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June 23, 2011

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

May 25, 2011

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 a policy support instrument 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.

LETTER OF INTENT

May 25, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Mr. Lipsky,

1. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments in Rwanda and implementation of Rwanda's economic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on December 20th, 2010. The attached MEFP is an update of the previous MEFP and sets out policies and programs the Rwandan government intends to implement for the fiscal year 2011/12 and the medium term. The PSI is set to expire on June 29, 2013.

2. We continue to make progress with our economic program. All quantitative assessment criteria for end-December and all continuous assessment criteria have all been met. Structural benchmarks under the PSI program for end-December 2010 were met with the exception of one. The structural benchmark of submitting to cabinet draft legislation to transfer the collection and audit of social security and health insurance premium contributions to the Rwanda Revenue Authority (RRA) has been delayed since December 2010, although the RRA has already started collecting both types of contributions. Two end-January 2011 structural benchmarks were missed. The draft export diversification strategy—delayed from August 2010—and the Medium-Term Debt Strategy (MTDS). The export strategy has since been approved in April 2011. For the Medium-term Debt Strategy, we deemed important to seek contributions from the IMF- MCM department before adoption by the Cabinet. The Government has requested TA from the MCM department and both policy and strategy will be ready for adoption by October 2011.

3. Structural reforms are broadly on track. The National Bank of Rwanda (NBR) replaced the average reference rate with a market–based exchange rate in December 2010 in line with the MCM recommendation of November 2010, continues to maintain a flexible exchange rate regime and strengthen interbank activity in the new exchange rate corridor framework. Progress

in improving the quality of statistics including national accounts is also described in the attached Memorandum.

4. In light of the satisfactory program implementation and performance outlined in the attached MEFP, the government requests completion of the second review under the PSI. The Government also requests approval of the modification of the assessment criteria for end-June 2011 with respect to (i) NFA of the central bank to reflect higher than programmed donor inflows; (ii) reserve money to account for structural increase in currency; and (iii) NDF to account for changes in timing of donor inflow disbursements and spending reductions. The government also requests approval of end-December 2011 assessment criteria and structural benchmarks for FY2011/12.

5. The Government believes that the policies and measures set forth in the attached Memorandum will deliver the objectives of the program. We stand ready to take any further measures that may become appropriate for this purpose. The Government will consult with the IMF - at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

6. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the third review will take place before end-December 2011, and the fourth review before end-June 2012.

7. The Government of Rwanda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by the Fund staff.

Sincerely yours,

/s/	/s/
John Rwangombwa	**Claver Gatete**
Minister of Finance and Economic Planning	Governor, National Bank of Rwanda

Attachment I. Rwanda: Memorandum of Economic and Financial Policies

May 25, 2011

UPDATE

1. In this updated Memorandum of Economic and Financial Policies (MEFP), **the Government of Rwanda remains committed to achieving sustained economic growth and poverty reduction**. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy (EDPRS) for 2008–12[1] and Rwanda's Vision 2020. To this end, the Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support macroeconomic policies and structural reforms that underlie strategies in the EDPRS.

2. This MEFP reviews performance during 2010—and the status of targets set for end-December 2010—and describes policies and targets for 2011/12 fiscal year and the medium term. Specific targets and benchmarks for June and December 2011 are in the attached table.

I. Performance under the PSI

3. All end-December 2010 and continuous quantitative assessment criteria were met and structural benchmarks were met, with the exception of one structural benchmark **(Tables 1 and 2)**. One of the structural benchmarks—submission to cabinet draft legislation to transfer the collection and audit of social security and health insurance premium contributions to the Rwanda Revenue Authority (RRA)—has been delayed since December 2010 due to a new government policy to merge the Social Security Fund (CSR) with Rwanda Health Insurance Agency (RAMA). Nevertheless, the RRA commenced collection of CSR effective July 1, 2010 after signing a MoU with CSR to this effect. The draft legislation will be prepared and submitted to cabinet by end September 2011 after the merger is completed. Two end-January 2011 structural benchmarks were missed. The draft export diversification strategy—delayed from August 2010—was approved by the Cabinet in April 2011. The Medium-Term Debt Strategy (MTDS) will be submitted to Cabinet later this year, following IMF-World Bank technical assistance (see paragraph 27).

[1] Rwanda's latest EDPRS (Country Report No. 08/90) and Joint Staff Advisory Note (Country Report No. 08/91) were issued to the Executive Board on February 14, 2008. A progress report is being issued to the IMF's Executive Board along with the Staff Report for the second PSI review.

Growth

4. **Output growth for 2010 strengthened to an estimated 7.5 percent,** higher than the projected 6.5 percent. This stronger-than-expected recovery is led by services, reflecting the ongoing improvements in financial services—finance and insurance—and the on-going investments in communication as well as the recovery in tourism and trade. The tertiary sector grew by 5 percent in 2010 as a result of growth in food crops which continue to benefit from the large investments in fertilizer, improved seeds and extension services under our Crops Intensification Program. Growth in the industrial sector was led by construction and manufacturing especially food processing. The recovery in construction was mainly due to the resumption of credit to this sub sector as well as completion of some public projects.

Inflation

5. Inflation in Rwanda remained low in 2010. Year-on-year inflation fell to 0.2 percent in December 2010 from 5.7 percent in December 2009, well below the target of 7 percent for 2010. Low inflation in 2010 was driven by continuous low foreign inflation leading to low import prices, good domestic food harvest that kept food inflation very low, relatively stable nominal exchange rate against the major currencies, and modest increase in money supply.

