DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/83/31

CONTAINS CONFIDENTIAL
INFORMATION

February 8, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Rwanda - Staff Report for the 1982 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Rwanda. A draft decision appears on page 14.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

RWANDA

Staff Report for the 1982 Article IV Consultation

Prepared by the Staff Representatives for the 1982 Consultation with Rwanda

Approved by J.B. Zulu and W.A. Beveridge

February 7, 1983

I. Introduction

The 1982 Article IV consultation discussions with Rwanda were held in Kigali during the period October 12-25, 1982. Rwanda continues to avail itself of the transitional arrangements of Article XIV. The Rwandese representatives included Mr. J.D. Hategekimana, Minister of Finance, Mr. D. Iyamuremye, Minister of Natural Resources and Mines, Mr. A. Mulindangabo, Minister of Planning, Mr. M. Ngilira, Minister of Economy and Commerce, Mr. F. Nzamurambaho, Minister of Agriculture, and Mr. J. Birara, Governor of the National Bank of Rwanda, as well as other senior officials concerned with economic and financial matters. The staff representatives were Mr. M. Sidibé (head-AFR), Mr. S.E. Cronquist (AFR), Mr. A. Jbili (AFR), Mr. P.A. Molajoni (ETR), and Miss Y. Georges (secretary-AFR). Mr. R.J. Bhatia participated in the final discussions.

II. The Economic Background

In 1981-82 Rwanda continued to register relatively rapid economic growth. However, in contrast to previous years, the favorable growth performance was accompanied by a weakening of the budget and the balance of payments, reflecting unfavorable external terms of trade and a decline in aid flows. Rwanda's currency, the Rwanda franc, appreciated substantially along with the U.S. dollar to which it is pegged.

In 1981 agricultural output for both domestic consumption and export increased considerably, owing mainly to exceptionally favorable weather conditions. Production of food crops rose by 24 per cent, while that of coffee and tea increased by 26 per cent to about 31,200 tons (parchment) and by 3 per cent to 6,850 tons (dried leaves), respectively. Thus, with the expansion in the manufacturing and construction sectors, and notwithstanding a decline in mineral output (essentially cassiterite and wolfram), real GDP grew by 5.5 per cent, compared with 4.9 per cent in 1980 (Table 1). As weather conditions were less favorable in 1982, there was a slowdown in food crop production; coffee out-

Table 1. Rwanda: Selected Economic and Financial Indicators, 1977-82

	1977-80 Period averages	1980	1981	1982 Est.
	(Annual per cent changes)			
National income and prices				
GDP at constant prices	4.8	4.9	5.5	4.0
Consumer price index	12.5	7.2	6.5	10.0
External sector				
Exports, f.o.b. 1/	11.6	-34.2	-15.2	2.8
Of which: coffee	(24.8)	(-54.7)	(9.1)	(5.3)
Volume	(6.8)	(-44.1)	(36.6)	(-12.5)
Prices	(19.1)	(-19.0)	(-20.1)	(20.4)
Imports, f.o.b. 1/	18.1	22.8	5.8	5.8
Of which: petroleum	(28.2)	(50.5)	(50.5)	(9.9)
Export price index	17.9	-17.3	-17.3	12.9
Import price index	14.1	17.9	-2.3	-1.8
Terms of trade (deterioration -)	3.9	-29.9	-15.3	15.0
Import-weighted nominal effective exchange rate (appreciation -)	2.1	-1.5	-16.0	-12.5
Import-weighted real effective exchange rate (appreciation -)	1.6	2.9	-10.9	-3.3
Government budget				
Revenue	20.0	9.6	10.6	8.9
Total expenditure and net lending	21.4	11.2	37.5	8.8
Money and credit				
Domestic credit	-9.2	-14.2	102.5	84.7
Government	--	-159.9	27.4	105.4
Private sector	26.8	42.0	25.7	19.9
Money and quasi-money	15.9	1.1	12.5	8.7
Velocity (GDP relative to M_2)	7.2	7.6	7.3	7.7
	(In per cent of GDP)			
Central government overall surplus or deficit (-)	0.8	1.0	-1.9	-1.9
Domestic bank financing	-0.8	-2.1	2.1	1.2
Foreign financing 2/	-0.2	-0.3	-0.5	-0.3
External current account balance (deficit -) 1/ 3/	-0.5	-4.1	-5.3	-5.8
External public debt (outstanding at end of period)	11.6	13.5	13.5	13.9
	(As per cent of exports, f.o.b.)			
External debt service	2.2	4.1	7.7	6.9
	(In millions of SDRs)			
				Est. 4/
Exports, f.o.b.	114.3	102.6	96.1	105.5
Of which: coffee	(63.8)	(48.1)	(57.9)	(65.0)
Imports, f.o.b.	-119.3	-150.4	-175.7	-198.5
Trade balance	-5.0	-47.8	-79.6	-93.0
Services (net)	-77.5	-69.1	-64.3	-71.7
Unrequited transfers (net)	77.9	80.1	87.1	88.8
Current account balance	-4.7	-36.8	-56.8	-75.9
Capital account (net) 5/	26.4	47.0	54.0	38.1
Overall surplus or deficit (-)	21.8	10.2	-2.8	-37.9

Sources: Data provided by the Rwandese authorities; and staff estimates.

1/ In terms of Rwanda francs.
2/ External public debt amortization only.
3/ Including official transfers.
4/ Compiled at the rate of RF 102.77 = SDR 1.
5/ Includes allocation of SDRs, and errors and omissions.

put is estimated to have declined by 20 per cent to 25,000 tons but production of tea increased by about 4 per cent to some 7,150 tons. The output of the mining sector remained virtually unchanged at its 1981 level, while most other sectors of the economy appear to have registered growth rates similar to those attained in 1981. As a result, real GDP growth is estimated to have slowed to 4 per cent in 1982.

With the continued deterioration in the external terms of trade, coupled with the sizable increase in imports of petroleum products, in 1981 the trade deficit widened markedly and, for the first time since 1974, Rwanda incurred an overall balance of payments deficit (Charts 1 and 2). As Rwanda was authorized to export 7,200 tons in excess of its 1980/81 quota under the Agreement of the International Coffee Organization (ICO), the volume of coffee exports rose by about 37 per cent to 30,050 tons in 1981. However, average realized coffee export prices declined by 20 per cent. With the decline in the volume and prices of other commodities and the substantial fall in unrecorded exports, total export receipts fell by 15 per cent to RF 10.5 billion (SDR 96.1 million). Meanwhile, imports increased by 8 per cent in volume and by 6 per cent in value. Net service payments declined by about 16 per cent on account of lower freight and insurance payments and of higher investment income receipts from the placement of the country's official reserves. Nonetheless, with the continued decline, albeit a modest one, in net inflows of unrequited transfers, the external current account deficit rose from the equivalent of 4.1 per cent of GDP in 1980 to 5.3 per cent in 1981. As net inflows of capital remained close to their previous year's level, there was a turnaround in the overall balance of payments position, from a surplus of RF 1.2 billion (SDR 10.2 million) in 1980 to a deficit of RF 0.3 billion (SDR 2.8 million) in 1981.

