IMF Country Reports 18/13

Rwanda: Eighth Review Under the Policy Support Instrument and Request for Extension, and Third Review Under the Standby Credit Facility-Press Release; Staff Report; and Statement by the Executive Director for Rwanda

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 18/13

RWANDA

January 2018

EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION, AND THIRD REVIEW UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the Eighth Review Under the Policy Support Instrument and request for extension, and Third Review Under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 12, 2018, following discussions that ended on November 8, 2017, with the officials of Rwanda on economic developments and policies underpinning the IMF arrangements under the Policy Support Instrument and Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 21, 2017.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Rwanda.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Rwanda*
Memorandum on Economic and Financial Policies by the authorities of Rwanda*
Technical Memorandum of Understanding*

* Also included in Staff Report.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 18/02
FOR IMMEDIATE RELEASE
January 12, 2018

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

IMF Executive Board Completes Third SCF and Eighth PSI Reviews for Rwanda, Approves US$25.8 Million Disbursement Under the SCF, and Extends the PSI

The Executive Board of the International Monetary Fund (IMF) today approved the extension of the Policy Support Instrument (PSI)[1] for Rwanda to December 1, 2018 and completed the eighth review of Rwanda's performance under the PSI and the third and final review of the arrangement under the Standby Credit Facility (SCF).[2]

Completion of the third SCF review enables the disbursement of US$ 25.8 million (SDR 18.0225 million), bringing total disbursements under the arrangement to SDR 144.18 million, about US$206.6million.

Requests for an 18-month SCF arrangement with access of about US$204 million (SDR 144.18 million) or 90 percent of Rwanda's quota and to extend Rwanda's PSI-supported program through end-2017 (see Press Release No. 16/270) were approved by the Executive Board on June 8, 2016. Both were again extended on November 29, 2017 to January 31, 2018 (see Press Release No.17/457).

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

"Rwanda has made notable progress in reducing external imbalances which has helped safeguard macroeconomic stability and improved prospects for long term growth. Exchange rate adjustment has been the central tool of policy adjustment, supported by public spending restraint and prudent monetary policy. Combined with targeted policies to promote domestic production, these policies have reduced the current account deficit and should place external balances on a

[1] The PSI is an instrument of the IMF designed for countries that do not need 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] The SCF provides financing to low-income countries on concessional terms. For more details, see http://www.imf.org/external/np/exr/facts/scf.htm.

sustainable path over the medium term. Performance under the SCF arrangement and PSI-supported program has been strong.

"After a slowdown in 2016 and early 2017, growth has started to recover, led by agriculture and services. Over the course of the next two years, growth is expected to return to its historical average of 7–7.5 percent, supported by investments in public infrastructure and interventions promoting structural transformation and diversified exports. After spiking in early 2017, headline inflation has declined rapidly as food supplies have recovered from the drought, and is expected to remain low in the near term. Inflation could pick up gradually over the course of 2018 as growth accelerates.

"Despite these achievements, the Rwandan economy remains vulnerable to external shocks and fiscal risks. It will be important to continue building foreign exchange reserve buffers to enhance resilience while working to identify and mitigate potential fiscal risks.

"Building on its notable progress toward development objectives, the authorities are crafting a revised medium term development strategy with the goal of achieving middle income status by 2035. To help achieve this objective, it will be important to regain momentum in mobilizing domestic revenue as a reliable source of financing for development."

Recent Economic Developments

Rwanda's growth in 2016 and early 2017, while below historical standards, remained robust relative to the region, with 2017 growth estimated at 5.2 percent. A growth recovery began in Q2 2017 and strengthened in Q3, with growth expected to revert to historical averages (7–7.5 percent) over the next two years. The trade deficit continued to narrow as growth in export volumes outpaced that of imports, partly reflecting the impact of exchange rate adjustment and structural policies. As such, the current account deficit is expected to improve from 14.9 percent of GDP in 2016 to 8.8 percent in 2017.

Consumer price inflation has continued to decline since February 2017, with year-on-year inflation at 2.3 percent in November, 2017, reflecting improving food supply conditions and declining transport costs. Inflation is expected to close the year below the central bank's medium-term target of 5 percent, but should pick up toward the target as growth accelerates. In the face of lower inflation and the tapering off of exchange rate pressure, monetary policy has been relaxed, with the policy rate adjusted downwards by a cumulative 100 basis points since November 2016. The fiscal policy stance for FY2018/19 has been slightly relaxed, while maintaining the medium-term path of adjustment.

Performance under the PSI-supported program and SCF arrangement remained strong. Most quantitative targets and structural reform benchmarks were met, except for a target on domestic arrears at end-June 2017 and a planned measure to roll out a pilot for electronic billing machines.

The latter was intentionally delayed in favor of the use of newer and less costly software that achieves the same purpose.

Program Summary

The existing PSI and SCF arrangement have supported Rwanda's efforts to address external imbalances, thereby supporting continued strong growth and durable poverty reduction. The SCF arrangement added a financing component to the existing PSI-supported program, which aims to promote private-sector led growth through safeguarding macroeconomic stability, including through external sustainability, fiscal sustainability based on continued improvements in domestic resource collection, low and stable inflation, and enhancing access to credit and deepening the financial sector.

Table 1. Rwanda: Selected Economic Indicators, 2016–19

	2016	2017		2018		2019
	Act.	7th PSI Review	Proj.	7th PSI Review	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
Output and prices						
Real GDP	5.9	6.2	5.2	6.8	6.5	7.5
GDP deflator	4.9	7.4	6.4	5.5	4.2	5.0
CPI (period average)	5.7	7.1	5.3	6.0	4.5	5.0
CPI (end period)	7.3	7.0	4.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	6.3	6.1	4.6	-4.1	-4.7	1.2
Money and credit						
Broad money (M3)	7.6	13.0	14.7	13.2	14.4	...
Reserve money	5.5	10.9	12.6	11.1	11.7	...
Credit to non-government sector	7.8	17.9	11.0	14.2	12.9	...
M3/GDP (percent)	24.1	23.9	24.7	24.0	25.5	...
NPLs (percent of total gross loans)[1]	7.6	...	8.2	...	...	...
	(Percent of GDP, unless otherwise indicated)					
General government budget						
Total revenue and grants	23.7	22.1	22.7	21.9	22.6	22.1
of which: tax revenue	15.8	15.4	15.7	15.2	15.7	15.9
of which: grants	5.1	4.5	4.5	4.3	4.4	4.3
Expenditure	27.4	26.2	28.0	25.8	27.1	26.6
Current	15.4	14.6	15.0	14.1	14.6	14.7
Capital	10.6	9.4	10.7	9.9	10.4	9.8
Primary balance	-2.8	-2.9	-4.2	-2.7	-3.3	-3.3
Overall balance	-3.8	-4.1	-5.3	-3.9	-4.5	-4.4
excluding grants	-8.9	-8.6	-9.8	-8.2	-8.9	-8.7
Net domestic borrowing	0.8	0.0	1.2	0.2	0.8	0.9
Public debt						
Total public debt incl. guarantees	44.5	45.7	47.6	47.1	49.2	49.8
of which: external public debt	35.8	38.1	37.6	40.2	39.4	40.2
Investment and savings						
Investment	26.1	24.0	25.0	24.6	26.0	23.4
Government	10.6	9.4	10.7	9.9	10.4	9.8
Nongovernment	15.5	14.6	14.3	14.7	15.6	13.6
Savings	7.2	10.2	12.5	9.9	12.6	11.3
Government	3.1	3.0	3.2	3.5	3.6	3.2
Nongovernment	4.0	7.3	9.3	6.4	9.0	8.1
External sector						
Exports (goods and services)	18.8	20.3	21.1	20.6	21.5	22.6
Imports (goods and services)[2]	36.8	33.1	31.8	34.3	33.1	32.8
Current account balance (incl grants)	-14.9	-10.2	-8.8	-11.2	-10.0	-8.9
Current account balance (excl grants)	-18.9	-13.8	-12.5	-14.6	-13.4	-12.1
Current account balance (excl. large projects)	-10.3	-10.2	-8.1	-10.5	-7.3	-6.5
Gross international reserves						
In millions of US$	1001	1037	1083	1046	1128	1275
In months of next year's imports	4.2	3.9	4.1	3.7	4.0	4.3
Memorandum items:						
GDP at current market prices						
Rwanda francs (billion)	6618	7548	7406	8505	8220	9279
US$ (million)	8406	...	...	...	...	...
GDP per capita (US$)	728	...	...	...	...	...
Population (million)	11.6	11.8	11.8	12.1	12.1	12.4

Sources: Rwandan authorities and IMF staff estimates.

[1] NPLs to total gross loans for 2017 is as at June 2017.

[2] Imports for 2016 reflect purchases of two aircrafts.

INTERNATIONAL MONETARY FUND

RWANDA

December 21, 2017

EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION, AND THIRD REVIEW UNDER THE STANDBY CREDIT FACILITY

KEY ISSUES

Rwanda's economy continues to perform well. Growth in 2016 and the first half of 2017 was weaker than projected, but was higher than regional averages and is projected to recover over 2017–19. Inflation is projected to remain below the central bank's 5 percent medium term target. Rwanda's adjustment program, based on exchange rate flexibility, public spending restraint, and prudent monetary policy, has served to reverse external imbalances and steadily rebuild international reserve buffers. Program performance is on track, with all continuous and end-June 2017 quantitative assessment/performance criteria met, as well as most indicative targets and structural benchmarks. Building on its successes to date, the government is crafting new medium-term development strategies, with a view to attaining upper middle income status by 2035. It is hoped that Rwanda's participation in the G-20 "Compact with Africa" initiative can leverage additional private investment to help realize these objectives.

Discussions focused on macroeconomic policies to support the nascent growth recovery and enhance medium-term sustainability and resilience:

- *A more gradual path for fiscal adjustment was agreed for FY2017/18.* This path balances supporting a growth recovery as well as medium-term objectives for external and debt sustainability.
- *Fiscal reforms will focus on identifying fiscal risks, increasing transparency, and maintaining momentum for domestic revenue mobilization.* This can help ensure fiscal resilience over the medium-term, and support for the development agenda.
- *Transition to an interest rate-based monetary policy framework should be gradual, as a monetary transmission mechanism develops over time.* This will be supported maintenance of a flexible exchange rate regime, and various measures to deepen financial markets.

Staff supports the completion of the 3rd and 8th Reviews under the SCF arrangement and PSI-supported program, respectively, and the authorities' request to extend the PSI-supported program through December 1, 2018, and proposed supporting program conditionality.

Approved By
Michael Atingi-Ego (AFR) and Yan Sun (SPR)

Discussions were held in Kigali during October 24–November 8, 2017. The mission comprised L. Redifer (head), E. Alper, and S. Kwalingana (all AFR), N. Meads, (SPR) and C. Ncuti (STA), assisted by A. Thomas (Resident Representative). T. Gursoy and J. Ogaja (AFR) contributed to this report.

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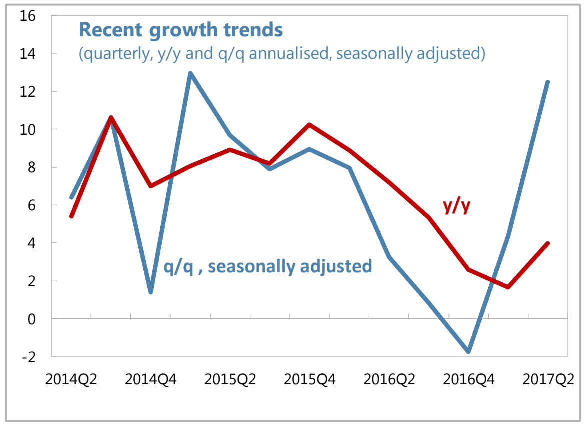
ANNEX

APPENDIX

RECENT ECONOMIC DEVELOPMENTS

1. **Growth and inflation have been below expectations (Figure 1).** After dipping to just 1.7 percent in Q1, y/y growth began a modest recovery in Q2, led by agriculture and services, while industrial growth remained subdued. Meanwhile, headline and core inflation declined to well below the central bank's 5 percent headline target (headline at 2.2 percent and core at 2.6 percent y/y in November), following a sharp drop in food and fuel prices, slack demand, and more gradual RWF depreciation.



2. **The FY16/17 fiscal outturn was in line with program targets (Figure 2, Tables 2a–b, and Tables 3a–b).** The overall fiscal deficit stood at 4.6 percent of GDP, meeting the (adjusted) nominal program ceiling set at the 6th review and maintained at the 7th review.[1] Although the headline deficit increased relative to FY15/16, this was a function of a large decline in grants partly offset by lower spending (i.e. the primary fiscal deficit excluding grants was lower in FY16/17 relative to FY15/16). Therefore, the fiscal stance was not expansionary. Relative to the supplemental FY16/17 budget, there was some re-composition within current spending due to additional hiring of teachers and health workers. Revenue collection was in line with 7th review projections.

Rwanda: Operations of Central Government

(in percent of GDP)

	2015/16	2016/17		
	Act.	6th Rev.	7th Rev.	Act.
Revenue and grants	**24.4**	**22.9**	**22.6**	**22.7**
Total revenue	18.5	18.1	17.9	18.0
Total grants	5.9	4.8	4.7	4.6
Total expenditure and net lending	**27.8**	**27.6**	**26.2**	**27.3**
Current expenditure	15.0	14.9	15.0	15.0
Capital expenditure	11.4	10.8	9.5	10.7
Net lending	1.4	1.8	1.6	1.6
Overall balance (commitment basis)	-3.4	-4.7	-3.6	-4.6
Overall balance (cash basis)	-3.9	-5.0	-3.9	-4.9
Primary bal. excl. grants (com. basis, % GDP)	**-8.5**	**-8.5**	**-7.2**	**-8.3**
GDP	6,321	6,851	7,083	7,125

3. **The authorities intended to ease the monetary stance (Figure 3, Table 4).** Reflecting concerns over subdued credit growth and the outlook for below-target inflation, the central bank

[1] Investment execution problems in the FY16/17 H1 led to revised fiscal projections in the 7th review, but the 6th review deficit target was retained in the event investment spending execution accelerated in the second half, which was indeed the case.

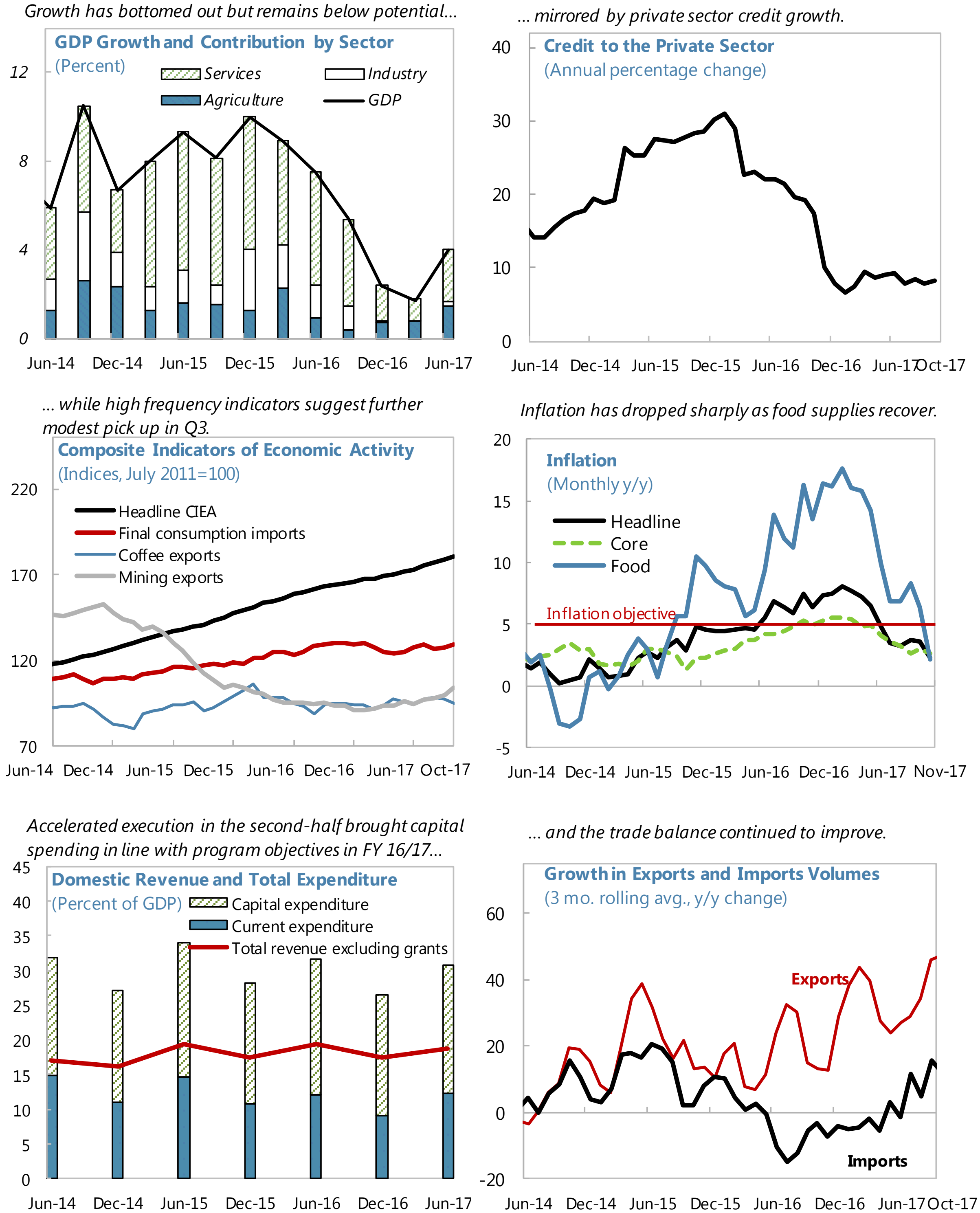
cut the policy rate twice modestly, in December 2016 and June 2017, by a cumulative 50 basis points. However, while there appears to be nascent correlation between short term interest rates-despite still-shallow interbank markets—the transmission of policy signals to lending rates remains weak, at best, and private sector credit growth decelerated, reflected weak demand. Meanwhile, reserve money remained well below program ceilings, reflecting much lower money demand. Also, the relationship between broad and reserve money growth indicates a larger and less stable money multiplier, making it increasingly difficult to set an effectual monetary policy stance using reserve money. In the face of these developments, the central bank is gradually transitioning to an interest rate-based operational monetary framework.