Fiscal Performance

6. Execution of the budget for the first half of FY 2010/11 (July-December) was on track. The overall fiscal deficit (excluding grants) was slightly better than expected (by 0.45 percent of GDP) owing to a reduction of total expenditure of 0.25 percent of GDP as well as the accrual of privatization receipts of about 0.13 percent of GDP.

7. Total expenditures and net lending were in line with programmed amounts, supported partly by privatization receipts from an IPO of Bralirwa (a Brewery Company)[2]—which was not programmed. There were shortfalls in external grants (by 0.54 percent of GDP), reflecting delays in donor disbursements, and the government had to resort to issuing domestic debt, including the use of its overdraft facility with the central bank which has increased significantly in the past year. The additional domestic debt is expected to be reduced during July-December 2011 when donor disbursements accrue.

[2] Government completely divested its 30 percent shares.

EDPRS implementation[3]

8. We are currently in the fourth financial year of EDPRS implementation. At the end of fiscal year 2009/10, 86% of EDPRS targets were fully achieved and 11% partially achieved. Notably, significant efforts have been made towards improving the business environment and reducing the cost of doing business, including through investment in infrastructure. In addition, 53.8% of classified national roads are now in good condition from a baseline of 11% in 2006. Over the same period, electricity generation capacity has increased from 45MW to 84MW allowing an increase of 75% in the number of connections. The Information and Communication Technology (ICT) composite coverage network is now at 92% and cost of telecommunications services have reduced with increased competition.

9. Rwanda has registered renewed growth in agriculture over the last three years and new emphasis is given to post-harvest handling and marketing as well as reducing vulnerability of agricultural produce to weather conditions. The country is now on track to achieve access to water, health and education-related Millennium Development Goals (MDGs). It has already achieved MDGs related to gender equality. The Vision 2020 Umurenge flagship program of the EDPRS focused on eradicating extreme poverty currently covers 90 sectors of the country. In the area of governance, by end-2009/10, all Central Government entities and districts were audited by the Office of Auditor General (OAG) and all procurements above a threshold had either been tendered competitively or justified.

External Sector

10. The overall balance of payments ended the year in surplus thanks to strong export recovery and substantial increases in official and private capital inflows which offset structurally high imports. As a result, reserve coverage remained at comfortable levels at over five months of imports at end-2010. The export sector, benefiting from higher international prices, grew by 27 percent in value on the back of traditional exports (coffee, tea and minerals) as well as new products and re-exports. Tourism receipts also rebounded sharply from the trough observed in 2009. Economic recovery in 2010 has been associated with higher domestic demand for imports, though increasing less than expected due to delays in implementation of some large strategic investment projects, resulting in a smaller-than-projected trade deficit in 2010. Turning to the financial account, foreign direct investment did not perform as well as expected since negotiations on some large projects are still being finalized, while long-term private capital flows were boosted by some large investments, including in the telecommunications sector.

[3] See the EDPRS progress report submitted to the Executive Board.

Monetary and Exchange rate Developments

11. Monetary policy in 2010 was accommodative in response to the sharp drop in inflation and underlying inflationary pressures. This monetary policy stance was designed to support the gradual recovery in economic activity after the slowdown since 2009.

12. The Monetary Policy Committee (MPC) therefore decided to position the policy rate at a level to ensure positive real interest rates to stimulate domestic savings and support financial sector deepening. Thus, the policy rate (which also serves as the Key Repo Rate-KRR) was reduced cumulatively by 300 basis points from 9 percent in December 2009 to 6 percent in November 2010.

13. Broad money growth was strong—growing at 17 percent in 2010 compared to 13.1 percent in 2009—driven mainly by increases in net foreign assets which accounted for about 85 percent of the increase in total liquidity in the system. Thus, the banking system liquidity has been significantly improving, hence giving more confidence to banks in treasury management, while continuing to invest in short term instruments. However, growth in credit to the private sector was marginal in 2010—at 11.1 percent far lower than the original program target of 20 percent.

14. Although the National Bank of Rwanda (NBR) achieved June and December 2010 reserve money targets under the PSI program, controlling reserve money especially in the last quarter of 2010 was particularly challenging due to underestimation of the huge increase in monetization during the year as a result of rapid roll out of bank branches outside the capital city. This resulted in a significant structural increase in cash in vault of commercial banks driving reserve money persistently high during the last quarter of the year.

15. The NBR continued to maintain a flexible exchange rate regime in 2010—only intervening at the margins of the market to smooth out temporary volatility in the exchange market. For the year as a whole, the Rwanda franc was relatively stable, depreciating by 4.1 percent against the US dollar. However, interbank activity in the new exchange rate corridor framework has remained very low. This continues to remain a challenge to the implementation of the exchange rate corridor framework.

16. The NBR removed the average reference rate in December 2010 in line with the MCM recommendation of November 2010. This was replaced with a market-based exchange rate calculated as a weighted average of foreign exchange interbank rates and intervention transactions rate by the NBR.

