DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

MASTER FILES
ROOM C-525

0451

EBS/91/61

CONFIDENTIAL

April 4, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Rwanda - Staff Report for the 1990 Article IV Consultation and Request for Arrangements Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1990 Article IV consultation with Rwanda and its request for arrangements under the structural adjustment facility. Draft decisions appear on page 29.

This subject, together with the policy framework paper for Rwanda (EBD/91/100, 4/3/91), has been tentatively scheduled for discussion on Wednesday, April 24, 1991.

Mr. Tahari (ext. 6682) or Mr. Lienert (ext. 7013) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

RWANDA

Staff Report for the 1990 Article IV Consultation and Request for Arrangements Under the Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Department)

Approved by E.L. Bornemann and Anupam Basu

April 3, 1991

Contents | Page

Contents

I. Introduction

In the attached letter dated February 15, 1991, the Government of Rwanda requests a three-year arrangement under the structural adjustment facility (SAF) in support of a program covering the period 1991-93 (Attachment to Appendix I). The proposed three-year arrangement would be in an amount equivalent to SDR 30.66 million (70 percent of quota), of which SDR 8.76 million (20 percent of quota) would be available upon Executive Board approval of the first annual arrangement thereunder. The first-year program, covering 1991, is described in the memorandum on economic and financial policies annexed to the authorities' letter.

In formulating the medium-term strategy, the Rwandese authorities have prepared, in close collaboration with the staffs of the Fund and the World Bank, a policy framework paper (PFP) that sets forth the Government's economic objectives for 1991-93 and the macroeconomic and structural adjustment policies designed to achieve them (EBD/91/100). The PFP, which was transmitted to the Managing Director of the Fund and the President of the World Bank on February 15, 1991, will be considered shortly by the World Bank's Committee of the Whole.

Discussions on an adjustment program were completed in September 1990, together with the 1990 Article IV consultation discussions. However, in early October 1990, a war erupted in Rwanda following an invasion by rebels from a neighboring country. As the war severely affected the economic and financial situation, it was necessary to revise the original program to take into account the adverse impact of the war, and to reach understandings with the authorities on additional measures. Staff missions visited Kigali in December 1990 and February 1991 to conclude these discussions. 1/

Rwanda continues to avail itself of the transitional arrangements of Article XIV. As of end-February 1991, the Fund did not hold any Rwanda franc currency subject to repurchase (Table 1). 2/ Rwanda last made use of Fund resources in 1969 under a stand-by arrangement for SDR 2 million. A stand-by arrangement for SDR 5 million was approved in October 1979, but no purchases were made under this arrangement.

1/ The Rwandese representatives included Mr. Ruhigira, Minister at the Presidency; Mr. Ntigulirwa, Minister of Finance; Mr. Ngirabatware, Minister of Planning; and Mr. Ntirugirimbabzi, Governor of the Central Bank. The staff team that concluded the discussions comprised Messrs. Tahari (head-SEC), Lienert (AFR), Bessaha (AFR), and Ms. Guyon (Administrative Assistant-AFR). Messrs. Abu-zobaa, Krichene, and Youm (all AFR) participated in earlier discussions.

2/ Summaries of Rwanda's relations with the Fund and with the World Bank are provided in Appendices III and IV, respectively.

Table 1. Rwanda: Fund Position During Period of Arrangement, 1990-93

	Outstanding on Dec. 30, 1990	1991	1992	1993
		(In millions of SDRs)		
Transactions under tranche policies (net)	--	--	--	--
Transactions under special facilities (net)	--	--	--	--
Structural adjustment facility loans	--	8.76	13.14	8.76
Total Fund credit outstanding (end of period)	--	8.76	21.90	30.66
Under tranche policies	--	--	--	--
Under special facilities	--	--	--	--
Under structural adjustment facility	--	8.76	21.90	30.66
		(In percent of quota)		
Total Fund credit outstanding (end of period)	--	20.0	50.0	70.0
Under tranche policies	--	--	--	--
Under special facilities	--	--	--	--
Under structural adjustment facility	--	20.0	50.0	70.0
Memorandum item:				
Trust Fund loans outstanding (end of period)				
In millions of SDRs	0.07	--	--	--
As percent of quota	0.16	--	--	--

Source: IMF, Treasurer's Department.

Rwanda is on a standard 12-month cycle for Article IV consultation, and the last consultation was concluded on August 14, 1989 (SM/89/140, 7/12/89). 1/ At that time, Directors expressed concern about the deterioration in the economic and financial situation of Rwanda and the outlook for the medium term. Directors stressed the need for the authorities to adopt promptly a comprehensive set of adjustment measures designed to reduce the rate of increase in domestic demand, improve the competitiveness of the economy, and remove impediments to growth. They also urged the authorities to give the highest priority to correcting the overvaluation of the currency and introducing more flexibility in exchange rate management.

II. Background and Recent Economic Developments

1. Background

After a decade of relatively high rates of economic growth in the context of broad financial stability and low rates of inflation in the 1970s, the economy began to experience difficulties in the early 1980s. These difficulties were attributable mainly to an unfavorable evolution of the terms of trade, the appreciation of the Rwanda franc, expansionary financial policies, and structural problems.

Rwanda's economy is heavily dependent on the production and export of coffee and tea, which account for about 70 percent and 15 percent of total exports, respectively. Thus, the economic and financial situation is vulnerable to changes in weather conditions and to fluctuations in the world market prices of these two commodities. Moreover, nearly all fertile land is already being used and the capacity for bringing marginal land into production is limited. Farmland has been overexploited, and in recent years there has been a decline in crop yields.

Industrial activity is confined to a few agro-industries and some inefficient import-substitution industries, which the Government has protected with excessive tariff or nontariff barriers. Private sector activity has been constrained by import restrictions and controls on prices and profit margins. Despite high protection, most public enterprises have incurred losses. Exploitation of Rwanda's mineral resources (principally cassiterite and wolfram) virtually ceased in the mid-1980s when the main producing company went bankrupt, in part because of poor management, but also owing to the overvaluation of the Rwanda franc. Since 1988 mining activities have resumed, but on a small scale.

With a rapid population increase at a rate of 3.7 percent annually, and with real GDP rising on average by only about 1 percent per annum

---

1/ Two notifications of delay in concluding the 1990 Article IV consultation were circulated to the Executive Board, on November 13, 1990 (EBD/90/378) and on February 15, 1991 (EBD/90/378, Supplement 1).

during the 1980s, the standard of living has been falling. Per capita income is estimated at SDR 231 in 1990. The country is no longer self-sufficient in food crops, and pockets of malnutrition exist. In addition, progress in improving health and education facilities has been marginal, with life expectancy estimated at only 49 years and with only 6 percent of children of school-going age attending secondary schools.

2. Recent economic developments

a. Developments during 1987-89

Since 1987, the economic and financial situation deteriorated further, partly as a result of the combined impact of a sharp drop in world coffee prices and unfavorable climatic conditions, while at the same time, demand management policy was not adjusted sufficiently and the Rwanda franc remained overvalued. Real GDP stagnated in 1987 and 1988, and fell by 5.7 percent in 1989 (Table 2). The decline in 1989 was largely attributable to the effects on agricultural output of adverse weather conditions. Only the mining and the public sectors recorded increases in output. Inflation, as measured by the consumer price index in Kigali, averaged 2.7 percent during the period 1987-89. 1/ The price performance reflects mainly the impact of the appreciation of the exchange rate and the application of price controls.

The continued overvaluation of the Rwanda franc led to a further erosion of external competitiveness in 1987-89. Moreover, coffee prices fell sharply, especially following the collapse of the International Coffee Agreement in July 1989. In order to prevent a further deterioration in the trade balance in 1989, restrictions on imports were tightened. As a result, the external current account deficit, excluding official transfers, declined from the equivalent of 11.7 percent of GDP in 1987 to 10.7 percent in 1989. However, because of a decline in capital inflows, the overall deficit rose from SDR 14.3 million in 1987 to nearly SDR 30 million in each of the following two years. These deficits were financed by a drawdown of net official foreign exchange reserves, which fell from the equivalent of five months' imports at end-1986 to two months at end-1989. The outstanding external debt, almost entirely contracted on concessional terms, amounted to the equivalent of 28 percent of GDP in 1989. Reflecting partly the decline in export receipts, the debt service ratio rose to 18.3 percent. In 1989, Rwanda benefited from debt forgiveness (US$74 million) from France.

After attaining 10.4 percent of GDP in 1987, the deficit of the consolidated operations of the Central Government, on a commitment basis and excluding grants, was reduced to 7.3 percent in 1989 (Table 3), due primarily to a marked decline in capital outlays. Current expenditure, including transfers to the coffee sector to finance its losses, remained

---

1/ National accounts data indicate that the deflator of private consumption increased by 5 percent per annum during 1987-89.

Table 2. Rwanda: Selected Economic and Financial Indicators, 1987-93

	1987	1988	1989	1990 Est.	1991	1992 Program	1993
	(Annual percentage changes, unless otherwise indicated)						
National income and prices							
GDP at constant prices	-0.3	0.3	-5.7	-2.0	1.0	3.7	3.8
GDP deflator	1.3	3.2	3.8	3.2	24.0	12.0	5.0
Consumer prices 1/	6.0	2.6	4.6	8.7	28.0	12.0	5.0
External sector							
Exports, f.o.b. (in SDRs)	-40.0	-6.9	-7.0	-1.5	-3.7	7.8	11.5
Imports, c.i.f. (in SDRs)	-7.9	0.3	-5.6	-9.8	11.3	--	6.8
Export volume	1.5	-21.5	2.7	35.6	-8.3	4.5	4.5
Import volume	-7.1	-0.1	-6.0	-11.1	12.8	-1.9	3.5
Terms of trade (deterioration -)	-37.0	16.4	-11.8	-27.5	6.4	1.1	3.4
Nominal effective exchange rate (depreciation -) 2/	-1.4	2.0	2.9	-6.6	...	...	...
Real effective exchange rate (depreciation -) 2/	-0.2	1.4	-0.8	-8.2	...	...	...
Government finance							
Revenue and grants	-2.8	8.3	1.2	-7.4	33.7	11.2	8.4
Revenue	-1.8	0.8	3.2	-9.1	32.6	11.4	12.8
Total expenditure and net lending	13.7	-5.5	-5.1	15.5	16.4	-0.7	3.8
	(In percentages)						
Money and credit							
Domestic credit 3/	15.2	17.4	13.5	19.8	6.8	7.1	5.1
Government 3/	15.3	5.8	6.6	23.1	-2.7	-0.6	-1.8
Economy 3/	-0.1	11.6	6.8	-3.3	9.5	7.8	6.9
Money and quasi-money (M2)	10.3	7.4	-4.2	5.4	21.9	13.3	7.9
Velocity (ratio of GDP to M2)	5.9	5.7	5.8	5.6	5.7	5.9	5.9
Interest rate (one-year savings deposits)	4.5-5.0	4.5-5.0	4.5-5.0	12.0	...	...	...
	(In percent of GDP)						
Total revenue and grants	15.8	16.6	17.1	15.7	16.8	16.1	16.0
Total revenue	13.5	13.1	13.8	12.4	13.2	12.6	13.1
Total expenditure and net lending 4/	23.9	21.8	21.1	24.1	22.4	19.2	18.3
Consolidated fiscal deficit (including grants) 4/	-8.0	-5.2	-4.0	-8.4	-5.7	-3.1	-2.3
Consolidated fiscal deficit (excluding grants) 4/	-10.4	-8.7	-7.3	-11.7	-9.3	-6.6	-5.2
Domestic bank financing	2.6	0.8	1.5	3.2	-0.4	-0.1	-0.3
Foreign financing (net)	4.6	2.8	2.4	1.5	2.1	2.3	2.6
External current account (deficit -)							
Excluding official transfers	-11.7	-11.3	-10.7	-10.5	-15.2	-12.4	-11.4
Including official transfers	-6.2	-5.3	-4.8	-4.7	-8.6	-6.1	-5.9
External debt (outstanding at end of period)	26.8	26.7	28.0	28.8	28.2	27.1	27.9
Debt service ratio 5/	16.5	17.1	18.3	17.7	20.9	20.8	18.6
Interest payments 5/	4.4	5.8	5.2	6.3	7.4	6.8	5.9
Gross domestic savings	6.3	6.4	6.3	3.8	3.0	5.3	6.2
	(In millions of SDRs)						
Overall balance of payments (deficit -)	-14.3	-29.0	-29.9	-47.6	29.0	7.3	8.4
Gross official reserves	116.5	88.1	53.0	31.3	55.7	69.8	85.0
(In months of imports, c.i.f.)	(5.1)	(3.8)	(2.4)	(2.4)	(2.6)	(3.4)	(3.9)

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

1/ The deflator of private consumption, as measured in the National Accounts.
2/ Annual average change in effective exchange rate index.
3/ Expressed in percent of beginning-period money stock.
4/ On a commitment basis.
5/ In percent of exports of goods and nonfactor services.

