.2	341.4	673.5	229.5	383.8	626.3	303.6	575.1	517.2	437.0	354.2
Scheduled amortization[5]	-7.5	-11.1	-29.6	-94.6	-89.4	-66.3	-227.5	-31.7	-36.1	-33.8	-35.3	-35.8
SDR allocation	100.7											
Other capital[6]	26.8	109.3	67.9	-38.3	111.3	-63.8	130.5	192.5	-440.5	-499.6	-513.6	-499.2
Capital and financial account balance	527.5	411.4	682.5	879.7	582.5	637.4	957.4	969.4	749.3	677.2	673.0	695.2
Errors and omissions	0.0	-35.1	14.7	0.0	24.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	144.8	71.3	237.4	94.1	-205.5	-153.5	83.8	11.0	61.0	85.3	82.4	71.6
Financing	-144.8	-71.3	-237.4	-94.1	205.5	153.5	-83.8	-11.0	-61.0	-85.3	-82.5	-71.6
Change in net foreign assets of NBR (increase -)	-144.8	-71.3	-237.4	-94.1	205.5	153.5	-83.8	-11.0	-61.0	-85.3	-82.5	-71.6
Net credit from the IMF	3.6	-0.1	-0.6	-1.0	-1.0	-1.7	-1.7	-2.4	-2.8	-2.3	-1.9	-1.2
Disbursements/purchases	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments/repurchases	0.0	-0.1	-0.6	-1.0	-1.0	-1.7	-1.7	-2.4	-2.8	-2.3	-1.9	-1.2
Change in other gross official reserves (increase -)	-145.8	-71.0	-236.7	-93.0	206.6	155.3	-82.1	-8.6	-58.2	-83.0	-80.6	-70.4
Change in other foreign liabilities (increase +)	-2.6	-0.2	0.0	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	-17.2	-17.1	-19.0	-20.9	-19.0	-19.7	-19.5	-18.0	-13.6	-11.9	-11.3	-10.7
Including official transfers	-7.3	-5.4	-7.2	-11.3	-11.4	-10.2	-11.3	-11.3	-7.3	-5.7	-5.2	-5.0
Gross official reserves (including SDR allocation)	742.2	813.3	1,050.0	1,144.2	843.5	989.0	925.5	934.1	992.3	1,075.2	1,155.8	1,226.2
Gross official reserves (months of prospective imports of G&S)	5.4	4.5	5.1	5.2	3.7	4.6	3.8	4.0	4.0	4.0	4.0	4.0
Excluding encumbered assets	5.4	4.5	4.9	4.2	3.4	4.6	3.4	4.0	4.0	4.0	4.0	4.0
Using imports of goods c.i.f. less adjustments (authorities' definition)[7]	6.4	5.2	5.7	n.a.	4.1	n.a.	4.2	4.7	4.7	4.7	4.7	4.6
Overall balance (percent of GDP)	2.8	1.3	3.7	1.4	-2.9	-2.0	1.1	0.1	0.6	0.8	0.7	0.6

Sources: Rwandan authorities and IMF staff estimates and projections.

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

[2] Including interest due to the IMF.

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

[4] Includes project and budgetary loans.

[5] Excluding payments to the IMF.

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

[7] The BNR measures reserve adequacy using imports of goods c.i.f. excluding imports incurred from informal cross-border trade and other items not captured in the customs data.

Table 3. Rwanda: Operations of the Central Government, Fiscal Year Basis, 2009/10-17/18

	2009/10	2010/11	2011/12	2012/13	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18
			Prel.	Country Report 13/77	Rev. Proj	Country Report 13/77	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of Rwanda francs)										
Revenue and grants	800.7	863.4	1,049.1	1,211.1	1,149.5	1,396.0	1,287.3	1,571.7	1,739.3	1,977.1	2,230.9
Total revenue	391.4	484.4	591.8	712.4	707.7	815.5	816.6	947.2	1,097.5	1,263.6	1,444.1
Tax revenue	376.4	463.8	557.0	641.2	641.2	754.8	749.1	874.3	1,013.6	1,168.3	1,336.4
Direct taxes	148.8	180.9	228.5	253.1	260.0	306.3	301.5	343.2	388.2	449.3	516.1
Taxes on goods and services	195.0	245.1	282.6	347.0	340.1	399.3	399.9	476.8	564.0	649.1	741.6
Taxes on international trade	32.6	37.8	45.9	41.1	41.1	49.2	47.7	54.3	61.4	69.8	78.8
Non-tax revenue	15.0	20.6	34.7	71.2	66.5	60.8	67.5	72.9	83.9	95.4	107.6
Of which: payments for peacekeeping operations	…	…	…	44.6	44.6	34.6	44.4	46.8	--	--	--
Of which: Agaciro Development Fund	…	…	…	2.0	2.0	0.0	--	--	--	--	--
Grants	409.3	379.0	457.3	498.6	441.8	580.4	470.7	624.6	641.7	713.4	786.8
Budgetary grants	283.0	215.0	265.7	246.9	197.9	317.9	170.7	304.6	338.8	369.1	398.3
Capital grants	126.3	164.0	191.7	251.7	243.9	262.6	300.0	320.0	302.9	344.3	388.5
Of which: Global Fund	…	0.0	78.0	96.2	96.2	79.4	87.9	80.0	90.0	102.3	115.4
Total expenditure and net lending	804.2	984.3	1,098.0	1,541.5	1,425.1	1,556.6	1,575.8	1,789.0	1,944.7	2,210.6	2,494.4
Current expenditure	459.2	527.0	614.1	668.3	634.6	798.4	710.4	832.6	951.7	1,081.8	1,220.7
Of which: contingency	…	…	…	…	169.8	…	--	--	--	--	--
Of which: priority	280.4	310.8	350.8	344.5	367.4	201.5	367.4	…	…	…	…
Wages and salaries	106.9	122.0	144.8	183.1	178.2	159.8	204.8	237.6	271.6	308.8	348.4
Civil	77.5	91.4	110.3	145.1	140.2	41.7	161.3	174.4	199.4	226.7	255.8
Defense	29.4	30.6	34.6	38.0	38.0	153.1	43.5	63.2	72.2	82.1	92.6
Purchases of goods and services	106.3	124.1	149.5	127.6	117.4	131.3	131.1	153.6	175.6	199.6	225.3
Civil	94.3	109.5	133.6	108.5	103.3	21.9	114.6	134.6	153.9	175.0	197.4
Defense	12.0	14.6	15.9	19.1	14.1	33.5	16.5	19.0	21.7	24.7	27.8
Interest payments	14.7	15.6	18.4	26.1	28.4	5.5	39.8	41.8	47.7	54.2	61.2
Domestic debt	10.1	10.9	13.2	8.2	10.5	28.1	10.5	12.1	13.8	15.7	17.7
External debt	4.6	4.7	5.2	10.0	17.9	16.4	29.3	29.7	33.9	38.5	43.5
Of which: sovereign bond	…	…	…	7.9	7.9	16.4	18.7	19.3	19.9	22.6	25.5
Transfers	179.6	197.2	225.6	266.2	238.2	308.8	262.3	316.2	361.5	410.9	463.7
Exceptional expenditure	51.6	68.1	75.8	65.3	72.4	101.4	72.4	83.3	95.2	108.2	122.1
Capital expenditure	316.7	438.6	482.9	653.0	625.0	715.4	744.5	904.4	927.1	1,053.8	1,189.1
Of which: priority	129.2	176.6	175.7	206.1	183.3	…	195.9	…	…	…	…
Domestic	159.3	218.9	231.6	279.0	254.8	300.8	256.6	334.8	382.8	435.1	491.0
Of which: Agaciro Development Fund	…	…	…	2.0	2.0	0.0	--	--	--	--	--
Of which: contingency	…	…	…	18.0	74.6	0.0	--	--	--	--	--
Foreign	157.4	219.7	251.3	374.0	370.2	414.6	487.9	569.6	544.3	618.7	698.2
Of which: Global Fund	…	47.8	47.8	96.2	96.2	79.4	87.9	80.0	90.0	102.3	115.4
Net lending and privatization receipts	28.2	18.7	1.1	220.3	165.5	42.8	120.9	52.0	66.0	75.0	84.7
Of which: Kigali Convention Center	18.0	…	…	153.2	90.8	18.8	84.3	--	--	--	--
Of which: RwandAir	4.5	25.2	34.5	51.1	51.9	0.0	--	--	--	--	--
Of which: privatization receipts	…	-17.2	-28.0	-12.2	-5.1	0.0	--	--	--	--	--
Primary balance[2]	-160.8	-177.8	-159.7	-143.4	-80.9	-148.7	-38.2	-95.1	-94.0	-90.7	-84.2
Domestic fiscal balance[3]	-250.7	-275.5	-249.7	-445.2	-329.3	-298.4	-242.0	-242.5	-269.0	-289.7	-308.8
Overall deficit (payment order)											
After grants	-3.5	-120.9	-48.9	-330.5	-275.6	-160.6	-288.5	-217.3	-205.5	-233.6	-263.5
Before grants	-412.8	-499.9	-506.3	-829.1	-717.4	-741.1	-759.2	-841.8	-847.2	-947.0	-1,050.4
Change in arrears[4]	-11.2	-11.9	-13.7	-8.0	-8.0	-8.0	-9.2	-10.4	-11.8	-13.4	-15.1
Overall deficit (incl. grants, cash basis)	-14.7	-132.8	-62.6	-338.5	-283.6	-168.6	-297.7	-227.7	-217.3	-247.0	-278.7
Financing	14.7	132.8	56.8	338.5	283.6	168.6	297.7	227.7	217.3	247.0	278.7
Foreign financing (net)	26.1	68.6	95.1	353.9	355.5	168.6	136.9	227.7	217.3	247.0	278.7
Drawings	31.1	76.5	104.7	369.1	370.8	186.2	154.5	249.6	241.4	274.4	309.6
Budgetary loans	0.0	21.4	53.5	23.5	17.4	34.1	0.0	0.0	0.0	0.0	0.0
Project loans	31.1	55.1	51.3	345.6	353.4	152.1	154.5	249.6	241.4	274.4	309.6
Of which: sovereign bond	…	…	…	223.4	259.4	--	--	--	--	--	--
Amortization	-5.0	-7.9	-9.7	-15.3	-15.3	-17.6	-17.6	-21.9	-24.1	-27.4	-30.9
Net domestic financing	-11.4	64.2	-38.2	-15.4	-71.9	0.0	160.8	0.0	0.0	0.0	0.0
Net credit from banking system	8.4	77.8	-15.4	-15.4	-84.4	--	160.8	--	--	--	--
Of which: sovereign bond	…	…	…	-19.1	-84.3	--	117.7	--	--	--	--
Nonbank sector	-18.1	-19.6	-22.8	0.0	12.5	--	--	--	--	--	--
Errors and omissions[5]	-1.7	0.0	-5.8	0.0	0.0	--	0.0	--	--	--	--
Memorandum items:											
Priority spending	412.5	487.4	526.5	550.6	550.7	…	…	…	…	…	…