Financial sector

17. In general, banks remained well capitalized, with strong solvency, liquidity and improving asset quality in 2010. This has increased public confidence in the banking

sector. The capital adequacy ratio of the banking system stood at 22.3 percent at end-December 2010, well above the regulatory capital of 10 percent for Tier 1 capital and 15 percent for total capital. Asset quality also improved during the year as non performing loans (NPLs) decreased from 13.1 percent in December 2009 to 10.8 percent in December 2010, leading to an increase in banks' profitability (return on equity and return on assets increased respectively to 10.2 percent and 1.8 percent from 5 percent and 0.7 percent at end 2009).

18. The NBR increased its supervisory activities in 2010. Following the risk based supervision approach, 7 on-site inspections of banks were conducted, against the target of 6 inspections (end-December 2010 structural benchmark). In addition, the NBR also adopted a number of regulatory and institutional reforms to further strengthen the supervision of microfinance (MFIs) and non-bank financial institutions (NBFI's). Six out of seven regulations approved in 2009 were translated and published in the official gazette in 2010[4], and eight new regulations were approved by the Board[5], along with a regulatory framework for ZIGAMA Credit and Savings Society (ZIGAMA-CSS) under the banking law.

19. For the purpose of strengthening staff motivation and increasing staff retention, a salary survey has been conducted by an external consultant who recommended an action plan to improve NBR's compensation scheme and professional development. The action plan was approved by the NBR Board in March 2011. In addition, the NBR provided training to the examiners in order to improve the quality of banking supervision.

Statistical Issues

20. Efforts to improve the quality of statistics including national accounts are continuing. In particular, the methodology and timing of the crop assessment survey have

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[4] Regulation N° 03/2008 on licensing conditions of banks (Official Gazette nº 51 bis of 20/12/2010)
Regulation N° 11/2009 on capital adequacy requirements (Official Gazette nº 51 bis of 20/12/2010)
Regulation N° 04/2008 on insider lending of banks (Official Gazette n° 02 of 10/01/2011)
Regulation n° 05/2008 on credit concentration and large exposure(Official Gazette n° 02 of 10/01/2011)
Regulation n° 06/2008 on corporate governance(Official Gazette n° 02 of 10/01/2011)
Regulation n° 10/2009 on Liquidity ratio (Official Gazette n° 02 of 10/01/2011)
Regulation n° 04/2011 on Business Continuity Management n°04 of 04/04/2011

[5] Regulation on merger and acquisition (n°05 of 04/04/2011)
Regulation on credit classification and provisioning (n°02 of 04/04/2011)
Regulation on banking placement (n°06 of 04/04/2011)
Regulation on pecuniary sanctions applicable to banks (n°03 of 04/04/2011)
Regulation on foreign exchange exposures limit (n°07 of 04/04/2011)
Regulation on Shareholding
Regulation on Major investment
Regulation on Opening or closure of a new place of business

been improved (end-December 2010 structural benchmark). The survey is currently done in two phases (ex-ante and ex-post) measuring actual amount of harvests since 2011 season A (end-January 2011 structural benchmark). The National Institute of Statistics for Rwanda (NISR) has been conducting the 2010-2011 household budget survey (EICV3) since November 2010 and data collection will take until end October 2011. The NISR has recently completed the data collection for the 2010 National Demographic Health Survey and the survey data should help in improving gross value added (GVA) estimates for the non-government health industry. The NISR has completed data collection for the 2011 Establishment Census results of which will be available by end-August 2011 (structural benchmark) and be used to develop the sampling frame for the planned 2011 Business Survey and Non Profit Institutions Survey. The data from these benchmark surveys, combined with other source data, will be used to develop detailed input-output (I-O) and supply-use tables (SUT) and to rebase the GDP estimates in 2011 constant prices.

21. To support these ambitious work targets, the NISR is strengthening its human capacity. NISR has recruited new staff including economists and strengthened the Economic Statistics department, which has now a director, and three Principal Statisticians in charge of National Accounts, Prices and Agricultural/Industrial Statistics. The NISR is planning to hire additional 25 staff members by the end of June 2011.

II. Objectives and Policies Looking Forward

22. The outlook for the 2011/12 fiscal year is in line with our medium term macroeconomic framework and program objectives set out in our initial MEFP. In 2011, output growth is projected at 7 percent, showing slight slow-down from 2010 due to withdrawal of the fiscal stimulus and adverse impact of rising global food and fuel prices. The rising food and fuel prices are also expected to push up domestic prices and inflation is now projected to reach 7.5 percent at the end of 2011.

23. Fiscal consolidation and domestic revenue mobilization remain the key components of our fiscal strategy. Accordingly, fiscal deficit (incl. grants) is projected to decline from 1.8 percent of GDP in 2011/12 to 0.3 percent of GDP by 2014/15. Over the same period, domestic revenues are projected to increase from 13.9 percent of GDP to 14.8 percent of GDP. Domestic revenue projections are underpinned by revenue administration measures. However, we expect to complement these measures by future reforms of our tax policy, with assistance from the IMF's Fiscal Affairs Department, in order to reduce our dependency on donor aid flows which are expected to decline from 11.7 percent of GDP to 8.5 percent of GDP though the outer years are subject to large uncertainty.

24. We are taking steps to broaden the coverage of project grants in the fiscal table which can affect the future path of grants. Starting with the 2011/12 budget, we are including grants related to the Global Fund spending by central Government, which have

become sizable (1.8 percent of GDP). We have started a process of creating a project Treasury Single Account (TSA). This will greatly improve our treasury management. Pilot phase will be completed by end-December 2011 (structural benchmark). Piloting will involve a review of the number of existing project bank accounts, their size, duration and closing dormant accounts.