Table 3. Rwanda: Government Financial Operations, 1987-93

	1987	1988	1989	1990 Est.	1991	1992 Program	1993
	(In billions of Rwanda francs)						
Revenue and grants	27.23	29.50	29.87	27.67	37.00	41.15	44.63
Total revenue	23.13	23.32	24.07	21.88	29.02	32.34	36.49
Tax revenue	20.18	20.00	20.89	18.58	25.97	28.49	32.02
On income and profits	4.64	5.19	5.24	4.89	5.28	6.16	7.54
On goods and services	6.26	6.55	7.46	6.55	8.13	10.03	11.43
On international trade	8.83	7.72	7.61	6.57	11.93	11.58	12.26
Of which: import duties	(6.12)	(6.12)	(5.93)	(4.83)	(10.43)	(10.04)	(10.66)
coffee export tax	(2.45)	(1.27)	(1.38)	(1.47)	(1.37)	(1.39)	(1.44)
Other tax revenue	0.45	0.54	0.59	0.57	0.62	0.73	0.80
Nontax revenue	2.95	3.32	3.19	3.30	3.05	3.84	4.47
Grants	4.10	6.18	5.79	5.79	7.98	8.81	8.14
Total expenditure (commitment basis)	40.79	38.53	36.65	42.34	49.23	48.96	50.79
Current expenditure	23.95	23.83	23.92	31.03	31.61	28.50	29.19
Wages and salaries	10.11	10.71	11.00	11.80	12.91	12.88	13.33
Goods and services	5.79	6.06	5.57	9.77	11.00	7.16	7.81
Interest payments	1.81	2.04	2.03	2.20	4.50	5.41	4.73
On domestic debt	1.23	1.35	1.29	1.50	3.17	4.05	3.38
On external debt	0.58	0.69	0.74	0.69	1.32	1.36	1.35
Transfers 1/	6.24	5.02	5.32	7.26	3.20	3.05	3.32
Of which: coffee sector	(3.19)	(1.61)	(2.07)	(4.03)	(--)	(--)	(--)
Capital expenditure	16.84	14.70	12.73	11.31	17.62	20.46	21.60
Development budget	3.97	4.28	3.40	3.56	3.00	3.36	3.53
Foreign-financed	12.87	10.42	9.33	7.76	14.62	17.10	18.07
Grants	4.10	4.22	4.15	3.96	7.46	8.55	8.14
Loans	8.77	6.20	5.18	3.80	7.16	8.55	9.94
Lending minus repayment	0.23	0.25	0.16	0.18	0.27	0.18	0.18
Deficit (commitment basis)							
Excluding grants	-17.89	-15.46	-12.73	-20.64	-20.48	-16.80	-14.48
Including grants	-13.79	-9.28	-6.94	-14.85	-12.49	-7.99	-6.35
Change in arrears (reduction -)	0.92	0.99	-2.21	5.34	-5.34	--	--
Deficit (cash basis)	-12.87	-8.29	-9.15	-9.52	-17.83	-7.99	-6.35
Discrepancy (financing minus deficit)	--	0.53	0.60	--	--	--	--
Financing	12.87	7.76	8.55	9.52	17.83	7.99	6.35
Foreign (net)	7.84	5.05	4.10	2.62	4.69	5.85	7.13
Drawings	8.77	6.20	5.18	3.80	7.16	8.55	9.94
Amortization	-0.93	-1.15	-1.08	-1.18	-2.47	-2.70	-2.81
Domestic (net)	5.03	2.72	4.45	6.90	0.03	2.14	-0.78
Banking system	4.45	1.36	2.65	5.62	-0.84	-0.25	-0.78
Other	0.58	1.36	1.80	1.28	0.87	2.39	--
SPA 2/	--	--	--	--	13.11	--	--
	(In percent of GDP)						
Memorandum items:							
Revenue and grants	15.8	16.6	17.1	15.7	16.8	16.1	16.0
Revenue	13.5	13.1	13.8	12.4	13.2	12.6	13.1
Total expenditure and net lending	23.9	21.8	21.1	24.1	22.4	19.2	18.3
Total expenditure	23.7	21.7	21.0	24.0	22.3	19.1	18.2
Current expenditure	13.9	13.4	13.7	17.6	14.3	11.1	10.5
Capital expenditure	9.8	8.3	7.3	6.4	8.0	8.0	7.7
Overall deficit (commitment basis)							
Including grants	-8.0	-5.2	-4.0	-8.4	-5.7	-3.1	-2.3
Excluding grants	-10.4	-8.7	-7.3	-11.7	-9.3	-6.6	-5.2

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

1/ Include unclassified expenditure.
2/ The amount for 1991 is the counterpart of the US$110 million raised in the context of the Special Program of Assistance for Sub-Saharan Africa (SPA).

virtually stable during 1987-89. Government revenue barely grew during that period; lower receipts from international trade were broadly compensated for by higher revenue from taxes on domestic goods and services. On a cash basis, the deficit rose in 1989, owing mainly to an important reduction in domestic payments arrears. To finance this deficit, the Government increased its recourse to the domestic banking system and to nonbank borrowing, with development bonds due for reimbursement to the Social Security Fund being rolled over.

During 1987-89 total domestic credit increased at an average annual rate of 15 percent of the beginning-period money stock, with the increase in net credit to the Government accounting for close to 60 percent of the total increase. Broad money, which increased at an annual rate of 8 percent in 1987-88, fell by 4 percent in 1989, largely reflecting the reduction in net foreign assets (Table 4).

b. Developments during 1990

The economic and financial situation deteriorated further in 1990, especially in the final quarter following the outbreak of hostilities. The war resulted in a partial destruction of economic infrastructure; the disruption of a number of economic activities, particularly the transport, commerce, and tourism sectors; and a slowdown in the implementation of projects. Moreover, export prices of coffee fell in 1990 to their lowest level of the 1980s. There was a good agricultural crop, but nonagricultural activity was weakened by the sharp cutbacks in nonmilitary imports necessitated by the urgency given to using dwindling foreign exchange reserves to finance military imports. Although the consumer price index in Kigali increased by only 4.2 percent for 1990 as a whole, there was a marked acceleration in the final quarter when inflation averaged 4 percent per month. 1/

The public finance situation deteriorated substantially in 1990, with the fiscal deficit widening to 11.7 percent of GDP. Despite some revenue-raising measures taken in the context of the 1990 budget, total revenue fell by 9 percent owing to the decline in economic activity and sharply lower imports. The measures included the introduction of a minimum customs duty of 5 percent, and the raising of excise taxes on beer, soft drinks, and cigarettes. As the latter measure resulted in a sharp reduction in the consumption of these commodities and revenue losses, it was rescinded in July. On the expenditure side, the war necessitated a substantial increase in security-related outlays. Moreover, the transfers to finance the coffee losses almost doubled, and would have been even higher had the Government not reduced the producer price of coffee from RF 125/kg to RF 100/kg at the beginning of the 1990/91 season. These factors led to an increase in total current expenditure by 30 percent despite the efforts to contain other

---

1/ It is estimated that the deflator of private consumption, as measured in the national accounts, rose by 8.7 percent.

Table 4. Rwanda: Monetary Survey, 1987-93

	1987	1988	1989	1990 Est.	1991	1992	1993
					Program		
	(In billions of Rwanda francs; end of period)						
Net foreign assets	12.15	9.18	6.11	2.76	8.35	12.05	15.29
Assets	14.08	11.74	7.75	9.28	13.70	16.75	20.13
Liabilities	1.93	2.56	1.64	6.52	5.35	4.70	4.84
Net domestic assets	17.06	22.19	23.95	28.93	30.27	31.69	31.91
Domestic credit	21.46	26.54	30.76	36.71	38.87	41.62	43.84
Claims on Government (net)	6.78	8.48	10.55	17.48	16.64	16.39	15.61
Claims on private sector	14.68	18.07	20.22	19.23	22.23	25.23	28.23
Other items (net)	-4.40	-4.35	-6.81	-7.78	-8.60	-9.93	-11.93
Broad money	29.22	31.37	30.06	31.69	38.62	43.74	47.20
Narrow money	17.67	18.21	15.93	16.70	20.35	25.00	26.98
Quasi-money	11.55	13.16	14.13	14.99	18.27	18.74	20.22
	(Percentage change from previous year)						
Memorandum items:							
Domestic credit	23.1	23.7	15.9	19.3	5.9	7.1	5.3
Claims on Government (net)	149.5	25.0	24.5	65.7	-4.8	-1.5	-4.8
Claims on private sector	-0.3	23.1	11.9	-4.9	15.6	13.5	11.9
Broad money	10.3	7.4	-4.2	5.4	21.9	13.3	7.9
	(Annual percentage change in relation to broad money stock at the beginning of period)						
Foreign assets (net)	-5.5	-10.2	-9.8	-11.2	17.6	9.6	7.4
Domestic credit	15.2	17.4	13.5	19.8	6.8	7.1	5.1
Claims on Government (net)	15.3	5.8	6.6	23.1	-2.7	-0.6	-1.8
Claims on private sector	-0.1	11.6	6.8	-3.3	9.5	7.8	6.9
Velocity (GDP/broad money)	5.9	5.7	5.8	5.6	5.7	5.9	5.9

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

outlays. Capital outlays, on the other hand, fell by 11 percent, as the implementation of projects slowed down significantly.

Domestic arrears, including those on debt reimbursements, built up to the equivalent of 3.9 percent of GDP by end-1990. The fiscal deficit on a cash basis was largely financed by heavy recourse to the domestic banking system. Net bank credit to the Government expanded by 23 percent of the beginning-period money stock, while credit to the rest of the economy fell by 3 percent. With net foreign assets declining sharply and swinging to a negative position by the end of 1990, the money supply increased only by 5 percent.

