International Monetary Fund

Rwanda and the IMF

Press Release:
IMF Executive Board Completes Second Review Under the PRGF Arrangement with Rwanda and Approves US$1.7 Million Disbursementt
June 25, 2007

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Rwanda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 7, 2007

The following item is a Letter of Intent of the government of Rwanda, which describes the policies that Rwanda intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Rwanda, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Kigali, June 7, 2007

Mr. Rodrigo de Rato y Figaredo
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. The first review of our financial and economic program supported under the Fund's Poverty Reduction and Growth Facility (PRGF) was completed on January 29, 2007. In the attached Memorandum of Economic and Financial Policies (MEFP), we review recent economic developments and amend our policies for the remainder of 2007.

2. Program implementation under the PRGF arrangement has been broadly on track. All quantitative performance criteria for end-December 2006 were met with the exception of the performance criterion (PC) on net credit to the government. As foreshadowed in our MEFP of January 10, 2007, the PC on net credit to government was not met because of delays in reimbursements from the African Union (AU) for our peacekeeping efforts in Darfur. We have agreed with the AU on a schedule of reimbursements and expect no further delays in 2007. Should further delays occur, we stand ready to cut other expenditures to meet the limits on net credit to government. Thus, as the nonobservance was of a temporary nature, we are requesting a waiver for the nonobservance of the quantitative PC on net credit to the government.

3. In support of our policies described in the MEFP, the Government of Rwanda requests the completion of the second review under the PRGF arrangement and the disbursement of the third loan of SDR 1.14 million.

4. The Government of Rwanda believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government of Rwanda will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. The third review under the PRGF arrangement is expected to be completed by no later than end-November 2007, and the fourth review by mid-April 2008.

5. The Government of Rwanda authorizes the publication and distribution of this letter and MEFP together with the related staff report.

Sincerely yours,

/ s /	/ s /
François Kanimba	James Musoni
Governor	Minister of Finance and
National Bank of Rwanda	Economic Planning

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES (MEFP) OF THE GOVERNMENT OF RWANDA

June 7, 2007

1. **This memorandum amends our medium-term economic program, which was set out in the MEFPs of June 2006 and January 2007 and which is supported by an arrangement under the IMF's Poverty Reduction and Growth Facility.** The program reduces poverty by preserving macroeconomic stability, boosting economic growth, and adopting policies that will improve the lives of the poor. This memorandum is consistent with the goals established in the Poverty Reduction and Strategy Paper (PRSP) and three annual progress reports. It is also in line with ongoing preparations for the new Economic Development and Poverty Reduction Strategy (EDPRS), expected to be finalized by end-year. The memorandum reviews the recent performance under the program and describes the policies for the remainder of 2007 and the medium term.

I. RECENT ECONOMIC DEVELOPMENTS

2. **With policies remaining on track, macroeconomic performance in 2006 was satisfactory.** Despite adverse weather conditions depressing agricultural output, growth at over 5 percent exceeded projections because of buoyant activity in manufacturing and the services sector. However, rising food and energy costs pushed inflation to almost 12 percent at end-2006 (inflation excluding these items remained at about 5 percent).

3. **Fiscal policies were in line with the program.** Higher-than-programmed revenue offset unforeseen spending, so that the end-2006 target on the domestic fiscal balance was met. The revenue overperformance reflected mostly one-off VAT collections and nontax receipts. On the spending side, there were additional outlays for export promotion, the Kigali Water Project, and construction and repair of schools. As a result, priority spending substantially exceeded the target. However, as foreshadowed in our MEFP of January, the target on net credit to government was missed, because of continued delays in reimbursements from the African Union for our peace keeping efforts in Sudan.[1]

4. **Though the end-2006 reserve money target was met, monetary management was complicated by**

- an acceleration in fiscal spending, including for projects, toward the end of the year, which necessitated large sterilization operations of the National Bank of Rwanda

[1] The amounts owed are about ½ percent of GDP.

(NBR). To bring reserve money within the 2006 target, the NBR issued domestic papers, implying a sharp increase in domestic debt in the last quarter.

- the continued rapid expansion in broad money. To a greater extent, this reflected an increase in private sector credit (by 24 percent), mostly for investment. Broad money was also boosted by temporary deposit increases such as a repatriation of an investor, who is expected to reinvest this money gradually in the future.