Although budgetary revenue increased in 1981, the rapid growth in government expenditure brought about a major shift in the overall Treasury position. 1/ Total budgetary spending rose by 37 per cent to RF 17.0 billion, reflecting mainly a similar growth (35 per cent) in current outlays. Personnel expenditure, the largest single category of current expenditure, which rose by 16 per cent in 1980, increased by 51 per cent in 1981 and accounted for 52 per cent of the total due to the full-year impact of the salary increase of 10-25 per cent effected on September 1, 1980, and to new recruitment resulting largely from the creation of a second Ministry of Education and employment of teachers. Investment outlays and net lending rose by 51 per cent to about RF 3.0 billion. Budgetary revenue rose by only 11 per cent in 1981, compared with an annual average growth of 20 per cent in 1977-80. This slowdown was attributable to a 17 per cent decline in proceeds from taxes on international trade, owing essentially to a 47 per cent fall in coffee export duties. As a result of these developments, the overall Treasury position shifted from a surplus of RF 1.0 billion in 1980 to a deficit of RF 2.2 billion in 1981, equivalent to 1.9 per cent of GDP. Together

1/ Excluding central government development expenditures financed by foreign aid outside the budget, but including Treasury special accounts. The servicing of foreign debt is included in the budgetary accounts.

with external debt amortization of RF 0.6 billion, this was financed by drawing down the Treasury's deposits with the banking system. The deterioration in the budgetary situation, combined with the rapid expansion (26 per cent) of credit to the private sector, resulted in a doubling of domestic credit in 1981. The growth of credit to the private sector was primarily on account of the financing of coffee stocks and of credit to commerce, mostly for the financing of stocks because of the slowdown of re-exports to neighboring countries. With net foreign assets declining by 2 per cent, broad money expanded by 12.5 per cent. However, in view of the appreciation of the Rwanda franc, as well as the improved domestic supply conditions, the inflation rate, as measured by the consumer price index, remained stable at about 7 per cent in 1981.

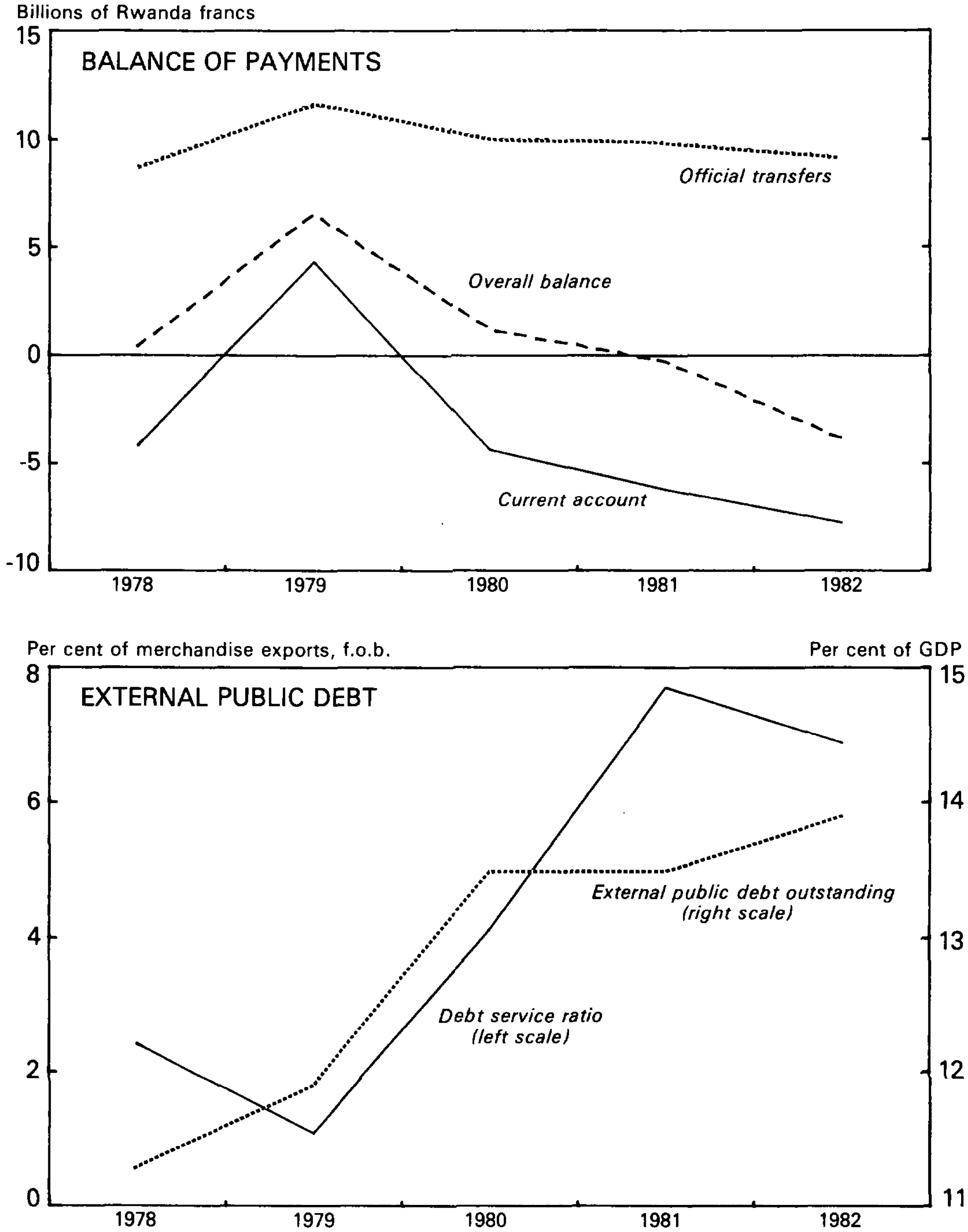
In 1982 the overall financial situation remained weak. The external current account deficit deteriorated to 5.8 per cent of GDP as exports grew modestly, demand for imports remained strong, and official transfers continued to decline. The volume of coffee exports fell by 12.5 per cent, notwithstanding the sale of 3,000 tons outside the ICO quota. Thus, despite a 20 per cent recovery in realized export prices, coffee export receipts are estimated to have been only 5 per cent above their 1981 level. The recovery in tin prices was offset by a decline in volume owing to start-up difficulties of the newly installed smelting plant, while the increase in the volume of tea exports was also offset by a fall in realized prices. Consequently, notwithstanding a recovery in border trade, total export receipts are estimated to have expanded by only some 3 per cent, while imports grew at about the same rate as in 1981, or nearly 6 per cent, representing a growth in volume only marginally lower than in 1981. As the balance on services also deteriorated, owing to higher outlays for freight and insurance and a decline in investment income, the current account deficit widened to RF 7.8 billion. Thus, with net inflows of capital falling substantially, as a result of a reversal of short-term capital movements--in part because of uncertainties regarding the exchange rate policy--the overall balance of payments is estimated to have registered a deficit of RF 3.9 billion (SDR 37.9 million). Net foreign reserves are estimated to have declined to RF 11.4 billion (SDR 111.6 million), equivalent to 5.4 months of merchandise imports (c.i.f.), compared with 8 months' imports at the end of 1981.

