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EBS/00/264
Supplement 2

CONFIDENTIAL

December 18, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Rwanda—Staff Report for the 2000 Article IV Consultation and Requests for the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and for Extension of Commitment Period**

The attached supplement to the staff report for the 2000 Article IV consultation with Rwanda and Rwanda's requests for the third annual arrangement under the Poverty Reduction and Growth Facility and for an extension of the commitment period (EBS/00/264, 12/12/00) contains the draft PIN. This subject is scheduled for discussion on Wednesday, December 20, 2000. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Rwanda indicating their preference to publish it.

Questions may be referred to Mr. Georgiou (ext. 36099) and Mr. Yuguda (ext. 36591).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat; and to the African Development Bank, the Common Market for Eastern and Southern Africa, and the European Commission, following its consideration by the Executive Board.

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December [--], 2000

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

IMF Concludes Article IV Consultation with Rwanda

On December 20, 2000, the Executive Board concluded the Article IV consultation with Rwanda.[1] The Board approved the third loan for Rwanda under the Poverty Reduction and Growth Facility (PRGF), in an amount equivalent to SDR 28.56 million (about US$36.66 million). In addition the Board approved that Rwanda had reached the decision point under the enhanced HIPC Initiative.

Background

Real GDP growth decelerated to an estimated 5.2 percent in 2000, from 5.9 percent in 1999, on account of drought in some areas, the rise in international petroleum prices and transportation costs, as well as lower economic activity in the sub-region. After posting a period average inflation rate of -2.4 percent in 1999, Rwanda's inflation increased to 2.8 percent by September 2000, partly on account of higher fuel prices. The external current account deficit widened from about 15.3 percent of GDP in 1999 to 16.8 percent of GDP in 2000, reflecting weaker coffee export receipts, higher fuel and food import prices, an increase in international transport costs, and a relaxation of monetary policy. In this context, the currency depreciated and the central bank sold significant amounts of foreign exchange reserves to restrain the depreciation. While this meant that the net foreign asset targets of the central bank were not met, Rwanda's gross official reserves remained comfortable at over six months of imports.

The government reduced its primary fiscal deficit, but the outturn fell somewhat short of the program targets in the first nine months of 2000 despite some remedial measures that the authorities adopted. In response to revenues being lower than targeted by RF 5.2 billion (0.7 percent of annual GDP), the government reduced expenditure (mostly non-social spending) by about RF 3.8 billion (0.5 percent of GDP) below the September 2000 target. With a view to attaining a primary fiscal

[1] *Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with* members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

deficit of –0.1 percent of GDP for 2000, which is close to the original program target, the government adopted new revenue measures to contain the revenue shortfall and implemented expenditure cuts in the non-social areas. Recurrent social spending is thus expected to increase to 4.1 percent of GDP (from 3.9 percent in 1999) and defense spending to decline to 3.8 percent of GDP (from 4.1 percent in 1999).

In 2000, the government undertook an investigation with a view to identifying all outstanding domestic arrears and identified up to RF 27 billion (about 4 percent of GDP) with a majority of these incurred before or during the 1994 war. Disruption in the recording system, weaknesses in expenditure control, and the lack of clear guidelines on responsibilities for certain public expenditures were responsible for these arrears. However, as a significant number of these may not be legitimate, the government will seek their verification by a third party, and has committed to eliminating all verified arrears by end-2002. Moreover, measures are being put in place to prevent the reemergence of arrears in the future.

In 2001, the authorities will aim to limit the overall fiscal deficit to 9.6 percent of GDP and achieve a primary fiscal surplus of 0.2 percent of GDP. To attain the 2001 fiscal targets the budget includes important revenue measures, which are projected to improve revenues by about 0.6 percentage points of GDP to 10.9 percent of GDP. Government expenditure will increase to 20.5 percent of GDP in 2001 from 19.6 percent of GDP in 2000, reflecting increases in antipoverty spending to 4.9 percent of GDP (from 4.1 percent in 2000) and capital expenditure to 7.6 percent of GDP (from 7 percent in 2000), while military spending will be reduced to 3.2 percent of GDP (from 3.8 percent in 2000). The monetary program for 2001 is consistent with a 6 percent real GDP growth, 3 percent inflation, and a significant expansion in bank credit to the private sector.