5. **The current account deficit was tighter than programmed.** This was due to a substantial increase in private transfers and slightly better export receipts from higher volumes. The NBR's international reserves surpassed the program target, exceeding five months of imports, because project disbursements were higher than programmed and the NBR used an overdraft facility at the Belgian central bank. The nominal effective exchange rate depreciated by 3 percent in 2006, while there was a moderate real appreciation of 4 percent.

6. **Early indications for 2007 are mixed.** Inflation declined to 10 percent in April, but inflation excluding food and energy increased to 7 percent, owing to increases in health and education fees and the pass-through of higher food prices to restaurants. The first harvest's production was below the one in 2006 with large shortfalls in some crops, while others overperformed; rains for the mid-year harvest so far have been favorable. Preliminary fiscal data for the first quarter indicate that, despite revenue overperformance covering unforeseen spending, the benchmarks on the domestic deficit and the net credit to government were missed. This is because delays in one EU tranche and the parliamentary approval of the World Bank's Poverty Reduction Support Grant (PRSG) would have triggered an automatic adjuster requiring spending cuts; the PRSG has now been disbursed and the EU grant is expected to come in the second quarter of 2007.

7. **On the structural front:**

- To enhance *public* financial *management*, workshops to facilitate the implementation of the Organic Budget Law (OBL) were held. We also decentralized the authority to effect expenditure commitments and virements to budget agencies and Parliament passed the Public Procurement Code and created an intergovernmental fiscal relations unit, whose role, among others, is to report on local government finances. In May, consolidated government financial statements for 2006 were completed, and the Ministry of Finance issued accounting instructions, forms, and procedures for budget users (end-December benchmark). However, the comprehensive review of the wage structure of the public sector (end-December benchmark) has been delayed because we realized that technical assistance is needed (new end-September benchmark). In June, the Auditor General completed an audit of our peace keeping activities (prior action).

- To increase *agriculture productivity*, we developed and published in April a national fertilizer strategy (end-February benchmark).

- To develop the *foreign exchange market*, the NBR revised the foreign exchange regulations and relaxed auction rules.

II. Medium-Term Policies

8. **The EDPRS will use the findings of recent socio-economic surveys to accelerate poverty reduction.** Most importantly, we will intensify efforts to tackle extreme poverty by improving food security and the targeting of job creation and social protection schemes. To this end, we are developing on a pilot base the grassroots "Umurenge" scheme. For small villages, Umurenge will consolidate existing social protection schemes toward income generation for food security and building savings for village investments. Because poverty remains concentrated in rural areas, increasing agricultural productivity will become key and we expect to finalize our agricultural strategy in time for implementation with the 2008 budget. We are also in the process of resolving any discrepancies between the surveys and other data sources, so that the EDPRS will be based on a sound monitoring system, which will assist in the coordination and targeting of policies.

III. The Program for 2007

9. **The objectives of the 2007 program remain broadly unchanged.** We assume a real growth rate of 4½ –6½ percent. With a good mid-year harvest, inflation is expected to decline to 5 percent, while international reserves would cover about 5 months of imports. Macroeconomic and structural policies are designed to improve the living standards of the poor and promote growth-enhancing investments and reforms.

A. Macroeconomic Program

10. **Accommodating a substantial fiscal expansion from a scaling up of aid will require prudent management of macro policies.** We had envisaged an increase in the domestic deficit (excluding spending on demobilization and peace keeping) by 1.3 percent of GDP compared with 2006, but the deficit could expand up to 3.3 percent of GDP:

- New grants for education spending, in particular from the Fast Track Education Initiative, are expected to become available. Utilizing these grants will entail an additional increase in the deficit by 1.2 percent of GDP.

- We would increase the deficit further by up to 0.5 percent of GDP for contingent spending. Higher grants of 0.1 percent of GDP have been identified and related spending included in the program. Should more grants materialize, the program would automatically by adjusted by another 0.4 percent of GDP.[2]

[2] An increase beyond 3.3 percent of GDP compared with 2006 would be done only in the context of the third review under the PRGF of macroeconomic developments.

