INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/14
FOR IMMEDIATE RELEASE
February 6, 2009

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

IMF Executive Board Concludes 2008 Article IV Consultation with Rwanda

On January 12, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Rwanda.[1]

Background

Over the past decade, Rwanda's economic performance has been strong, backed by sound macroeconomic and structural policies and substantial donor assistance. During this period, real GDP growth has been robust at 7 percent on average and inflation has been generally low. Rising revenues and assistance from international donors created fiscal space to scale up public spending, including on pro-poor initiatives. Rwanda qualified for debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) in 2005 and benefited from Multilateral Debt Relief Initiative (MDRI) in 2006, which significantly reduced its external debt. Rwanda's external position has strengthened with the aid flows, allowing an adequate reserve coverage of imports.

Rwanda is advancing toward the Millennium Development Goals (MDGs). It has made significant progress in achieving the objectives on universal primary education, gender equality and empowering of women, and reducing child mortality. Nonetheless, poverty remains pervasive.

[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.

The Rwanda's macroeconomic policies have been supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement, which was approved in June 2006. The program is designed to maintain macroeconomic stability while setting the stage for stronger growth and poverty reduction.

Policy implementation under the PRGF-supported program in 2008 has been satisfactory. Growth is expected to reach 8.5 percent, reflecting buoyant activity in the agriculture, manufacturing, construction, and services sectors. Nevertheless, inflation accelerated to double digits in the second half of the year, reflecting the impact of international commodity prices and expansion of domestic demand. The fiscal stance was tighter than envisaged in the first half of the year, largely reflecting strong revenue performance. The monetary program also remained broadly in line with the program.

The authorities made good progress in implementing the structural reforms agenda. In particular, in the second half of 2008 the authorities finalized a medium-term action plan for the public financial management reform, the national payments strategy, designed to improve the payments infrastructure and address the development of basic payment services in Rwanda, and the debt management strategy, which sets the limits for external debt accumulation consistent with the medium-term fiscal policy objectives.

Executive Board Assessment

Executive Directors commended the Rwandan authorities for implementing sound macroeconomic policies and important structural reforms over the past years. These policies and reforms helped achieve high economic growth, keep inflation relatively stable, and improve debt sustainability.

Downside risks to the near-term economic outlook have increased because of the global financial crisis and economic slowdown. Also, poverty remains widespread, and social indicators lag behind those of many other African countries, despite high economic growth rates. Over the medium term, Directors emphasized that the main challenge will be to maintain high and broad-based economic growth and reduce persistent poverty, while pursuing macroeconomic stability and debt sustainability.

Directors considered the authorities' macroeconomic policy framework and structural reform agenda to be appropriate for tackling these challenges. They encouraged the authorities to implement cautious fiscal and monetary policies that would ease inflation and possible balance of payments pressures without stifling economic growth. Continued determined implementation of structural reforms will be important to raise investment rates, expand the private sector, deepen the financial sector, and diversify the production and export base.

Directors commended the authorities' prudent fiscal stance, which focuses on priority spending while containing inflationary pressures and keeping debt at a sustainable level. They observed that while Rwanda's revenue collection has improved, it is still relatively low. They encouraged the authorities to monitor revenue developments carefully, and to further enlarge the tax base and strengthen tax administration in order to reduce over time Rwanda's substantial aid dependence. Directors underscored the importance of improving public financial management and, in this regard, welcomed the efforts to improve the institutional framework for formulating and executing the public investment program.

Executive Directors supported a scaling up of public investment in view of Rwanda's substantial development needs. They encouraged the authorities to rely on grants and highly-concessional loans for its financing in order to safeguard debt sustainability gains. In this respect, Directors welcomed the authorities' development of a comprehensive debt management strategy, which sets limits for loans and loan guarantees. They recommended that the debt strategy incorporate the fiscal risks associated with contingent liabilities, particularly those relating to planned public-private partnerships. Directors stressed that the financing of infrastructure projects should be consistent with a well-prioritized medium-term expenditure framework.

