

**Rwanda: Sixth Review Under
the Policy Coordination
Instrument and Monetary Policy
Consultation Clause-Press
Release; Staff Report; and
Statement by the Executive
Director for Rwanda**



RWANDA

June 2022

SIXTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND MONETARY POLICY CONSULTATION CLAUSE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the Sixth Review Under the Policy Coordination Instrument and Monetary Policy Consultation Clause, the following documents have been released and are included in this package:

- A **Press Release** including a statement of the Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 22, 2022, following discussions that ended on April 6, 2022, with the officials of Rwanda on economic developments and policies underpinning the IMF arrangements under the Policy Coordination Instrument and Monetary Policy Consultation Clause. Based on information available at the time of these discussions, the Staff Report was completed on June 3, 2022.
- A **Statement by the Executive Director** for Rwanda.

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IMF Executive Board Completes the Sixth Review of the Policy Coordination Instrument for Rwanda

FOR IMMEDIATE RELEASE

- *Rwanda continues to implement its Economic Recovery Plan while confronting the lingering effects of the pandemic and the spillovers from the war in Ukraine.*
- *Rising inflationary pressures, exacerbated by rising commodity prices, are compounding the policy challenges of balancing economic recovery with maintaining price stability.*
- *The Policy Coordination Instrument (PCI) continues to support the authorities' efforts in mitigating the impact of the ongoing external shocks, maintaining macroeconomic stability, and implementing medium-term fiscal consolidation, while advancing the structural reform agenda for more inclusive and sustainable growth.*

Washington, DC – June 23, 2022. On June 22, 2022, the Executive Board of the International Monetary Fund (IMF) completed the sixth review of the Policy Coordination Instrument (PCI)¹. The PCI was approved on June 28, 2019 ([Press Release No.19/258](#)) to facilitate macroeconomic and financial stability, while advancing an ambitious reform agenda under Rwanda's National Strategy for Transformation (NST). Program performance remains broadly satisfactory, with all quantitative and standard continuous targets through end-December 2021 met. However, the 12-month headline inflation average in 2021 fell outside the lower bound of the program's inflation target band, triggering consultation with the IMF Executive Board. All six reform targets through end-April 2022 were also implemented.

Real GDP growth rebounded strongly to 10.9 percent in 2021, but spillovers from the war in Ukraine are compounding pandemic challenges by weighing down growth, increasing inflationary pressures and social needs, and straining fiscal balances amid high uncertainty and rising food insecurity concerns. Growth is expected to moderate to 6 percent in 2022 while headline inflation is projected to rise from 0.8 percent in 2021 to 9.5 percent in 2022. The near-term outlook is marred by uncertainty from the geopolitical risks that could prolong the spillovers from the war in Ukraine, but the medium-term outlook remains favorable, supported by the authorities' commitment to macroeconomic stability and structural reforms.

Headline inflation has been on the rise since the beginning of the year. The National Bank of Rwanda (NBR) raised the policy rate by 50 basis points to 5 percent in February but kept it unchanged in May, though inflationary pressures persist. The fiscal deficit for FY22/23 is

¹ The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors.

projected at 6.9 percent of GDP and envisages fuel, fertilizer, and public transport subsidies and social protection interventions to mitigate the impact of rising food and fuel prices. The current account deficit is projected to widen in 2022 but expected to narrow over the medium term financed by FDI and concessional loans. A medium-term fiscal consolidation, exchange rate flexibility, and reforms to strengthen Rwanda's external competitiveness are expected to cement macroeconomic and financial stability.

Policies under the PCI continue supporting the recovery from the pandemic, the response to mitigate the headwinds from the war in Ukraine while maintaining macroeconomic stability, and the implement the medium-term fiscal consolidation strategy to preserve debt sustainability. The PCI also supports reform efforts, such as financial inclusion, digitization, and green public financial management (PFM) to deliver a more inclusive and sustainable growth.

Following the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, issued the following statement:

"Despite a strong economic rebound in 2021, the COVID-19 pandemic has left Rwanda with high unemployment, rising poverty, and learning losses that risk reversing hard-won social gains. These pandemic scars will likely be exacerbated by the spillovers from the war in Ukraine, which, through higher commodity prices and additional inflationary pressures, are raising social needs and food security concerns, putting pressure on fiscal balances, and limiting the policy space to support an inclusive recovery.

"The authorities' plan to use the existing social safety nets to respond to economic fallout from the war in Ukraine is commendable. They should focus on increasing the coverage and benefits of existing social protection programs in a targeted manner and phase out fuel subsidies as planned.