4. **Banking sector asset quality deteriorated slightly but banks remain well capitalized (Table 6).** NPLs rose gradually through September 2017 (to 8.3 percent), reflecting subdued economic activity, and the need for more diligent credit analysis and monitoring in some banks. Nevertheless, the sector remains broadly profitable and well capitalized, including relative to other EAC peers, with capital above 20 percent of total assets at end-September. The insurance sector came under central bank supervision only in 2009, with relatively weak indicators and, in some cases, weak operational management. In response to more active intervention (a temporary capital injection by the public pension fund in one private company, and private capital injections in two other insurance companies), the sector has shown sharp improvement in indicators in 2017 with solvency and liquidity ratios standing at 160 and 121 percent, respectively, as of end-September 2017. Other non-bank financial institutions appear healthy, for example, microfinance institutions, with declining NPLs and a capital adequacy ratio of 36 percent (compared to a 15 percent minimum).

5. **External adjustment has been more rapid than anticipated (Figure 4, Table 5).** In the period of November 2016-October 2017, the trade deficit valued in US$ terms was 24 percent lower than compared to the pre-SCF period (July 2015–June 2016). Import volumes have increased only marginally by 1.5 percent when compared to the pre-SCF program period, reflecting exchange rate depreciation and adjustment policies. Export volumes are 43 percent higher, due to a more competitive exchange rate and policies to promote the growth of non-traditional exports such as horticulture and gold, and re-exports of petroleum products. Excluding re-exports, export volumes are still 30 percent higher than the pre-SCF program period.

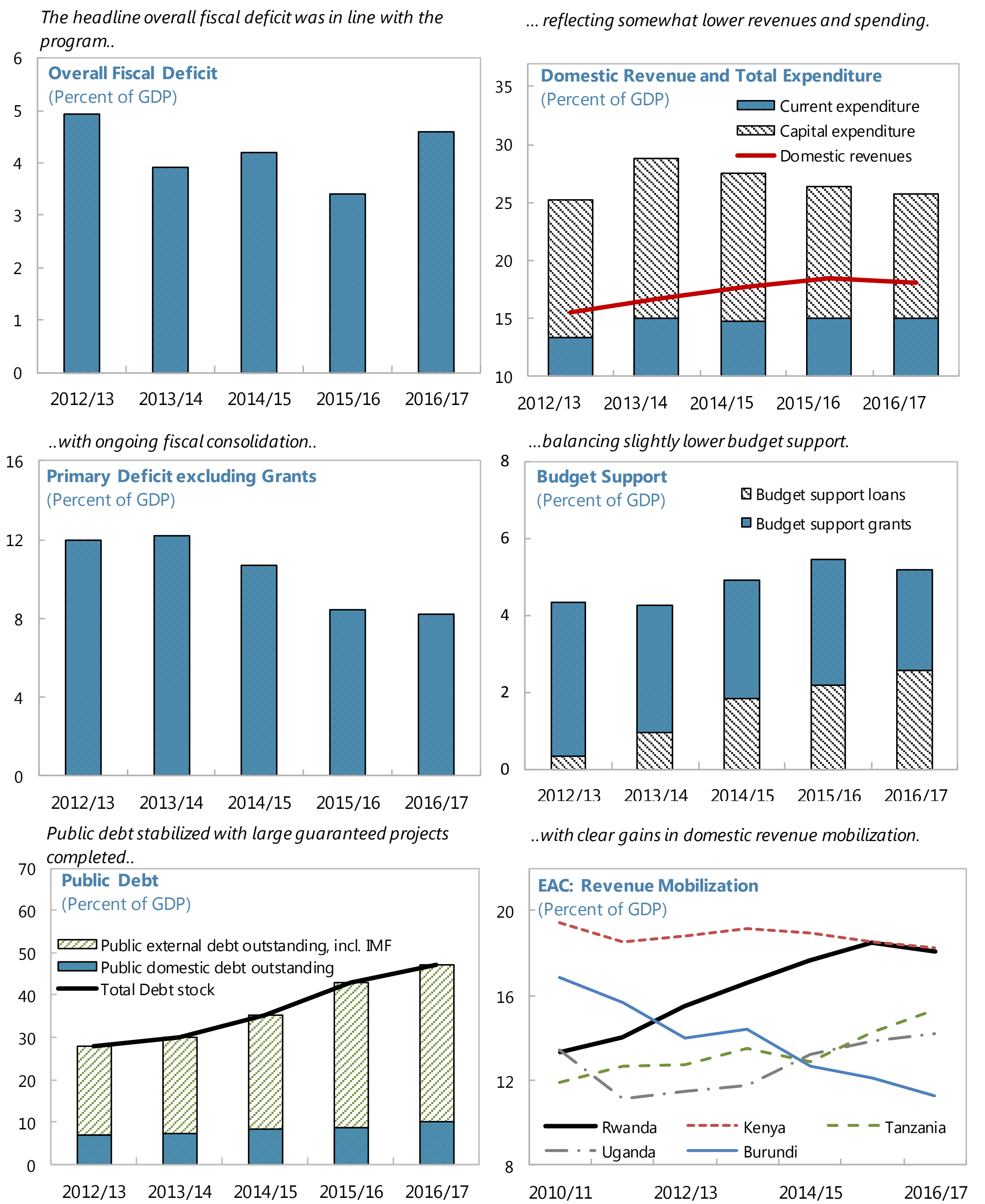
6. **Reserve buffers are higher and RWF depreciation is tapering.** After rapid and steady depreciation since mid-2015, the pace of depreciation has moderated in 2017 (3 percent y/y by end-October) and forex reserves have been accumulating rapidly. The end-June NFA floor was exceeded by a large margin (some RWF 92 billion or US$76 million), due to large inflows late in the FY and lower-than-expected outflows (including lower forex sales to banks). Reserve stocks had continued to accumulate more rapidly than projected through end-October.

Figure 1. Rwanda: Overview of Recent Economic Developments



Source: Rwandan authorities, and IMF staff estimates.

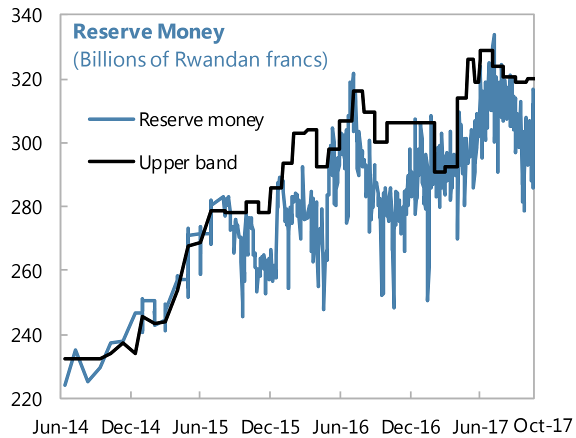
Figure 2. Rwanda: Fiscal Developments



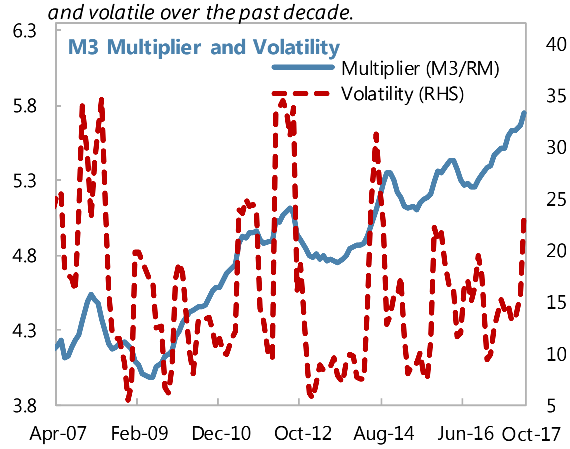
Source: Rwandan authorities, and IMF staff estimates.

Figure 3. Rwanda: Monetary Developments

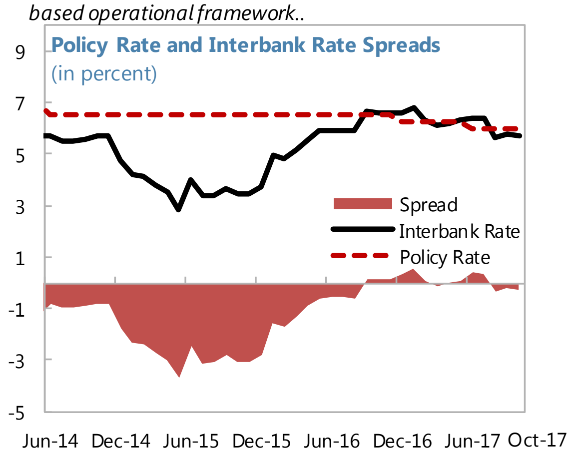
Reserve money has fared lower than targets recently..



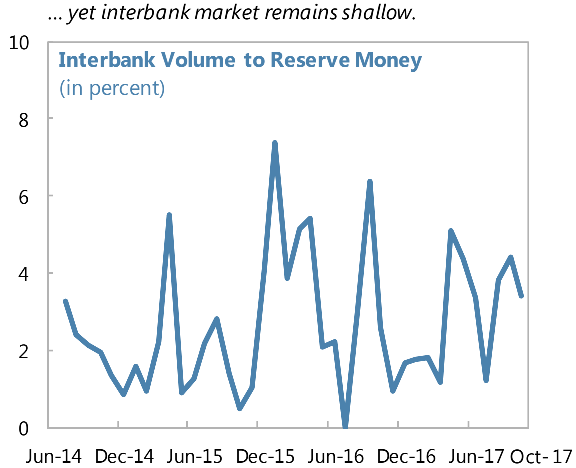
... and broad money multiplier has been increasing and volatile over the past decade.



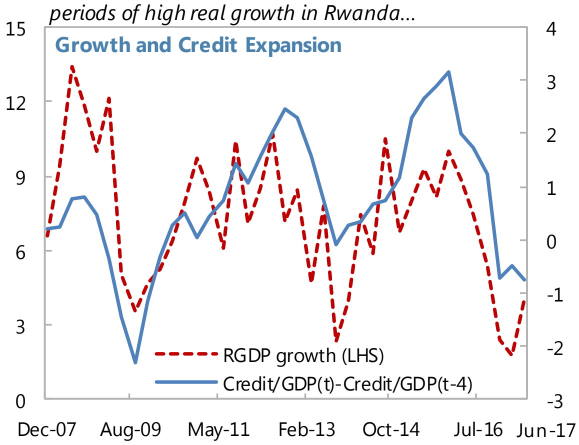
Within this context, BNR is transitioning to interest rate based operational framework..



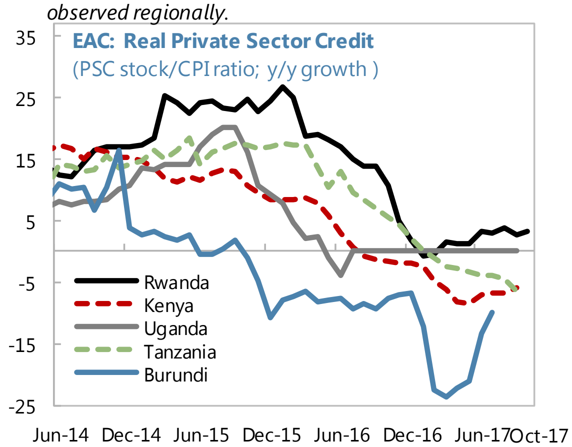
... yet interbank market remains shallow.



Rapid private credit expansion seem to coincide with periods of high real growth in Rwanda...

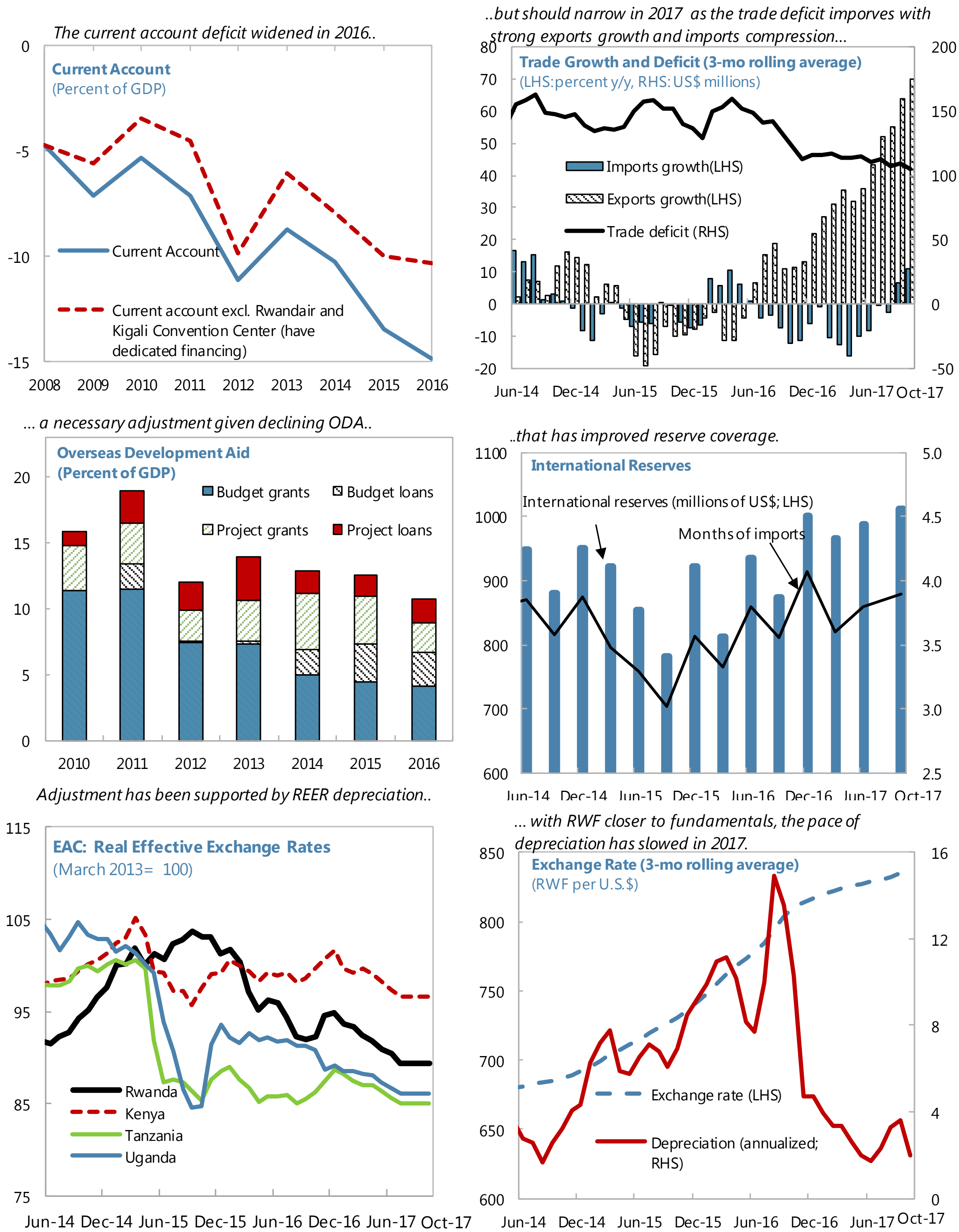


..and recent private sector credit growth tapering is also observed regionally.



Source: Rwandan authorities, and IMF staff estimates.

Figure 4. Rwanda: External Developments



Sources: Rwandan authorities, and IMF staff estimates.

PROGRAM PERFORMANCE

MEFP, ¶19

7. **Program performance remained on track (Tables 7 and 8).** All continuous and end-June program quantitative assessment/performance criteria targets were met, as were most indicative targets (Table 7). The indicative target on accumulation of net domestic arrears was missed by 0.3 percentage points of GDP, due to seasonal spending pressures. In response, the authorities are implementing measures to improve treasury cash management, including through more frequent tracking of cash flows outside the government's accounts at the central bank, to better match resource flows with seasonal spending needs. All but one structural benchmark were met: piloting the use of electronic billing machines was not met. The mission concurred with the authorities' request to delay the initiative into 2018, using newer, less costly mobile phone and computer software that achieves the same purpose. The authorities' proposal for the redrafted structural benchmark and rescheduled test date has been included in Table 2 of the MEFP.

ECONOMIC OUTLOOK AND RISKS

8. **Growth and inflation in 2017–18 have been revised down.** After disappointing performance in the first half of 2017, high frequency indicators suggest that growth should continue to pick up, based on a strong harvest and resumption of normal construction and tourism activity. On this basis, and spending patterns for the remainder of FY2017/18, it was agreed to revise growth projections down to 5.2 percent in 2017 and 6.5 percent in 2018. Medium-term growth (7–7.5 percent) remains in line with historical averages (7.5 percent over the past decade), supported by returns from public investment. Similarly, the headline inflation projection for 2017 has been revised to 4.0 percent y/y, reflecting lower food and fuel prices. With growth picking up, inflation should return to the authorities' medium-term desired inflation target of 5 percent by end-2018.

Rwanda: Revised Macroeconomic Framework

	2016		2017		2018	
	7th Rev.	Act.	7th Rev.	Proj.	7th Rev.	Proj.
Real GDP growth (y/y change)	5.9	5.9	6.2	5.2	6.8	6.5
CPI inflation, eop (y/y change)	7.3	7.3	7.0	4.0	5.0	5.0
CA balance, excl. airport (% GDP)	-14.4	-14.9	-9.7	-9.6	-9.7	-9.5
Overall fiscal balance (% GDP)	-3.8	-3.8	-4.1	-5.3	-3.9	-4.5
Gross international reserves (in millions of US$)	1001	1001	1037	1083	1046	1128
Total public debt (% GDP)	44.5	44.5	45.7	45.7	47.1	47.6
Memorandum items:						
	2015/16		2016/17		2017/18	
	7th Rev.	Act.	7th Rev.	Proj.	7th Rev.	Proj.
Overall fiscal balance (FY, % GDP)	-3.4	-3.4	-3.6	-4.6	-3.7	-4.2
Net Borrowing (FY, % GDP, GFS-2014 presentation)	…	-3.5	…	-4.4	…	-3.9

Sources: Rwandan authorities and IMF staff estimates and projections.