Directors noted that domestic demand pressures and higher world food and fuel prices led to an acceleration of inflation in the second half of 2008. Although recent signs of easing core inflation are encouraging, Directors supported the authorities' tight monetary stance to contain the second-round effects of the commodity price shocks. They recommended that steps be taken to raise interest rates to positive levels in real terms. They encouraged efforts to improve liquidity forecasting and management, particularly through better coordination of monetary and fiscal policies.

Directors noted the staff assessment that the real exchange rate of the Rwandan franc is broadly in line with economic fundamentals, although rising inflation led to real appreciation pressures toward the end of 2008. In this context, they welcomed the authorities' commitment to increase nominal exchange rate flexibility and subordinate the foreign currency sales to monetary policy objectives. Directors underscored the importance of structural reforms and of the removal of infrastructure bottlenecks to safeguard Rwanda's external competitiveness.

Directors commended the measures taken in recent years to strengthen the banking sector, including the passage of legislation in October 2008 to counter money laundering and terrorism financing. Noting that credit and operational risks remain high, Directors welcomed the central bank's intention to improve banking regulation and supervision. They looked forward to the timely implementation of the financial sector development plan.

Directors welcomed the authorities' commitment to promote private sector-led diversified growth and employment generation. They supported the reforms to improve the investment climate, and attached high priority to measures aimed at addressing land use and other structural problems that hinder agricultural development. They encouraged further trade integration with the East African Community. Given Rwanda's financing and capacity constraints, Directors underlined the importance of properly calibrating the scope, timing, and pace of reforms.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Rwanda: Selected Economic and Financial Indicators, 2006–09				
	2006	2007	2008 Proj.	2009 Proj.
(Annual percentage changes, unless otherwise indicated)				
Output and prices				
Real GDP growth	7.3	7.9	8.5	6.0
Real GDP (per capita)	5.4	5.7	6.2	3.8
GDP deflator	9.4	10.5	15.3	10.7
Consumer prices (end of period)	12.2	6.6	22.0	6.0
External sector				
Export of goods, f.o.b. (in U.S. dollars)	16.9	20.1	25.4	6.2
Imports of goods, f.o.b. (in U.S. dollars)	26.2	30.2	43.9	5.9
Export volume	12.7	6.2	13.0	19.3
Import volume	27.0	31.0	24.0	14.6
Terms of trade (deterioration = -)	4.3	13.7	-4.4	-3.7
Money and credit				
Net domestic assets[1]	1.3	7.3	1.3	14.1
Domestic credit[1]	7.8	9.7	1.3	10.2
Of which: Economy[1]	13.8	11.8	10.8	15.5
Broad money (M2)	31.5	30.8	13.6	17.0
Reserve money	11.9	30.7	22.3	18.0
(Percent of GDP)				
National income accounts				
National savings	4.3	5.4	5.0	5.1
Gross investment	20.4	21.0	23.4	23.5
Government finance				
Total revenue (excluding grants)	13.3	13.6	14.2	14.4
Total expenditure and net lending	24.5	24.9	27.1	27.0
Total expenditure and net lending, excl. privatization	24.5	26.1	27.7	27.0
Primary fiscal balance	-2.1	-3.5	-3.1	-4.5
Domestic fiscal balance	-5.4	-6.1	-6.5	-6.8
Overall balance, after grants	-0.4	-1.5	0.1	0.9
External sector				
External current account balance, including official transfers	-7.4	-4.9	-7.1	-8.2
External debt (end of period)	16.9	16.8	15.4	14.9
Gross reserves (in months of imports of goods and services)	5.6	5.2	5.1	4.6
(Millions of U.S. dollars)				
External debt (end of period)	477.6	574.2	652.8	726.2
Gross official reserves	439.6	552.4	599.0	581.0
Memorandum item:				
Nominal GDP (billions of Rwanda francs)	1,563.8	1,866.1	2,333.1	2,737.6

Sources: Rwandese authorities; and IMF staff estimates and projections.
[1] As a percent of the beginning-of-period stock of broad money.