In 1982 both budgetary revenue and spending grew by about 9 per cent. The growth of budgetary resources in 1982 stemmed largely from nontax revenue, in particular transfers of the profits of the Central Bank, and from import duties. Proceeds from the latter, which had declined in 1981, rose by 16 per cent in 1982, following improved customs collection and the revision of the customs tariff, which entailed an upward adjustment in import duties. The expansion in budgetary expenditure was attributable mainly to the growth of personnel expenditures, because of continued recruitment, and to higher transfers, including

CHART 1

RWANDA

EXTERNAL INDICATORS, 1978-82



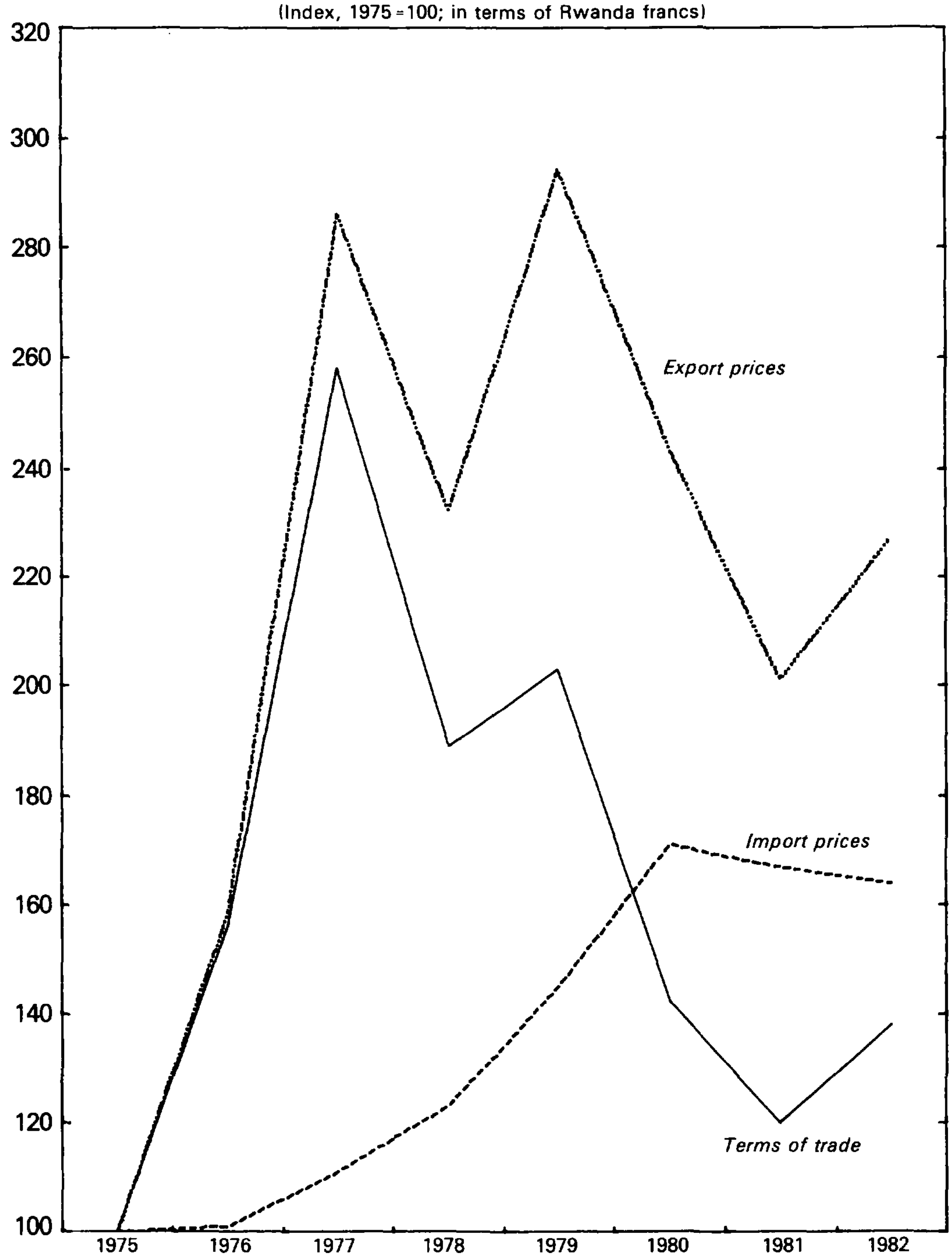
Sources: IBRD; data provided by the Rwandese authorities; and Fund staff estimates.

CHART 2

RWANDA

TERMS OF TRADE, 1975-82

(Index, 1975 = 100; in terms of Rwanda francs)



Source: Appendix Table .

subsidies to local governments and public enterprises. The overall Treasury deficit, including that on special accounts, rose to RF 2.6 billion, equivalent to 1.9 per cent of GDP as in 1981. To finance this deficit and the amortization of external debt, the Treasury had substantial recourse to direct advances from the Central Bank. This, together with the rapid expansion in credit to the private sector is estimated to have resulted in an 85 per cent increase in domestic credit in 1982. Total credit to the private sector expanded by about 20 per cent. Faced with a difficult financial situation, the mining company borrowed substantially from the banking system, with part of the loans being guaranteed by the Government. It was envisaged that by the end of 1982 outstanding bank credit to the mining company would be RF 1.3 billion, almost double the level at end-1981. Credit to commerce also rose by 25 per cent, while that to coffee remained unchanged. As net foreign assets fell substantially, in 1982 the expansion of broad money slowed to about 9 per cent. The inflation rate, however, is estimated to have accelerated to 10 per cent, reflecting mainly the impact of the substantial upward revision of energy and water tariffs as well as of tuition fees.