"In view of rising inflation, the National Bank of Rwanda should stand ready to tighten monetary policy more aggressively to anchor inflation expectations. Implementation of the interest-rate-based monetary policy framework should continue with greater exchange rate flexibility to ensure external sustainability. Closely monitoring and containing credit risks through targeted and time-bound interventions, without relaxing regulatory and supervisory requirements will be important to safeguard financial stability. The authorities should continue to enhance the AML/CFT framework.

"Anchoring medium-term fiscal discipline through a credible and growth-friendly fiscal consolidation plan should be fast-tracked. Authorities should step up efforts to broaden the tax base, phase out tax exemptions, enhance tax compliance, and identify cost-savings, including through digitalization, efficiency gains, and prioritization. These efforts should be complemented by measures to contain fiscal risks and enhance fiscal transparency.

"The authorities' commitment to structural reforms should be sustained to minimize pandemic scarring, build resilience to climate shocks, and achieve higher and more inclusive growth."

Table 1. Rwanda: Selected Economic Indicators, 2019–27

	2019	2020	2021		2022		2023		2024		2025		2026		2027
	Act.	Act.	5 th Review	Act.	5 th Review	Proj.	5 th Review	Proj.	5 th Review	Proj.	5 th Review	Proj.	5 th Review	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)															
Output and prices															
Real GDP	9.5	-3.4	10.2	10.9	7.2	6.0	7.9	6.7	7.5	7.0	7.5	7.5	6.1	6.1	6.1
GDP deflator	2.5	6.7	2.3	2.7	5.3	9.3	7.1	8.7	5.5	5.5	5.3	5.4	5.0	5.0	5.0
CPI (period average)	2.4	7.7	0.7	0.8	5.7	9.5	6.8	8.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI (end period)	6.7	3.7	1.9	1.9	8.1	8.8	6.8	6.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-1.8	-0.9	0.1	2.5	1.9	7.5	-0.5	-2.9	-0.8	-0.9	-0.5	0.3	-0.8	0.7	0.2
Money and credit															
Broad money (M3)	15.4	18.0	14.2	17.8	15.1	15.8	18.2	14.2	15.7	15.0	13.2	15.8	11.3	11.4	11.4
Reserve money	16.0	21.7	14.7	30.7	15.1	4.8	16.1	12.2	15.7	15.0	13.2	15.8	11.3	11.4	11.4
Credit to non-government sector	12.6	21.8	15.8	14.7	16.1	11.0	14.8	11.5	18.0	21.3	12.3	19.4	7.6	10.7	14.5
M3/GDP (percent)	25.7	29.4	29.3	30.4	29.9	30.4	30.6	29.9	31.2	30.5	31.2	31.2	31.3	31.2	31.2
(Percent of GDP, unless otherwise indicated)															
Budgetary central government, FY basis ¹															
Revenue	23.1	23.3	25.0	25.0	24.6	25.3	24.4	24.6	24.8	22.9	24.3	23.2	24.5	24.1	24.2
Taxes	16.0	15.7	15.8	15.8	15.4	15.7	16.0	15.4	16.4	15.9	16.7	16.5	17.0	17.3	17.5
Grants	3.0	4.6	5.5	5.5	5.5	5.9	5.8	6.6	5.9	4.4	5.1	4.1	5.0	4.0	3.9
Other revenue	3.0	3.1	3.7	3.7	3.7	3.7	2.5	2.5	2.5	2.6	2.5	2.7	2.5	2.8	2.8
Expense	20.5	20.2	20.3	20.3	20.6	20.6	18.8	19.3	18.0	18.2	17.8	18.4	17.1	18.1	18.0
Net acquisition of nonfin. assets	11.2	11.0	12.2	12.2	12.0	12.4	11.8	11.0	10.5	9.6	10.5	9.5	10.5	9.6	9.6
Net lending (+) / borrowing (-) (NLB)	-8.6	-7.9	-7.5	-7.5	-8.0	-7.6	-6.2	-5.7	-3.7	-4.9	-4.0	-4.7	-3.0	-3.6	-3.4
excluding grants	-11.6	-12.4	-13.0	-13.0	-13.5	-13.5	-12.0	-12.4	-9.6	-9.3	-9.0	-8.8	-8.0	-7.6	-7.3
