

# Rwanda - Policy Support Instrument

Kampeta Sayinzoga, Permanent Secretary  
Ministry of Finance and Economic Planning

# Policy Support Instrument (PSI)

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- ▶ The IMF introduced in 2005 the PSI.
- ▶ Its main characteristics are two-fold:
  - 1) it is a non-financial instrument, meaning no IMF resources are disbursed.
  - 1) in particular, a PSI provides endorsement of a member's policies by the IMF Board and is reviewed twice a year against a number of benchmarks and assessment criteria.



# Signaling a commitment

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- ▶ The choice of countries for a PSI represents a commitment to sound policies delivering clear signals to donors, creditors, and the general public on the strength of a country's policies
- ▶ It is best, therefore, to think of the PSI as a commitment device: a way to credibly commit to good policies.
- ▶ 7 countries have since received support under the PSI: Cape Verde, Mozambique, Nigeria, Senegal, Tanzania, Uganda and Rwanda.



# Purpose of the PSI

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- ▶ The PSI is designed to promote a close policy dialogue between the IMF and a member country. It provides more frequent Fund assessments of a member's economic and financial policies than is available through the regular annual checkup of a country's economic health, known as surveillance.



# Eligibility

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- ▶ The PSI is a voluntary instrument requested by a member of the IMF in order to get IMF approval for its economic policies
- ▶ The PSI is available to low income countries that have broadly achieved and maintained a stable and sustainable macroeconomic position, including debt sustainability, consistent with poverty reduction and strong and sustained growth.



# PSI monitoring

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- ▶ **Quantitative conditions** are used to monitor macroeconomic policy variables such as monetary aggregates, international reserves, fiscal balances, or external borrowing, based on the country's program objectives. PSI-supported programs aim to safeguard social and other priority spending, including through explicit quantitative targets.
  - ▶ **Structural benchmarks** help monitor critical reforms to achieve program goals. Measures include: improving financial sector operations, building up social safety nets, or strengthening public financial management.
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# Program reviews

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- ▶ IMF's Executive Board play a critical role in assessing performance under the program and allowing the program to adapt to economic developments.

The timing of the reviews follows a fixed schedule (normally semiannually) so as to ensure the strength and consistency of the Fund's signal and to provide the donors and the private sector timely information

- ▶ to help them make independent judgments about

# Rwanda PSI

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- ▶ The PSI approved in June 2010 aims to achieve sustainable high growth and poverty reduction, in line with EDPRS, while maintaining macroeconomic stability .
  - ▶ This objective is centered on four key pillars:
    1. maintaining a sustainable fiscal position through improved revenue mobilization
    2. Strengthening monetary and exchange rate policies to ensure low and stable inflation;
    3. Reducing financial sector vulnerability by strengthening banking supervision, and deepening the financial sector by enhancing access to credit; and
    4. Diversifying the export base and improving the business environment.
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# Keys commitments

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- ▶ Overriding economic objective is to sustain real GDP growth rates of above 7 percent a year;
- ▶ Scaling up of infrastructure investment. The government's strategic investment plan aims to alleviate critical infrastructure constraints to increasing exports of goods and services and improve competitiveness and growth;
- ▶ Gross reserves should remain at comfortable levels (not less than 4 months of imports and services) during the three-year PSI period;
- ▶ The overall fiscal deficit (incl. grants) will decline from 3.6 percent of GDP in FY2010/11 to less than 1 percent of GDP in FY2012/13, reflecting domestic revenue mobilization as well as lower spending;

## Keys commitments (cont...)

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- ▶ Monetary policy aims at achieving a 7% inflation target at end 2010 and stabilizing it at 5% over the medium-term;
- ▶ Reducing financial sector vulnerabilities and improving financial depth;
- ▶ Improving the business environment and enhancing investment to facilitate private sector activity, investment and strategically position Rwanda to benefit from regional integration



# Monitoring and tests dates

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- ▶ The PSI is monitored through 9 quantitative and 11 structural benchmarks.
- ▶ The assessment dates for the first year are end-June 2010 and December 2010, each followed by reviews.



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