A. Fiscal Policy

25. The budget for fiscal year 2011/2012 is to improve fiscal consolidation as envisaged in the PSI. This will involve increase in revenue mobilization and prioritize expenditures with a view to reduce the fiscal deficit and the domestic financing.

In this regard:

- Revenue/GDP: domestic resource mobilization will increase by about 0.2 percent of GDP from 13.7 percent to 13.9 percent.

- Total expenditure and net lending (excluding the expenditures funded by the Global Fund) will reduce by about 1.7 percent of GDP from 27.3 percent of GDP to 25.6 percent of GDP.

- The overall budget deficit (including grants) will decline from 4.2 percent of GDP in 2010/11 to 1.8 percent of GDP in 2011/2012.

- Net domestic financing will also decline from 2.1 percent of GDP in 2010/2011 to 0.3 percent of GDP in 2011/2012.

- We will use privatization receipts currently projected at Rwf 25 billion (0.64 percent of GDP) and included under net lending for financing of some priority investment projects. If privatization receipts turn out to be higher than budgeted, it will be saved, reducing the government's net domestic financing (NDF) requirement. If the receipts are lower than projected, spending will be adjusted, leaving NDF unchanged.

- **Revenue administration measures for 2011/12**

- Introduce Electronic Sales Register (ESR) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers. (structural benchmark for end-January 2012).

- Conduct a study to identify potential areas to widen the tax base and estimate the tax gap (structural benchmark for end-December 2011).

- Introduce e-filing and payment to improve on time spent, reduce burden to taxpayers and service delivery.

- Conduct customer satisfaction survey to inform our next areas of focus for strategic planning purpose.

- Introduce new tax compliance risk assessment system at the Domestic Tax Department (DTD) that will orient audit function to highly risk taxpayers.

- Implement electronic single window system at customs that will allow parties involved in trade & transport to lodge standardized information & documents using a single point.

- Establish a One-Stop-Border concept at Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross border trade.

- Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination.

- Fully automate collection of pension funds and RAMA and bring those out of the Pay-As-You-Earn (PAYE) net into the system.

• **Tax policy measures**

- Introduce gambling and royalty (on mining) taxes in 2011/12.

26. The government plans to improve its communication strategy by preparing quarterly budget execution reports, and publishing these on its website, within 45 days from the end of each quarter. This will start from mid-May 2011 (structural benchmark).

Public Financial Management

27. The government fully agrees with the contents of the report on Public Expenditure and Financial Accountability (PEFA) assessment. The areas of unsatisfactory rating in PEFA, and in particular those where performance has remained largely unchanged over the years will be subjected to close scrutiny in the ongoing Public Financial Management (PFM) Reform mid-term review, with a view to identify the factors that contribute to this situation and feasible remedial measures to be taken. In particular, the review will pay special attention to areas which had limited improvements and remained weak. These include:

- Composition of expenditure out-turn compared to original approved budget (D)
- Extent of unreported government operations (D+)
- Oversight of aggregate fiscal risk from other public sector entities (C)
- Effectiveness of internal audit (C)

- Quality and timeliness of annual financial statements (D+)
- Financial information provided by donors for budgeting and reporting on project and program aid (D+)
- Multi-year perspective in fiscal planning, expenditure policy and budgeting (C+)
- Effectiveness in collection of tax payments (D+)
- Availability of information on resources received by service delivery units (D)
- Quality and timeliness of in-year budget reports (D+)
- Legislative scrutiny of the annual budget law (C+)
- Proportion of aid that is managed by use of national procedures (D)
- Effectiveness of internal audit (C), and quality and timeliness of annual financial statements (D+).

Medium Term Debt Strategy

28. We have revised our debt policy and the Medium Term Debt Strategy (MTDS) in January 2011. However, we deemed important to seek contributions from the IMF- MCM department before adoption by the Cabinet. The Government has requested TA from the MCM department and both policy and strategy will be ready for adoption by end-October 2011 (structural benchmark). The MTDS would be used in designing fiscal policy in 2012/13 and beyond.

29. The Smart Financial Management Information System (SmartFMIS) has been subject to two external reviews by an international "Quality Assurance Group" (QAG), the most recent in May 2010. In its report of that mission, the QAG recommended that the Government prepare an "IFMIS Blueprint" to ensure that government undertake a thorough review of its business needs and how best to meet them and map this to the future direction for the Government's financial systems.

30. The work on the IFMIS Blueprint has now started with a view to having it adopted by end-December 2011 (structural benchmark). The approved blueprint will determine whether the Government IFMIS system will remain in-house or Commercial Off-the-Shelf (COTS) or a mix. Currently the system is being enhanced to integrate the new GOR Chart of accounts, which is expected to improve the consolidation coverage and transactions recording in line with the structure of General Government Sector.

B. External Sector Policies

31. The balance of payments in 2011 is expected to continue to record a surplus, further boosting reserves coverage. Tea exports would be supported by additional investments in the sector although mining exports remain uncertain because of some specific international certification requirements. The Government is taking measures to address this issue. Imports for capital goods would increase sharply along with the investments in strategic projects and energy imports would be affected by the rise in international oil prices. As a result, the current account (excluding official transfers) would deteriorate, though it is

expected to improve rapidly over the medium term as the large investment projects come on line. Several private investment deals, including in the services sector, would support a boost in foreign direct investment.