Net acquisition of financial assets	0.8	4.5	1.5	1.5	1.1	1.1	1.0	1.3	1.7	1.5	0.3	0.5	0.3	0.3	1.4
Net incurrence of liabilities	6.4	12.3	8.9	8.9	9.2	9.0	7.3	7.0	5.3	6.4	4.3	5.2	3.3	3.9	4.8
Domestic	1.2	2.2	2.5	2.5	-0.2	-0.5	1.6	0.7	0.9	1.2	0.8	1.4	0.2	0.2	1.7
Foreign	5.1	10.2	6.4	6.4	9.4	9.5	5.7	6.3	4.4	5.2	3.4	3.9	3.2	3.6	3.2
Overall fiscal balance	-8.1	-9.1	-8.6	-8.6	-9.1	-8.7	-7.5	-6.9	-5.0	-6.1	-4.0	-4.9	-3.0	-3.6	-3.4
(incl. grants, policy lending) ²															
Debt-creating overall balance (excl. PKO) ³	-5.5	-7.8	-8.2	-8.2	-9.1	-8.7	-7.4	-6.9	-5.0	-6.1	-4.0	-4.9	-3.0	-3.6	-3.4
Public debt															
Total public debt incl. guarantees	56.8	72.4	74.6	73.3	77.2	73.1	77.9	75.2	75.7	75.9	73.1	74.2	71.1	73.6	71.7
of which: external public debt	44.3	56.4	58.6	54.5	62.4	57.6	63.9	58.0	64.7	60.8	63.5	60.1	62.2	59.1	56.8
Total public debt excluding guarantees	53.0	69.3	73.7	72.6	75.4	71.8	74.5	73.1	72.2	73.6	69.9	71.4	68.2	71.0	69.4
External public debt incl. guarantees, PV	29.7	34.0	36.1	34.9	39.2	36.1	40.9	38.2	40.9	39.2	40.4	38.7	38.8	37.6	35.7
Gross domestic debt	12.4	16.0	16.1	18.8	14.8	15.5	14.0	17.1	10.8	15.1	9.9	14.2	9.4	14.5	15.0
Total public debt incl. guarantees, PV	42.9	51.1	52.9	54.4	55.3	53.0	56.1	56.6	53.5	55.3	51.4	53.7	50.0	52.9	51.3
Investment and savings															
Investment	23.5	25.1	21.0	26.3	26.9	25.8	29.1	28.4	29.7	29.4	30.0	28.6	27.3	28.4	28.2
Government	12.9	14.2	13.3	13.0	13.4	13.2	12.3	11.8	11.8	11.1	12.3	10.8	10.2	11.2	11.0
Nongovernment	10.6	11.0	7.7	13.3	13.6	12.6	16.8	16.5	17.9	18.3	17.7	17.8	17.1	17.2	17.2
Savings (excl. grants)	9.0	10.2	5.8	12.3	11.3	8.6	15.4	13.7	16.2	16.3	18.0	16.9	17.7	17.8	18.1
Government	3.7	-0.5	-1.6	0.2	1.4	-0.2	1.8	0.8	2.6	1.5	3.5	2.8	1.8	3.4	3.6
Nongovernment	5.3	10.7	7.4	12.1	9.9	8.9	13.6	12.9	13.7	14.9	14.5	14.1	15.9	14.4	14.5
External sector															
Exports (goods and services)	21.8	18.9	18.9	19.1	24.4	23.4	26.7	25.3	27.7	27.1	31.5	28.5	33.3	28.8	29.2
Imports (goods and services)	36.1	35.1	35.6	34.8	40.9	41.7	41.2	41.2	41.7	40.8	44.0	40.9	43.5	40.2	40.1
Current account balance (incl. grants)	-11.9	-12.1	-11.0	-10.9	-11.5	-12.6	-10.3	-11.7	-9.0	-10.3	-8.0	-8.9	-5.7	-7.8	-7.3
Current account balance (excl. grants)	-14.5	-14.9	-15.2	-14.0	-15.5	-17.1	-13.7	-14.7	-13.5	-13.1	-12.0	-11.7	-9.6	-10.6	-10.1
Current account balance (excl. large proj.)	-10.6	-12.0	-10.0	-10.8	-9.3	-10.5	-7.9	-9.3	-7.0	-8.4	-6.7	-7.7	-5.7	-7.8	-7.3
Gross international reserves															
In millions of US\$	1,382	1,722	1,829	1,889	1,775	1,868	1,783	1,869	2,021	2,063	2,130	2,093	2,253	2,229	2,351
In months of next year's imports ⁴	5.6	5.9	5.2	5.0	4.6	4.6	4.3	4.4	4.3	4.5	4.4	4.3	4.4	4.2	4.1
Memorandum items:															
GDP at current market prices															
Rwanda francs (billion), CY basis	9,314	9,607	10,986	10,944	12,395	12,672	14,311	14,698	16,232	16,585	18,378	18,800	20,460	20,942	23,340
nominal growth	12.2	4.6	12.7	13.9	12.8	15.8	15.5	16.0	13.4	12.8	13.2	13.4	11.3	11.4	11.4
Population (million)	12.4	12.7	13.0	13.0	13.3	13.3	13.6	13.6	13.9	13.9	14.2	14.2	14.2	14.5	14.8

Sources: Rwandan authorities and IMF staff estimates.

