INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/343

RWANDA

December 2014

2014 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—STAFF REPORT; PRESS RELEASE

In the context of the 2014 Article IV Consultation and the second review under the Policy Support Instrument, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 8, 2014, following discussions that ended on October 7, 2014, 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 November 19, 2014
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank
- A **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its December 8, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.

The following documents 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—Update*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

RWANDA

November 19, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

Context: Rwanda's economic performance since the turn of the century has been remarkable. Strong policies have played a key role in maintaining GDP growth at 7.8 percent on average since 2000, with significant poverty reduction. The economy is recovering from the disruptions induced by aid suspension through mid-2013, with growth bouncing back in the first half of 2014 and inflation well contained. Performance under the PSI has remained strong. All quantitative assessment criteria (QAC) at end-June were met and all but one benchmark observed.

Article IV discussions: The discussions focused on near-term policies needed to maintain macroeconomic stability and support growth under uncertain prospects for aid and the global environment; and the government's medium-term objective of sustaining strong, inclusive growth while simultaneously managing a successful transition from a public sector-led, aid-dependent economy to a more private sector-led economy. Policy priorities are mobilizing more domestic revenue, leveraging exports, and removing impediments to private sector development, including by accelerating infrastructure projects and tackling bottlenecks in energy.

Outlook and risks: The outlook is positive, with sustained growth projected ahead in response to continued good policy implementation and investment. External risks include a protracted period of slower growth in advanced and emerging economies and weaker than expected export growth.

Exchange restrictions and regime: Rwanda has accepted the obligations under Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The exchange rate regime is categorized as crawl-like.

Key policy recommendations:

- *Growth:* Prioritize investments to reduce the infrastructure deficit and increase energy generation, thus facilitating private sector engagement and growth.
- *Fiscal Policy:* Retain the objectives of the FY14/15 budget, anchored on limiting recourse to domestic financing, while keeping the overall budget in line with available resources and protecting priority spending.

- *Revenue mobilization:* Continue to broaden the tax base and strengthen revenue administration.
- *Debt sustainability*: Make judicious use of available debt space and recourse to non-concessional financing, while fully exploring concessional financing options and private sector participation.
- *Monetary policy:* Maintain the current monetary policy stance, but stand ready to prevent a build-up of pressures in the foreign exchange market. Continue efforts aimed at strengthening the monetary and supervisory frameworks and maintain exchange rate flexibility to preserve policy buffers and competitiveness.

Staff supports the conclusion of the second review under the PSI.

Approved By
Roger Nord (AFR) and Dan Ghura (SPR)

Discussions were held in Kigali during September 22-October 7, 2014. The mission comprised Messrs Drummond (head), Thomas, Thakoor, Yang (AFR) and Anthony (SPR). Ms. Farahbaksh, resident representative, participated in the discussions. The mission met with Minister of Finance and Economic Planning Gatete; Governor Rwangombwa; other senior officials, and representatives of the private sector, civil society and development partners.

Article IV consultation and program review: The last Article IV Consultation was concluded on November 28, 2012. The Executive Board completed the first review under the PSI on May 29, 2014 (LOT).

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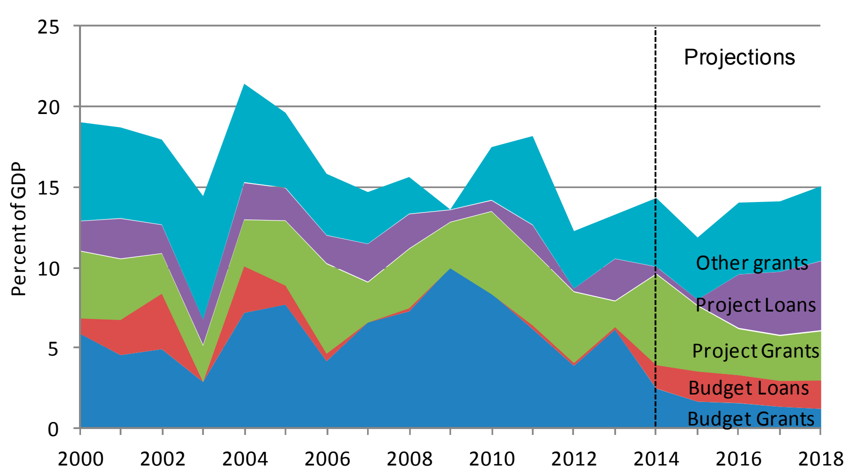
CONTEXT

1. Rwanda has experienced strong inclusive growth since 2000. Real GDP growth has averaged 7.8 percent in a broadly stable economic environment. Poverty declined from about 60 percent in 2000 to below 45 percent in 2010/11, and the poorest have benefited the most from growth. Inclusive growth has been led by policies geared towards agriculture through investments in fertilizers, improved seeds, electrification, irrigation, and rural roads and better provision of social services, especially to the rural poor. Access of the poor to financial services has also improved.

2. Much of this success is due to prudent fiscal and monetary policies, including judicious use of foreign aid in support of economic development. Fiscal policy has been implemented broadly in line with available resources. The authorities have increased their efforts to reduce their reliance on aid through mobilizing more domestic revenue. Concerted efforts have also been made to improve public financial management and strengthen good governance. The monetary framework has been gradually strengthened and this has helped anchor inflation at low levels. Foreign reserves helped cushion the impact of the aid shock in 2012, and the authorities have allowed greater exchange rate flexibility since then.

3. Aid flows recovered since the signing of the Great Lakes peace accord in February 2013. Budget and sector support as well as project financing, grants and loans, accounted for 11.6 percent of GDP and 40 percent of government spending in FY13/14. For FY 2014/15, budget aid (grants and loans, including projects) is projected at 10.9 percent of GDP, about 0.7 percent of GDP lower than budgeted. Discussions with development partners and donors suggest that Rwanda's reliance on aid, though, is unlikely to bounce back to the high levels observed earlier this decade (Text figure 1). Moreover, a shift in the composition of aid from budget support to projects has reduced the cash component of foreign exchange available to the central bank.

Text Figure 1: Rwanda Aid Flows 2000-18



Source: IMF staff estimates.

4. Rwanda is engaged in preparing the path for implementation of the East Africa Monetary Union Protocol, signed in November 2013, setting out the process and convergence criteria for monetary union with the East African Community (EAC) countries (Figure 1). The protocol envisages the introduction of a common currency in 2024. To that end, it defines macroeconomic convergence criteria for the region, a path for harmonization of monetary and fiscal policies, and mechanisms of regional surveillance. The EAC countries also concluded negotiations with the EU regarding an Economic Partnership Agreement, which provides a framework to guide trade and development cooperation going forward.

ECONOMIC DEVELOPMENTS

MEFP 2-8

5. Economic growth picked up in the first half of 2014, while inflation remains subdued. Growth rebounded in the first half of 2014 to 6.8 percent year-on-year, driven primarily by industry and services (Table 1). High frequency coincident indicators suggest that economic activity was somewhat more subdued in the third quarter (Figure 2). Inflation declined to 0.5 percent year-on-year in October, driven by low import prices for food and fuel and increased supply of domestic fresh food products (Figure 3). Core inflation, (excluding fresh foods and fuels) stood at 3.5 percent.

6. The fiscal deficit in FY2013/14 was slightly less than planned under the PSI (Figure 4 and Table 2). Revenues overperformed largely because of higher receipts from peace keeping operations and capital grants. Current expenditures were in line with the PSI while capital expenditures were lower on account of delays in project implementation. Because of the lower deficit, net domestic financing was less than predicted under the program.

7. The current account deficit widened in the first half of 2014, driven by a worsening in the trade balance (Table 3). Imports grew by 13 percent (y-o-y), while exports remained broadly flat, reflecting weak tourism and restrictions imposed on the movement of people between DRC and Rwanda that were in effect through August, as well as a reduction in prices of minerals and tea.

8. The National Bank of Rwanda (NBR) has kept the monetary policy stance unchanged. With the continued decline in inflation, real interest rates have increased and credit to the private sector was kept at 13.5 percent (y-on-y) in June (Table 4, Figures 5 and 6). Broad money growth accelerated by end-June, partly driven by higher foreign inflows and associated higher spending at the end of the fiscal year, while reserve money evolved in line with the program. The exchange rate has depreciated against the dollar by 3 percent through end-October. Monetary developments in the second half of 2014 have so far been broadly in line with the program.

PROGRAM PERFORMANCE

MEFP 9

9. Compliance with the end-June quantitative criteria (QACs) was strong. All end-June QACs and all but one indicative target were met (MEFP Table 1). The floor on domestic revenue collection was missed by a small margin (less than 2 percent of revenue).

10. Of the seven structural benchmarks scheduled for end-June, six were met (MEFP Table 2). The only benchmark that was not met was the publication of the second quarter fiscal report on the MINECOFIN website, published with a delay (in September) because of a changeover in the BNR's IT system, which delayed the availability of data related to government deposits and domestic borrowing. The end-September benchmark (review of local governments' block grant formula) was also met.

ECONOMIC OUTLOOK

MEFP 10-11

11. The short term economic outlook is broadly favorable. Growth in 2014 is expected to be about 6 percent, only gradually rising to the longer-term growth rate of 7.5 percent in the medium term (Table 1, Figure 7). This reflects improved implementation of government projects and a rebound in agriculture because of favorable climatic conditions early in the year. Prospects in construction and real estate are also favorable, on account of strong demand for housing. The medium-term growth rate is consistent with labor and capital contributing about 5 percent to output growth and total factor productivity (TFP) growth contributing the remainder.[1] Inflation is projected at about 3 percent by end year converging gradually to the authorities' target of 5 percent in the medium term.

12. The main risks to the growth outlook arise from adverse weather conditions, lower than expected exports, slow project implementation, and volatile donor support. With agriculture still playing a key role in the economy, adverse weather conditions would result in weaker-than-expected agricultural output (see RAM). A protracted period of slower growth in advanced economies or a decline in commodity prices, particularly in minerals and traditional exports, would adversely affect exports. Delayed project implementation would also hinder growth prospects.

POLICY DISCUSSIONS

13. Discussions focused on policies to maintain the short term momentum while preserving Rwanda's hard won macroeconomic stability. Staff and the authorities organized the discussions around four themes: maintaining the country's strong performance in terms of growth and poverty reduction and gradually transitioning to a private-sector led economy ; maintaining macroeconomic control through continued prudent fiscal and monetary policies; maintaining external stability and enhancing external competitiveness; and entrenching debt sustainability by prioritizing investment projects in line with available resources, while exploring concessional borrowing to the extent feasible. The authorities have generally followed staff's advice in the past (Box 1).

[1] The TFP component is consistent with the historical levels (see fall REO 2013)

Box 1. Rwanda's Response to the 2012 Article IV Consultation Key Recommendations

- **Domestic financing: Minimize domestic financing of the budget**

  Over the past two years net domestic financing has averaged close to zero, thereby allowing domestic funding to be allocated to private sector projects. While private sector credit growth was fairly subdued at 11 percent in 2013, it is projected to pick up this year to 16 percent (y-o-y).

- **Complete critical investment projects**

  Two major projects, namely the Nyabarongo electricity generation project and the Kigali Convention Center, are running about a year behind schedule on account of technical difficulties associated with land use (Nyabarongo) and building structure (KCC).

- **Improve revenue mobilization**

  This is a central feature of the second PSI and up to now, the policy has been quite successful. The tax revenue ratio is up to about 15 percent of GDP in FY13/14, compared to 13.4 percent of GDP in FY11/12.

- **Increase exchange rate flexibility**

  The authorities have allowed the exchange rate to be guided by market conditions over the past two years.

A. Sustaining Strong Growth and Poverty Reduction

14. The government's Economic Development and Poverty Reduction Strategy for 2013-2018 (EDPRS2) priority areas include: economic transformation, rural development, productivity and youth employment, and accountable governance. Attaining middle-income country status would require Rwanda to sustain high growth rates over time. Staff argued that sustaining high growth over the long run is contingent on successfully transitioning to a private sector led and export driven economy, given the aid outlook. Rwanda's ambitions hinge significantly on translating improvements in the investment climate into private investment. This requires tackling the high cost of doing business and bridging the infrastructure deficit. Overcoming the infrastructure constraints will require significant government investment and a careful prioritization of the investment program, exploring all available sources of concessional financing.

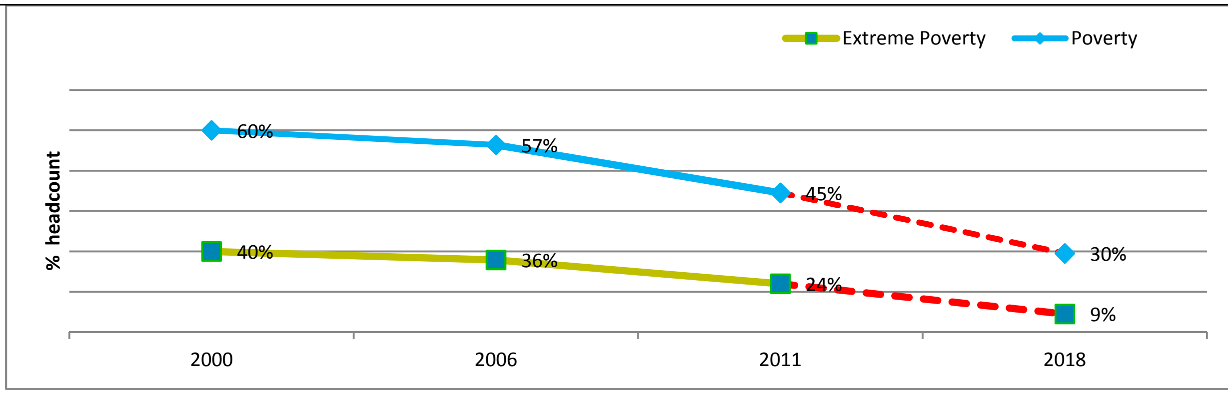
Inclusive Growth

15. The government emphasized its primary objective of lowering the poverty rate further. The authorities expect that continued emphasis on homegrown and adapted interventions, including by strengthening the provision of social services, especially to the rural poor, will maintain momentum in lowering poverty. Policies geared toward agriculture have accounted for the bulk of the decline in poverty and the government intends to maintain this strategy (Box 2). Notwithstanding some uncertainty about the extent of improvement in yields in recent years, there has been a clear improvement in the productivity of the agricultural sector and agricultural statistics are now better able to capture these trends (Box 3).

Box 2. The "Complete Farmer" Approach to Inclusive Growth

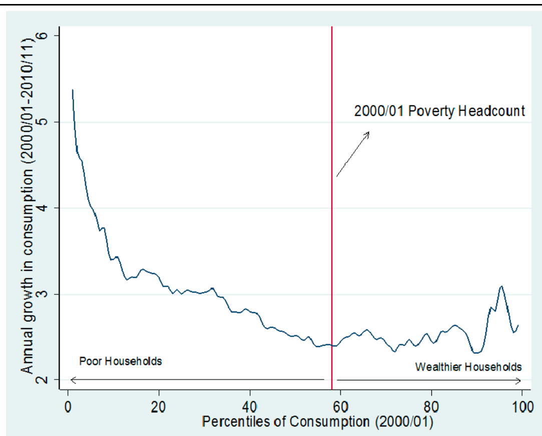
Rwanda has made significant inroads in poverty reduction between 2000 and 2011 (Figure 1). Other dimensions of inclusive growth (average consumption by income levels (Figure 2), education, health, and living standards) have also shown a marked improvement. Much of this progress has been achieved through a targeted approach to poverty reduction, with a particular emphasis on agriculture through the "complete farmer" approach (Figure 3).

Figure 1: Poverty has been on a downward trend



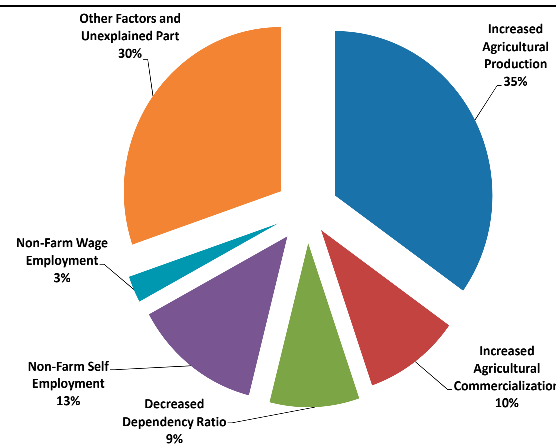
Source: Rwandan authorities

Figure 2: Consumption has increased most among the poorest percentiles



Source: Rwandan authorities

Figure 3: Agriculture has played a significant role in poverty reduction between 2001 and 2011



Source: World Bank

Policies that have contributed to improved productivity and output can be grouped into four categories:

Improved access to inputs and markets: The initial policies focused on improving access to fertilizer and seeds through a government subsidy program. This program was implemented at a relatively low cost (about RWF10 bn at its peak) and is being phased out. Additionally, the area under irrigation has been gradually increased and regional markets have been set up to allow farmers to deliver their products in a timely manner.

Community-based models: The decentralized models focus on educating farmers on land use and improve capacity building at the grassroots. Going forward, land reform will encourage farmers to regroup into cooperatives to benefit from economies of scale.

Box 2. The "Complete Farmer" Approach to Inclusive Growth (concluded)

Private sector engagement: The private sector has been allowed to play a greater role in the provision of agricultural inputs and auxiliary services. These include post-harvest management and optimizing on seasonal factors. Additionally, commercial agreements between smaller farmers and the private sector has provided farmers with a readily available market, while allowing the private sector to have easy access to raw materials for commercialization and processing.

Financial inclusion: All the above programs are aligned with access to finance initiatives run by banks. The private sector has also started schemes whereby farmers are provided with financial support at the beginning of the season in return of trading their output.

Box 3. Agricultural Statistics in Rwanda

Most of the countries in East Africa continue to rely on the routine data collection system of the Ministry of Agriculture–where agricultural extension officers try to collect data on area cultivated and yield rates for major crop types. The number of extension officers is inadequate to collect data from millions of agricultural households, and they do not have the statistical training or resources to collect the data effectively, resulting in poor estimates of crop production. A few countries use the Crop Assessment Survey (CAS) developed by the Food and Agriculture Organization (FAO) for food security purposes to try and estimate crop production for national accounts. However, the CAS is conducted prior to harvest and measures food crops still growing in the field rather than actual production. As a result, the yield rates and output are generally overestimated.

In 2012, the National Institute of Statistics of Rwanda and the Ministry of Agriculture agreed to replace the CAS with a continuous Seasonal Agriculture Survey (SAS) that would provide the data needed to assess food security as well as for compilation of national accounts. The SAS is based on a land census developed using satellite imaging to map all arable land in Rwanda at time of planting. Multiple frame sampling is used, combining both land area frame sampling and list frame sampling. The area frame is used to sample small scale farmers, while the list frame is used for large scale farmers. The use of arable land rather than households for sampling results in better estimation of crops production. The survey collects production and gross capital formation data from all operators using the sampled land and these data are complemented by information gathered from yearly updated list frame of large scale farmers.

For each season, two interviews are conducted – at planting and harvest time. Plots are demarcated to provide the exact area for each of the multiple crops grown on the same parcel of land. The operator has to report inputs for each crop area and output taken from each crop area; as well as providing information on erosion, salinity, anti-erosion measures, gross fixed capital formation, changes in inventories, and the socio-demographic characteristics of the operators. Data on horticulture and other perennial crops are collected annually. The data on total land planted by region from the maps is then used to rate up the sample data to get aggregated data on area planted and production at the regional and national level by crop type.

A separate module is used to collect detailed data on livestock and livestock products from the village nearest to the land sampled. Data are produced for national accounts as well as food security assessment purposes.

As a result of implementing the continuous SAS, Rwanda now has the most accurate and reliable agricultural statistics in the East African region.

Demographics and Employment

16. Harnessing the potential provided by Rwanda's demographic transition requires significant non-agricultural job creation to absorb the rapidly growing labor force (Boxes 4 and 5)**.** Staff noted that the transformation of the Rwandan economy had been more rapid than many others on the continent with a larger decline in the share of agriculture in employment. However, most of the shift in employment had gone into low value-added services. With the large demographic surge ahead, it was necessary to develop policies to facilitate the growth of household enterprises and small and medium sized businesses, especially given that the ability of the agricultural sector in Rwanda to act as an employer of last resort was increasingly limited.

17. The authorities are putting in place a five year employment plan specifically to facilitate the creation of non-agricultural jobs. The government's new employment strategy has a three-pronged focus based on skills development, the fostering of entrepreneurship for SMEs, and support for household enterprises.[2] Skills development is being enhanced through a revamp of the government's numerous labor training schemes and the introduction of an informal apprenticeship system providing master trainers and craftsmen the tools to transfer hands-on skills. The government is also designing an online national knowledge management system to improve information sharing and coordination to improve the match between employer needs and workforce skills. SMEs are being targeted through practical entrepreneurship and mentoring and coaching by "business development advisors" and better access to finance and business services. The household enterprise sector is being cultivated through the set-up of sector specialists in all districts that can pinpoint successful projects and help provide access to finance.

18. Staff supported the authorities' plans for employment and gender equality. On employment, the development of the household enterprise sector is key since this is the sector where the bulk of new jobs would be created**.** Recent concerns expressed by the World Bank regarding current conditions for household enterprises in Rwanda were being addressed through the employment plan (provision of public space for household enterprises in Kigali and an impact assessment of the effects of local taxes). On closing the gender gap, Rwanda has instituted an approach that involves affirmative action to correct gender-related imbalances, and gender main-streaming, and integrate a gender perspective in policies, activities, and budgets in all sectors. As a result, Rwanda has been able to close the gender gap in educational attainment at primary and secondary school, and increase substantially women representation in government senior level positions (Box 6). Also, the overall female labor force participation is high, particularly in the rural areas where women mostly work in subsistence farming.

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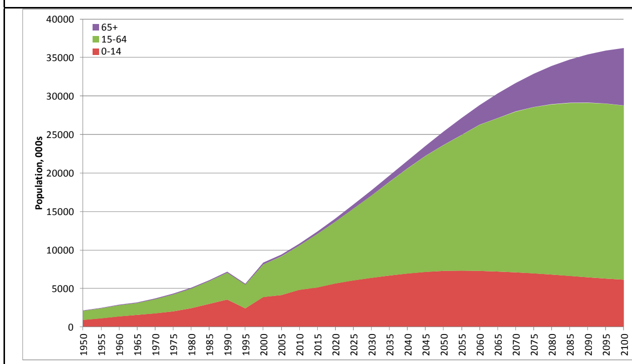
[2] Household enterprises are micro enterprises with at most one to three employees.

Box 4. Harnessing the Demographic Dividend

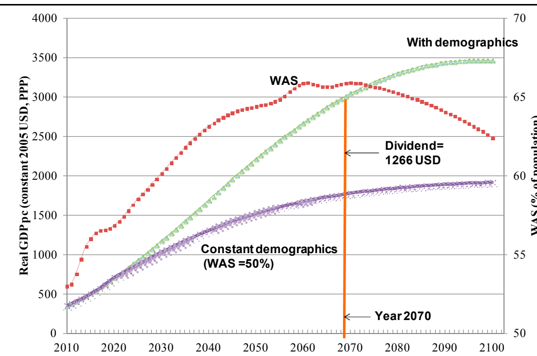
Rwanda's projected population of 12.4 million in 2015 is expected to double by 2050 and nearly treble by 2100 (Figure 1). Its working age population (WAP) is also projected to increase from 7 million to 16 million by 2050. The share of its WAP will increase from about 56 percent to peak at about 66 percent in 2070.

Figure 1: Population will triple by 2100



Source: IMF staff based on UN Population Database

Figure 2: Projected demographic dividend



Source: IMF staff estimates

Rwanda's demographic transition provides a window of opportunity, which if properly tapped can generate a "demographic dividend". Such transitions contributed to the "Asian Miracle", but there are also countries where such opportunities passed by without any meaningful progress as countries failed to put in place appropriate policies. Asia's more favorable economic outcomes have been attributed to stronger focus on human and physical capital, higher labor participation rates, and an initial emphasis on labor intensive export-led growth that created jobs and supported a transition into sectors with higher TFP.

A recent study by Drummond, Thakoor and Yu (2014) finds that the median African country with an initial per capita income level of around US$550 in 2010 can expect to benefit from a demographic dividend of about US$1,350 by 2100. The resulting GDP per capita of US$3,865 (in constant 2005 terms) is higher by about 56 percent. Using the same approach for Rwanda suggests GDP per capita by 2070, could be higher by about 70 percent. While GDP per capita is expected to peak at around US$1,750 in the baseline, factoring in demographics causes GDP per capita to rise to US$3,000 by 2070.

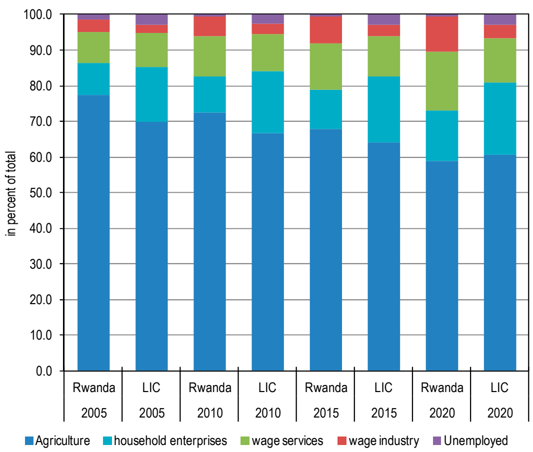
The projected increase in Rwanda's working age population can be transformational, but can also be a source of social risks, particularly if the economy does not create sufficient jobs to absorb those joining the labor market. Key factors to harnessing the demographic dividend include investment in human capital and from the development of new sectors beyond agriculture.

Reference: Drummond, P., Thakoor, V., Yu, S., (2014), *Africa Rising: Harnessing the Demographic Dividend*, IMF WP 14/143: http://www.imf.org/external/pubs/ft/wp/2014/wp14143.pdf

Box 5. Rwanda: Employment in Rwanda

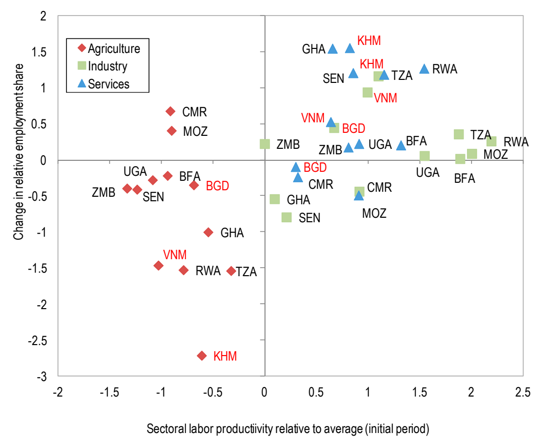
Rwanda has been successful over the past decade in moving people out of agriculture as a first step in the process of structural transformation. Among a sample of sub-Saharan African economies, its agricultural employment share has fallen the most, but, as is common among SSA countries, most of the displaced workers have ended up in low value-added services rather than industry. It does however boast a higher fraction of wage workers in industry compared to most other non-resource LICs and the recent rise in the share of wage workers is projected to continue through 2020 as shown in Figure 1 (see Fox et al. 2013 for details on the methodology).

Figure 1. Employment Distribution



Source: IMF staff estimates based on household surveys

Figure 2. Selected Countries: Labor Productivity and Changes in Employment Shares, 2000–10
(In percent)



Source: IMF staff estimates based on household surveys

Figure 2 shows how Sub-Saharan African economies have been transforming over the past decade. The figure plots changes in the sector employment share (y axis) against the level of labor productivity in each sector relative to the average for each country (initial period, x axis). For most countries workers have moved out of agriculture (lower left quadrant) into services (upper right quadrant) with a slight increase in the industry employment share for a few countries. This experience contrasts with that of the low income Asian countries (Cambodia and Vietnam) that have succeeded in raising the industry employment share significantly.

Reference: L. Fox et al. (2013) *Africa has work to do: employment prospects in the new century*, IMF WP 13/201

Box 6. Closing the Gender Gap in Rwanda

The Government of Rwanda has established a two-pronged approach to gender equality: (i) the gender mainstreaming approach, which includes integrating a gender perspective into policies, activities, and budgets in all sectors; and (ii) the affirmative action approach that seeks to correct gender imbalances. The 2003 Constitution has enshrined the principle of gender equality by establishing 30 percent quotas for women representation in all decision making structures. The 1999 Civil Code and the 2013 law governing land ensure women equality in terms of land ownership and inheritance. As a result, Rwanda was classified 7th (out of 136 countries) in the in the rankings of the World Economic Forum's 2014 Global Gender Gap Report.
Three indicators measure how Rwanda has been able to close the gender gap:

Educational attainment: Rwanda has been able to close the gender gap in education at primary and secondary levels. Net attendance rates in primary education are even slightly higher for girls than for boys (92 percent and 90 percent, respectively). Completion rate of primary school is also higher for girls than for boys (82 percent compared with 75 percent, respectively). The net attendance rates at secondary level drop significantly for both sexes, but remain very close (10 percent and 11 percent for girls and boys, respectively).

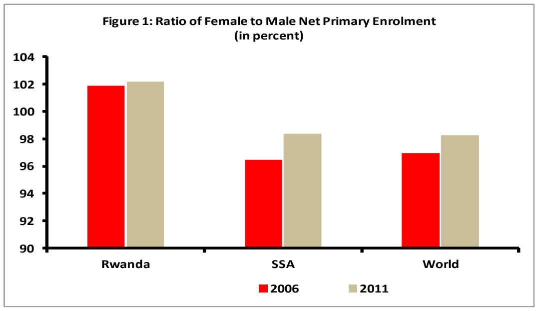
Employment and earnings: The female labor participation (FLFP) rate at 86 percent is slightly higher than for men (84). Women continue to provide the bulk of labor in the agriculture sector, mostly working on subsistence farming (75 percent for women compared with about 60 percent of men). Almost one third of Rwandan households are headed by women, of which about 90 percent work in agriculture, compared with about 60 percent of male heads. While about one third of men are engaged in non-farm wage activities, only around 8 percent of women gain wages off farm. In fact, women are four times more likely to work as unpaid family workers. Women are overrepresented in the informal sector and among the poor, particularly head of households.