9. Downside risks to recovery remain. The baseline forecast projects a growth recovery in the second half of 2017 and 2018, reflecting recent nascent signs of improvement, e.g. non-traditional exports, increased mining sector activity, good harvest prospects, and planned construction of Bugesera airport proceeding in 2018 (IMF Country Report No. 17/217, Box 3). However, recent industrial activity and underlying demand conditions constitute a downside risk to growth as the breadth of the recovery remains in question.[2] Additional downside risks to the outlook include regional political conditions, pests affecting harvests, and perennial unpredictable weather.

POLICY DISCUSSIONS

10. Discussions focused on the macro policy mix, progress in the reform agenda, and successor program engagement. External imbalances are being corrected faster than expected; meanwhile, the pace of growth has been lower than expected, and has become a more pressing concern. Considering the inflation outlook, slack demand and sluggish credit growth, the discussions centered on policies to support a still-nascent growth recovery, while still safeguarding external and debt sustainability. Structural reforms for the coming year will focus on identifying fiscal risks and improving fiscal transparency, maintaining the momentum for improving domestic revenue collection, and transitioning to an interest-rate based monetary framework. After their short extension, the SCF arrangement and the PSI-supported program are scheduled to expire at end-January 2018. The authorities are requesting an extension of the PSI through December 1, 2018, which should enable a transition to a successor program——the precise mode of which is to be determined——to be negotiated in 2018. This will allow time for the completion of the new growth strategies envisaged under the Vision 2050 and EDPRS III strategies. Therefore, the Memorandum of Economic and Financial Policies proposes quantitative assessment criteria, indicative targets, and structural benchmarks for two successive reviews, with test dates of end-December 2017 and end-June 2018.

A. Fiscal Policy—Maintaining the Course of Adjustment

MEFP, ¶22-24

11. The FY 17/18 fiscal stance is slightly eased to smooth the adjustment path. Revised projections reflect minor changes compared to the original budget/7th review, reflecting revised exchange rate projections that reduce the nominal value of grants, as well as nominal increases in capital expenditure and net lending. The net effect is 0.5 percent of GDP increase in the overall fiscal deficit (commitment basis) compared to the original budget/7th review projection While still reflecting a contractionary stance both in terms of the overall balance and the primary balance excluding grants (the part of deficit within control of the authorities), the revised stance aims to avoid expenditure recomposition (by keeping existing targets) that could be less conducive to

[2] Staff's quarterly projection model suggests seasonally adjusted quarterly growth would revert to historical averages in the latter half of 2018.

promoting recovery over 2017–18, while still providing a medium-term path consistent with attaining the EAC goal of an overall deficit target of 3 percent of GDP by 2021.

Comparison of Overall Balance and Primary Balance Excluding Grants
(in percent of GDP)

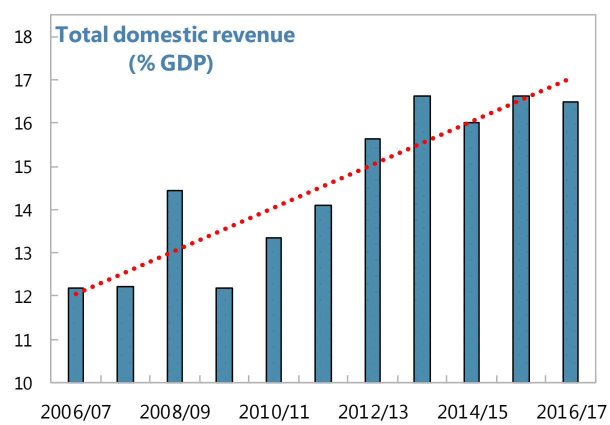
	FY15/16	FY16/17	FY17/18		FY18/19	FY19/20
	Actual	Prelim.	7th Rev.	Proj.	Proj.	Proj.
Overall balance (comm. basis)	-3.4	-4.6	-3.7	-4.2	-4.4	-4.2
Primary balance excluding grants	-8.4	-8.2	-7.0	-7.5	-7.5	-.7.3
GDP (RWF, billions)	6,321	7,125	8,026	7,813	8,750	9,879

MEFP, ¶30-31

12. Identifying fiscal risks and improving fiscal transparency. The government provided 1.1 percent of GDP in domestic debt guarantees to the insurance and hotel sectors to, among other things, maintain financial sector involvement through the downturn. Although these guarantees do not affect debt sustainability or program targets, the mission questioned whether a more systematic examination of potential fiscal risks was needed. A structural benchmark for H1 2018 was added to study fiscal risks in the hotel and insurance sectors and an FAD Fiscal Transparency Evaluation is expected to take place in H2 2018. Over the medium term, the World Bank is also exploring potential fiscal risks in the energy sector, where ambitious plans to expand the energy supply through a series of PPPs could imply significant costs over the next 5 years if demand does not materialize as projected in feasibility studies. At the same time, the authorities are also making headway towards enhancing format, coverage, and timeliness of fiscal reporting via a transition to fiscal reporting according to the *Government Finance Statistics Manual 2014* (*GFSM 2014*) and accrual accounting (Box 1).

MEFP, ¶27-29

13. Regain the momentum for improving domestic revenue collection. For the decade, preceding FY15/16, Rwanda had made significant strides in domestic revenue mobilization. However, recent tax incentives caused a slight real decline in revenues in FY16/17 (IMF Country Report No. 17/217, Box 2). Reforms for income taxes (establishing transfer pricing rules, inter alia) and the long-delayed Fixed Asset (property) tax (structural benchmark) should be passed by parliament soon, boding well for future revenues. In addition, IMF TA analysis on tax expenditures commenced in November with the objective of ensuring that tax incentives are well-targeted. This support is part of the IMF's specific commitments under the G-20 Compact with



Africa and recommendations from the analysis could be incorporated into future budget

discussions. Since current projections do not include estimates for these, reforms to property and income taxes and potential future policy action resulting from tax expenditure analysis constitute upside risks to revenue projections.

Box 1. Transitioning to GFS-2014 and Accrual Accounting

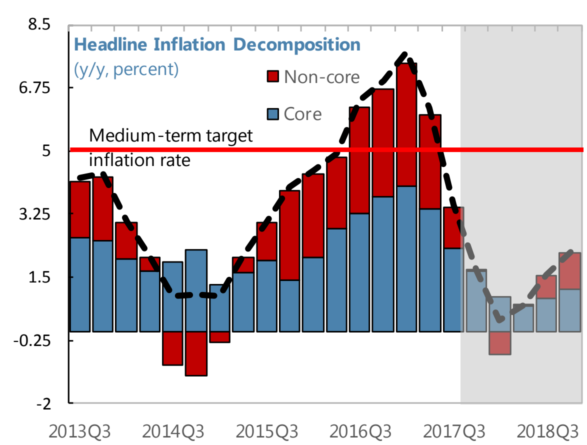
The government has continued to deliver on commitments to improve the timeliness and frequency of fiscal reporting, including through quarterly budget execution reports. Currently, the economic classification of the annual Finance Law that covers the budgetary central government and transfers to other levels of government broadly aligns to the *GFSM 2014* classifications. However, forecasts and execution monitoring remains aligned to GFS 1986 format, with a mix of government levels. Given that this creates some confusion and inconsistencies, the authorities see a pressing need to transition to reporting consistent with the *GFSM 2014* as soon as feasible. They intend to transition fully starting with FY2018/19; in the interim, transactions in existing and new reporting format will be compiled. Staff assisted the authorities to further improve the quality of historical fiscal statistics in line with the *GFSM 2014* and to develop projections for program monitoring – during the transition period – consistent with the *GFSM 2014* (in line with agreed program conditionality).

The government compiles and reports quarterly *GFSM 2014* consistent budgetary central government transactions and annual general government transactions data, albeit with a lag of more than 9 months. No balance sheet data are currently reported for any level of government. Broadening the coverage of quarterly fiscal reporting to include extra-budgetary units and local governments transactions and compiling stock positions, initially for the budgetary central government, is scheduled to commence in FY2018/19. Follow up IMF technical assistance is envisaged to help with the transition.

Meanwhile, work towards adopting accrual accounting in the medium term is also underway, in line with regional financial reporting convergence requirements. This involves developing an accrual-based reporting framework, with a roadmap for migration. Milestones of the roadmap include compilation and reporting of general government stock positions on financial assets and liabilities. Currently, the consolidated statement of financial assets and liabilities for the general government (excluding social security funds) is limited to cash and cash equivalent accounts, receivable and payable.

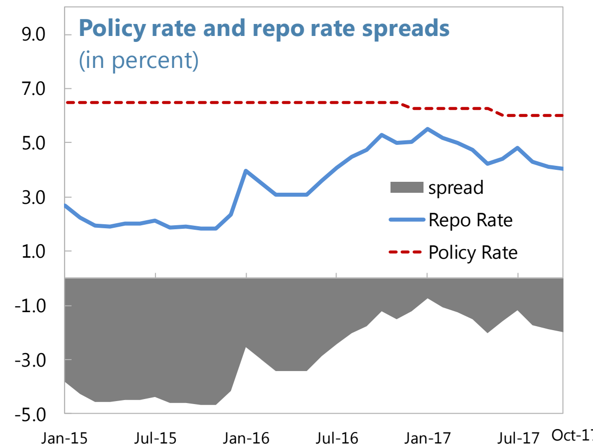
B. Monetary Policy: Transitioning to Interest Rate-Based Framework

14. The central bank is assessing the scope for monetary easing. For now, the monetary policy committee has chosen to leave interest rates unchanged, but the central bank is committed to signal further monetary easing to support private credit growth and aggregate demand if inflation expectations remain below the authorities' 5 percent medium-term target. While output and inflation developments suggest room for further easing, the central bank expressed concerns about uncertainty of near-term economic developments, and financial stability trends. If near term developments turn out better than expected but NPLs continue to rise, they may choose to take a more cautious approach in terms of further easing. Despite lower nominal GDP projections, staff and the authorities agreed



to keep reserve money targets unchanged from the 7th review, to provide space for monetary operations consistent with a gradual transition to an interest rate-based monetary policy framework.

MEFP, ¶33-34



15. Meanwhile, a gradual transition to an interest rate-based policy framework is underway. Staff highlighted the weakening relationship of money aggregates and the intensifying relationship among short term interest rates, to frame the discussion on the timeline and path toward an interest-rate based monetary framework. The authorities pointed out that they have made progress in transitioning to an interest-rate based operational framework: they have been conducting monetary policy operations to align the policy rate and market rates to establish the interbank rate as an operational target and continued efforts to remove structural excess liquidity, all with the hopes of strengthening the monetary transmission mechanism. Since August 2016, the interbank and repo rates have moved and remained closer to the policy rate (Figure 3, text chart), however, the evidence is nascent, at best, and there is not yet evidence that longer term lending rates have been affected. Therefore, while the timeline for moving to a new monetary policy framework remains end-2018, the authorities believe it is critical to take the time needed to ensure that a minimum supporting environment is established. Thus, they favor keeping monetary targets for the time being, while acknowledging that they have become a less effective tool in steering monetary policy. Staff fully agreed with this pragmatic approach, under the circumstances. Going forward, the authorities are implementing their "roadmap" for moving to a new monetary policy framework, which includes various supporting measures for establishing preconditions, such as extending the maturity structure of government securities and establishing an electronic interbank trading platform to improve price transparency, but without linking the overall move itself to a specific timeframe. Key steps have been added as structural benchmarks in the PSI-supported program.

C. External Sustainability: Maintaining a Flexible Exchange Rate and Supporting Domestic Production

MEFP, ¶16

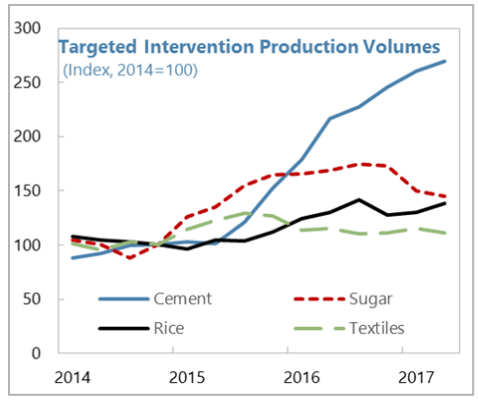
16. The authorities are committed to maintaining exchange rate flexibility. As the central tool for external adjustment, the real exchange rate has depreciated to within its equilibrium range (IMF Country Report No. 17/217), and the forecast reflects nominal depreciation consistent with maintaining its real value constant. In the mission's view, the central bank continues to take a conservative stance toward reserve accumulation targets, so it is still likely that reserve accumulation at end-2017 and end-2018 will be higher than programmed.

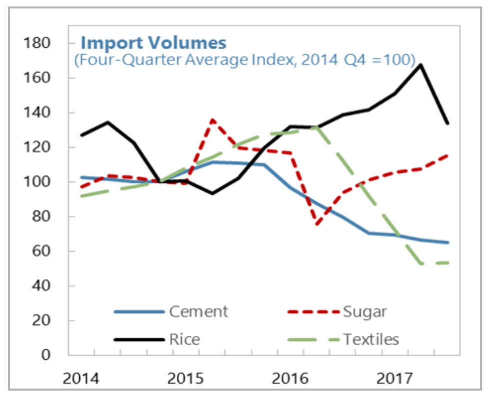
17. The government is putting in place policies to promote domestic production, thus further supporting external resilience. The Rwandan government formulated a "Made in Rwanda" initiative as part of a push to reinvigorate domestic manufacturing, stimulate growth, and reduce structural trade deficits. The initiative gradually expanded into a broad policy framework incentivizing the deepening of domestic supply chains and raising of domestic product quality (Box 2).

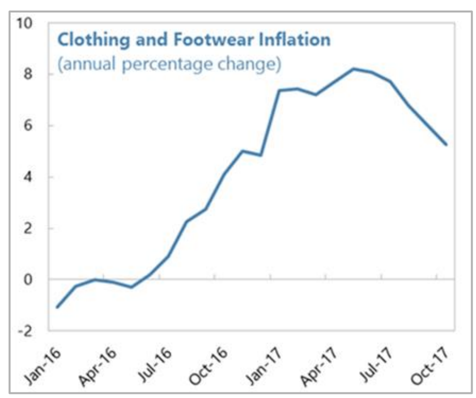
Box 2. Made in Rwanda

While many "Made in Rwanda" (MIR) policy actions are general in nature, targeted interventions (mainly tax incentives) have been made in several product markets (e.g. cement, textiles, sugar and rice), and exports are benefitting from a more competitive exchange rate. Targeted interventions can also impact domestic welfare, although the net effect is hard to determine, since higher prices are balanced by the creation of jobs in both the formal and informal sectors. Strategic interventions can also carry fiscal costs: recent tax incentives, along with implementation of the EAC tariffs on used clothing, caused a slight decline in revenues in 2016/17. The initiatives remain at their nascent stage, making overall assessment of their impact difficult. Some initial effects on domestic activity and external imbalances include:

- Cement production has increased three-fold between 2014 and mid-2017, and could increase as much as nine-fold upon full use of planned upgrades. Increased domestic cement production has coincided with a sharp decline in import volumes, and slight increase in exports.
- Sugar and rice production has increased by around 40 percent since end-2014. Production should continue to increase under existing investment plans to increase processing capacity and agricultural efficiency.
- Investment in the textile industry has buoyed domestic production since 2014. Textile imports have fallen sharply since higher import tariffs on second-hand clothing and shoes were introduced in mid-2016 and production and job-creation has expanded rapidly. This has coincided with lower textile exports, consistent with some re-orientation of production to domestic markets. Creation of jobs in the informal sector may have also muted the full impact of higher tariffs on used clothing imports on domestic activity—it is possible, however, that the 2016 slowdown in wholesale and retail trade growth could be partly related. Higher tariffs on used clothing and footwear likely contributed to inflation in this area, increasing to over 8 percent by mid-2017 but since declining.







D. Vision 2050, EDPRS III, Compact with Africa, and Gender Equality

18. The authorities conducted a mid-term evaluation of its "Economic Development and Poverty Reduction Strategy" EDPRS II in July 2017. Areas for emphasis going forward were identified as: improving export performance; increasing domestic savings as a foundation for investment; attracting foreign and local private investment; using PPPs to unlock business potential; accelerating urbanization through developing secondary cities; modernizing agriculture and increasing resilience to climate change; and creating organized rural settlements with basic services (30 model villages– a bundling of housing and services for the poorest village families - have been constructed in each district since October 2016).

19. A new development strategy (Vision 2050), which is being crafted, aims to achieve upper middle income status by 2035. The operational documents will be a series of seven-year "National Transformation Strategies" (NTS) to replace the EDPRS. At the request of the government, the development partners are producing a series of analytical reports on potential sources of growth and bottlenecks. An early concept note for the NTS specifies five priorities of the Vision 2050: achieving high living standards, including through access to basic infrastructure and security; developing modern infrastructure and livelihoods, with access to more sophisticated and environmentally sustainable public and private services; economic structural transformation, through improved productivity and competitiveness in areas of comparative advantage; progress on common social values, including self-reliance, gender equity, Rwandan unity and good governance; and international cooperation, to draw the benefits of regional and pan-African partnerships. The strategy draws from lessons of the EDPRS I and II, namely: ownership by a wide range of stakeholders; home-grown initiatives; community-based solutions; effective use of technology; and modernized institutional and legal frameworks. In discussions with the authorities, staff raised the issue of the ambitiousness of growth targets in past development strategies, and setting realistic growth targets going forward. However, the specific targets will be selected in conjunction with the specific growth strategies going forward, which are under discussion with World Bank staff.