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 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 3. Rwanda: Operations of the Central Government, Fiscal Year Basis, 2009/10-17/18 (continued)

	2009/10	2010/11	2011/12	2012/13	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18
			Prel.	Country Report 13/77	Rev. Proj	Country Report 13/77	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of fiscal year GDP)										
Revenue and grants	25.6	24.3	25.7	25.3	24.6	25.5	23.9	25.3	24.6	24.6	24.6
Total revenue	12.5	13.7	14.5	14.9	15.1	14.9	15.2	15.3	15.5	15.7	15.9
Tax revenue	12.0	13.1	13.6	13.4	13.7	13.8	13.9	14.1	14.3	14.5	14.7
Direct taxes	4.8	5.1	5.6	5.3	5.6	5.6	5.6	5.5	5.5	5.6	5.7
Taxes on goods and services	6.2	6.9	6.9	7.3	7.3	7.3	7.4	7.7	8.0	8.1	8.2
Taxes on international trade	1.0	1.1	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenue	0.5	0.6	0.8	1.5	1.4	1.1	1.3	1.2	1.2	1.2	1.2
Of which: payments for peacekeeping operations	…	…	…	0.9	1.0	0.6	0.8	0.8	--	--	--
Of which: Agaciro Development Fund	…	…	…	0.0	--	--	--	--	--	--	--
Grants	13.1	10.7	11.2	10.4	9.4	10.6	8.7	10.1	9.1	8.9	8.7
Budgetary grants	9.0	6.1	6.5	5.2	4.2	5.8	3.2	4.9	4.8	4.6	4.4
Capital grants	4.0	4.6	4.7	5.3	5.2	4.8	5.6	5.2	4.3	4.3	4.3
Of which: Global Fund	…	0.0	1.9	2.0	2.1	1.4	1.6	1.3	1.3	1.3	1.3
Total expenditure and net lending	25.7	27.7	26.9	32.3	30.5	28.4	29.2	28.9	27.5	27.5	27.5
Current expenditure	14.7	14.9	15.0	14.0	13.6	14.6	13.2	13.4	13.4	13.4	13.4
Of which: contingency	…	…	…	…	3.6	…	…	…	…	…	…
Of which: priority	9.0	8.8	8.6	7.2	7.9	…	…	…	…	…	…
Wages and salaries	3.4	3.4	3.5	3.8	3.8	3.7	3.8	3.8	3.8	3.8	3.8
Civil	2.5	2.6	2.7	3.0	3.0	2.9	3.0	2.8	2.8	2.8	2.8
Defense	0.9	0.9	0.8	0.8	0.8	0.8	0.8	1.0	1.0	1.0	1.0
Purchases of goods and services	3.4	3.5	3.7	2.7	2.5	2.8	2.4	2.5	2.5	2.5	2.5
Civil	3.0	3.1	3.3	2.3	2.2	2.4	2.1	2.2	2.2	2.2	2.2
Defense	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Interest payments	0.5	0.4	0.4	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Domestic debt	0.3	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
External debt	0.1	0.1	0.1	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Of which: sovereign bond	…	…	…	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Transfers	5.7	5.6	5.5	5.6	5.1	5.6	4.9	5.1	5.1	5.1	5.1
Exceptional expenditure	1.6	1.9	1.9	1.4	1.5	1.9	1.3	1.3	1.3	1.3	1.3
Capital expenditure	10.1	12.4	11.8	13.7	13.4	13.1	13.8	14.6	13.1	13.1	13.1
Of which: priority	4.1	5.0	4.3	4.3	3.9	…	…	…	…	…	…
Domestic	5.1	6.2	5.7	5.8	5.4	5.5	4.8	5.4	5.4	5.4	5.4
Of which: Agaciro Development Fund	…	…	…	0.0	--	--	--	--	--	--	--
Of which: contingency	…	…	…	0.4	1.6	--	--	--	--	--	--
Foreign	5.0	6.2	6.1	7.8	7.9	7.6	9.1	9.2	7.7	7.7	7.7
Of which: Global Fund	…	1.3	1.2	2.0	2.1	1.4	1.6	1.3	1.3	1.3	1.3
Net lending and privatization receipts	0.9	0.5	0.0	4.6	3.5	0.8	2.2	0.8	--	0.9	0.9
Of which: Kigali Convention Center	0.6	…	…	3.2	1.9	0.3	1.6	--	--	--	--
Of which: RwandAir	0.1	0.7	0.8	1.1	1.1	0.0	--	--	--	--	--
Of which: privatization receipts	…	-0.5	-0.7	-0.3	-0.1	0.0	--	--	--	--	--
Primary balance[2]	-5.1	-5.0	-3.9	-3.0	-1.7	-2.7	-0.7	-1.5	-1.3	-1.1	-0.9
Domestic fiscal balance[3]	-8.0	-7.8	-6.1	-9.3	-7.0	-5.4	-4.5	-3.9	-3.8	-3.6	-3.4
Excluding demobilization and peacekeeping expenditure	-7.2	-6.7	-5.8	-9.0	-6.7	-5.4	-4.5	-3.9	-3.8	-3.6	-3.4
Overall deficit (payment order)											
After grants	-0.1	-3.4	-1.2	-6.9	-5.9	-2.9	-5.4	-3.5	-2.9	-2.9	-2.9
Before grants	-13.2	-14.1	-12.4	-17.4	-15.3	-13.5	-14.1	-13.6	-12.0	-11.8	-11.6
Change in arrears[4]	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Overall deficit (incl. grants, cash basis)	-0.5	-3.7	-1.5	-7.1	-6.1	-3.1	-5.5	-3.7	-3.1	-3.1	-3.1
Financing	0.5	3.7	1.4	7.1	6.1	3.1	5.5	3.7	3.1	3.1	3.1
Foreign financing (net)	0.8	1.9	2.3	7.4	7.6	3.1	2.5	3.7	3.1	3.1	3.1
Drawings	1.0	2.2	2.6	7.7	7.9	3.4	2.9	4.0	3.4	3.4	3.4
Budgetary loans	0.0	0.6	1.3	0.5	0.4	0.6	0.0	0.0	--	--	--
Project loans	1.0	1.6	1.3	7.2	7.6	2.8	2.9	4.0	3.4	3.4	3.4
Of which: sovereign bond	…	…	…	4.7	5.5	--	--	--	--	--	--
Amortization	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Net domestic financing	-0.4	1.8	-0.9	-0.3	-1.5	--	3.0	--	--	--	--
Net credit from banking system	0.3	2.2	-0.4	-0.3	-1.8	--	3.0	--	--	--	--
Of which: sovereign bond	…	…	…	-0.4	-1.8	--	2.2	--	--	--	--
Nonbank sector	-0.6	-0.6	-0.6	--	--	--	--	--	--	--	--
Errors and omissions[5]	-0.1	0.0	-0.1	--	0.0	--	--	--	--	--	--
Memorandum items:											
Priority spending	13.2	13.7	12.9	11.5	11.8	…	…	…	…	…	…
GDP (Billions of RwF), FY basis	3,132	3,547	4,089	4,778	4,679	5,478	5,390	6,201	7,076	8,043	9,076