- With large shortages in crops, which could have been stored to bridge the time to the next harvest, we will import maize and beans (amounting to about 0.3 percent of GDP) to ensure food security in all districts. This will trigger an automatic adjuster in the program, allowing an increase in the deficit and a commensurate reduction in net foreign assets.

This large fiscal expansion is expected to result in pressures for a real exchange appreciation. To ensure that these pressures do not jeopardize macroeconomic stability, we have put in place a safeguard, which we describe in paragraph 11.

Fiscal Program, 2006 – 07

(Percent of GDP)

	2006 Program	2006 Actual	2007 Program	2007 Projected
Revenue	15.0	15.1	15.0	14.7
Expenditure	21.9	21.3	22.9	23.8
Priority	10.9	11.0	12.5	13.6
Of which: Emergency food imports				0.3
Nonpriority	8.9	8.7	8.8	8.7
Interest	0.8	0.6	0.6	0.5
Peace keeping support	0.8	0.8	0.7	0.7
Demobilization	0.5	0.2	0.3	0.3
Domestic Fiscal deficit (excluding AU peacekeeping and demobilization)	-5.6	-5.1	-6.8	-8.1

Fiscal Policy

11. **We have established a safeguard to make the fiscal expansion consistent with the program's inflation objective.** Prudent management of scaled-up aid must focus on preventing a crowding out of the private sector, building up costly domestic debt or rekindling inflation. We will thus start monitoring an indicative target on domestic debt. Should the target be exceeded, this would signal that the spending increase was too rapid, forcing the NBR to resort to sterilize the liquidity impact from the additional spending through domestic paper. In this case, the Ministry of Finance would adopt a more gradual approach in releasing the domestic component of the budget in the following quarter.

12. **Though the program automatically accommodates grant-financed and food-related spending, we request a modification of the end-June targets on the domestic**

fiscal balance and net credit to government. This is because there is a timing issue with several unforeseen spending items taking place in the first half of the year and corresponding financing through grants and higher revenue coming in the second half of the year.

Changes to the 2007 program
(Billions of Rwandese franc)

	Jan - Jun	Jul - Dec	Jan - Dec
New Resources	**-11.9**	**42.9**	**31.0**
Higher Revenue	**4.5**	**5.0**	**9.5**
Change in Grants	**-16.5**	**37.9**	**21.4**
AfDB	*-18.1*	*18.1*	*0.0*
Fast Track Education Initiative	*1.3*	*12.9*	*14.2*
Other Education grants		*3.6*	*3.6*
Contingent grants	*1.3*	*1.3*	*2.6*
New Spending	**15.1**	**20.2**	**35.3**
Priority	**8.5**	**20.7**	**29.1**
Fast Track Education Initiative and other	1.3	16.5	17.8
Priority Communication	1.1	0.0	1.1
Lake Kivu pilot project	0.0	1.0	1.0
Food imports	2.8	2.8	5.5
Emergency spending for flood victims	2.4	0.4	2.8
Emergency rehabilitation of electricty transmission	0.9	0.0	0.9
Sterilization cost to NBR	**2.4**	**1.8**	**4.2**
Nonpriority	**4.3**	**-2.3**	**2.0**
Tanzania Refugees	0.8	1.2	2.0
Purchase of Banque de Kigali	3.5	-3.5	0.0
Higher domestic deficit [1]	**-10.6**	**-15.3**	**-25.9**
Automatic program adjustments for changes in grants and emergency food imports as of the TMU of January 10, 2007 [2]	-8.2	35.3	27.1
Adjusted domestic deficit	**-18.8**	**19.9**	**1.1**

[1] Defined as revenue less domestic expenditures
[2] Had the AfDB grant been on time the adjustment would have been Rf 5.35 billion

13. **On the revenue front, we will at least maintain the revenue-to-GDP ratio of 14.7 percent of GDP** (excluding several one-off items of about 0.4 percent of GDP received in the last quarter of 2006, such as from arrears collection and the sale of government cars). As stated in the January MEFP, we stand ready to increase the petroleum excise, should there be any revenue shortfalls.

14. **Almost all new spending is for priorities.** About half is for new school buildings and laboratories, the purchase of education materials and wages for teachers under the umbrella of the Fast Track Education Initiative. Other priority items include food imports, additional

funds to complete the Lake Kivu pilot project and emergency assistance to flood victims in Western Province for property and infrastructure repairs. Nonpriority spending increases due to an underestimation of the domestic interest bill and outlays for the resettlement of refugees from Tanzania, but will be financed through higher-than-programmed revenue.