Over the second five-year development plan period (1977-81) economic growth averaged some 5 per cent per year, which compares favorably with the plan target of 6 per cent. No comprehensive data are as yet available on the implementation and sources of financing of the plan, particularly on the size and sectoral distribution of investment. Information on the financial aspects of the implementation of the plan is available only for public investments. External financing of these investments, including technical assistance, amounted to 85 per cent of the total, with the remainder being provided through the government budget. The delays in project implementation, owing to weaknesses in project identification, preparation, and execution, hampered the mobilization of external resources, which averaged RF 12.6 billion (US$136 million) per year during the plan period. As regards the objectives of the plan, it appears that progress toward achieving a number of important sectoral targets has not been fully satisfactory. Domestic food production expanded, although at a rate below that of the plan target. Progress toward enlarging the economic base of the economy through export diversification and import substitution has been slow. No major import-substituting industry was created, while the output of mineral products declined and that of pyrethrum and quinine bark stagnated; the expansion of exports of tea was slower than anticipated. In the mining sector, delays in investments to replace obsolete equipment as well as in reorganizing the production process led to the decline in output. At the same time, inappropriate employment and wage policies resulted in adverse cost developments, which were compounded by the start-up in 1982 of an oversized tin smelting plant. In view of deteriorating world market conditions as well as the appreciation of the Rwanda franc, there was a turnaround in the mining company's financial situation in 1981, and significant losses requiring bank financing were incurred in 1982. Furthermore, inappropriate producer pricing and marketing policies for pyrethrum and quinine bark, as well as technical difficulties in the operation of the pyrethrum processing plant, led to the reduction in output and exports of these products. The lack of adequate price incentives also seems to have adversely affected tea production by individual farmers, and this caused a number of newly established tea factories to operate well below capacity; as a result, in 1982 the operating costs of these factories had to be supported by the state marketing company. In view of the above developments, the creation of new employment opportunities--another important objective of the plan--was below the plan targets.

Rwanda maintains a liberal exchange and trade system. However, a restriction on the availability of foreign exchange for current international transactions resulting from limits on transfers of earned income of foreigners remains in force. Effective October 1, 1982, transfers of capital stemming from the sales proceeds of real estate have been suspended.

The Rwanda franc, which is pegged to the U.S. dollar, has appreciated pari passu with that currency. In local currency terms, the trade-weighted nominal effective exchange rate of the Rwanda franc appreciated by 22.6 per cent between the last quarter of 1980 and the third quarter of 1982. Taking into account relative price changes, the appreciation in real terms was 19.6 per cent (Chart 3). The import-weighted exchange rate index shows an appreciation of 26.5 per cent in nominal terms, and 13.9 per cent in real terms over the same period.

III. Report on the Discussions

1. Economic prospects and policies

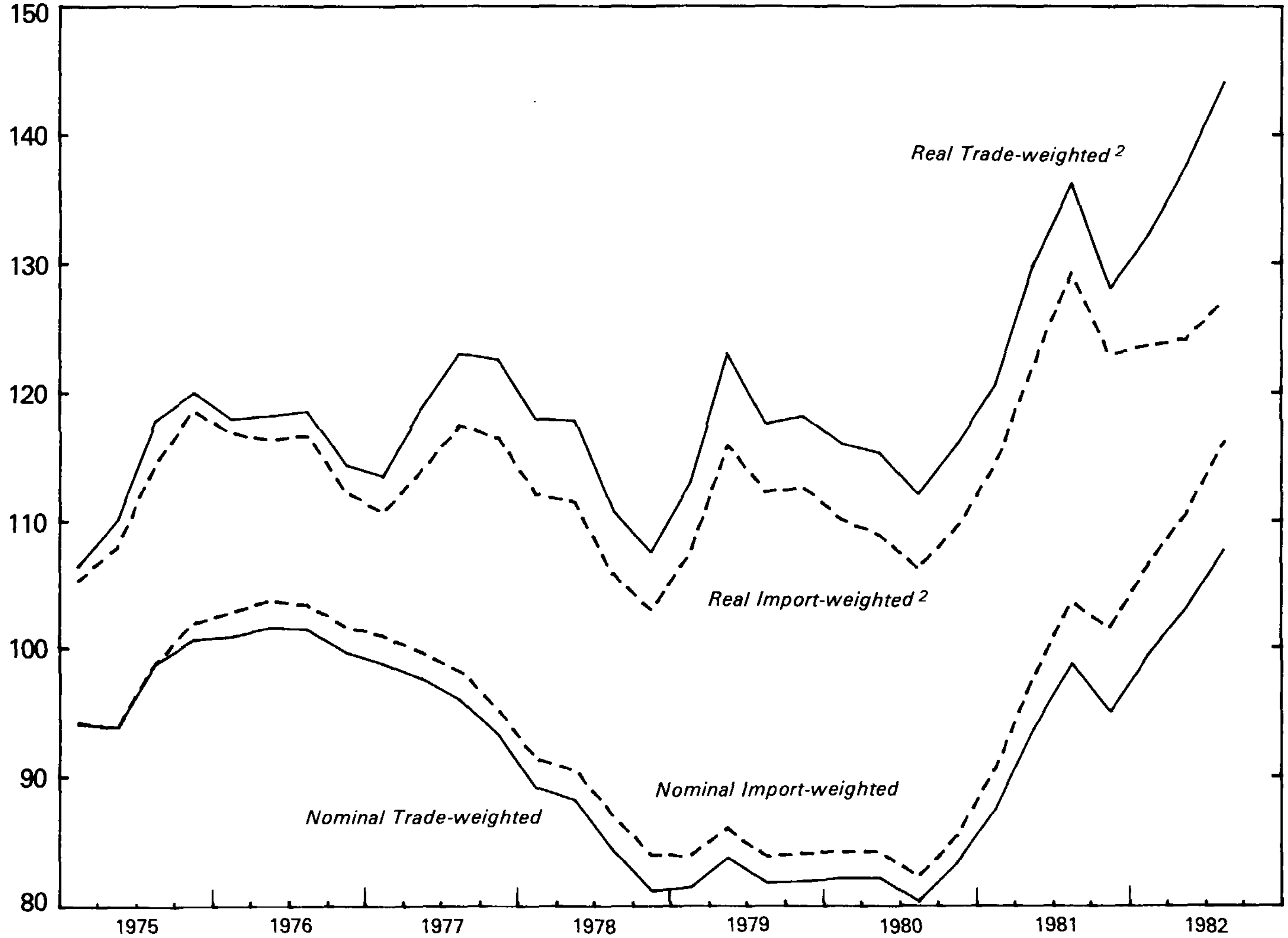
The outlook for a significant and early reversal of the adverse external factors affecting Rwanda is not promising. On the basis of current projections for 1983-85, world market conditions for coffee will remain soft and prices substantially below their 1977-80 average level. Moreover, although Rwanda's quota under the ICO was increased recently, the volume of coffee exports, which is projected to rise by 9 per cent to 28,600 tons in 1983, is not likely to exceed 30,000 tons per year in 1984-85. Equally, the export volume of tea is not expected to rise significantly above its 1982 level. Also, the export volume of tin is not anticipated to increase substantially, as the full impact of the implementation of the mining company's envisaged investment program would be felt only after 1985. Given that import prices are likely to increase, Rwanda's external terms of trade are not expected to improve in this period. Also, the inflows of official transfers and capital are unlikely to be as important as in the recent past. Thus, the external current account deficit is likely to rise from an average of

CHART 3

RWANDA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES[1], 1975-82

(Index: average 1974 = 100)



Sources: IMF Data Fund.