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, 2009-13

	2009	2010	2011	2012		2013	
	Dec	Dec	Dec	Dec	Dec	June	Dec
	Est	Est	Est	Proj	Est	Proj	Proj
	RWF billions						
Monetary authorities							
Net Foreign Assets[2]	358.0	414.9	563.8	618.8	457.1	542.7	483.6
Foreign assets	424.0	483.5	634.4	691.3	535.5	618.2	559.1
Of which: encumbered assets[6]			24.2	139.0	44.2	--	--
Foreign liabilities[3]	66.0	68.6	70.5	72.5	78.4	75.5	75.5
Net domestic assets	-241.6	-283.9	-402.3	-430.6	-267.7	-339.7	-266.8
Domestic credit	-201.5	-231.2	-350.2	-392.3	-218.7	-290.6	-217.7
Government (net)	-143.5	-176.3	-261.6	-291.4	-164.9	-186.4	-138.9
Claims	50.2	57.9	38.7	38.6	38.6	38.6	38.6
Deposits (excluding autonomous bodies)[3]	193.7	234.2	300.4	330.0	204.0	225.0	177.5
Public nongovernment deposits (-)	-1.9	-0.8	-1.0	-1.0	-2.3	-1.0	-1.0
Nongovernment credit	-56.6	-54.1	-87.5	-100.0	-51.0	-103.2	-77.8
Private sector	7.9	4.8	5.6	6.5	5.9	7.5	7.5
Public enterprises	--	--	--	--	--	--	--
Commercial banks	-64.0	-60.6	-94.9	-106.4	-58.5	-110.7	-85.3
Discount window	9.6	8.7	1.2	0.5	0.3	0.5	0.5
Money market (- = absorption)	-73.5	-69.3	-96.1	-106.9	-58.8	-111.2	-85.8
Other items (net; asset +)	-40.2	-52.7	-52.3	-38.2	-49.1	-49.1	-49.1
Reserve money[4,]	116.4	130.9	161.6	188.2	189.3	203.0	216.8
Currency in circulation	77.0	104.1	117.9	143.4	129.3	144.8	158.0
Commercial bank reserves	24.1	24.7	41.9	44.4	58.2	57.7	58.5
Nonbank deposits	6.1	2.1	1.7	0.4	1.8	0.5	0.4
Of which: autonomous public agencies	--	--	--	--	--	--	--
Commercial banks							
Net foreign assets	83.7	104.0	107.3	79.1	98.8	80.5	98.7
Foreign assets	107.5	146.8	148.2	153.2	149.9	131.7	149.9
Foreign liabilities	23.8	42.7	40.9	74.1	51.2	51.2	51.2
Reserves	33.7	38.3	57.1	68.0	80.5	85.7	91.2
NBR deposits	24.1	24.7	41.9	44.4	58.2	57.7	58.5
Required reserves	22.8	26.7	34.7	45.2	43.4	46.5	49.5
Excess reserves	1.3	-2.0	7.2	-0.7	14.8	11.3	9.0
Cash in vault	9.5	13.7	15.2	23.6	22.3	28.0	32.7
Net credit from NBR (rediscount; liability -)	64.0	60.6	94.9	106.4	58.5	110.7	85.3
Domestic credit	354.6	438.8	554.5	683.2	705.8	727.5	789.3
Government (net)	-0.4	45.0	49.3	33.8	28.2	16.5	16.5
Credit	31.6	86.1	85.7	74.1	67.9	53.2	53.2
Deposits	32.0	41.0	36.4	40.3	39.7	36.7	36.7
Public enterprises	3.0	3.2	2.8	1.7	2.5	2.2	2.2
Private sector	352.0	390.6	502.4	647.7	675.1	708.8	770.6
Other items (net; asset +)	-92.0	-118.5	-137.5	-147.5	-162.4	-162.4	-162.4
Deposits	444.0	523.3	676.3	789.2	781.1	842.0	902.1
Private	383.2	453.9	576.2	669.1	670.8	720.7	768.6
Public (nongovernment)	60.8	69.4	100.1	120.1	110.3	121.3	133.5

(continued)

Table 4. Rwanda: Monetary Survey, 2009-13 (continued)

	2009	2010	2011	2012		2013	
	Dec	Dec	Dec	Dec	Dec	June	Dec
		Est	Est	Prog	Est	Proj	Proj
				RWF billions			
Net foreign assets[2]	441.8	519.0	671.1	697.8	555.8	623.2	582.3
Net domestic assets	85.3	96.9	109.4	211.6	334.0	336.1	445.4
Domestic credit	217.1	268.2	297.4	397.3	543.9	547.6	656.9
Government (net)	-143.9	-131.3	-212.3	-257.5	-137.2	-169.9	-122.4
Public nongovernment deposits (-)	-1.9	-0.8	-1.0	-1.0	-2.3	-1.0	-1.0
Public enterprises	3.0	3.2	2.8	1.7	2.5	2.2	2.2
Private sector	357.3	397.1	507.9	654.2	681.0	716.3	778.1
Other items (net; asset +)	-132.2	-169.5	-189.8	-185.7	-211.5	-211.5	-211.5
Broad money[5]	527.1	615.9	780.7	909.4	890.0	959.3	1,027.7
Currency in circulation	77.0	90.5	102.8	119.8	107.0	116.8	125.2
Deposits	450.1	525.4	678.0	789.6	782.9	842.5	902.5
Of which: foreign currency deposits	83.5	99.2	135.6	155.5	164.6	163.4	175.0
Net foreign assets	9.7	14.6	24.7	3.4	-14.8	12.5	3.0
Net domestic assets	23.4	2.2	2.0	13.1	28.8	-3.3	12.5
Domestic credit	28.4	9.7	4.7	12.8	31.6	-0.1	12.7
Government (net)	-0.3	2.4	-13.2	-5.8	9.6	-13.4	1.6
Economy	28.0	7.8	17.9	18.6	22.0	13.3	11.0
Other items (net; asset +)	-5.0	-7.1	-3.3	0.5	-2.8	-3.0	--
Broad money	33.2	16.8	26.8	16.5	14.0	9.2	15.5
Net foreign assets	9.4	17.5	29.3	4.0	-17.2	21.3	4.8
Net domestic assets	36.9	13.6	12.9	93.3	205.2	-7.9	33.3
Domestic credit	8.9	23.5	10.9	33.6	82.9	-0.2	20.8
Government (net)	1.1	-8.7	61.7	21.3	-35.4	224.6	-10.8
Economy	44.7	11.5	27.6	28.5	33.6	19.4	14.4
Credit to the private sector	4.9	11.1	27.9	28.8	34.1	19.3	14.3
Other items (net; asset +)	6.8	28.2	12.0	-2.2	11.4	14.2	--
Memorandum items:							
Currency/broad money ratio	14.6	14.7	13.2	13.2	12.0	12.2	12.2
Reserve money annual growth	0.3	12.5	23.4	16.5	17.2	14.9	14.5
Broad money annual growth	13.1	16.8	26.8	16.5	14.0	9.2	15.5
Reserves/deposits	26.2	25.0	23.9	23.8	24.2	24.1	24.0
Money multiplier	4.5	4.7	4.8	4.8	4.7	4.7	4.7
Velocity of broad money (end of period)	5.6	5.3	4.9	4.9	4.9	5.2	4.9
Velocity of broad money (average of period)	6.0	6.2	5.5	5.3	5.2	5.4	5.2
Net open position of the NBR (RWF billions)	352.7	408.9	563.8	612.5	457.1	536.2	483.6
Net open position of commercial banks (RWF billions)	5.4	10.8	-17.7	-40.4	-45.6	-42.9	98.7
Nominal GDP (RWF billions)	2,964	3,280	3,814	4,437	4,363	4,995	4,995

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 February 2008.

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

[3] The IMF's MDRI reduced foreign liabilities at the NBR by RF42.4 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 the three months in the quarter.

[5] End-2006 broad money includes a RWF5 billion temporary buildup of local government deposits, which were unwound by February 2007.

Table 5. Rwanda: Financial Soundness Indicators for Banking Sector, 2009-12

	2009	2010	2011	2012			
	Dec	Dec	Dec	Mar	Jun	Sep	Dec
				(Percent)			
Capital adequacy							
Regulatory capital to risk-weighted assets	19.0	21.6	23.8	24.1	22.5	21.4	21.4
Capital to assets	13.0	11.4	14.5	14.8	13.8	13.9	15.4
Off balance sheet items/total qualifying capital	184.1	206.1	216.9	192.1	179.3	226.1	233.3
Insider loans/core capital	19.7	5.9	3.2	5.7	4.6	3.7	3.6
Large exposure/core capital	65.1	72.5	42.3	36.6	38.9	52.2	41
Asset quality							
NPLs/gross Loans	13.1	11.3	8.2	6.3	5.8	6.3	6.1
NPLs net/gross loans	11.4	9.7	7.4	5.1	4.2	4.9	5.4
Provisions/NPLs	55.2	53.1	49.0	52.8	51.1	49.3	53.7
Earning assets/total asset	81.7	78.1	75.9	79.9	81.4	79.0	79.9
Large exposures/gross loans	13.9	15.1	11.2	7.7	9.5	11.8	9.1
Profitability and earnings							
Return on average assets	0.7	1.9	1.9	2.3	2.2	2.3	2.2
Return on average equity	5.0	13.7	10.8	11.0	10.6	11.1	10.4
Net interest margin	9.1	8.7	9.5	10.1	9.6	9.5	9.7
Cost of deposits	2.4	2.5	2.2	2.8	2.8	2.6	2.9
Cost to income	91.0	83.2	82.8	79.7	80.0	79.2	81
Overhead to income	54.9	55.2	55.5	54.0	55.9	54.6	54.7
Liquidity							
Short term gap	20.0	18.5	22.5	20.9	22.3	13.3	12.1
Liquid assets/total deposits	65.3	57.8	46.3	48.9	47.2	40.2	41.2
Interbank borrowings/total deposits	9.8	8.5	6.4	7.4	9.4	10.9	9.2
BNR borrowings/total deposits	0.8	0.0	0.1	0.3	0.4	0.6	0.1
Gross loans/total deposits	73.9	67.0	67.6	81.8	83.6	94.1	91.9
Market sensitivity							
Forex exposure/core capital[1]	1.9	6.8	6.9	5.6	-1.5	0.2	-0.2
Forex loans/Forex deposits	2.8	0.4	5.3	5.0	5.9	7.9	4.4
Forex assets/Forex liabilities	103.6	106.0	114.8	108.5	62.0	87.7	78.9

Source: National Bank of Rwanda.

Appendix I. Letter of Intent

Kigali, Rwanda May 24, 2013

Ms. Christine Lagarde

Managing Director

International Monetary Fund

700 19th Street, N.W.

Washington, D.C., 20431

Dear Ms. Lagarde,

The attached memorandum of economic and financial policies (MEFP) is an update of the previous MEFP and sets out the macroeconomic policies of the Rwandan government for the remainder of fiscal year 2012/13 and fiscal year 2013/14.