The medium-term macroeconomic strategy of the authorities aims to gradually reduce Rwanda's current account deficits, arrest the deterioration in debt sustainability indicators, and thus decrease uncertainty about the sustainability of macroeconomic stability, and eventually integrate Rwanda into international capital markets. In this context, the authorities will aim to reduce the fiscal deficit from 9.6 percent of GDP in 2001 to about 7.8 percent by 2004, mainly on the basis of steps to improve revenue performance. Despite a projected improvement of the current account, a very significant share of grants in total foreign financing will be needed for a number of years in order to achieve debt sustainability.

Executive Board Assessment

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Rwanda: Selected Economic and Financial Indicators

	1995	1996	1997	1998	1999	2000 Proj.
Domestic economy			(Annual percent change)			
Real GDP	34.4	15.8	12.8	9.5	5.9	5.2
Consumer prices (end of period)	38.3	9.2	16.6	-6.0	2.1	6.5
External economy			(In millions of U.S. dollars)			
Exports, f.o.b.	50.4	62.0	93.0	64.1	61.2	68.4
Imports, f.o.b.	194.1	213.3	277.4	255.7	224.5	245.9
Current account balance (excluding official transfers)	-246.2	-266.8	-321.6	-339.3	-294.3	-299.2
Private capital (net)	-31.7	-29.8	27.7	23.6	-31.7	-23.9
Public capital (net)	28.4	32.1	42.9	46.4	51.6	202.0
Capital account balance	-16.6	20.7	46.7	51.4	28.0	28.1
Gross official reserves (end of period)	99.7	106.6	153.4	164.2	174.8	174.8
Current account balance (in percent of GDP)	-19.1	-19.0	-17.3	-16.9	-15.3	-16.8
Change in real effective exchange rate (in percent, + = appreciation) 1/	-39.7	8.6	26.9	-18.3	5.3	-9.8
Financial variables			(In percent of GDP, unless otherwise indicated)			
Overall fiscal balance (excluding grants)	-13.8	-12.9	-9.2	-8.1	-9.9	-9.3
Change in broad money (in percent)	73.7	8.2	47.5	-3.9	6.6	6.3
Interest rate (in percent 2/ 3/	12.0	11.0	11.4	10.0	10.1	9.7

Source: Rwandese authorities; and IMF staff estimates and projections

1/ Figure for 2000 is for September.
2/ One-year savings deposits.
3/ Figure for 2000 is for September.

FROM: NATIONAL BANK OF YUGOSLAVIA

BELGRADE, DECEMBER 11, 2000
TREASURY DEPARTMENT
INTERNATIONAL MONETARY FUND
700 19TH STREET, N.W.
WASHINGTON, D.C. 20431

REQUEST FOR PURCHASE UNDER THE FUND'S POLICY ON POST-CONFLICT ASSISTANCE

1. AS FISCAL AGENCY FOR THE GOVERNMENT OF THE FEDERAL REPUBLIC OF YUGOSLAVIA, WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND AN AMOUNT EQUIVALENT TO SDR 116,925,000 IN ACCORDANCE WITH TERMS OF ARTICLE V, SECTIONS 3 AND 4 AND THE FUND POLICY ON POST-CONFLICT ASSISTANCE.

2. WE DO HEREBY REPRESENT THAT THIS PURCHASE IS NEEDED IN ACCORDANCE WITH THE PROVISIONS OF THE FUND'S ARTICLES OF AGREEMENT.

3. PLEASE CREDIT THE FEDERAL REPUBLIC OF YUGOSLAVIA'S SDR ACCOUNT WITH SDR 116,925,000, ON THE VALUE DATE OF THE PURCHASE. AS AUTHORIZED IN A SEPARATE COMMUNICATION, SDR 101,118,905 OF THE AMOUNT WILL BE USED FOR REPAYMENT OF BRIDGE LOANS OF SDR 101,118,905.

4. THE EQUIVALENT OF DESIRED PURCHASE NAMELY YUGOSLAV DINAR EQUIVALENT TO SDR 116,925,000 CALCULATED ON THE BASIS OF THE REPRESENTATIVE EXCHANGE RATE WILL BE CREDITED TO THE FUND'S SECURITIES ACCOUNT WITH OURSELVES ON THE VALUE DATE OF THE PURCHASE.

5. REGARDING THE SERVICE CHARGE EQUIVALENT TO ONE HALF OF ONE PERCENT OF THE PURCHASE AMOUNT, PLEASE DEBIT OUR SDR ACCOUNT WITH SDR 584,625 ON THE VALUE DATE OF THE PURCHASE.

BEST REGARD
MLADJAN DINKIC
NATIONAL BANK OF YUGOSLAVIA

Received in the Fund on December 11, 2000.