Political empowerment: The gender gap in political representation has narrowed, and female representation in senior positions has increased. In 2013, Rwanda had the world's highest female participation in the two chambers of Parliament at 53 percent (63 percent in Parliament). About 30 percent of Ministers were females; women made up of half of the Supreme Court justices and about 40 percent of judges. At the village levels, women are mostly represented in local councils.

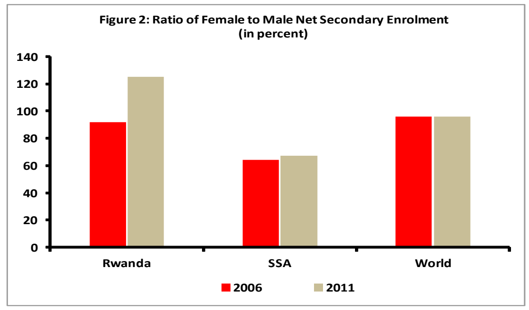
Women are almost equally affected by poverty as men. During 2006-11, poverty fell at about the same rate for male and female-headed households. The average number of children per woman dropped from 6.1 in 2005 to 4.6 in 2010 and Rwanda's fertility rate is now well below the Sub-Saharan average of 5.1.

Box 6. Closing the Gender Gap in Rwanda (concluded)

Rwanda: Gender Parity in Education



Source: Rwanda, EICV 2 and 3
World Bank, World Development Indicators, 2013



Source: Rwanda, EICV 2 and 3
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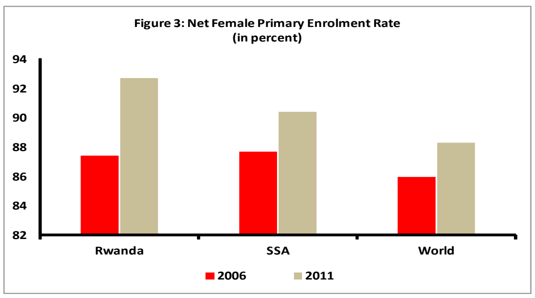
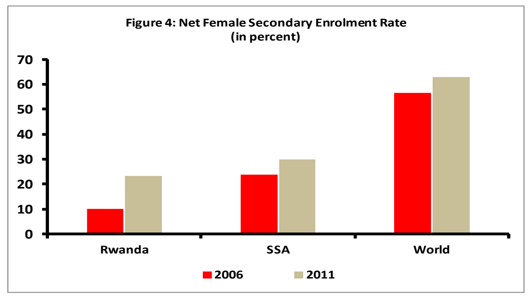
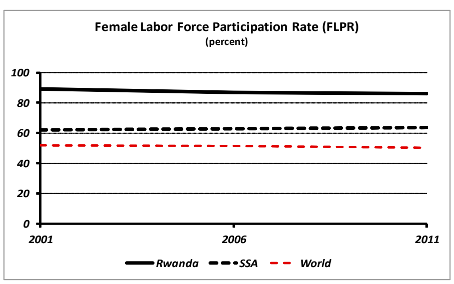


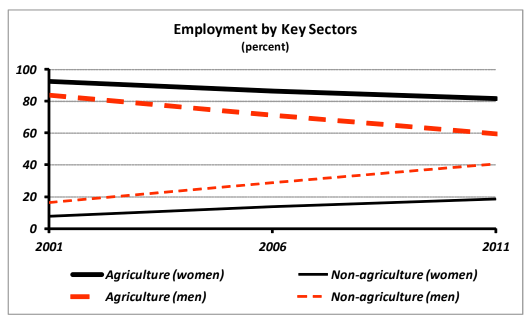
Source: Rwanda, EICV 2 and 3
World Bank, World Development Indicators, 2013



Source: Rwanda, EICV 2 and 3
World Bank, World Development Indicators, 2013

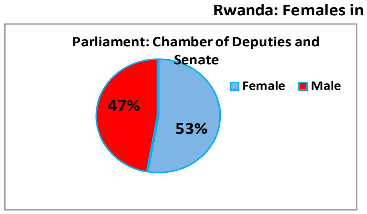


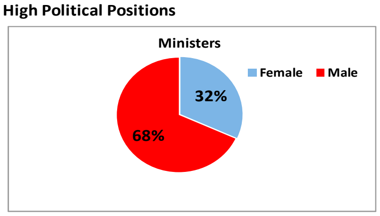
Source: Rwanda, EICV,1, 2, and 3
World Bank, World Development Indicators, 2013

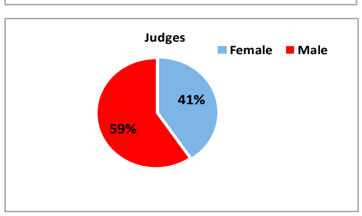


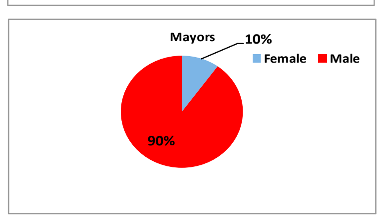
Source: Rwanda, EICV,1, 2, and 3
World Bank, World Development Indicators, 2013

Rwanda: Females in High Political Positions









Source: NISR, Statistical Year Book 2013

B. Maintaining Prudent Fiscal and Monetary Policies

Fiscal Policy

19. The fiscal deficit for FY14/15 continues to be in line with available resources. The fiscal deficit for 2014/15, after adjusting for a switch in financing between grants and loans, is 0.2 percentage point of GDP larger than budgeted, on account of lower-than-budgeted grants. The headline deficit is 2.1 percentage points of GDP wider though, reflecting the change in the structure of multilateral financing of about 1.9 percentage points of GDP, associated with Rwanda attaining a low risk of debt distress (see text table). The somewhat higher deficit and net shortfall in external finance is being met by higher net domestic financing (0.5 percent of GDP), in line with the PSI.

MEFP 12-13, 16

Fiscal Highlights (in percent of GDP)

	2013/14	2014/15			2015/16
		Budget	Latest	Difference	
		(Percent of fiscal year GDP)			
Revenue	16.9	17.2	17.7	0.5	18.7
Grants	9.3	9.5	7.1	-2.4	4.7
Budgetary grants	3.4	4.5	1.7	-2.8	1.7
Current expenditure	15.2	14.2	14.1	-0.1	13.4
Capital Expenditure	14.0	13.6	13.6	0.0	12.5
Net Lending	1.0	1.8	2.1	0.3	0.9
Overall Balance	-4.3	-3.1	-5.2	-2.1	-3.6
Adjusted Overall balance [1]	-3.3	-3.1	-3.3	-0.2	-1.7
Financing	4.3	3.1	5.2	2.1	3.6
External	2.1	1.9	3.5	1.6	4.4
Budgetary Loans	1.0	0.0	1.9	1.9	1.9
Project Loans	1.3	2.1	1.9	-0.2	2.8
Amortization	-0.2	-0.3	-0.3	0.0	-0.3
Domestic	2.4	1.2	1.7	0.5	-0.8

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Overall balance adjusted for the switch between grant and loan financing by netting out budgetary loans

20. The mission urged the authorities to sustain efforts to mobilize more revenue. Tax revenue is expected to increase by 1 percent of GDP this fiscal year, bringing it to almost 16 percent of GDP. Tax efforts over the past year have yielded revenue gains, including the expansion of electronic tax filing and payment and the greater use of the electronic billing machines. The current tax effort, however, is still low with respect to comparator countries in Africa, and below the 25 percent of GDP target set by the EAC. While partly explained by structural issues (a large share of agriculture and subsistence farming; loss of revenue from increasing regional free trade as the EAC moves towards a lower common tariff; large informal economy; and shifting composition of imports), staff emphasized that raising more revenue required combining efforts to improve revenue administration and broaden the tax base. The authorities were confident the tax measures being implemented would ensure a tax collection achievement that was close to the initial target set in the budget. Moreover, because of uncertainty about tax collection, the authorities have set up a contingency category such that that if revenues turn out lower than targeted under the program, they would reduce expenditures to conserve borrowing space.

21. The government remains committed to achieving the medium-term target for tax revenue. The overall increase in tax revenue mobilization of about 3½ percentage points of GDP through FY16/17 is in line with the original target under the PSI, once the weaker than envisaged economic growth is taken into account.[3] In addition to better revenue administration, medium-term plans to improve revenue mobilization focus on mining and agriculture, as well as improving the regime for fixed property, with a combined, expected annual yield of 0.4 percent of GDP when implemented, all of which follow FAD TA recommendations. Implementation is expected according to the following timeline:

- On mining, the authorities aim to ring fence mining operations to limit cross subsidization, introduce regulations to support implementation of transfer pricing provisions, and clarify the process of the administration of royalties by end-January 2015.

- On property taxes, the first priority is to secure the transfer of tax collection rights from the local governments to the central government, by end-June 2015. The adjustment of property tax legislation will subsequently be made over time with initial steps involving the migration from a land lease fee to a fixed asset tax in Kigali.[4]

- On agriculture, the authorities plan to conduct a benchmarking study based on the experience in other comparable countries before changing the tax code. Recommendations from IMF staff include withdrawing the tax exemption for agricultural incomes with turnover below 12 million RWF and improving the compliance of the SME presumptive tax regime for agricultural operations.

22. Over the medium term, staff and the authorities agreed that the fiscal trajectory will likely be characterized by lower, stable budget deficits as the economy approaches its potential growth rate. The fiscal deficit is projected to decline to below 4 percent of GDP, in line with projected available aid from development partners and concessional resources. The authorities emphasized that the medium term path was also consistent with the objective of limiting crowding out so as to facilitate private sector investment projects.

[3] The cumulative output growth shortfall over the 13/14-16/17 period would lower the tax revenue ratio by about 0.75 percent of GDP based on a tax buoyancy coefficient of 0.15.

[4] A land lease fee is a simplified area based land tax whereas a fixed asset tax is a property tax levied on the market value of a fixed asset.

Monetary and Financial Sector Policies

MEFP 21-25

23. The NBR saw merit in keeping the monetary stance unchanged in view of the inflation and growth outlook. In its view**,** headline inflation had declined on account of temporary factors, driven by lower prices for food and fuel, and end-2014 inflation is expected to be about 3 percent. Going forward, inflation is expected to converge to the authorities' medium term target of 5 percent as the economy nears its potential and the output gap narrows.

24. The mission welcomed efforts aimed at strengthening the monetary framework and encouraged further reforms to improve the transmission mechanism. The NBR has implemented a series of measures aimed at absorbing excess liquidity and improving the interbank market (see IMF CR 14/185). Additionally, the modeling unit of the central bank has been strengthened to provide forward-looking model-based information to the monetary policy committee (See Box 7). To enhance its communication with market participants, the NBR has started publishing inflation reports to complement its semi-annual updates on monetary and financial sector developments.

25. Structural impediments continue to limit the effectiveness of the transmission mechanism. The pass-through of the policy rate to market rates has been relatively slow. The National Bank of Rwanda partly attributes the inertia to high costs of banking and limited competition. The NBR pointed out that measures were being considered to improve the pool of funds available to commercial banks, including by tapping into the more liquid markets in the region, to reduce the cost of wholesale funding.

26. Continued exchange rate flexibility is critical to preserve policy buffers. The NBR noted that foreign exchange interventions were primarily aimed at limiting volatility, but there was also a need to provide foreign exchange to support imports in a context where foreign exchange flows remained tight. Staff concurred, but emphasized that the NBR has limited room for maneuver now that reserve cover is at about 4 months of prospective imports, and it was critical to preserve reserve buffers. Exchange rate flexibility would also help preserve Rwanda's competitiveness.

27. The financial sector remains sound, but emerging vulnerabilities require close monitoring. The main financial soundness indicators have continued to improve following the deterioration at the peak of the aid-shock in 2013 (Table 5). Non-performing loans are now on a declining trend but a sector disaggregation reveals that high NPLs persist in the real estate and hotel sectors, reflecting an over-supply in some segments of both markets. Staff emphasized the need for close monitoring of the quality of credit and avoiding too rapid an expansion of credit at the level of households. The NBR responded that the level of NPLs was being monitored closely and was on the decline, reflecting the effectiveness of the macroprudential policies rolled out in 2013. They also noted that the ongoing bolstering of the regulatory and supervisory frameworks will allow the NBR to continue to support financial stability. Plans to consolidate the Umurenge SACCOs into a large cooperative bank by mid-2015 remain on track. The authorities have joined the Eastern and Southern Africa AML group and plan to bolster their AML/CFT framework based on the group's assessment report.

Box 7. Explaining Money Target Misses in Rwanda

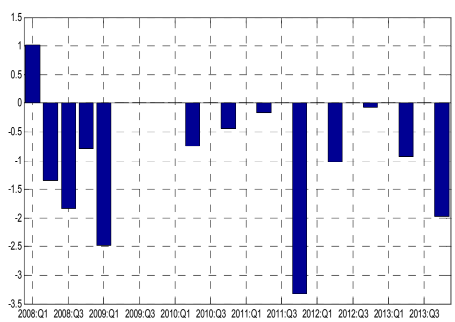
The National Bank of Rwanda (NBR) has been working on strengthening its monetary policy framework and improving its understanding of the transmission mechanism. The use of a semi-structural macroeconomic model that links the monetary policy stance to economic activity and inflation is part of this process. Such a model can be integrated into a wider set of processes and tools to prepare coherent macroeconomic forecasts, perform scenario analysis, and inform the monetary policy formulation process.

The current exercise extends the framework in Charry, Gupta and Thakoor (2014) to incorporate an explicit role for money targets and target misses in analyzing monetary policy in Rwanda. This allows for a better understanding of the performance of the NBR, which targets money as its operational instrument. Figure 1 shows the target misses for base money in terms of YoY growth rates. Actual base money was below the target in all periods, with an exception for 2008Q1. This is consistent with the perception of the target as an upper limit for base money.

One of the reasons for the deviations is that once the central bank sets the target, the economy is subject to a range of shocks (figure 2). These can be grouped into two categories. First, those arising from the actions of the NBR, such as deviations of money growth from targets consistent with implicit inflation targets. Second, unexpected shocks to money demand (resulting from changes in velocity, multiplier, real demand, or interest rates). Monetary policy and money demand shocks (particularly due to changes in velocity and multiplier) explain the bulk of the misses.

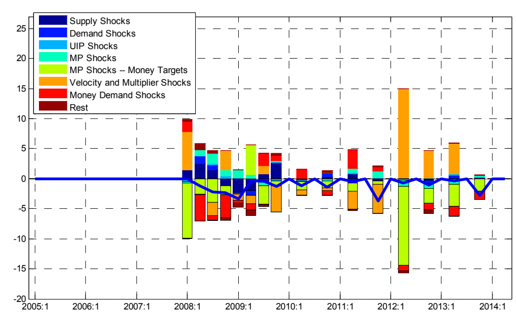
Policy formulation in Rwanda has been adapted to the changing nature of money demand resulting in target misses. For program purposes, the reserve money target is set within a band to give the authorities greater space in the conduct of monetary policy.

Figure 1: Targets have been often undershot



Source: BNR data

Figure 2: Shocks explaining the bulk of deviations



Source: IMF staff estimates

References: Charry, L., Gupta, P., Thakoor V., (2014), "Introducing a semi-structural macroeconomic model for Rwanda", IMF WP14/131

Portillo, R., Thakoor, V., Vlcek, J., "A macroeconomic model with money targeting for Rwanda", IMF Working Paper (forthcoming)

28. Efforts to develop the capital markets are ongoing. Measures include: the issuance of instruments with longer maturities, the quarterly issuance of government bonds, and ongoing collaboration with the IFC as regard issuing both regional bonds and developing technical expertise and infrastructure in Rwanda. Additionally, an automated clearing and settlement platform is now in place and the authorities are currently working on implementing an automated trading platform. Initiatives are also ongoing to connect the various markets in region. The authorities believe that the new instruments and infrastructure will provide a platform to deepen the capital markets in Rwanda. The ongoing implementation of the second Financial Sector Development Plan aims to tackle the impediments to financial intermediation and increase saving and investment opportunities, thereby furthering financial inclusion.

C. Export competitiveness and External Stability

MEFP 14-15

29. Staff supported the authorities' efforts to develop the export sector, both by diversifying into new markets and improving the export base, with a view to lower the trade gap. This included taking advantage of opportunities provided by regional integration, particularly through the EAC. Exports are currently dominated by tea, coffee, minerals, and tourism. Since 2012, exports to the DRC and EAC account for about 17 percent and 8 percent, respectively, of Rwanda's total exports.

30. The government argued that its export strategy focused on adding value to traditional exports (e.g., washing coffee) and moving into new areas (e.g., horticulture and pyrethrum) and was being achieved through targeted interventions in industrial development. The construction of the Kigali convention center and plans to build a new airport reflect the authorities' desire to expand business tourism and some success has already been achieved in industrial development. For example, some light manufacturing has started to take off (shoes, textiles), but the authorities acknowledged that the scale of this activity was still small. Moreover, with Rwanda being land-locked, they agreed that lowering the costs of doing business in terms of reliable provision of power and better transportation would be required before these types of activities can expand on a large scale. Rwanda has the third best doing business indicator in Sub-Saharan Africa with cross border trade a notable weakness. [5]

31. The authorities have allowed for greater exchange rate flexibility and aim to maintain import cover of about 4 months. In recent years, staff has supported the authorities move to allow greater exchange rate flexibility, allowing the exchange rate to be market determined. The Rwandan Franc depreciated against the US dollar by over 13 percent since 2012 (through October).

32. The real effective exchange rate has remained fairly stable in recent years and appears to be in line with fundamentals. The real effective exchange rate (REER) depreciated by about 2 percent in 2013 mainly due to the fall in the nominal value of the Rwandan franc against the currencies of its main trading partners. Based on the extended external balance assessment (EBA-lite) current account gap estimate, staff assesses the 2013 REER to be broadly consistent with its long run fundamentals (a point estimate of about 3.1 percent overvaluation, Box 8). An alternative equilibrium real exchange rate estimate would seem to confirm this assessment.

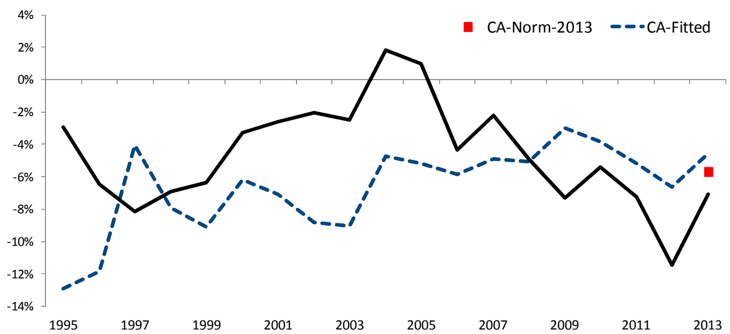
[5] These indicators should be interpreted with caution due to limited respondents, geographic coverage and standardized assumptions.

Box 8. Rwanda: External Stability Assessment

Overall assessment. *The immediate risks to the external position appear to be manageable but medium-term vulnerabilities will need to be addressed. Rwanda remains susceptible to external shocks given its narrow export base and reliance on aid flows. The effective implementation of structural reforms to improve export capacity and diversification under EDPRS II is critical to mitigate risks arising from the narrow export base and volatility of commodity prices. Further lowering of the costs of doing business and removal of other structural impediments to speeding up private sector's share of the economy are essential to improving Rwanda's external competitiveness and attracting large FDI flows. Limited international capital market access could be used to complement traditional sources of external financing but needs to be done prudently to avoid external debt sustainability problems.*

The underlying current account deficit in 2013 is very close to its estimated norm. The extended External Balance Assessment (EBA-lite) methodology estimates a CA norm of -5.7 percent of GDP and a gap of -1.4 percent in 2013 (figure 1).[1] However, the current account deficit is expected to deteriorate in 2014 to 11.8 percent of GDP, mainly due to weaker export performance and healthy growth in imports, but will gradually improve thereafter over the medium term to 8.4 percent of GDP in 2018 as exports rebound. Given the low export base, the Rwandan economy remains vulnerable to external shocks, for example, to a fall in commodity prices or a slowdown in trade partners' demand. However, these risks are expected to be mitigated over the medium term by the anticipated improvement in export performance via the implementation of the export expansion and diversification strategy under the EDPRS II.

Figure 1. EBA-lite Current Account Balance Estimates



Source: IMF Staff estimates.

The real effective exchange rate (REER) is broadly in line with its long-run equilibrium. The real effective exchange rate depreciated by about 1.7 percent in 2013 mainly due to the fall in the nominal value of the Rwandan franc against the currencies of its main trading partners. The authorities have allowed greater flexibility in the Rwandan franc in foreign currency market. Based on EBA-lite current account gap estimate and a long-run elasticity of -0.46 the REER is estimated to be 3.1 percent overvalued in 2013, and hence broadly consistent with its long-run fundamentals. Maintaining a more flexible exchange rate regime in the medium term would continue to support efforts to enhance export competitiveness.

Methodology	**Current account**	**Current account norm**	**REER overvaluation**
	Percent of GDP	*Percent of GDP*	*Percent*
EBA-lite Current Account balance	-7.1	-5.7	3.1

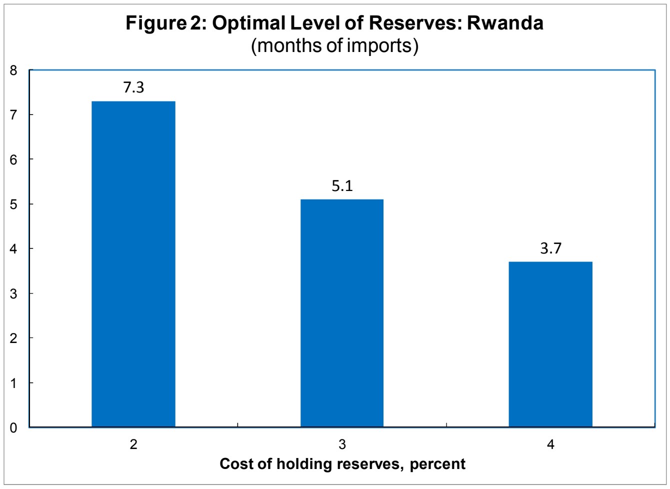
Source: IMF Staff calculations

Capital and financial accounts flows. In 2013, traditional aid flows were complemented by commercial borrowing via the Eurobond issuance to finance the current account deficit. FDI flows were 2 percent of GDP. In the near-term aid flows will continue to play an important role in external financing in Rwanda. Implementation of structural reforms in the private sector is anticipated to increase FDI flows over the medium term.

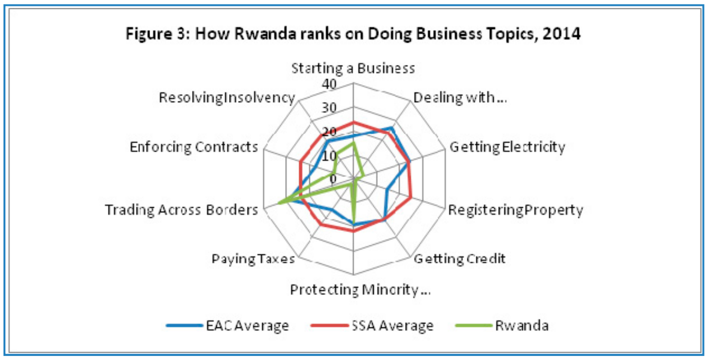
Box 8. Rwanda: External Stability Assessment (concluded)

The low risk of external debt distress rating has expanded the envelope of available concessional borrowing, while reducing the share of grants in aid flows. With the government's access to international capital markets, commercial borrowing could also complement traditional aid flows in financing of the current account deficit. The limited space for commercial borrowing means however that this form of debt financing should be undertaken judiciously to preserve debt sustainability.

International reserves level is broadly adequate. Reserves covered 5 months of imports in 2013, in line with the average for 2009-2013. Over the medium-term, reserves are expected to remain over 4 months of imports. A cost-benefit approach to the optimal level of reserves in LICs[2] suggests that projected reserves would be broadly consistent with the optimal level estimated at 4-5 months of imports, assuming an opportunity cost of holding reserves in the range of 3-4 percent (figure 2).[3]



Broader competitiveness indicators. The 2015 Doing Business Indicators ranks Rwanda 46 out of 189 countries, the third best overall ranking for any Sub-Saharan country, behind Mauritius and South Africa respectively. But while it compares favorably on most indicators relative to the EAC and SSA, its indicators of cross border trade are inferior to its regional peers (Figure 3). This suggests that important structural competitiveness challenges remain.



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[1] IMF Working Paper *The External Balance Assessment (EBA) Methodology* (WP/13/272). EBA-lite estimates include a broader set of emerging market and low-income countries than the EBA approach.

[2] IMF Working Paper *Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis* (WP/11/249) and IMF Board Paper *Assessing Reserve Adequacy* (PIN No. 11/47).

[3] The cost of reserves is approximated by the difference in the return on public investment and the real return secured from investing in relatively safer and more liquid foreign assets

33. Rwanda's level of foreign exchange reserves remains adequate but the room for maneuver is limited. Import cover is near the 4 months target, which is consistent with estimates of Rwanda's optimal reserve level and also the target set by the EAC convergence criterion.[6] Staff cautioned that in the past, the profile of reserve coverage was strongly correlated with aid inflows. The challenge, therefore, will be to maintain the current level of reserve coverage while reducing reliance on foreign aid. Maintaining reserves cover at 4 months of imports over the medium term would be consistent with a current account deficit (including grants) leveling out at about 8 percent of GDP.

D. Infrastructure Spending and Debt Sustainability

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34. Rwanda has significant investment plans to help overcome the infrastructure constraint, but the financing of most of these projects is yet to be finalized. There is currently a pipeline of projects in the areas of energy, transportation (air and road) and water with projected financing from development partners (including IDA and AfDB) of about US$1.5 billion for these projects over the medium term (2014-19). Two additional priorities for the government include the new airport at Bugesera and Rwanda's share of the regional railway (with costs of US$750 million and US$1.5 billion, respectively), but financing for these two projects has not yet been identified.

35. The authorities concurred that strengthening implementation capacity was key to timely completion of projects. Two flagship projects (the Nyabarongo power plant and the KCC) were running about 1 year behind schedule on account of technical issues. The authorities acknowledged that more time was needed at the initiation stage to work through potential pitfalls and limit the size of corrective measures during implementation. A Minister of State in charge of planning has thus been appointed to oversee the strengthening of linkages between planning and budgeting, help establish a public investment committee and a national investment plan team to ensure better planning of public projects. A readiness filter is to be introduced that will require each project above US$1 million to undergo a feasibility study and cost benefit analysis before it is implemented. Moreover, quarterly reports will be sent to Cabinet on the status of projects and responsibility for the proper implementation of the projects will be set at the Ministerial level.

36. Staff supported the authorities' plan and suggested establishing an explicit Public Investment Program (PIP) listing all major projects and their expected phasing and financing. Staff welcomed the authorities' commitment to fully explore concessional financing options and private sector participation before considering non-concessional resources, but recognized that recourse to some non-concessional financing was inevitable and appropriate, given the country's infrastructure needs and available fiscal space.

37. On account of uncertainties in the timing of project implementation and the availability of alternative sources of financing, the authorities did not have an explicit timeline for contracting non-concessional borrowing. The new debt unit at the Ministry of

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[6] E. Dabla-Norris et al. Optimal Precautionary Reserves for LICs IMFWP11/249

Finance was charged with analyzing various debt sustainability scenarios based on the IMF and World Bank LIC DSA methodology. The authorities underscored the importance of infrastructure spending to relieve bottlenecks but they wanted to keep the low risk rating that allowed them to access additional concessional financing.

38. The staff and authorities reviewed alternative scenarios under the DSA to ensure consistency with Rwanda's current low risk of debt distress. Under the baseline scenario all debt burden indicators are projected to remain below the policy-dependent thresholds. Standard stress tests show a marginal temporary breach of the PV of the debt service-to-revenues ratio in 2023 when the Eurobond issued in 2013 matures. As this breach is temporary, and it is assumed that Rwanda will be able to rollover the maturing Eurobond, the assessment of a low risk of debt distress remains. Alternative financing scenarios under the DSA also suggests that Rwanda has limited flexibility to use non-concessional financing options. The analysis shows that non-concessional borrowing of US$ 500 million during 2015 would not adversely affect Rwanda's debt risk rating. However, recourse to larger non-concessional borrowing would increase public debt vulnerability and may raise Rwanda's risk of debt distress.

39. Staff advised the authorities to smooth out the profile of any new non-concessional borrowing and urged that project selection should be made carefully. The issuance of a single large bond for a small country like Rwanda could lead to a cost premium and would pose rollover risks at maturity, especially in less favorable circumstances. Staff supported the government's strategy of availing itself of the larger concessional financing resources offered by donors because of the low debt distress rating. Staff also recommended splitting non-concessional borrowing over a multi-year horizon to contain rollover risks and fully lining-up financing prior to project commitment. On project selection, while recognizing that the new airport was a national priority, staff urged the authorities to share the financing of this project with private sector partners so that future risks would be diversified.

PROGRAM ISSUES

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40. **The authorities propose, and the staff supports, modifications of end-December 2014 QACs**, reflecting the shortfall in aid for FY2014/15 and the revised monetary program. The broad macro targets remain intact (growth, inflation, fiscal, and reserves coverage). Specifically, the floor on net foreign assets (NFA) of the central bank is being revised downward by $11 million to take into account the combination of three adjustments: the initial end year target of $895.5 million is supplemented by the unused Eurobond proceeds associated with the delays in the completion of the KCC ($76.7 million) and reduced by the difference between the latest estimate of budget support (loans and grants) and the estimate that was made at the time of the last review up to a maximum of $80 million. This also includes a small reduction in the cash component of project grants because this affected the availability of foreign exchange. In line with revised economic assumptions, slight adjustments have been made for domestic revenue, priority expenditure, and consolidated domestic debt. Reserve money has been adjusted marginally lower while the ceiling on NDF has been adjusted upward slightly to reflect increased domestic financing needs for the first half of the fiscal year. The ceiling on non-concessional borrowing remains unchanged at US$250 million through end June 2015.