Despite challenging circumstances caused by a reduction and delays in budget support economic and program performance have remained satisfactory. In 2012, GDP growth was 8 percent while inflation was subdued.

As described in the MEFP, all but two quantitative assessment criteria (QAC) for the sixth review were met; the target on net foreign assets (NFA) was missed by a small margin because of the strong market demand for foreign exchange and reduced aid inflows. The continuous QAC on non-concessional borrowing was breached following the issuance of the augmented euro bond in April 2013. Two indicative targets (on domestic arrears and consolidated government debt) were also missed because of the government's constrained cash position. All but one of structural benchmarks have been met, the exception being the one on the design of the integrated financial management information system (IFMIS), which has proven more complex than anticipated.

The government is committed to taking measures to correct the underlying problems that led to the slippages and protect the objectives of the program, including reversing the domestic arrears that were accrued during the second half of 2012, allowing greater exchange rate flexibility with a view to bringing the spread between the official and market exchange rates to the levels prevailing before mid-2012, and preserving an adequate level of international reserves.

As part of its proactive debt management strategy and in order to complete a strategic investment project, the government issued a US$400 million euro bond in April. The proceeds of the bond are earmarked for the retirement of two expensive government-guaranteed loans, and fund the completion of the Kigali Convention Center and an important hydro-power project.

In light of satisfactory performance and commitment to sound policies, the government requests the completion of the sixth review under the PSI. The government, therefore, requests waivers for the non-observance for the missed QACs on NFA at end-December and non-concessional borrowing. The government also requests an extension of the PSI by seven months to enable it to further develop policies that can underpin another medium-term program that could be supported by the IMF and approval of quantitative targets for end-June and end-December 2013 and structural benchmarks for this period, as set out in the attached MEFP.

The government is confident that the policies and measures set forth in the MEFP will deliver the objectives of the PSI-supported program but we will 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.

The government will provide the IMF with such information as the IMF 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 next review will take place before end-December 2013.

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

Sincerely yours,

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

Attachment I. Rwanda: Memorandum of Economic and Financial Policies

May 24, 2013

Update

1. This MEFP update reviews performance under the PSI-supported program through end-December 2012 and discusses the macroeconomic outlook and policies for 2013 and FY2013/14, and describes quantitative and structural targets for end-June and end-December 2013.

Recent Economic and Policy Performance

2. **Introduction**. Fiscal and monetary policy implementation in the July-December 2012 period was complicated by the suspension of aid by some donors and delays in the approval of disbursements by others. Moreover, the issuance of the euro bond that had been planned for December had to be delayed in face of the uncertainty about donor support. As a result, substantially lower resources flowed into the budget and the international reserves than expected with adverse effects on budget execution and foreign exchange operations. However, the National Bank of Rwanda (NBR) was able to draw on its healthy reserve buffer accumulated by end-2011 to partially shield the economy from the adverse shocks to aid inflows.

3. **Growth, inflation, and the external balance**. Despite a modest slowdown in the second half of the year, real GDP growth in 2012 was 8 percent, largely driven by the expansion of the service sector, particularly communication and transport activities, which expanded by 19 percent. In industry, construction recorded a robust growth of 15 percent. The robust growth in the services and industry sectors benefitted from an expansion in private sector credit amounting to 34 percent. Agricultural production, mainly of food crops, grew by 3 percent largely due to on-going investment under the Crops Intensification Program (CIP). However, the production of export crops (tea and coffee) declined by 9 percent on account of adverse cyclical weather conditions. Inflation, both headline and core, also slowed sharply in the second half of the 2012 with the former standing at 3.9 percent year-on-year in December and the latter at 2.5 percent. In March 2013, headline inflation was3.3 percent and core inflation 4.8 percent. The impact of the depreciation of the Rwandan franc of more than 5 percent since the beginning of 2012 has partly been offset by the rapid deceleration in inflation in the region, notably in Kenya and Uganda. On the external front, import growth slowed in the last quarter of 2012 but the suspension and delays in aid disbursements together with strong import growth at the beginning of the year led to deterioration in the overall balance of payments and a loss of reserves, equivalent to about 1.1 months of prospective imports.

4. **Fiscal developments**. Fiscal policy implementation, which is guided by the need to limit domestic financing to allow for adequate private sector credit growth, has been complicated by the suspension and delays in the delivery of budget support funds. Domestic revenue collections in the

July-December 2012 period, at RWF 346.2 billion, were marginally higher than projected in October. A small shortfall in tax collections, particularly of consumption taxes (VAT and excise taxes) in December, was offset by an over-performance of non-tax revenue collections, mainly of administrative fees and charges. Grant disbursements in this period were RWF 44.4 billion (0.9 percent of GDP) lower than the October assumption, with expected budget support grants from DFID and the Netherlands amounting to RWF 25.3 billion and project grants of RWF 19.2 billion not disbursed. The shortfall in project grants was mainly the result of delays in some energy sector projects. Excluding the net lending operations planned in connection with the euro bond, total expenditure and net lending, at RWF 596.8 billion, exceeded the October target by RWF 13 billion despite expenditure restraint across most current spending items and a shortfall in mostly foreign-financed capital spending. The reason for this is that transfers to public institutions and local governments exceeded the target by RWF 31.3 billion, mainly on account of a front-loading of subsidies to the Energy, Water and Sanitation Authority (EWSA) for the purchase of fuel and other related expenditures. As a result of the budget support shortfall and the overspending on transfers, the government had to draw on its central bank overdraft facility, was unable to retire the amount of short-term treasury bills issued for cash-flow purposes in order to reduce the outstanding stocks to the planned level, and was forced to delay the payment of some bills, which resulted in the recording of arrears (defined as the difference between commitments and payments, or essentially a float) of RWF 34.4 billion (0.7 percent of GDP) at end-2012. This represents the first time in many years that arrears have accrued. Net domestic financing was nevertheless negative by RWF 46.8 billion, which reflected the accumulation of deposits in various project accounts, including for the Global Fund. The use of the overdraft and the rollover of treasury bills caused the consolidated domestic debt of the government to marginally exceed target.

5. **Monetary and exchange rate developments**. The NBR continues to orient its monetary policy toward limiting the risk of monetary inflation. In the context of uncertainty about donor support, as well as about global and regional developments, the NBR has tightened its policy stance. While the key repo rate has been kept unchanged at 7.5 percent since May 2012, the slowdown in inflation has caused real rates to become significantly positive. The government's need for Treasury bill issuance in the second half of 2012 also exerted upward pressure on market rates, particularly the interbank and deposit rates, while the impact on lending rates has been more muted. The shortfall in aid inflows has hampered the ability of the NBR to continue meeting market demand for foreign exchange, leading to a depreciation of 4.5 percent over 2012, compared with 1.6 percent recorded the previous year. Moreover, lower aid inflows and reduced NBR sales of foreign exchange caused the emergence of a spread of about 5 percent between the official exchange rate and that of the foreign exchange bureaus. In terms of monetary aggregates, while reserve money growth was in line with target, broad money growth, at 14 percent to end-December 2012, was well below the projection of 16.5 percent consistent with the observed slow-down in economic activity on account of the suspension/delays in aid disbursements. The composition of broad money growth also differed from projections, with net domestic assets expanding sharply, reflecting private sector credit growth of 33.8 percent in 2012, while net foreign assets declined by 17.2 percent as the NBR attempted to meet market demand for foreign exchange.

6. **The implementation of the reserve money program has been improved since November 2012 with the more flexible framework of a reserve money band**. The end-December 2012 reserve money target was achieved without any challenge, underscoring the effectiveness of the new framework.

7. **Program performance**. All but one of the quantitative assessment criteria (QAC) for end-December 2012 (Table 1) were met. The QAC on net foreign assets was missed by a small margin (about 6 percent of the stock of net foreign assets) because of the shortfall in aid and the pressures in the foreign exchange market discussed above. The continuous QAC on non-concessional borrowing was also breached with the issuance of US$ 50 million larger euro-bond in April than previous agreed. All but two of the quantitative indicative targets were met. The targets for consolidated government debt and domestic arrears were missed for the reasons discussed above. All the structural benchmarks associated with the review (Table 2) were met, except the one on the determination of the technical specifications for the IFMIS which has turned out to be more complex than anticipated. The target date for this structural benchmark has been reset for end-September 2013.

Macroeconomic Outlook and Policy for 2013 and FY2013/14

8. **Outlook**. With prospects for donor support in the January-June 2013 period greatly improved and declining uncertainty about such support for FY2013/14, albeit at a lower level than previously expected, the government expects real GDP growth to ease only moderately in 2013, to 7.5 percent. The impact of tighter fiscal and monetary policies on the service sector is expected to be partly offset by the strong performance of agriculture, for which the first harvest of the year was good, as well as from the industry sector, particularly electricity and gas and construction on account of expected public investment in these areas. With less support from decelerating inflation in the region, headline inflation is projected to gradually rise to 7.5 percent by end-2013.

9. **Regarding the external sector, despite the strong growth in imports, especially of capital and intermediate goods to support public investment, the current account deficit is projected to decline slightly from 11.4 percent of GDP in 2012 to 11.3 percent in 2013**. In the face of uncertainties regarding the flow of budgetary grants, the increase in imports will be financed with capital grants and loans including the receipts from the sovereign bonds. The overall balance of payments is expected to improve relative to 2012, with nominal reserves at end-2013 a little higher than at end-2012.