20. Rwanda's participation in G-20 Compact with Africa is gaining momentum. Rwanda is in the first five countries to establish a compact, with the hopes the process will ignite a private investment push from outside investors (Box 3). Increased private sector investment is clearly needed: FDI is below 3 percent of GDP and the model of public sector led growth over the past 5 years needs to be balanced with greater private sector involvement to maintain growth momentum and public debt sustainability.

Box 3. Compact with Africa

The G-20 "Compact with Africa" initiative develops two way compacts with African countries aimed at promoting private investment flows. This is to be accomplished through an agreed combination of targeted supporting measures from bilateral compact partners (mainly G20 members, but not exclusively) and key reforms by African governments, supported by involved international financial organizations (AfDB, WBG, IMF). Rwanda's Compact has three main areas: (i) ensuring an investor-friendly tax regime without eroding the tax base: (ii) more responsiveness to private sector concern; and (iii) better access to finance for investors in specific sectors. Examples of related policy measures:

- Monthly coordination between the Rwanda Development Board and the Rwanda Revenue Authority to come to a common interpretation of tax incentives.
- Quarterly investor roundtable and response mechanism to channel investor feedback, which will benefit from a DFID-funded investors' survey. The first roundtable has been held, with the next scheduled for January 2018.
- Bilateral and multilateral financial support for the Affordable Housing Fund and Export Growth Facility (from DFID, KFW and World Bank Group) and technical support for setting up an Agriculture Risk Sharing Facility (from AFDB, Netherlands, USAID, and World Bank Group).

21. Capacity development provision will help facilitate authorities' ongoing structural reform agenda and the G-20 Compact with Africa. Staff and the authorities agreed that the capacity development strategy will focus on domestic revenue mobilization, transition to the interest rate based operational monetary policy framework, improving the coverage, timeliness and transparency of fiscal reporting, improving fiscal risk statements, harmonizing BOP and national account price statistics, and strengthening financial sector supervision (Annex I).

22. Building on the 2017 Article IV gender pilot, the team and other IMF participants engaged in policy discussions on gender equality in the context of a peer-learning conference (IMF Country Report No. 17/214). In summary, the Article IV pilot estimated the growth impact of Rwanda's considerable efforts to promote gender equality, and roughly estimated a potential growth dividend of more inclusion of women in higher value-added activities.[3] The Rwandans were interested in building on this research and offered to co-host a regional event on the issue, which took place in November in Kigali, with participation from across Sub-Saharan Africa. The event resulted in the exchange of pragmatic advice among conference participants about supporting policies and administrative reforms to support gender equality and growth, emphasizing three areas: women's access to education and labor force participation, including in higher value-added activities; the important role of gender budgeting; and the importance of gathering gender-disaggregated data to inform policy challenges. In the latter two areas, the Rwandan government has served as a leader for change, while the issue of the nature of labor force participation is still relevant for progress on gender equality and growth in Rwanda.

[3] Rwanda was recently ranked 4th in the world in terms of gender equality by the World Economic Forum.

PROGRAM MODALITIES

23. Program extension. Following a short extension through January 31, 2018, the authorities are requesting to extend Rwanda's existing PSI-supported program for a fifth and final year, through December 1, 2018. This will allow time to consider different modes of successor engagement, particularly, the relative merits of the PSI vs. the newly introduced Policy Coordination Instrument. Currently, staff and the authorities do not foresee a balance of payments needs or vulnerabilities that would justify a use of Fund resources arrangement. To support the extension, the authorities have drafted a Letter of Intent and a Memorandum of Economic and Financial Policies containing policy intentions throughout 2018. During 2018, staff will engage with various stakeholders to ascertain views of key policy priorities for successor program engagement.

24. Quantitative targets and structural benchmarks for 2018. End-December 2017 and end-June 2018 quantitative targets are proposed, consistent with the underlying medium term macroeconomic framework (Table 7). New forward-looking structural benchmarks have also been proposed to support program priorities under the program extension (Table 8). These are aligned with the forward-looking policy priorities: benchmarks to move to an interest-rate based monetary framework are drawn from the authorities' transition "roadmap," and the benchmarks for a move to GFS 2014 are based on TA recommendations and discussions with the authorities.

25. Debt sustainability. There have been no changes in the external debt profile since the 7th review, presented in July, 2017, and the minor near-term changes in the macroeconomic framework would not result in any change in the debt sustainability profile, for which the risk rating remains low. Thus, IMF and Bank staffs agreed that no DSA update is needed for this review.

STAFF APPRAISAL

26. Rwanda's adjustment policies continue to be successful. Rwanda's external situation continues to improve and reserve buffers continue to accrue, in response to Rwanda's adjustment program, the central tenet of which was exchange rate adjustment, supported by public spending restraint and prudent monetary policy.

27. Growth is projected to pick up, yet there are downside risks. Medium-term growth potential remains in line with historical averages, supported by returns from public investment. However, industrial activity and underlying demand conditions constitute a downside risk to short-term growth projections as the breadth of the current recovery remains in question. It will be important that fiscal and monetary stances are balanced, to support recovery while also safeguarding external and debt sustainability.

28. Identifying and mitigating potential fiscal risks and maintaining the momentum for domestic revenue mobilization will also be important for safeguarding public investment and

debt sustainability. Staff welcomes the authorities' commitment to identify risks systematically, including through a Fiscal Transparency Evaluation, as well as their intentions to compile and report financial balance sheet data. The move to GFS 2014 reporting and accrual accounting, with eventual expansion to cover general government, should also help improve the accuracy, timeliness and frequency of fiscal reporting and forecasting. Staff also welcomes the authorities' diligence in ensuring that ambitious domestic revenue mobilization objectives continue; recent legislative reforms should help, as well as a careful examination of the costs and benefits of various recent tax incentives.

29. Transitioning to an interest rate based monetary policy operational framework should be gradual, as the monetary policy transmission mechanism strengthens. Staff welcomes the central bank's policy actions and commitments to align the money market rates with the policy rate. The increased communication with market players can help better clarify monetary policy intentions and improve its signaling. These measures, alongside those to deepen the interbank money market, should support the establishment of the interbank rate as the operational target, and strengthen the monetary transmission mechanism. In this respect, Staff agrees with the authorities' view to maintain reserve money program targets during this transition period, and to assess options for moving to an inflation consultation clause in the context of a possible successor program.

30. The authorities' focus on crafting an ambitious forward-looking development program is exemplary. While such an ambitious development strategy is welcome, it is important that this be calibrated on realistic underlying assumptions and choices carefully made, in order to realize the ambitious objectives. Rwanda's recent achievements, including poverty reduction, structural transformation, competitiveness, gender equality, among others, are nonetheless a testament of the authorities' capacity to deliver on their development objectives.

31. Staff recommends completion of the third and eighth reviews of the SCF arrangement and PSI-supported program, respectively, as well as approval of the authorities' request for an extension of the PSI-supported program and proposed supporting program conditionality.

Table 1. Rwanda: Selected Economic Indicators, 2016–19

	2016	2017		2018		2019
	Act.	7th PSI Review	Proj.	7th PSI Review	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
Output and prices						
Real GDP	5.9	6.2	5.2	6.8	6.5	7.5
GDP deflator	4.9	7.4	6.4	5.5	4.2	5.0
CPI (period average)	5.7	7.1	5.3	6.0	4.5	5.0
CPI (end period)	7.3	7.0	4.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	6.3	6.1	4.6	-4.1	-4.7	1.2
Money and credit						
Broad money (M3)	7.6	13.0	14.7	13.2	14.4	...
Reserve money	5.5	10.9	12.6	11.1	11.7	...
Credit to non-government sector	7.8	17.9	11.0	14.2	12.9	...
M3/GDP (percent)	24.1	23.9	24.7	24.0	25.5	...
NPLs (percent of total gross loans)[1]	7.6	...	8.2	...	...	...
	(Percent of GDP, unless otherwise indicated)					
General government budget						
Total revenue and grants	23.7	22.1	22.7	21.9	22.6	22.1
of which: tax revenue	15.8	15.4	15.7	15.2	15.7	15.9
of which: grants	5.1	4.5	4.5	4.3	4.4	4.3
Expenditure	27.4	26.2	28.0	25.8	27.1	26.6
Current	15.4	14.6	15.0	14.1	14.6	14.7
Capital	10.6	9.4	10.7	9.9	10.4	9.8
Primary balance	-2.8	-2.9	-4.2	-2.7	-3.3	-3.3
Overall balance	-3.8	-4.1	-5.3	-3.9	-4.5	-4.4
excluding grants	-8.9	-8.6	-9.8	-8.2	-8.9	-8.7
Net domestic borrowing	0.8	0.0	1.2	0.2	0.8	0.9
Public debt						
Total public debt incl. guarantees	44.5	45.7	47.6	47.1	49.2	49.8
of which: external public debt	35.8	38.1	37.6	40.2	39.4	40.2
Investment and savings						
Investment	26.1	24.0	25.0	24.6	26.0	23.4
Government	10.6	9.4	10.7	9.9	10.4	9.8
Nongovernment	15.5	14.6	14.3	14.7	15.6	13.6
Savings	7.2	10.2	12.5	9.9	12.6	11.3
Government	3.1	3.0	3.2	3.5	3.6	3.2
Nongovernment	4.0	7.3	9.3	6.4	9.0	8.1
External sector						
Exports (goods and services)	18.8	20.3	21.1	20.6	21.5	22.6
Imports (goods and services)[2]	36.8	33.1	31.8	34.3	33.1	32.8
Current account balance (incl grants)	-14.9	-10.2	-8.8	-11.2	-10.0	-8.9
Current account balance (excl grants)	-18.9	-13.8	-12.5	-14.6	-13.4	-12.1
Current account balance (excl. large projects)	-10.3	-10.2	-8.1	-10.5	-7.3	-6.5
Gross international reserves						
In millions of US$	1,001	1,037	1,083	1,046	1,128	1,275
In months of next year's imports	4.2	3.9	4.1	3.7	4.0	4.3
Memorandum items:						
GDP at current market prices						
Rwanda francs (billion)	6,618	7,548	7,406	8,505	8,220	9,279
US$ (million)	8,406	...	...	...	...	...
GDP per capita (US$)	728	...	...	...	...	...
Population (million)	11.6	11.8	11.8	12.1	12.1	12.4

Sources: Rwandan authorities and IMF staff estimates.

[1] NPLs to total gross loans for 2017 is as at June 2017.

[2] Imports for 2016 reflect purchases of two aircrafts.

Table 2a. Rwanda: Budgetary Central Government Flows, FY 2015/16–19/20[1]

(Billions of Rwandan francs)

	2015/16	2016/17		2017/18		2018/19		2019/20
	Act.	7th PSI Review	Prelim.	7th PSI Review	Proj.	7th PSI Review	Proj.	Proj.
Revenue and grants	**1,541.7**	**1,598.6**	**1,615.8**	**1,771.3**	**1,766.5**	**1,929.2**	**1,929.1**	**2,196.7**
Total revenue	1,167.9	1,265.4	1,285.6	1,414.6	1,413.7	1,543.0	1,554.0	1,779.9
Tax revenue	1,000.3	1,101.4	1,104.1	1,229.6	1,229.6	1,356.3	1,373.6	1,585.2
Direct taxes	406.2	448.6	468.4	518.4	518.4	587.1	596.6	697.1
Taxes on goods and services	510.3	560.3	544.6	602.9	602.9	672.1	672.7	773.8
Taxes on international trade	83.9	92.5	91.2	108.4	108.4	97.1	104.3	114.2
Non-tax revenue	167.6	164.0	181.4	184.9	184.1	186.7	180.4	194.7
Of which : PKO	122.9	109.8	128.5	116.4	115.5	110.4	104.0	108.9
Grants	373.8	333.2	330.2	356.7	352.9	386.2	375.1	416.9
Budget grants	204.8	187.2	184.2	180.9	182.6	194.0	182.9	200.7
Of which: Global Fund	70.3	49.1	54.1	63.6	61.1	65.5	61.7	64.3
Project grants	168.9	146.0	146.0	175.8	170.3	192.2	192.2	216.2
Total expenditure and net lending	**1,757.7**	**1,854.7**	**1,942.9**	**2,069.2**	**2,092.4**	**2,281.3**	**2,314.7**	**2,609.4**
Current expenditure	947.5	1,063.7	1,069.6	1,136.2	1,144.8	1,276.3	1,274.0	1,443.1
Wages and salaries	242.3	258.3	263.7	301.1	302.1	341.4	342.4	395.1
Purchases of goods and services	180.6	207.4	207.4	218.0	222.0	240.7	243.2	274.2
Interest payments	56.7	78.6	72.2	93.0	94.2	105.3	104.1	110.1
Domestic debt	25.4	40.6	35.3	50.2	52.7	56.9	58.4	64.5
External debt	31.3	38.0	36.9	42.8	41.5	48.5	45.7	45.7
Transfers	308.7	360.3	366.9	400.2	402.7	436.6	438.1	492.5
PKO and demobilization[2]	159.2	159.1	159.4	123.9	123.9	152.3	146.3	171.3
Capital expenditure	721.7	675.2	759.5	774.0	769.6	835.2	852.0	972.3
Domestic	446.9	398.0	418.2	461.5	466.8	455.8	483.2	532.4
Foreign[3]	274.8	277.2	341.3	312.5	302.7	379.4	368.7	439.9
Net lending and privatization receipts	88.4	115.8	113.8	159.1	178.0	169.8	188.7	194.0
Overall deficit (including grants)	**-216.0**	**-256.1**	**-327.1**	**-298.0**	**-325.8**	**-352.1**	**-385.5**	**-412.7**
Change in float/arrears[4]	-27.6	-20.0	-20.1	-24.2	-24.2	-37.5	-27.2	-30.6
Overall deficit (incl. grants, cash basis)	**-243.6**	**-276.1**	**-347.2**	**-322.2**	**-350.0**	**-389.6**	**-412.8**	**-443.3**
Financing	**243.6**	**276.1**	**347.2**	**322.2**	**350.0**	**389.6**	**412.8**	**443.3**
Foreign financing (net)	227.4	292.2	322.7	336.9	324.6	344.0	324.3	352.7
Drawings	244.5	314.6	344.6	362.8	349.7	374.4	353.0	392.1
Budgetary loans	138.7	183.4	183.8	226.1	217.2	187.2	176.5	168.4
Project loans	105.9	131.2	160.7	136.7	132.4	187.2	176.5	223.7
Amortization	-17.1	-22.4	-21.9	-25.9	-25.1	-30.5	-28.7	-40.4
Net domestic financing[3]	43.6	-16.1	48.9	-14.8	25.4	45.6	88.5	90.5
Net credit from banking system	-0.6	-16.1	16.6	-14.8	25.4	45.6	88.5	90.5
Nonbank sector	44.2	0.0	32.3	0.0	--	0.0	--	--
Errors and omissions[5]	-27.4	0.0	-24.3	0.0	--	0.0	--	--

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Includes peacekeeping operations, spending on demobilisaton/reintegration, and genocide relief.

[3] 2016/17 foreign-financed capital spending included RwF34.5bn deposit drawdown, accumulated in previous years.

[4] A negative sign indicates a reduction.

[5] A negative number implies an overerestimate of financing. The non-zero errors and omissions in 15/16 is due to H1 outcomes.

Table 2b. Rwanda: Budgetary Central Government Flows, FY 2015/16–19/20[1]

(Percent of GDP)

	2015/16	2016/17		2017/18		2018/19		2019/20
	Act.	7th PSI Review	Prelim.	7th PSI Review	Proj.	7th PSI Review	Proj.	Proj.
Revenue and grants	**24.4**	**22.6**	**22.7**	22.1	**22.6**	**21.4**	**22.0**	**22.2**
Total revenue	18.5	17.9	18.0	17.6	18.1	17.1	17.8	18.0
Tax revenue	15.8	15.6	15.5	15.3	15.7	15.0	15.7	16.0
Direct taxes	6.4	6.3	6.6	6.5	6.6	6.5	6.8	7.1
Taxes on goods and services	8.1	7.9	7.6	7.5	7.7	7.4	7.7	7.8
Taxes on international trade	1.3	1.3	1.3	1.4	1.4	1.1	1.2	1.2
Nontax revenue	2.7	2.3	2.5	2.3	2.4	2.1	2.1	2.0
Of which : PKO	1.9	1.5	1.8	1.4	1.5	1.2	1.2	1.1
Grants	5.9	4.7	4.6	4.4	4.5	4.3	4.3	4.2
Budget grants	3.2	2.6	2.6	2.3	2.3	2.1	2.1	2.0
Project grants	2.7	2.1	2.0	2.2	2.2	2.1	2.2	2.2
Total expenditure and net lending	**27.8**	**26.2**	**27.3**	25.8	**26.8**	**25.3**	**26.5**	**26.4**
Current expenditure	15.0	15.0	15.0	14.2	14.7	14.1	14.6	14.6
Wages and salaries	3.8	3.6	3.7	3.8	3.9	3.8	3.9	4.0
Purchases of goods and services	2.9	2.9	2.9	2.7	2.8	2.7	2.8	2.8
Interest payments	0.9	1.1	1.0	1.2	1.2	1.2	1.2	1.1
Domestic debt	0.4	0.6	0.5	0.6	0.7	0.6	0.7	0.7
External debt	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Transfers	4.9	5.1	5.2	5.0	5.2	4.8	5.0	5.0
PKO and demobilization[2]	2.5	2.2	2.2	1.5	1.6	1.7	1.7	1.7
Capital expenditure	11.4	9.5	10.7	9.6	9.8	9.3	9.7	9.8
Domestic	7.1	5.6	5.9	5.8	6.0	5.1	5.5	5.4
Foreign[3]	4.3	3.9	4.8	3.9	3.9	4.2	4.2	4.5
Net lending and privatization receipts	1.4	1.6	1.6	2.0	2.3	1.9	2.2	2.0
Overall deficit (including grants)	**-3.4**	**-3.6**	**-4.6**	-3.7	**-4.2**	**-3.9**	**-4.4**	**-4.2**
Change in float/arrears[4]	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3
Overall deficit (incl. grants, cash basis)	**-3.9**	**-3.9**	**-4.9**	-4.0	**-4.5**	**-4.3**	**-4.7**	**-4.5**
Financing	**3.9**	**3.9**	**4.9**	4.0	**4.5**	**4.3**	**4.7**	**4.5**
Foreign financing (net)	3.6	4.1	4.5	4.2	4.2	3.8	3.7	3.6
Drawings	3.9	4.4	4.8	4.5	4.5	4.1	4.0	4.0
Budgetary loans	2.2	2.6	2.6	2.8	2.8	2.1	2.0	1.7
Project loans	1.7	1.9	2.3	1.7	1.7	2.1	2.0	2.3
Amortization	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4
Net domestic financing[3]	0.7	-0.2	0.7	-0.2	0.3	0.5	1.0	0.9
Net credit from banking system	0.0	-0.2	0.2	-0.2	0.3	0.5	1.0	0.9
Nonbank sector	0.7	0.0	0.5	--	0.0	0.0	0.0	0.0
Errors and omissions[5]	-0.4	0.0	-0.3	--	0.0	0.0	0.0	0.0
Memorandum items:								
GDP (Billions of RwF), FY basis	6,321	7,083	7,125	8,026	7,813	9,024	8,750	9,879

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Includes peacekeeping operations, spending on demobilisaton/reintegration, and genocide relief.