41. **Structural conditionality going forward supports the authorities' desire to raise tax revenues and extend financial disclosure to sub-national units.** To support the ambitious revenue objectives, three structural benchmarks associated with new taxation legislation for agriculture, mining and property were initially set for end-December. However, the authorities have requested more time to prepare the tax legislation for the various components. A benchmarking study on agricultural taxation is to be carried out as a basis for revised legislation, the latter by end-December 2015. On mining, the revision to the income tax code that incorporates the ring fencing of mining operations, introduces regulations to support implementation of transfer pricing provisions, and clarifies the process of the administration of royalties is projected for end-January 2015. Finally, on property taxes, the law regulating the switch in the collection of local government taxes to the Rwanda Revenue Authority is projected for end-June 2015 while a new benchmark specific to property taxes has been added for end-December 2015. The other remaining benchmark on requiring frequent financial reporting at the sub-national level is set for end-December 2015.

STAFF APPRAISAL

42. **Rwanda has been a strong performer in terms of growth and poverty reduction among countries in Sub-Saharan Africa over the past two decades.** The government's current economic strategy has the clear priority of removing impediments to private sector development and making the economy more attractive for potential investors.

43. **Economic growth has rebounded this year and, provided that the government succeeds to implement its investment plans, a medium-term growth rate of 7.5 percent is feasible.** On agriculture, the economy remains quite far from the production possibility frontier and

the process of structural transformation into services and industry is in its early stages. Inflation has remained at low levels and the real exchange rate has been stable. Greater exchange rate flexibility has contributed to stabilizing the import cover around 4 months.

44. The authorities are commended for maintaining their plans for domestic revenue mobilization in the face of a weaker medium-term outlook than assumed under the original PSI program. By end FY16/17 the tax revenue ratio will be in line with the PSI program, taking into account the expected economic growth path. Moreover, the authorities have made progress and are putting in place mechanisms that will make greater revenue mobilization a permanent fixture.

45. Staff recognizes that limited implementation capacity has hindered the timely completion of certain large projects. They welcome mechanisms being put in place to address these problems in terms of greater oversight, coordination and phasing of projects. They also underscored the importance of setting up an explicit public investment program that demonstrates the authorities' priorities, phasing and expected financing in terms of large projects. At the current juncture the authorities are to be commended for stepping up planning and implementation efforts before embarking on new investment outlays, as well as seeking to exhaust all possibilities for concessional financing and private sector participation in projects before considering finance on non-concessional terms.

46. Staff commends the set up of a new debt unit in the Ministry of Finance. The unit provides the authorities an important instrument to help inform their debt decisions going forward, including by monitoring the available debt space and its sensitivity to assumptions about export growth.

47. Staff supports the continued tight monetary stance in light of the inflation and growth outlook. It is consistent with the expected pick-up in inflation toward the year-end and should help prevent undue pressures in the market for foreign exchange. The initiatives implemented by the central bank over the past year will contribute to improving the transmission mechanism and strengthening the monetary framework. Ongoing efforts to bolster the legal and supervisory frameworks, including the AML/CFT framework, would contribute to enhancing the overall resilience of the financial sector.

48. On external stability, the immediate risks to the external position appear to be manageable but medium-term vulnerabilities need to be addressed. Rwanda remains susceptible to external shocks given its narrow export base and reliance on aid flows. The effective implementation of structural reforms to improve export capacity and diversification under EDPRS II is critical to help mitigate risks arising from the narrow export base and volatility of commodity prices. In addition, further lowering of the costs of doing business and removal of other structural impediments to speeding up private sector's share of the economy are also essential. Improvement in the current account balance in the medium-term is contingent on the successful implementation of these measures to address structural impediments to export expansion and Rwanda's external competitiveness. International capital market access could be used to complement traditional sources of external financing but needs to be done prudently to avoid debt sustainability problems.

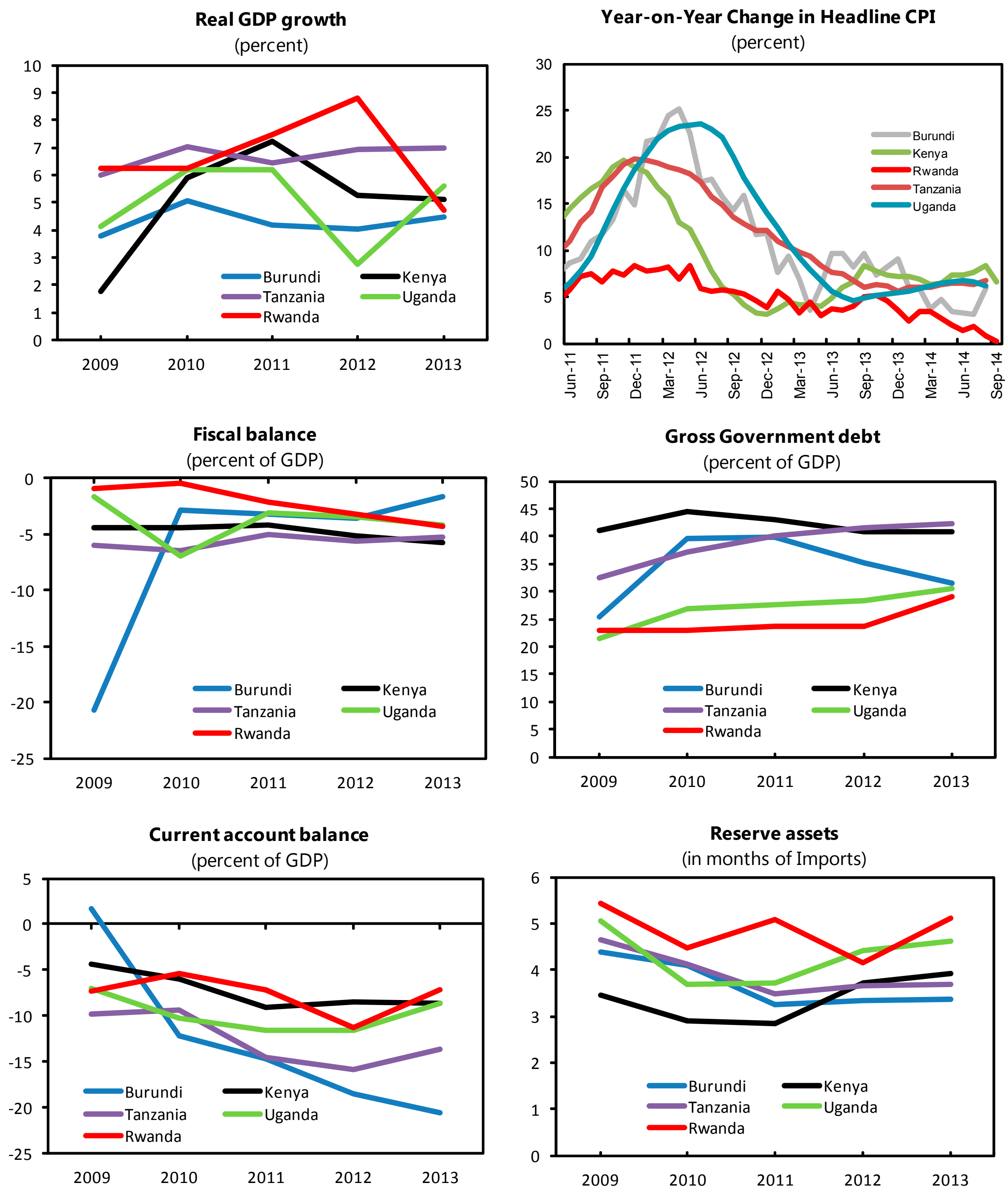
49. Staff supports the completion of the second review under the PSI. Program performance has remained strong. All QACs were met and all benchmarks were met on time except for the publication of the quarterly report on government finances, met with a delay. Staff supports the request for modification of the end-December QACs and setting of end-June 2015 QACs.

50. It is proposed that the next Article IV Consultation takes place within 24 months, subject to the provisions of the decision on consultation cycles in program countries.

Risk Assessment Matrix

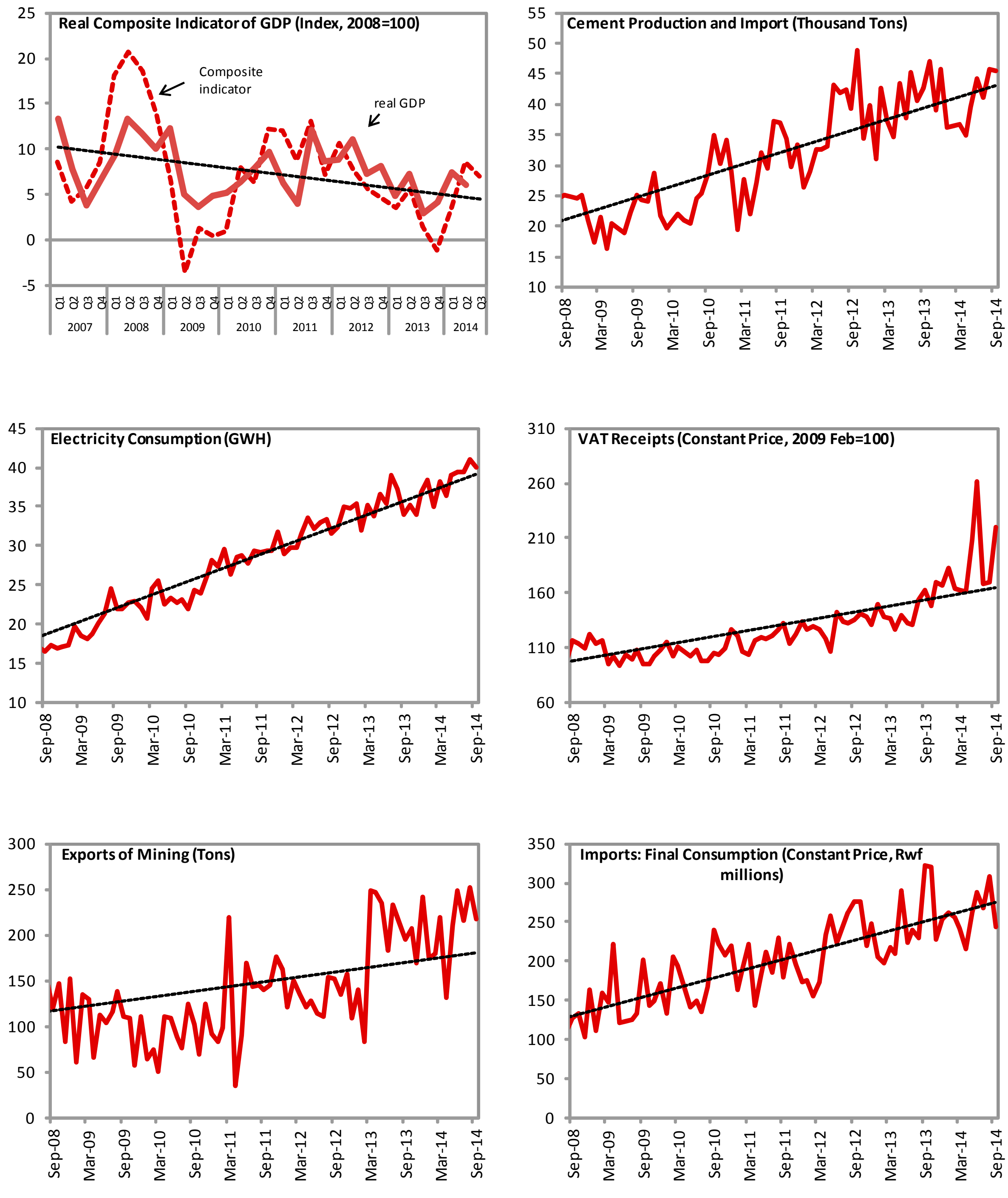
Likelihood	Shock	Vulnerabilities	Potential Impact	Policy Response
High	Protracted period of slower growth in advanced and emerging economies	Exposure to weak external demand and falling commodity prices	Exports would falter putting pressure on the balance of payments and reserves; financing difficulties for imports would adversely affect growth	Exchange rate depreciation and fiscal easing would cushion the adverse impacts on exports and growth
Medium	Adverse weather conditions	Large share of agriculture in economy	Output and commodity exports would falter	Exchange rate depreciation and fiscal easing would cushion the adverse impacts
Medium	Constraints on implementation capacity of large projects	Recent experience has shown that delays in implementation are becoming more frequent	Risk of stalling growth recovery and delaying the transformation of the economy	Sustain efforts to improve project monitoring and contract enforcement.
Medium	Aid shock	Grants make up 60 percent of the financing of current spending	Drying up of government financing which would affect fiscal expenditures and growth	If the shock is temporary, fiscal easing through more borrowing would cushion the adverse impact on growth.

Figure 1. Rwanda: Economic Developments Across the EAC



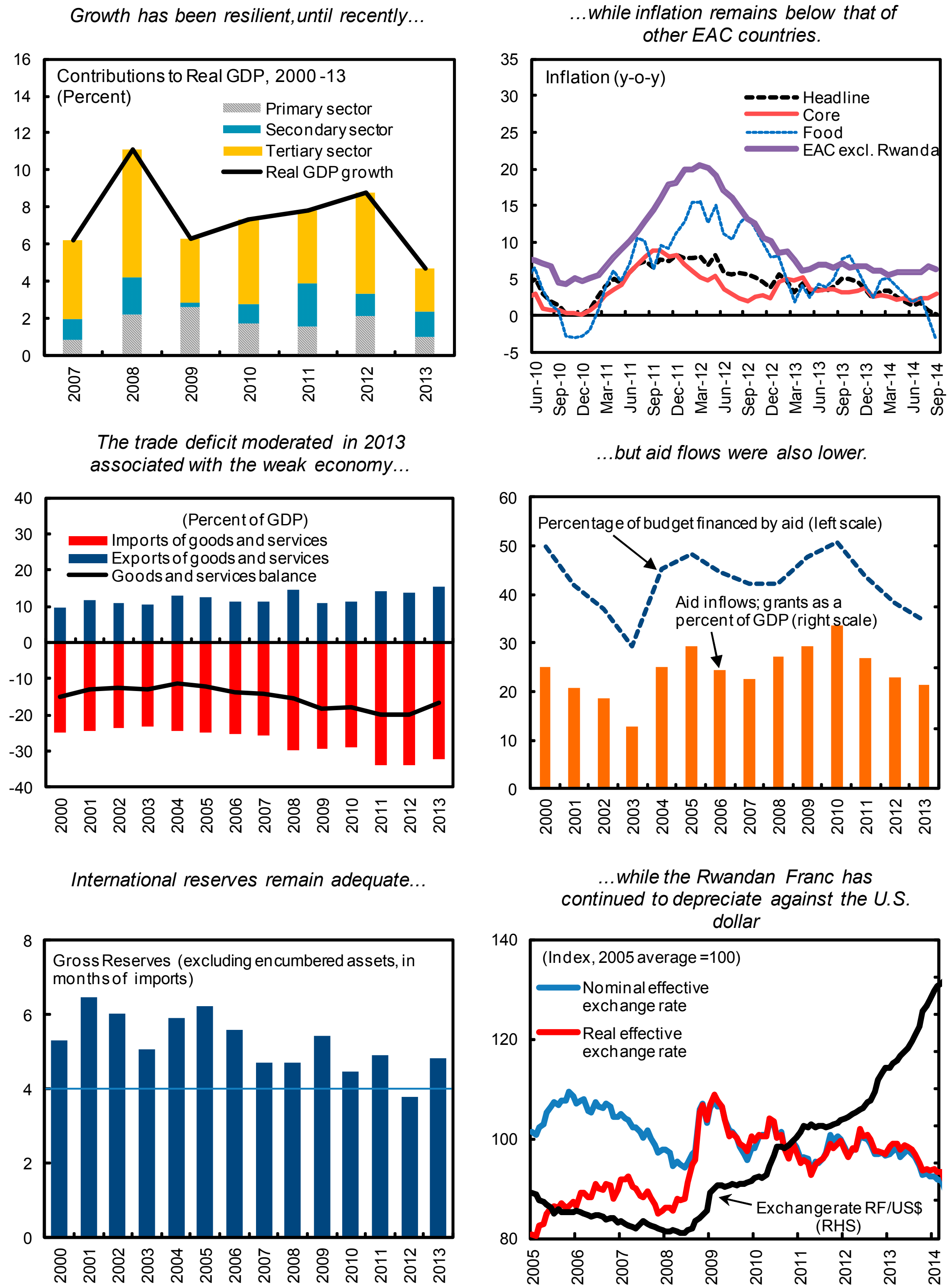
Source: IMF staff estimates.

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



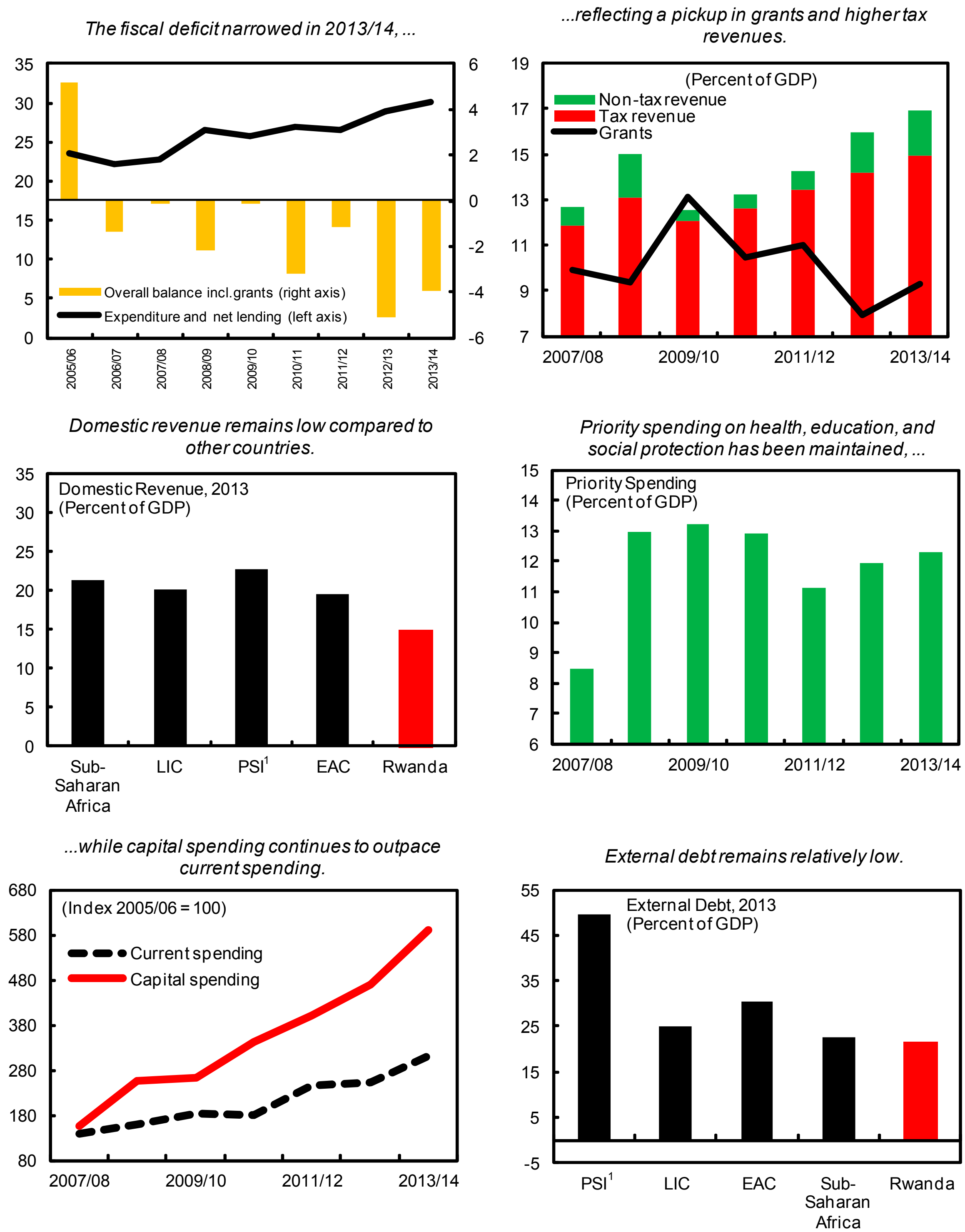
Source: Rwandan authorities' estimates.

Figure 3. Rwanda: Recent Performance



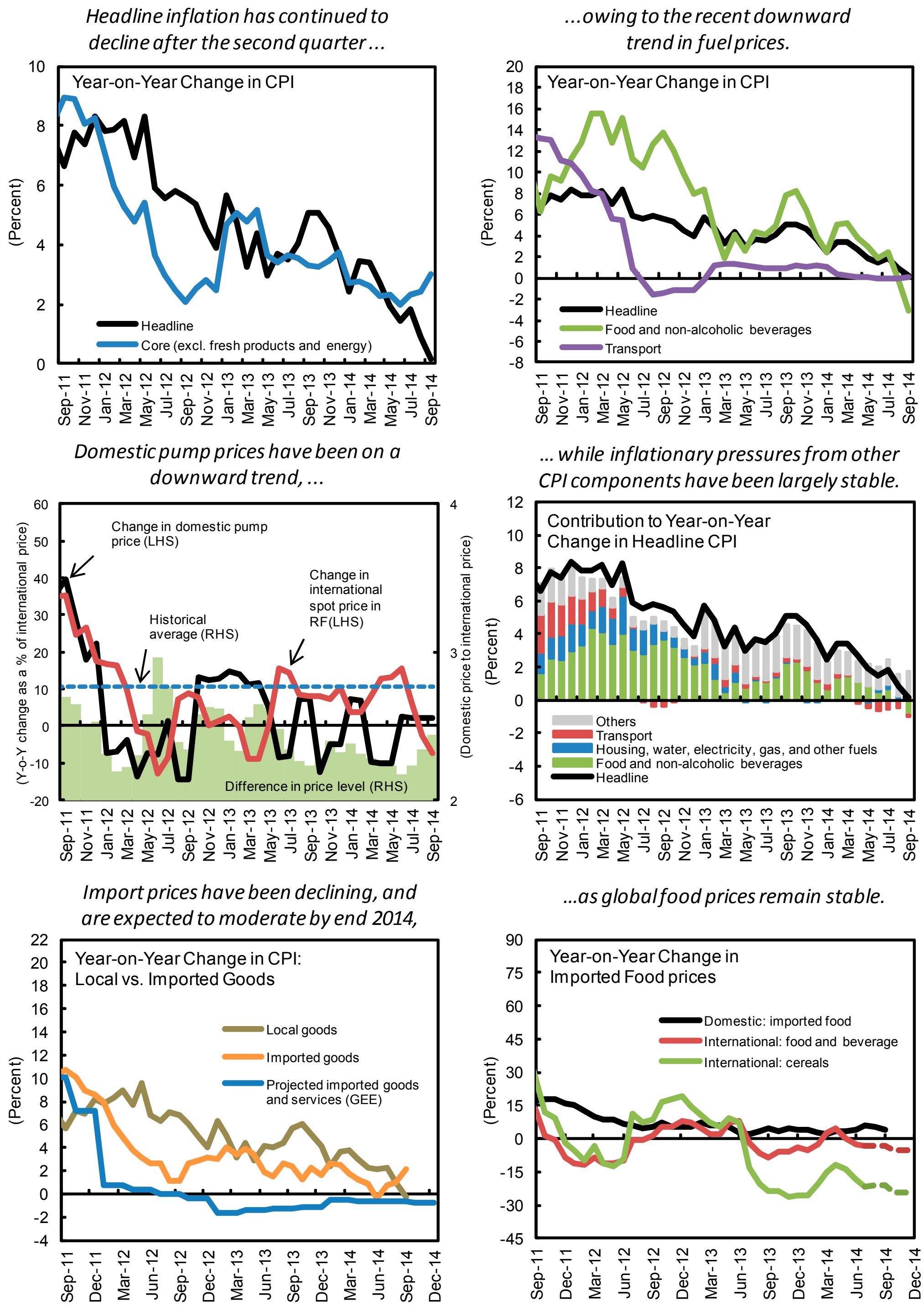
Sources: Rwandan authorities, IMF staff estimates, the IMF *World Economic Outlook*, and the African Department's *Regional Economic Outlook*.

Figure 4. Rwanda: Fiscal Developments



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

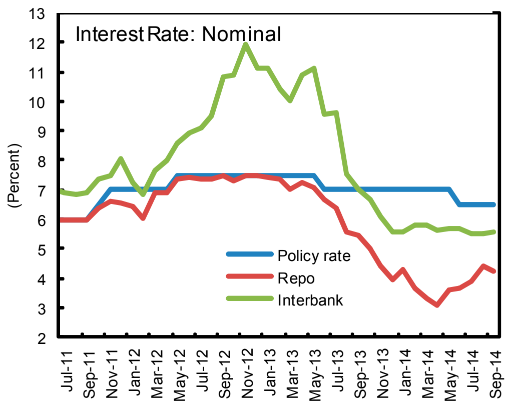
Figure 5. Rwanda: Inflation Developments



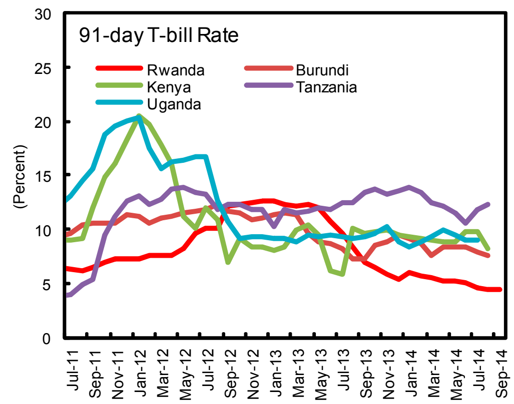
Sources: IMF staff and Rwandan authorities' estimates.

Figure 6. Rwanda: Monetary Developments

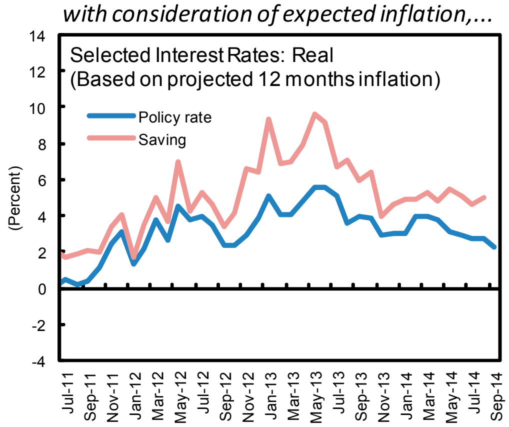
In response to moderating inflationary pressures, the NBR cut the policy rate in June 2014, ...



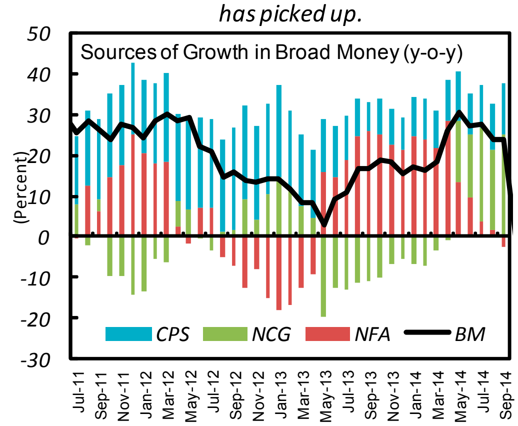
...T-bill rates have maintained the downward trend.



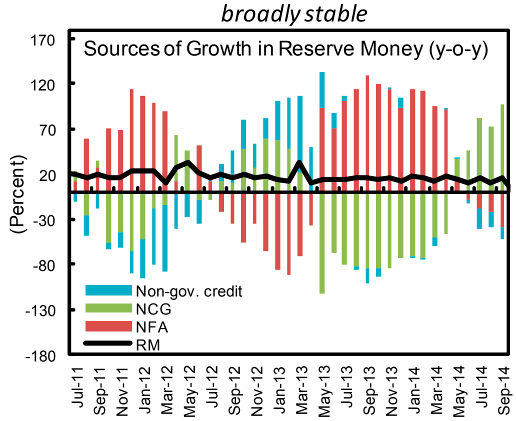
Real interest rates remain positive, even with consideration of expected inflation,...



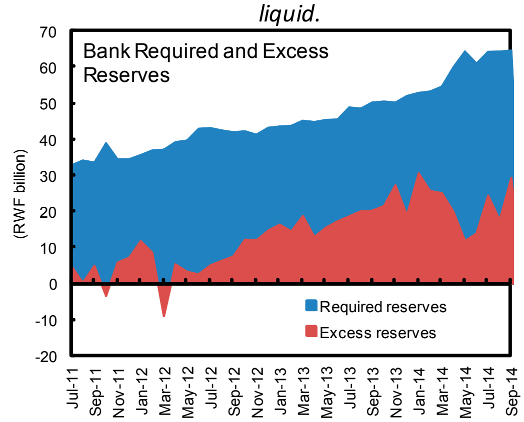
... although private sector credit growth has picked up.



Reserve money growth remained broadly stable



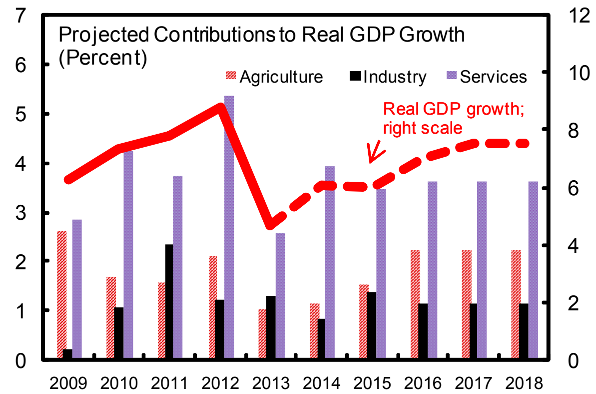
... while markets remained amply liquid.



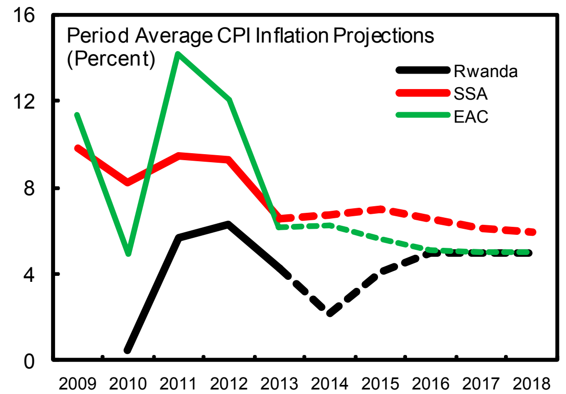
Sources: IMF staff and Rwandan authorities' estimates.