10. **Relative to the original budget, disbursements of budget support (including loans) for FY2012/13 are now expected to be RWF 54.2 billion (1.2 percent of GDP) lower**. To meet this resource gap, the government has in its revised budget cut current spending allocations across line ministries and public institutions to preserve the overall fiscal deficit target of the original budget (excluding net lending and capital spending operations related to the euro bond). With the World Bank, AfDB, and DFID resuming sector budget support disbursements, most of the contingent spending identified in the revised budget will be implemented. Moreover, the arrears recorded at

end-2012, already reduced by two-thirds by end-March 2013, will be eliminated by the end of the fiscal year. The proceeds from the euro bond issued in late April, amounting to RWF 259.4 billion (US$ 400 million), will be used as previously agreed with the Fund to retire expensive government-guaranteed loans for Rwandair and the Kigali Conference Centre, fund the completion of the Kigali Convention Centre, as well as fund on-going work in the energy sector (Nyabarongo hydro-power project) to generate 28 megawatts of electric power by end-June 2014. These expenditures have been included in the fiscal framework for fiscal year 2013/2014.

11. **The fiscal framework for FY2013/14 takes into account the lower budget support than previously expected through adjustments in previously indicated spending targets**. In the face of declining aid, the government is determined to increase over time domestic revenue mobilization in support of its development agenda. To this end, it is committed to preparing a comprehensive revenue mobilization plan by end-June 2013 (new structural benchmark). For FY2013/2014, tax revenue collections are projected to rise by 0.2 percent of GDP, from RWF 641.2 billion (13.7 percent of GDP) to RWF 749.1 billion (13.9 percent of GDP). The Government will implement the following revenue measures to achieve its resource mobilization objective:

- Review of Investment Code—removal of exemptions regarding duties on importation of construction materials and employment tax discounts;
- Introduce a royalty tax on mining;
- Renegotiate the double taxation avoidance agreement with Mauritius;
- Enhance VAT collection with implementation of electronic billing machines.

These measures are expected to yield revenue amounting 1 percent of GDP in 2013/2014. On the expenditure side, total expenditure and net lending at 29.2 percent of GDP is 1.3 percentage points of GDP lower than the 30.4 percent of GDP in 2012/2013. Whilst capital spending at RWF 744.5 billion (13.8 percent of GDP) is higher than the RWF 625 billion (13.4 percent of GDP) in 2012/2013 on account of higher project loans and grants disbursements to support the projected growth, reprioritization of spending under recurrent expenditure accounts for the decline in total spending. This not only reflects the fiscal consolidation policy of the Government but also takes into account the decline in external budget support funds. The overall deficit (including grants), which amounted to 5.9 percent of GDP in 2012/2013, is projected to decline slightly, to 5.4 percent of GDP in 2013/2014. New domestic cash finance of the 2013/2014 budget will amount to RWF 30.3 billion (0.6 percent) of GDP.

12. **Monetary and Exchange Rate Policies**. The NBR will maintain a prudent stance of monetary policy in the course of 2013that will restrain the growth of credit and the demand for foreign exchange. The reserve money program targets have been set accordingly, with private sector credit growth in 2013 projected to be less than half of that in 2012. The exchange rate will remain market driven and NBR will allow greater exchange rate flexibility by strengthening the implementation of the exchange rate corridor system. This will contribute to bringing the spread between the official and market exchange rates to below 2 percent, the level prevailing before

mid-2012 and enable NBR to keep official reserves above a minimum level of 4 months of prospective imports (CIF).

13. **Monetary Policy Framework**. To improve the monetary policy transmission mechanism, the NBR will continue implementing the flexible monetary targeting framework of a reserve money band of +/- 2 percent around a central reserve money target. In this framework, the NBR will continue targeting the center of the reserve money band, while the PSI quantitative assessment criterion on reserve money will remain the upper limit of the band.

14. **Key financial sector measures that are in the pipeline include**:

The NBR will;

- Review the existing regulatory framework: NBR Law and banking law and prepare a deposit insurance law. Thereafter, update related regulations and guidance as well as developing new regulations and other supervisory tools to implement the concerned laws. In addition, the NBR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision. In this regard, quarterly prudential meetings will continuously be held with banks and ten (10) on-site inspections are planned for the year 2013. Capacity building for bank examiners will be strengthened through various actions including recruitment of new staff and trainings;

- Strengthen SACCOs by consolidating them into a cooperative bank. The implementation action plan was elaborated in two phases. Step 1: SACCOs will be consolidated at district level by end December 2013. Step 2: All SACCOs will be consolidated to form a cooperative bank at national level by end December 2014. The consolidation roadmap, which is an NBR top priority in 2013/2014, includes the program of enhancing the institutional capacity of SACCOs and their management information systems (MIS), specifically the automation of their operations.

15. **Program issues**. Table 1 contains new end-June 2013 QACs for a seventh review under the extended PSI and new indicative targets for end-June and end-December 2013 consistent with the macroeconomic framework described herein and agreed with IMF staff. Table 2 includes the new structural benchmark discussed above.

16. **EDPRS2**. The Government just finalized the development of the Second Economic Development and Poverty Reduction Strategy (EDPRS2) which will guide Rwanda’s medium-term development aspirations over the next five years beginning in July 2013 and ending in June 2018. Its key ambitions include accelerating poverty reduction from its current level of 44.9 percent to less than 30 percent of the population, and generating rapid, sustainable and inclusive growth. To achieve these targets, the EDPRS 2 targets four thematic areas: Economic Transformation, Rural Development, Productivity and Youth Employment and Accountable Governance. EDPRS 2 emphasises that the emergence of a vibrant export oriented private sector will be the driver of development over the next five years.

Table 1. Quantitative Assessment Criteria and Indicative Targets[1]

(Billions of Rwandan francs, unless otherwise indicated)

	Dec. 2012 Targets	Dec. 2012 Adj. targets	Dec. 2012 Actual	Difference	Status	June 2013 Targets	Dec. 2013 Targets
Assessment criteria [2]							
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	618.8	418.4	396.1	-22.3	Not met	542.7	483.6
Reserve money (ceiling on stock) (upper bound) [5]	188.4	188.4	179.4	-9.0	Met	203.9	218.0
Reserve money (ceiling on stock) [5]	184.7					199.9	213.7
Reserve money (ceiling on stock) (lower bound) [5]	181.0					195.9	209.5
Net domestic financing (ceiling on flow) [4, 6]	-60.0	98.0	91.6	-6.4	Met	-58.4	-10.9
New nonconcessional and government guaranteed external debt (US$ millions) (ceiling on stock) [7]	605.0	255.0	239.5	-15.5	Not met	655.0	655.0
External payment arrears (US$ millions) (ceiling on stock) [7]	0.0	0.0	0.0	0.0	Met	0.0	0.0
Indicative targets							
Domestic revenue collection (floor on flow) [6]	653.5	653.5	653.8	0.3	Met	361.5	769.8
Net accumulation of domestic arrears (ceiling on flow) [6]	-9.8	-9.8	28.6	38.4	Not met	-42.4	-47.0
Consolidated domestic debt of public sector (ceiling on stock, eop) [4, 8]	189.3	208.4	244.9	36.5	Not met	313.8	260.8
Total priority spending (floor on flow) [6]	497.0	497.0	572.7	75.7	Met	280.9	569.3
Memorandum items:							
Total budget support (US$ millions) [6, 9]	422.9		391.4	-31.5		260.3	460.9
Budget support grants (US$ millions)	409.5		377.9	-31.6		246.8	447.4
General budget grants (US$ millions) [10]	279.5		231.0	-48.5		146.8	311.1
Grants from Global Fund (US$ millions)	130.0		146.9	16.9		100.0	136.3
Budget support (loans, US$ millions)	13.4		13.4	0.0		*13.5*	*13.5*
Euro bond (US$ millions)	350.0		0.0			400.0	400.0
Unused euro bond proceeds (US$ millions)						180.0	70.0
Encumbered reserve assets (US$ millions)	0.0		70.2	70.2		0.0	0.0

Sources: Rwandan authorities and IMF staff estimates and projections.

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

[2] Assessment criteria are for December 2012 and June 2013, otherwise indicative targets.

[3] All numbers are at the program exchange rate of RWF 604.14 per U.S. 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. Assessment criterion applies to upper bound only. See TMU for details.

[6] Numbers for 2012 are cumulative from 12/31/2011, and those for 2013 are cumulative from 12/31/2012.

[7] This continuous assessment criterion was met at end-Dember 2012 but was breached by the issuance of a US$400 million euro bond in April 2013.

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

[9] Excluding demobilization and African Union peace keeping operations, HIPC grant, and COMESA compensation grant (except as noted in footnote 10).

[10] Includes payments for peace keeping and demobilization for the first half of 2012.

Table 2. Structural Benchmarks

Policy Measure	Target Date	Macroeconomic rationale	Status
PFM			
1. Complete the determination of the detailed system and technical requirements for the Integrated Financial Management Information System.	End-April 2013	To improve budget preparation, implementation and reporting	Not met. Re-phased to end-September 2013
Fiscal Performance			
2. 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 will exclude foreign-financed projects.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Met
3. Introduce electronic tax registry to improve issuance of VAT invoices by taxpayers.	End-January 2013	To improve VAT buoyancy.	Met
4. Submit to cabinet revised investment code with a view to streamlining exemptions	End-November 2012	To improve revenue performance.	Met
Financial sector			
5. Complete the rating of SACCOs and selection of those that quality for consolidation at district level.	End-December 2012	To expedite supervision of the Umurenge SACCOs	Met
External sector			
6. Submit to the Industrial Development and Export Council a financing plan for the National Export Strategy.	End-December 2012	To widen the export base of Rwanda	Met
New structural benchmark for seventh review			
7. MINECOFIN/RRA to prepare a medium-term revenue mobilization plan.	End-June 2013	To increase tax revenue mobilization.	

Attachment II. Technical Memorandum of Understanding
May 24, 2013

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–January 31, 2014 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. 13/77.

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 June 30, 2013 (the test date) 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 of net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new non-concessional 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 of domestic revenue collection of the central government;
- Ceiling on flow of net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow of priority spending.