[3] 2016/17 foreign-financed capital spending included RwF34.5bn deposit drawdown, accumulated in previous years.

[4] A negative sign indicates a reduction.

[5] A negative number implies an overerestimate of financing. The non-zero errors and omissions in 15/16 is due to H1 outcomes.

Table 3a. Rwanda: Financial Operations of the Budgetary Central Government, GFSM 2014[1]

(Billions of Rwandan francs)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Act.	Proj.	Proj.	Proj.	Proj.
Revenue	**1,501.4**	**1,599.2**	**1,691.3**	**1,836.7**	**2,092.7**
Taxes	949.6	1,001.4	1,134.6	1,257.8	1,451.9
Taxes on income, profits, and capital gains	414.0	403.7	461.4	523.3	612.7
Taxes on property	0.1	0.6	0.0	0.0	0.0
Taxes on goods and services	439.3	516.5	564.8	630.2	725.0
Taxes on international trade and transactions	96.2	80.7	108.4	104.3	114.2
Social contributions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	373.7	330.2	352.9	375.1	416.9
Current	204.8	184.2	182.6	182.9	200.7
Capital	168.9	146.0	170.3	192.2	216.2
Other revenue	178.1	267.6	203.9	203.8	223.9
Expense	**1,106.7**	**1,278.8**	**1,382.2**	**1,524.4**	**1,702.6**
Compensation of employees	214.8	237.0	211.9	228.8	257.6
Use of goods and services	329.8	427.2	373.3	418.1	506.7
Interest	56.8	72.2	94.2	104.1	110.1
To nonresidents	31.3	36.9	41.5	45.7	45.7
To residents other than general government	25.5	35.3	52.7	58.4	64.5
Subsidies	84.4	86.2	179.4	200.6	183.5
Grants	324.9	345.0	413.3	449.6	505.5
To EBUs	42.8	45.5	47.4	50.7	58.7
To Local Government	282.1	299.4	365.8	398.9	446.8
Social benefits	24.6	23.7	25.9	29.0	32.7
Other expense	71.4	87.5	84.2	94.3	106.5
Net Operating Balance					
including grants	**394.7**	**320.4**	**309.2**	**312.2**	**390.1**
excluding grants	21.0	-9.8	-43.7	-62.9	-26.8
Net acquisition of nonfinancial assets	617.4	632.6	615.5	697.8	802.7
Foreign financed	271.8	--	302.7	368.7	439.9
Domestically financed	345.7	--	312.7	329.1	362.9
Net lending (+) / borrowing (-)					
including grants	**-222.7**	**-312.2**	**-306.3**	**-385.5**	**-412.7**
excluding grants	-596.4	-642.4	-659.1	-760.6	-829.5
Net acquisition of financial assets	**79.4**	**35.3**	**-5.9**	**-88.5**	**-90.5**
Currency and deposits	29.0	8.8	-25.4	-88.5	-90.5
Equity and investment fund shares	0.0	0.0	9.6	0.0	0.0
Loans	50.3	26.4	9.9	0.0	0.0
Net incurrence of liabilities	**319.2**	**362.0**	**300.4**	**297.1**	**322.1**
Currency and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities	91.7	56.1	36.0	43.8	43.8
Loans	209.4	296.3	288.6	280.5	309.0
Other accounts payable	18.2	9.6	-24.2	-27.2	-30.6
Statistical discrepancy	-17.2	-14.5	0.0	0.0	0.0
Memorandum items:					
Domestic revenue (incl. Local government)	1,168.1	1,316.9	1,413.7	1,554.1	1,779.9
Wage bill	388.8	413.0	417.3	466.9	535.2
Overall fiscal balance (incl. grants, commitment basis)	-273.1	-338.6	-325.8	-385.5	-412.7
Net domestic financing (excl. policy lending and OAP)	--	--	-25.4	-88.5	-90.5

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

Table 3b. Rwanda: Financial Operations of the Budgetary Central Government, GFSM 2014[1]

(Percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Act.	Prov.	Proj.	Proj.	Proj.
Revenue	**23.8**	**22.4**	**21.6**	**21.0**	**21.2**
Taxes	15.0	14.1	14.5	14.4	14.7
Taxes on income, profits, and capital gains	6.5	5.7	5.9	6.0	6.2
Taxes on property	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	7.0	7.2	7.2	7.2	7.3
Taxes on international trade and transactions	1.5	1.1	1.4	1.2	1.2
Social contributions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	5.9	4.6	4.5	4.3	4.2
Current	3.2	2.6	2.3	2.1	2.0
Capital	2.7	2.0	2.2	2.2	2.2
Other revenue	2.8	3.8	2.6	2.3	2.3
Expense	**17.5**	**17.9**	**17.7**	**17.4**	**17.2**
Compensation of employees	3.4	3.3	2.7	2.6	2.6
Use of goods and services	5.2	6.0	4.8	4.8	5.1
Interest	0.9	1.0	1.2	1.2	1.1
To nonresidents	0.5	0.5	0.5	0.5	0.5
To residents other than general government	0.4	0.5	0.7	0.7	0.7
Subsidies	1.3	1.2	2.3	2.3	1.9
Grants	5.1	4.8	5.3	5.1	5.1
To EBUs	0.7	0.6	0.6	0.6	0.6
To Local Government	4.5	4.2	4.7	4.6	4.5
Social benefits	0.4	0.3	0.3	0.3	0.3
Other expense	1.1	1.2	1.1	1.1	1.1
Net Operating Balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
including grants	**6.2**	**4.5**	**4.0**	**3.6**	**3.9**
excluding grants	0.3	-0.1	-0.6	-0.7	-0.3
Net acquisition of nonfinancial assets	**9.8**	**8.9**	**7.9**	**8.0**	**8.1**
Foreign financed	4.3	--	3.9	4.2	4.5
Domestically financed	5.5	--	4.0	3.8	3.7
Net lending (+) / borrowing (-)					
including grants	**-3.5**	**-4.4**	**-3.9**	**-4.4**	**-4.2**
excluding grants	-9.4	-9.0	-8.4	-8.7	-8.4
Net acquisition of financial assets	**1.3**	**0.5**	**-0.1**	**-1.0**	**-0.9**
Currency and deposits	0.5	0.1	-0.3	-1.0	-0.9
Equity and investment fund shares	0.0	0.0	0.1	0.0	0.0
Loans	0.8	0.4	0.1	0.0	0.0
Net incurrence of liabilities	**5.1**	**5.1**	**3.8**	**3.4**	**3.3**
Currency and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities	1.5	0.8	0.5	0.5	0.4
Loans	3.3	4.2	3.7	3.2	3.1
Other accounts payable	0.3	0.1	-0.3	-0.3	-0.3
Statistical discrepancy	-0.3	-0.2	0.0	0.0	0.0
Memorandum items:					
Domestic revenue (incl. Local government)	18.5	18.5	18.1	17.8	18.0
Wage bill	6.2	5.8	5.3	5.3	5.4
Overall fiscal balance (commitment basis)	-4.3	-4.8	-4.2	-4.4	-4.2
Net domestic financing (excl. policy lending)	--	--	-0.3	-1.0	-0.9
GDP (Billions of RwF), FY basis	6,321.0	7,125.0	7,813.1	8,749.6	9,878.5

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

Table 4. Rwanda: Monetary Survey, 2016–19

Billions of Rwandan francs, unless otherwise indicated)

	2016	2017			2018				2019
	Dec.	Jun.	Dec.		Jun.		Dec.		Dec.
	Act.	Act.	7th PSI Review	Proj.	7th PSI Review	Proj.	7th PSI Review	Proj.	Proj.
Monetary authorities									
Net Foreign Assets[1]	660	613	609	685	570	629	619	734	900
Net domestic assets	-357	-305	-273	-345	-219	-273	-203	-353	-458
Domestic credit	-220	-141	-150	-189	-94	-101	-87	-166	-238
Other items (net; asset +)	-137	-164	-123	-156	-125	-172	-116	-187	-219
Reserve money[2]	303	307	336	341	351	357	373	381	443
Commercial banks									
Net foreign assets	80	119	80	80	80	80	80	80	80
Reserves	154	145	167	169	177	179	186	186	212
Net credit from BNR	34	61	3	113	-45	50	-45	122	240
Domestic credit	1,527	1,656	1,734	1,648	1,845	1,786	1,979	1,867	2,061
Government (net)	225	247	207	207	245	245	217	245	283
Private sector	1,258	1,364	1,483	1,397	1,600	1,541	1,741	1,578	1,734
Other items (net; asset +)	-348	-371	-347	-348	-347	-348	-349	-348	-348
Deposits	1,446	1,609	1,636	1,661	1,752	1,790	1,870	1,906	2,244
Monetary survey									
Net foreign assets	739	732	688	765	650	709	653	813	980
Net domestic assets	855	1,040	1,113	1,064	1,270	1,251	1,407	1,279	1,480
Domestic credit	1,341	1,576	1,587	1,572	1,749	1,779	1,872	1,822	2,062
Government	12	142	48	104	94	166	80	173	257
Public enterprises	44	44	44	44	44	44	39	44	44
Private sector	1,285	1,390	1,495	1,424	1,612	1,569	1,753	1,605	1,761
Other items (net; asset +)	-486	-536	-471	-504	-474	-535	-465	-535	-567
Broad money	1,595	1,772	1,801	1,829	1,920	1,961	2,060	2,092	2,461
Year on Year Growth					(Percent)				
Broad money	8	13	13	15	13	15	13	14	18
Reserve money	6	-3	11	13	11	12	11	12	16
Net foreign assets	15	29	-7	3	21	32	-1	6	20
Credit to the private sector	9	8	18	11	13	14	15	13	10
Memorandum items:									
Velocity (eop)	4.2	4.0	4.2	4.1	4.2	3.9	4.1	3.9	3.8
Money multiplier	5.3	5.8	5.4	5.4	5.5	5.5	5.5	5.5	5.6

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

[1] For program purposes NFA are shown 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: Balance of Payments, 2016–19

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

	2016		2017		2018		2019	
	7th PSI Rev.	Act.	7th PSI Rev.	Proj.	7th PSI Rev.	Proj.	7th PSI Rev.	Proj.
Current account balance (incl. official transfers)	**-1,211.0**	**-1,249.0**	**-907.2**	**-783.3**	**-1,060.2**	**-951.4**	**-981.3**	**-912.9**
Trade balance	-1,300.1	-1,300.1	-1,077.6	-928.3	-1,213.1	-1,015.5	-1,186.4	-959.8
Exports (f.o.b.)	745.0	745.0	905.5	994.6	971.1	1,128.8	1,093.9	1,326.8
Of which: coffee and tea	121.9	121.9	149.3	144.1	160.4	156.0	178.8	179.3
Of which: minerals	86.4	86.4	106.6	102.9	109.4	118.0	110.8	158.4
Imports (f.o.b.)	2,045.1	2,045.1	1,983.1	1,923.0	2,184.2	2,144.3	2,280.3	2,286.6
Of which: capital goods	570.2	570.2	579.1	494.3	612.2	545.1	648.3	598.0
Of which : Energy goods	190.1	190.1	260.0	198.0	270.2	209.3	284.8	225.1
Services (net)	-211.1	-211.7	-68.9	-27.4	-78.1	-95.0	-26.8	-92.0
Credit	850.5	835.2	899.8	882.5	963.2	913.6	1,067.4	1,003.3
Of which: tourism receipts	389.8	389.8	438.1	438.1	499.7	496.8	574.7	571.4
Debit	1,061.6	1,046.9	968.7	909.8	1,041.3	1,008.6	1,094.2	1,095.3
Of which: KCC, RwandAir, and Bug. (have dedicated financing)	-170.3	-170.3	-12.6	-12.6	-32.0	-32.0	-29.8	-29.8
Income	-224.1	-261.5	-261.7	-331.8	-275.4	-351.1	-300.2	-389.0
Of which: interest on public debt[1]	-43.5	-43.5	-47.0	-47.0	-50.2	-50.2	-53.5	-53.5
Current transfers (net)	524.3	524.3	501.0	504.1	506.4	510.1	532.2	527.9
Private	180.4	180.4	179.3	179.1	187.7	186.6	198.6	194.8
Public	343.9	343.9	321.7	325.0	318.7	323.5	333.6	333.1
Capital and financial account balance	**1,148.6**	**1,154.9**	**843.5**	**783.3**	**1,071.6**	**970.1**	**1,088.8**	**1,060.0**
Capital account	190.0	190.0	189.9	189.9	204.2	204.2	211.2	211.2
Financial account	958.6	964.9	653.6	593.4	867.4	765.9	877.6	848.8
Direct investment	246.9	218.5	290.5	245.1	398.3	323.0	436.0	343.1
Public sector capital	679.1	713.2	289.7	299.0	390.7	364.2	365.8	429.5
Long-term borrowing[2]	728.0	762.2	360.3	369.5	466.1	439.7	438.5	502.2
Scheduled amortization, excl IMF	-48.9	-48.9	-70.6	-70.6	-75.5	-75.5	-72.7	-72.7
Other capital[3]	32.7	33.1	73.4	49.3	78.4	78.8	75.8	76.2
Of which: commercial banks NFA (increase -)	-52.3	-52.3	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**51.9**	**84.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-10.5**	**-10.1**	**-63.8**	**0.0**	**11.4**	**18.7**	**107.6**	**147.0**
Financing	**10.5**	**10.1**	**63.8**	**0.0**	**-11.4**	**-18.7**	**-107.6**	**-147.0**
Reserve assets (increase -)	-79.2	-79.2	-35.4	-81.3	-9.3	-45.5	-107.1	-146.9
Net credit from the IMF	98.2	98.2	47.2	74.6	-1.1	-1.1	-0.5	-0.5
Change in other foreign liabilities (increase +)	-8.6	-9.0	1.2	6.7	-1.0	2.5	0.0	0.3
Prospective financing	**0.0**	**0.0**	**50.8**	**0.0**	**0.0**	**25.4**	**0.0**	**0.0**
o/w IMF	0.0	0.0	50.8	0.0	0.0	25.4	0.0	0.0
Memorandum items:								
Current account deficit (percent of GDP)4	-14.4	-14.9	-10.2	-8.8	-11.3	-10.0	-9.9	-8.9
Excl. Bugesera	-14.4	-14.8	-9.7	-8.4	-9.7	-8.5	-8.6	-7.6
Gross official reserves (with prosp. financing)	**1,001**	**1,001**	**1,037**	**1,083**	**1,046**	**1,128**	**1,153**	**1,275**
in months of prospective imports of G&S	4.1	4.2	3.9	4.1	3.7	4.0	3.9	4.3
Excl. Bugesera	4.1	4.3	4.0	4.3	3.8	4.2	3.8	4.3
Overall balance (percent of GDP)	-0.1	-0.1	-0.7	0.0	0.1	0.2	1.1	1.4
Total Public Transfers (US$ million)	533.9	533.9	511.6	514.9	522.9	527.7	544.8	544.3
Of which : budgetary grants	246.9	246.9	210.6	210.8	200.9	206.3	210.0	211.7
Budgetary Loans (US$ million)	220.9	220.9	266.3	220.2	236.3	233.9	188.9	187.1
Total Public Transfers (percent of GDP)	6.4	6.4	5.7	5.8	5.6	5.5	5.5	5.3

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Including interest due to the IMF.

[2] Includes central government project and budget loans, and borrowing by Rwandair and Kigali Convention Center.

[3] Other capital includes long-term private capital, commercial credit, change in NFA of commercial banks, and unrecorded imports.

[4] Including official transfers.