In the external sector, the volume of coffee exports rose by 60 percent in 1990 from the very low level of the previous year, thanks to a good coffee crop and a sizable reduction in stocks. However, coffee export prices declined by 33 percent in SDR terms. As a result, the value of coffee exports rose by only 7 percent. As other exports declined by 12 percent, reflecting falls both in volume (notably for tin) and in prices (particularly for tea), total exports were virtually unchanged from the previous year. Total imports declined by 10 percent, with military imports rising sharply and other imports falling by 17 percent, reflecting foreign exchange shortages as well as the decline in projected-related imports as a result of the war. The war also adversely affected services receipts, especially those from tourism. Overall, because of the sharp decline in imports, the external current account deficit declined modestly to 10.5 percent of GDP. With the drop in net external financing, the overall balance of payments rose, however, to SDR 47.6 million. This deficit was largely financed by a drawdown of net official foreign exchange reserves, which were depleted by end-1990. There was also an accumulation of external arrears amounting to RF 0.8 billion (SDR 4.6 million). The outstanding external debt rose to the equivalent of 28.8 percent of GDP, while the debt service ratio declined marginally to 17.7 percent.

From September 1983 to November 1990, the Rwanda franc was pegged to the SDR at a fixed rate of SDR 1 = RF 102.71. Between 1980 and September 1990 the effective exchange rate of the Rwanda franc appreciated by 48 percent in nominal terms and 30 percent in real terms (Chart 1). Rwanda maintains restrictions on payments and transfers for current international transactions that are subject to Fund approval under Article VIII. These include the virtual suspension of foreign exchange availability for travel abroad and restrictions on transfers abroad of earned income by foreigners.

III. Medium-Term Objectives and the Policy Framework for 1991-93

1. Overall objectives

To address the serious economic and financial difficulties facing the economy, the Rwandese authorities have adopted a comprehensive three-year structural adjustment program covering the period 1991-93. As indicated in the PFP, the basic macroeconomic objectives of the program are to accelerate the return to viable external and domestic financial positions, and to achieve sustainable economic growth in the context of low inflation. The main quantitative macroeconomic targets are: (i) to achieve a rate of economic growth of about 4 percent beginning in 1992; (ii) to lower the rate of inflation to about 5 percent by 1993; (iii) to reduce the external current account deficit, excluding official transfers, to 11 percent of GDP by 1993; (iv) to increase net official foreign assets to the equivalent of three months' imports by end-1993; and (v) to reduce the budget deficit, excluding grants, to about 5 percent of GDP by 1993.

To support the economic growth objective, the program aims at increasing gross fixed investment (especially by the private sector) from 12.5 percent of GDP in 1990 to 16 percent in 1993, and at improving its efficiency through better project selection. The program also aims at boosting domestic savings from 3.8 percent of GDP in 1990 to over 6 percent in 1993, stemming largely from the programmed reduction in the fiscal deficit.

2. Macroeconomic and structural policies

To achieve the program's objectives, the medium-term strategy adopted by the Government encompasses wide-ranging macroeconomic and structural adjustment policies. A detailed timetable for these policies is set out in the matrix attached to the PFP. The major policies are summarized below.

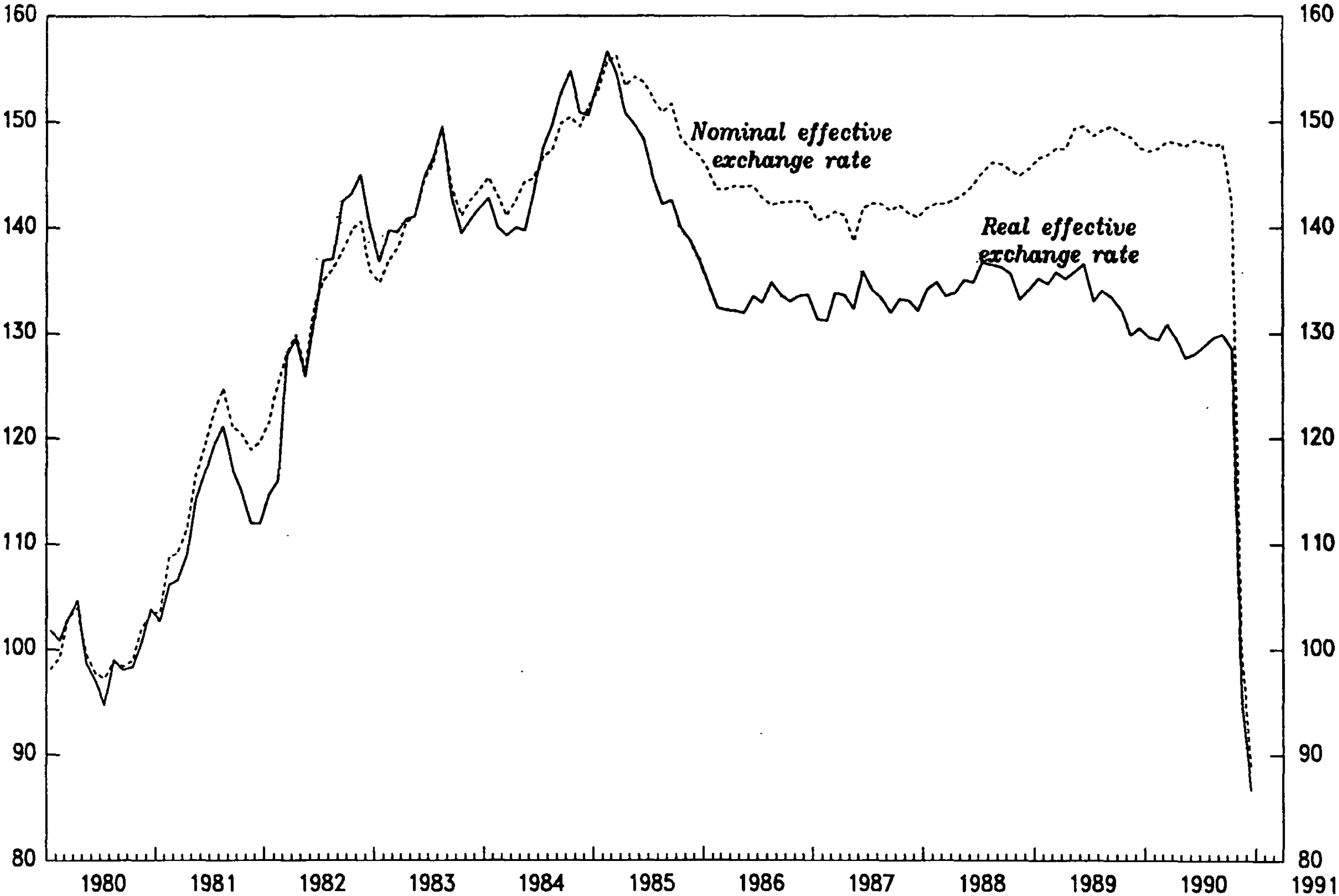
In the external area, the program aims at restoring the external competitiveness of the economy, liberalizing the present restrictive system of trade and payments, and reducing protection of domestic industries by lowering import duties. To restore the external competitiveness of the economy, revitalize exports, and allow the progressive liberalization of imports, a large up-front exchange rate adjustment was taken in November 1990. In the future, the Government will review exchange rate policy periodically in the light of developments in the balance of payments and foreign reserves and the progress in liberalizing the restrictive system of imports and foreign exchange allocation. In this context, an open general licensing system will be introduced by mid-1992, or earlier, as soon as the availability of foreign exchange is assured. In the interval, the Government has already announced the replacement of the existing import programming system by a transitional import regime. A revision of the customs

CHART 1

RWANDA

NOMINAL AND REAL EXCHANGE RATE INDICES[1], JANUARY 1980 TO DECEMBER 1990

(Period average, 1980=100; foreign currency per Rwanda franc)



Sources: IMF Information Notice System; and staff estimates.

1/ Weighted by total trade with 16 partners (excluding Brazil).

tariff, with a view to reducing excessive protection, rationalizing the import duty structure, and reducing exemptions, has been initiated and will be completed by 1993. The contracting of foreign debt will be limited to that available on concessional terms, so as to keep the debt service ratio below 21 percent.

In the fiscal area, the Government intends to pursue a tight policy stance during the program period. On a commitment basis and excluding grants, the overall deficit is projected to be reduced from 11.7 percent of GDP in 1990 to 5 percent in 1993, through revenue-raising and expenditure-containing measures. Tax revenue will be increased through discretionary measures, a number of which were already implemented in December 1990, reductions in exemptions, and a strengthening of tax administration. A reform of the tax system has been initiated with a view to increasing its yield and efficiency, and moving from taxes on international trade and production toward those on consumption and income. On the expenditure side, the focus will be on decelerating the growth in outlays, and as from 1992, sharply reducing defense expenditures once the return to peace is assured. The increase in the wage bill will be contained, transfers to the coffee sector will be eliminated, and indirect subsidies to public enterprises will be gradually removed. Existing domestic payments arrears will be eliminated by the end of the first-year program, and no new arrears will be built up.

The Government has begun a reform of public sector management. A comprehensive audit of the civil service is currently under way and will be completed by end-1991. It will form the basis for a rationalization of the structure of the civil service and a revision of the remuneration and incentive system. Starting with the 1991 budget, capital spending will be budgeted through a three-year rolling public investment program (PIP), which has been formulated in collaboration with the World Bank. The PIP establishes a framework within which investment expenditures are programmed according to national priorities and it ensures an explicit link between capital spending and its implications for recurrent expenditure. Annual public expenditure programs (PEP) covering both current and capital outlays for each economic sector will also be prepared, starting with agriculture, health, education, transport, and public works.

A restrictive monetary policy will be pursued throughout the program period, aiming particularly at limiting the initial inflationary pressures that are expected to emanate from the devaluation, and at relieving the pressures on the balance of payments. Consistent with these objectives and the tight fiscal stance, the annual growth of domestic liquidity will be held below that of nominal GDP. The program also aims at improving the efficiency of resource allocation, and reducing the Government's indebtedness to the banking system, thereby providing adequate credit to the private sector in line with the objective of stimulating private economic activity. Interest rates will be set at real positive levels by the end of the first-year program.

Credit to the private sector will initially be subject to bank-specific quarterly credit ceilings. By the end of the three-year program, credit ceilings will be replaced by indirect controls, with the introduction of a system of reserve requirements, liquidity ratios, an active rediscount policy, and complete liberalization of interest rates.

The program envisages the implementation of comprehensive structural policies aimed at tackling the obstacles to economic growth, improving efficiency, and expanding the role of the private sector. In addition to the removal of quantitative import controls and restrictions on foreign exchange allocation, the structural measures include the rehabilitation and restructuring of public enterprises, the liberalization of prices, and the implementation of sectoral strategies.

As regards public enterprises, the Government is currently involved in 62 public enterprises, including 30 mixed enterprises (in 19 of which the Government has majority holdings). Most of these enterprises have been performing poorly despite subsidies. In March 1990 the Government agreed to reforms in the context of an IDA-supported project. Under the reforms, the institutional and legal framework for public enterprises is to be improved; the responsibilities of different institutions involved in the sector will be defined; public enterprises will be made directly accountable for their performance; direct subsidies will not be restored, and indirect subsidies will gradually be removed; viable public enterprises will be rehabilitated and those that can be privatized will be sold off; and nonviable public enterprises will be liquidated.