32. The National Export Strategy (NES) has been adopted by the Cabinet. Rwanda Development Board (RDB) will coordinate and monitor its implementation on an ongoing basis and provide periodic reports to the NES Technical Advisory Committee[6], which would oversee the coordination and the implementation efforts of the NES.

33. In the area of external debt, we will explore all avenues for concessional financing. However given the large requirement of resources for the financing of our development agenda, some non concessional financing will be necessary. We have already agreed to a ceiling of US$240 million of non concessional borrowing during the PSI period for RwandAir and the Kigali Conference Center (KCC). The authorities will conduct their own debt sustainability analyses (DSAs) using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper, starting end-March 2012 (structural benchmark).

34. We continue to request exclusion from the debt ceiling for the Banque Rwandaise de Developpement (BRD). The BRD is holding discussions with the African Development Bank (AfDB) and the Agence Française de Developpement (AFD) for non-concessional lines of credit amounting to about US$15 million. These funds, when secured, would be used for on-lending to Small and Medium Enterprises (SMEs) and others for long-term financing. The BRD**,** a state-owned bank, was not excluded during the first PSI review (Country Report No. 11/19), on the grounds that it posed fiscal risks, including because it lacked a sufficiently independent management board and regularly received budgetary transfers and tax exemptions. We are in the process of taking measures, which, when completed, would reduce the bank's fiscal risk. These include nullifying the statute establishing the bank as a public institution and registering the bank under the Rwanda Companies Law, and appointing a new independent Board. We have also provided additional information that demonstrates a solid track record of BRD's borrowing from external sources—including on non concessional terms—and its record of repayment without recourse to government support. The appointment of the new independent Board members and the promulgation of the law registering the Bank under companies' law will be done before the next PSI review.

[6] Consisting of representatives from key institutions in these areas include MINICOM, MINECOFIN, MINAGRI, MININFRA, private sector players and development partners, as well as departments of the RDD itself.

C. Monetary and Exchange Rate Policies

35. The rising global fuel and food prices as well as lower than expected domestic food harvest for 2011 poses significant threat to inflation in 2011. End-year-inflation is therefore projected to increase in 2011 to about 7.5 percent from the 0.2 percent in 2010, reflecting mainly the first round pass-through of the rising fuel and food prices. The underlying pressures are already beginning to show in 2011 with inflation rising to 5 percent in April.

36. The NBR will however closely review the monetary policy stance in line with both domestic and external developments, and steer monetary policy to ensure underlying inflationary pressures are well anchored. It will also continue to ensure that real interest rates remain positive to continue to support the financial deepening required for growth.

37. To this effect, the NBR is committed to improve liquidity forecasting to minimize forecasting errors to improve reserve money control which will remain the main monetary policy tool. This would however, be supported by frequent reviews in the key policy rate to re-enforce liquidity control.

38. To further build and shape market expectations, the NBR will continue to enhance its communication strategy by creating an interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and the business community. In addition, the communication will focus on educating the public about the ongoing financial deepening reforms such as credit reporting bureau activities, the Umurenge Savings and Credit Co-operatives (SACCO) program, capital market development and payment systems modernization.

39. The NBR, with MCM TA will put together a coherent action plan to develop the interbank markets (both money and foreign exchange markets) which at the moment remain a challenge in the operation of liquidity management and the exchange rate corridor framework.

40. The NBR has put together a capacity building program to strengthen the analytical skills of its staff to support the monetary policy committee process. The NBR has entered into partnership agreements with the Center for Central Baking Studies of the Bank of England and the Reserve Bank of South Africa to organize joint training programs for key NBR staff as well as technical attachment programs. This would be supported by a collaborated research program with the International Growth Center.

D. Financial Sector Reforms

41. Further capacity building at NBR is planned for 2011/12, implementing the recently adopted action plan to improve the compensation scheme and professional development. The NBR plans to recruit 5 staff to reinforce the banking supervision team and the process has already obtained approval (structural benchmark for end-June 2011). Capacity building

efforts for examiners will be maintained in 2011 through various training courses, attachments and workshops. The capacity building and staff motivation initiatives will enable NBR to achieve the PSI objective of being able to conduct on-site inspections for each bank at least once in every 24 month cycle. For 2011, the NBR is planning to conduct 9 on-site inspections (6 full scope inspections and 3 targeted scope inspections).

42. NBR is committed to ensure an orderly roll-out of the Umurenge SACCOs program to protect the stability of the financial system. To this effect, the NBR is committed to follow through carefully the requirements in Regulation on the Organization of Microfinance Activity (No. 02/2009), and ensure that key managers and directors of all MFIs (including SACCOs) that are granted licenses to lend, possess the minimum training and experience needed to identify, measure, control and oversee the risks associated with the operations of SACCOs.

43. The NBR, with funding and technical assistance from DFID, will undertake a SACCO Sustainability Study to inform the creation of the appropriate structures to support the SACCO program. The first draft of the study is expected by end-September 2011.

44. Furthermore, NBR is planning to hire and train 60 inspectors to supervise Umurenge SACCOs at the district level (end-September 2011 structural benchmark)—the supervisors will be hired by July 2011 and trained by September 2011. The 60 hired inspectors will be financed by the NBR and part by development partners. All inspectors will be trained by the NBR staff mainly on the microfinance legal and regulatory framework, on how the supervision of MFIs is organized in Rwanda and on the expected outcomes of the hired inspectors in the monitoring and supervision of SACCOs.