Table 6. Rwanda: Financial Soundness Indicators, March 2015 – June 2017

	2015		2016				2017		
	Mar	Jun	Mar	Jun	Sep	Dec	Mar	Jun	Sep
				(Percent)					
Capital adequacy									
Regulatory capital to risk-weighted assets	23.3	21.6	22.3	20.7	20.4	19.9	19.6	19.1	20.4
Capital to assets	25.9	24.3	24.9	23.3	22.1	23.1	22.4	20.7	22.2
Off balance sheet items/total qualifying capital	282.6	352.5	263.8	262.5	260.2	307.2	309.8	307.6	293.7
Insider loans/core capital	2.1	2.8	3.1	3.5	3.6	2.4	4.4	5.1	5.2
Large exposure/core capital	82.3	107.2	99.2	122.7	141.0	154.2	167.1	179.7	160.2
Asset quality									
NPLs/gross Loans	6.3	5.9	6.2	7.0	7.5	7.6	8.1	8.2	8.3
NPLs net/gross loans	4.9	4.9	5.2	5.9	6.0	5.6	6.3	6.2	6.9
Provisions/NPLs	52.3	51.5	46.0	42.7	43.4	42.7	44.4	44.9	43.9
Earning assets/total asset	79.3	81.8	82.9	81.9	82.6	81.1	80.2	80.7	80.4
Large exposures/gross loans	19.3	22.5	22.6	25.6	29.9	31.7	33.1	34.6	35.0
Profitability and earnings									
Return on average assets	2.7	2.4	1.9	1.7	1.9	1.7	1.8	1.7	1.6
Return on average equity	14.1	13.1	9.8	9.2	10.1	8.8	10.1	9.6	9.1
Net interest margin	8.7	8.9	9.3	9.2	9.4	9.3	9.1	9.2	8.9
Cost of deposits	3.1	3.1	3.7	3.6	3.6	3.7	3.6	3.5	3.3
Cost to income	79.4	78.6	80.9	82.0	81.1	83.1	80.7	81.1	81.5
Overhead to income	43.6	46.0	49.1	49.9	48.9	49.9	49.0	48.2	48.5
Liquidity									
Short term gap	9.9	11.6	9.1	10.4	3.6	2.8	5.9	7.1	5.8
Liquid assets/total deposits	46.0	49.5	43.9	42.8	42.3	41.7	42.6	39.0	38.9
Interbank borrowings/total deposits	13.7	15.9	17.0	17.6	20.9	20.4	19.1	20.0	23.0
BNR borrowings/total deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross loans/total deposits	86.6	84.2	92.2	90.9	100.5	95.5	110.8	108.4	101.5
Market sensitivity									
Forex exposure/core capital1	-4.0	-7.1	-6.7	-1.8	-6.3	-3.5	-4.4	-3.3	-4.3
Forex loans/Forex deposits	27.1	32.6	51.0	55.7	46.1	41.3	46.3	45.4	47.2
Forex assets/Forex liabilities	83.2	82.1	81.1	82.3	81.6	81.5	82.5	82.9	79.9

Table 7. Rwanda: Quantitative Program Targets as of End-June 2017[1]

	June 2017				December 2017	June 2018
	Program	Adjusted	Actual	Status	Proposed Program	Proposed Program
(Billions of Rwandan francs, unless otherwise indicated)						
Assessment/Performance criteria						
Ceiling on the overall fiscal deficit, including grants[2, 3]	324	359	328	**Met**	241	365
Net foreign assets of the NBR at program exchange rate (floor on stock)[3]	474	474	613	**Met**	657	575
Reserve money (ceiling on stock) (upper bound)[4]	330	330			348	365
Reserve money (ceiling on stock)[4]	323	323	303	**Met**	341	357
Reserve money (ceiling on stock) (lower bound)[4]	316	316			333	349
External payment arrears (US$ millions) (ceiling on stock)[5]	0	...	...	...	0	0
Indicative targets						
Net domestic financing (ceiling on flow)[2, 3]	0	35	22	**Met**	-35	27
Domestic revenue collection (floor on flow)[2, 6]	1145		1157	**Met**	556	1246
Net accumulation of domestic arrears (ceiling on flow)[2]	-20		0	**Not Met**	0	0
Total priority spending (floor on flow)[2]	716		717	**Met**	346	730
New external debt contracted or guaranteed by nonfinancial public enterprises (US$ millions) (ceiling on stock)[5]	500	...	...	**Met**	500	500
Memorandum items:						
Total budget support (US$ millions)[2, 6]	452		447		331	477
Budget support grants (US$ millions)	228		222		101	217
Budget support loans (US$ millions)	224		225		230	260
RWF/US$ program exchange rate	820		820		830	830

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).
[2] Numbers for December 2017 and June 2018 are cummulative from 6/30/2017.
[3] Subject to adjustors. See TMU for details.
[4] Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.
[5] Ceilings on external arrears and external borrowing are continuous. The ceiling will exclude onlending agreement between Government of Rwanda and public sector enterprises.
[6] Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

Table 8a. Rwanda: Structural Benchmarks through End-December 2017

Policy Measure	Target Date	Status
Monetary		
Develop a methodology to identify policy interest rate consistent with the identified range of excess reserves.	3rd SCF/8th PSI Review	**Met**
Public Financial Management		
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter.	Each quarter	**Met**
Design a strategy to incorporate fiscal risks and foreign exchange needs into project planning assessments, starting with PPPs.	3rd SCF/8th PSI Review	**Met**
Start the transition of fiscal reporting into the GFS14 framework to allow recording of donor project implementation.	3rd SCF/8th PSI Review	**Met**
Fiscal Revenues		
Produce a tax expenditure report on measures associated with th.e Investment Tax Policy and Made in Rwanda campaign with the objective of designing a cost/benefit framework to monitor the impact of these activities	3rd SCF/8th PSI Review	**Met**
Submit to Parliament revised legislation on fixed asset tax.	3rd SCF/8th PSI Review	**Met**
Approve new risk management plan for FY17/18 to improve tax compliance.	3rd SCF/8th PSI Review	**Met**
Issue report on "clean up" of tax registry.	3rd SCF/8th PSI Review	**Met**
Initiate the rollout of "EBM for all" pilot, with the intent of reaching 10,000 taxpayers within one year.	3rd SCF/8th PSI Review	**Not met**

Table 8b. Rwanda: Proposed Structural Benchmarks for PSI 9th and 10th Reviews

Policy Measure	Target Date	
Monetary		
Establish an optimal level of headline or core inflation target range for monetary policy.	10th PSI Review	
Develop and adopt a communication strategy on the objectives and operations of the monetary policy framework to enhance BNR transparency and accountability.	10th PSI Review	
Financial Markets		
Introduce the real horizontal REPOs including transfer of collateral across banks in order to facilitate transactions between banks and boost the trading of debt securities.	End-March 2017	
Introduce Government bond reopening mechanisms with objective to develop benchmark bonds and promote depth and liquidity in the government bond market.	9th PSI Review	
Establish an electronic interbank trading platform intended to improve banks' counterparty visibility and price formation in the market.	10th PSI Review	
Public Financial Management		
Begin publishing in GFS 2014 format for the quarter ending September 2018..	10th PSI Review	
Initiate a fiscal risk analysis of hotel and insurance sectors to assess potential contingent liabilities..	9th PSI Review	
Fiscal Revenues		
Initiate the rollout of "EBM version 2" pilot, with the intent of reaching 1,000 new EBM users	10th PSI Review	

Table 9. Rwanda: Actual and Proposed Schedule of Disbursements Under the SCF Arrangement

Date available 1/	Disbursement: Million SDR	Million US$	Percent of quota 2/	Conditions 3/
June 8, 2016	72.0900	101.51	45.00	Board approval of the SCF arrangement
January 6, 2017	36.0450	50.76	22.50	Board completion of the first SCF review based on compliance with end-June 2016 conditionality
July 12, 2017	18.0225	25.38	11.25	Board completion of the second SCF review based on compliance with end-December 2016 conditionality
November 15, 2017	18.0225	25.38	11.25	Board completion of the third SCF review based on compliance with end-June 2017 conditionality
Total	144.1800	203.03	90.00	

1/ For completed reviews, the date refers to the date of completion of the review and not the availability date.
2/ Rwanda's quota is SDR 160.2 million.
3/ The Board approval and subsequent reviews of the SCF are expected to be done concurently with the fifth, six, seventh and eighth reviews of the PSI, respectively.

Annex 1. Capacity Development for FY 2018

Forward-looking policy priorities will focus on domestic revenue collection, interest rate-based monetary policy framework, improving fiscal transparency, improving and harmonizing statistical reporting; and promoting private investment.

1. Assessment: Rwanda is a high-intensity technical assistance (TA) recipient with a good track record for use of IMF technical assistance. The authorities' proven commitment/ownership mitigates risks, and future success will require continued close coordination between the authorities, TA providers, and the AFR team. In the final quarter of FY16/17, TA was provided for:

- Financial sector supervision and regulation: The central bank received training on risk-based supervision and internal capital adequacy assessment for banks.
- Macro fiscal analysis: Officials from the Ministry of Finance, the Revenue Authority, and BNR were trained in financial programming and policies.
- Public Financial Management: The existing chart of accounts was reviewed and updated to support the move to accrual accounting in the medium term; and
- Real sector statistics: NISR was supported to develop national accounts statistics that conform to the East African Community (EAC) requirements.

Forward-looking TA agenda	
Priorities	**Objectives**
Revenue policy and administration reforms: domestic tax expenditure analysis; updating and improving the revenue forecasting tool; improving the integrity of the tax payer register	Increase tax revenue to GDP ratio
GFSM 2014 adoption for fiscal reporting	Improve the coverage, timeliness, and transparency of fiscal reporting
Development of the interbank money market	Strengthen the monetary transmission mechanism for an interest rate targeting operational framework
Data quality and statistics	Harmonization of trade statistics between National Accounts and the Balance of Payments
Fiscal Transparency Evaluation	Determine fiscal transparency strengths and reform priorities to mitigate fiscal risks
Strengthening risk-based supervision	Implement the work plan on Basel II.

2. Authorities' views: The Rwandan authorities are in broad agreement with this capacity development strategy. They have requested that technical assistance be carefully sequenced and phased to allow for maximum absorption of recommendations and ensure that staff being trained can devote their time fully to these activities. They also emphasized peer learning opportunities where TA is provided by regional ministry and central bank staff.

Appendix I. Letter of Intent

Kigali, Rwanda
December 21, 2017

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

Dear Ms. Lagarde,

1. In the attached update of the Memorandum of Economic and Financial Policies (MEFP), we outline progress and policies toward meeting the objectives of the economic program of the Rwandan government that is supported by the SCF arrangement and the PSI for Rwanda.

2. The external shocks experienced in 2015 have receded and the external account has registered an increase in coverage of reserves to above 4 months of imports, from 3.6 percent in 2015. This is partly explained by Rwanda's adjustment program involving significant exchange rate depreciation in 2016, public spending restraint, and prudent monetary policy. Other contributing factors include favorable movements in international commodity prices as well as increasing domestic production supported by Made in Rwanda strategies.

3. The fiscal situation has been in line with the program and the debt has also been kept at sustainable level. However, growth slowed in the first half of 2017 due to low contribution from the construction sector, adjustment policies and extended drought from 2016. Consequently, growth for 2017 has been revised down by 1 percentage points of GDP to a projection of 5.2 percent. In the medium term, the positive impact of the Made in Rwanda, the construction of a new airport and the investment in mining value addition should help stimulate growth.

4. We met all end-June 2017 and continuous quantitative assessment/performance criteria under the program and most structural benchmarks were met or are in progress. The indicative target on domestic arrears was not met by a small margin, owing to difficulties in separating out those less/greater than 90 days. This issue is being remedied going forward through improvements in treasury cash management forecasts in matching these against seasonal spending.

5. We will continue to safeguard the progress made to sustain long-term economic growth through keeping fiscal and external balances sustainable. Raising fiscal revenues is an important component of our consolidation strategy, we will continue to make progress in broadening the tax

base and strengthening the capacity in tax compliance. In addition, we are in the process of conducting a tax expenditure analysis to better target tax incentives. We will continue to press forward with public financial management reforms to enhance efficiency, transparency and accountability in the public sector to complement the envisaged fiscal consolidation efforts. On the external front, together with a gradual increase in financial flows, projected current account improvements should support a continued recovery in external buffers and external reserves are projected to reach 4.3 months of prospective imports by 2019.

6. Our monetary policy will continue to remain prudent to maintain the inflation close to our medium-term target level of 5 percent. To that end, we will continue to strengthen the monetary policy framework by maintaining our efforts to transition to interest rate-based operational framework, in the context of a flexible exchange rate regime.

7. In view of this performance of our program supported by the SCF arrangement and the PSI, our Government requests that the Executive Board of the IMF (i) complete the eighth review under the PSI and third review under the SCF program; (ii) approve the fourth disbursement under the SCF arrangement; and (iii) extend the PSI program until December 1, 2018, with proposed supporting program conditionality.

8. We are confident that the policies described in the attached MEFP will serve to achieve our program's objectives and, if necessary, our Government stands ready to take any additional measures that may be required. We will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

9. We consent to the publication of this letter, and its attachments as well as the related staff report.

Sincerely yours,

/s/
Claver Gatete
Minister of Finance and Economic Planning

/s/
John Rwangombwa
Governor, National Bank of Rwanda

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Kigali, December 21, 2017

A. Introduction

1. This MEFP reviews performance under the SCF arrangement and PSI-supported program through end-June 2017 and discusses the macroeconomic outlook and policies of the Government for the remainder of 2017 and beyond. It also lays out proposed quantitative targets for end-December 2017, end-June 2018, and structural benchmarks through the 10th PSI review 2018.

B. Macroeconomic Developments and Program Performance through Q2 2017

Growth and Inflation

2. GDP growth during the first half of the year recorded a low rate of 2.9 percent on average, mainly due to low growth of the industry and services sectors. The lack of growth in industry (0.0percent) was the most disappointing, as activity in construction recorded a deceleration of -5.5 percent during the first half of 2017, following completion of large infrastructure projects of last year. At 5.5 percent, the services sector growth was well below its 5-year average growth, as its most important sector, wholesale & retail trade was affected by the slowdown in agriculture and reduced imports. Promisingly, though, the sub-sectors that have seen a lot of investment recently, hotels and restaurants, as well as real estate, grew strongly (13 percent and 7.5 percent respectively). In agriculture, whilst food crops are finally showing signs of recovering from the drought of last year, export crops shrunk relative to the first half of last year. However, overall agricultural growth was good at 4.5 percent.

3. During the remainder of 2017, agriculture output is expected to remain strong with a good season B for agriculture and construction is projected to pick up due to the preliminary phase of the Bugesera Airport. Reflecting the low outturn during the first half of the year, average GDP growth for 2017 has been revised down to 5.2 percent from 6.2 percent previously projected.

4. On average, headline inflation rose to 5.6percent during the first ten months of 2017, from 5.5 percent recorded during the same period of 2016. The main inflationary pressures in 2017 came from rising food prices in line with the effect of a prolonged dry season experienced in 2016 and early 2017. In 2017Q1 headline inflation remained high at 7.7 percent, but has since declined significantly, settling at 3.6 percent in October 2017. This decline in inflation was due to the easing of food inflation in line with an improvement in weather conditions, a reduction in exchange rate pressures, weak aggregate demand, and subdued pressures from the external sector as international commodity prices remain low and global inflation is generally anchored. Core inflation also remained moderate, averaging at 4.3percent in the first ten months of 2017 compared to 3.9 percent of the same period in 2016. Headline Inflation is expected to remain benign, standing at around 4.0 percent by end December 2017.

External Position

5. Since mid-2016, the adjustment policies implemented under the SCF have helped reverse growing external imbalances. During the first eight months of 2017, the trade balance in merchandise improved by 24.9 percent, driven by strong performance in formal exports, which grew by 44.9 percent, while formal imports declined by 7.9 percent. The strong export performance was broad based and supported by an increase in international commodity prices as well as increasing domestic production supported by Made in Rwanda strategies. The latter, combined with the previously-mentioned slowdown in construction activities, also helped reduce imports.

6. This has helped to rebuild reserves buffers to above 4 months of imports, from 3.6 months of imports in 2015 when the shock took place.

Fiscal Performance and Financing

7. Fiscal performance in FY2016/17 was largely satisfactory. Total domestic revenue collections were 0.6 percent of GDP higher than projected mainly reflecting faster disbursements related to UN Peace Keeping Operations. Tax revenue collections slightly exceeded the target by 0.1 percent of GDP. This performance was largely due to strong collection of corporate income taxes, especially from the financial and other services sectors (including transportation and storage sub sectors), as well from personal income taxes, reflecting increased employment in the services sector. This improved performance mitigated shortfalls from taxes on goods and services due to lower consumption taxes and lower taxes on international trade, both reflecting lower imports of used clothes, cement, and some types of vehicles and computer accessories, all stemming from policy incentives to reduce imports (under the umbrella of the "Made in Rwanda" campaign).

8. In the area of external disbursements, current grants registered a small excess, mainly on account of exchange rate differentials. Delays in the removal of bottlenecks for new project loan draw-downs led to lower disbursements and lower implementation of the foreign-financed projects than projected.

9. Regarding expenditures, total expenditure and net lending in fiscal year 2016/17 was about 0.5 percent of GDP higher than projected. Both recurrent and capital spending contributed to this performance. In the case of recurrent spending, the excess spending of 0.4 percent of GDP was mainly due to wage overruns on account of new recruitments of teachers and other civil servants in some economic ministries. With regards to capital spending, the excess came from draw-down of project deposits for the implementation of some on-going projects.

10. The overall deficit (on cash basis) was 4.9 percent of GDP. However, as a result of the lower draw-down of project loans, net domestic financing (0.4 percent of GDP) was slightly higher than the -0.1 projected. This did not count against the program indicative target for net domestic financing, however.

Debt Management

11. In the most recent debt sustainability analysis, Rwanda is assessed to be at low risk of debt distress, despite a temporary breach under the liquidity indicator, which is associated to the 10-year Eurobond maturing in 2023.

12. Rwanda's external debt portfolio remains mostly constituted of concessional loans (72 percent as end June 2017), and this will continue to be the main source of funding for public projects going forward.

13. At the end of FY 2016/2017, the share of domestic debt stock out of total debt stock increased to 23 percent, against 21 percent in December 2016. This increase was mainly attributed to debt securities issued for cash flow purposes, but to also a small portion of issued guarantees (RwF 80 billion), denominated in Rwandan franc, and which will be redeemed, if needed, within the next five years. Regarding domestic debt, the large share of shorter-term treasury bills is the main concern, as it could potentially constitute a rollover risk, however, government will continue to make efforts to extend the domestic debt maturity profile through issuance of longer-term bonds.

Monetary Policy and Exchange Rate Developments.

14. Given that both inflationary and exchange pressures were expected to decline, BNR conducted an accommodative monetary policy stance, reducing its policy rate (KRR) twice, from 6.5 percent to 6.25 percent in December 2016 and to 6.0 percent in June 2017. As result, as of end September 2017, broad money M3 and reserve money increased Y-o-Y by 16.4 percent and 9 percent respectively, against 13.0 percent and 10.9 percent projected for end December 2017 during the 7th PSI/2nd SCF review discussions in May 2017. Private sector credit growth also picked up, to 9.6 percent in September, compared to 9.1 percent recorded for the whole year 2016. However, despite the recovery observed in 2017 compared to 2016, the growth in monetary aggregates is still below historical trends on account of weak credit demand, reflecting the overall slowdown of economic activities.