The Government has been setting prices for all major crops, fixing prices for many essential goods and services, and administering all other prices indirectly through a system of ex post profit margins controls. The abolition of controls over profit margins was announced in November 1990, and most price controls are being eliminated, so that only a few strategic products will remain under control.

In the agricultural sector, the main objectives are to ensure food security and to expand agricultural exports. Given the scarcity of land, policies will be directed to increasing crop yields through increased use of inputs and improved agricultural extension services. In the coffee sector, besides the elimination of budgetary transfers, attention will be directed toward improving quality and yields, and liberalizing marketing. The Government is undertaking in-depth studies of the coffee and tea sectors and will develop action plans in collaboration with the World Bank.

The manufacturing sector is expected to benefit from the new macroeconomic environment, as well as from the strategy to promote an increased role for the private sector. The Government will pay particular attention to the encouragement of small and medium-sized enterprises. Concerning the mining sector, a five-year plan designed to diversify and expand mining output is to be prepared by mid-1991.

In the energy sector, the Government will ensure that petroleum prices fully reflect increases in world prices and changes in the exchange rate. Priority will also be given to energy conservation and the development of alternative energy sources. A reform of the electricity subsector will be undertaken, aiming at rationalizing investment planning, improving the efficiency of the electricity company, and ensuring its financial viability.

3. Social and environmental policies

The rapid growth of the population is placing severe pressures on scarce land resources. The Government established a National Population Office (ONAPO) in 1981, and is encouraging private organizations to participate in ONAPO's programs. Family planning services are to be extended to all registered public health centers, and decentralization is planned to ensure adequate family planning coverage of the entire population. The goal is to reduce the number of children per mother from over eight to four by the year 2020.

The welfare of the Rwandese population has worsened in recent years, with food production per capita falling. In order to meet the urgent needs of the most vulnerable groups of the population, the Government is preparing a special social action plan that aims at targeting aid toward well-specified groups of beneficiaries, establishing an early warning system to prevent food shortages, implementing nutrition programs, and providing basic medicines to the population. This action plan will be finalized by mid-1991 and will be integrated with existing programs, including those focused on AIDS prevention.

The Government is preparing an environmental strategy and action plan to increase the awareness of the population of the necessity to protect the environment, improve the institutional framework to ensure the follow-up of announced environmental policies, implement a land-use program, improve soil conservation, strengthen reforestation programs, and implement pollution control and waste disposal programs.

4. Medium-term balance of payments outlook

The implementation of the authorities' macroeconomic and structural policies is expected to contribute to the achievement of the program's balance of payments targets. After increasing to 15 percent of GDP in 1991, the external current account deficit (excluding official transfers) is projected to be reduced to 10 percent by 1995 (Table 5). The total value of exports is forecast to increase by 8 percent (in SDR terms) annually over the next five years. Following its exceptionally high level in 1990, coffee export volume is expected to decline by 12 percent in 1991 to a more normal level; thereafter coffee export volume would grow by 4 percent per annum in line with projected production. Noncoffee export volume is forecast to grow by 5 percent annually on average (albeit from relatively low levels), partly owing to the improvement in competitiveness, which should be beneficial for

Table 5. Rwanda: Balance of Payments, 1986-95

	1986	1987	1988	1989	1990 Est.	1991	1992	1993	1994	1995
						Program			Projections	
					(In millions of SDRs)					
Exports, f.o.b.	157.1	94.2	87.7	81.6	80.3	77.3	83.3	92.9	105.3	119.8
Of which: coffee, f.o.b.	(121.0)	(70.9)	(63.0)	(45.6)	(48.6)	(44.0)	(47.4)	(53.4)	(61.3)	(70.8)
Imports, f.o.b.	221.2	207.1	207.3	197.9	172.0	192.6	192.7	205.4	219.6	236.2
Trade balance	-64.1	-112.9	-119.6	-116.3	-91.7	-115.3	-109.3	-112.4	-114.3	-116.4
Services (net)	-100.8	-89.1	-84.2	-71.2	-76.8	-85.5	-82.5	-81.5	-80.9	-81.2
Of which: interest on debt	(-4.6)	(-5.7)	(-7.0)	(-6.0)	(-7.1)	(-7.9)	(-7.7)	(-7.6)	(-7.6)	(-7.7)
Private transfers (net)	6.0	5.8	7.9	6.4	4.8	5.3	6.6	8.3	9.5	10.6
Current account balance (excluding official transfers)	-158.9	-196.2	-195.9	-181.1	-163.7	-195.5	-185.3	-185.6	-185.7	-187.1
Official transfers	99.8	92.0	103.7	99.3	90.4	85.0	94.4	89.3	90.1	93.1
Current account balance (including official transfers)	-59.1	-104.2	-92.2	-81.8	-73.3	-110.5	-90.9	-96.3	-95.6	-94.0
Long-term capital inflow	71.0	83.9	63.1	47.1	25.0	139.5	98.2	104.7	102.5	100.8
Direct investment	15.0	13.6	15.7	12.1	4.1	3.9	7.0	7.9	9.0	10.3
Net long-term loans	56.0	70.3	47.4	35.0	20.9	59.0	65.3	72.5	70.3	71.1
Disbursements 1/	68.0	86.0	60.9	50.0	33.8	73.2	81.1	88.9	87.8	89.2
Repayments	11.9	15.7	13.5	15.0	13.0	14.2	15.8	16.4	17.5	18.1
SPA 2/	—	—	—	—	—	76.6	25.9	24.3	23.2	19.4
Other items (net) (including errors and omissions)	12.9	6.0	0.1	4.8	0.7	—	—	—	—	—
Overall balance	24.9	-14.3	-29.0	-29.9	-47.6	29.0	7.3	8.4	6.9	6.8
Financing	-24.9	14.3	29.0	29.9	47.6	-29.0	-7.3	-8.4	-6.9	-6.8
Purchase of IMF resources	—	—	—	—	—	8.8	13.1	8.8	—	—
Official reserve change (- indicates increase)	-24.9	14.3	29.0	29.9	42.9	-33.1	-20.4	-17.2	-6.9	-6.8
Change in arrears	—	—	—	—	4.6	-4.6	—	—	—	—
					(In units indicated)					
Memorandum items:										
Current account balance excluding grants (percent of GDP)	-9.6	-11.7	-11.3	-10.7	-10.5	-15.2	-12.4	-11.4	-10.5	-9.8
Current account balance including grants (percent of GDP)	-3.6	-6.2	-5.3	-4.8	-4.7	-8.6	-6.1	-5.9	-5.4	-4.9
Rwanda francs per SDR	102.71	102.71	102.71	102.71	112.41	171.18	171.18	171.18	171.18	171.18
Coffee export price (cents/lb)	169.2	103.2	127.0	103.1	73.3	77.9	81.1	88.8	99.1	111.0
Export volume growth (percent)	17.7	1.5	-21.5	2.7	35.6	-8.3	4.5	4.5	4.7	4.8
Import volume growth (percent)	8.0	-7.1	-0.1	-6.0	-11.1	12.8	-1.8	3.5	3.9	4.3
Debt service ratio 3/	8.5	16.5	17.1	18.3	17.7	20.9	20.8	18.6	17.1	15.5
Net foreign reserves (months of imports, c.i.f.)	5.0	4.6	3.2	1.9	-0.1	1.5	2.5	3.1	3.2	3.3
Real GDP growth	5.5	-0.3	0.3	-5.7	-2.0	1.0	3.7	3.8	3.9	4.0

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

1/ Includes World Bank structural adjustment credits (US$45 million per year), as from 1991.
2/ New external resources from the Special Program of Assistance for Sub-Saharan Africa (SPA), largely in the form of grants.
3/ As percent of exports of goods and nonfactor services.

reviving the minerals sector, promoting tea exports, and stimulating new exports (fruit, vegetables, light manufactures). Tourism, as well as private transfers, should also benefit from the change in the exchange rate and the return to peace.

Imports are projected to expand by 6.5 percent per annum (in SDR terms) over the next five years, with import volumes rising by about 4 percent per annum. Initially there will be a strong increase in imports; thereafter, it is anticipated that, despite the introduction of an open general licensing system by mid-1992, tight financial policies will restrain demand for non-project-related imports, which are forecast to increase by 3.5 percent in volume annually. Capital goods imports, which are mainly financed from abroad, are expected to register a 4.5 percent volume increase annually. The external terms of trade are projected to improve moderately every year during 1991-95, largely because of the expected increase in world coffee prices from very low levels.

Rwanda will continue to rely heavily on external assistance to finance its large current account deficits, amounting to nearly SDR 190 million (before grants) on average each year during 1991-93 (Table 6). Grants are expected to continue to provide SDR 90 million per annum (the equivalent of about 6 percent of GDP). To finance the current account deficit inclusive of grants, and at the same time meet amortization payments and build up net official foreign exchange reserves to three months' imports, Rwanda will need SDR 140 million annually during 1991-93. After taking into account net direct investment, disbursements from existing and expected new loan commitments, and drawings under the Fund's SAF arrangement and the World Bank's structural adjustment credit (SAC), the residual financing requirement of SDR 42 million per annum is expected to be covered by assistance from donors in the framework of the Special Program of Assistance for Sub-Saharan Africa (SPA). The residual financing need is projected to decline to about SDR 20 million annually in 1994-95, which is expected to be covered by new SPA resources. As the external financing is expected to continue to be on concessional terms, with a large proportion to be provided as grants, the debt service ratio is projected to fall gradually from 21 percent in 1991 to about 17 percent in 1993-95, while the debt to GDP ratio would remain constant at around 28 percent during 1991-95.

Because of the sensitivity of the projections to the underlying assumptions, particularly of coffee export prices, the staff also prepared an alternative scenario assuming that these prices would remain constant in real terms, implying an annual increase of 4 percent (in U.S. dollars) instead of 9 percent projected under the baseline scenario. Under this alternative assumption, by 1995 coffee exports would be lower by about SDR 14 million; the external current account deficit would be higher by 0.8 percent of GDP; the debt service ratio would amount to 17 percent; and net official reserves would cover 2.7 months of imports (Table 7). Under this scenario, a strengthening

Table 6. Rwanda: Financing Requirements and Sources, 1988-93

(In millions of SDRs)

	1988	1989	1990 Est.	1991 Program	1992 Program	1993 Program
External financing requirements	-180.4	-166.8	-129.1	-247.4	-221.5	-219.2
Current account, excluding net official transfers	-195.8	-181.7	-163.7	-195.5	-185.3	-185.6
Amortization	-13.5	-15.0	-13.0	-14.2	-15.8	-16.4
Change in arrears	—	—	4.6	-4.6	—	—
Change in reserves	29.0	29.9	42.9	-33.1	-20.4	-17.2
IMF repurchases	—	—	—	—	—	—
Disbursements: Existing commitments	180.4	166.8	129.1	24.6	26.9	28.0
Grants	103.7	99.7	90.4	—	—	—
Loans	61.0	50.1	33.8	24.6	26.9	28.0
Bilateral creditors	14.2	13.6	8.3	8.2	7.8	8.6
Multilateral creditors	46.7	36.5	23.9	14.6	18.2	19.4
Of which: World Bank	(23.1)	(25.0)	(18.1)	(9.2)	(7.9)	(12.6)
Private creditors	—	—	1.6	1.8	0.9	—
SAF	—	—	—	—	—	—
Direct investment	15.7	12.2	4.1	—	—	—
Other capital not included elsewhere	0.1	4.9	0.7	—	—	—
Disbursements: Expected new commitments	—	—	—	222.9	194.6	191.2
Grants	—	—	—	85.0	94.4	89.3
Loans	—	—	—	48.6	54.2	60.9
Bilateral creditors	—	—	—	—	0.3	4.5
Multilateral creditors	—	—	—	48.6	53.9	56.5
Of which: World Bank	(—)	(—)	(—)	(43.1)	(46.6)	(46.5)
- normal lending	(—)	(—)	(—)	(11.7)	(15.4)	(15.7)
- adjustment lending	(—)	(—)	(—)	(31.4)	(31.2)	(30.8)
SAF	—	—	—	8.8	13.1	8.8
Direct investment	—	—	—	3.9	7.0	7.9
SPA 1/	—	—	—	76.6	25.9	24.3
Total identified financing	180.4	166.8	129.1	247.4	221.5	219.2

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

1/ New external resources from the Special Program for Sub-Saharan Africa (SPA).