Figure 7. Rwanda: Medium-Term Outlook

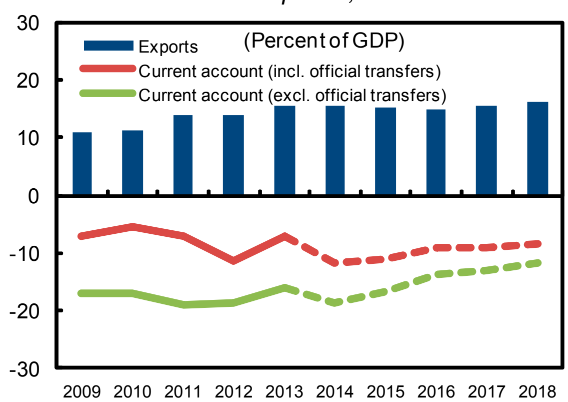
GDP growth is projected to return to the trend,…



… with inflation expected to converge to the authorities' target.

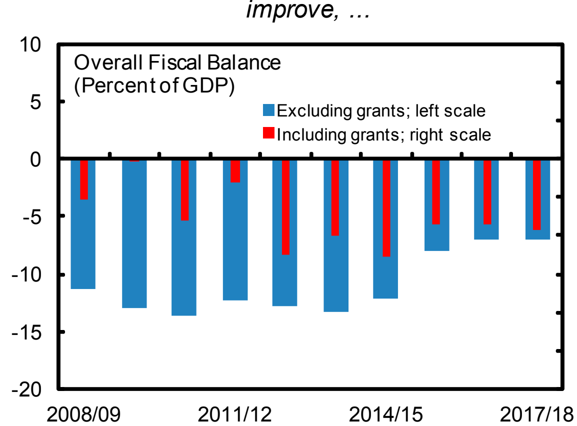


The current account is expected to improve as large investment projects are completed,…

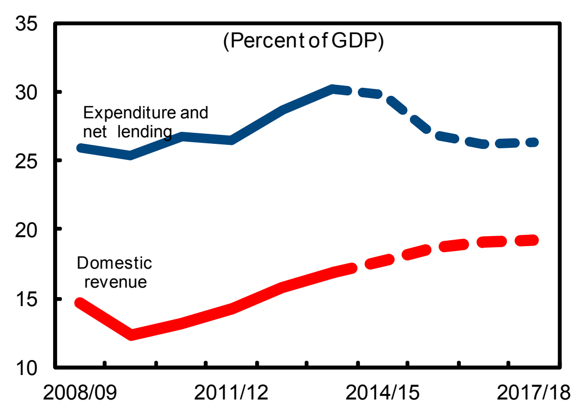


… and reserve coverage is expected to remain adequate.

The fiscal position is expected to improve, …



… due to enhanced revenue mobilization.



Sources: IMF staff and Rwandan authorities' estimates.

Table 1. Rwanda Selected Economic Indicators, 2010-18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
		Act.		Prel.			Proj.		
	(Annual percentage change, unless otherwise indicated)								
Output, prices, and exchange rate									
Real GDP	6.3	7.5	8.8	4.7	6.0	6.0	7.0	7.5	7.5
GDP deflator	3.6	7.7	6.1	4.7	3.3	5.2	5.8	5.0	5.1
CPI (period average)	0.4	5.7	6.3	4.2	2.1	4.1	5.0	5.0	5.0
CPI (end of period)	0.2	8.3	3.9	3.6	3.2	5.0	5.0	5.0	5.0
Core inflation (end of period) [1]	0.2	8.3	2.5	3.8	…	…	…	…	…
Terms of trade (deterioration, -)	16.1	0.0	-5.3	19.0	-6.5	10.2	2.9	2.0	2.3
Money and credit									
Broad money (M3)	16.9	26.7	14.0	15.5	14.3	12.7	14.2	13.9	13.9
Credit to non-government sector	9.9	27.6	35.0	11.1	16.1	17.4	22.7	15.1	11.8
Policy Rate (end of period)	6.0	7.0	7.5	7.0	6.5	…	…	…	…
M3/GDP (percent)	18.5	20.3	20.1	21.1	22.1	22.3	22.5	22.7	22.9
NPLs (percent of total loans)	10.7	8.0	6.0	6.9	6.7	…	…	…	…
	(Percent of GDP, unless otherwise indicated)								
General government budget									
Revenue and grants	26.3	24.6	24.2	25.1	27.0	24.2	23.1	22.8	22.7
of which : grants [2]	13.3	10.8	9.3	8.6	8.2	5.8	4.1	3.5	3.3
Expenditure	25.9	26.5	25.9	27.6	28.6	27.0	25.6	25.4	25.4
Current	15.1	14.3	14.1	14.5	14.7	13.8	13.2	12.9	12.8
Capital	10.7	12.2	11.8	13.1	13.9	13.1	12.4	12.5	12.6
Primary balance	0.0	-1.7	-2.6	-3.8	-2.4	-3.5	-2.7	-2.8	-3.0
Overall balance	-0.4	-2.1	-3.2	-4.5	-3.2	-4.2	-3.4	-3.6	-3.7
Excluding grants	-13.8	-12.9	-12.5	-13.1	-11.4	-10.1	-7.5	-7.1	-7.0
Public debt									
Public gross nominal debt	20.0	20.1	21.7	28.4	31.2	33.5	33.6	34.7	35.6
of which : external public debt	13.4	12.6	16.2	21.4	23.9	27.0	28.6	31.1	33.3
Investment and savings									
Investment	22.5	22.9	25.0	25.5	25.5	25.5	25.5	25.5	25.5
Savings [3]	5.7	4.0	6.3	9.5	6.8	9.0	11.9	12.6	13.7
External sector									
Exports (goods and services)	11.1	14.0	14.0	15.6	15.5	15.2	14.8	15.6	16.2
Imports (goods and services)	28.8	34.1	34.3	32.5	34.9	32.2	28.9	29.0	28.6
Current account balance (including grants)	-5.4	-7.2	-11.3	-7.1	-11.8	-11.0	-9.1	-9.2	-8.4
Current account balance (excluding grants)	-16.8	-18.8	-18.7	-16.0	-18.8	-16.5	-13.7	-13.0	-11.8
Gross international reserves									
In billions of US$	0.8	1.1	0.8	1.1	0.9	0.8	1.0	1.1	1.2
In months of next year imports	4.5	5.1	4.1	5.0	3.9	3.8	4.0	4.1	4.2
Memorandum items:									
GDP at current market prices									
Billion of Rwanda francs	3323	3846	4437	4864	5328	5940	6722	7590	8572
GDP per capita (US$)	570	628	688	696	…	…	…	…	…

Sources: IMF staff and authorities' estimates.

[1] Defined as excluding food and fuel.

[2] From 2014 onward, there is a substantial change in the mix between grants and loans associated with Rwanda's low debt distress risk rating.

[3] The savings rate excludes grants.

Table 2a. Rwanda: Operations of the Central Government, Fiscal-Year Basis,[1] 2009/10–17/18 (Billions of Rwanda Francs)

	2009/10	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18
					Country Report 14/185	Est.	Country Report 14/185	Proj.	Proj.	Proj.	Proj.
					(Billions of Rwanda francs)						
Revenue and grants	800.7	844.2	1,049.1	1,101.3	1,312.1	1,336.4	1,529.7	1,394.7	1,483.2	1,628.3	1,830.7
Total revenue	391.4	471.7	591.7	736.4	849.0	862.1	986.0	997.4	1,186.4	1,370.3	1,555.4
Tax revenue	376.4	449.1	557.0	651.9	762.1	761.0	906.8	894.6	1,064.8	1,239.2	1,407.5
Direct taxes	148.8	175.8	228.5	282.0	311.8	311.1	379.2	364.0	435.4	514.0	588.5
Of which: local government taxes	…	…	…	…	--	--	28.7	13.5	26.1	29.9	49.9
Taxes on goods and services	195.0	234.3	282.6	315.1	390.2	394.1	461.5	461.5	543.3	628.2	709.4
Taxes on international trade	32.6	39.0	45.9	54.8	60.1	55.9	66.1	69.1	86.1	97.0	109.6
Non-tax revenue	15.0	22.6	34.7	84.5	87.0	101.0	79.3	102.9	121.6	131.0	148.0
Of which: payments for peacekeeping operations				61.9	63.9	81.5	53.4	62.3	63.5	65.4	73.9
Of which: local government fees	…	…	…					15.2	29.4	33.6	37.9
Grants	409.3	372.5	457.4	364.9	463.0	474.3	543.7	397.3	296.8	258.0	275.2
Budgetary grants	283.0	208.5	265.7	190.0	201.2	171.0	257.5	95.6	107.6	90.0	85.5
Capital grants	126.3	164.0	191.7	174.9	261.8	303.3	286.1	301.7	189.3	168.0	189.7
Of which: Global Fund	…	…	78.0	64.3	49.7	92.7	81.6	63.4	42.6	21.9	32.8
Total expenditure and net lending	804.2	958.5	1,098.1	1,335.6	1,539.1	1,538.9	1,696.9	1,680.4	1,698.2	1,870.2	2,128.3
Current expenditure	459.2	485.3	614.1	633.9	775.2	776.7	814.0	794.4	848.6	921.6	1,032.8
Wages and salaries	106.9	90.9	144.8	168.9	211.0	187.9	227.4	207.0	231.5	260.2	289.0
Purchases of goods and services	106.3	119.2	149.5	123.1	133.3	142.5	144.3	151.2	150.3	162.8	180.8
Interest payments	14.7	15.2	18.4	30.7	36.8	40.4	41.4	42.9	46.6	52.6	59.4
Domestic debt	10.1	10.6	13.2	15.7	10.5	14.8	14.1	15.6	16.0	18.2	20.6
External debt	4.6	4.6	5.2	15.0	26.3	25.6	27.3	27.3	30.6	34.4	38.8
Of which: sovereign bond	…	…	…	5.0	18.7	25.6	18.3	27.3	30.6	34.4	38.8
Transfers	179.6	193.2	225.6	230.8	289.2	286.8	317.5	301.0	328.7	348.9	394.0
Exceptional expenditure	51.6	66.9	75.8	80.4	104.9	119.1	83.4	92.3	91.5	97.1	109.6
Capital expenditure	316.7	452.9	482.9	564.5	723.7	712.0	782.2	767.2	791.7	880.1	1,018.1
Domestic	159.3	219.4	231.6	239.4	305.3	320.2	373.3	423.3	465.6	497.2	585.7
Foreign	157.4	233.5	251.3	325.1	418.4	391.9	408.9	343.9	326.1	382.9	432.4
Net lending and privatization receipts	28.2	20.3	1.1	137.2	40.2	50.2	100.7	118.8	57.9	68.5	77.4
Priority spending	2.9	3.6	--	…		…	…	…	…	…	…
Of which: Kigali Convention Center	18.2	9.2	…	63.1	42.2	49.7	--	--	--	--	--
Of which: RwandAir	4.5	25.0	34.5	27.0	-2.6	31.4	--	--	--	--	--
Of which: Privatization receipts	…	-21.8	-28.0	-5.1		--	--	--	--	--	--
Primary balance[2]	11.3	-99.1	-30.6	-203.6	-190.2	-162.2	-125.8	-242.7	-168.4	-189.3	-238.2
Domestic fiscal balance[3]	-250.7	-249.9	-249.9	-259.1	-245.4	-259.4	-274.6	-311.8	-155.1	-82.7	-101.6
Overall deficit (payment order)											
After grants	-3.5	-114.3	-49.0	-234.3	-227.0	-202.6	-167.2	-285.6	-215.0	-241.9	-297.6
Before grants	-412.8	-486.8	-506.4	-599.2	-690.1	-676.9	-710.9	-683.0	-511.8	-500.0	-572.8
Change in arrears[4]	-11.2	-11.2	-13.7	-9.1	-9.2	-16.1	-10.0	-10.0	-11.4	-13.0	-14.6
Overall deficit (incl. grants, cash basis)	-14.7	-125.5	-62.7	-243.4	-236.2	-218.7	-177.2	-295.6	-226.3	-254.9	-312.2
Financing	16.3	125.5	62.6	243.4	236.2	224.6	177.2	295.6	226.3	254.9	312.2
Foreign financing (net)	26.1	81.8	95.0	338.6	109.5	104.7	107.6	197.5	280.1	312.3	352.7
Drawings	31.1	89.9	104.7	354.1	123.1	115.8	122.8	212.6	298.9	333.3	376.4
Budgetary loans	--	20.4		16.2		49.5		107.1	119.6	96.5	108.9
Project loans	31.1	69.5	51.3	337.9	123.1	66.3	122.8	105.5	179.4	236.8	267.4
Of which: sovereign bond	…	…	…	255.6		--	--	--	--	--	--
Amortization	-5.0	-8.1	-9.7	-15.5	-13.7	-11.0	-15.2	-15.2	-18.9	-21.0	-23.7
Net domestic financing	-9.8	43.6	-32.4	-95.2	126.8	119.9	69.6	98.2	-53.7	-57.4	-40.4
Net credit from banking system	8.4	59.3	-15.4	-144.3	126.8	150.6	69.6	101.2	-43.1	-46.1	-52.1
Of which: sovereign bond	…	…	…	-141.3	75.6	--	--	--	--	--	--
Of which: Rwandair loan	…	…	…	…	-32.5	--	--	--	--	--	--
Nonbank sector	-18.2	5.6	-22.8	24.3		-30.8	--	-3.0	-10.6	-11.3	-12.8
Errors and omissions[5]	--	--	-0.1	--	--	5.9	--	--	--	--	--
Memorandum items:											
Priority spending	412.5	460.1	526.5	550.7	626.5	626.5					

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest expenditure.

[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 2b. Rwanda: Operations of the Central Government, Fiscal-Year Basis,[1] 2009/10–17/18
(In percent of GDP)

	2009/10	2010/11	2011/12	2012/13	2013/14		2014/15	2014/15	2015/16	2016/17	2017/18
				Prel.	Country Report 14/185	Est	Country Report 14/185	Proj.	Proj.	Proj.	Proj.
	(Percent of fiscal year GDP)										
Revenue and grants	25.3	23.6	25.3	23.7	25.7	26.2	26.6	24.8	23.4	22.8	22.7
Total revenue	12.3	13.2	14.3	15.8	16.6	16.9	17.2	17.7	18.7	19.1	19.2
Tax revenue	11.9	12.5	13.4	14.0	14.9	14.9	15.8	15.9	16.8	17.3	17.4
Direct taxes	4.7	4.9	5.5	6.1	6.1	6.1	6.6	6.5	6.9	7.2	7.3
Of which: local government taxes	…	…	…	…	--	--	0.5	0.2	0.4	0.4	0.6
Taxes on goods and services	6.2	6.5	6.8	6.8	7.6	7.7	8.0	8.2	8.6	8.8	8.8
Taxes on international trade	1.0	1.1	1.1	1.2	1.2	1.1	1.2	1.2	1.4	1.4	1.4
Nontax revenue	0.5	0.6	0.8	1.8	1.7	2.0	1.4	1.8	1.9	1.8	1.8
Of which: payments for peacekeeping operations				1.3	1.3	1.6	0.9	1.1	1.0	0.9	0.9
Of which: local government fees	…	…	…					0.3	0.5	0.5	0.5
Grants	12.9	10.4	11.0	7.8	9.1	9.3	9.5	7.1	4.7	3.6	3.4
Budgetary grants	8.9	5.8	6.4	4.1	3.9	3.4	4.5	1.7	1.7	1.3	1.1
Capital grants	4.0	4.6	4.6	3.8	5.1	6.0	5.0	5.4	3.0	2.3	2.3
Of which: Global Fund	…	…	1.9	1.4	1.0	1.8	1.4	1.1	0.7	0.3	0.4
Total expenditure and net lending	25.4	26.7	26.5	28.7	30.1	30.2	29.5	29.8	26.8	26.1	26.3
Current expenditure	14.5	13.5	14.8	13.6	15.2	15.2	14.2	14.1	13.4	12.9	12.8
Wages and salaries	3.4	2.5	3.5	3.6	4.1	3.7	4.0	3.7	3.7	3.6	3.6
Purchases of goods and services	3.4	3.3	3.6	2.6	2.6	2.8	2.5	2.7	2.4	2.3	2.2
Interest payments	0.5	0.4	0.4	0.7	0.7	0.8	0.7	0.8	0.7	0.7	0.7
Domestic debt	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3
External debt	0.1	0.1	0.1	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Of which: sovereign bond	…	…	…	0.1	0.4	0.5	0.3	0.5	0.5	0.5	0.5
Transfers	5.7	5.4	5.4	5.0	5.7	5.6	5.5	5.3	5.2	4.9	4.9
Exceptional expenditure	1.6	1.9	1.8	1.7		2.3	1.5	1.6	1.4	1.4	1.4
Capital expenditure	10.0	12.6	11.7	12.1	14.2	14.0	13.6	13.6	12.5	12.3	12.6
Domestic	5.0	6.1	5.6	5.1	6.0	6.3	6.5	7.5	7.4	6.9	7.2
Foreign	5.0	6.5	6.1	7.0	8.2	7.7	7.1	6.1	5.2	5.4	5.4
Net lending and privatization receipts	0.9	0.6	--	3.0	0.8	1.0	1.8	2.1	0.9	1.0	1.0
Of which: Kigali Convention Center	0.6	…	…	1.4	0.8	1.0	--	--	--	--	--
Of which: RwandAir	0.1	0.7	0.8	0.6		0.6	--	--	--	--	--
Of which: Privatization receipts	…	-0.6	-0.7	-0.1		--	--	--	--	--	--
Primary balance[2]	0.4	-2.8	-0.7	-4.4	-3.7	-3.2	-2.2	-4.3	-2.7	-2.6	-2.9
Domestic fiscal balance[3]	-7.9	-7.0	-6.0	-5.6	-4.8	-5.1	-4.8	-5.5	-2.4	-1.2	-1.3
Overall deficit (payment order)											
After grants	-0.1	-3.2	-1.2	-5.0	-4.4	-4.0	-2.9	-5.1	-3.4	-3.4	-3.7
Before grants	-13.0	-13.6	-12.2	-12.9	-13.5	-13.3	-12.4	-12.1	-8.1	-7.0	-7.1
Change in arrears[4]	-0.4	-0.3	-0.3	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Overall deficit (incl. grants, cash basis)	-0.5	-3.5	-1.5	-5.2	-4.6	-4.3	-3.1	-5.2	-3.6	-3.6	-3.9
Financing	0.5	3.5	1.5	5.2	4.6	4.4	3.1	5.2	3.6	3.6	3.9
Foreign financing (net)	0.8	2.3	2.3	7.3	2.1	2.1	1.9	3.5	4.4	4.4	4.4
Drawings	1.0	2.5	2.5	7.6	2.4	2.3	2.1	3.8	4.7	4.7	4.7
Budgetary loans	--	0.6		0.3	--	1.0	--	1.9	1.9	1.3	1.3
Project loans	1.0	1.9	1.2	7.3		1.3	2.1	1.9	2.8	3.3	3.3
Of which: sovereign bond	…	…	…	5.5		--	--	--	--	--	--
Amortization	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing	-0.3	1.2	-0.8	-2.0	2.5	2.4	1.2	1.7	-0.8	-0.8	-0.5
Nonbank sector	-0.6	0.2	-0.6	--	--	-0.6	--	--	--	--	--
Errors and omissions[5]	--	--	--	--	--	0.1	--	--	--	--	--
Memorandum items:											
Priority spending	13.0	12.8	12.7	11.8		12.3	…	…	…	…	…

Sources: Rwandan authorities and IMF staff estimates and projections.

1 Fiscal year runs from July to June.

2 Total revenue minus noninterest expenditure.

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: Balance of Payments, 2009–18

(Millions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014		2015	2016	2017	2018
	Est.	Est.	Est.	Est.	Est	PSI 1st Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports (f.o.b.),[1]	235.0	322.4	464.2	590.8	703.0	748.7	710.8	750.1	820.5	947.9	1,061.9
Of which: coffee and tea	85.6	111.8	138.5	126.6	110.4	113.3	112.5	123.4	131.7	141.5	153.3
Minerals	55.4	67.9	151.4	136.1	225.7	235.1	218.2	233.6	255.7	289.9	330.2
Imports (f.o.b.)	999.2	1,084.0	1,565.8	1,967.0	1,851.5	2,147.4	2,089.8	2,053.8	2,052.8	2,208.8	2,381.3
Of which: capital goods	256.3	268.2	349.1	471.4	476.9	533.9	582.5	590.7	529.6	569.4	626.3
Energy goods	122.5	158.2	259.2	289.1	307.6	325.1	302.6	274.2	294.4	316.3	338.7
Trade balance	-764.2	-761.5	-1,101.6	-1,376.2	-1,148.4	-1,398.7	-1,379.0	-1,303.7	-1,232.2	-1,260.9	-1,319.4
Services (net)	-181.6	-246.2	-187.0	-85.2	-122.4	-145.2	-136.4	-140.8	-87.7	-108.7	-66.5
Of which: tourism receipts	174.5	201.6	251.8	281.8	293.6	333.8	317.2	342.8	394.2	473.0	567.6
Income	-36.9	-42.5	-51.8	-73.8	-114.4	-139.3	-144.1	-158.4	-148.7	-159.9	-163.3
Of which: interest on public debt[2]	-7.3	-7.8	-8.1	-9.2	-32.3	-38.7	-38.7	-41.2	-48.3	-87.7	-97.8
Current transfers (net)[3]	600.0	745.3	880.5	722.5	847.7	718.5	737.5	670.4	619.3	587.8	606.8
Private	79.7	90.7	133.3	183.0	181.4	187.0	190.4	200.7	195.3	204.1	225.9
Of which: remittance inflows	88.1	98.2	166.2	175.3	161.8	167.8	171.3	182.1	198.7	206.9	227.7
Public	520.3	654.6	747.2	539.5	666.4	531.5	547.1	469.7	424.0	383.6	380.8
Of which: HIPC grants	5.2	4.5	4.5	4.8	5.2	5.4	5.4	5.4	5.4	5.4	5.3
Current account balance (incl. official transfers)	-382.7	-305.0	-459.8	-812.8	-537.5	-964.7	-921.9	-932.6	-849.4	-941.8	-942.4
Current account balance (excl. official transfers)	-903.0	-959.6	-1,207.0	-1,352.3	-1,203.9	-1,496.2	-1,469.0	-1,402.3	-1,273.4	-1,325.4	-1,323.3
Capital account	200.0	197.6	196.7	171.2	234.5	306.9	330.0	274.8	202.9	203.8	212.2
Project grants	200.0	197.6	196.7	171.2	234.5	306.9	330.0	274.8	202.9	203.8	212.2
Financial account	327.5	213.7	485.8	411.2	538.7	420.2	343.3	624.9	788.0	846.6	836.3
Direct investment	118.7	42.3	106.2	159.8	150.0	200.0	159.0	250.0	296.7	351.3	408.2
Public sector capital	182.1	62.1	311.8	110.4	420.6	177.6	245.2	296.3	381.4	583.7	698.8
Long-term borrowing[4]	88.8	73.2	341.4	199.8	599.2	204.8	277.7	359.5	448.8	649.0	741.9
Scheduled amortization[5]	-7.5	-11.1	-29.6	-89.4	-178.7	-27.2	-32.6	-63.2	-67.5	-65.3	-43.1
SDR allocation	100.7										
Other capital[6]	26.8	109.3	67.9	141.0	-31.9	42.6	-60.8	78.6	110.0	-88.3	-270.6
Capital and financial account balance	527.5	411.4	682.5	582.5	773.2	727.1	673.4	899.7	990.9	1,050.4	1,048.5
Errors and omissions	0.0	-35.2	14.7	24.8	58.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	144.8	71.2	237.4	-205.5	293.8	-237.5	-248.6	-32.9	141.5	108.7	106.1
Financing	-144.8	-71.2	-237.4	205.5	-293.8	237.5	248.6	32.9	-141.5	-108.7	-106.1
Change in net foreign assets of NBR (increase -)	-144.8	-71.2	-237.4	205.5	-293.8	237.5	248.6	32.9	-141.5	-108.7	-106.1
Net credit from the IMF	3.6	-0.1	-0.6	-1.0	-1.7	-2.5	-2.5	-2.9	-2.4	-2.0	-1.3
Disbursements/purchases	3.6	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	-1.7	-2.5	-2.5	-2.9	-2.4	-2.0	-1.3
Change in other gross official reserves (increase -)	-145.8	-71.0	-236.7	206.6	-292.1	240.0	251.0	35.8	-139.1	-106.7	-104.8
Change in other foreign liabilities (increase +)	-2.6	-0.1	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
Exceptional financing	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
Identified financing	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
Memorandum items:											
Current account deficit (percent of GDP)											
Excluding official transfers	-17.0	-16.8	-18.8	-18.7	-16.0	-18.8	-18.8	-16.5	-13.7	-13.0	-11.8
Including official transfers	-7.2	-5.4	-7.2	-11.3	-7.1	-12.1	-11.8	-11.0	-9.1	-9.2	-8.4
Gross official reserves (including SDR allocation)	742.2	813.3	1,050.0	843.5	1,135.5	895.5	884.5	848.7	987.8	1,094.4	1,199.2
Gross official reserves (months of prospective imports of G&S)	5.4	4.5	5.1	4.1	5.0	3.7	3.9	3.8	4.0	4.1	4.2
Using imports of goods c.i.f. less adjustments (authorities' definition)[7]	6.4	5.2	5.7	4.5	5.4	4.0	4.2	4.1	4.4	4.5	4.6
Overall balance (percent of GDP)	2.7	1.3	3.7	-2.8	3.9	-3.0	-3.2	-0.4	1.5	1.1	0.9
Total Public Transfers (budget and capital) (US$ million)[8]	720.3	852.3	943.9	710.7	900.9		877.1	744.5	626.9	587.5	593.0
Total Public Transfers (percent of GDP)	13.6	15.0	9.8	9.8	12.0		11.2	8.8	6.7	5.8	5.3

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 customs data.

8 Government official transfers comprises budgetary grants and capital grants. Official transfers in the BOP includes grants and non-grant elements (e.g., transfers to the private sector and humanitarian assistance). Given its current low risk rating Rwanda receives only concessional loans, and no grants from IDA and AfDB from 2014.

Table 4. Rwanda: Monetary Survey 2011–2015

	2011	2012	2013	2014				2015	
	Dec	Dec	Dec	June	June	Dec	Dec	Jun	Dec
				IMF SR	Prel.	IMF SR	Revised		
	Est	Est	Est	14/185	Est	14/185	Proj	Proj	Proj
Monetary authorities									
Net Foreign Assets[1]	563.8	457.1	634.3	519.7	559.7	516.3	508.9	440.7	485.0
Foreign assets	634.4	535.5	717.0	603.4	646.0	600.1	592.7	524.5	568.7
Of which: encumbered assets	24.2	44.2	--	--	--		--	--	--
Foreign liabilities	70.5	78.4	82.6	83.8	86.3	83.8	83.8	83.8	83.8
Net domestic assets	-402.3	-267.7	-421.1	-289.9	-335.7	-272.6	-265.2	-179.0	-210.3
Domestic credit	-349.9	-218.6	-339.3	-208.1	-237.2	-190.8	-166.7	-80.5	-111.8
Government (net)	-261.6	-165.4	-303.7	-166.1	-141.9	-166.8	-106.0	-39.9	-106.0
Claims	38.7	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6
Deposits (excluding autonomous bodies)2	300.4	204.0	342.2	204.7	180.5	205.4	144.6	78.5	144.6
Public nongovernment deposits (-)	-1.0	-2.3	-4.7	-1.0	-4.7	-1.0	-1.0	-1.0	-1.0
Nongovernment credit	-87.5	-51.0	-31.2	-40.9	-90.6	-23.0	-59.7	-39.6	-4.8
Private sector	5.6	5.9	8.2	9.8	8.7	10.8	12.0	12.0	12.0
Public enterprises	--	--	--	--	--	--	--	--	--
Commercial banks	-94.9	-58.5	-40.6	-50.7	-100.5	-33.8	-71.8	-51.7	-16.8
Other items (net; asset +)	-52.3	-49.1	-81.8	-81.8	-98.5	-81.8	-98.5	-98.5	-98.5
Reserve money[2]	161.6	189.3	213.2	229.8	224.0	243.7	243.7	261.7	274.7
Currency in circulation	117.9	129.3	140.9	151.7	145.2	162.4	161.0	172.9	181.5
Commercial bank reserves	41.9	58.2	71.3	76.4	75.3	80.8	82.3	88.4	92.8
Nonbank deposits	1.7	1.8	1.0	1.7	3.6	0.4	0.4	0.4	0.4
Commercial banks									
Net foreign assets	109.2	98.8	109.6	82.6	173.3	109.0	109.6	109.6	109.6
Foreign assets	157.3	149.9	206.1	177.6	297.8	204.0	218.3	218.3	218.3
Foreign liabilities	48.2	51.2	96.5	95.0	124.4	95.0	108.6	108.6	108.6
Reserves	57.1	80.5	95.6	103.1	101.0	110.0	115.5	121.6	126.0
NBR deposits	41.9	58.2	71.3	76.4	75.3	80.8	82.3	88.4	92.8
Required reserves	34.7	43.4	52.3	54.9	61.3	58.8	59.5	63.4	66.1
Excess reserves	7.2	14.8	19.0	21.5	14.0	22.1	22.8	25.0	26.6
Cash in vault	15.2	22.3	24.3	26.7	25.7	29.2	33.2	33.2	33.2
Net credit from NBR (rediscount; liability -)	94.9	58.5	40.6	50.7	100.5	33.8	73.3	51.7	16.8
Domestic credit	545.0	704.3	866.1	928.4	934.1	989.9	994.0	1,086.4	1,146.5
Government (net)	43.4	28.2	116.3	128.4	128.6	119.3	126.7	126.7	126.7
Credit	80.1	67.9	155.2	167.3	166.2	158.2	166.8	166.8	166.8
Deposits	36.7	39.7	38.9	38.9	37.6	38.9	40.1	40.1	40.1
Public enterprises	2.8	1.0	1.3	0.8	2.0	0.8	0.8	0.8	0.8
Private sector	498.8	675.1	748.6	799.1	803.5	869.7	866.6	959.0	1,019.1
Other items (net; asset +)	-130.3	-161.0	-201.4	-201.4	-208.0	-201.4	-251.0	-251.0	-225.0
Deposits	675.9	781.1	910.6	963.5	1,101.0	1,041.4	1,041.4	1,118.3	1,173.9
Private	576.1	670.8	751.0	830.5	899.9	908.4	908.2	985.1	1,040.7
Public (nongovernment)	99.8	110.3	159.5	133.0	201.0	133.0	133.2	133.2	133.2

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

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

[2] 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.