[1]Calculated on the basis of a weighted average of the exchange rates for the currencies of Rwanda's main trading partners. The exchange rate is defined in terms of units of the foreign currency basket per Rwanda franc; thus an increase (decrease) in the index represents an appreciation (depreciation) of the Rwanda franc.

[2]Adjusted for the relative evolution of prices with respect to the trading partners.

5.6 per cent of GDP in 1981-82 to 6.3 per cent in 1983-85 (Table 2), and the balance of payments to come under growing pressure. Given the importance of the coffee sector as a source of revenue for the budget, government budgetary receipts will be affected by the sluggish growth of exports.

The Rwandese representatives indicated that the authorities were mindful of the implications of these prospects for future economic development policies. For this reason the targeted annual growth rate under the third development plan (1982-86), which was launched in mid-1982, is set at 4.8 per cent, compared with the second plan's objective of 6 per cent and an estimated actual growth of 5 per cent. The plan aims not only at ensuring self-sufficiency in food production but also at reducing the vulnerability of the economy to external factors by enlarging the economic base through export diversification, expansion of the manufacturing sector (including agricultural processing industries), and development of manpower resources. Because official aid for the financing of public investment is expected to decline from an average of 13 per cent of GDP in 1977-81 to 10 per cent during the plan period, the authorities intend to mobilize larger domestic resources. Of the total planned outlays of RF 125 billion (at 1980 prices), about 18 per cent will be financed through the budget, 16 per cent by the domestic private sector, and about 66 per cent from external resources, of which more than half would represent grants. Planned budgetary financing of development would more than double as compared with actual expenditure in 1977-81, while that financed from official aid would increase by only 14 per cent. To attain the objectives of the plan, emphasis will continue to be placed on raising productivity and improving absorptive capacity, as well as on productive and employment-generating investments. The reorientation of agricultural policy toward more regional specialization will be intensified and accompanied by strong efforts to improve internal transportation links in order to facilitate domestic trade in agricultural produce.

In view of the unfavorable medium-term resource prospects, and the adverse cost-price developments in the economy, the staff team stressed the vital role of appropriate pricing policies, particularly producer prices and exchange rate policies, in achieving the country's medium-term development objectives. In this respect, a study carried out by the staff in early 1982, at the request of the Rwandese authorities, concluded that it would be desirable to review the exchange rate policy with a view to adjusting for the recent unintended appreciation of the Rwanda franc and shifting from the present peg to the U.S. dollar to a composite basket of currencies such as the SDR. The Rwandese representatives responded that the authorities had carefully examined the study and its recommendations but had not as yet arrived at a definitive position. Foremost among their concerns was the short-term adverse impact of an exchange rate change, notably the acceleration of inflation, and the decline in real incomes of wage earners and its sociopolitical implications.

Table 2. Rwanda: Medium-Term Projections of the Current Account and the External Debt, 1982-85

(In billions of Rwanda francs)

	1982 Est.	1983	1984	1985
		Projections		
Trade balance	-9.5	-10.5	-11.2	-12.5
Exports, f.o.b.	10.8	11.7	12.8	13.5
Imports, f.o.b.	-20.3	-22.2	-24.0	-26.0
Services (net)	-7.3	-8.6	-9.5	-10.3
Unrequited transfers (net)	9.1	9.5	10.1	11.0
Current account balance	-7.7	-9.7	-10.6	-11.8
External public debt outstanding (end of period)	18.7	23.1	28.0	33.6
Debt service payments	0.75	0.77	0.92	1.35
Memorandum items:				
Current account balance as per cent of GDP	-5.8	-6.4	-6.2	-6.2
External public debt outstanding as per cent of GDP	13.9	15.2	16.5	17.6
Debt service payments as per cent of exports, f.o.b.	6.9	6.6	7.2	10.0
Average realized coffee price (U.S. cents per lb.)	124	117	125	128
Average realized tea price (U.S. cents per lb.)	70	70	76	81
Average realized tin price (U.S. cents per lb.)	477	525	564	620

Sources: Data provided by the Rwandese authorities; IBRD; and Fund staff estimates and projections.

The Rwandese representatives shared the view that pricing policies should be supportive of the plan's supply policies. They noted that producer prices would be maintained at sufficiently remunerative levels. With respect to coffee, the price has been kept unchanged since 1977 when it was raised by 85 per cent, which implies a 33 per cent decline in real terms in the period 1978-81. While they were mindful that a further significant decline in the real producer price may impair Rwanda's ability to maintain domestic production, they intimated that action in this area should take into account developments in world market conditions, the level of producer prices prevailing in neighboring countries, and the need to reconstitute the Stabilization Fund's resources. Moreover, in their opinion, the existing level of the coffee producer price still provided sufficient incentive to coffee growers as compared with alternative crop farming. This was in part attributable to the fact that coffee growers benefited from extension services provided free of charge by OCIR-Café. Regarding the mining sector, discussions are currently under way between the Government and its foreign partner, the objective of which is to identify clearly the factors responsible for the financial difficulties of the mining company and to agree on a package of corrective measures. As regards domestic foodstuffs, their prices are essentially market-determined, since prices fixed by the authorities are only indicative.

2. Domestic financial policies

Since 1979 there has been a marked deceleration in the growth of budgetary revenue, reflecting the decline in export receipts (Chart 4). As a ratio to GDP, tax revenue declined steadily from 11.5 per cent in 1979 to 9.1 per cent in 1982, but, reflecting largely the increase in transfers of profits from the Central Bank, total budgetary revenue in relation to GDP fell only modestly. Meanwhile, government spending, especially current outlays, which represent 83 per cent of the total, has continued to grow rapidly, from 11.4 per cent of GDP in 1979 to 13.7 per cent in 1982. As a result, there was a shift in the overall Treasury position to sizable deficits in 1981-82. A major factor in the expansion of government spending has been the growing financial burden of employment and wage policies, educational policies, and of subsidies and other transfers. Since 1979 personnel expenditure rose at an annual compound rate of 24 per cent while subsidies and other current transfers increased by 43 per cent. The latter expansion reflected the rapid growth of transfers to local governments, official agencies, as well as of subsidies to parastatals, and scholarships. Comprehensive information on current and capital subsidies to public enterprises is not, however, available. An EC-sponsored study of the parastatals was essentially qualitative, and did not make a quantitative evaluation of these enterprises' performance.