Rwanda. Table 7: Sensitivity Analysis of Balance of Payments Projections, 1991-95

	Baseline Scenario			Alternative Scenario 1/		
	1991	1993	1995	1991	1993	1995
Coffee export price (cents/lb)	77.9	88.8	111.0	76.3	82.6	89.3
Coffee export receipts (in millions of SDRs)	44.0	53.4	70.8	43.0	49.5	56.8
Current account deficit						
In millions of SDRs	195.5	185.6	187.1	196.5	189.7	202.1
(percent of GDP)	(15.2)	(11.4)	(9.8)	(15.2)	(11.6)	(10.6)
Debt service ratio 2/	20.9	18.6	15.5	21.1	19.2	17.0
Net official reserves 3/	1.5	3.1	3.3	1.5	2.9	2.7

Source: Staff estimates.

1/ Coffee prices are assumed to remain constant in real terms.
2/ As percent of exports of goods and nonfactor services.
3/ In months of imports c.i.f.

of adjustment measures would be required to achieve the program objectives.

5. Capacity to repay the Fund

Rwanda currently has no outstanding repurchases of Fund resources, and the final Trust Fund repayment was due at end-March 1991. Under the program supported by the SAF arrangement, the debt service to the Fund is expected to peak in 1999-2001 when SAF repayments will amount to SDR 6.1 million per annum. These amounts are relatively small in relation to projected exports of goods and nonfactor services (2.5 percent), and in relation to projected gross official reserves (5 percent) under the baseline scenario. Given the very long maturity of Rwanda's foreign debt (the average loan life is almost 35 years), and under the assumption that Rwanda's balance of payments financing needs will be met by new grants and extremely concessional loans, the total debt service ratio is projected to decline to about 13 percent in the year 2000, and debt service to the Fund would represent less than one fifth of total debt service (Table 8). Rwanda has had a good record of meeting its external debt-servicing obligations, and in view of prospective trends in debt indicators, Rwanda is expected to meet its future obligations to the Fund in a timely manner. Even under the alternative scenario based on lower coffee export prices, repayments to the Fund would still be relatively small in relation to projected exports of goods and nonfactor services as well as gross official reserves.

IV. The Program for 1991

Consistent with the Government's medium-term strategy, the first-year program emphasizes the most urgent measures needed to begin an orderly adjustment. In spite of the war, a number of key policy measures have already been implemented since November 1990 as prior actions. Because of the adverse impact of the war, it is expected that economic activity will continue to be weak and the budgetary and external deficits will remain large in 1991. Significant improvement is anticipated, however, starting in 1992 once a return to peace is assured and military outlays are sharply reduced.

The first-year program aims at achieving a 1 percent rate of growth of real GDP in 1991 before a projected stronger pickup in economic activity in 1992. The inflation rate is expected to average 28 percent in 1991, reflecting the full-year impact of the exchange rate adjustment and price liberalization. However, after mid-1991, inflation should decelerate gradually, returning to a moderate rate by 1993. With the needed surge in nonmilitary imports after four consecutive years of decline, together with the increase in military imports necessitated by the war, the external current account deficit (excluding official transfers) is projected to reach 15 percent of GDP in 1991 before falling to 12.4 percent in 1992; including official transfers, these deficits amount to 8.6 percent and 6.1 percent of GDP, respectively.

Table 8. Rwanda: Indicators of Fund Credit and Debt Servicing, 1990-2001

(In percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
		Program			Projections							
Outstanding Fund credit/Quota 1/	--	20.0	50.0	70.0	70.0	70.0	67.8	60.8	48.8	34.8	20.8	6.8
Outstanding Fund credit/GDP 1/	--	0.7	1.5	1.9	1.7	1.6	1.4	1.2	0.9	0.6	0.3	0.1
Outstanding Fund credit/Exports of goods and services 1/	--	8.3	19.4	23.8	20.9	18.4	16.3	13.3	9.7	6.2	3.4	1.0
Gross Fund financing/Financing needs 1/ 2/	--	5.4	10.3	6.7	--	--	--	--	--	--	--	--
Debt service to the Fund/Exports of goods and services 3/	--	--	0.1	0.1	0.1	0.1	0.6	1.6	2.4	2.6	2.3	2.1
Debt service to the Fund/Total debt service 3/	--	0.1	0.4	0.6	0.6	0.6	4.2	11.6	18.0	18.9	17.7	16.6
Debt service to the Fund/Gross official reserves 3/	--	0.1	0.1	0.2	0.2	0.1	1.0	2.7	4.3	4.7	4.4	4.1
Total debt service ratio 4/	17.7	20.9	20.8	18.6	17.1	15.5	14.7	13.8	13.5	13.5	13.0	12.5

Sources: IMF, Treasurer's Department; and staff estimates.

1/ Outstanding Fund credit excludes IMF Trust Fund loans. It is assumed that the first tranche of the SAF arrangement will be disbursed in April 1991.
2/ Financing needs are defined as the sum of the current account deficit including grants, amortization of medium- and long-term debt (including IMF Trust Fund repayments), Fund SAF repayments, and the targeted accumulation of gross official reserves.
3/ Debt service to the Fund includes IMF Trust Fund repayments and IMF Trust Fund interest.
4/ Debt service as a percentage of exports of goods and nonfactor services.

The program also aims at a moderate replenishment of net official foreign exchange reserves, to the equivalent of 1.5 months' imports by end-1991.

1. External policies

As noted in Section II, the Rwanda franc appreciated by 30 percent in real effective terms between 1980 and September 1990, and at the same time, the terms of trade deteriorated by 45 percent. Since coffee producer prices were maintained at high levels, while world prices fell sharply, the coffee export sector recorded large losses. Also, the diversification of other exports and the promotion of tourism were hindered by the overvalued exchange rate. Mining exports, which accounted for 15 percent of total exports at the beginning of the 1980s, are now negligible. A recent study showed that a devaluation of at least 40 percent was necessary to equalize mining production costs with those of major competitors.

A key element of the first-year program is the correction of the overvaluation of the Rwanda franc, and on November 9, 1990, the exchange rate was adjusted by 40 percent in foreign currency terms. This adjustment, supported by restrictive financial policies, is expected to improve the competitiveness of the economy and revitalize exports, particularly noncoffee agricultural exports and mining activities, as well as import substitutes. An intensified strategy for promoting exports and services will also be pursued. Export taxes on all noncoffee exports were abolished in December 1990. Additional export promotion policies will be agreed upon with the World Bank before June 1991.

As a first step toward introducing an open general licensing system by June 1992, the Government announced in November 1990 the replacement of the existing import programming system by a more liberal system of import licensing and foreign exchange allocation. This transitional system will be introduced before end-April 1991. At the same time, a temporary special 5 percent fee on the value of all import license applications will be introduced. Under this transitional system, import license applications will be submitted to the Ministry of Commerce and Consumption, which will ensure that the special nonrefundable fee is collected. The applications will then be transmitted to the Central Bank, which will determine foreign exchange allocations to importers on the basis of availability. If the demand for foreign exchange exceeds the supply in any given month, the allocations will be made by proportionally reducing for each importer the amount requested. An exception will be made for a limited number of essential imports, for which demand will be satisfied to avoid any shortages. 1/ In addition, the delays with regard to transfers of income and profits of foreign investors will be eliminated as from June 1991. Other restrictions on current payments for services will also be progressively reduced, especially those relating to travel, which will be eliminated by end-1993.

A tariff reform, aimed at lowering the level of protection and reducing exemptions, began with the raising of the minimum import duty to 10 percent in December 1990. Before end-April 1991, a maximum import duty of 100 percent will be introduced, and the number of ad valorem rates will be reduced from 32 to no more than ten. All specific import taxes have been converted to an ad valorem basis, with the exception of petroleum products, beverages, and cigarettes. These commodities generate a large part of tax receipts, and the effective duty rates levied on them are much higher than 100 percent. Also, before end-April 1991, all import prohibitions protecting local industries will be replaced by import taxes or surcharges, except in cases of dumping or for health and security reasons.

The Government intends to continue a prudent external debt management policy by strictly avoiding nonconcessional foreign borrowing. The debt service ratio is likely to peak at 21 percent of exports of goods and nonfactor services in 1991, while the ratio of debt to GDP is projected to remain at 28 percent. All external arrears will be eliminated before end-1991, and no new arrears will be accumulated during the program period.

Total export receipts are projected to decrease by 3.7 percent in 1991, largely reflecting developments in the coffee sector. Following the exceptional increase in 1990, the volume of exports of coffee is expected to decline by 12 percent to a more normal level in 1991. The anticipated pickup in coffee prices would not be sufficient to offset this volume decline and the value of coffee exports is estimated to drop by 9 percent. Other exports are forecast to increase moderately. Import payments are projected to rise by 11.3 percent, reflecting both an increase in military imports and a surge in other imports, which fell sharply in the previous four years. In particular, imports of capital goods, which are financed by concessional external resources, and which were particularly depressed in 1990, are projected to increase by 22 percent. Other nonmilitary imports would register a moderate increase, partly because of the restrictive demand management policy being pursued.

The widening of the external current account deficit is expected to be offset by the anticipated increase in drawings on external resources, compared with the exceptionally low level registered in 1990. Given the

---

1/ Essential imports include petroleum products, sugar, salt, milk powder, semolina, malt, cooking oils, pharmaceutical products, and fertilizers.

external current account deficit, the need to meet amortization payments, repay external arrears, and replenish net official foreign exchange reserves, an amount of SDR 247 million in external financing is required. After taking into account disbursements on existing commitments, net direct investment, normal grants, drawings on new loan commitments (including a World Bank structural adjustment credit of SDR 31 million), and drawings under the first-year SAF arrangement, a further SDR 77 million is needed. At a meeting in Paris on March 20, 1991 to discuss Rwanda's exceptional financing needs, major donors pledged full coverage of this amount, in the context of the SPA.