Table 4. Rwanda: Monetary Survey, 2011–2015(concluded)

	2011	2012	2013	2014				2015	
	Dec	Dec	Dec	June	June	Dec	Dec	Jun	Dec
				IMF SR	Prel.	IMF SR	Revised		
	Est	Est	Est	14/185	Est	14/185	Proj	Proj	Proj
Monetary survey									
Net foreign assets[1]	673.0	555.8	744.0	602.3	733.0	625.4	618.6	550.3	594.6
Net domestic assets	107.4	334.1	284.2	487.9	490.9	549.7	556.5	711.5	730.0
Domestic credit	287.9	542.6	565.9	771.1	796.2	832.9	899.0	1,057.6	1,051.5
Government (net)	-218.3	-137.2	-187.4	-37.7	-13.3	-47.5	20.7	86.8	20.7
Public nongovernment deposits (-)	-1.0	-2.3	-4.7	-1.0	-4.7	-1.0	-1.0	-1.0	-1.0
Public enterprises	2.8	1.0	1.3	0.8	2.0	0.8	0.8	0.8	0.8
Private sector	504.4	681.0	756.8	809.0	812.2	880.6	878.6	971.1	1,031.1
Other items (net; asset +)	-182.6	-210.1	-283.2	-283.2	-306.5	-283.2	-349.5	-349.5	-323.5
Broad money	780.4	889.9	1,028.2	1,090.1	1,224.0	1,175.1	1,175.1	1,261.8	1,324.6
Currency in circulation	102.8	107.0	116.6	124.9	119.4	133.3	133.3	143.1	150.2
Deposits	677.6	782.9	911.6	965.2	1,104.5	1,041.8	1,041.9	1,118.7	1,174.3
Of which: foreign currency deposits	135.6	164.6	194.2	184.7	267.6	199.1	186.9	200.6	210.6
Contribution to broad money growth									
Net foreign assets	25.0	-15.0	21.1	-4.2	9.4	-11.5	-12.2	-14.9	-2.0
Net domestic assets	1.7	29.1	-5.6	17.4	17.9	25.8	25.9	17.8	15.2
Domestic credit	3.6	32.6	2.6	22.7	25.6	25.8	32.4	21.4	13.0
Government (net)	-14.1	10.4	-5.6	12.8	15.7	13.6	20.2	8.2	--
Economy	17.7	22.2	8.3	9.6	10.0	12.2	12.2	13.2	13.0
Other items (net; asset +)	-1.9	-3.5	-8.2	-5.3	-7.7	--	-6.4	-3.5	2.2
Broad money	26.7	14.0	15.5	13.4	27.3	14.3	14.3	3.1	12.7
Annual growth									
Net foreign assets	29.7	-17.4	33.9	-6.3	14.0	-15.9	-16.9	-24.9	-3.9
Net domestic assets	10.6	211.1	-14.9	52.4	54.1	93.4	95.8	44.9	31.2
Domestic credit	8.0	88.4	4.3	39.5	44.8	46.8	58.9	32.8	17.0
Government (net)	66.2	-37.1	36.6	-76.6	-91.9	-74.7	-111.0	-751.3	--
Economy	27.2	34.3	10.8	13.3	13.4	16.6	16.6	19.9	17.4
Credit to the private sector	27.6	35.0	11.1	13.0	13.5	16.1	16.1	19.6	17.4
Other items (net; asset +)	6.7	15.0	34.8	21.8	31.8	--	23.4	14.0	-7.4
Memorandum items:									
Currency/broad money ratio	13.2	12.0	11.3	11.5	9.8	11.3	11.3	11.3	11.3
Reserve money annual growth	23.4	17.2	12.6	13.5	10.6	14.3	14.3	16.8	12.7
Broad money annual growth	26.7	14.0	15.5	13.4	27.3	14.3	14.3	3.1	12.7
Reserves/deposits	23.9	24.2	23.4	23.9	20.3	23.4	23.4	23.4	23.4
Money multiplier	4.8	4.7	4.8	4.7	5.5	4.8	4.8	4.8	4.8
Velocity of broad money (end of period)	4.9	5.0	4.7	5.0	4.4	4.6	4.5	4.7	4.5
Velocity of broad money (average of period)	5.5	5.3	5.1	5.3	4.9	5.0	4.8	4.8	4.8
Net open position of the NBR (RWF billions)	557.5	449.7	625.8	512.4	549.3	516.3	499.1	430.2	473.9
Net open position of commercial banks (RWF billions)	-11.6	-40.8	-53.1	-54.8	-23.4	109.0	-76.5	-90.2	-100.2
Nominal GDP (RWF billions)	3,846	4,437	4,864	5,401	5,328	5,401	5,328	5,940	5,940

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

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

[2] 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.

Table 5. Rwanda: Financial Soundness Indicators, 2009–2014

	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 Dec	2014 Jun
			(Percent)			
Capital adequacy						
Regulatory capital to risk-weighted assets	19.0	21.6	23.8	21.4	20.8	21.2
Capital to assets	13.0	11.4	14.5	23.9	23.1	23.6
Off balance sheet items/total qualifying capital	184.1	206.1	216.9	233.3	405.3	379.4
Insider loans/core capital	19.7	5.9	3.2	3.6	4.2	4.3
Large exposure/core capital	65.1	72.5	42.3	41.0	56.9	74.6
Asset quality						
NPLs/gross Loans	13.1	11.3	8.2	6.0	7.0	6.6
NPLs net/gross loans	11.4	9.7	7.4	5.4	6.1	5.5
Provisions/NPLs	55.2	53.1	49.0	53.7	53.0	50.0
Earning assets/total asset	81.7	78.1	75.9	79.9	78.6	80.6
Large exposures/gross loans	13.9	15.1	11.2	9.1	11.9	15.8
Profitability and earnings						
Return on average assets	0.7	1.9	1.9	2.2	1.5	2.1
Return on average equity	5.0	13.7	10.8	10.4	7.3	12.1
Net interest margin	9.1	8.7	9.5	9.7	9.5	8.7
Cost of deposits	2.4	2.5	2.2	2.9	3.8	3.4
Cost to income	91.0	83.2	82.8	81.0	85.3	81.5
Overhead to income	54.9	55.2	55.5	54.7	52.5	48.8
Liquidity						
Short term gap	20.0	18.5	22.5	12.1	14.8	11.0
Liquid assets/total deposits	65.3	57.8	46.3	41.2	49.4	54.2
Interbank borrowings/total deposits	9.8	8.5	6.4	9.2	11.3	15.0
BNR borrowings/total deposits	0.8	--	0.1	0.1	--	0.1
Gross loans/total deposits	73.9	67.0	67.6	91.9	86.4	76.4
Market sensitivity						
Forex exposure/core capital[1]	1.9	6.8	6.9	-0.6	-2.2	-1.5
Forex loans/Forex deposits	2.8	0.4	5.3	4.4	8.3	12.7
Forex assets/Forex liabilities	103.6	106.0	114.8	78.9	87.3	84.8

Source: National Bank of Rwanda.

Table 6. Rwanda: Millennium Development Goal Indicators

	1990	1995	2000	2005	2010	2011	2012
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%)		87	85	84	86	86	86
Employment to population ratio, ages 15-24, total (%)		79	75	73	73	73	72
Income share held by lowest 20%			5			5	
Malnutrition prevalence, weight for age (% of children under 5)			20	18	12		
Poverty gap at $1.25 a day (PPP) (%)			37			27	
Poverty headcount ratio at $1.25 a day (PPP) (% of population)			75			63	
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)			77		78		
Literacy rate, youth male (% of males ages 15-24)	57	62	67	72	77		
Primary completion rate, total (% of relevant age group)	43		23		53		58
Total enrollment, primary (% net)					89	98	99
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	17		26	49	56	56	56
Ratio of female to male primary enrollment (%)	99		94	100	103	103	102
Ratio of female to male secondary enrollment (%)	81		90	86	98	102	107
Ratio of female to male tertiary enrollment (%)	23				75	72	76
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	83	84	74	89	95	95	97
Mortality rate, infant (per 1,000 live births)	92	121	108	67	44	41	39
Mortality rate, under-5 (per 1,000)	151	253	182	107	64	59	55
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)			31	39	69		
Contraceptive prevalence (% of women ages 15-49)			13	17	52		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1400	1400	1000	610	390		
Pregnant women receiving prenatal care (%)			92	94	98		
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)			13	12	11		
Incidence of tuberculosis (per 100,000 people)	290	513	325	181	106	94	86
Prevalence of HIV, total (% of population ages 15-49)	5	6	5	3	3	3	3
Tuberculosis case detection rate (%, all forms)	30	11	22	42	59	63	62
Goal 7: Ensure environmental sustainability							
Forest area (% of land area)	13	13	14	16	18	18	
Improved sanitation facilities (% of population with access)	30	39	47	55	61	63	64
Improved water source (% of population with access)	60	63	66	69	70	70	71
Terrestrial protected areas (% of total surface area)	10	10	10	10	11		11
Goal 8: Develop a global partnership for development							
Net ODA received per capita (current US$)	40	123	38	61	95	113	77
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	11	20	25	4	2	4	9
Internet users (per 100 people)	0		0	1	8	7	8
Mobile cellular subscriptions (per 100 people)	0	0	0	2	33	40	50
Other							
Fertility rate, total (births per woman)	7	6	6	5	5	5	5
GNI per capita, Atlas method (current US$)	350	220	230	260	510	550	600
GNI, Atlas method (current billion US$)	3	1	2	2	6	6	7
Life expectancy at birth, total (years)	33	31	48	55	62	63	63
Literacy rate, adult total (% of people ages 15 and above)			65		66		
Trade (% of GDP)	20	31	31	37	40	43	43

Source: World Development Indicators.

Appendix. Letter of Intent

Kigali, Rwanda
November 11, 2014

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 April 2014 MEFP and sets out the macroeconomic policies of the Rwandan government for the remainder of fiscal year 2014/15 and the medium term.

Rwanda's performance under the PSI has remained strong. As described in the MEFP, all end-June 2014 quantitative assessment criteria (QAC) were met. All indicative targets, but one, have been met. The slight breach of the floor on domestic revenue collection was due to the offsetting effect of investment allowances for certain companies and delays in the accrual of revenue from implementation of some measures. Reflecting our strong commitment to the PSI objectives six out of seven structural benchmarks due as of end-June were met. The quarterly budget execution report (continuous benchmark) was published with a delay due to a glitch arising from a technological upgrade at the BNR. In light of this satisfactory performance and its continued commitment to sound policies, the government requests the completion of the second review under the PSI. Based on the revised macroeconomic framework, the government also requests modification of the assessment criteria for end-December 2014.

The government believes 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 MEFP.

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 third review will take place before end-June 2015.

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/

Claver Gatete
Minister of Finance and Economic Planning

/s/

John Rwangombwa
Governor, National Bank of Rwanda

Attachment I. Memorandum of Economic and Financial Policies—Update

November 11, 2014

1. This MEFP update reviews performance under the PSI-supported program through end-June 2014 and discusses the macroeconomic outlook and policies for the remainder of FY2014/15. It also describes quantitative and structural targets for end-December 2014 and end-June 2015. As in the April 2014 MEFP, policy formulation in all areas will take into account Rwanda's commitments to the East African Community.

RECENT ECONOMIC AND POLICY PERFORMANCE

2. Introduction. After the slowdown associated with the suspension of aid by some donors and delays in the approval of disbursements by others and a weaker than anticipated agricultural output in 2013, economic growth returned to a healthy 6.8 percent in the first half of 2014. Inflation continues to remain well contained.

3. Growth. The pickup in growth in the first half of 2014 confirmed the initial observations that the slowdown in 2013 was temporary in nature. The recovery was broad based, with most of the sectors affected by the slowdown in 2013 registering robust performances in the first half of 2014, particularly services (+8.4 %) and construction (+5.8 %). This reflected normalization of economic activities and acceleration in the implementation of previously delayed government projects.

4. Inflation. Inflation, both headline and core, was firmly contained with the former standing at 0.5 percent year-on-year in October and the latter at 3.5 percent. This reflected a combination of lower imported inflation from the region, stable fuel prices, benign commodity prices and a decline in domestic food prices.

5. External balance. The external balance deteriorated somewhat in the first half of 2014, reflecting the pick-up in economic activity, which resulted in acceleration in the imports of capital goods as the implementation of investment projects resumed. Formal exported goods increased only marginally by 1.3 percent in value but declined by 1.7 percent in volume, as a result of weaker prices and lower volumes for traditional exports. Reserve cover is expected to decline from 5 months of imports at end-2013 to stand at 4.1 months of imports at end-2014, reflecting both the weaker current account outturn and only partial use of the Eurobond proceeds for the Kigali Convention Center.

6. Fiscal developments. The implementation of the revised FY2013/14 budget was broadly on target except for a slight reduction in capital expenditures associated with lower than expected foreign financing. On the revenue side, tax revenues were comparable to the PSI target and non-tax revenue surged on account of an increase in receipts from peace keeping operations. Global Fund disbursements were also much larger than expected but budgetary grants were lower. In sum, total revenues and grants were slightly higher than projected by about 0.5 percent of GDP (to stand at 26.2 percent of GDP). Recurrent expenditures were on target while capital expenditures faltered somewhat on account of lower foreign financing. Slight delays in the construction of the Kigali Convention Centre (KCC) and other infrastructure projects led to lower than expected outlays under net lending and foreign financed capital expenditure. The combined effects resulted in the fiscal accounts recording a slightly lower deficit than initially projected for FY 2013/14 of 4 percent of GDP compared to 4.4 percent of GDP initially projected for FY 2013/14.

7. Progress in the implementation of Public Finance Management (PFM) reforms throughout FY2013/14 was impressive. Key achievements registered during the year include:

i. Rwanda Revenue Authority (RRA) started the implementation of electronic billing machines (EBM) and currently 6183 EBMs belonging to 4860 tax payers have been installed and are in use. 7 service providers to distribute EBMs have been certified to supply machines and software while 6 are undergoing the certification process;

ii. The number of unqualified audit reports increased from 9 percent to 32 percent;

iii. The audit coverage is now covering 79 percent of all government expenditure compared to 75 percent from the previous year;

iv. The draft policy document entitled "Accounting Policy for Fixed Assets" was submitted to Cabinet for approval. After its adoption, it is envisaged that fixed assets registers will be established in MDAs and Sub-National governments;

v. A feasibility study on E-procurement system was carried out and the final report is available. An e-procurement system roadmap is currently under elaboration;

vi. The government Integrated Financial Management Information System (IFMIS) now covers more than 140 budget agencies with a total of 275 sites/cost centers. To ensure its continuous operationalization and usage over 1,700 users have been trained. The system is now stable and supports various financial management functions as recognized by all users, auditors and the systems internal and external reviewers;

vii. The implementation of the easy to use accounting system and financial reporting system commenced with the training and go live; all sectors from 2 districts (Gasabo and Nyarugenge) have been connected to the Subsidiary Entities Accounting and Reporting System (SEAS). Plans are underway to roll out the system to 5 more districts.

8. Monetary and exchange rate developments. The NBR has continued to focus on limiting the risks from monetary inflation and anchoring inflationary expectations, while containing pressures on the exchange rate. The key policy rate was reduced by 50 basis points to 6.5 percent in June 2014. Within the flexibility of the monetary policy framework, the interbank market has improved and transactions increased to RWF 116.1 billion in the Jan-June 2014 period compared to RWF 71.85 billion the same period in 2013. Credit to the private sector has picked up in the first half of 2014, reflecting the broader increase in economic activities. Compared to December 2013, credit to the private sector increased by 7.3 percent, against an initial projection of 6.1 percent at end-June 2014. The exchange rate remained fundamentally market driven and the Rwandan Franc has depreciated by 3 percent as of end-October, compared to 6.1 percent for the calendar year 2013. NBR sales of forex in the January-June 2014 period amounted to USD 128 million compared to USD 152 million projected. Regarding the monetary aggregates, broad money increased by 19 percent as of end-June 2014, compared to an initial projection of 5.5 percent. Net foreign assets at end-June 2014 stood at USD 821.43 million, exceeding the USD 775.52 million projected, reflecting disbursements from the AfDB, EU, and Global Fund.

9. Program performance. Program performance under the new PSI has been strong. All end-June 2014 quantitative assessment criteria (QAC) were met. All but one indicative targets were met. The slight breach of the floor on domestic revenue collection was due to the offsetting effect of investment allowances for certain companies and delays in the accrual of revenue from some measures as well as shortfall in non-tax revenue mainly administrative fees and charges. These are temporary factors and the revenue shortfall is projected to be made up this year. Reflecting our strong commitment to the PSI objectives, six out of seven structural benchmarks due as of end-June were met. The quarterly budget execution report (continuous benchmark) was published with a delay due to a glitch arising from a technological upgrade at the BNR.

MACROECONOMIC OUTLOOK AND POLICY FOR FY2014/15 AND THE MEDIUM TERM

10. Economic growth is likely to meet the projection for 2014 and inflation will remain contained. Following the uptick in economic activities in the first half of 2014, the outlook for the remainder of the year is broadly stable, with the main risks arising from a weaker than expected second agricultural season and potential delays in donor disbursements. The government expects growth to meet the 6 percent target for 2014. All the main sectors are expected to contribute to this broad based growth: agriculture (+4 percent) led by an increase in the production of food crops arising from the increase in the area under cultivation as well as the application of fertilizer and improved seeds; industry(+7 percent), particularly the electricity and gas sub-sector (+10 percent) due to the addition of new power plants to the grid; construction (+6 percent); and services (+7 percent) due to the upturn in government consumption and private sector credit growth as well as higher growth of agriculture impacting on trade in services. Inflation will remain contained and is projected at 3.2 percent at end-December, slightly lower than the NBR's target. This reflects both a combination of subdued inflationary pressures and the monetary policy stance.

11. Growth is projected at 6.0 per cent in 2015. The government expects the accumulated effects of public investment in the recent past to begin to reap economic benefits, particularly its infrastructure investment. A conservative estimate of the increase in the electricity grid between today (124 MW) and mid-2015 is 35.0 per cent, as new hydro, methane, solar and peat plants come online. The government expects these structural changes to the supply-side of the economy to partially offset the potential vulnerabilities that can arise from unpredictable agricultural harvests and the current account deficit. Other public investment in the transport network and private investment in the communications network also support this view that Rwanda's total recent investment will increase the productive capacity of the economy–particularly the private sector–through its higher infrastructure capital stock.

12. The fiscal framework for 2014/2015 has been revised to take into account some policy changes as well as structural changes in donor budget support disbursement profiles. On the resource side, total donor budget support has declined slightly, partly due to an over estimate of commitments earlier this year and a shift in donor flows from budgetary grants to budgetary loans. Reflecting the structural change in donor funding, budgetary loans are now included in the revised fiscal framework. Tax revenue collections are expected to rise by 1 per cent to almost 16 per cent of GDP. In addition, the growth projection for 2015 of 6 per cent is lower than the 6.7 per cent originally estimated and the effect of this change has been reflected in the framework. As a result of these changes, total revenues and grants are now projected to be lower than initially projected at RWF 1,394.7 but comparable in terms of GDP. Implementation of several on-going measures including improved tax compliance from the introduction of the electronic billing machines as well as the collection of local government taxes by Rwanda Revenue Authority are expected to allow the tax revenue target to be achieved. Total grants of RWF 397.3 billion (7 per cent of GDP) are now RWF 147.5 billion (2.4 per cent of GDP) lower than the original estimate of RWF 544.8 billion. The decline is due to a compositional change as IDA and AFDB now provide budgetary loans instead of grants. Reflecting the slight decline in total resources, total expenditure and net lending are projected to decline from RWF 1,698.1 billion to RWF 1,680.4 billion. The overall cash deficit reflects the compositional change in donor budget support funds as some grants are converted into budgetary loans. As a result, and despite the reduction in expenditures, the overall deficit increased to RWF 295.6 billion (5.2 per cent of GDP) from RWF 177.7 billion (3.1 per cent of GDP). This higher deficit is financed with increased foreign net loans financing of RWF 197.5 billion and domestic net financing of RWF 98.2 billion. In the original budget both foreign net financing at RWF 107.6 billion and net domestic finance of RWF 70.1 billion were lower.

13. Given the uncertainties concerning donor budget support disbursements and the risk associated with the growth prospects, the tax revenue total of RWF 894.6 billion includes RWF 28 billion (0.5 per cent) as contingent revenue. To ensure that the domestic financing target is protected, an equal amount of expenditures has also been identified as contingent expenditure that can only be spent when the contingent revenue accrue. The contingent expenditures are distributed under goods and services, transfers, and domestic capital expenditure.

14. Regarding the external sector, the current account deficit is projected to deteriorate in 2014. This is due to the slow growth in exports of only 1.1 percent and the increase in imports by 13 percent reflecting the expected pickup in economic activity in general and improvement in implementation of delayed infrastructure projects. Capital and intermediate goods imports will largely contribute to the rebound in imports. The increase in imports will be financed primarily by the improvement in the capital account due partly to a compositional change in some donor funds accrual with more loans instead of grants and the unused Eurobond proceeds allocated to the Kigali

Convention Center and the Nyaborongo hydro project. Foreign reserves coverage will be around 4 months of imports.

15. Over the medium term, the current account deficit is projected to reduce to about 8 percent of GDP by 2018. Exported goods and services will experience steady growth, albeit lower than was projected previously, while the growth in imports will slow as certain large investment projects have reached or are near completion. Current transfers as a percentage of GDP will decline in the medium term as the projected decline in official transfers will, only be partially offset by the modest increase in private transfers. FDI will also steadily increase as a percentage of GDP.

16. Structural measures aimed at supporting the domestic revenue mobilization strategy will be accelerated. Total grants are expected to be around 7 percent of GDP in FY2014/15 but decline to an average of 4.2 percent of GDP in FY2015/2016 and FY2016/2017. Given the continued uncertainty regarding long-term donor engagement and the government's commitment to reducing its reliance on donor financing, accelerating domestic revenue mobilization remains a key priority. The overall aim of the ongoing reforms is to reach approximately 17 percent of GDP in FY 2015/16.

Based on an IMF technical assistance study, the *Medium Term Tax Reforms Plan 2013-2016* has been revised to incorporate the recommendations and broadly the following are being done:

- *Agriculture taxation*: the key to successful implementation of the IMF recommendations on agriculture taxation lies in their feasibility. Therefore, MINECOFIN is hiring experts to conduct a benchmarking study and develop an agricultural income taxation model for Rwanda. Hence, the delay in implementation. The experts will also develop a data base on Land-use mapping as well as crop productivity profitability per hectare (using information from MINAGRI and Land Centre). We will share the benchmark study with the IMF by end-June 2015 and will revise agriculture legislation by end-December 2015.

- *Mining tax regime*: most of the recommendations are being considered under the income tax law revision, and the draft mining law that will be submitted for Cabinet approval by January 2015 as against December 2014 in the first review.

- *Improving tax collection from immovable property*: the revision of the *'law establishing the sources of revenue and property of decentralized entities and governing their management'* is underway to cater for the transfer of collection of decentralized taxes and fees by RRA and adjust property tax legislation with initial steps involving the migration from a land lease fee to a fixed asset tax in Kigali. The law will be submitted to Cabinet by end-June 2015. By end-2015, one district in Kigali will have fully migrated to the fixed asset tax as a step toward full implementation. All local governments will be required to provide financial reporting by end-December 2015.

The following measures are to be implemented on the tax administration side over the FY 2014/15 and in the medium term:

- Acquire and use new software for local government revenue management;
- Develop a revenue forecasting model for RRA;
- Build a taxpayer database for local government taxes;
- Expand usage of electronic domestic tax filing and payment;
- E-tax enhancement: further development of the system by incorporating other modules i.e. audit, enforcement, objection and appeals management, Tax account and refund management plus motor vehicles management;
- Implement Single Customs Territory under roll out phase;
- Expand usage of electronic billing machines (EBM) by increasing the number of users and ensuring strict compliance with their requirements;
- Integrate e-payment with mobile money system and visa card service operator;
- Introduce the electronic certificate of origin;
- Rollout the Electronic Single Window System to all remaining Agencies/Ministries involved in international trade;
- Implement mobile declaration for small cross border traders;
- Implement One Stop Border Posts at Rusumo and Kagitumba;
- Extend working hours at Rusumo and Kagitumba borders.
- Integrate temporary entry/exit motor vehicles management with e-payment;
- Develop on line application for the renewal of temporary importation;
- Implement the Authorized Economic Operator program;
- Upon availability of related legal instruments, design and use a single unified declaration form for PAYE tax, pension and medical contributions;
- Upgrade RRA call centre software to become more customized and user-friendly;
- Establish and use the RRA Data Warehouse System;
- Rollout and monitor the Electronic Cargo Tracking System.

17. A number of measures are being introduced to further strengthen public financial management. These include:

- ***Development projects budgeting and reporting***: In order to closely monitor and integrate development projects in the government reporting and budgeting cycle, a Project and Evaluation Framework will be developed, which should help further promote the use of country systems in development projects;

- ***PFM legislations***: key PFM legislations such as the State Law on Finance and Property and the Public Procurement Law were promulgated in early 2014, but their implementation texts that include regulations and manuals among others are yet to be approved by cabinet or other relevant organs. So all these are set to be approved and published in 2014 to assist in the smooth implementation of the organic laws;

- ***Financial reporting of sub-national entities***: The rollout of the Subsidiary Entities Accounting and Reporting System that commenced last year will be further rolled out to other remaining sectors as part of the first phase of covering all sectors in the country;

- ***Fiscal statistics*** - The authorities are committed to the full introduction of the Government Finance Statistics 2014 system (GFS 2014). So far, various different systems of government accounting have been harmonized and migrated to GFS 2014 and there is a medium-term implementation plan in place to ensure fuller statistical coverage of government economic and financial activity in future.

- ***Debt Management***: Cabinet approved the creation of a new Debt Management Unit in the Ministry of Finance and Economic Planning in the middle of 2014. Its main function is to ensure that Rwanda's public debt stock is well managed and remains on a sustainable trajectory. The creation of a dedicated unit ensures greater focus on debt policy in future. So far, the Unit has engaged senior management at MINECOFIN on a number of key procedural issues such as increasing the formalisation of the loan guarantee procedure and has familiarised management with the key risks in Rwanda's debt management. It has also engaged the IMF on the scope and definition of debt across different Fund documentation and will continue this conversation in the future. Importantly, the Unit completed a Debt Sustainability Analysis (DSA) and a Medium-Term Debt Strategy (MTDS) in the middle of 2014, which were presented to the Ministry's Debt Management Committee. It is now in the process of updating these analyses, given updated macroeconomic information and a clearer sense of the country's medium-term investment needs. Non-concessional debt will only be used for high return projects that are recognized as critical to the achievement of high and sustained growth.

18. The implementation of key infrastructure projects, particularly in transportation, water, and energy are critical towards meeting the objectives of the EDPRS2. Some of these projects are at the very core of the economic transformation envisaged under the EDPRS2. In particular, the new airport and the expansion of Rwandair are critical to connect landlocked Rwanda to the rest of the world. Similarly, regional projects such as the railway will contribute towards reducing the cost of doing business. While the financing of these projects is yet to be finalized, they are most likely to involve a hybrid of public and private financing, which the new Debt Management Unit will be well placed to advise on.

19. Public Investment Program Implementation: the Rwandan economy is at a critical stage in its transition from aid-dependency to private-sector driven growth. The Public Investment Program, currently redeveloping into a National Investment Program, recognizes this and will identify both key areas of the economy where public and private investment are required, and the means (both procedural and financial) by which the government can facilitate this. The government is committed to facilitating these large investment projects and funding them when private investment is not possible, but further emphasizes that phasing of investment projects will be critical in ensuring the public sector has the implementation capacity and financial resources to achieve this economic transition. Important selection criteria for phasing will be to reduce the cost of doing business and to remove impediments to private sector development. It will also be essential to ensure that public debt sustainability is not compromised whilst achieving the desired economic objective of sustainable, private-sector driven growth.

20. With regard to implementation capacity, a number of reforms have been initiated in 2014 covering project planning, implementation and monitoring. All projects estimated above USD 1 million in cost are required to undergo a feasibility study and cost-benefit analysis. A public investment committee at the level of Permanent Secretaries has been set up to scrutinize and approve all projects; rigorous monitoring of projects is undertaken quarterly and monitoring reports sent to Cabinet. This is reinforced by Cabinet appointment of a Minister of State in charge of Economic Planning that will further strengthen the focus on planning and implementation of priority projects. The overall planning system has been improved by the introduction of planning consultations ahead of budgetary consultations to streamline coordination. Private sector participation has also been given prominence with the planning and budgeting call circular requiring both central and local government to engage the private sector and demonstrate responsiveness of their annual plans and budget proposals to the private sector. At a more upstream level, quarterly reports are prepared for the Economic Cluster of Ministers to ensure further monitoring of both the general planning process and specific project implementation.

21. The NBR will maintain its prudent monetary policy stance in a bid to anchor inflationary expectations while supporting growth and containing pressures on the currency. Private sector credit is expected to pick up in 2014 as the economy reverts to its potential, growing by 16.1 per cent between December 2013 and December 2014. The exchange rate will remain market driven and the NBR will continue to allow greater exchange rate flexibility and ensure reserve levels remain comfortable (at a minimum level of 4 months of prospective imports (CIF)).

22. The NBR will also sustain its efforts aimed at strengthening the monetary policy framework. NBR is committed to promoting the interbank FOREX market by organizing the Dealer's Association through signing the code of conduct. This will contribute to having the daily two ways quote on the foreign exchange market and the commitment on minimum amount to be sold. In addition, in a bid to promote capital market development and support the transmission mechanisms, the NBR in collaboration with MINECOFIN, is committed to issuing on quarterly basis Treasury Bonds and extend the maturity to seven and ten years in FY2014-15.