15. **On specific spending items:**

- We are awaiting confirmation from the AU to reimburse us in a timely manner for our peace keeping efforts, particularly because disbursements in January-March were not made on time. Should there be any further delays, we will cut other spending to meet the limits on the net credit to government.

- The government acquired the majority share in the commercial bank Banque de Kigali in February (about 0.3 percent of GDP). With the sale to be completed by year-end, the transaction is not expected to affect our deficit target (see paragraph 24).

- Contingent spending of Rf 4 billion (0.3 percent of GDP) for road maintenance (not included in the projections) is expected to be financed either by additional grants or an increase in the levy for the road fund.

Fiscal structural reforms

16. **We are in the process of improving our projections for externally-financed project accounts.** Focusing on the largest project accounts as specified in paragraph 46 of the technical memorandum of understanding of January 10, 2007, we will undertake quarterly reconciliations of actuals with projections of project spending, including its import component, starting in May. The first reconciliation report will be issued by June.

17. **The monitoring of local governments is being strengthened.** A Prime Minister's instruction of May 9, 2006 allows the treasury to withhold transfers to provinces and districts ("local governments"), which hold unused balances or which have not been compliant with monthly reporting requirements. Those local governments, which were delinquent in reporting requirements for January and February of 2007 (which were due in March), were informed in mid April that, unless they were compliant by mid-June, their funds would be cut off in July. The first consolidated execution report showing transfers and budget execution per major line items per district and per province during January-April will be published on the Ministry of Finance's website by end-July (performance criterion).

18. **The medium-term Public Financial Management (PFM) action plan is scheduled for completion by end-2007.**[3] Several measures identified for completion in 2007 in the

[3] The PFM has benefited from the Public Expenditure and Financial Accountability (PEFA) assessment conducted in March, and reflects assistance pledged by our development partners.

interim action matrix have been revised with more specific objectives, realistic timelines, and proper sequencing. For each component, we now include ways to measure progress, capacity requirements and institutional responsibilities. In addition to our commitments specified in the January MEFP, which include, in particular, efforts to ensure full implementation of the OBL and financial regulations:

- **Public Accounts**. We will produce by mid-June 2007, monthly financial reports covering January to March 2007 of all line ministries, provinces, and autonomous agencies: (i) bank reconciliation statement; (ii) budget execution reports, and (iii) statements of revenue and expenditure.

- **Budget Preparation.** We will complete, by September 2007, a diagnostic review of the Medium-Term Expenditure Framework (MTEF) process, including the integration of the development and recurrent budget. This will assist in determining technical assistance needs for implementation of the MTEF with the 2009 budget framework.

- **Budget Execution:** To facilitate the move to a treasury single account for local governments, we will develop by June 2007 new procedures to manage decentralization for cash management, commitment control, virements and banking arrangements.

- **Auditor General.** In collaboration with donors, we continue to strengthen the capacity of the Office of the Auditor General (OAG) through training of staff.

- **Internal Audit.** We will by December 2007 review the structure of the Internal Audit Department; train internal audit staff on new PFM legal framework; and prepare internal audit manuals with assistance from the World Bank and AFRITAC.

Monetary Policy

19. **Reserve money will remain the operational target to control inflation.** Due to an increase in money demand, including through the introduction of new financial instruments, the reserve money trend gradually has deviated from the program over the last years.[4] In order to improve monetary management, we thus rebased the reserve money program and also made the money anchor more effective by monitoring it now on a monthly instead of quarterly frequency. Based on these adjustments, the NBR will limit year-end reserve money growth to 13 percent. This policy is expected to reduce inflation to 5 percent and to create room for an expansion of credit to the private sector by 17 percent. The NBR will also tighten the management of excess reserves of commercial banks to encourage a stronger interbank

[4] At end-2006, the reserve money target was met by lowering banks' reserves substantially below the reserve requirement.

market. To this end, it will mop up excess liquidity, in particular through sales of foreign exchange.