2. Budgetary policy

The restrictive budgetary policy envisaged under the program aims at reducing the deficit of the consolidated operations of the Central Government (excluding grants and on a commitment basis) from 11.7 percent of GDP in 1990 to 9.3 percent of GDP in 1991; including grants, these deficits amount to the equivalent of 8.4 percent of GDP and 5.7 percent of GDP, respectively. This reduction will be achieved in spite of higher security-related outlays necessitated by the war. The program provides for the elimination of domestic arrears, which amounted to RF 6.97 billion (including those relating to debt amortization) at end-1990. Taking into account the elimination of these arrears, the deficit on a cash basis is programmed to amount to 8.1 percent of GDP. This deficit and the repayment of principal on external debt will be financed largely by concessional external resources, including the counterpart of external assistance raised in the context of the SPA, thereby allowing for a small reduction of government indebtedness to the banking sector in 1991.

On the revenue side, the following set of measures designed to generate additional revenue were adopted as prior actions in December 1990: the minimum import duty was raised from 5 percent to 10 percent; in addition to changing the tax base to the sale price instead of the cost of production, the turnover tax was raised from 6 percent to 10 percent for most goods, from 2 percent to 5 percent for essential goods, and from 1 percent to 10 percent for services and entertainment; and specific taxes on petroleum products were raised in proportion with the adjustment of the exchange rate. These measures were the first set of policies in the context of a wide-ranging tax and tariff reform that the Government is implementing, in line with recommendations of technical assistance provided by FAD. User charges are being adjusted to ensure full cost recovery for the Government's commercial activities, and other charges are being revised to increase cost recovery for noncommercial government services. Moreover, to generate additional revenue to offset part of the costs of the war, a temporary national solidarity tax will be imposed on all wages and salaries before end-May 1991.

Taking into account the impact of the exchange rate adjustment on revenue, it is estimated that these measures would raise additional revenue equivalent to about 2.5 percent of GDP in 1991. As a result, and despite an expected decline in taxes on income and profits owing to weak economic activity, total revenues are projected to increase by 33 percent in 1991. Quarterly targets for government revenue have been established, and in the event of shortfalls, compensatory measures will be adopted.

On the expenditure side, despite higher military outlays, the impact of the devaluation on certain items, and the doubling of interest payments on domestic debt following the increase in interest rates, the growth of current outlays excluding transfers to the coffee sector (which will be eliminated) will be limited to 17 percent in 1991, implying a reduction in real terms. Nominal wages will be frozen, including the usual 3 percent annual average merit increase, and there will be no new net recruitment except for a limited number in the education and health sectors. Transfers to public entities will be reduced. Capital outlays that are financed domestically are projected to fall in nominal terms, whereas those financed by external resources will show a large increase in local currency terms, reflecting the exchange rate adjustment and a pickup of donor-financed project spending. The main components of the investment program include infrastructure (42 percent of total investment), rural development (29 percent) and development of human resources (16.5 percent). To stay within the budgetary targets, the Government is committed to controlling strictly all expenditure items.

3. Monetary and interest rate policies

A restrictive monetary policy will be rigorously enforced. The increase in the money supply will be limited to 21.9 percent in 1991, lower than the rate of growth of nominal GDP (25.3 percent). Following the large recourse of the Government to the banking system in 1990, net credit to the Government will decline in 1991 by 2.7 percent of the beginning-period money stock. For the rest of the economy, net credit is projected to increase by 9.5 percent. Thus, the rate of growth of total domestic credit will be held to 6.8 percent of the beginning-period money stock. Net foreign assets are programmed to increase by 17.6 percent of the beginning-period money stock.

In order to promote domestic savings and improve resource allocation, the interest rate structure was simplified in November 1990. The minimum rate for one-year deposits was raised from 4.5 percent to 12 percent and other deposit rates are being set freely by commercial banks. A unified rediscount rate was introduced and its level set at 14 percent. Lending rates are now determined freely in reference to the Central Bank's intervention rate, up to a ceiling of 19 percent (previously 12 percent). In addition, all preferential rates were removed. Interest rates will be reviewed during the program period in light of the evolution of the inflation rate, and adjusted if necessary, to ensure that the levels will be positive in real terms by the end of the first-year program. The Central Bank will continue to exercise the control and supervision necessary for the success of the programmed restrictive credit policy, specifically by imposing quarterly credit ceilings on each bank.

4. Structural policies

In addition to the tax and tariff reforms, and the reduction in trade and foreign exchange restrictions, the first-year program includes structural reforms in the areas of pricing policies, public enterprises, and various sectors of the economy.

In order to allow greater flexibility in price-setting, and to encourage a more competitive environment, the Government decided to abolish the system of profit margins controls in November 1990, except for monopolies, notably water, electricity, and telecommunications. Fixed prices were phased out for all goods except for a limited number of essential goods and services (retail prices of petroleum products, minimum producer prices for coffee, tea, wheat, paddy rice, sugar cane, and pyrethrum, and fees for public medical consultations). The remaining fixed prices are being adjusted to reflect fully the impact of the devaluation and increases in costs. The retail prices of petroleum products were raised by 79 percent in November 1990 to reflect fully the exchange rate adjustment, the increase in the specific taxes, and the rise in import prices for these products. Moreover, public transport tariffs were raised by 20 percent in January 1991 and electricity tariffs will be adjusted before end-June 1991.

Concerning public enterprises, the Government has decided to implement progressively programs of rehabilitation, privatization, and liquidation according to the timetable agreed upon with the World Bank. In particular, action plans to sell the State's shares in three enterprises (involved in textiles, tube-making, and international transport), and the privatization or liquidation of five others (involved in paper products, printing, metalwork, agricultural marketing, and hotels), will be completed by December 1991.

Agricultural policies are being directed toward increasing yields, improving soil fertility by augmenting the use of fertilizers, and expanding cultivable land. A food security plan geared toward setting up an early warning system to prevent food shortages is to be finalized by June 1991. In the coffee sector, the strategy study currently under way will be completed by September 1991. For the 1991/92 season (April/March), the Government will avoid limiting the number of coffee-buying traders and will eliminate export restrictions.

In the industrial sector, the program aims at improving its efficiency, and promoting the role of the private sector. The 1987 Investment Code will be reviewed by June 1991, and greater flexibility will be introduced into private sector labor recruitment policies by June 1991, a first step of a comprehensive review of labor legislation. Rehabilitation of the mining sector, which started in 1988, will continue. In particular, the performance of the new mining units will be evaluated by June 1991, and a five-year work plan for the State mining unit (REDEMI) will be completed by mid-1991.

5. Quantitative and structural benchmarks

The implementation of the program until December 1991 will be monitored with reference to quarterly financial benchmarks (Table 1 of the memorandum attached to Appendix I). These comprise: (i) ceilings on the net domestic assets of the banking system; (ii) ceilings on net bank credit to the Government; (iii) a minimum level for net foreign assets of the Central Bank; (iv) a minimum amount for total government revenue; (v) a reduction of the Government's domestic payments arrears, and no accumulation of new arrears; (vi) elimination of external payments arrears and no accumulation of new arrears; and (vii) no non-concessional external loans contracted or guaranteed by the Government in the maturity ranges from 1 to 5 years and from 1 to 12 years, and in the short term (other than import-related credits). Benchmarks (i) and (ii) will be revised downward by the amount of the counterpart of any drawing made under the World Bank's SAC and the counterpart of any drawing of SPA funds which exceed the budgeted amount of RF 13.11 billion.

The program will also be monitored by structural policy benchmarks (Table 2 of the memorandum attached to Appendix I). These relate to: (i) the liberalization of prices, except for a limited number of goods and services; (ii) the adjustment of electricity charges; (iii) the implementation of a comprehensive tax and tariff reform; (iv) the introduction of a more liberal transitional import licensing and foreign exchange allocation system, and (v) the enactment of revisions to the legal framework for public enterprises, the adoption of a general privatization strategy, and the completion of action plans for State withdrawal from, or privatization or liquidation of, eight public enterprises. The standard clauses regarding the exchange and payments system will also apply.

V. Staff Appraisal

In recent years Rwanda has been confronted with serious economic and financial difficulties stemming particularly from a sharp drop in the export price of coffee (the main export), unfavorable weather conditions, and structural problems in the economy. At the same time, demand management policy was not adjusted sufficiently and the Rwanda franc remained overvalued. Moreover, the war that erupted in early October 1990 severely affected the economic and financial situation and necessitated a substantial increase in military outlays.

These factors resulted in a decline in real GDP, large external and budget deficits, and the depletion of net official foreign exchange reserves. Restrictions on imports and other current transactions were intensified, and domestic and external arrears were accumulated. The sizable fiscal deficits were partly financed through increased recourse to the domestic banking sector. The moderate expansion of domestic liquidity was due to the sharp decline in net foreign assets. The rate of inflation remained low, largely owing to the overvaluation of the exchange rate and widespread price controls. As Rwanda relied heavily on concessional foreign borrowing and grants to finance the external deficit, the debt service ratio remained modest.

To redress the deteriorating economic and financial situation, the authorities have adopted a medium-term structural adjustment program encompassing wide-ranging macroeconomic and structural policies designed to achieve sustainable economic growth, a moderate inflation rate, and a return to a viable situation for the balance of payments and for public finances.

The first-year program aims at a modest upturn in real GDP, and at limiting the temporary acceleration of inflation resulting from the large exchange rate adjustment and price liberalization. However, economic growth is expected to pick up and inflation to decelerate starting in 1992. A widening of the external current account deficit is unavoidable in 1991, reflecting mainly the increase in nonmilitary imports following four consecutive years of decline. The temporary increase in the external current account deficit will be reversed in subsequent years, when the pent-up demand for imports is relieved and once the return to peace is assured, allowing for a reduction in military imports.

A key element of the first-year program is the devaluation of the Rwanda franc aimed at restoring the competitiveness of the economy. This devaluation, which was taken in November 1990 as a prior action, is accompanied with sufficiently restrictive financial and incomes policies, which should help to moderate inflation. The program also envisages progressive liberalization of imports and foreign exchange allocation to be initiated before end-April 1991. The ultimate objective is to introduce an open general licensing system by mid-1992. Success in this area is crucial, as private sector confidence can only be re-established once importers have ready access to foreign exchange. In the first months of 1991, the situation is likely to remain difficult, but later in the year the current shortage of foreign exchange should ease, with the disbursements of exceptional financing from bilateral and multilateral donors, including the World Bank. Equally important for the program's success is the effective implementation of the reforms of tariffs and customs legislation, aimed at lowering the level of protection and reducing exemptions, to be phased in over three years.

A significant improvement in the public finance situation is programmed, despite the pressures on expenditure to cope with the security situation. The revenue-raising measures that have already been taken, the devaluation, and the new taxes to be put in place in the first months of 1991 are expected to generate sufficient additional resources to allow a significant increase in revenue and to reverse the decline in the revenue/GDP ratio. The implementation of the tax reform--aimed at improving the efficiency of the tax system and its administration, reducing exemptions, and increasing its yield--will have to be pursued with determination. The program also envisages a restrictive expenditure policy, and in order to ensure that there are no slippages, stringent control on all expenditure items is required. For 1991 as a whole, the Government is committed to eliminating completely the budgetary transfers to the coffee sector and reducing other transfers to public entities. The freeze on nominal wages and the imposition of the national solidarity tax imply a considerable loss of purchasing power for wage and salary earners. Also, there will be much greater selectivity in capital outlays. Most projects are foreign-financed, and these are being examined more carefully than in the past, to ensure that they meet adequate profitability criteria, and do not impose on the economy an excessive burden of recurrent charges.