23. Monetary policy will continue to play a supportive role to overall economic developments while strengthening the liquidity management framework. The NBR will further sustain its efforts to implement monetary policy in a way that could promote market development and lay the foundation for an effective interest rate transmission channel. The current liquidity management framework continues to leave room for a flexible implementation of the reserve money program where changes in liquidity supply and demand can be accommodated in the short run. As a consequence, incentives to banks for managing their liquidity and make use of the interbank market will be improved. The NBR will continue improving its communication strategy and publishing the inflation report (started in April 2014). The report will aim to improve the communication of the central bank with market participants as regards the formulation of monetary policy.

24. Financial sector policies will remain geared toward fostering financial inclusion and sustaining financial stability, particularly through the implementation of the Financial Sector Development Plan (FSDP2). An action plan on how to achieve 80 percent inclusion in the next two years has been drafted and it forms part of the financial inclusion strategic plan spearheaded by the Financial Sector Secretariat in MINECOFIN. Also, the NBR Board of Directors approved in June 2014 the Oversight Policy Framework for Financial Market Infrastructures in Rwanda. Non-performing loans (NPLs) have continued to decline and commercial banks are complying with the new NPL guidelines. The NBR Board of Directors approved in September 2014 the plan to contain the NPLs in microfinance sector. The NBR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision, and capacity building efforts for bank supervisors will be sustained. Additionally, given the increasing importance of cross-border banks, the NBR will increase its participation in supervisory colleges to conduct joint on-site inspection of cross-border banks.

25. The legal and regulatory framework will continue to be bolstered. New NBR and banking laws have been drafted and are at their final review stage for Cabinet approval. These are expected to be implemented in 2015. Regarding the development of regulations related to New Banking law, gaps have been identified in the existing regulations and the reviews will be considered after the publication of the new banking law. The deposit insurance law was approved by the Cabinet and it is under discussion in the standing committee of the Chamber of Deputies. The NBR has put in place a dedicated team to draft a Basel II/III framework. The team has received training on Basel II/III and technical support. The draft framework will be validated by the Steering Committee[1] in December 2014. A new insurance law is being drafted, and is expected to be approved by the BNR Board in the December 2014 meeting. The pension law was adopted by the Chamber of Deputies and is under the Senate, while their implementing regulations are being prepared by NBR.

26. Program issues. Table 1 contains new end-December 2014 and end-June 2015 QACs for the third and fourth reviews under the PSI and new indicative targets for end-December 2014 and end-June 2015. These QACs are consistent with the understandings reached with the IMF staff on the macroeconomic framework. The assessment of the end-December 2014 targets is expected to be completed by end-June 2015, at the time of the third review, and the end-June 2015 targets by end-December 2015 (fourth review). Table 2 includes the structural benchmarks under the PSI.

[1] The Steering Committee is chaired by NBR and members are from Bankers' Association

Table 1. Quantitative Assessment Criteria and Indicative Targets[1]
(Billions of Rwandan francs, unless otherwise indicated)

	June 2014 Program	June 2014 Adj. Program	June 2014 Actual	Status	Dec 2014 IMF SR 14/185	Dec 2014 Program	June 2015 Program
Assessment criteria [2]							
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	519.7	534.3	550.4	Met	516.3	508.9	440.7
Reserve money (ceiling on stock) (upper bound) [5]	229.3		226.0	Met	242.7	243.9	273.8
Reserve money (ceiling on stock) [5]	224.8		221.6		238.0	239.1	268.4
Reserve money (ceiling on stock) (lower bound) [5]	220.3		217.6		233.2	234.3	263.0
Net domestic financing (ceiling on flow) [4, 6]	162.8	160.6	148.7	Met	152.9	180.8	66.1
New nonconcessional external debt contracted or guaranteed by the public sector (US$ millions) (ceiling on stock) [9]	250.0		20.0	Met	250.0	250.0	250.0
External payment arrears (US$ millions) (ceiling on stock)	0.0		0.0	Met	0.0	0.0	0.0
Indicative targets							
Domestic revenue collection (floor on flow) [6]	415.4		410.8	Not met	882.0	839.9	506.1
Net accumulation of domestic arrears (ceiling on flow) [6]	-1.3		-7.7	Met	-6.3	-17.0	-0.7
Consolidated domestic debt of public sector (ceiling on stock, eop) [4, 7]	371.8	369.6	369.5	Met	363.5	402.5	436.5
Total priority spending (floor on flow) [6]	349.1		352.2	Met	683.5	659.9	431.4
Memorandum items:							
Total budget support (US$ millions) [6, 8]	164.6		183.2		486.2	447.3	117.8
Budget support grants (US$ millions)	164.6		110.5		486.2	289.1	47.8
Budget support loans (US$ millions)	0.0		72.7		0.0	158.2	70.0
Euro bond (US$ millions)	400.0		400.0		400.0	400.0	400.0
Unused euro bond proceeds (US$ millions)	107.3		110.6		0.0	76.7	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 for NFA, RM, NDF are for end-June 2014 and end-Dec 2014 but are continuous for NCB and EA.

3 Numbers are at the program exchange rate of RWF670.1 per US dollar.

4 Subject to adjustors. See TMU for details.

5 Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. Assessment criterion applies to upper bound only. See TMU for details.

6 Numbers for 2014 are cumulative from 12/31/2013, and those for 2015 are cumulative from 12/31/2014. The figure excludes revenues associated with demobilization and AU peace keeping operations.

7 Excluding NBR's debt issued for monetary policy purposes. See TMU for details.

8 Excluding demobilization and African Union peace keeping operations, HIPC grant, and COMESA compensation grant.

9 All QAC target dates are cumulative from end-Dec 2013.

Table 2. Status of Structural Benchmarks for PSI

Policy Measure	Target Date	Macroeconomic rationale	Status
Revenue Mobilization			
Prepare tax expenditure budget covering main tax expenditures.	Annually, starting end-June 2014	To enhance revenue mobilization.	Met
Revise exemption and zero-rating schedules under the VAT-code.	End-June 2014	To enhance revenue mobilization.	Met
Implement plan for better enforcement of tax payer compliance.	End-June 2014	To enhance revenue mobilization.	Met
Revise legislation on the taxation of property.	End-Dec 2014	To enhance revenue mobilization.	Replaced with the following two measures
Revise law on Decentralized Local government taxes to enable the migration from Land Lease Fees to Fixed Asset Tax	End-June 2015		New - Proposed
Fully migrate one district in Kigali from Land Lease Fee to Fixed Asset Tax	End-Dec 2015	To enhance revenue mobilization.	New - Proposed
Prepare legislative proposal for new tax regime for agriculture.	End-Dec 2015	To enhance revenue mobilization.	Date changed
Prepare legislative proposal for new tax regime for mining.	End-Jan 2015	To enhance revenue mobilization.	Date changed
Public Financial Management			
Pilot the extension of IFMIS to 20 development projects.	End-June 2014	To strengthen budget execution and controls.	Met
Review the block grant formula on the basis of the Local Government Revenue Potential	End-Sep 2014	To enhance collection of districts own revenues.	Met
Sub-national entities (416) to produce monthly, quarterly, and annual financial reports using a uniform template.	End-Dec. 2015	To improve comprehensiveness and transparency of intergovernmental fiscal transfers.	
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.	Continuous, starting mid-May 2014	To improve fiscal transparency.	Not met, report published with delay
Monetary and Exchange Rate Policy			
Use Treasury bills (or other tradable securities) as the underlying collateral in liquidity absorbing repos.	End- June 2014	To develop money market instruments.	Met
Start issuing government bonds with maturities of 7 and 10 years	End-June 2015	To develop money market instruments.	New - Proposed
Financial Sector Development			
Design a deposit guarantee scheme.	End-June 2014	To increase confidence in banking system.	Met

Attachment II. Technical Memorandum of Understanding

November 11, 2014

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period December 2, 2013–November 30, 2016 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. 14/185.

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 December 31, 2014 and June 30, 2015 (the test dates) throughout the program period:

- 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 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 2013 rates, apply for 2014:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2014
Rwanda Franc (per US$)	670.1
Euro	1.3791
British Pound	1.6375
Japanese Yen (per US$)	103.4116
SDR	1.5383

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 (AC)

8. **A ceiling applies to NDF**. The ceiling for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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 pre-war government and the 1995 devaluation [2], as well as the current overdraft with the NBR. Credit to the government will exclude treasury bills issued by the

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

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 upward/*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 is lower than/exceed US$76.7 million by end-December 2014.

- 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 (IT)

13. A floor applies to domestic revenue. The floor for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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, peace keeping operations, 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 (IT)

16. The floor applies to priority spending of the government. The floor for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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 EDPRS2. 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 (IT)

19. A ceiling applies to net accumulation of domestic arrears of the government.[4] The ceiling for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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 (AC)

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing with non-residents (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 December 2, 2013 to end-June 2015. 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 rate used for this purpose is 5 percent.

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

[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.

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 (AC)

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 (IT)

28. For program purposes, domestic debt (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 adjus*ted 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 tr*ansmitt*ed 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 (AC)

30. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2014 and for June 30, 2015.

31. 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/downward* 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 exceeds/is lower than US$76.7 million by end-December 2014.

- 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.

32. 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 (AC)

33. A ceiling applies to the stock of reserve money for December 31, 2014 and June 30, 2015 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).

34. 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.

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

Adjuster:

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

[7] The programmed amount of encumbered reserve assets stands at zero at December 31, 2014 and June 30, 2015.

36. 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

37. 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.

38. 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 subcomponents compiled by the NBR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6] – General Government[7]	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6]– Central Government	M	M	M
Comprehensive list of tax and non tax revenues[8]	M	M	M
Comprehensive list of domestic arrears of the government	M	M	M
The ten (10) largest components of transfers in the fiscal table	M	M	M
Social security contributions (RAMA and CSR)	M	M	M
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR[9]	A	A	A
Privatization receipts	M	M	M
External Current Account Balance	A	SA	A

Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A
GDP/GNP	A, Q	Q, SA	Q

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

INTERNATIONAL MONETARY FUND

RWANDA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

November 19, 2014

Prepared By

The African Department
(In Consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	76.82	100.00
Holdings	81.51	106.10

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements[1]	7.67	9.57

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	June 12, 2006	August 7, 2009[2]	8.01	8.01
PRGF	August 12, 2002	June 11, 2006	4.00	4.00
PRGF	June 24, 1998	April 30, 2002	71.40	61.88

[1] Formerly PRGF.

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

	Forthcoming			
	2014	2015	2016	2017
Principal	1.60	1.89	1.55	1.26
Charges/Interest	0.00	0.01	0.01	0.00
Total	1.60	1.90	1.55	1.26

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

[2] On June 4, the PRGF was extended from June 11, 2009 to August 7, 2009, to allow time for the completion of the sixth and final review, and for making the final disbursement under the PRGT arrangement.

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

Implementation of HIPC Initiative:	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	December 2000
Assistance committed by all creditors (US$ Million)[4]	695.50
Of which: IMF assistance (US$ million)	63.40
(SDR equivalent in millions)	46.79
Completion point date	April 2005
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed	46.79
Interim assistance	14.45
Completion point balance	32.34
Additional disbursement of interest income[5]	3.77
Total disbursements	50.56

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

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

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 4 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI)

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

II. Debt Relief by Facility (SDR million)

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

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

Safeguards Assessments:

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

Exchange System:

The currency of Rwanda is the Rwandan franc. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF and maintains a system free of restrictions on the making of payments and transfers for current international transactions. As of October 30, 2013, the official exchange rate was RWF 661.5 per U.S. dollar. The exchange rate has depreciated about 2.5 percent since end-2013. The de facto exchange rate regime is currently classified as *crawl like* and the de jure as *floating*. With effect from December 27, 2010, the official exchange rate is the weighted average of a foreign exchange interbank market transaction and an intervention transaction by the National Bank of Rwanda (NBR). The Average Reference Rate, formerly used for the official exchange rate, was eliminated. The NBR applies a margin of +/-0.8 percent to the official rate to derive a customer rate. With a view to introducing more flexibility in its exchange rate policy, since March 24, 2010, NBR has introduced an exchange rate corridor framework.

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

Article IV Consultation:

Rwanda is on the 24-month consultation cycle. The Executive Board discussed the staff report for the 2012 Article IV consultation (IMF Country Report No. 13/77) on November 28, 2012.

FSAP Participation, ROSCs, and OFC Assessments:

A Report on Observance of Standards and Codes on Fiscal Transparency (ROSC) was issued in July 2003. A Financial Sector Assessment Program (FSAP) took place in February 2005, and a FSAP update was completed in June 2011. Rwanda has not had an Offshore Financial Center (OFC) assessment.

Policy Support Instrument (PSI):

A three-year PSI program was approved on December 2, 2013. The following review has been completed:

First review May 2014

Technical Assistance and Future Priorities:

List of Technical Assistance Missions (2012–2014)

2012 STA mission on trade price indices
2012 MCM mission on developing AML/CFT offsite tools
2012 STA mission on quarterly national accounts
2012 FAD mission on TSA project follow-up
2012 STA mission on developing a framework for market risk
2012 FAD mission on development of TSA project
2012 STA mission on balance of payment statistics follow-up
2012 FAD mission on program budgeting
2012 FAD mission on establishment of tax administration reform priorities
2012 FAD mission on smart IFMIS follow-up
2012 FAD mission on macroeconomic framework capacity
2012 mission on development of reporting guidelines for annual reports
2012 STA mission on consumer price index
2012 MCM mission on monetary operations, liquidity management and money markets development
2012 FAD mission on enhancing revenue mobilization through tax policy and revenue administration reform
2013 STA mission on quarterly national accounts follow up
2013 STA mission on quarterly national accounts
2013 FAD mission on enhancing revenue mobilization follow up
2013 FAD mission on tax and customs administration
2013 FAD mission on high frequency indicators

2013 LEG mission on banking law
2013 RES mission on inflation forecasting
2013 MCM mission on monetary data reporting
2013 STA mission on consumer prices
2014 FAD mission on revenue forecasting
2014 FAD mission on tax compliance
2014 FAD mission on revenue mobilization
2014 LEG mission on AML/CFT review

Future priorities

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

Resident Representative:

Ms. Mitra Farahbaksh assumed her duties as Resident Representative in August 2012.

STATISTICAL ISSUES APPENDIX

I. Assessment of Data Adequacy for Surveillance
General: The quality of national accounts, government finance and monetary statistics is high in Rwanda and the country makes good use of technical assistance support from the IMF. The country has one of the most frequent base year updates among SSA countries and coordinates the base year update with a new household survey to get a better sense of home production and the informal sector. The government released its latest five year plan in the fall of 2013 advocating the need for greater resources to improve capacity and help monitor the yardsticks embedded in the government's latest Economic Development and Poverty Reduction Strategy.
National Accounts and Price Statistics: Annual GDP estimates in current and 2011 constant prices are compiled and disseminated by NISR, based on the 1993 System of National Accounts concepts. Commendable efforts have been made to improve the GDP estimates, with technical assistance being provided by the East AFRITAC and DFID. NISR has been disseminating quarterly GDP estimates from 2010 and released the latest estimates consistent with the 2011 base year revision in June 2014. Annual agricultural surveys have recently been introduced making use of GPS territory data and this should help improve agricultural production estimates over time. Currently, there exist large differences between the estimates of the agricultural survey and those of the Ministry of Agriculture that are reported by the FAO. The absence of a comprehensive economy-wide business survey precludes a reliable benchmark of economic activities in the private sector. Proxy indicators such as monthly VAT turnover data cover the formal sector and financial data reported by a limited number of large companies are used to estimate the production. Economic activities in the informal sector are estimated every 5 years making use of household surveys but the plan is to raise the frequency of household surveys to every three years with the next projected survey this year. On the expenditure side, estimates of government consumption, gross capital formation, and trade in goods and services are compiled from data sources including government budget reports and balance of payment estimates, but private consumption and changes in inventories are estimated as the gap between the sum of these components and a total GDP estimate from the production approach.
Government Finance Statistics: Detailed quarterly revenues and expenditures are posted on the Ministry of Finance's website in conformity with the Fund's structural benchmark. The classification of government data is fully consistent with the GFS 2001 manual, but data is still being presented using the 1986 system. In terms of presentation, expenditures on PRSP-designated "priority areas" are clearly identifiable.
Monetary Statistics: The balance sheet of the NBR and detailed data on money market transactions are transmitted to AFR on a weekly basis with a lag of one week, while the monetary survey and the consolidated balance sheet of commercial banks are transmitted on a monthly basis with a lag of about five weeks.

Balance of Payments: The government is moving away from the existing International Transactions Reporting System (ITRS) sources for trade in services, to one based on direct surveys. This change is needed to compile quarterly balance of payments. Results from the Foreign Private Capital Survey (FPC) can be used to replace existing direct investment flows, stocks and income estimates but currently it is only available on an annual basis.

Work is ongoing to implement *BPM6* standards for compiling and disseminating balance of payments and IIP statistics. The main outstanding issue is the identification of data for goods for processing.

On travel credits and debits, a new border survey has been launched by the Rwanda Development Board (RDB) to update average daily expenditures from departing foreign visitors and a new border survey of returning Rwandan travelers was launched in 2013. On remittances, data are available for formal transfers through banks and Money Transfer Operators (MTOs) but informal estimates are less reliable and are being cross-checked with the 2011 Integrated Living Costs Survey.

The coverage of external aid remains a cause of concern. Data produced by the CEPEX does not include offshore payments, direct payments to contractors, and technical assistants, nor does it capture aid from important UN agencies and from certain countries. Only the external aid registered in the Government budget is fully covered. Concerning the NGO sector, the data should result from the survey of NGOs, but its coverage is insufficient.

Databases on external public debt are maintained by both MINECOFIN and the NBR.

A committee, composed of staffs from the ministries of finance and economic planning, foreign affairs, and the NBR, is responsible for collecting, harmonizing, and monitoring the data

II. Data Standards and Quality

Rwanda has subscribed to the GDDS since 2009 but the dissemination of the sector pages has been spotty. As part of a current review the authorities have indicated that they will update the pages on national accounts statistics, CPI and producer price index and submit to the IMF by end November 2014. The pages for External Trade and Balance of Payments are also being updated.	The quality of the national accounts data in Rwanda is one of the highest in Sub-Saharan Africa with annual agricultural surveys now well integrated into the calculation of output. The updating of base years is also done on a frequent basis and household survey releases are now more frequent than any other country in Sub-Saharan Africa.

JOINT WORLD BANK–FUND WORK PROGRAM, 2014

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	I. Mutual Information on Relevant Work Program		
Bank Work Program	A. Strategy and Analytical Work		
	Completed After January 2014		
TA	Rwanda Strength. Fin. Stability-Part1		January 2014
TA	Rwanda Open Data and Transform Africa		January 2014
TA	Review of RW Energy Generation Investment		April 2014
	Country Assistance Strategy		June 2014
	Ongoing		
EW	Rwanda Infrastructure Project Diagnostic		
TA	Rwanda Policy Notes		June 2014
TA	Competition Policy Assessment		June 2014
TA	Urban Sector Dialogue		June 2014
EW	Rwanda Agriculture Policy Note		June 2014
EW	Rwanda Economic Updates		July 2014
EW	Rwanda Poverty Assessment		July 2014
EW	Rwanda CEM FY14		November 2014
EW	Rwanda Health Systems Strengthening		November 2014
TA	Rwanda: Development of Risk Profiles		December 2014
	B. Ongoing and New Projects		
	Landscape Approach to Forest Restoration and Conservation		August 2014
	Transformation of Agriculture Sector Program Phase 3		October 2014
	Public Sector Governance Program for Results		December 2014

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	Electricity Access (Additional Financing)		February 2013
	Second Support to Social Protection Systems		March 2013
	Third Support to Social Protection Systems		March 2014
	Feeder Roads Development Project		March 2014
	Third Rural Sector Support Project (Additional Financing)		March 2014
	Decentralized Service Delivery		May 2013
	Statistics for Results Project		March 2012
	Governance and Competitiveness TA Project		January 2012
	Economic Empowerment of Young Women		May 2011
	Skills Development Project		March 2011
	Second Emergency Demobilization and Reintegration Project (Additional Financing)		April 2014
	Land Husbandry, Water Harvesting, and Hillside Irrigation		December 2013
	Rwanda Electricity Access Scale-up and Sector-wide approach Project		October 2009
	Transport Sector Development Project		August 2007
	Regional Rusumo Hydroelectricity Project		August 2013
	L. Victoria Environment Management Project (Ph. 2)		June 2011
	East Africa Public Health Laboratories Networking Project		May 2010
	Regional Communications Infrastructure Project II		September 2008
	East Africa Trade and Transport Facilitation Project		January 2006
IMF Work Program		A. Missions	
	First Review Under the Policy Support Instrument	March-April 2014	May 2014
	Staff visit	June 2014	June 2014

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
		B. Analytical Work	
	A study of the demographic transition in Sub-Saharan Africa		November 2014
	Employment developments in Rwanda over the past decade and future prospects		November 2014
	Analysis of the financial sector in Rwanda		November 2014
	Developing a Forecasting and		November 2014
	Monetary Policy Analysis Tool for Rwanda		November 2014
	Extension of the Monetary Policy Analysis Tool for Rwanda		December 2014
	Analysis of fiscal risks among EAC countries		
		C. Technical Assistance	
	Fiscal: Enhancing Revenue Mobilization Through Tax Policy and Revenue Administration Reform		May 2014
	Legal: Strengthening AML/CFT framework		April 2014
		II. Request for Work Program Inputs	
Bank Request to Fund	Sharing macro-framework updates		As needed
Fund Request to Bank	Assessment of key infrastructure projects undertaken by the government.		As needed
	Assessment of the PFM program.		As needed

III. Agreement on Joint Products

Joint products	Debt Sustainability Analysis		Ongoing

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	Date of latest observation (all dates in table use dd/mm/yy format)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange rate	17/11/14	17/11/14	D,M	D,M	D,M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/11/14	05/11/14	D,M	D,M	M		
Reserve/Base Money	05/11/14	05/11/14	D,M	D,M	M	LO, LO, LO, LO	LO, O, O, O, LO
Broad Money	30/09/14	28/10/14	M	M	M		
Central Bank Balance Sheet	31/1/14	28/2/14	M	M	M		
Consolidated Balance Sheet of the Banking System	31/12/13	28/2/14	M	M	M		
Interest Rates[2]	30/09/14	28/10/14	M	M	M		
Consumer Price Index	31/10/14	10/11/14	M	M	M	O, LO, O, LO	LNO, LNO, LNO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]			...	...	...	LNO, LNO, LNO, LO	LO, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	30/09/14	19/11/14	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	30/06/14	07/10/14	M	M	M		
External Current Account Balance	30/06/14	07/10/14	M	M	M	LO, LO, LO, LO	LO, LNO, O, LNO, LNO
Exports and Imports of Goods and Services	30/06/14	07/10/14	M	M	M		

GDP/GNP	31/12/13 (A) 30/06/14 (Q)	25/09/14 25/09/14	Q,A	Q,A	Q,A	LO, LO, LO, LO	LNO, LNO, O, LO, LO
Gross External Debt	30/06/14	07/10/14	M	M	M		
International Investment Position[6]	31/12/13	…	A	A	A		

[1]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra **budgetary** funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on March 12, 2004 and based on the findings of the mission that took place during October 8-22, 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[10]Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND

November 19, 2014

RWANDA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Roger Nord and Dan Ghura (IMF) and John Panzer (IDA)

The Debt Sustainability Analysis (DSA) was prepared jointly by IMF and World Bank staff, in consultation with the authorities.

The results of the debt sustainability analysis indicate that Rwanda continues to face a low risk of debt distress, similar to the analysis prepared in the previous year.[1] *Under the baseline scenario all debt burden indicators are projected to remain below the policy-dependent thresholds. Standard stress tests show a marginal temporary breach of the PV of the debt service-to-revenue ratio in 2023 when the Eurobond issued in 2013 matures. As this breach is temporary, and it is assumed that Rwanda will be able to refinance the maturing Eurobond, the final assessment of a low risk of debt distress remains. Rwanda's debt profile is expected to improve over the medium term, as exports expand and become more diversified and economic growth remains strong. These favorable medium-term macroeconomic projections and debt dynamics, along with its record of sound economic management, have contributed to Rwanda's credit rating being upgraded to B+ from B by Fitch in July 2014.*[2] *However, the maintenance of prudent macroeconomic and sound debt management policies is required to prevent Rwanda losing its "low risk" of debt distress rating. In particular, too aggressive expansion of external commercial debt would make public debt more vulnerable, as would also weaker-than-expected growth and slower-than-anticipated export expansion, resulting in a downgrade in the debt distress risk rating.*

[1] This debt sustainability analysis replaces the DSA update contained in IMF Country Report no. 13/372 (December 2013). The fiscal year for Rwanda is from July–June; however, this DSA is prepared on a calendar year basis. The results of this DSA were discussed with the authorities and they are in broad agreement with its conclusions.

[2] Further, the Country Policy and Institutional Assessment (CPIA) which assesses the quality of a country's present policy and institutional framework has classified Rwanda as a strong performer, with an average CPIA score of 3.86 over the last three years.

BACKGROUND

1. **The Rwandan economy slowed significantly in 2013.** Real GDP grew by 4.7 percent as a result of poor performance in the agricultural sector, coupled with delays in the disbursement of budget support and the consequent negative spillovers on the government's investment program and the services sector activity. However, the weak economic growth of 2013 is expected to be temporary and growth is anticipated to pick up in 2014 to about 6 percent on account of stronger agricultural growth and the catch-up effects from the implementation of government projects. Inflation declined in 2013 along with the slowdown in economic growth, with year-on-year headline inflation reaching 3.6 percent, as food, energy and import prices decelerated. Inflation is expected to decline to 3.2 percent in 2014, below the authorities' medium-term target of 5 percent.

2. **The current account improved considerably in 2013 but worsened in 2014**. The improvement in 2013 resulted from a combination of strong export growth, mainly in mining, and flat imports. A number of foreign companies have recently invested in the mining sector and contributed to the surge in mining exports. The flat imports reflected the adverse effects of delays in government-financed projects and weaknesses in private consumption due to the slowdown in economic growth. The rebound in public sector external grants also helped to strengthen the current account. However in 2014 weak exports of goods and strong growth in imports of goods of 13 percent (year-on-year) have contributed to a deterioration in both the trade and current account balances.

3. **Public sector debt remains low.** At end-2013, total public sector debt was 28.4 percent of GDP - with the external debt of the public sector at 21.4 percent of GDP and mainly comprised of concessional borrowing, and domestic debt at 7 percent of GDP. These debt ratios compare favorably with those of other countries in the region. The public debt-to-GDP ratio has increased steadily over the last three years, reflecting new borrowing, in particular large disbursements under multilateral concessional loans. In addition to the concessional loans, donors have provided significant support for Rwanda's economic development program in the form of grants – general or sectoral budget support and project grants. However, Rwanda's low-risk rating of debt distress will shift donor support further towards concessional lending going forward. In 2013, Rwanda also accessed non-concessional financing, most notably through the issuance of the 10-year Eurobond, to fund public sector investments and repay commercial debt.

UNDERLYING ASSUMPTIONS

4. **The medium and long-term macroeconomic framework underlying the DSA is consistent with the baseline scenario presented in the Staff Report for 2014 Article IV Consultation.** The main assumptions and projections for key macroeconomic variables are summarized in Box 1 and Table 1. Since the last DSA update, staff have lowered expectations of near-term growth but economic activity is expected to remain strong in the medium term. GDP growth is expected to recover after the slowdown in 2013 to 7.5 percent over the medium and long term, starting from 2017 (Table 2). Inflation is expected to remain low and stable.

Box 1. Macroeconomic Framework for the DSA

The medium-term framework underpinning the DSA assumes that Rwanda continues to enjoy rapid growth, and low and stable inflation. Key highlights:

- **Growth:** Long-run growth is projected at 7.5 percent. However, the composition of growth is expected to shift toward greater export orientation as policies geared towards expanding and diversifying the export base take hold. The role of the private sector is also assumed to expand, while public investment in infrastructure will remain high.

- **External sector:** Exports of goods and services are expected to gradually rise from 15.6 percent of GDP in 2013 to 18 percent by 2034. However, despite the completion of some current projects in the near-term import needs are expected to remain high, reflecting continued high investment needs in the economy, reaching 28.1 percent of GDP in 2034. Consequently, Rwanda's external current account is projected to remain in deficit throughout the period under consideration, though the gap is expected to narrow to 6.6 percent of GDP by 2034 (from 11.8 percent in 2014).

- **Inflation:** Inflation is expected to remain contained. After falling at the end of 2013 to 3.6 percent, the rate is expected to be anchored to the authorities' medium-term target of 5 percent. Improvements in agricultural productivity are expected to lower food prices over the long run, containing a prime driver of inflation in Rwanda.

- **Reserves:** Reserve buffers are expected achieve coverage of 4.5 months of prospective imports by 2023, which would facilitate monetary integration among East African Community members.

- **Fiscal outlook.** The key fiscal assumption is that there would be a gradual and consistent effort to raise domestic revenues (excluding grants) from 16.4 percent of GDP in 2013 to 21.9 percent by 2034. This reflects the authorities' commitment to raise Rwanda's revenue collection efforts to comparable level observed in other countries in the region. Primary expenditures are forecast to remain high at about 24-25 percent of GDP on average, reflecting the need for ongoing significant capital and current spending.

- **Grants.** The DSA assumes a tapering of external donor assistance, reflecting reduced access to grants, given Rwandan's improved debt distress risk rating, and greater capacity to mobilize and use domestic revenue. As a result, grants are forecast to decline from 8.6 percent of GDP in 2013 to 1.5 percent by 2034.

- **External borrowing.** The assumptions for new external borrowing vary over the assessment period. From 2014-19, the framework assumes external financing requirement is met mainly by the disbursements of external concessional debt and smaller shares of bilateral and non-concessional debt. From 2019 onward, the framework assumes that any external financing need of the central government will be financed by new external debt, with progressively increasing contribution from commercial debt, including bonds issued in the international capital market.

- **Domestic borrowing.** The framework assumes that domestic borrowing will continue to decline until 2019 as the authorities anchor fiscal policy on a goal of limiting net domestic financing. From 2020, domestic borrowing of 2.5 percent of GDP is assumed, which sees domestic debt rise gradually to 18 percent of GDP by 2034 – about 47 percent of outstanding public debt. Over time, the composition of domestic borrowing is also expected to shift towards medium- and long-term debt as the authorities intensify efforts to develop the local government bond market.