20. **To enhance flexibility in the exchange rate, we will develop the interbank foreign exchange market**. Our interventions will accommodate upward pressures on the exchange rate through nominal appreciation by raising foreign exchange sales while smoothing out short-term market fluctuations. To enhance flexibility in the exchange rate in the long term, we will discuss with banks the preparations for an exit from the current auction system toward a fully-fledged interbank market.

21. **The NBR is committed to maintaining the principles of good governance and best practices.** As part of this process, the NBR will publish its financial accounts by June 2007.

External Sector

22. **Because fiscal spending is increased, we expect the external current account deficit (excluding official transfers) to widen to more than 20 percent of GDP (an increase of almost 3 percent of GDP over 2006)**. This is mainly driven by an expansion in the fiscal deficit, along with the drawdown in projects accounts, and foreign direct investment, which is projected to result in a substantial increase in imports by about 30 percent. Export receipts are expected to increase by about 8 percent, driven mainly by increased volumes in coffee and tea.

23. **We are developing an implementation roadmap for joining the EAC Customs Union Protocol by June 2009.** Initial efforts will be on policy harmonization with a particular focus on developing a list of sensitive products (including those, where higher tariffs could adversely affect the poor). Jointly with other EAC members, we will also seek concessions on industrial imports from non-EAC countries and negotiate the elimination of nontariff barriers.

B. Structural Policies

Financial sector

24. **The central bank is strengthening the capital base of the banking system.** To improve banks' capital base and tighten the licensing criteria for bank, the minimum capital requirement for banks will be increased on January 1, 2008. Noncompliant banks have provided plans on how to go ahead, including possible merger scenarios. Disinvestment of the Banque de Kigali is well under way and the bidding process for its sale has commenced. To manage the Banque de Kigali during the transition period, the central bank together with the Ministry of Finance signed a memorandum of understanding with the interim management of the bank. The NBR is also discussing with potential new shareholders a capital injection in a problem bank.

25. **The implementation of the Financial Sector Development Plan (FSDP), which we drafted in coordination with FIRST, is being coordinated with donors**. The FSDP features

- **Strengthening NBR's supervisory powers**. While parliament is discussing the amendments to the banking, the central bank has started drafting regulations. Following the parliamentary passage of the Anti-Money Laundering Law, we will establish the appropriate infrastructure for its enforcement, such as setting up a Financial Intelligence Unit.

- **Expanding access to credit and financial services**. With access to financial services limited outside Kigali, the process of transforming the Union Banques Populaires du Rwanda (UBPR)—a large microfinance network—into a commercial bank is underway. By being able to offer payments services, this would substantially increase access to banking services.

- **Long-term finance and capital markets**. To facilitate the development of a capital market and provide adequate regulation for market participants, we will, among other: (i) reissue a portion of existing t-bills as bonds and securitize a portion of the long-term debt owed by the government to the Caisse Social du Rwanda to create a yield curve and avenues for longer-term investments for institutional investors such as the pension fund; (ii) develop legal regulatory and operational guidelines; and (iii) establish a Capital Markets Advisory Council to oversee the debt and equity markets.

- **Contractual saving institutions**. Rwanda's insurance industry and pension fund are an important element of mobilizing long-term funds essential for our development strategy. To this end, we are preparing with the assistance of donors a consolidated regulation and supervision plan for nonbank financial institutions (NBFIs).

- **Payments system**. To create an effective payments infrastructure, we will, among other, (i) develop a national strategy on payments; and (ii) establish an automated clearing house.

26. **We are exploring various options to further boost electricity supply**. Electricity generation has now been stabilized thanks to rental generators; at end-2007, a heavy-fuel oil generator is expected to replace some of the expensive rentals. Electrogaz' management is being strengthened and its financial situation is expected to improve in the medium term. A structured tariff has been introduced, and further adjustments will be made when cheaper power sources will become available. We expect the Lake Kivu methane gas pilot project to be operational by end-2007, but the expansion of the project might be delayed due to a legal dispute with other shareholders. In the meantime, we are discussing with various investors new projects related to the lake's gas reserves. Feasibility studies and discussions on financing options for various hydro dams are ongoing, including on a regional basis.

There are also more than 30 microdam projects in progress. In parallel, we are working on designing the transmission and distribution networks to increase access.