The fiscal deficit on a cash basis, including the elimination of domestic arrears by the end of the first-year program, will be financed largely by concessional external resources, including the counterpart of assistance to be received from donors under the SPA, allowing government indebtedness to the banking system to be reduced by end-1991. Given this reduction, a moderate credit expansion to the private sector, and the programmed increase in net foreign assets, the money supply is projected to grow at a rate below that of nominal GDP. The interest rate structure has already been simplified, preferential rates have been abolished, and all interest rates have been raised. It is essential that interest rate levels be reviewed in light of developments in the inflation rate, to ensure that they will be positive in real terms by the end of the first-year program.

The achievement of the program objectives will also depend on the effective implementation of the envisaged structural reforms aimed at surmounting the obstacles to economic efficiency and at expanding the role of the private sector. In addition to the progressive liberalization of the trade and payments system, and the implementation of the tax and tariff reforms, structural policies include the reform of public enterprises to be carried out in line with the schedule agreed with the World Bank, and the implementation of sectoral strategies, particularly for the coffee and mining sectors. To create a more competitive environment, the prices of all goods and services have been liberalized, with the exception of a very limited number of essential commodities.

In spite of the hostilities, the key policy measures under the program have already been implemented since mid-November 1990, indicating the authorities' commitment to ensuring the success of the program. Provided that the remaining policies envisaged during the program period are implemented effectively and readapted quickly should circumstances warrant it, particularly if the export price of coffee falls short of projections, Rwanda should be able to achieve the program's objectives. The success of the program will also depend on a quick and permanent return to peace. A meeting of the heads of state of Rwanda and its neighbors was held in February 1991, and agreement was reached to formulate a plan to tackle the refugee issue, which was the main cause of the war. In support of the program the Government is seeking, in addition to arrangements under the SAF, a structural adjustment credit from the World Bank and access to the resources of the SPA. There are adequate assurances that sufficient financing will be forthcoming to cover the financing requirement for 1991 and subsequent years.

Rwanda imposes restrictions on payments and transfers for current international transactions subject to approval under Article VIII in the form of restrictions with respect to imports and invisibles, including those on travel allowances and on the repatriation of certain income earned by nonresidents. The staff recommends temporary approval of these restrictions in view of the intention of the authorities to eliminate them.

In the light of the assurances given on external financing, the strength of the proposed adjustment program, and the projected improvements in debt servicing capacity (including repayments to the Fund), the staff recommends approval by the Executive Board of the requested arrangements under the structural adjustment facility. It is also recommended that the next Article IV consultation with Rwanda be held on the regular 12-month cycle.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. 1990 Consultation

1. The Fund takes this decision relating to Rwanda's exchange measures subject to Article VIII, Section 2(a) and in concluding the 1990 Article XIV consultation with Rwanda, in the light of the 1990 Article IV consultation with Rwanda conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions described in SM/91/-- are maintained by Rwanda in accordance with Article XIV, Section 2, except that the exchange restrictions which relate to imports of merchandise items, travel allowances, and transfers abroad of personal income earned by foreigners, are subject to Fund approval under Article VIII, Section 2(a). The Fund notes the intention of Rwanda to eliminate these latter restrictions, and grants approval for their retention until the completion of the next Article IV consultation or April 30, 1992, whichever is the earlier.

B. Structural Adjustment Arrangement

1. The Government of Rwanda has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility.

2. The Fund approves the arrangements set forth in EBS/91/61.

Structural Adjustment Facility -
Three-Year and First Annual Arrangements

Attached hereto is a letter dated February 15, 1991 from the Minister of Finance and the Governor of the Central Bank of Rwanda with an annexed memorandum of economic and financial policies, requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth:

i. The objectives and policies of the program to be supported by the three-year arrangement; and

ii. The objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the Regulations for the administration of the Structural Adjustment Facility:

1. For a period of three years, from ________________, Rwanda will have the right to obtain three successive loans from the Fund under the structural adjustment facility in a total amount equivalent to SDR 30.66 million.

2. The first loan, in an amount equivalent to SDR 8.76 million, is available for disbursement at the request of Rwanda.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Rwanda. The amount of the second loan will be equivalent to SDR 13.14 million and the amount of the third loan will be equivalent to SDR 8.76 million.

4. Before approving the second annual arrangement, the Fund will appraise the progress of Rwanda in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the indicators specified in Tables 1 and 2 of the attached memorandum of economic and financial policies;

(b) imposition or intensification of restrictions on the making of payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and

(e) imposition or intensification of import restrictions for balance of payments reasons.

5. In accordance with the fourth paragraph of the letter dated February 15, 1991, Rwanda will provide the Fund with such information as the Fund requests in connection with the progress of Rwanda in implementing the policies and reaching the objectives supported by the first annual arrangement.

6. In accordance with the third paragraph of the attached letter, Rwanda will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Rwanda or representatives of Rwanda to the Fund.

Kigali, February 15, 1991

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

The attached memorandum on the economic and financial policies of Rwanda sets out the objectives and measures that the Government of Rwanda intends to pursue and implement during the three-year period 1991-93, and the objectives and policies for the first annual program for 1991. This program was formulated in conformity with the economic policy framework paper, which was prepared in close consultation with the staffs of the Fund and the World Bank, and which was sent to you today.

In support of these objectives and policies, the Government of Rwanda wishes to obtain assistance from the international financial community. It hereby requests a three-year arrangement under the structural adjustment facility in an amount equivalent to SDR 30.66 million, of which SDR 8.76 million would be for the first year. The Government is also requesting support from the World Bank under a structural adjustment credit and from other bilateral and multilateral donors and creditors, especially in the context of the Special Program for Africa.

The Government believes that the policies set forth in the attached memorandum are adequate to achieve the program's objectives, but will take any further measures that may prove necessary for this purpose. The Government of Rwanda will consult with the Managing Director on the adoption of any measures that might be deemed appropriate, either at the initiative of the Government of Rwanda or at the request of the Managing Director.

The Government of Rwanda will provide the Fund with such information as the Fund requests to monitor Rwanda's progress in implementing the economic and financial policies and achieving the objectives of the program.

Sincerely yours,

/s/ /s/

Benoît Ntigulirwa
Minister of Finance

Denis Ntirugirimbabazi
Governor
National Bank of Rwanda

Attached: Memorandum on the economic and financial policies of Rwanda

February 15, 1991

Memorandum on the Economic and Financial Policies of Rwanda

1. Since 1987, Rwanda has been facing serious economic and financial difficulties largely brought about by the combined impact of the sharp reduction in world prices for coffee (the main export commodity), the overvaluation of the Rwanda franc, adverse weather conditions, and structural problems. At the same time, demand management policy has not been adjusted sufficiently. Real GDP stagnated in 1987 and 1988, and declined sharply in 1989. The coffee sector has recorded annual losses since 1987. These losses, financed by budgetary transfers, have contributed to the sizable deficits (excluding grants) in the consolidated operations of the Central Government (9 percent of GDP on average during 1987-89), and to increased recourse by the Government to the banking system. The external current account (excluding official unrequited transfers) recorded an average deficit amounting to 11 percent of GDP during the period 1987-89, and net official foreign assets dropped sharply, falling from the equivalent of five months of imports at end-1986 to two months at end-1989. Under these circumstances, restrictions on imports and other current transactions have been intensified. Rwanda's economic and financial situation continued to deteriorate in 1990. Coffee export prices fell further to their lowest level of the 1980s. Moreover, the war that was imposed upon Rwanda in early October 1990, following an invasion by attackers from a neighboring country, has had a severe impact on the economic and financial situation.

2. In order to cope with these difficulties, the Government has decided to implement a medium-term structural program for the period January 1991-December 1993. The objectives and the thrust of policies under this program are outlined in the medium-term economic policy framework paper (PFP), which was elaborated in collaboration with the staffs of the Fund and World Bank, and submitted to the Managing Director of the IMF and the President of the World Bank on February 15, 1991. This memorandum reviews recent economic developments in Rwanda, summarizes the objectives and policies contained in the PFP for the three-year program period, and specifies the objectives and policies relevant to the first year. This program was initially drawn up in September 1990, but had to be revised as a result of the events that occurred in early October 1990. Despite the difficulties confronting the country, important prior actions have been implemented beginning in November 1990.

I. Recent Economic Developments

3. In 1989 real GDP fell sharply by 5.7 percent, bringing it to a level below that of 1983. Adverse weather conditions contributed to a

pronounced fall of 12 percent in agricultural production, which accounts for about 40 percent of GDP, owing mainly to the fall in export crop production (24 percent). Nonagricultural output declined by 2 percent in 1989, reflecting the strong links with the agricultural sector. The only exceptions to the decline were the mining sector, which is being rehabilitated, and the public sector, where recruitment occurred, mainly in education. The domestic inflation rate, as measured by the consumer price index in Kigali, has remained low and has averaged 2.7 percent per annum since 1986. This modest rate is attributable largely to the appreciation of the effective exchange rate of the Rwanda franc and to controls on prices and profit margins.

4. The deficit in the consolidated operations of the Central Government (on a commitment basis and excluding grants) increased during the 1980s, attaining 10.4 percent of GDP in 1987. In 1989 the deficit fell to 7.3 percent of GDP; the inclusion of grants brings this ratio down to 4 percent. Domestic payments arrears were reduced significantly in 1989, so that the deficit on a cash basis amounted to 8.6 percent of GDP. This deficit was financed in part by a sharp increase in domestic borrowing, especially from the banking sector. The reduction in the budget deficit on a commitment basis in 1989 was due especially to the fact that total expenditure was reduced by 5 percent, reflecting a fall in capital outlays. There was also a major slowdown in current spending notwithstanding the substantial increases in transfers to the coffee sector, partly because the rise in the wage bill continued to be moderate. Revenues increased by only 3.2 percent; receipts from import taxes fell, in part owing to lower imports, while other revenues increased only moderately.

5. Developments in the various monetary aggregates in 1989 were mainly influenced by a sharp fall in net foreign assets of the banking system and an increase in net credit to the Government of 6.6 percent of the beginning-period money stock. At the same time, bank credit to the rest of the economy expanded by 6.8 percent. The money supply fell by 4.2 percent.

6. The external current account deficit (excluding official transfers) remained high at 10.7 percent of GDP in 1989; including official transfers, this ratio was 4.8 percent. In spite of a substantial reduction in imports attributable partly to intensified import restrictions owing to insufficient reserves, and partly to a reduction in drawings on external loans, the trade deficit remained high on account of the marked reduction in the value of coffee exports. A 17 percent drop in the volume of coffee exports was compounded by a 19 percent reduction in the average export price for coffee (in U.S. dollars). The reduction in coffee prices in 1989 brought about a cumulative deterioration in the terms of trade amounting to approximately 40 percent since 1986. The sizable external imbalances also reflect the erosion of external competitiveness brought about by the appreciation in the effective exchange rate since 1980 (50 percent in nominal terms and 30 percent in real terms). The overall balance of

payments deficit has been partly financed by a sizable drawing down of official foreign exchange reserves. The outstanding external debt, almost entirely contracted on concessional terms, remained modest and stood at 28 percent of GDP in 1989. The total debt service ratio, which stood at just 8.5 percent of exports of goods and nonfactor services in 1986, increased to 18.3 percent in 1989 partly on account of the substantial downturn in exports during this period. In 1989, Rwanda benefited from debt forgiveness (US$74 million) from France.