¹ From FY 19/20 (2020) to FY 25/26 (2026). Fiscal year runs from July to June. FY19/20 and FY20/21 are actuals.

² For purposes of the PCI the overall balance (GFSM 1986, incl. policy lending) is used for monitoring.

³ Overall deficit excl. spending on materialized contingent liabilities and other items already incl. in the DSA.

⁴ Based on prospective import of goods (excluding gold) and services. SDR allocation included in 2021.



RWANDA

June 3, 2022

SIXTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND MONETARY POLICY CONSULTATION CLAUSE

EXECUTIVE SUMMARY

Recent economic development. The economy has emerged from the COVID-19 pandemic with scars that would likely take time to reverse. Supported by the authorities' policy support, growth rebounded strongly to 10.9 percent in 2021. Spillovers from the war in Ukraine are compounding pandemic challenges by weighing on growth, increasing inflationary pressures and social needs, and straining fiscal balances amid high uncertainty and rising food insecurity concerns. Lower external demand and higher global commodity prices are projected to lower growth to 6 percent in 2022. Headline inflation is projected to rise from 0.8 percent in 2021 to 9.5 percent in 2022, exceeding the central bank's benchmark level (5 percent). The National Bank of Rwanda (NBR) raised the policy rate by 50 basis points in February 2022. While the near-term outlook is marred by uncertainty from the geopolitical risks that could prolong the spillovers from the war in Ukraine, the medium-term outlook remains favorable, supported by the authorities' commitment to structural reforms. The change in World Bank financing terms under IDA20 will increase the volume of loans, hence the debt-to-GDP ratio for Rwanda, but given the higher concessionality of the loans, the expected impact on the present value of debt path is marginal.

Program implementation. Program performance remains broadly satisfactory with all quantitative and standard continuous targets through end-December 2021 met. However, the 12-month headline inflation average triggered the monetary policy consultation clause (MPCC) as average inflation in 2021 fell below the outer lower bound of NBR's inflation benchmark. All six reform targets (RTs) due through end-April 2022 were completed, but only two were met in a timely fashion. Staff recommends completion of the Sixth Review under the Policy Coordination Instrument (PCI).

Policy recommendations. The near-term agenda should focus on mitigating the severity of the combined shocks, containing inflationary pressures, and advancing measures that would support the envisaged fiscal consolidation to reduce debt vulnerabilities and external stability while preserving policy space to respond to shocks.

- **Fiscal Policy.** A targeted approach should be implemented to protect the vulnerable from the impact of rising food and fuel prices. The reduction in fuel levy to mitigate the pass-through of higher energy import costs should be temporary and phased out by end-FY22/23, if not sooner. On fiscal consolidation, the implementation of spending rationalization measures for FY22/23 and the medium-term revenue strategy (MTRS) should advance as planned. Given the current debt level and the uncertain outlook, efforts to contain risks should be stepped up.
- **Monetary and Financial Policies.** NBR should tighten monetary policy more aggressively to curb inflation expectations and help ensure the return of inflation to the target by end-2023. Policies should also focus on implementing the interest-rate-based monetary policy framework, deepening money and government securities markets, promoting more flexible exchange rates, and safeguarding financial stability.
- **Structural Reforms.** To lay the foundations for more sustainable, inclusive, and resilient growth, policies to mitigate the pandemic scars and continued efforts to advance the climate resilience agenda will be important.

Approved By
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A hybrid mission comprised H. Teferra (head), V. Duarte Lledo, S. Choi, G. Pula, and C. Aoyagi (all AFR); A. Ceber (FAD); S. Mulema (MCM); and A. Miksjuk (SPR). L. Nankunda (OED) also joined the mission in person. The mission was assisted by P. Rutabuzwa and J. Kayemba (staff of the resident representative's office in Kigali). Y. Hul, and I. Miller (ICD) provided remote support on the Quarterly Projection Model for monetary policy analysis. E. Chueca Montuenga and F. Morán Arce (AFR) assisted in the preparation of this report. Discussions were held in Kigali during March 21–April 6, 2022, while part of the team joined remotely from Washington, D.C. The team met with the Minister of Finance and Economic Planning, Dr. Uzziel Ndagijimana, Governor of the National Bank of Rwanda, John Rwangombwa, as well as, the Ministers of Agriculture, Local Government, Infrastructure, and Trade, and Permanent Secretaries for Ministries of Health and Environment. The mission also held discussions with the Parliament Budget Committee, development partners, and private sector stakeholders.

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