27. **The pace of investment climate reforms in the justice and land sectors is being accelerated**. A three-year project started in May 2007 in partnership with the private sector and with funding from the Investment Climate Facility for Africa (ICF). To address legal and regulatory constraints facing businesses, the project focuses on commercial dispute resolution, and business and land registration reform.

28. **The Statistical Institute is revising national accounts**. Reflecting a more recent base year (2001), we have improved the coverage of survey data, particularly on the services sector. As a result, greater consistency has been achieved between national accounts and poverty statistics. As a next step, we will be reviewing the methodology for calculating the GDP deflator.

IV. Program Monitoring

29. **Conditionality and program reviews**. The third review of the PRGF arrangement, scheduled for completion by November 31, 2007, will review quantitative performance as of June 2007 and structural conditionality through September 2007. It will focus on expenditure management and financial sector reform. We have set new structural conditionality on the monitoring of project accounts and the delayed comprehensive review of the wage structure of the public sector.

30. **Technical memorandum of understanding (TMU)**. The attached TMU lays out the details of program design and terminology. We have kept the broad design of the program for 2006 but have (1) modified the definition and the quantitative end-June and end-December 2007 targets of the performance criterion on reserve money as well as the indicative targets on broad and extended broad money; (2) added an indicative target on domestic debt to ensure that the private sector is not crowded out by a fiscal expansion; and (3) modified the end-June quantitative performance criteria on the domestic fiscal deficit and net credit to government and introduced a new adjuster to the domestic fiscal deficit.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks for 2006
(RF billions, unless otherwise indicated)
(Quantitative benchmarks* and performance criteria on test dates**)

	2006			
	Mar.	Jun.**	Sep.*	Dec.**
Benchmarks and performance criteria				
Net foreign assets of the NBR (floor on stock)[1]				
Actual (program exchange rate)	225.2	236.6	228.0	227.4
Adjusted program	219.7	219.5	208.3	174.7
Program	212.9	221.3	203.7	172.4
Reserve money (ceiling on stock)				
Actual	63.7	68.3	69.4	70.5
Program	64.9	68.4	69.8	70.8
Net credit to the government (ceiling on flow)[2]				
Actual	-51.5	-50.8	-28.2	-10.7
Adjusted program	-30.5	-39.7	-28.7	-12.3
Program	-23.8	-41.5	-24.1	-10.0
Domestic fiscal balance (floor on flow)[2]				
Actual	-8.3	-29.3	-58.2	-70.8
Adjusted program	-19.2	-40.0	-61.9	-77.2
Program	-19.2	-42.2	-61.1	-79.4
Total priority spending (floor on flow)[2]				
Actual	28.0	68.3	114.1	151.6
Adjusted program	32.1	69.4	107.1	142.9
Program	32.1	70.5	107.1	144.0
New nonconcessional external debt[3]				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock)[3,4]				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock)[5]				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow)[2]				
Actual	-2.5	-4.4	-4.6	-7.5
Program	-1.8	-3.5	-5.3	-7.0
Indicative targets				
Broad money (ceiling on stock)[1]				
Actual	221.0	241.2	258.0	287.6
Program	219.5	224.0	235.7	243.1
Extended broad money (ceiling on stock)[1]				
Actual	254.5	283.1	303.2	334.4
Program	250.8	256.0	269.3	277.8
Memorandum items:				
General budget support (US$ million)[6]				
Received	28.3	99.3	125.4	127.2
Expected	16.0	102.5	117.1	123.1
Of which: budget support grants (received)	27.9	98.4	118.5	119.3
Of which: budget support grants (expected)	16.0	102.5	117.1	123.1
Budgetary "baseline grants" (TMU, ¶ 9)[6]	16.0	95.5	103.1	103.1

Sources: Rwandese authorities and IMF staff estimates and projections.

[1] At the program exchange rate of RF 553.7/US$.

[2] Numbers are cumulative from December 31, 2005.

[3] This is a continuous performance criterion.

[4] Excludes arrears on obligations that are subject to rescheduling.

[5] Ceiling on outstanding stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central government, local government, or the NBR with original maturity of up to, and including one year.

[6] Excluding external donor financing for demobilization and peacekeeping.