45. It is expected that the FSAP final report will become available by June 2011. TA will be sought to put in place an action plan to implement the FSAP key recommendations by end December 2011.

46. The NBR also plans to submit a draft law on pension to Cabinet by end-June 2011 and to issue implementing regulations as soon as the pension law is enacted. Thereafter, investment guidelines on pension will be developed and approved by CSR/RAMA Board of Directors by end-June 2012 (structural benchmark).

47. The NBR will request a mission from IMF to assess progress and check compliance with the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework by end-March 2012.

E. Statistics

48. The NISR will continue to improve the quality of its economic statistics in general and the national accounts in accordance with the improvement action plan of the national accounts. The NISR also intends to update the metadata for the General Data Dissemination Standards (GDDS) as soon as possible. Revised 2010 GDP estimates will be released around October 2011, after introducing work-in-progress (WIP) crops estimation and limiting the share of GDP estimated by population growth rate to no more than 12 percent (end-October 2011 structural benchmark). The NISR is currently preparing for hiring a consultant to review agricultural statistics including sampling methodology. The final report and recommendations are to be complete and published by end-March 2012 (structural benchmark). NISR will also publish the results of its recent establishment survey (structural benchmark end-August 2011).

F. Policy Coordination

49. The NBR and MINECOFIN are committed to continue improving collaboration at both the technical and policy levels to enhance the development of the macroeconomic framework.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2010/11 and 2011/12[1]
(Billions of Rwandan francs, unless otherwise indicated)

	2010								2011				2012	
	June				Dec				Mar	June	Sep	Dec	Mar	June
	Prog	Adjusted Prog	Est	Status	Prog	Adj. Prog	Est	Status	Prog	Prog	Prog	Prog	Est.	Est.
Assessment Criteria [2]														
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	369.3	368.1	384.7	*met*	352.6	338.9	398.7	*met*	357.7	391.2	409.5	463.2	416.5	388.5
Reserve money (ceiling on stock) [5]	122.5	122.5	121.7	*met*	129.9	129.9	129.4	*met*	130.8	137.5	146.8	149.6	155.3	161.4
Net domestic financing (ceiling on flow)[4, 6]	-7.5	-6.3	-11.2	*met*	22.7	36.5	35.2	*met*	57.2	74.0	28.0	-34.2	70.2	120.7
New nonconcessional and government guaranteed external debt (US$ Millions) (ceiling on stock) [7, 8]	240.0	240.0	0.0	*met*	240.0	240.0	0.0	*met*	240.0	240.0	240.0	240.0	240.0	240.0
External payment arrears (US$ Millions) (ceiling on stock) [8]	0.0	0.0	0.0	*met*	0.0	0.0	0.0	*met*	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets														
Domestic revenue collection (floor on flow) [6]	197.9	197.9	204.3	*met*	424.0	424.0	430.9	*met*	123.7	245.2	379.8	514.4	134.6	269.2
Net accumulation of domestic arrears (ceiling on flow) [6]	-3.0	-3.0	-6.1	*met*	-13.1	-13.1	-13.3	*met*	-2.0	-4.0	-6.0	-8.0	-2.0	-4.0
Consolidated domestic debt of public sector (ceiling on stock, eop) [4,9]	211.1	212.3	264.8	*not met*	219.0	232.7	218.9	*met*	296.5	291.7	264.9	221.2	264.4	274.2
Total priority spending (floor on flow) [6]	212.0	212.0	228.7	*met*	458.7	458.7	472.4	*met*	115.0	230.1	352.6	477.2	123.6	247.2
Memorandum items:														
General budget grants (US$ Millions) [6,10]	218.2	218.2	216.1		418.0	418.0	394.0		171.3	203.1	393.0	586.0	47.3	93.8

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the attached Technical Memorandum of Understanding (TMU).

[2] Test dates for assessment criteria are for end-June and end-December, otherwise indicative targets.

[3] At Numbers for 2010 are at program exchange rate of RWF 571.24 per US dollar; and numbers for 2011 and 2012 are at program exchange rate of RWF 594.45 per US dollar.

[4] Subject to adjustors. See TMU for details.

[5] Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. See TMU for details.

[6] Numbers for 2010 are cumulative from December 31, 2009; numbers for 2011 are cumulative from December 31, 2010; and numbers for 2012 are cumulative from December 31, 2011.

[7] Cumulative from end-June 2010. The ceiling applies to the duration of the three-year PSI and is tied to two projects as specified in the MEFP. It excludes the IFC SWAP agreement of US$50 million as well as US$13.1 million for purchase of two small airplanes both of which were contracted in 2009 and external borrowing by the Bank of Kigali.

[8] This is a continuous assessment criterion.

[9] Excluding NBR's debt issued for monetary policy purposes, starting on September 2010. See TMU for details.

[10] Including Global Funds, but excluding demobilization and AU peace keeping operations, HIPC grant and COMESA compensation grant.