5. Assessment criteria on contracting or guaranteeing of new non-concessional 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 2011 rates, apply for 2013:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2013
Rwanda Franc (per US$)	604.1410
Euro	1.2866
British Pound	1.5371
Japanese Yen (per US$)	77.7899
SDR	1.5348

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 June30, 2013is cumulatively measured from December 31, 2012 is indicated in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP.

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

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

- Consolidated credit to the government from the banking system (NBR and commercial banks, as recorded in the monetary survey), including credit to the government, provinces and districts. The outstanding consolidated government debt held by the banking system,[1] includes government debt to the NBR amounting to RWF 38.6 billion incurred as a result the overdraft to the prewar government and the 1995 devaluation [2], as well as the current

[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 receivable.

[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.

overdraft with the NBR. Credit to the government will exclude treasury bills issued by the NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.

- less total government deposits with the banking system (as recorded in the monetary survey), including in the main treasury account, the accounts of line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, the privatization account, and the accounts of 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 Fund money meant for the private sector, counterpart funds, and *fonds publics affectés*).

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

Adjusters to NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[3] (defined in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP), up to a maximum of US$80 million, evaluated in Rwandan francs at the program exchange rate.
- The ceiling on NDF will be adjusted downward by the extent to which in Rwandan francs at the program exchange rate the unused proceeds of the US$400 million euro bond issued in April 2013 exceed US$180 million by end-June 2013 and by US$70 million by end-December 2013.
- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

12. **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, 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.

[3] Budgetary grants exclude COMESA and HIPC grants, but include Global Fund.

Floor on flow of domestic revenues

13. A floor applies to domestic revenue. The floor for June 30, 2013 and December 31, 2013 is cumulatively measured from December 31, 2012.

14. **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.

15. **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

16. The floor applies to priority spending of the government. The floor for June 30, 2013 and December 31, 2013 is cumulatively measured from December 31, 2012. Other dates are indicative targets.

17. **Definition.** Priority expenditure 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 expenditure is monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

18. **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

19. A ceiling applies to net accumulation of domestic arrears of the government.[4] The ceiling for June 30, 2013 and December 31, 2013 is cumulatively measured from December 31, 2012.

20. **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).

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

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

C. Limits on External Debt

Limit on new non-concessional external debt of the public sector

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP which applies continuously from end-June 2010 to end-January 2014; it excludes the swap agreement of US$50 million signed in November 2009 between the NBR and the IFC, a loan of US$13.1 million for the purchase of two air planes in 2009, and euro 8 million for loan contracted by the BRD from the European Investment Bank in September 2011. 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.

23. **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.[5] This definition of public sector excludes the Bank of Kigali.

24. 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.

25. **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.[6] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published

[5] 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; (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.

[6] 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.

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).

26. **Definition of debt** for the purposes of the limit in the QAC table 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) 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

27. 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)

28. 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 11), 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 11.
- The ceiling on the DD will be *adjusted upward* by the amount of expenditure for food imports in the case of a food emergency.

29. **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)

30. A floor applies to the NFA of the NBR for June 30, 2013 and December 31, 2013.

Definition. NFA of the NBR in Rwandan francs is 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 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 Rwandan francs by using the U.S. dollar/Rwanda franc program exchange rate. Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (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 Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate.
- The floor on NFA will be adjusted downward (upward) by the extent to which actual encumbered reserve assets are lower (higher) than programmed encumbered reserve assets, evaluated in Rwandan francs at the program exchange rate.[7]
- The floor on NFA will be adjusted upward by the extent to which in Rwandan francs at the program exchange rate unused proceeds of the US$400 million euro bond issued in April 2013 exceed US$180 million by end-June 2013 and by US$70 million by end-December 2013.
- 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 June 30, 2013 and December 31, 2013 as indicated in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. The ceiling is the upper bound of a reserve money band (set at+/- 2 percent) around a central reserve money target).

35. The stock of reserve money 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.

[7] The programmed amount of encumbered reserve assets stands at zero at June 30, 2013 and December 31, 2013.

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 TMU 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 non-concessional 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 TMU Table 1. The information should be mailed electronically to the Fund. (email: afrrwa@imf.org).

TMU 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).

Appendix II. Rwanda: Debt Sustainability Analysis, 2012-2032

Appendix Table 1. External Debt Sustainability Framework Baseline Scenario, 2009-2032

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2012-2017			2018-2032
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average
External debt (nominal) 1/	**15.0**	**17.9**	**21.8**			**20.7**	**17.6**	**19.7**	**23.8**	**26.4**	**27.7**		**28.6**	**27.3**	
o/w public and publicly guaranteed (PPG)	14.9	14.9	18.5			17.7	17.3	19.4	23.4	26.0	27.2		27.8	25.1	
Change in external debt	0.0	2.9	3.9			-1.1	-3.1	2.1	4.1	2.6	1.3		-0.6	-1.2	
Identified net debt-creating flows	3.2	3.7	3.5			7.7	7.8	8.1	3.8	1.7	0.8		-0.8	-7.3	
Non-interest current account deficit	**6.5**	**5.2**	**7.0**	**2.2**	**4.0**	**11.0**	**10.8**	**10.8**	**6.8**	**5.1**	**4.5**		**3.4**	**-3.2**	1.3
Deficit in balance of goods and services	18.0	17.9	20.3			20.6	20.8	19.1	15.0	13.4	12.7		10.4	4.7	
Exports	11.0	11.3	14.1			14.3	14.5	15.0	15.2	15.4	15.5		17.5	22.5	
Imports	29.0	29.2	34.4			34.8	35.3	34.1	30.1	28.7	28.2		27.9	27.2	
Net current transfers (negative = inflow)	-11.4	-13.3	-13.9	-12.7	1.5	-10.2	-10.7	-9.3	-8.9	-8.8	-8.5		-7.3	-8.1	-7.6
o/w official	-9.9	-11.6	-11.4			-7.6	-8.2	-6.7	-6.3	-6.2	-6.0		-4.7	-5.5	
Other current account flows (negative = net inflow)	-0.1	0.6	0.6			0.6	0.7	1.1	0.7	0.5	0.3		0.3	0.2	
Net FDI (negative = inflow)	**-2.3**	**-0.8**	**-1.7**	**-1.1**	**0.9**	**-2.2**	**-2.1**	**-2.0**	**-2.2**	**-2.4**	**-2.6**		**-2.9**	**-2.9**	-2.9
Endogenous debt dynamics 2/	**-1.0**	**-0.8**	**-1.8**			**-1.0**	**-0.9**	**-0.7**	**-0.7**	**-1.0**	**-1.1**		**-1.2**	**-1.2**	
Contribution from nominal interest rate	0.8	0.2	0.2			0.5	0.6	0.5	0.5	0.5	0.5		0.5	0.5	
Contribution from real GDP growth	-0.8	-1.0	-1.3			-1.5	-1.4	-1.2	-1.3	-1.5	-1.7		-1.7	-1.7	
Contribution from price and exchange rate changes	-1.0	0.0	-0.8			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-3.2**	**-0.8**	**0.4**			**-8.8**	**-10.9**	**-6.0**	**0.3**	**0.9**	**0.5**		**0.2**	**6.1**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	18.9			19.4	15.1	16.8	19.7	21.4	22.2		22.5	21.7	
In percent of exports	...	...	134.3			136.2	104.3	111.8	129.7	139.4	142.9		128.8	96.4	
PV of PPG external debt	**...**	**...**	**15.6**			**16.4**	**14.8**	**16.4**	**19.3**	**21.0**	**21.7**		**21.7**	**19.5**	
In percent of exports	**...**	**...**	**110.8**			**115.1**	**102.0**	**109.3**	**127.1**	**136.5**	**139.8**		**124.2**	**86.7**	
In percent of government revenues	**...**	**...**	**108.9**			**107.8**	**91.7**	**102.9**	**120.4**	**129.6**	**133.1**		**127.5**	**107.8**	
Debt service-to-exports ratio (in percent)	**8.5**	**3.4**	**4.9**			**14.1**	**23.6**	**7.3**	**8.0**	**8.0**	**8.1**		**13.9**	**14.8**	
PPG debt service-to-exports ratio (in percent)	**2.6**	**3.0**	**2.6**			**11.3**	**20.3**	**4.0**	**4.6**	**4.6**	**4.6**		**9.5**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**2.1**	**2.5**	**2.6**			**10.6**	**18.3**	**3.8**	**4.3**	**4.3**	**4.4**		**9.8**	**7.5**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.3	0.4			0.8	1.0	0.9	0.6	0.4	0.4		0.6	-0.4	
Non-interest current account deficit that stabilizes debt ratio	6.5	2.3	3.2			12.1	13.9	8.7	2.7	2.5	3.2		3.9	-2.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.2	7.2	8.2	8.2	2.9	7.7	7.5	7.5	7.0	7.0	7.0	7.3	6.5	6.5	6.5
GDP deflator in US dollar terms (change in percent)	7.3	-0.1	4.4	6.0	7.5	3.8	0.8	2.8	3.1	3.0	3.0	2.8	2.0	2.0	2.0
Effective interest rate (percent) 5/	6.1	1.4	1.3	3.4	2.3	2.4	3.0	2.9	2.8	2.5	2.2	2.6	1.9	2.0	2.0
Growth of exports of G&S (US dollar terms, in percent)	-16.2	9.9	41.5	18.5	25.0	13.2	10.0	14.7	11.5	11.5	11.3	12.0	11.8	11.1	11.4
Growth of imports of G&S (US dollar terms, in percent)	8.6	7.8	33.1	18.9	14.7	13.3	9.8	6.9	-2.5	5.1	8.2	6.8	8.3	8.3	8.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	-8.2	21.5	18.9	24.7	27.3	28.1	18.7	24.2	20.4	23.2
Government revenues (excluding grants, in percent of GDP)	13.3	13.5	14.4			15.2	16.1	16.0	16.0	16.2	16.3		17.1	18.1	17.4
Aid flows (in Billions of US dollars) 7/	0.7	0.9	0.7			1.1	0.8	0.9	1.2	1.3	1.3		1.6	3.1	
o/w Grants	0.6	0.8	0.7			0.7	0.7	0.8	0.9	1.0	1.0		1.3	2.8	
o/w Concessional loans	0.1	0.1	0.0			0.4	0.1	0.1	0.3	0.3	0.3		0.3	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			10.2	10.1	10.7	11.4	10.6	10.1		8.3	7.4	8.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			75.9	85.3	76.5	71.1	74.5	78.5		79.5	84.6	79.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.3	5.6	6.4			7.1	7.7	8.5	9.4	10.4	11.4		17.3	39.6	
Nominal dollar GDP growth	14.0	7.1	13.0			11.8	8.4	10.5	10.3	10.3	10.2	10.3	8.6	8.6	8.6
PV of PPG external debt (in Billions of US dollars)			1.0			1.1	1.0	1.3	1.7	2.1	2.4		3.6	7.4	
(PVt-PVt-1)/GDPt-1 (in percent)						2.4	-0.8	3.4	4.8	3.8	2.9	2.7	1.2	0.6	1.6
Gross workers' remittances (Billions of US dollars)	0.1	0.1	0.2			0.2	0.3	0.3	0.3	0.4	0.4		0.6	1.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	15.2			15.9	14.3	15.9	18.7	20.3	21.0		21.0	18.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	90.8			92.5	82.9	88.8	103.5	111.5	115.2		104.3	75.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			9.1	16.5	3.3	3.7	3.7	3.8		8.0	5.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