Table 2. Rwanda: Quantitative Performance Criteria and Benchmarks for 2007[1]
(Billions of Rwanda francs, unless otherwise indicated)
(Quantitative benchmarks*; and performance criteria on test dates**)

	2007		
	Jun.**	Sep.*	Dec.**
Benchmarks and performance criteria			
Net foreign assets of the NBR (floor on stock)[2]			
Actual (program exchange rate)			
Adjusted program			
Program	244.3	206.8	179.3
Reserve money (ceiling on stock)[3]			
Actual			
Program	83	88.1	87.9
Net credit to the government (ceiling on flow)[4]			
Actual			
Adjusted program			
Program	-37.7	-25.7	4.7
Domestic fiscal balance (floor on flow)[4,5]			
Actual			
Adjusted program			
Program	-64.9	-70.6	-98.7
Total priority spending (floor on flow)[4,5]			
Actual			
Adjusted program			
Program	86.7	132.4	181.1
New nonconcessional external debt[6]			
Actual			
Program	0.0	0.0	0.0
New external payment arrears (ceiling on stock)[6,7]			
Actual			
Program	0.0	0.0	0.0
Short-term external debt (ceiling on stock)[8]			
Actual			
Program	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow)[4]			
Actual			
Program	-3.9	-5.4	-7.0
Indicative targets			
Broad money (ceiling on stock)[2]			
Actual			
Program	297.7	305.3	312.4
Extended broad money (ceiling on stock)[2]			
Actual			
Program	346.2	355.0	363.3
Net Present Value of the Stock of Outstanding Debt (Millions of US$)[9]			
As projected for end-December 2007	200.409		200.409
As projected for end-December 2008	239.819		239.819
As projected for end-December 2009	279.465		279.465
Ceiling on stock of domestic debt[10]			
Actual			
Adjusted program			
Program	175.2	187.1	185.1
Memorandum items:			
General budget support (Millions of US$)[5,11]			
Received			
Expected	186.5	193.0	196.6
Of which: budget support grants (received)			
Of which: budget support grants (expected)	186.5	193.0	196.6
Budgetary "baseline grants" (TMU, para. 9)[11]	176.5	178.0	176.6
Revised domestic fiscal balance (excluding AU, demob and food)[12]	-43.3	-65.1	-93.2

Sources: Rwandese authorities and IMF staff estimates and projections.

[1] New targets or indicative targets, which were modified compared with Table 2 of the January 10 MEFP, are shaded.

[2] At the program exchange rate of RF 549.9/US$.

[3] Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter. Program projections are done quarterly. To derive the monthly figures, seasonality factors and a trend are applied to the quarterly projections. The seasonality factors are derived by applying the X11 filter to currency in circulation over 2002-06 (the factors were robust with respect to different time periods). The seasonality factors were 0.93 for April, 0.96 for May, 1.01 for June, 1.0 for July, 0.98 for August, 0.96 for September, 0.94 for October, 0.94 for November and 1.0 for December.

[4] Numbers are cumulative from December 31, 2006.

[5] The domestic fiscal balance targets will be adjusted by the amount of grants exceeding or below programmed grants with the adjusters as specified in the TMU of January 10, 2007, and paragraph 3 of the TMU of June 7, 2007. Also the priority spending targets will be adjusted by the amount of grants exceeding or below programmed grants.

[6] This is a continuous performance criterion.

[7] Excludes arrears on obligations that are subject to rescheduling.

[8] Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.

[9] Figures indicate the NPV projections based on debt contracted at the test date.

[10] Numbers show end of period stocks, at the end of 2006 the stock stood at RF 189.6 billion.

[11] Excluding external donor financing for demobilization and peacekeeping.

[12] Used for the calculation of the adjuster on the indicative limits on domestic debt.

Table 3. New Structural Conditionality, 2007

Prior action for the completion of the second review under the PRGF		
Publish on the Ministry of Finance's public website the Auditor General's audit of peace keeping activities during 2006.		Prior action, implemented on June 6, 2007
Public expenditure management		
Undertake a comprehensive review of the wage structure of the public sector, including fringe benefits and wages included in transfers to local governments.	September 30, 2007	Benchmark
Publish on the Ministry of Finance's website the first consolidated execution report of local governments showing transfers and budget execution per major line items per district and per province for the period January-April.	July 31, 2007	Performance Criterion

TECHNICAL MEMORANDUM OF UNDERSTANDING

June 7, 2007

1. This technical memorandum of understanding (TMU) supplements the TMU of January 10, 2007. It (1) outlines the changes to the quantitative program targets compared with Table 2 of the MEFP of January 10, 2007; (2) introduces a new adjuster to the domestic fiscal balance; (3) introduces a new quantitative target on domestic debt; and (4) modifies the definition for the quantitative targets on reserve money.