Table 2. Rwanda: Structural Benchmarks for 2011-12[1]

Policy Measure	Target Date	Macroeconomic rationale
PFM		
1. Submit to Cabinet for approval a revised public debt policy and MTDS.	End-October 2011	To assess costs and benefits of scaled-up nonconcessional financing and analyze fiscal risks associated with PPPs.
2. Complete pilot project for integrating donor project accounts into TSA	End December 2011	To improve coverage of central government fiscal operations and fiscal management.
3. To develop and adopt a blueprint for the future development of the IFMIS	End December 2011	To improve budget preparation, implementation and reporting
Fiscal Performance		
4. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially the quarterly budget execution reports will exclude foreign-financed projects.[2]	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.
Revenue Administration		
5. Submit to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions (pension and RAMA) to RRA.	End September 2011	To improve compliance and widen the tax base.
6. Complete study on widening tax base and estimate the potential revenue gap	End-December 2011	To improve revenue performance.
7. Introduce electronic tax registry to improve issuance of VAT invoices by taxpayers	End January 2012	To improve VAT buoyancy.
Financial Sector		
8. NBR to hire 5 bank supervisors to reinforce the banking supervision department	End-June 2011	To keep up with both on and off site prudential oversight of banks consistent with risk-based supervision framework.
9. NBR to hire and train 60 inspectors (1 per district) to supervise Umerenge SACCOs at district level	End-September 2011	To expedite supervision of growing Umergenge SACOOs with licenses to lend and take deposits.
Export sector		
10. Approval of investment guidelines by the board of CSR/RAMA	End - June 2012	To improve the corporate governance of CSR/RAMA and contain potential fiscal liabilities.
External sector		
11. Conduct own DSA using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper	Continuous from End-March 2012	To enhance ability to monitor debt sustainability on an ongoing manner.
Statistics		
12. Publish results of Establishment Survey	End-August 2011	To improve measurement of GDP growth.
13. Limit the share of GDP estimated by population growth rate to no more than 12 percent	End-October 2011	To improve measurement of GDP.
14. Complete and publish review of agricultural statistics including sampling methodology	End-March 2012	To improve measurement of GDP growth.

[1] Source: MEFP Country Report No. 11/19 and staff assessment.
[2] New measures introduced at the time of the first review of the PSI.
[3] Structural benchmarks for the first review.

Attachment II. Technical Memorandum of Understanding

May 25, 2011

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–June 30, 2013 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This Technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 11/19.

I. Quantitative Program Targets

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

3. AC will apply to the following indicators for end-June and end-December (the test dates) throughout the program period; other dates are IT:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector; and
- Ceiling on stock of external payment arrears of the public sector.

4. IT targets apply to the following indicators throughout the program period:

- Floor on flow domestic revenue collection of the central government;
- Ceiling on flow net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow priority spending.

5. Assessment criteria on contracting or guaranteeing of new nonconcessional external debt by the public sector and stock of external payment arrears of the public sector are applicable on a continuous basis for the duration of the program.

6. **Program exchange rates**. For accounting purposes, the following program exchange rates, which are end-December 2010 rates, apply for 2011 and 2012:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2011/12
Rwanda Franc (per US$)	594.45
Euro	1.3219
British Pound	1.5621
Japanese Yen (per US$)	83.4255
SDR	1.5356

A. Institutional Coverage of the Fiscal Sector

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

B. Targets related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government

8. A ceiling applies to NDF, which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. NDF for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and NDF for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets

9. **Definition**. NDF of the government is defined as *change* in the sum of (i) net banking sector credit to the government and (ii) non-bank holdings of the government domestic debt.

10. Net banking sector credit to the government is defined as

- credit to the government from the banking system (as recorded in the monetary survey), including credit to the government, provinces and districts, outstanding consolidated government debt held by the banking system,[1] government debt to the NBR incurred as a result of the 1995 devaluation (Rwf 9 billion), the overdraft to the

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

prewar government (Rwf 2 billion)[2], and overdraft with the NBR. Credit to the government will exclude treasury bills issued for monetary policy purposes by the NBR, and the proceeds of which are sterilized in deposits held as other NBR liabilities.

- minus total government deposits with the banking system (as recorded in the monetary survey), including the main treasury account, line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, privatization account, and any other autonomous public enterprises and public agencies over which the government has direct control over their deposits. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for project accounts, Global Funds money meant for private sector, counterpart funds and *fonds publics affectés*).

11. Non-bank holdings of the government domestic debt consists of non-bank holdings of treasury bills, bonds (domestic and nonresident), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

12. Grants extended by the Global Fund that are under the control of the central government are programmed at US$113 million for FY2011/12, corresponding to RWF 70.7 billion as shown in the Fiscal table for the central government under capital grants.[3] Total Global Fund deposits (those that are under the control of the central government and under the control of the private sector) stood RWF 62.8 billion at end-December 2010.

Adjusters to the NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[4] (defined in Table 1 of

[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.

[3] Quarterly distributions of $113 million are as follows: $21.9 (July-Sep 2011), $19.6 million (Oct-Dec 2011), $47.3 (Jan-March 2012), and $24.2 million (Apr-June 2012). For the January-June 2011 period, Global Funds of RWF 47.2 billion have been programmed that have already been received and recorded in the monetary survey for end-December 2010.

[4]Budgetary grants exclude COMESA grants, HIPC grants, and peacekeeping operations, but include Global Funds. There is an expected budgetary loan of RWF20.8 billion (equivalent of US$ 31.8 million) being discussed with AfDB and currently not programmed; out of RWF 20.8 billion, RWF 10 billion will be used to compensate for a removal of the RWF 10 billion programmed contingent grant, with the net impact of RWF 10.8 billion.

