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GRAY/07/2038

June 22, 2007

**Statement by Mr. Kiekens and Mr. Rottier on Rwanda
(Preliminary)
Executive Board Meeting 07/54
June 25, 2007**

Rwanda's macroeconomic performance has been broadly satisfactory. In its Report, the staff has rightly pointed out the need to prepare for scaling up aid. The authorities should use this aid in the most effective manner to foster growth and combat poverty while preserving macroeconomic stability. However, higher grants should not lead to complacency and the authorities must continue their efforts to broaden the taxation base.

We thank the staff for their well-written, although sometimes too focused report. We support the completion of the second review of the PRGF for Rwanda. We also agree to granting the proposed waivers, given the (unfortunately late) implementation of two of the three benchmarks. However, we are concerned about the fact that all structural benchmarks were missed. Could the staff comment on how the pace of implementation of structural measures can be quickened? Mr. Rutayisire's insightful Buff statement and Mr. Portugal's report of his recent visit to Rwanda clearly state the authorities' strong commitment to implement these reforms.

We welcome the higher per capita GDP growth in 2005 and the pleasantly surprising positive figures for 2006 (1 percentage point higher than what was estimated last January). However, could the staff provide reasons for the expected decline in growth in the coming years?

As several Directors already observed at the time of the first review of this PRGF, the relatively high growth is not translated into a significant decline in poverty. This is regrettable and should be a priority when the PRSP is updated.

Despite the lower energy prices, inflation (both in the food and non-food sector) has spiked in 2007. In light of the increasing money demand, it was appropriate to rebase the monetary program. Close monitoring of the monetary program is crucial since inflationary pressures will remain high in the coming years.

We note that in recent years there has been a large increase in government expenditures, especially in 2007. We welcome the fact that this new spending is almost entirely allocated to priority sectors but we regret that non-priority expenditures such as military expenditures remain very high and are not being reduced. The new conditionality related to the publication of local government spending is appropriate.

Increased expenditures are almost entirely financed by grants. These grants are therefore very important and welcome. However, we note that, beyond 2007, aid projections remain uncertain. It is regrettable that there has been a slight decline in fiscal revenues since 2005 and their projection for 2007 has also been revised downward. We expected the government to enhance efforts to increase fiscal revenues by broadening the tax base.

We regret the arrears by the African Union regarding payments to compensate for Rwanda's peacekeeping efforts in Darfur. This situation should be urgently resolved. It is unacceptable that delayed payments for humanitarian services negatively affect domestic priority spending.

The real effective exchange rate has once again moderately appreciated. What is the staff's assessment of the longer term evolution of the competitiveness of Rwanda's exports? Moving toward a more flexible exchange rate might perhaps help. However, first significant capacity constraints need to be addressed. A gradual exit from the current auction system to a full-fledged interbank market system is a positive step.

Lastly, we regret the limited coverage in the Staff Report of macroeconomically relevant structural policies, especially in the energy, trade and agricultural sectors. This was probably because of streamlining pressures on the staff. We believe that the Lake Kivu project and the roadmap for joining the EACC are very important issues for Rwanda. Also, we would appreciate an update on the supervision of micro-finance institutions.