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

4/ Assumes that PV of private sector debt is equivalent to its face value.

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Appendix Table 2. Sensitivity Analysis for Key Indicators of Public and Guaranteed External Debt, 2012-32

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	16	15	16	19	21	22	**22**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	16	6	2	2	4	5	**7**	36
A2. New public sector loans on less favorable terms in 2012-2032 2	16	15	18	22	26	27	**30**	32
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	16	14	16	19	21	22	**22**	19
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	16	15	21	24	25	25	**24**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	16	14	16	19	21	22	**22**	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	16	15	16	19	21	21	**21**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	16	14	16	19	21	21	**21**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	16	19	22	26	28	29	**29**	26
PV of debt-to-exports ratio								
Baseline	115	102	109	127	137	140	**124**	87
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	115	43	10	16	25	31	**42**	161
A2. New public sector loans on less favorable terms in 2012-2032 2	115	103	117	148	166	175	**173**	142
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	115	94	102	120	130	133	**118**	82
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	115	126	202	223	233	235	**196**	125
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	115	94	102	120	130	133	**118**	82
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	115	102	108	126	135	138	**121**	83
B5. Combination of B1-B4 using one-half standard deviation shocks	115	101	121	140	151	154	**135**	93
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	115	94	102	120	130	133	**118**	82
PV of debt-to-revenue ratio								
Baseline	108	92	103	120	130	133	**127**	108
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	108	39	10	15	24	30	**43**	200
A2. New public sector loans on less favorable terms in 2012-2032 2	108	93	110	140	158	167	**177**	177
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	108	86	100	119	128	132	**126**	106
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	108	96	132	147	154	155	**139**	108
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	108	87	103	122	132	136	**130**	109
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	108	92	102	119	128	131	**124**	103
B5. Combination of B1-B4 using one-half standard deviation shocks	108	87	102	119	128	132	**125**	104
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	108	120	137	162	175	180	**172**	145

Appendix Table 3. Sensitivity Analysis for Key Indicators of Public and Guaranteed External Debt, 2012–32 (continued)

Debt service-to-exports ratio								
Baseline	11	20	4	5	5	5	**10**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	11	19	3	2	2	2	**4**	5
A2. New public sector loans on less favorable terms in 2012-2032 2	11	20	4	5	5	6	**8**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	11	20	4	5	5	5	**10**	6
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	11	24	6	8	8	8	**15**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	11	20	4	5	5	5	**10**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	11	20	4	5	5	5	**10**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	11	21	5	5	5	5	**11**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	11	20	4	5	5	5	**10**	6
Debt service-to-revenue ratio								
Baseline	11	18	4	4	4	4	**10**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	11	17	3	2	2	2	**4**	6
A2. New public sector loans on less favorable terms in 2012-2032 2	11	18	3	4	5	6	**8**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	11	19	4	5	5	5	**10**	8
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	11	18	4	5	5	5	**11**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	11	19	4	5	5	5	**10**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	11	18	4	4	4	4	**10**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	11	18	4	4	4	4	**10**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	11	26	5	6	6	6	**14**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	**14**	14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Appendix Table 4. Public Sector Debt Sustainability Framework, Baseline Scenario, 2009–32

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	26	24	24	24	25	26	26	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	20	18	17	17	17	14	11
A2. Primary balance is unchanged from 2012	26	23	22	23	25	27	32	38
A3. Permanently lower GDP growth 1/	26	24	24	25	26	28	32	42
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	26	25	25	26	28	29	32	33
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	26	22	20	21	22	23	24	23
B3. Combination of B1-B2 using one half standard deviation shocks	26	21	19	20	22	23	25	26
B4. One-time 30 percent real depreciation in 2013	26	31	29	29	29	29	29	28
B5. 10 percent of GDP increase in other debt-creating flows in 2013	26	33	31	31	32	32	31	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	102	94	91	92	99	101	106	96
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	102	80	68	65	68	68	60	46
A2. Primary balance is unchanged from 2012	102	88	84	88	98	105	129	151
A3. Permanently lower GDP growth 1/	102	94	93	95	103	108	127	162
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	102	96	97	100	109	113	127	130
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	102	85	78	80	87	91	98	92
B3. Combination of B1-B2 using one half standard deviation shocks	102	83	74	77	85	90	101	101
B4. One-time 30 percent real depreciation in 2013	102	120	114	111	115	116	119	111
B5. 10 percent of GDP increase in other debt-creating flows in 2013	102	127	121	120	125	126	125	107
Debt Service-to-Revenue Ratio 2/								
Baseline	7	12	3	3	4	4	7	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	12	3	3	3	3	5	3
A2. Primary balance is unchanged from 2012	7	12	3	3	4	4	7	8
A3. Permanently lower GDP growth 1/	7	12	3	4	4	4	8	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	7	12	3	4	4	4	8	7
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	7	12	3	3	3	3	7	6
B3. Combination of B1-B2 using one half standard deviation shocks	7	12	3	3	3	3	7	6
B4. One-time 30 percent real depreciation in 2013	7	16	4	5	5	5	11	10
B5. 10 percent of GDP increase in other debt-creating flows in 2013	7	12	4	4	4	4	8	7

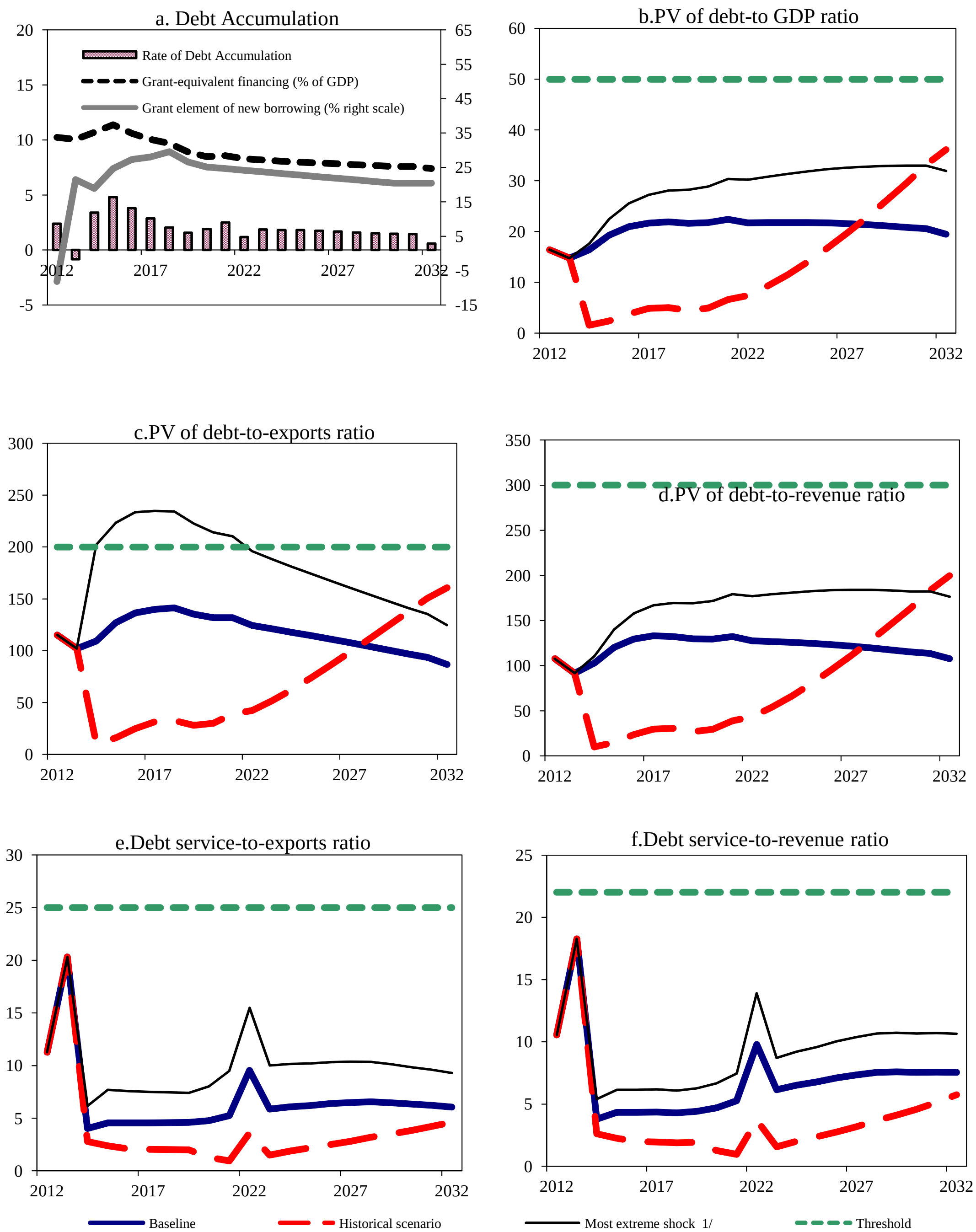
Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Appendix Table 5. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt, 2012–32