In view of this and of the medium-term budgetary resource prospects, the Rwandese representatives shared the view that the availability of substantially larger domestic resources for development financing, as called for under the new plan, will be critically dependent on the fiscal policy stance. Accordingly, budgetary policies will be designed to contain the growth of current expenditure to a rate significantly below that over the last three years. In addition to restraint in the area of wages and salaries, this would require determined efforts to contain the growth of recruitment. However, they noted that efforts in this respect may be thwarted by the need for more employment in the area of education following the introduction in September 1979 of an educational reform which involved the extension of primary school education by two years and the establishment of a system of vocational schools for students who do not go on to secondary education. The authorities also intend to strengthen all mechanisms for more effective control of both current and investment outlays. To that end, they have requested Fund technical assistance to review budgetary procedures, expenditure control, and government accounting. As regards public enterprises, the authorities are strongly determined to take all necessary measures to prevent them from further burdening the budget; in this respect, they agreed that technical assistance from the World Bank Group may be helpful. Meanwhile, the unfavorable prospects for budgetary resources accruing from the export sector prompted the authorities to consider mobilizing more budgetary receipts from other sources of revenue. To that end, they have also requested the Fund to assist them in a tax survey exercise aimed at reviewing the structure, the rates, and tax administration to make the system more responsive to the country's needs.

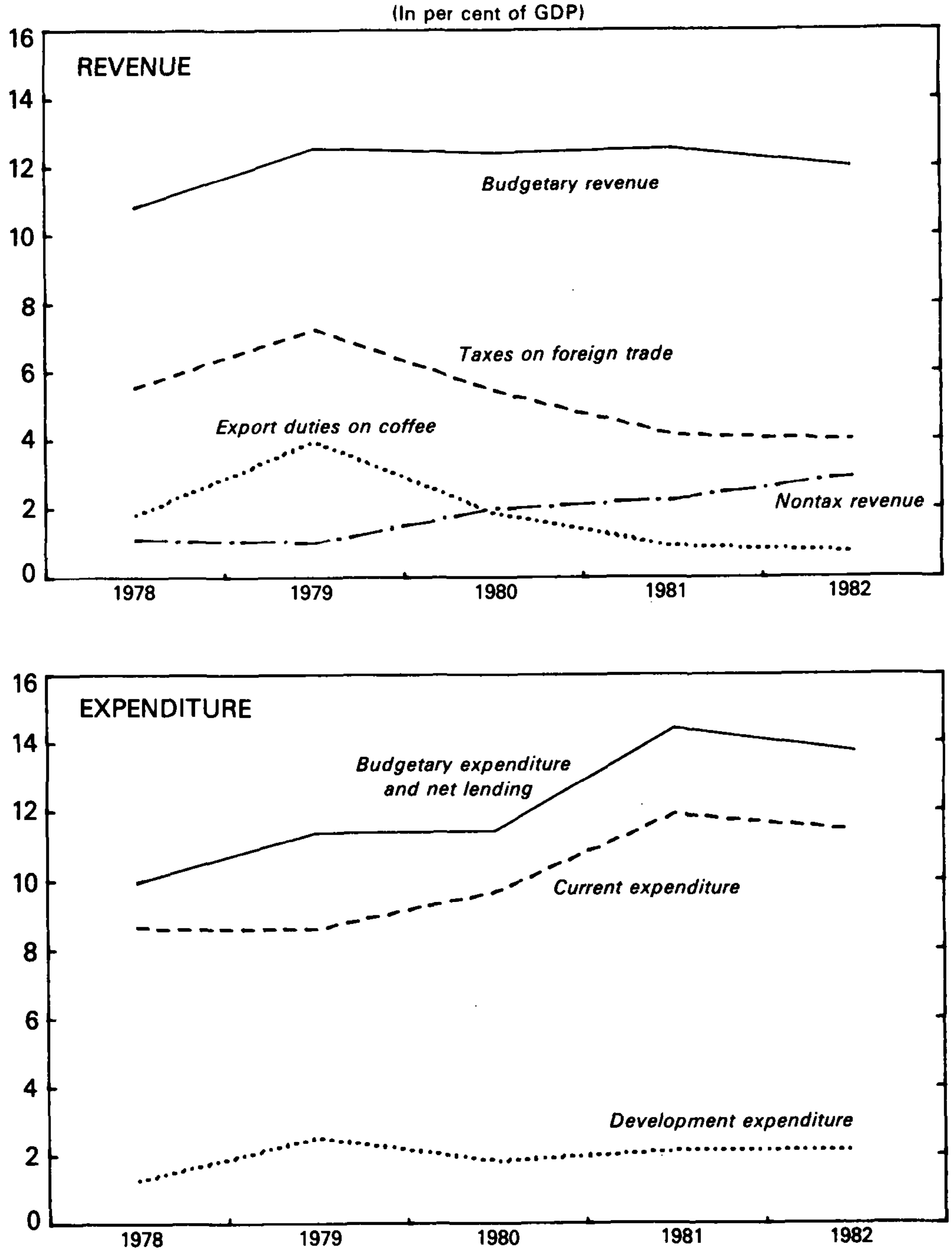
The pursuit of more prudent budgetary policy, the key element in the area of demand management, would also help avoid exerting undue pressures on domestic prices and the balance of payments. At the time of the discussions, the 1983 budget had not been finalized. Preliminary budget estimates indicate that revenue would increase by 14 per cent to RF 18.4 billion, while total expenditure would grow by 8 per cent to RF 20 billion. The staff team intimated that the prospective deficit was still large and not in line with the objective of improving the external position, and urged a re-examination of the budget estimates with a view to reducing the fiscal deficit further. This would require additional expenditure restraint and revenue-raising measures. With respect to the latter, in addition to the envisaged upward adjustment of consumption taxes on beer and cigarettes, taxes on petroleum products could be raised. The Rwandese representatives remarked that, under the preliminary estimates, revenue would rise more rapidly than expenditure, thus reversing the trends that prevailed in 1981-82. Moreover, since no general wage awards were envisaged for 1983, additional expenditure restraint measures will necessarily involve further curtailment of recruitment, which would be difficult to achieve, especially in the area of education, as noted above. However, as regards revenue, there appeared to be more room for maneuver, and additional measures would be considered.

CHART 4

RWANDA

CENTRAL GOVERNMENT FINANCES, 1978-82

(In per cent of GDP)



Sources: Data provided by the Rwandese authorities; and staff estimates.