I. QUANTITATIVE PROGRAM TARGETS

2. The following revisions have been made compared with Table 2 of the MEFP dated January 10, 2007:

- Modified performance criteria for June 30, 2007 and December 31, 2007 as well as indicative targets for September 30, 2007 are proposed to be established with respect to ceilings on reserve money.
- A modified performance criterion for June 30, 2007 is proposed to be established with respect to the floor on the domestic fiscal balance of the central government.
- A modified performance criterion for June 30, 2007 is proposed to be established with respect to the ceiling on the net credit to the central government.
- Indicative targets are proposed to be established for June 30, 2007, September 30, 2007, and December 31, 2007 for ceilings on the consolidated domestic debt of the public sector.
- Modified indicative targets are proposed to be established for June 30, 2007, September 30, 2007, and December 31, 2007 for ceilings on broad money and extended broad money.

All other targets are unchanged from those set in Table 2 of the MEFP of January 10, 2007.

A. Targets Related to the Execution of the Fiscal Program

Domestic Fiscal Balance of the Central Government (DFB)

3. **New Adjuster**.

- The floor on the DFB will be adjusted *downward* (i.e., the deficit target will be increased) by the amount of the positive difference between actual and programmed budgetary grants up to a maximum of Rwandese Franc 26.4 billion. The increase in the deficit would be used for spending as specified in bullet 1 of paragraph 9 of the TMU of January 10, 2007. If actual grants exceed programmed grants by more than Rwandese Franc 26.4 billion, the floor on the DFB will be *adjusted downward* in the context of the third review of the PRGF with Fund staff **IF** this review establishes that a further fiscal expansion would not lead to a rekindling of inflation or an undue increase in domestic debt.

Domestic debt of the central government and the National Bank of Rwanda (DD)

4. A ceiling applies to the DD for the end-June 2007, end-September 2007, and end-December 2007 targets.

5. **Definition**. Domestic debt of the central government and the National Bank of Rwanda includes the stock of treasury bills for government financing at coupon value, plus government borrowing from public enterprises (FinaBank formerly Bank Continental Africaine du Rwanda, Bank Commerciale du Rwanda, Bons de Developpement, Credit Savings Scheme, Caisse Social du Rwanda, OCIR-Thé; and rescheduling of old arrears) plus the stock of treasury bills issued for monetary policy, plus any one-day or one-week deposits of commercial banks at the central bank excluding excess and required reserves.[5] The stock of domestic debt was Rf 189.6 billion at end-2006.

6. **Adjusters**.

- In the case of a grant-financed expansion of the domestic fiscal balance to limit the crowding out of the private sector through sterilization: The ceiling on domestic debt will be adjusted *(both upward and downward)* by one-third of the difference between the actual domestic fiscal balance and the revised domestic fiscal balance (excluding AU peace keeping, demobilization and food imports). That is, if the actual deficit is higher than the revised programmed deficit, the ceiling would be revised upward.

- In the case of a shortfall in grants, for which an automatic adjuster would increase the limit on net credit to government: The ceiling on domestic debt will be *adjusted upward* by any negative difference between actual and "baseline grants" up to a maximum adjustor of US$30 million, evaluated in Rwanda francs at the program exchange rate (see also paragraph 13 of the TMU of January 10, 2007).

7. **Reporting requirement**. Data on domestic debt will be transmitted on a monthly basis within four weeks of the end of each month.

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[5] T-bill holdings of the NBR are excluded because this is the consolidated debt of the central government and the NBR.

B. Targets for Monetary Aggregates

Reserve Money

8. **Modification of the measurement of the ceiling on the stock of reserve money**. The stock of reserve money for the quarter will be calculated as the arithmetic average (mean) of the stock of reserve money at the last day of each calendar month comprising the quarter.