Quantitative AC and IT), up to a maximum adjustment of US$80 million, evaluated in Rwanda francs at the program exchange rate. The ceiling will be adjusted *downward* by the amount of any excess of actual over programmed budgetary loans and grants above US$24 million, evaluated in Rwanda francs at the program exchange rate.

- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

13. **Reporting requirement**. Data on NDF (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits), each type of debt to be shown by debt holder, and its adjusters will be transmitted on a monthly basis within five weeks from the end of each month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies and agencies that the government does not have any direct control over.

Floor on flow of domestic revenues

14. A floor applies to domestic revenue, which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. Domestic revenue for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and that for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets.

15. **Definition**. The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the central government fiscal operation table, but excluding external grants, and privatization receipts.

16. **Reporting requirement.** Detailed data on domestic revenues will be transmitted on a monthly basis within five weeks of the end of each month.

Floor on priority expenditure

17. The floor applies to priority spending of the government which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. Priority spending for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and that for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets.

18. **Definition.** Priority spending 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 EDPRS. Priority expenditures are monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

19. **Reporting requirement.** Data on priority expenditure will be transmitted on a monthly basis within five weeks of the end of each month.

Net accumulation of domestic arrears of the government

20. A ceiling applies to net accumulation of domestic arrears of the government[5] which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. Domestic arrears for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and that for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets.

21. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding since the beginning of the year under review (including repayment of float during the review year and the repayment of older arrears).

22. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous-year stock of arrears will be transmitted on a monthly basis within five weeks of the end of each month.

C. Limits on External Debt

Limit on New Nonconcessional External Debt of the Public Sector

23. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1 of the MEFP which applies continuously from end-June 2010 to end-June 2013; it excludes the swap agreement of US$50 million signed in November 2009 between the NBR and the IFC and US$13.1 million for purchase of two air planes in 2009. The ceiling also excludes non concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

24. **Definition of the public sector**. The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake— owning more than

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

50 percent of the shares or the ability to determine general corporate policy.[6] This definition of public sector excludes the Bank of Kigali.

25. For program purposes, the guarantee of a debt arises from any *explicit* legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any *implicit* legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

26. **Definition of concessionality** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[7] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

27. **The definition of debt,** for the purposes of the limit in the AC, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt, effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency)

[6] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

[7] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Limit on the stock of external payment arrears

28. A continuous assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the public sector. External payment arrears consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements, but shall exclude arrears on obligations that are subject to rescheduling.

Consolidated Domestic Debt of the Public Sector (DD)

29. For program purposes, DD excludes treasury bills issued by the NBR for monetary policy purposes. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official guarantees have been extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 12), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 12.

- The ceiling on the DD will be *adjusted upward* by the amount of expenditure for food imports in the case of a food emergency.

30. **Reporting requirement.** Data on domestic debt of the public sector, including treasury bills issued by the NBR for monetary policy purposes, will be transmitted on a monthly basis within five weeks of the end of each month.

D. Targets for Monetary Aggregates

Net foreign assets of the National Bank of Rwanda (NFA)

31. A floor applies to the NFA of the NBR for December 31, 2010, June 30, 2011 and December 31, 2011 targets.

32. **Definition.** NFA of the NBR in Rwanda francs are 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 to be excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate. Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/ECF disbursements).

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants (per paragraph 12). This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate. In the case of excess of actual over programmed budgetary loans and grants, the floor of the NFA remains unchanged for the first US$24 million. Subsequently, the floor will be adjusted upwards by any amount in excess of US$24 million, evaluated in RWF at the program exchange rate.

- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports in the case of a food emergency.

33. **Reporting requirement.** Data on foreign assets and foreign liabilities of the NBR will be transmitted on a weekly basis within seven days of the end of each week. This transmission will include daily and weekly data on the NBR's foreign exchange liabilities to commercial banks (including required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

Reserve money

34. A ceiling applies to the stock of reserve money for the December 31, 2010, June 30, 2011 and December 31, 2011 targets.

35. The stock of reserve money target 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.

36. **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.

37. **Reporting requirement.** Data on reserve money will be transmitted on a weekly basis within seven days of the end of each week. This transmission will include a daily and a weekly balance sheet of the NBR which will show all items listed above in the definitions of reserve money.

II. Other Data Reporting Requirements

38. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in Table 1 below, weekly data within seven days of the end of each week; monthly data within five weeks of the end of each month; annual data as available.

39. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Rwanda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the NBR, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed

by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to the Fund (email: afrrwa@imf.org).

Table 1. Summary of Reporting Requirements

	Frequency of Data[10]	Frequency of Reporting[10]	Frequency of Publication[10]
Exchange Rates[1]	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates[3]	M	M	M
Volume of transactions in the interbank money market and foreign exchange markets and sales of foreign currencies by NBR to commercial banks	D	W	W
Liquidity Forecast Report[4]	W	W	-W-
Consumer Price Index[5]	M	M	M
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6] – General Government[7]	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6]– Central Government	M	M	M
Comprehensive list of tax and non tax revenues[8]	M	M	M
Comprehensive list of domestic arrears of the government	M	M	M
The ten (10) largest components of transfers in the fiscal table	M	M	M
Social security contributions (RAMA and CSR)	M	M	M
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR[9]	A	A	A
Privatization receipts	M	M	M
External Current Account Balance	A	SA	A
Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A
GDP/GNP	A, Q	Q, SA	Q

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