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	26	24	24	24	25	26	26	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	20	18	17	17	17	14	11
A2. Primary balance is unchanged from 2012	26	23	22	23	25	27	32	38
A3. Permanently lower GDP growth 1/	26	24	24	25	26	28	32	42
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	26	25	25	26	28	29	32	33
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	26	22	20	21	22	23	24	23
B3. Combination of B1-B2 using one half standard deviation shocks	26	21	19	20	22	23	25	26
B4. One-time 30 percent real depreciation in 2013	26	31	29	29	29	29	29	28
B5. 10 percent of GDP increase in other debt-creating flows in 2013	26	33	31	31	32	32	31	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	102	94	91	92	99	101	106	96
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	102	80	68	65	68	68	60	46
A2. Primary balance is unchanged from 2012	102	88	84	88	98	105	129	151
A3. Permanently lower GDP growth 1/	102	94	93	95	103	108	127	162
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	102	96	97	100	109	113	127	130
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	102	85	78	80	87	91	98	92
B3. Combination of B1-B2 using one half standard deviation shocks	102	83	74	77	85	90	101	101
B4. One-time 30 percent real depreciation in 2013	102	120	114	111	115	116	119	111
B5. 10 percent of GDP increase in other debt-creating flows in 2013	102	127	121	120	125	126	125	107
Debt Service-to-Revenue Ratio 2/								
Baseline	7	12	3	3	4	4	7	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	12	3	3	3	3	5	3
A2. Primary balance is unchanged from 2012	7	12	3	3	4	4	7	8
A3. Permanently lower GDP growth 1/	7	12	3	4	4	4	8	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	7	12	3	4	4	4	8	7
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	7	12	3	3	3	3	7	6
B3. Combination of B1-B2 using one half standard deviation shocks	7	12	3	3	3	3	7	6
B4. One-time 30 percent real depreciation in 2013	7	16	4	5	5	5	11	10
B5. 10 percent of GDP increase in other debt-creating flows in 2013	7	12	4	4	4	4	8	7

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

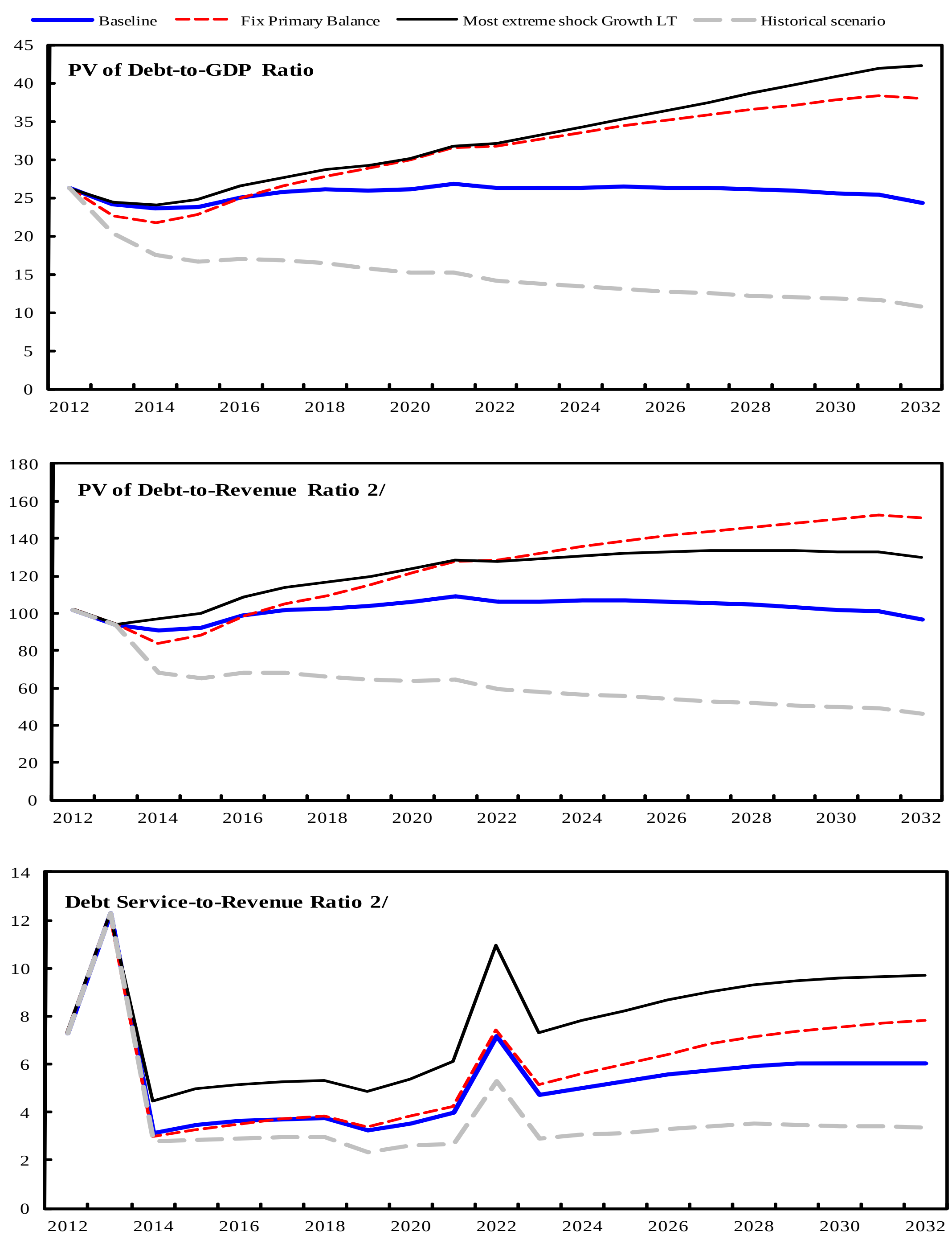
Appendix Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012–32



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Terms shock; in c. to a Exports shock; in d. to a Terms shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Appendix Figure 2. Indicators of Public Debt under Alternative Scenarios, 2012–32



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 13/217
FOR IMMEDIATE RELEASE
June 17, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under Policy Support Instrument for Rwanda and Extends Policy Support Instrument

The Executive Board of the International Monetary Fund (IMF) has completed on June 17, 2013, the sixth review under a three-year Policy Support Instrument (PSI) for Rwanda.[1] The Executive Board has also extended the PSI by seven months to end-January 2014. The Executive Board's decision was taken on a lapse of time basis.[2]

Economic activity in 2012 was resilient despite lower aid inflows. GDP growth was 8 percent, driven by expansion in the construction and service sectors. Meanwhile, inflation pressures eased as the supply shock of high food and fuel import prices dissipated. Consumer price inflation fell to 3.2 percent in March 2013. Pressures in the foreign exchange market led to some depreciation of the Rwandan franc and a decline in the foreign reserves of the National Bank of Rwanda (NBR) to 3.5 months of prospective imports at end-2012. With the resumption of aid inflows and greater exchange rate flexibility, foreign exchange market pressures have eased significantly in recent weeks. Rwanda successfully launched a US$400-million eurobond in April 2013 to repay less favorable external debt and complete strategic investment projects.

All but two quantitative assessment criteria for the sixth review were met. The end-December 2012 Net Foreign Assets (NFA) target was missed by a small margin reflecting strong market demand for foreign exchange and reduced aid inflows. The continuous ceiling on non-concessional borrowing was breached because the government decided to expand the size of the euro bond by US$50 million to cover the completion cost of a priority hydro-power project. Five of six structural benchmarks were completed. The benchmark on the

[1] 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. A country's performance under a PSI is normally reviewed bi-annually.

[2] The Executive Board takes decisions under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

specification of the technical design of the integrated financial management and information system has been re-phased to September 2013.

Growth is projected to ease modestly in 2013 while inflation is expected to remain contained. Real GDP growth is projected to be 7.5 percent in 2013, and to converge to 7 percent annually over the medium term. Inflation is expected to average 5.6 percent in 2013, rising on the back of the exchange rate pass-through. Risks to the outlook continue to center mainly around budget support, delays in project implementation, and a weaker-than-expected global economic environment.

Economic policies are guided by the twin requirements of adjusting to available resources and preserving policy buffers. The agreed fiscal framework for FY2013/14 is in line with the objectives of the PSI. It sustains efforts on revenue mobilization, aligns spending to available resources, minimizes domestic financing, protects priority spending, and is based on prudent assumptions regarding budget support disbursements. In the face of declining aid, mobilizing additional domestic revenue in the medium-term will be crucial to support the ambitious development agenda of the recently-launched second Economic Development and Poverty Reduction Strategy (EDPRS2). Monetary policy will continue to aim at keeping inflation low, while helping preserve international reserves at prudent levels, including through a flexible exchange rate policy.

The Executive Board approved a three-year PSI for Rwanda on June 16, 2010 (see Press Release No. 10/247).