In discussing credit policy, the Rwandese representatives explained that the rapid expansion of domestic credit in 1981-82 should be viewed in the light of the special circumstances in this period. As a result of the accumulation of coffee stocks and the deterioration of the financial situation of the mining company, demand for credit by the private sector expanded significantly. At the same time, the difficult budgetary situation led to the deterioration in the Government's net position with the banking system. Nevertheless, they expressed concern about the rapid growth of credit and stated that the monetary authorities will keep monetary developments under close review. In the circumstances, it will become important to ensure a better coordination between budgetary and monetary policies. Following the significant upward adjustment in interest rates in November 1979, in 1980-81 the level of term deposit rates was comparable to that of domestic inflation, which decelerated in this period. However, real interest rates on these deposits became negative in 1982. In view of this, as well as of the need to strengthen credit control instruments, the authorities did not rule out a more flexible interest rate policy, which would also aim at facilitating the mobilization of financial resources through the banking system.

3. External policies

Rwanda has followed prudent foreign borrowing policies, and external financing has been obtained primarily on concessionary terms. Rwanda's outstanding external public debt, which at end-1981 was equivalent to 13.5 per cent of GDP, is estimated to have increased by 17 per cent to RF 18.7 billion (US$201 million) at end-1982, or 13.9 per cent of GDP. However, in the same period debt service declined from 7.7 per cent of merchandise exports to 6.9 per cent, as suppliers' credits were fully amortized in 1981. According to IBRD calculations, the maturity of outstanding loans as of end-1982 averages 35 years, with a 9-year grace period and an interest rate of about 1 per cent per annum.

In spite of the envisaged efforts to raise a larger amount of domestic resources, the new plan recognizes that foreign aid will continue to represent an important source of development finance. In keeping with the authorities' prudent foreign debt policy stance, the plan prescribes an upper limit of 25 per cent of GDP for outstanding total debt as of end-1986, and of 10 per cent of exports for debt service in that year. Meanwhile, appropriate steps will be taken to improve coordination in the area of debt contracting and to correct weaknesses in statistical coverage, including the centralization of information and the monitoring of foreign grants.

V. Staff Appraisal

In the two years 1981-82 economic growth in Rwanda continued at the relatively rapid pace of 5 per cent per annum achieved during the previous four years. However, there has been a marked deterioration in the budget and the balance of payments. This reversal of financial trends was largely attributable to the considerable softening of world market conditions for Rwanda's main export commodities and to the decline in net inflows of transfers and capital. At the same time, however, demand management policies were relaxed and the Rwanda franc was allowed to appreciate significantly.

Although economic growth has been rapid, progress toward achieving a number of important sectoral targets of the second five-year plan (1977-81) has not been fully satisfactory. In light of this experience, as well as of unfavorable medium-term resource prospects, the growth objective of the third five-year (1982-86) development plan has been lowered to 4.8 per cent from 6 per cent under the previous plan. Moreover, supply policies of the new plan rightly continue to accord priority to the development of agriculture, notably food production, to reduce the vulnerability of the economy to external factors by enlarging the economic base through export diversification. Other priorities are the expansion of the manufacturing sector (including agricultural processing industries), and the development of manpower resources. To attain these objectives the emphasis placed on raising productivity, improving absorptive capacity as well as on productive and employment-generating investments is appropriate.

The realization of the objectives of the plan will require the adoption and effective implementation of supportive pricing and incomes policies. The staff notes that prudent wage policies will be followed in the immediate future and welcomes the Government's intention to continue to ensure that producer prices remain sufficiently remunerative. Given such a policy stance, as well as the considerable uncertainties regarding external conditions, the correction of the appreciation of the Rwanda franc may help ease domestic resource constraints, and more generally, achieve the medium-term objectives of the plan. Such action would in principle have a beneficial effect on the overall budgetary situation provided an adequate incomes and pricing policy was maintained.

The pursuit of more prudent demand management policies designed to promote a climate of financial stability is also needed to ensure the attainment of the objectives of rapid and steady growth. In this context, the objective of raising substantially larger domestic resources for the financing of planned investments is justified, although the amount projected appears ambitious. Budgetary policy is a key element in any such endeavor. To that end, determined efforts should be made to contain the growth of government spending, particularly current expenditure. In addition to restraint in wages, stronger efforts to contain the growth of recruitment is necessary. The containment of government spending will also necessitate as a minimum the elimination of the operating deficits of the public enterprises. Indeed consideration should be given to the generation of operating surplus through measures such as flexible employment and pricing policies, and better management. To mobilize additional domestic resources it will be important to review the tax system in order to raise taxes where necessary and to broaden the revenue base, thereby lessening the dependence on coffee. The authorities' intention to review budgetary procedures and control, as well as the tax system, is opportune and should be carried out as early as possible. In the future, better coordination of budgetary and monetary policies would help avoid exerting undue pressures on prices and the balance of payments. A more active use of existing credit control instruments, including an upward adjustment of interest rates, would also play an essential part.

Rwanda maintains a liberal foreign trade and payments system. The staff continues to encourage the authorities to eliminate the remaining restriction on transfers subject to approval under Article VIII. While some balance of payments pressures exist, this restriction does not appear to be temporary. Accordingly, approval by the Executive Board is not being sought.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Rwanda's exchange measures subject to Article VIII, Section 2 (a) and in concluding the 1982 Article XIV consultation with Rwanda, in the light of the 1982 Article IV consultation with Rwanda conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Rwanda maintains a generally liberal system of payments and transfers for current international transactions. The Fund encourages the authorities to eliminate the remaining restriction on transfers of earned income of foreigners as described in SM/83/31.

I. Relations with the Fund
(As of January 15, 1983)

Date of membership	September 30, 1963
Status	Article XIV
Quota	SDR 34.5 million
Local currency/SDR equivalent	RF 102.61 = SDR 1
Use of Fund resources	Rwanda had a one-year stand-by arrangement in the first credit tranche for an amount equivalent to SDR 5 million that ended on October 30, 1980. No purchases were made under this arrangement.
Fund holdings of Rwanda francs	SDR 27.2 million, equivalent to 78.8 per cent of quota
SDR position	
Net cumulative allocation	SDR 13.7 million
Holdings of SDRs	SDR 10.8 million or 79.1 per cent of net cumulative allocation
Trust Fund	Rwanda qualified for a loan in the second period amounting to SDR 10.7 million.
Direct distribution of profits from gold sales (first and second periods)	US$3.0 million
Gold distribution	16,261 troy ounces of fine gold
Exchange system	The Rwanda franc is pegged to the U.S. dollar, and a middle rate for the U.S. dollar of RF 92.84 = US$1.00 has been maintained since January 7, 1974.