15. In line with the monetary policy stance, money market interest rates have been declining and trends have evolved in tandem with the key repo rate. Interbank rates have remained close to the policy rate and the center of BNR's interest rate corridor (200 basis points), and recent movements in repo and T-bill rates are consistent with establishing a viable interest rate corridor. However, transmission to longer-term interest rates remains to fully materialize. In 2017Q3, both lending and deposit interest rates decreased, standing at 17.4 percent and 7.7 percent respectively, from 17.5 percent and 8.0 percent in 2016Q3.

16. Since the beginning of 2017, pressure on the Rwandan Franc (RwF) has eased. The RwF depreciated by 2.2 percent against the USD from end-December 2016 through end-September 2017. This more modest pace of depreciation, compared to 8.4 percent observed in the same period of 2016, reflects that the exchange rate is now more closely aligned with its equilibrium value and is supported by the observed improvement in Rwanda's external position. Going forward, the NBR will

ensure that the exchange rate remains market driven, only making timely interventions to smooth out excessive volatility in the exchange rate.

Financial Sector Developments

17. Rwandan financial soundness indicators suggest banking system remains highly liquid and well capitalized. As at end-September 2017, the capital adequacy ratio (CAR) stood at 22.2 percent-well above the regulatory minimum of 15 percent. However, asset quality and profitability indicators weakened somewhat y-on-y through September 2017, with NPLs at 8.3 percent and return on assets declining slightly to 1.6 percent, compared to 7.5 percent and 1.9 percent, respectively. The increase of NPLs ratio reflected the slowdown in economic activities and some impairment of a few large loans in banks due to weak credit underwriting and project monitoring. In line with BNR's supervisory demands, the concerned banks have improved their loan recovery processes and are working with the debtors to improve their leverage ratios (including through opening up for further capital injections) and income-earning assets.

18. Performance among non-bank financial institutions has continued to strengthen. In microfinance institutions (MFIs), NPLs decreased from 8.2 percent in September 2016 to 8.0 percent in September 2017, while the capital adequacy ratio increased from 33.2 percent to 36.0 percent, significantly above the prudential minimum of 15 percent. There has also been notable improvement in the performance of private insurance companies in 2017. Their solvency ratio stood at 160 percent against -37 percent in September 2016 (and a prudential minimum of 100 percent), while liquidity ratio improved to 121 percent. This improvement partly reflects recent capital injections and improved revenue and cost management practices as part of the sub-sector's reforms required by BNR.

Program Performance

19. All quantitative assessment criteria were met in the period under review although the IT on domestic arrears was not met, by a small margin, owing to difficulties in separating out those less/greater than 90 days. This issue is being remedied going forward through monthly tracking cash tax and non-tax flows to ensure better forecasting of inflows and spending needs, and prompt payment of all due bills. Most structural benchmarks were met. The only benchmark not met was the piloting of new Electronic Billing Machines (EBM) because RRA has decided to use alternative EBM solutions (software that can be installed on phones and computers) to lessen problems associated with the existing machines. This benchmark has been reformulated to focus on the new approach and is now proposed for the final PSI review in the second half of 2018.

C. Macroeconomic Outlook

Growth and Inflation

20. The economy is expected to grow by 6.5 percent in 2018 and above 7 percent from 2019 onward. All the main sectors are expected to contribute to this broad-based growth: agriculture led

by an increase in the production of food crops arising from the progress in irrigation and better application of fertilizer and improved seeds; industry boosted by construction associated with Bugesera Airport, roads and other big projects in real estate and industrial parks. Private sector credit growth is also projected to boost output as well as higher growth of agriculture impacting on trade in services. Inflation should remain contained at 5 percent by the end of 2018 as exchange rate pressures, global inflation, international commodity prices and aggregate demand are foreseen to remain subdued. However, adverse weather conditions could put pressure on food prices and threaten the inflation target.

External Position.

21. The external position is expected to continue to strengthen over the medium term. In 2017, the current account deficit is expected to narrow more than previously anticipated to 8.8 percent of GDP, reflecting, in part, observed strong export performance. The headline current account deficit is expected to widen temporarily in 2018, to 10 percent of GDP, due to imports associated with the construction of Bugesera Airport. But, excluding the impact of Bugesera, positive export trends and more modest import growth are expected to support the continued narrowing of the current account deficit to around 7.6 percent of GDP by 2019. Together, with a gradual increase in financial flows, these current account improvements should support a continued recovery in external buffers ––gross official reserves are projected to reach 4.3 months of prospective imports by 2019.

D. Program Policies for 2017–18 and the Medium Term

Fiscal Policy Stance for FY17/18.

22. The original 2017/18 budget approved by Parliament reflected the continued fiscal consolidation and prudent borrowing policy to keep debt and external balances sustainable. Accordingly, the fiscal deficit projected for the fiscal year was 3.7 percent of GDP. Revenue and grants were estimated at 22.1 percent of GDP with tax revenue at 15.3 percent of GDP. Total expenditure and net lending was projected at 25.8 percent of GDP.

23. Fiscal performance in the first quarter of fiscal year 2017/18 falls close to the parameters of the original budget. Total tax revenue collections are marginally lower than the projected amount with consumption taxes accounting for the small shortfall. Total expenditure and net lending is marginally higher than the figure estimated for the period with higher net domestic finance plugging the resource gap.

24. The budget for fiscal year 2017/18 has been revised to provide resources for the creation of new Ministries and other public institutions by the new Government following the August elections and expand net lending (to the tourism sector). This cost is about 0.5 percent of GDP. Accordingly, the fiscal deficit is now revised upwards to 4.2 percent of GDP with the increase in the deficit financed by domestic credit at about 0.3 percent of GDP (the original budget had a government deposit drawdown of 0.2 percent of GDP).

Fiscal Policy Stance for FY 18/19.

25. Fiscal policy in 2018/19 and the medium term will continue the fiscal consolidation and prudent borrowing policies to make debt and external balances sustainable. Tax revenue collections (estimated at 15.7 percent of GDP in the revised budget for 2017/18) are projected to remain at the same level in 2018/19. Several on-going tax revenue policies and other administrative measures should drive improvement over the medium term. These measures include the revision of the property tax law and expansion of the use of the electronic billing machines beyond VAT to track total sales and boost all sources of tax collections. Moreover, the EBM expansion will improve data collection to help reduce fraud and other leakages.

26. Total expenditure and net lending (at 26.7 percent of GDP in the revised 2017/18 budget) is projected to decline to 26.4 percent of GDP in 2018/19. Expenditure prioritization measures are currently being implemented to contain recurrent spending. Consistent with these projections, the overall deficit projected at 4.2 percent of GDP in the revised 2017/18 budget, is expected to remain at broadly similar levels in 2018/19 and 2019/20.

Medium-Term Tax Policy and Administration Measures.

27. The main medium term tax strategy of the Rwanda Revenue Authority (RRA) is to improve overall tax compliance. The TADAT assessment report of August 2015 identified uneven compliance management interventions across the RRA. With IMF TA support, this led to the development of a *Compliance Risk Analysis Model and Tool* based on best practices to help improve the taxpayer's attitude and behavior toward fulfilling his obligations. Based on the technical support, RRA has developed the *Compliance improvement plan* for FY2016/2017 for the Construction and Hotels Sectors targeting better compliance across all taxpayer segments. i.e. Large, Medium and Small taxpayers. This has resulted in a very good performance of indirect tax revenues collected from the targeted sectors. The FY2017/18 compliance improvement plan will focus on Real Estate activities, bars and restaurants and professionals' activities as well as Importers and Customs brokers. It will also strengthen its oversight on the Construction and hotel Sectors.

28. The use of EBMs is the centerpiece of RRA's compliance strategy. Introduced in 2013, EBMs have helped boost VAT collection and RRA is planning to expand the use of the EBMs beyond VAT to improve the information basis for income tax collection. RRA is now developing a software alternative to the hardware EBM (EBM version 2) which is compatible with devices being used by businessmen. This will remove the necessity and cost of acquiring a new EBM device. By late 2018, the roll out of EBM version 2 software will be applied to 1,000 taxpayers, and raise registration beyond the usual annual increase of VAT registered taxpayers that use the hardware EBMs (Table 2).

29. To assess the effectiveness and economic impact of tax incentives in place to promote investment (Investment Code 2015) and stimulate local production (incentives associated with the "Made In Rwanda"), we have requested IMF TA support to help conduct a tax expenditure analysis. The TA will cover the documentation all of the current legislation that offers preferential tax treatment and provide cost estimates of the preferences against a suitable benchmark. This work is

ongoing and will help inform us to balance the positive economic impact of incentives against potential revenue loss over the medium term.

Public Finance Management Measures

30. In recent years, the financial sector has supported big projects that have expanded the economy. However, these investments may pose a risk to the stability of the financial sector and become explicit liabilities. To help mitigate fiscal risks and their potentials costs, we are planning to conduct a fiscal risk analysis of strategic sectors (hotels and insurance) to assess fiscal risks (Table 2). The objective of the analysis is to safeguard fiscal and financial sustainability.

31. The government is taking steps to improve the timeliness, frequency and coverage of fiscal reporting. The budget execution report is published every quarter and this year, steps are being taken to report in GFS-2014 framework starting FY2018/19. Starting FY2018/19, quarterly budget execution reports for the budgetary central government will be published in GFS-2014 format. Supporting work is underway to develop an accrual based chart of accounts and a roadmap and blueprint for migration to accrual accounting. The goal is to achieve comprehensive compilation and reporting of general government stock positions on financial assets and liabilities. An IMF Fiscal Transparency Evaluation has been requested for the second half of 2018, to assess the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on public finances. This work will complement the transition to GFS-2014 framework and will provide, among other things, a systematic analysis of the scale and sources of fiscal vulnerability.

Monetary Policy Stance and Structural Reforms

32. Monetary policy remains prudent, supported by continued exchange rate flexibility. On 27th September, BNR's monetary policy committee (MPC) decided to keep the KRR at 6percent based on macroeconomic fundamentals, namely the ease in inflationary pressures, stable FRW exchange rate and still weak aggregate demand. The next ordinary MPC meeting is scheduled for December 2017 and the stance will depend on the prevailing macroeconomic fundamentals. However, it is worth mentioning that BNR projections show no sign of inflationary pressures, which indicates that the stance may remain accommodative.

33. Plans to transition to interest-rate based operational monetary policy framework are on track: BNR undertook steps to implement preconditions to move to a forward-looking monetary policy framework, especially those related to management of liquidity and policy making processes. Practically, BNR made progress by putting in place a "Financial Market Operations Committee" in charge of daily financial market analysis, liquidity management and forecasting. BNR also initiated regular discussions with commercial banks' treasurers about market developments, including money market operations. As result, the interbank market has started to grow in both depth and width and the BNR has succeeded in keeping the interbank market rate close to the Key Repo Rate for over a year.

34. Moreover, the NBR forecasting and policy analysis system (FPAS) for forward-looking policy formulation remains increasingly important and useful tool for MPC processes. Measures planned for 2017–18 to implement the framework that uses interbank money market rates as the operational target are:

- **Interbank market development**. A well-functioning interbank market not only facilitates liquidity management by banks, but it is also the cornerstone of financial market development. Similarly, the BNR can, through active and consistent management of system liquidity, influence the determination of interest rate in the interbank money market. In this context, BNR intends to introduce an electronic interbank trading platform to enhance information sharing among market participants and improve price discovery (Table 2). In addition, BNR is taking steps to deepen government securities market and enhance the yield curve. These include establishing a re-opening mechanism for long-term bonds (reissuing the same bond at different occasions) to gradually build their outstanding volumes to the desired levels to qualify them as benchmark bonds (Table 2).
- **Communication**. When central banks make the transition from quantitative to a market based monetary policy, effective communication becomes imperative. On this regard, BNR is developing a communication strategy to enhance its transparency and accountability by effectively communicating its policy decisions, economic developments and outlook, and through strengthening the communications content of the inflation report, in a bid to anchor price expectations. This will be important for markets and the public to understand the nature of shocks and BNR's policy responses (Table 2).
- **Capacity development**. BNR will need to develop in-house capacity during the transition period and create a path where each block reinforces each other. There will be therefore need to build in parallel the different blocks of an IT scheme along different stages.
- **Forecasting and policy analysis system (FPAS).** The BNR has restructured its publications to become more compatible with forward looking communication, in particular, creating a more forward looking inflation report. The BNR will continue to operationalize the FPAS, by: (i) setting up a formal unified forecasting team with well-defined individual roles; and (ii) redesigning the forecast process to increase interactions with decision makers.
- **Determine the optimal level of inflation target range**. Having committed to move towards a price based monetary policy framework, BNR is conducting a study which will recommend an optimal band for headline or core inflation. (Table 2)
- **Reduce the level of excess reserves.** Rwanda's banking system faces persistent and volatile bank excess reserves, which pose a challenge to monetary policy transmission mechanism and financial stability. Excess liquidity leads to disintermediation as it reduces banks' profitability and discourages deposit taking. It also encourages excessive risk taking, lowers credit quality, compromises monetary policy transmission mechanism, and possibly destabilizes the foreign exchange market.

Financial Sector Stability and Development

35. BNR will continue to implement structural reforms in the financial sector to promote financial deepening and resilience:

- In the banking sector, a new Banking Law, gazetted in October 2017, paves the way for Rwanda to be fully compliant with the Basel Core Principles, harmonizes the financial sector legal framework with that across the EAC, introduces the risk management framework, and gives clarity on loan classification. New capital and liquidity regulations compliant to Basel II/III were also approved and gazetted in May 2017. Parallel reporting under the old and new framework has been on-going, while full implementation is expected to start early 2018;
- Other recent banking sector regulatory reforms include revisions on banks' business continuity management; a new cyber security regulation (establishing minimum prudent standards for protection against cybersecurity threats); and new regulation on the outsourcing of banks (to ensure that appropriate processes, procedures, and information systems are in place that can adequately identify, monitor, and mitigate operational risks arising from the outsourced activities). BNR also approved the revised regulations on corporate governance of banks and insurance companies. The revised regulations clarify and emphasize the role of the Board of Directors and enhance independence, suitability, transparency and accountability of Boards and subsidiary boards
- For non-banks, BNR is in the process of licensing new voluntary pension schemes and service providers following the enactment of the pension law in 2015 and its implementing regulation in 2016. BNR also approved new Microfinance and Insurance laws, both of which are undergoing reviews before parliamentary enactment, which will be followed by implementing regulations. We are also working with Access to Finance Rwanda (AFR) to establish micro-insurance regulatory frameworks to boost the penetration level in the insurance sector.
- To create a more calibrated, flexible and forward-looking regulatory framework in the Payment Systems space, the BNR reviewed the regulation on Payment System Providers (PSPs) to include an activity and risk based approach to supervision of PSPs as well as introduce Regulatory Sandboxes to enhance innovation. This regulation was further supplemented by two new regulations one for Remittance Services and another for Payment Initiation and Aggregation Services. This will allow these services to be expressly regulated.
- On consumer protection, in addition to the draft law on Financial Consumer Protection and the regulation on Key Facts Statements for Credit, Accounts and Insurance, the BNR put in place a single portal (price comparator) where consumers can compare bank charges prior to taking a bank related decision. The implementation of the disclosure regulations (Key Facts Statement) is on-going and monitored through on-site inspections.
- In the payment system development, BNR started enforcing e-money regulations for safeguarding the users. It is also assessing gaps in the Automated Clearing House (ACH) system and the RIPPS technology compared to standard principles for financial market infrastructure. BNR also approved the following regulations aim at strengthening the

payments system: regulation on Payment Service Providers; regulation on Payment Initiation Service (Payment Gateways, Payment Aggregators and Payment Providers); and the regulation on Remittance Service.

- On financial integrity, the BNR in collaboration with other Government institutions are conducting a national risk assessment of ML/FT. Findings from this exercise will inform strategies to bridge any gaps in the AML/CFT frameworks.

36. The Government of Rwanda requests the completion of the eighth review under the PSI and third review under the SCF arrangement. We also request extension of the current PSI program through December 1, 2018, and addition of two additional semi-annual reviews (9th and 10th Reviews) under the PSI. The 9th and 10th reviews under the PSI are expected to take place by end-June 2018 and December 1, 2018, respectively.

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

	December 2017	June 2018
	Proposed Program	Proposed Program
(Billions of Rwandan francs, unless otherwise indicated)		
Assessment/Performance criteria		
Ceiling on the overall fiscal deficit, including grants[2, 3]	241	365
Net foreign assets of the NBR at program exchange rate (floor on stock)[3]	657	575
Reserve money (ceiling on stock) (upper bound)[4]	348	365
Reserve money (ceiling on stock)[4]	341	357
Reserve money (ceiling on stock) (lower bound)[4]	333	349
External payment arrears (US$ millions) (ceiling on stock)[5]	0	0
Indicative targets		
Net domestic financing (ceiling on flow)[2, 3]	-35	27
Domestic revenue collection (floor on flow)[2, 6]	556	1246
Net accumulation of domestic arrears (ceiling on flow)[2]	0	0
Total priority spending (floor on flow)[2]	346	730
New external debt contracted or guaranteed by nonfinancial public enterprises (US$ millions) (ceiling on stock)[5]	500	500
Memorandum items:		
Total budget support (US$ millions) [2, 6]	331	477
Budget support grants (US$ millions)	101	217
Budget support loans (US$ millions)	230	260
RWF/US$ program exchange rate	830	830

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).
[2] Numbers for December 2017 and June 2018 are cummulative from 6/30/2017.
[3] Subject to adjustors. See TMU for details.
[4] Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.
[5] Ceilings on external arrears and external borrowing are continuous. The ceiling will exclude onlending agreement between Government of Rwanda and public sector enterprises.
[6] Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

Table 2. Proposed Structural Benchmarks Under the PSI-Supported Program

Policy measure	Target date
Monetary	
Establish an optimal level of headline or core inflation target range for monetary policy	10th PSI Review
Develop and adopt a communication strategy on the objectives and operations of the monetary policy framework to enhance BNR transparency and accountability	10th PSI Review
Financial Market	
Introduce Government bond reopening mechanisms with objective to develop benchmark bonds and promote depth and liquidity in the government bond market	9th PSI Review
Establish an electronic interbank trading platform intended to improve banks' counterparty visibility and price formation in the market.	10th PSI Review
Public Financial Management	
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter.	Each quarter
Begin publishing in GFS 2014 format for the quarter ending September 2018.	10th PSI Review
Initiate a fiscal risk analysis of hotel and insurance sectors to assess potential contingent liabilities.	9th PSI Review
Fiscal Revenues	
Initiate the rollout of "EBM version 2" pilot, with the intent of reaching 1,000 new EBM users.	10th PSI Review

Attachment II. Technical Memorandum of Understanding

Kigali, December 21, 2017

1. **This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period July 1,** 2017–December 31, 2018 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This TMU updates the one of July 12, 2017.