- **Domestic interest rates.** New domestic borrowing is expected to be contracted at a nominal interest rate of 8 percent – a weighted average of the cost of short-and long-term domestic debt.

Table 1. Key Assumptions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024	2029	2034
	(Percent of GDP, unless otherwise indicated)												
Nominal GDP (RF billions)	3,323	3,846	4,437	4,864	5,328	5,940	6,722	7,590	8,572	9,670	17,719	32,467	59,490
Real GDP (percentage change)	6.3	7.5	8.8	4.7	6.0	6.0	7.0	7.5	7.5	7.5	7.5	7.5	7.5
GDP deflator (percentage change)	3.6	7.7	6.1	4.7	3.3	5.2	5.8	5.0	5.1	4.9	5.0	5.0	5.0
Fiscal (central government)													
External grants (incl. HIPC relief)	13.3	10.8	9.3	8.6	8.2	5.8	4.1	3.5	3.3	3.1	2.5	1.9	1.5
Revenue (excl. external grants)	13.0	13.8	15.0	16.4	17.4	18.4	19.0	19.3	19.4	19.5	20.3	21.0	21.8
Revenue (incl. external grants)	24.6	24.2	25.1	25.6	24.2	23.1	22.8	22.7	22.7	22.7	22.8	23.0	23.3
Primary expenditures	25.1	26.9	28.8	29.4	27.7	25.8	25.6	25.6	25.8	25.8	25.8	25.1	24.4
Primary current expenditures	14.7	13.9	13.5	13.8	14.0	13.1	12.4	12.1	12.0	12.0	12.3	12.1	11.9
Capital expenditure and net lending	11.6	11.3	13.4	15.0	15.5	14.6	13.4	13.5	13.6	13.8	13.6	13.0	12.6
Primary balance, incl. external grants	-0.5	-2.6	-3.8	-3.8	-3.5	-2.7	-2.8	-3.0	-3.1	-3.1	-3.1	-2.2	-1.1
Primary balance, excl. external grants	-13.3	-11.3	-11.9	-12.4	-12.0	-9.3	-6.8	-6.3	-6.3	-6.3	-5.6	-4.1	-2.6
Net domestic financing	-0.7	0.3	-1.8	0.0	1.8	0.1	-0.8	-0.8	-0.8	-0.8	2.5	2.5	2.5
Interest rate (percent)		8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
New external borrowing[1]		3.3	2.6	1.9	4.2	5.3	5.3	5.4	5.3	5.1	2.6	2.4	0.5
Grant element of new external borrowing (percent)					42.6	46.1	47.6	43.0	42.3	38.6	27.8	16.8	8.8
Balance of payments													
Exports of goods and services	11.1	14.0	14.0	15.6	15.5	15.2	14.8	15.6	16.2	16.3	17.3	18.0	18.0
Imports of goods and services	28.8	34.1	34.3	32.5	34.9	32.2	28.9	29.0	28.6	28.5	28.1	28.1	28.0
Current account, incl. official transfers	-5.4	-7.2	-11.3	-7.1	-11.8	-11.0	-9.1	-9.2	-8.4	-8.1	-7.1	-6.5	-6.6
Foreign Direct Investment	0.7	1.7	2.2	2.0	2.0	2.9	3.2	3.4	3.6	3.9	4.4	4.8	4.9
Gross official reserves (months of imports of G&S)	4.5	5.1	4.1	5.0	3.9	3.8	4.0	4.1	4.2	4.3	4.5	4.5	4.5

Source: Rwandan authorities, IMF and World Bank staff.

[1] Includes publicly guaranteed external borrowing.

5. **Under the baseline, the current account balance is expected to be negative over 2014–34.** Exports of goods and services are expected to gradually rise from 15.6 percent of GDP in 2013 to 18 percent by 2034, as the export base expands and diversifies, though at a slightly slower pace than was envisaged under the previous DSA. The authorities are implementing a series of measures to boost both traditional and non-traditional exports and tourism, which are assumed to be successful.[3] Imports of goods and services, though falling from their peak in early years, are expected to remain high throughout the assessment period, reflecting continued high investment needs in the economy, partly related to new infrastructure projects, and the overall expansion of the economy, reaching 28.1 percent of GDP in 2034. As a result, Rwanda's current account is projected to remain in deficit throughout the assessment period, though the deficit is expected to narrow to 6.6 percent of GDP by 2034 (from 11.8 percent in 2014). Hence, the current account is now projected to be slightly worse than was assumed in the last DSA update (Table 2).

6. **Assumptions regarding external borrowing remain similar to the macroeconomic framework underpinning last year's DSA (see Table 2).**[4] In particular, the new external borrowing in the period from 2014-19 mainly reflects concessional loans and smaller shares of bilateral and non-concessional debt. From 2019 onward, the framework assumes that any external financing need of the central government will be financed by new external debt, with progressively increasing contributions from non-concessional debt, contracted by a combination of loans and bonds issued in the international capital market.

[3] Some of these measures have been described in IMF Country Report no. 13/372 (December 2013).

[4] The baseline financing assumption is similar to that made in the DSA update presented in IMF Country Report no. 13/372 (December 2013).

7. **The authorities have identified several investment projects in support of the EDPRS 2 objectives.** These are mainly in the energy and transportation sectors. Plans include a new airport and several large regional projects such as the regional oil pipeline and railway. These are still at an early stage, and financing for these projects has not yet been identified. Given the uncertainties in the timing of project implementation and the availability of alternative sources of financing, the authorities did not have an explicit timeline for contracting non-concessional debt. As a consequence the baseline does not assume any additional large-scale non-concessional borrowing.

Table 2. Baseline External DSA Compared to Previous DSA Update, 2014-16

	Previous DSA[1]			Current DSA		
	2014 Proj.	2015 Proj.	2016 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Stock of public and publicly-guaranteed (PPG) external debt						
Millions of U.S. dollars	2,108	2,388	2,560	1,847	2,259	2,628
Percent of GDP	21.5	23.2	23.7	23.9	27.0	28.6
Present value (PV) of PPG external debt						
Millions of U.S. dollars	1,275	1,473	1,641	1,350	1,573	1,769
Percent of GDP	15.4	16.2	16.3	17.5	18.8	19.3
PV of PPG external debt to revenues (percent)	90.6	88.4	84.7	89.1	95.5	95.6
PV of PPG external debt to exports (percent)	90.8	101.5	102.9	112.8	124.2	130.6
PPG external debt service to revenues (percent)	5.6	5.1	4.6	4.8	6.5	6.1
PPG external debt service to exports (percent)	5.6	5.9	5.6	6.1	8.5	8.4
Discount rate (percent)	5.0	5.0	5.0	5.0	5.0	5.0
	(Percent of GDP, unless indicated otherwise)					
Nominal GDP (RF billions)	5,618	6,354	7,267	5,328	5,940	6,722
Real GDP (percentage change)	7.5	7.5	7.5	6.0	6.0	7.0
GDP Deflator (percentage change)	6.1	5.2	6.4	3.3	5.2	5.8
Fiscal						
External grants (incl. HIPC relief)	8.3	7.2	6.0	8.2	5.8	4.1
Revenue (excl. external grants)	17.0	18.4	19.3	17.4	18.4	19.0
Primary expenditures	29.3	28.4	27.1	29.4	27.7	25.8
Primary balance, incl. external grants	-4.0	-2.8	-1.9	-3.8	-3.5	-2.7
Primary balance, excl. external grants	-12.2	-9.9	-7.8	-12.0	-9.3	-6.8
Grant element of new external borrowing (percent)[2]	41.0	40.1	41.7	42.6	46.1	47.6
Balance of payments						
Exports of goods and services	17.0	16.0	15.8	15.5	15.2	14.8
Millions of U.S. dollars	1,425	1,473	1,619	1,215	1,285	1,375
Imports of goods and services	35.1	31.5	29.6	34.9	32.2	28.9
Millions of U.S. dollars	2,944	2,902	3,023	2,730	2,730	2,695
Current account, incl. official transfers	-10.9	-10.3	-8.4	-11.8	-11.0	-9.1

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

[1] See IMF Country Report No. 13/372, December 2013.

[2] Includes publicly-guaranteed external borrowing.

8. **External and domestic financing terms are similar to last DSA update, except the IDA terms which now reflect their new features.** All new non-concessional debt is assumed to have 10-year maturity and interest rates of 7-8 percent, with amortizing or bullet repayment structures, depending on whether commercial loans are contracted or international bonds are issued. Financing terms for multilateral and bilateral loans are the standard terms typically associated with the respective multilateral and bilateral lenders from which Rwanda is assumed

to borrow and reflects the new terms for IDA loans.[5] Finally, the DSA assumes more use of domestic borrowing after 2019, reflecting efforts to tap domestic savings and the authorities' goal to develop financial markets through the provision of a wider variety of instruments denominated in Rwandan francs. This debt is assumed to carry a nominal interest rate of 8 percent – a weighted average of the interest rates on the short- and long-term debt instruments issued by the government.

9. **The macroeconomic outlook is subject to risks.** Although there have been downward revisions to some key macroeconomic variables, including exports, relative to the baseline of last year's DSA, the baseline scenario is still built around relatively favorable assumptions, most notably about long-term economic growth and expansion and diversification in exports, commodity prices and improvement in tax revenues. Given the low export base, the Rwandan economy remains vulnerable to external shocks, for example, to a fall in mineral prices or a slowdown in trading partners' demand which could retard the envisaged export expansion and diversification efforts. A prolonged worsening of the terms of trade or foreign demand could lead to severe external sector imbalances and require additional foreign borrowing to avoid a sharp contraction in income. This could have negative implications for debt sustainability, resulting in the deterioration in the risk of debt distress rating.

DEBT SUSTAINABILITY ANALYSIS

A. External DSA

10. **Based on the assumptions outlined above, Rwanda's debt is assessed to be sustainable with low risk of debt distress (Appendix Figure 1a and Tables 1a and 1b).** Similar to the last DSA update, the joint Bank-Fund debt sustainability framework (DSF) for low-income countries classifies Rwanda as a "strong" performer, based on the quality of the country's policies and institutions as measured by the 3-year average of the ratings under the World Bank's Country Policy and Institutional Assessment (CPIA). This is reflected in higher debt sustainability thresholds compared to countries operating in a weak policy environment.[6] Under the baseline scenario all debt burden indicators are projected to remain comfortably below the policy-dependent thresholds. Standard stress tests show in 2023 (when the Eurobond issued in 2013 is set to mature) a marginal temporary breach of the debt service-to-revenue (24.9 percent) ratio[7], and the debt service-to-exports ratio being identical to its threshold. These findings highlight the vulnerability of the Rwandan economy to external shocks and liquidity pressures at the time the Eurobond matures. However, as the breach of the debt service-to-revenue ratio is small and temporary, and taking into account the low level of external debt and strengthening

[5] New IDA loans will have a maturity of 38 years, with 6 years of grace and equal annual principal payments. The interest charge remains unchanged at 0.75 percent. The implication of these new terms is that the level of concessionality is lower (about 7.3 percentage points) than under the old terms.

[6] The thresholds for strong performers are 200, 50 and 300 percent for the PV of debt to exports, GDP and government revenue, respectively. Debt service thresholds are 25 and 22 percent of exports and revenue, respectively.

[7] This is 1.8 percentage points above the upper limit for a borderline classification.

indicators of repayment capacity (the expansion of Rwanda's export base and tax revenues), and that Rwanda is assumed to refinance the maturing Eurobond, the final assessment for Rwanda's external public and public guaranteed debt is a low risk of debt distress.

B. Public DSA

11. **Adding domestic public debt to external debt does not change the results of the analysis (see Appendix Figure 1b and Tables 2a and 2b).** The evolution of the total public debt indicators broadly follows that of external debt under the baseline. The DSA suggests that public debt remains stable under the baseline. Based on the 3 indicators examined—PV of public debt-to-GDP, PV of public debt-to-revenue and debt service of public debt-to-revenue—the long-term path of total public debt is projected to be stable in the baseline (Appendix Figure 1b). PV of public debt-to-GDP remains comfortably below the indicative benchmark throughout the assessment period. The PV of total public debt is expected to increase from 24.8 percent of GDP in 2014 to 36 percent in 2032 and then decline thereafter to 33.4 percent in 2034. Over the assessment period, domestic public debt as share of GDP rises (from 7 percent in 2014 to 18.9 percent of GDP by 2034), reflecting the substitution of domestic borrowing to partially offset the decline in foreign aid. The sharp increase in the PV of debt-to-revenue indicator when the primary balance is assumed fixed at 2014 level highlights the importance of securing the revenue gains assumed under the baseline. With the primary deficit anchored at 4.3 percent of GDP (and hence not reflecting the assumed revenue improvements), the PV of debt-to-revenue indicator rises sharply from 96.6 percent in 2014 to reach 223.1 percent by 2034.

C. External and Public DSA under Alternative Financing Scenarios

12. **External and Public DSAs were also done for two alternative financing cases.** In the first alternative scenario (NCB A US$230 million) it is assumed that the authorities contract US$230 million non- concessional debt– equivalent to 2.7 percent of 2015 GDP. This amount is equivalent to the current remaining non-concessional borrowing space under the PSI. In the second alternative scenario non-concessional borrowing is expanded more aggressively and the authorities contract US$500 million of non-concessional debt equivalent to about 6 percent of 2015 GDP.

13. **Under the first alternative scenario, debt vulnerabilities would be similar to the current baseline scenario (Figure 2a).** Under the baseline scenario all debt burden indicators are projected to remain below the policy-dependent thresholds. Standard stress tests show marginal temporary breaches of the debt service-to-exports (26.3 percent) and debt service-to-revenues (25.6 percent) ratios in 2023 when the Eurobond issued in 2013 matures. However, as these breaches are minor and temporary, and it is still judged that Rwanda's ability to rollover these maturing Eurobonds would not be impaired, the risk of debt distress would remain low.

14. **Under the second alternative scenario, debt vulnerabilities would also remain similar to the current baseline and the risk rating would still remain unchanged (Figure 2b).** Under the baseline scenario all debt burden indicators are still projected to remain below the policy-dependent thresholds. However, figure 2b illustrates that standard stress tests show a borderline breach of the PV of debt-to exports ratio threshold (208.2 percent) in 2016 and breaches of the debt service-to-exports (26.7 and 25.8 percent) and debt service-to-revenues (26.0 and 25.5 percent) ratios in 2023 and 2025 when the Eurobonds issued in 2013 and 2015 are

set to mature. However, as these breaches are all temporary and maturing non-concessional debt can be refinanced the risk of debt distress would still remain low.

AUTHORITIES' VIEW

15. **The Rwandan authorities broadly agree with the results of this DSA and the overall assessment of low risk of debt distress.** They concur with the assessment that the main risk to debt vulnerability remains the narrow export base. However, at the same time, they also expect that the on-going investments in the mining and non-traditional exports and tourism sectors will make the expansion in the export base sufficiently durable to limit this risk. Further, the authorities agree that maintaining a prudent medium-term debt management strategy and carefully and prudently assessing future projects and their financing remain important to prevent public debt from becoming unsustainable.

CONCLUSION

16. **Rwanda continues to face a low risk of debt distress but remains subject to external vulnerabilities**. Under the current set of baseline assumptions, Rwanda's debt burden indicators remain below the policy-related thresholds under baseline scenario, with one temporary breach of the debt-service-to-revenue ratio in 2023, and the debt service-to-exports ratio being identical to its threshold under standard stress tests. This breach and near-breach of these two liquidity ratios underscore Rwanda's susceptibility to external shocks and potential risk of liquidity pressures in the future. However it is judged that the risk arising from this breach of the debt-service-to-revenue ratio can be mitigated by the ability of the authorities to refinance non-concessional debt falling due in 2023, provided that sound macroeconomic and fiscal policies are maintained. Public debt is low and primarily consists of concessional borrowing. Rwanda's external debt burden profile is also expected to improve further, given the anticipated strong growth and expansion in exports.

17. **The main risk to Rwanda's debt sustainability remains the narrow export base.** Previous DSAs have highlighted risks stemming from its narrow export base. This risk is expected to be mitigated by the improvement in export performance experienced over the assessment period. However, should these anticipated export gains fail to materialize, resulting in lower than expected export volumes, the risks to debt sustainability over the longer term would increase.

18. **In addition, Rwanda remains highly dependent on foreign aid.** While the underlying macroeconomic framework assumes a gradual decline in aid flows over the longer term, a much sharper correction cannot be ruled out. The developments in 2012 demonstrated the still-high reliance on external assistance, which will be difficult to address in the short run. Over the medium term, as the authorities are better able to reduce their reliance on aid, the risks from an aid shortfall would decline.

19. **The low domestic revenue base reduces the capacity to substitute for shortfalls in foreign aid in the near term.** The framework builds in an improvement in domestic revenue collection over the medium term- it is assumed that Rwanda's revenue collection efforts converge to the average for the region. However, in the event that the envisaged gains from

revenue mobilization are not realized, there would be implications on either debt sustainability as additional borrowing is used to finance the authorities' economic development program, or there would have to be a scaling down in expenditure, and hence growth, as plans would need to be adjusted to the prevailing financing envelope. In either case, the envisaged improvement in Rwanda's debt profile would be harder to achieve.

20. **The DSA suggests that Rwanda does have some flexibility to use non-concessional financing options, but this space is limited.** Alternative financing scenarios show that non-concessional borrowing of about US$ 500 million in 2015, would not adversely affect Rwanda's debt profile. However, increasing rapidly external non-concessional debt much more beyond this would result in public debt vulnerability rising to the extent that Rwanda would risk losing its "low-risk" of debt distress rating. Therefore, it is vital that the authorities continue to exercise caution going forward. In particular, in terms of the choice of financing options, Rwanda should continue to avail itself of concessional financing to the extent possible. The "low risk" rating has expanded the set of new sources of concessional financing, which should be prioritized over commercial borrowing. Any non-concessional borrowing should be distributed over a multi-year horizon to help manage rollover risks and minimize the carry costs associated with the timing difference between the contracting of the debt and the use of the proceeds. Care should be taken also on both the selection of projects that they wish to implement and the modalities of financing these investments. Projects need to be prioritized and sequenced, and supported by strong, independent cost-benefit analyses to ensure the economic benefits are commensurate with the opportunity costs of utilizing Rwanda's limited debt space.

Appendix Table 1a: External Debt Sustainability Framework, Baseline Scenario, 2011-2034[1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**16.1**	**20.8**	**26.1**			**28.3**	**30.9**	**31.9**	**33.9**	**35.7**	**37.2**		**33.9**	**22.5**	
of which: public and publicly guaranteed (PPG)	12.6	16.2	21.4			23.9	27.0	28.6	31.1	33.3	35.1		32.1	19.5	
Change in external debt	-0.4	4.7	5.4			2.1	2.6	1.0	2.0	1.8	1.5		-1.1	-2.2	
Identified net debt-creating flows	4.7	8.0	4.3			8.2	6.5	4.0	3.6	2.5	1.7		0.3	0.0	
Non-interest current account deficit	**6.8**	**10.8**	**6.4**	**4.1**	**4.3**	**11.1**	**10.0**	**8.2**	**8.4**	**7.6**	**7.2**		**6.7**	**5.9**	6.3
Deficit in balance of goods and services	20.1	20.2	16.9			19.3	17.0	14.2	13.4	12.4	12.4		10.8	10.0	
Exports	14.0	14.0	15.6			15.5	15.2	14.8	15.6	16.2	16.1		17.3	18.0	
Imports	34.1	34.3	32.5			34.9	32.2	28.9	29.0	28.6	28.5		28.1	28.0	
Net current transfers (negative = inflow)	-13.7	-10.0	-11.3	-12.2	1.7	-9.4	-7.9	-6.6	-5.8	-5.4	-3.6		-3.1	-2.5	-3.0
of which: official	-11.3	-7.5	-8.9			-3.8	-3.0	-2.5	-2.0	-1.7	-1.5		-1.0	-0.5	
Other current account flows (negative = net inflow)	0.5	0.6	0.8			1.1	0.9	0.7	0.7	0.6	-1.7		-1.0	-1.6	
Net FDI (negative = inflow)	**-0.7**	**-1.5**	**-2.0**	**-1.2**	**0.8**	**-2.0**	**-2.9**	**-3.2**	**-3.4**	**-3.6**	**-3.9**		**-4.4**	**-4.9**	-4.6
Endogenous debt dynamics 2/	**-1.5**	**-1.4**	**-0.1**			**-0.8**	**-0.5**	**-1.0**	**-1.3**	**-1.5**	**-1.6**		**-1.9**	**-0.9**	
Contribution from nominal interest rate	0.4	0.4	0.7			0.7	1.0	0.9	0.9	0.9	0.9		0.5	0.7	
Contribution from real GDP growth	-1.1	-1.3	-0.9			-1.5	-1.6	-2.0	-2.2	-2.3	-2.4		-2.4	-1.7	
Contribution from price and exchange rate changes	-0.7	-0.6	0.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-5.1**	**-3.3**	**1.1**			**-6.1**	**-3.9**	**-2.9**	**-1.6**	**-0.7**	**-0.2**		**-1.5**	**-2.2**	
of which: 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/	...	...	21.3			21.8	22.6	22.5	23.3	24.1	24.9		24.1	18.4	
In percent of exports	...	...	136.7			140.9	149.4	152.7	149.3	148.3	155.2		139.1	102.0	
PV of PPG external debt	**...**	**...**	**16.6**			**17.5**	**18.8**	**19.3**	**20.5**	**21.7**	**22.9**		**22.3**	**15.5**	
In percent of exports	**...**	**...**	**106.4**			**112.8**	**124.2**	**130.6**	**131.5**	**133.6**	**142.3**		**128.8**	**85.8**	
In percent of government revenues	**...**	**...**	**83.9**			**89.1**	**95.5**	**95.6**	**102.0**	**107.9**	**113.1**		**106.8**	**69.7**	
Debt service-to-exports ratio (in percent)	**3.7**	**6.1**	**8.4**			**9.2**	**11.8**	**11.9**	**10.9**	**10.5**	**11.3**		**11.8**	**19.3**	
PPG debt service-to-exports ratio (in percent)	**3.2**	**3.6**	**5.3**			**6.1**	**8.5**	**8.4**	**7.5**	**7.1**	**7.7**		**7.1**	**8.7**	
PPG debt service-to-revenue ratio (in percent)	**2.2**	**2.6**	**4.2**			**4.8**	**6.5**	**6.1**	**5.8**	**5.7**	**6.1**		**5.9**	**7.0**	
Total gross financing need (Billions of U.S. dollars)	0.4	0.8	0.5			0.8	0.8	0.7	0.7	0.7	0.7		1.0	3.2	
Non-interest current account deficit that stabilizes debt ratio	7.2	6.2	1.0			8.9	7.4	7.2	6.3	5.8	5.7		7.8	8.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.5	8.8	4.7	7.5	2.1	6.0	6.0	7.0	7.5	7.5	7.5	6.9	7.5	7.5	7.5
GDP deflator in US dollar terms (change in percent)	4.6	3.6	-0.5	5.7	5.7	-1.8	2.1	2.7	2.0	2.0	1.9	1.5	2.0	2.0	2.0
Effective interest rate (percent) 5/	2.4	3.0	3.6	2.1	1.4	2.8	3.9	3.3	3.0	2.8	2.7	3.1	1.4	3.3	2.1
Growth of exports of G&S (US dollar terms, in percent)	41.5	13.2	15.5	21.8	22.8	3.8	5.8	7.0	15.9	14.0	8.5	9.2	10.9	9.7	10.5
Growth of imports of G&S (US dollar terms, in percent)	33.1	13.3	-1.4	19.6	14.0	11.8	0.0	-1.3	10.0	8.1	9.1	6.3	9.7	9.4	9.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	42.6	46.1	47.6	43.0	42.3	38.6	43.4	27.8	8.8	20.8
Government revenues (excluding grants, in percent of GDP)	19.6	19.7	19.7			19.6	19.7	20.1	20.1	20.1	20.2		20.9	22.2	21.3
Aid flows (in Billions of US dollars) 7/	0.3	0.7	0.8			0.7	0.7	0.6	0.7	0.7	0.7		0.6	0.6	
of which: Grants	0.3	0.3	0.4			0.5	0.4	0.3	0.3	0.3	0.3		0.4	0.5	
of which: Concessional loans	0.0	0.4	0.4			0.3	0.4	0.4	0.4	0.4	0.4		0.3	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.0	6.9	5.0	4.9	4.8	4.4		2.6	1.2	2.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			74.7	70.7	68.5	61.6	61.3	58.4		58.1	71.8	52.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.4	7.2	7.5			7.8	8.5	9.3	10.2	11.2	12.3		19.4	48.8	
Nominal dollar GDP growth	12.4	12.7	4.1			4.1	8.2	9.9	9.6	9.6	9.5	8.5	9.7	9.7	9.7
PV of PPG external debt (in Billions of US dollars)			1.2			1.4	1.6	1.8	2.1	2.4	2.8		4.3	7.4	
(PVt-PVt-1)/GDPt-1 (in percent)						2.0	2.8	5.1	3.2	3.2	3.3	3.3	1.6	-0.3	1.5
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.3		0.4	0.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.2			17.1	18.4	18.9	20.1	21.3	22.4		21.9	15.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	93.5			98.8	108.8	114.1	116.4	118.8	126.2		114.9	79.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	4.6			5.3	7.5	7.3	6.6	6.3	6.8		6.4	8.0	

Sources: Rwandan authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ 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).

Table 1b. Rwanda: Sensitivity Analysis of Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034[1/]
(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	17	19	19	21	22	23	**22**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	17	15	13	13	13	14	**15**	19
A2. New public sector loans on less favorable terms in 2014-2034 2	17	20	22	24	26	28	**30**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	17	19	19	21	22	23	**22**	16
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	17	19	21	22	23	24	**23**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	17	19	20	21	22	24	**23**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	17	19	18	19	21	22	**21**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	17	17	15	16	17	19	**19**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	17	26	27	29	30	32	**31**	21
PV of debt-to-exports ratio								
Baseline	113	124	131	131	134	142	**129**	86
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	113	98	91	83	83	90	**89**	106
A2. New public sector loans on less favorable terms in 2014-2034 2	113	131	146	153	162	177	**172**	134
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	113	122	129	129	131	140	**127**	84
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	113	136	166	165	166	175	**154**	99
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	113	122	129	129	131	140	**127**	84
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	113	122	123	124	127	135	**124**	84
B5. Combination of B1-B4 using one-half standard deviation shocks	113	107	92	96	100	108	**105**	75
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	113	122	129	129	131	140	**127**	84
PV of debt-to-revenue ratio								
Baseline	89	95	96	102	108	113	**107**	70
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	89	75	66	65	67	71	**74**	86
A2. New public sector loans on less favorable terms in 2014-2034 2	89	101	107	119	131	141	**143**	109
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	89	95	96	102	108	114	**107**	70
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	89	98	105	111	116	121	**111**	70
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	89	96	99	105	111	117	**110**	72
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	89	94	90	96	102	108	**103**	68
B5. Combination of B1-B4 using one-half standard deviation shocks	89	85	72	79	86	92	**93**	66
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	89	133	133	142	150	158	**149**	97

Table 1b. Rwanda: Sensitivity Analysis of Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 1/ (Concluded)

(In percent)

Debt service-to-exports ratio								
Baseline	6	9	8	8	7	8	**7**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	6	6	6	5	4	5	**5**	7
A2. New public sector loans on less favorable terms in 2014-2034 2	6	7	7	7	7	8	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	6	7	7	7	6	7	**8**	8
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	6	7	9	8	8	8	**10**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	6	7	7	7	6	7	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	6	7	7	6	6	7	**8**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	6	5	5	6	**6**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	6	7	7	7	6	7	**8**	8
Debt service-to-revenue ratio								
Baseline	5	7	6	6	6	6	**6**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	5	5	4	4	4	4	**4**	5
A2. New public sector loans on less favorable terms in 2014-2034 2	5	5	5	5	5	7	**8**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	5	5	5	5	5	5	**7**	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	5	5	5	5	5	6	**8**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	5	5	6	5	5	6	**7**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	5	5	5	5	5	5	**7**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	4	4	5	**6**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	5	7	7	7	7	8	**10**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	21	21	21	21	21	21	**21**	21

Sources: Rwandan 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.