I. Relations with the Fund (concluded)

Staff contacts and technical assistance

The 1981 Article IV consultation discussions with Rwanda were held in Kigali during the period May 19-June 3, 1981. The staff report (SM/81/162) was discussed by the Executive Board on August 24, 1981. The Board decision was:

1. The Fund takes this decision relating to Rwanda's exchange measures subject to Article VIII, Section 2 (a) and in concluding the 1981 Article XIV consultation with Rwanda, in the light of the 1981 Article IV consultation with Rwanda conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Rwanda continues to maintain a liberal system of payments and transfers for current international transactions. The Fund encourages the authorities to remove the remaining restriction described in SM/81/162.

Since the last Article IV consultation discussions, the staff carried out, at the request of the Rwandese authorities, a study on the exchange rate of the Rwanda franc. Following the transmittal of the study, two staff members met with the President of the Republic in Paris in June 1982, and subsequently a staff team visited Kigali in July 1982 to discuss further the study's conclusions and recommendations with the Rwandese authorities, including the President of the Republic.

The Central Banking Department is currently providing three experts to the National Bank of Rwanda. The assignment of a customs advisor, provided through the Fiscal Affairs Department to the Ministry of Finance ended on July 31, 1982. A staff member from FAD visited Kigali in November 1982 to identify Rwanda's technical assistance needs in the fiscal area.

II. Relations with the World Bank Group

Rwanda is eligible for IDA credits which are mostly for the financing of projects in infrastructure, agriculture, livestock, and forestry. Rwanda has received 15 IDA credits totaling US$135.5 million. Two IFC loans for expansion of tea factories were made in 1976 and 1980. An IBRD resident mission has been maintained in Kigali since 1979.

RWANDA - Basic Data

Area, population, and GDP per capita

Area	26,340 square kilometers
Population	
Total (1981 estimate)	5.4 million
Growth rate (1978-81)	3.7 per cent
GDP per capita (1980)	SDR 172

	1978	1979	1980	1981 Est.	1982 Est.
Gross domestic product and expenditure	(In billions of Rwanda francs)				
GDP at current market prices	81.0	97.4	108.0	117.9	134.4
Of which:					
agriculture, livestock, forestry, and fishing	(34.4)	(46.2)	(49.5)	(52.8)	(58.0)
industry, construction, and public works	(15.9)	(18.5)	(21.3)	(23.9)	(28.9)
government services	(6.1)	(7.2)	(9.2)	(11.6)	(12.8)
Gross domestic expenditure at current prices	86.1	101.8	111.9	126.5	143.8
Private consumption	(61.8)	(74.5)	(85.2)	(93.7)	(105.3)
Public consumption	(13.0)	(13.0)	(13.5)	(16.3)	(18.3)
Gross capital formation	(11.3)	(14.3)	(13.2)	(16.5)	(20.2)
Resource gap at current prices 1/	-13.1	-6.7	-14.6	-16.8	-17.8

	1978	1979	1980	1981	1982 Est.
Price indices	(Period average)				
General consumer price index (average second quarter 1982 = 100)	68.5	79.3	85.0	90.5	98.9 2/
Export price index (1975 = 100)	232.0	294.0	243.0	201.0	227.0
Import price index (1975 = 100)	123.0	145.0	171.0	167.0	164.0

1/ Exports of goods and nonfactor services minus imports of goods and nonfactor services.
2/ August 1982.

RWANDA - Basic Data (continued)

	1978	1979	1980	1981	1982 Est.
Treasury operations	(In billions of Rwanda francs)				
Budgetary revenue	8.8	12.2	13.4	14.8	16.2
Of which: from coffee exports	(1.5)	(3.9)	(2.0)	(1.1)	(1.0)
Budgetary expenditure and net lending	8.0	11.1	12.3	17.0	18.5
Current	7.0	8.4	10.4	14.0	15.4
Development and net lending	1.0	2.7	1.9	3.0	3.1
Treasury special accounts	-0.8	-0.2	--	--	-0.3
Treasury overall surplus or deficit (-)	--	0.9	1.0	-2.2	-2.6
Domestic financing	0.1	-0.8	-0.7	2.8	3.0
Of which: banking system	(-0.5)	(-0.1)	(-2.2)	(2.5)	(...)
Amortization of external public debt	-0.1	-0.1	-0.3	-0.6	-0.4
Money and credit (end of period)					
Foreign assets (net)	7.0	14.2	15.6	15.3	11.4
Domestic credit	5.2	3.1	2.6	5.4	9.9
Claims on Government (net) 1/	--	-1.5	-3.8	-2.8	0.1
Claims on private sector	5.2	4.6	6.5	8.2	9.8
Of which: coffee-related credit	(2.2)	(1.3)	(2.2)	(3.0)	(3.0)
Money	9.0	11.2	10.9	11.8	13.0
Quasi-money	2.2	2.9	3.3	4.3	4.4
Other items (net) 2/	1.0	3.2	4.0	4.6	3.9
Balance of payments	(In millions of SDRs)				
Exports, f.o.b.	89.2	157.0	102.6	96.1	105.5
Of which: coffee	(39.0)	(106.9)	(48.1)	(57.9)	(65.2)
Imports, f.o.b.	-115.8	-123.4	-150.4	-175.7	-198.5
Of which: petroleum	(-11.7)	(-14.8)	(-22.0)	(-36.6)	(-42.9)
Trade balance	-26.6	33.6	-47.8	-79.6	-93.0
Services (net)	-84.4	-98.6	-69.1	-64.3	-71.7
Unrequited transfers (net)	74.6	101.3	80.1	87.1	88.8
Current account balance	-36.4	36.2	-36.8	-56.8	-75.9
Capital (net) 3/	39.8	17.8	47.0	54.0	38.1
Overall surplus or deficit (-)	3.4	54.0	10.2	-2.8	-37.9

1/ Include Treasury balances with the Central Bank as well as special deposit accounts held by a number of public administrative units.
2/ Including the Trust Fund loan.
3/ Including allocation of SDRs, and errors and omissions.

RWANDA - Basic Data (concluded)

	1978	1979	1980	1981	1982 Est.
Gross official reserves (end of period)			(In millions of SDRs)		
SDR holdings	2.4	4.6	7.7	9.8	10.8 1/
IMF reserve position	2.9	5.5	8.4	7.3	7.3
Foreign exchange	61.9	105.6	130.2	131.6	109.4
Total	67.2	115.7	146.3	148.7	127.5
Exchange rate of the Rwanda franc per SDR					
End of period	120.95	122.30	118.41	108.06	102.41
Period average	116.24	119.95	120.83	109.47	102.50
Nominal trade-weighted effective exchange rate 2/ (1974 = 100)	123.1	122.0	120.1	105.1	92.9
Nominal import-weighted effective exchange rate 2/ (1974 = 100)	119.1	118.9	117.1	98.4	86.1

1/ November 1982.
2/ 1978-81: fourth quarter averages; 1982: third quarter average.