I. Quantitative Program Targets

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

3. **QACs will apply for the following indicators for December 31, 2017 and June 30, 2018 (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 the overall fiscal deficit, including grants as measured on a commitment basis; and
- Ceiling on stock of external payment arrears of the public sector (assessed on a cont. basis).

4. **IT will apply to the following indicators for December 31, 2017 and June 30, 2018 (the test dates) throughout the program period:**

- Ceiling on flow of net domestic financing (NDF) of the budgetary central government;
- Floor on flow of domestic revenue collection of the budgetary central government;
- Ceiling on flow of net accumulation of domestic arrears of the budgetary central government;
- Ceiling on contracting or guaranteeing of new non-concessional external debt of nonfinancial public enterprises (assessed on a cont. basis); and
- Floor on flow of priority spending.

5. **Program exchange rates.** For accounting purposes, the program exchange rates in Text Table 1 will apply.

Text Table 1. Program Exchange Rates from June 30, 2017

(US$ per currency unit, unless indicated otherwise)

Rwanda Franc (per US$)	830.22
Euro	1.14
British Pound	1.30
Japanese Yen (per US$)	111.94
SDR	1.35

II. INSTITUTIONAL COVERAGE OF THE FISCAL SECTOR

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

III. TARGETS RELATED TO THE EXECUTION OF THE FISCAL PROGRAM

Ceiling on Net Domestic Financing of the Government (IT)

7. **A ceiling applies to NDF**. The ceilings for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

8. **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 domestically issued debt.

9. 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). 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 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 budgetary 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)*.

10. Non-bank holdings of government domestically issued 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.

[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.

Adjusters to NDF:

- The ceiling on NDF will be adjusted upward by the amount of any shortfall between actual and programmed budgetary grants and loans (as defined in Table 1 of the MEFP), up to a maximum of RWF 78billion. In the event that actual budgetary grants exceed programmed levels, the ceiling on NDF will not be adjusted. In the event that actual budgetary loans exceed programmed levels, the ceiling on NDF will be adjusted downward.
- The ceiling on NDF will be adjusted upward up to a maximum of RWF78 billion representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.
- The ceiling on NDF will be adjusted upward by the amount of unexpected public expenditures on food imports in the case of a food emergency.
- The ceiling on NDF will be adjusted upward (downward)up to a maximum of RWF78 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.

Overall Fiscal Deficit Including Grants (QAC)

11. **A ceiling applies to the overall fiscal deficit including grants**. The ceilings for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

12. **Definition.** For the program, the overall fiscal deficit including grants is valued on a commitment basis. That is, the overall fiscal balance is the difference between the government's total revenue and grants and total expenditure and net lending (costs and acquisition net of nonfinancial assets). Government expenditure is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal deficit as of the beginning of the year.

Adjusters to the Overall Fiscal Deficit Including Grants

- The ceiling on the overall deficit will be adjusted upward by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1 of the MEFP), up to a maximum of RWF 78billion.
- The ceiling on the overall deficit will be adjusted upward, up to a maximum of RWF78 billion, representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.
- The ceiling on the overall deficit will be adjusted upward by the amount of unexpected public expenditures on food imports in the case of a food emergency.
- The ceiling on the overall deficit will be adjusted upward (downward), up to a maximum of RWF78 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.

Floor on Flow of Domestic Revenues (IT)

13. The floors for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

14. **Definition**. The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the budgetary central government statement of operations table, but including: (a) local government taxes (comprised of business licenses, property tax, and rental income tax); and (b) local government fees; and excluding and receipts from Peace Keeping Operations.

Floor on priority expenditure

15. The floor applies to priority spending of the government. The floors for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

16. **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/NTS. Priority expenditure is monitored through the Integrated Financial Management System (IFMS) which tracks priority spending of the annual budget at the program level.

Net Accumulation of Domestic Expenditure Arrears of the Government (IT)

17. A ceiling applies to net accumulation of domestic expenditure arrears of the government.[3] The ceilings for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

18. **Definition.** Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 90 days. These will include payments for tax refunds, employee expenses (wages and salaries, staff claims for travel, and other non-salary allowances), utilities, rents, recurrent goods and services, and construction works. Accumulation of domestic expenditure arrears of more than 90 days is calculated as a cumulative change in the stock of expenditure arrears of more than 90 days at each test date from the stock at the end of the previous fiscal year (June 30). Arrears related to claims preceding 1994 will not be counted in the calculation.

IV. LIMITS ON DEBT

Limit on New External Debt of Nonfinancial Public Enterprises (IT)

19. **A ceiling applies to the contracting and guaranteeing by nonfinancial public enterprises of new external borrowing with non-residents (see below for the definition of debt guarantee and debt).** The ceiling excludes external borrowing by two state-owned bank, the Bank of Kigali and

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

Rwanda Development Bank (BRD), which are 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. The ceiling will exclude external borrowing which is for the sole purpose of refinancing existing public sector debt and which helps to improve the profile of public sector debt. The ceiling will also exclude on-lending agreement between Government of Rwanda and public sector enterprises.

20. **Public sector includes the government, entities that are part of the budgetary process and nonfinancial public enterprises which are entities in which the government holds a controlling stake (owning more than 50 percent of shares)**, but which are not consolidated in the budget. This definition of the public sector excludes and Rwanda Development Bank (BRD). 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).

21. **The definition of debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(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 this paragraph, 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

22. A continuous performance/assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the government and entities that form part of the budgetary process. 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. For the purpose of monitoring compliance with the PC on the non-accumulation of external arrears, external arrears are obligations that have not been paid on the due date (taking into account the contractual grace periods, if any). External payments arrears on external debt service obligations by nonfinancial public enterprises that the government holds a controlling stake (owning more than 50 percent of shares) but do not form part of the budgetary process and public private partnership projects (which are defined as (i) infrastructure projects which involve the (ii) granting of a government guarantee and the (iii) participation of a public enterprise) are not included in the coverage of this external arrears PC/AC, unless these external payment arrears are overdue (under the terms of the contracts including any grace periods) by more than 30 days.

V. TARGETS FOR MONETARY AGGREGATES

Net Foreign Assets of the National Bank of Rwanda (QAC)

23. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2017 and June 30, 2017.

24. **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. Reserves assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA for program purposes. 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.

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 of the MEFP, capped at RWF 78 billion.
- The floor on NFA will be adjusted downward (upward) by the surplus (shortfall) of cash external debt service payments compared to originally-scheduled payments.
- The floor on NFA will be adjusted downward by the amount of unexpected public expenditures on food imports in the case of a food emergency.

Reserve money (QAC)

25. A ceiling applies to the stock of reserve money for June 30, 2017, and December 31, 2017 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+/- 2.2 percent) around a central reserve money target).

26. 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.

27. **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.

VI. DATA REPORTING REQUIREMENTS

28. For the purposes of program monitoring, the Government of Rwanda will provide the data listed below and in Table 1. Unless specified otherwise, weekly data will be provided within seven days of the end of each week; monthly data within five weeks of the end of each month; quarterly data within eight weeks of the end of each quarter; annual data as available.

29. Data on **NDF** (showing separately treasury bills and government bonds outstanding, other government debt, and budgetary central government deposits), each type of debt to be shown by debt holder, will be transmitted on a monthly basis. 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.

30. Detailed data on **domestic revenues** will be transmitted on a monthly basis. Data on **priority expenditure** will be transmitted on a quarterly basis. Data on accumulation and repayment of **domestic arrears** and the remaining previous year's stock of arrears will be transmitted on a quarterly basis.

31. Data on **foreign assets and foreign liabilities of the NBR** will be transmitted on a weekly basis, 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.

32. Data on **reserve money** will be transmitted on a weekly basis. 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

33. The authorities will inform the IMF staff in writing 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, wage policy, and financial support to public and private enterprises. The authorities will inform the IMF staff of changes affecting respect of continuous QACs and ITs. The authorities will furnish a description of program performance according to QACs and ITs as well as structural benchmarks within 8 weeks of a test date. The authorities engage to submit information to IMF staff with the frequency and submission time lag 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[9]	Frequency of Reporting[9]	Frequency of Publication[9]
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
Consumer Price Index[4]	M	M	M
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[5] —General Government[6]	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[5]— Budgetary Central Government	Q	Q	Q
Financial balance sheet – Budgetary Central Government	A	A	A
Comprehensive list of tax and other revenues[7]	M	M	M
Comprehensive list of domestic arrears of the government	SA	SA	SA
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR[8]	Q	Q	Q
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; Foreign Exchange 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] 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.
[5] Foreign, domestic bank, and domestic nonbank financing.
[6] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[7] Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.
[8] Includes debts of the Bank of Kigali. Also includes currency and maturity composition.
[9] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

RWANDA

January 8, 2018

EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION, AND THIRD REVIEW UNDER THE STANDBY CREDIT FACILITY—SUPPLEMENTARY INFORMATION

Approved By
Benedict Clements (AFR) and Yan Sun (SPR)

Prepared By
The African Department

1. The following information became available after the staff report was issued, and is being provided for Executive Directors' information. It does not change the thrust of the staff appraisal.

- 2017 Q3 y/y growth was 8.0 percent, based on services growth of 10 percent, and a recovery of growth in agriculture and industry to 8 and 6 percent, respectively. Specific areas of strong growth were: information and communication (28 percent); mining and quarrying (25 percent); textiles (23 percent); and transport (21 percent). This outcome is consistent with growth projections in the staff report.

- The non-performing loan (NPL) ratio for the banking sector for 2017 Q3 was revised to 7.7 percent, versus the 8.3 percent figure shown in the staff report (thus reflecting a more stable rather than rising trend in NPLs). The downward revision reflects recalculation of the NPL ratios following commercial banks writing off or fully provisioning loans more than one year overdue, per external auditors' recommendations.

- On December 28, the Monetary Policy Committee (MPC) of the National Bank of Rwanda announced a 50-basis point reduction in the policy rate, bringing it to 5.5 percent. In taking its decision, the MPC noted, inter alia, the tapering off of exchange rate depreciation, low inflationary pressures, and continuing support for private credit growth.

Statement by the Executive Director, Mr. Daouda Sembene, and by the Executive Director Advisor, Ms. Loy Nankunda, on Rwanda
January 12, 2018

The Rwandan authorities appreciate the instrumental role that the PSI and SCF arrangements have played in supporting their development program in general and in maintaining macroeconomic stability. Over the past years, the PSI and the SCF-Supported programs have served their purpose of supporting the country to address external imbalances and adjust to external shocks that had hit the economy.

The authorities would like to express their appreciation for the constructive policy discussions held in Kigali with the IMF staff team in the context of the Eighth review under the PSI and Third review under the SCF. They wish to assure the IMF Executive Board of their continued commitment to maintain macroeconomic stability, while ensuring high and sustained inclusive growth under their medium-term development strategy. In this connection, development of the private sector as an engine of growth will be of paramount importance in the years to come. The authorities' reform agenda is geared towards these objectives.

Recent Economic Developments and Program Performance.

After real GDP growth remained disappointing at 2.9 percent during the first half of 2017, Q3 growth confirms the authorities' revised forecast that the economy is strongly recovering during the second half of the year and the country is likely to end the year a little higher than the revised projections of 5.2 percent. Indeed, real GDP growth increased by 8 per cent in Q3, with the main drivers being the mining and quarrying sectors, air transport, and food crops.

Inflation was about 2.2 percent last November, the sixth consecutive month below the target after reaching a peak of 8.1 percent in February. The drop-in headline inflation was mainly reflected in declining food prices and transport costs. Food inflation fell from 13.3 percent in 2017Q2 to 2.2 percent in November 2017, as agricultural production increased because improvements in weather conditions. Overall, inflation has averaged 5.4 percent from January to November and for the annual average, core inflation stood at 4.2 percent in November, down from 4.4 percent recorded in October of 2017. Rwanda's trade deficit improved by 21.1 percent by the end of November 2017 over the same period in 2016. This was driven by good export performance combined with a decline in imports.

Program performance remained strong under the PSI and SCF arrangements. All end-June 2017 and continuous quantitative assessment performance criteria were met under the program and most structural benchmarks were implemented or are in progress. However, the indicative target on domestic arrears was not observed by a small margin. To avoid

recurrence of similar issue going forward, several remedial actions are being taken, notably through improvements in treasury cash management forecasts in matching these against seasonal spending.

Outlook and Medium-Term Policies

The authorities remain optimistic about the economic outlook, given the favourable weather conditions and the expected impact of medium-term policies. The economy is expected to return to its historical growth rates of above 7 percent over the next three years while inflation will be kept under the central bank's 5 percent headline target. The authorities' medium term policies are geared towards sustaining improvement in the environment for private sector development and increasing productivity through strategic infrastructure investments with a view to serving the structural transformation agenda. The authorities will continue to ensure that the momentum is kept in enhancing domestic revenue mobilization, fostering financial deepening, and maintaining prudent monetary policy.

Fiscal Policy

Fiscal performance in FY2016/17 was largely satisfactory. As reflected in the 2017/18 budget, the authorities remain committed to fiscal consolidation and a prudent borrowing policy to keep the level of debt sustainable. Over the medium term, this commitment to fiscal consolidation will be maintained, including through improved domestic resource mobilization as shown by projections. In this respect, the authorities are taking several steps. These include revising the property tax law and expanding the use of the electronic billing machines to better track total sales. In addition, the authorities are conducting a tax expenditure analysis with IMF technical assistance to ensure that tax incentives are well targeted and do not unnecessarily reduce the tax base.

Efforts will be made to carry out a fiscal risk analysis of selected sectors with the ultimate aim of mitigating such risks. At the same time, the authorities are taking measures to enhance public financial management. Steps are underway to improve the timeliness, frequency and coverage of fiscal reporting.

Debt Management

In the most recent debt sustainability analysis, Rwanda is assessed to be at low risk of debt distress, despite a temporary breach under the liquidity indicator, which is associated to the 10-year Eurobond maturing in 2023. Rwanda's external debt portfolio remains mostly constituted of concessional loans (72 percent as end June 2017), and this will continue to be the main source of funding for public projects going forward.

The issuance of treasury bills and bonds is for cash flow purposes and capital market development. These new issuances reflect efforts to establish a longer yield curve and stronger secondary markets to help bolster the monetary transmission mechanism.

The objective of our current strategy is to ensure that government's financing needs and payment obligations are met at the lowest cost and risk levels while increasing concessional loans and developing the domestic capital market. This strategy lengthens the maturity of short term domestic instruments that meets the objectives of the MTDS while also providing the cheapest and less risky debt portfolio composition alternative.

Monetary Policy and Financial Sector Issues

Monetary policy will continue to remain prudent to maintain the inflation close to the authorities' medium-term target level of 5 percent.
As noted in the staff report, the central bank proceeded with policy rate cuts to address concerns over subdued credit growth and the outlook for below-target inflation. More recently, the central bank further eased its monetary policy on December 28, 2017, by reducing the central bank rate (KRR) to 5.5 percent from 6 percent to continue supporting the financing of the private sector by the banking sector. In addition, the Monetary Policy Committee (MPC) observed the positive impact of the accommodative monetary policy implemented in 2017. By end November 2017, the broad monetary aggregate (M3) increased by 9.5 percent compared to 8.8 percent in November 2016; the outstanding credit to the private sector increased by 12.3 percent compared to 8.8 percent in the same period of 2016 and against PSI target of 11.4 percent by end December 2017. New authorized loans increased by 7.7 percent compared to 4.5 percent in the period under review.

Going forward, monetary policy will continue to be prudent, underpinned by continued exchange rate flexibility. The authorities are rolling out their plans to transition to interest rate based monetary policy framework, as illustrated by recent steps taken by the BNR to meet preconditions for implementing a forward-looking monetary policy framework notably in terms of liquidity management and policymaking processes.

The staff report also indicated that banks remain well capitalized even though the banking sector asset quality deteriorated slightly. In this regard, it is noteworthy that that following the BNR review process and the external audit in October-November 2017, NPLs at end September 2017 were estimated at 7.7 percent and not 8.3 percent, as initially projected during the staff mission in Kigali.

External Sustainability

The current account deficit improved in 2016 and is expected to improve over the medium term partly due to exchange rate adjustment to which has led to increase in exports and

reduced imports. The projected improvement in the current account balance also reflects Rwanda's forward-looking policies on imports substitution and export promotion.

The Rwandan Authorities are implementing a "Made in Rwanda" policy to encourage domestic production of certain goods currently imported and promote export diversification, with the aim of strengthening external stability and fostering growth in the medium term. Because of the authorities' prudent macroeconomic policies, reserves buffers were rebuilt to above 4 months of imports, from 3.6 months of imports in 2015 when the shock took place.

Conclusion

As underscored in the staff report, Rwanda's adjustment policies continue to be successful, with sustained improvement in the country's external situation and reserve buffers. These policies cantered around exchange rate adjustment underpinned by fiscal discipline and prudent monetary policy. Performance under the IMF-supported program is expected to remain good in view of the authorities' strong commitment to its objectives.

In this light, we would appreciate Directors' support for the completion of the third and eight reviews under the SCF and PSI-supported program, respectively, as well as the authorities' request to extend the PSI-supported program through December 1, 2018.