Table 2a: Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034[1/]

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	20.1	21.7	28.4			31.2	33.5	33.6	34.7	35.6	36.4		40.7	37.5	
of which: foreign-currency denominated	12.6	16.2	21.4			23.9	27.0	28.6	31.1	33.3	35.1		32.1	19.5	
Change in public sector debt	0.1	1.5	6.7			2.8	2.4	0.0	1.1	1.0	0.8		0.6	-1.9	
Identified debt-creating flows	-8.0	-4.4	-0.1			0.7	0.4	-0.9	-0.3	-0.1	-0.2		-0.4	-1.4	
Primary deficit	0.4	2.5	3.8	0.4	1.8	4.3	3.6	2.8	3.0	3.1	2.9	3.3	3.2	1.0	2.5
Revenue and grants	24.6	24.2	25.0			25.6	24.2	23.1	22.7	22.7	22.7		22.8	23.3	
of which: grants	5.0	4.5	5.3			6.0	4.4	2.9	2.6	2.6	2.4		1.9	1.1	
Primary (noninterest) expenditure	25.0	26.7	28.8			30.0	27.8	25.9	25.7	25.7	25.6		26.0	24.3	
Automatic debt dynamics	-2.0	-1.6	-0.1			-1.1	-1.5	-2.2	-2.1	-2.2	-2.2		-2.9	-2.0	
Contribution from interest rate/growth differential	-1.5	-1.5	-0.5			-1.2	-1.3	-1.9	-2.1	-2.2	-2.3		-2.9	-2.0	
of which: contribution from average real interest rate	-0.1	0.1	0.5			0.4	0.5	0.3	0.2	0.2	0.2		-0.1	0.7	
of which: contribution from real GDP growth	-1.4	-1.6	-1.0			-1.6	-1.8	-2.2	-2.3	-2.4	-2.5		-2.8	-2.7	
Contribution from real exchange rate depreciation	-0.5	-0.1	0.4			0.1	-0.2	-0.3	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-6.4	-5.4	-3.8			-2.6	-1.8	-1.5	-1.1	-0.9	-0.9		-0.7	-0.4	
Privatization receipts (negative)	-6.8	-5.6	-4.1			-2.8	-1.9	-1.7	-1.3	-1.1	-1.0		-0.8	-0.5	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.3	0.3	0.3			0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.0	
Residual, including asset changes	8.1	5.9	6.8			2.2	2.0	0.9	1.4	1.0	1.0		0.9	-0.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	23.5			24.8	25.3	24.2	24.1	24.0	24.2		31.0	33.4	
of which: foreign-currency denominated	...	...	16.6			17.5	18.8	19.3	20.5	21.7	22.9		22.3	15.5	
of which: external	...	...	16.6			17.5	18.8	19.3	20.5	21.7	22.9		22.3	15.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.9	6.7	7.1			8.6	8.5	7.3	6.4	6.4	5.4		10.5	19.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	94.0			96.6	104.9	104.8	105.9	106.0	106.6		135.8	143.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	119.0			126.1	128.5	120.1	119.7	119.6	119.5		148.1	150.6	
of which: external 3/	...	...	83.9			89.1	95.5	95.6	102.0	107.9	113.1		106.8	69.7	
Debt service-to-revenue and grants ratio (in percent) 4/	3.0	3.4	4.5			4.7	6.4	6.3	6.1	5.9	6.1		7.4	12.3	
Debt service-to-revenue ratio (in percent) 4/	3.8	4.2	5.7			6.1	7.8	7.2	6.9	6.7	6.8		8.1	12.9	
Primary deficit that stabilizes the debt-to-GDP ratio	0.2	1.0	-2.9			1.5	1.3	2.8	1.8	2.1	2.2		2.6	2.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.5	8.8	4.7	7.5	2.1	6.0	6.0	7.0	7.5	7.5	7.5	6.9	7.5	7.5	7.5
Average nominal interest rate on forex debt (in percent)	7.5	6.9	5.9	4.6	2.6	2.5	3.8	3.2	2.8	2.6	2.6	2.9	1.2	3.0	1.8
Average real interest rate on domestic debt (in percent)	-12.0	-7.8	-5.6	-8.4	3.7	0.8	-1.2	-1.8	-0.3	1.0	1.9	0.1	2.4	3.2	-0.4
Real exchange rate depreciation (in percent, + indicates depreciation	-3.6	-0.5	2.3	-3.1	4.4	0.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.7	6.1	4.7	8.1	3.8	3.3	5.2	5.8	5.0	5.1	4.9	4.9	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percer	2.7	16.3	12.8	4.6	6.9	10.4	-1.7	-0.3	6.6	7.7	6.8	4.9	7.1	7.2	7.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	42.6	46.1	47.6	43.0	42.3	38.6	43.4	27.8	8.8	...

Sources: Rwandan authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

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

Table 2b. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt 2014–2034

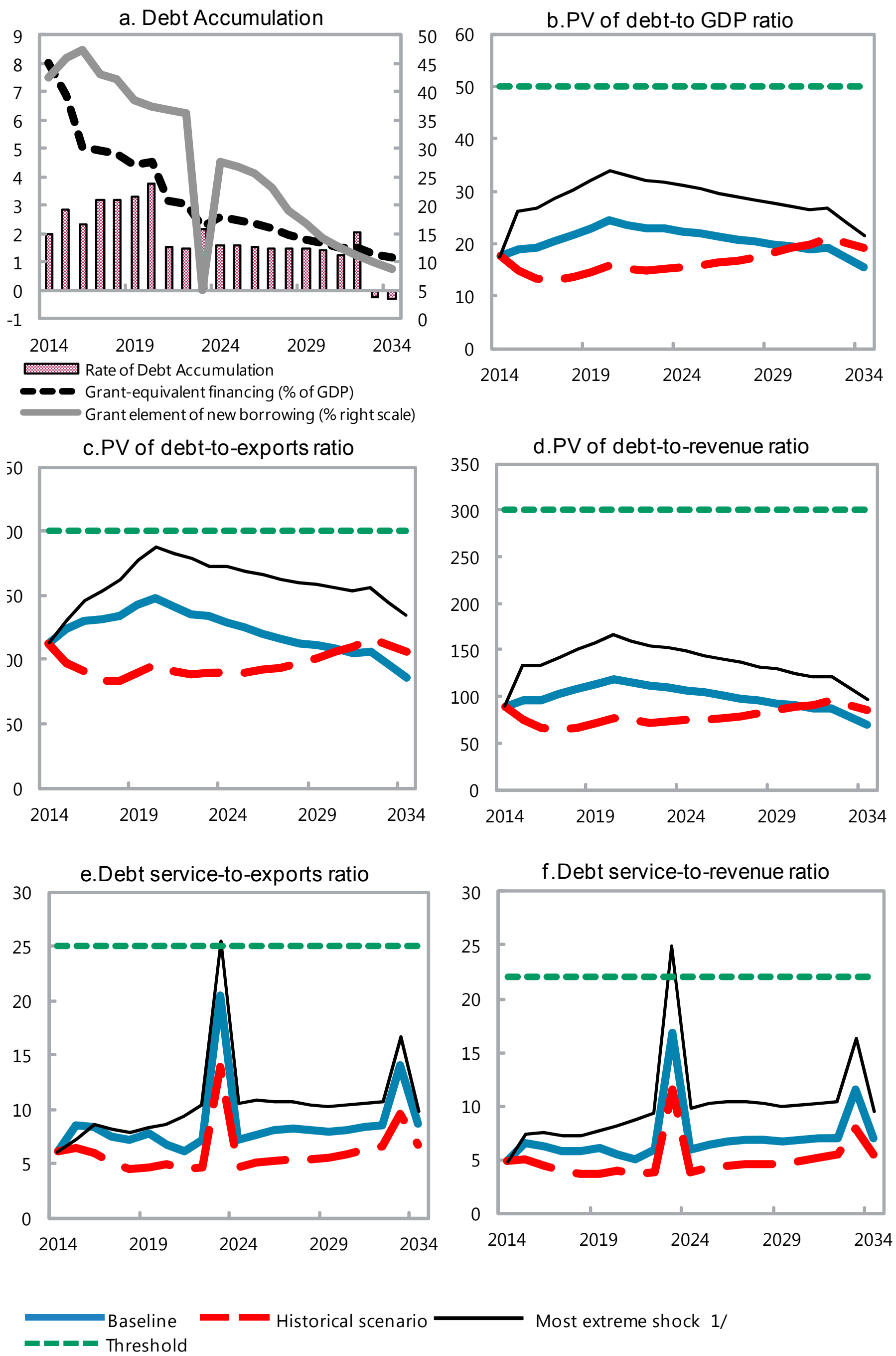
		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	25	25	24	24	24	24	31	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	22	20	18	16	15	13	14
A2. Primary balance is unchanged from 2014	25	26	26	27	28	29	38	52
A3. Permanently lower GDP growth 1/	25	26	25	25	25	26	36	48
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	25	26	25	25	26	26	34	38
B2. Primary balance is at historical average minus one standard deviations in 2015-201	25	24	23	23	23	23	30	33
B3. Combination of B1-B2 using one half standard deviation shocks	25	23	21	21	21	22	29	33
B4. One-time 30 percent real depreciation in 2015	25	32	30	29	28	27	34	38
B5. 10 percent of GDP increase in other debt-creating flows in 2015	25	33	32	31	31	31	36	36
PV of Debt-to-Revenue Ratio 2/								
Baseline	97	105	105	106	106	107	136	143
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	97	93	85	78	71	64	56	59
A2. Primary balance is unchanged from 2014	97	107	112	118	122	127	165	223
A3. Permanently lower GDP growth 1/	97	106	106	109	110	113	156	205
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	97	106	109	111	113	115	150	165
B2. Primary balance is at historical average minus one standard deviations in 2015-201	97	100	98	99	100	101	131	141
B3. Combination of B1-B2 using one half standard deviation shocks	97	97	92	94	95	96	128	140
B4. One-time 30 percent real depreciation in 2015	97	133	129	126	122	120	148	163
B5. 10 percent of GDP increase in other debt-creating flows in 2015	97	138	137	137	135	135	157	156
Debt Service-to-Revenue Ratio 2/								
Baseline	5	6	6	6	6	6	7	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	6	6	5	5	4	3	6
A2. Primary balance is unchanged from 2014	5	6	6	6	6	7	9	17
A3. Permanently lower GDP growth 1/	5	6	6	6	6	6	8	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	5	6	6	6	6	6	8	14
B2. Primary balance is at historical average minus one standard deviations in 2015-201	5	6	6	6	6	6	7	12
B3. Combination of B1-B2 using one half standard deviation shocks	5	6	6	5	5	6	7	12
B4. One-time 30 percent real depreciation in 2015	5	8	9	9	8	9	11	17
B5. 10 percent of GDP increase in other debt-creating flows in 2015	5	6	8	8	8	8	10	14

Sources: Rwandan 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.

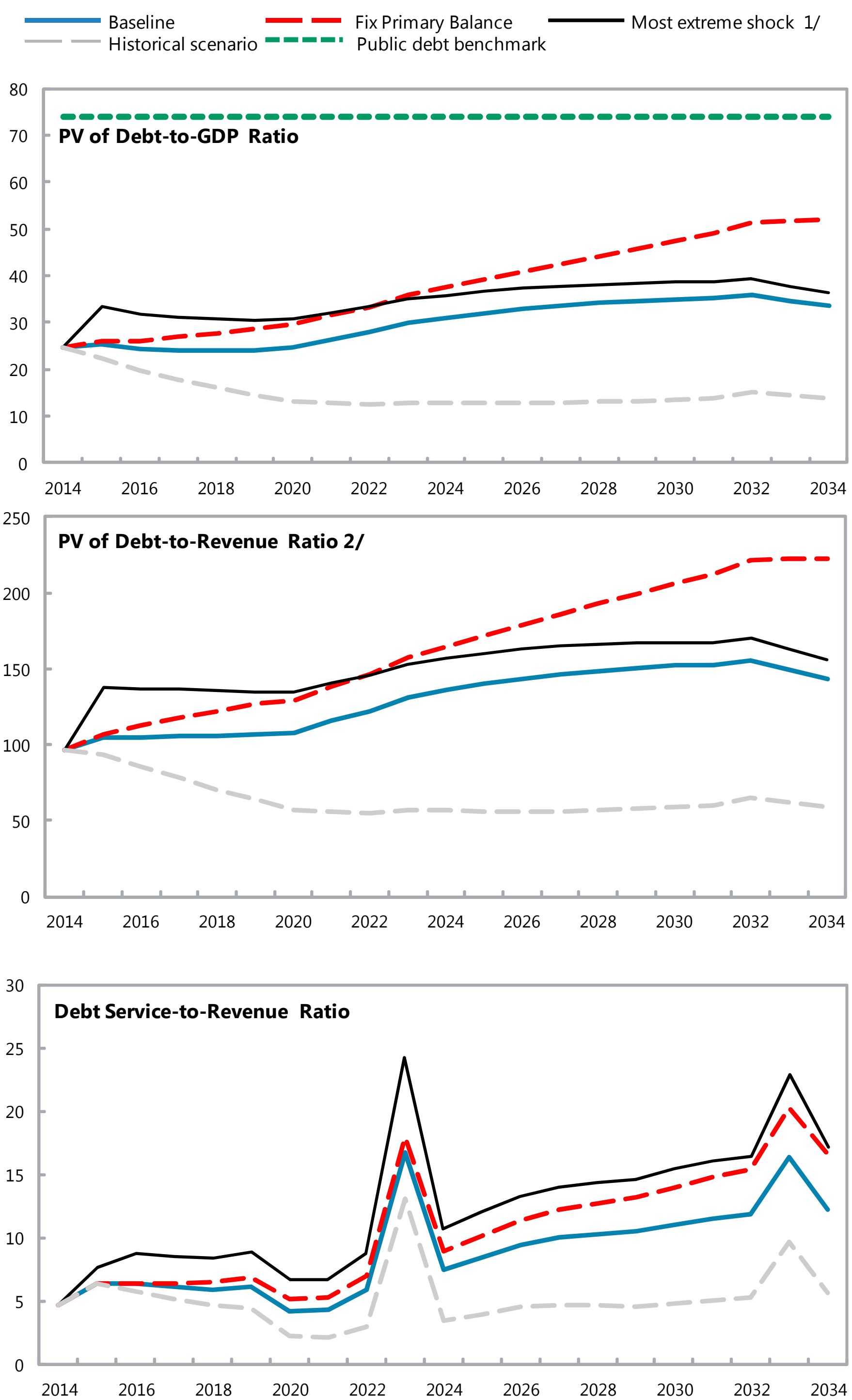
Figure 1a. Rwanda: Indicators of Public and Public Guaranteed External Debt under Alternative Scenarios, 2014-2034 [1/]



Sources: Rwandan authorities; and staff estimates and projections.

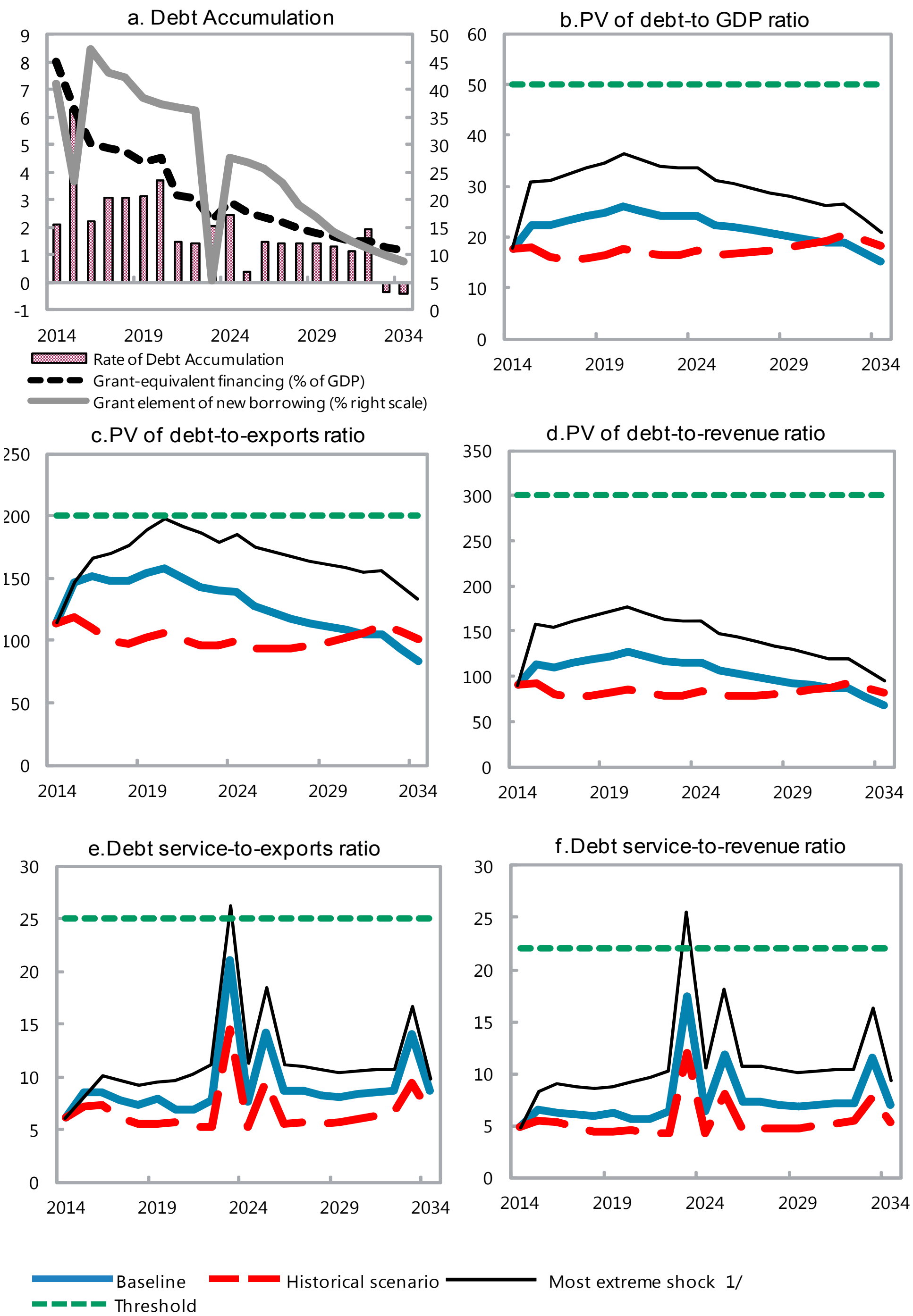
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 1b. Rwanda: Indicators of Public Debt under Alternative Scenarios, 2014-2034 1/



Sources: Rwandan authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

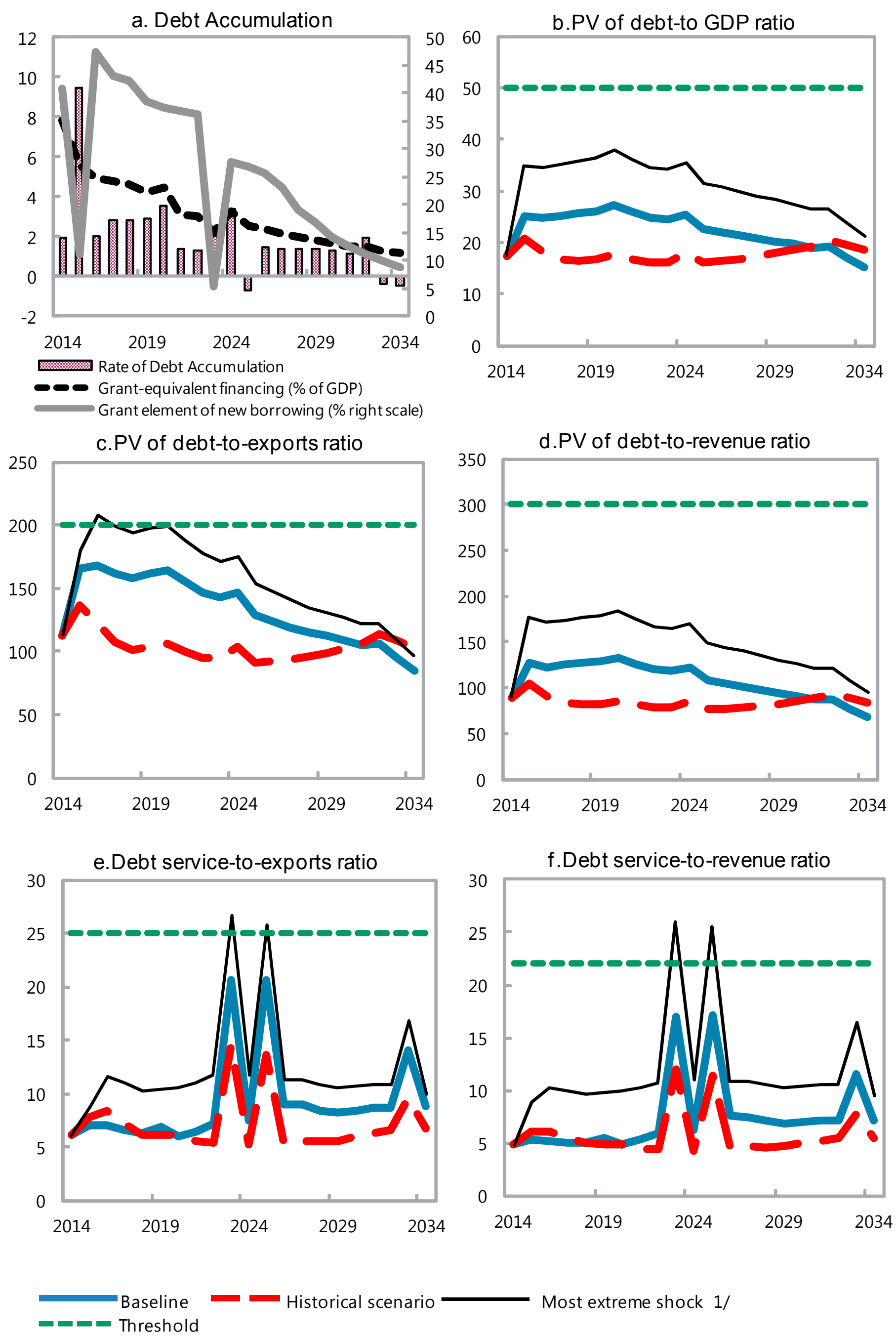
Figure 2a. Rwanda: Indicators of Public and Public Guaranteed External Debt under Alternative Scenarios, 2014-2034 1/ - NCB A (US$ 230 million)



Sources: Rwandan authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2b. Rwanda: Indicators of Public and Public Guaranteed External Debt under Alternative Scenarios, 2014-2034 1/ - NCB B (US$ 500 million)



Sources: Rwandan authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Press Release No. 14/564
FOR IMMEDIATE RELEASE
December 10 2014

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

IMF Executive Board Completes Second PSI Review for Rwanda and Concludes 2014 Article IV Consultation

On December 8, 2014 the Executive Board of the International Monetary Fund completed the second review of Rwanda's economic performance under the program supported by the Policy Support Instrument (PSI)[1] and also concluded the 2014 Article IV consultation[2] with Rwanda.

The PSI for Rwanda was approved on December 2, 2013 (see Press Release No.13/483).

Following the Board discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"The Rwandan authorities are to be commended for their strong implementation of the economic program supported by the Policy Support Instrument, carried out against a challenging economic environment. Poverty has declined over time, economic growth has recovered since 2013, and inflation remains contained.

"Fiscal policies remain prudent and the objectives of the FY2014/15 budget are within reach. In the medium term, fiscal deficits are projected to decline with limited recourse to domestic financing. Strengthening the domestic revenue base is an important objective, including for reducing aid dependency, and the authorities should vigorously pursue improvements in revenue administration and tax policy improvements in agriculture, mining, and property.

[1] The PSI is an instrument of the IMF designed for low-income countries that do not need or may not want balance of payments financial support. The PSI helps countries design effective economic programs that once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm). Details on Rwanda's current PSI are available at www.imf.org/rwanda.

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

"The central bank's current monetary policy stance is appropriate in view of rising inflationary pressures and the more flexible monetary policy framework will serve to make monetary policy implementation more effective. However, stepped-up efforts are needed to better promote financial deepening and inclusion, including through implementation of the Financial Sector Development Plan, and to enhance domestic and cross-border financial supervisory and regulatory frameworks.

"The government has taken important steps to strengthen Rwanda's debt management capacity and project implementation, including establishment of a Debt Management Unit. The available room to fund new infrastructure projects and maintain a low risk of debt distress is limited, and sensitive to changing economic circumstances. This requires consistent and prudent debt management, through exploring all available concessional financing options, private sector involvement and judicious use of non-concessional borrowing.

"Removal of remaining structural impediments to private sector investment will help foster greater regional integration and export diversification. Efforts are needed to strengthen the business environment, including by lowering business costs and reducing remaining trade barriers".

The Executive Board also completed the 2014 Article IV Consultation with Rwanda.

Rwanda's economic performance since the turn of the century has been remarkable. Strong policies have played a key role in maintaining Real Gross Domestic Product (GDP) growth at 7.8 percent on average since 2000, with significant poverty reduction. The economy is recovering from the disruptions induced by aid suspension through mid-2013, with growth bouncing back in the first half of 2014 and inflation well contained.

The fiscal deficit for the fiscal year 2014/15 continues to be in line with available resources. Tax revenue is expected to increase by 1 percent of GDP this fiscal year, bringing it to almost 16 percent of GDP. Continued efforts to mobilize more domestic revenue should allow Rwanda to reduce its reliance on donor resources and finance its ambitious development agenda.

The monetary stance has remained unchanged since mid-2014 and is consistent with the projected pick-up in inflation and improved growth outlook. The National Bank of Rwanda (NBR) has implemented a series of measures aimed at improving the transmission mechanism of monetary policy and allowed greater exchange rate flexibility to maintain reserves at adequate levels.

Growth in 2014 is expected to be about 6 percent, rising to the longer-term growth rate of 7.5 percent in the medium term. This reflects improved implementation of government projects and a rebound in agriculture because of favorable climatic conditions early in the year. Prospects in construction and real estate are also favorable. Inflation is projected at about 3 percent by end year, converging to the authorities' target of 5 percent in the medium term.

In terms of risks, weather conditions and delayed project implementation would hinder growth prospects, and a protracted period of slower growth in advanced economies or a decline in commodity prices - minerals and traditional exports - would adversely affect exports.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Rwanda's continued strong performance under the PSI-supported program, which has led to progress towards macroeconomic stability; robust, sustained and inclusive growth; improved gender equity; and poverty reduction. Despite strong program performance and the favorable economic outlook, Directors noted the country's vulnerability to external shocks and high aid dependency, and encouraged the authorities to sustain the reform momentum. They supported the creation of an enabling environment for successful economic transformation to a more diversified, private-sector-led growth strategy, through macroeconomic prudence and productivity and competitiveness-enhancing structural reforms.

Directors called for continued efforts to strengthen fiscal sustainability through enhanced revenue mobilization and reduced foreign aid dependency. They recommended improvements in tax administration and broadening the tax base with Fund technical assistance, including through tax policy measures in agriculture, mining and property. On the expenditure side, Directors welcomed the identification of specific contingent cuts for FY2014/15, which safeguard priority social spending, in the event of revenue shortfalls. They also encouraged ongoing efforts to strengthen public financial management.

Directors considered the current monetary policy stance appropriate in view of rising inflationary pressures. However, they encouraged the authorities to improve the effectiveness of the monetary transmission mechanism, through the development of deeper financial markets and new monetary instruments. Directors called for the implementation of the Financial Sector Development Plan, to further promote financial deepening and inclusion. They advised strengthening both domestic and cross-border financial supervisory and regulatory frameworks, and improving the AML/CFT regime.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors agreed that Rwanda's real exchange rate remains broadly in line with economic fundamentals, and underscored the need to maintain exchange rate flexibility to reduce external imbalances and preserve foreign exchange buffers.

Directors welcomed the establishment of the new Debt Management Unit, and supported the authorities' plans to develop the country's project implementation capacity, guided by a well-prioritized and appropriately phased public investment plan. They noted the authorities' commitment to fully explore concessional financing options and private sector participation, and called for careful management of non-concessional borrowing to mitigate rollover risks.

Directors advised the removal of remaining structural impediments to private sector investment, and encouraged greater regional integration and export diversification. They recommended improving the business environment, including by lowering business costs and reducing remaining trade barriers.

Rwanda: Selected Economic Indicators, 2010-18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
		Act.		Prel.			Proj.		
	(Annual percentage change, unless otherwise indicated)								
Output, prices, and exchange rate									
Real GDP	6.3	7.5	8.8	4.7	6.0	6.0	7.0	7.5	7.5
GDP deflator	3.6	7.7	6.1	4.7	3.3	5.2	5.8	5.0	5.1
CPI (period average)	0.4	5.7	6.3	4.2	2.1	4.1	5.0	5.0	5.0
CPI (end of period)	0.2	8.3	3.9	3.6	3.2	5.0	5.0	5.0	5.0
Core inflation (end of period) [1]	0.2	8.3	2.5	3.8	…	…	…	…	…
Terms of trade (deterioration, -)	16.1	0.0	-5.3	19.0	-6.5	10.2	2.9	2.0	2.3
Money and credit									
Broad money (M3)	16.9	26.7	14.0	15.5	14.3	12.7	14.2	13.9	13.9
Credit to non-government sector	9.9	27.6	35.0	11.1	16.1	17.4	22.7	15.1	11.8
Policy Rate (end of period)	6.0	7.0	7.5	7.0	6.5	…	…	…	…
M3/GDP (percent)	18.5	20.3	20.1	21.1	22.1	22.3	22.5	22.7	22.9
NPLs (percent of total loans)	10.7	8.0	6.0	6.9	6.7	…	…	…	…
	(Percent of GDP, unless otherwise indicated)								
General government budget									
Revenue and grants	26.3	24.6	24.2	25.1	27.0	24.2	23.1	22.8	22.7
of which: grants [2]	13.3	10.8	9.3	8.6	8.2	5.8	4.1	3.5	3.3
Expenditure	25.9	26.5	25.9	27.6	28.6	27.0	25.6	25.4	25.4
Current	15.1	14.3	14.1	14.5	14.7	13.8	13.2	12.9	12.8
Capital	10.7	12.2	11.8	13.1	13.9	13.1	12.4	12.5	12.6
Primary balance	0.0	-1.7	-2.6	-3.8	-2.4	-3.5	-2.7	-2.8	-3.0
Overall balance	-0.4	-2.1	-3.2	-4.5	-3.2	-4.2	-3.4	-3.6	-3.7
Excluding grants	-13.8	-12.9	-12.5	-13.1	-11.4	-10.1	-7.5	-7.1	-7.0
Public debt									
Public gross nominal debt	20.0	20.1	21.7	28.4	31.2	33.5	33.6	34.7	35.6
of which: external public debt	13.4	12.6	16.2	21.4	23.9	27.0	28.6	31.1	33.3
Investment and savings									
Investment	22.5	22.9	25.0	25.5	25.5	25.5	25.5	25.5	25.5
Savings [3]	5.7	4.0	6.3	9.5	6.8	9.0	11.9	12.6	13.7
External sector									
Exports (goods and services)	11.1	14.0	14.0	15.6	15.5	15.2	14.8	15.6	16.2
Imports (goods and services)	28.8	34.1	34.3	32.5	34.9	32.2	28.9	29.0	28.6
Current account balance (including grants)	-5.4	-7.2	-11.3	-7.1	-11.8	-11.0	-9.1	-9.2	-8.4
Current account balance (excluding grants)	-16.8	-18.8	-18.7	-16.0	-18.8	-16.5	-13.7	-13.0	-11.8
Gross international reserves									
In billions of US$	0.8	1.1	0.8	1.1	0.9	0.8	1.0	1.1	1.2
In months of next year imports	4.5	5.1	4.1	5.0	3.9	3.8	4.0	4.1	4.2
Memorandum items:									
GDP at current market prices									
Billion of Rwanda francs	3323	3846	4437	4864	5328	5940	6722	7590	8572
GDP per capita (US$)	570	628	688	696	…	…	…	…	…

Sources: IMF staff and authorities' estimates.

[1] Defined as excluding food and fuel.
[2] From 2014 onward, there is a substantial change in the mix between grants and loans associated with Rwanda's low debt distress risk rating.
[3] The savings rate excludes grants.