7. The economic and financial situation deteriorated further in 1990, particularly in the last quarter as a result of the war imposed on the country. GDP in real terms fell by about 2 percent, despite a good agricultural crop, particularly for coffee, the export volume of which increased by 60 percent. Transportation, trade, and tourism were the sectors most strongly affected. The consumer price index in Kigali rose by 4.2 percent; however, inflation accelerated in the last quarter of the year.

8. The public finance situation worsened considerably in 1990, although the Government took measures to contain the deficit. The developments of October 1990 entailed substantial increases in expenditure. Despite the enhanced controls on expenditure introduced early in the year and cutbacks in expenditure on goods and services not related to security measures, current expenditure increased appreciably by 29.8 percent, reflecting not only the substantial increase in defense expenditure made necessary by the events of the last quarter of the year, but also the increase in transfers to the coffee sector. To limit these transfers, the Government lowered the producer price of coffee in March 1990 from RF 125/kg to RF 100/kg. Capital expenditure slowed considerably as a result of reduced drawings on project loans. Revenue declined by 9.1 percent as a result of the slowdown in economic activity and lower imports. Revenue-raising measures were adopted under the 1990 budget, particularly the introduction of a minimum import duty of 5 percent and higher excise duties on beer, soft drinks, and cigarettes. However, this latter measure caused consumption to fall sharply, which resulted in a loss of revenue, and thus it was rescinded in July 1990. Customs duty revenue registered significant shortfalls owing to the reduction in imports. Other revenue also declined as a result of the slowdown in economic activity. The overall deficit (excluding grants) amounted to 11.7 percent of GDP (8.4 percent of GDP including grants). Sizable payments arrears accumulated and the deficit on a cash basis rose to 8.7 percent of GDP. This deficit was financed in part by increased government borrowing from the banking sector. The increase in net credit to the Government, by 23.1 percent of the beginning-period money stock, was largely offset by the declines in credit to the rest of the economy and in net foreign assets, which resulted in an increase of the money supply by only 5.4 percent in 1990.

9. Concerning the balance of payments, the current account deficit (excluding official transfers) amounted to 10.5 percent of GDP in 1990; including these transfers this ratio was 4.7 percent. The sizable

increase in the volume of coffee exports was largely offset by the impact of lower export prices, and total exports expressed in SDR terms remained at approximately the 1989 level. Imports (c.i.f.) fell by 9.8 percent in SDR terms. Although security-related imports increased sharply, other imports slumped owing to insufficient reserves and a decline in drawings on external loans. Net services likewise contracted, owing in part to the impact of the war on tourism. The overall balance of payments deficit increased and was financed by a reduction in net official foreign assets, which were exhausted at end-1990. Arrears of RF 805 million (SDR 4.6 million) had accumulated by end-1990. The outstanding debt amounted to 28.8 percent of GDP while the external debt service ratio reached 17.7 percent.

II. Medium-Term Objectives and Policies

10. As outlined in the PFP, the Government's principal medium-term objectives are to achieve sustainable economic growth, to attain a moderate inflation rate, and to accelerate the return to a viable situation for the balance of payments and public finances. The program's principal quantitative macroeconomic targets by 1993 are as follows: (i) to achieve a rate of growth in real GDP of 4 percent; (ii) to reduce the inflation rate to around 5 percent; (iii) to reduce the external current account deficit, excluding official transfers, to 11 percent of GDP (6 percent including official transfers); (iv) to increase net official foreign assets to the equivalent of three months of imports; and (v) to bring the budget deficit excluding grants down to about 5 percent of GDP (2 percent including grants).

11. Attainment of these targets will require: (i) the implementation of an appropriate exchange rate policy that will improve the competitiveness of the economy; (ii) a restrictive budgetary policy based primarily on the implementation of a wide-ranging tax reform that involves broadening the tax base, improving tax administration, and making the tax system rely increasingly on domestic taxes. In addition, a policy of stringent control of public expenditure will be followed and will involve expenditure reallocation in the context of public expenditure programs established for priority sectors; (iii) a restrictive monetary and credit policy designed to achieve the above-mentioned inflation and balance of payments targets. For this purpose, the maintenance of positive real interest rates and the progressive introduction of an indirect system of credit control will be crucial to the mobilization of private savings and the efficient allocation of credit; and (iv) structural policies aimed at surmounting the obstacles to economic efficiency and at expanding the role of the private sector in revitalizing the economy. The structural measures comprise inter alia the removal of quantitative import restrictions (including foreign exchange allocation), the introduction of an open import licensing system, the liberalization of domestic trade and prices, and the rehabilitation and restructuring of public enterprises. Finally, a package of measures will be adopted for the purpose of alleviating the adverse

social repercussions of certain adjustment measures and of protecting those socioeconomic groups hardest hit by the economic and financial crisis.

III. Economic and Financial Program for the Period January 1991-December 1991

12. The economic and financial program for the period January 1991-December 1991, formulated in conformity with the medium-term strategy laid out in the PFP, places emphasis on priority measures. Owing to the war, the situation is likely to remain difficult during 1991. However, beginning in 1992, the economic situation should improve following the implementation of the envisaged measures, and once peace has been restored, allowing substantial cutbacks in security expenditure. The rate of growth of GDP could amount to about 1 percent in 1991. The impact of the exchange rate adjustment and of price liberalization on inflation will be felt in 1991, when it is estimated that the inflation rate could average 28 percent for the whole year. However, the inflation rate should begin to decline gradually after mid-1991 and return by 1993 to the moderate level of the pre-devaluation period. On the external front, with the upturn in non-security-related imports, the program envisages an increase in the current deficit (excluding official transfers) to SDR 195.5 million (15.2 percent of GDP) in 1991. To achieve these objectives, the program provides for, inter alia, a reduction of the budget deficit in 1991, despite the burden of security expenditure; a restrictive monetary policy and an increase in interest rates; price liberalization; public enterprise reform; and the beginning of efforts to lessen the structural distortions that constrain economic activity. Several prior actions have already been implemented, beginning in November 1990, notably an exchange rate adjustment, higher interest rates, higher prices for petroleum products, and tax measures.

(a) External sector policy

13. To correct the overvaluation of the Rwanda franc and to help restore external competitiveness, the exchange rate was adjusted on November 9, 1990 by 40 percent in foreign currency terms, thus bringing the value of the Rwanda franc from 102.71 to 171.18 per SDR. This adjustment is expected to improve the competitiveness of the economy, revitalize exports, and allow the progressive introduction of import liberalization. Along with this initial adjustment, the Government will be adhering to a sufficiently restrictive stance of financial policies. The exchange rate policy will be reviewed on a regular basis, in the light of developments in the balance of payments and progress in import liberalization. One key goal of the program is to promote and diversify exports. For this purpose, the exchange rate policy will be accompanied by an intensified strategy for promoting exports of goods and services, notably tourism. Noncoffee export taxes were abolished in December 1990. Additional export promotion measures to be introduced

will be agreed upon with World Bank staff and implemented beginning June 1991.

14. An open general licensing system will be introduced and the transitional foreign exchange allocation system put in place prior to it will be revoked by June 1992, or earlier, as soon as sufficient external financial resources have been secured to meet demand for foreign exchange. This open general licensing system will cover all import categories with the exception of a very limited list of items necessitating special licenses for health or security reasons. In the interval, the existing import programming system will be replaced before end-April 1991 by a more liberal system of import licensing and foreign exchange allocation. Furthermore, a special 5 percent fee on the value of import license applications will be introduced at the same time. This special fee, which will be levied on all categories of imports, will be abolished with the introduction of the open general licensing system. The Government announced the introduction of this transitory system on November 9, 1990. Under the transitional system, import license applications will be submitted to the Ministry of Commerce and Consumption, which will ensure that the special fee has been paid for the benefit of the Government. The applications will then be submitted to the Central Bank, which will determine the amounts of foreign exchange to be allocated on the basis of available foreign exchange. If the demand for foreign exchange exceeds the amount available, the allocations will be determined by proportionally reducing for each importer the amount requested. An exception will be made for a very limited number of essential goods not exceeding 30 percent of total imports, where demand will be satisfied to ensure that the supply of these goods is adequate and uninterrupted. These products are petroleum products, sugar, salt, milk powder, semolina, malt, hops, cooking oils (palm and soja), pharmaceutical products, mineral fertilizers, insecticides and pesticides, and gypsum. Foreign exchange will be allocated monthly, and importers will have up to six months to accumulate and use the foreign exchange allocated to them. In order to ensure that this transitional system remains transparent, all importers will be informed of the total amount available, and the list of importers, comprising the applications and the amounts of foreign exchange allocated by importer, shall be published monthly. In addition, beginning June 1991, the delays with regard to transfer of income and profits of foreign investors will be eliminated. Other restrictions on current payments for services (e.g., purchases of foreign exchange for tickets and other travel expenses) will also be progressively reduced.

15. In accordance with the PFP, the reform of tariffs and customs legislation was begun in December 1990 and will be phased in over three years. It is aimed at lowering the overall level of effective protection, reducing exemptions, and rationalizing the structure of the customs tariff. In December 1990 the minimum import duty was increased to 10 percent and all specific import taxes were converted to an ad valorem basis for all products, with the exception of petroleum products, beverages, and cigarettes. The maximum import duty will be

reduced to 100 percent and the number of rates reduced before end-April 1991. With effect from the same date, all import prohibitions protecting local industries will be replaced with import taxes or surcharges, except in cases of dumping or for security or health reasons. In addition, the reduction of exemptions begun in December 1990 will be continued.

16. The implementation of the above measures and the policies described in the following paragraphs are expected to help achieve the program's external sector targets, notably to make possible a moderate replenishment of reserves in 1991. The projected rise in coffee prices is expected to offset partially the anticipated decline in coffee export volumes following their exceptional 60 percent increase in 1990. Allowing for a moderate increase projected for the volume of tea and other exports, total export value is likely to decline slightly. As for imports, they will continue to be constrained by the low level of foreign exchange during the first half of 1991. Imports may experience rapid growth beginning in the second half of 1991, once adequate foreign exchange is available. Because of the restrictive demand policy that will be pursued, the growth of non-security-related imports is nonetheless likely to remain moderate. Following the decline of 9.8 percent posted in 1990, total imports (c.i.f.) may increase in SDR terms by 11.3 percent in 1991.

17. Taking into account the external current account deficit and the increase in net drawings on project-related external resources, it is estimated that the overall balance of payments deficit will reach SDR 47.6 million in 1991. It will be necessary to replenish net official foreign assets to a level equivalent to at least one and a half months of imports at end-1991. Attaining this target, taking into account the anticipated widening of the current account deficit, the repayment of principal on the external debt, and the elimination of external arrears would require external assistance in the amount of approximately SDR 247 million. After taking into account the drawings on loans already contracted, anticipated new loans and grants, World Bank assistance, and drawings to be made under the SAF, a financing gap amounting to SDR 77 million will remain and is expected to be financed by donors under the Special Program for Sub-Saharan Africa. Under these conditions, the net foreign assets of the Central Bank, which showed a negative balance of RF 0.27 billion (SDR 1.6 million) at end-December 1990 will not be less than RF 5.52 billion (SDR 32.2 million) at end-December 1991.

18. The Government will pursue a prudent policy in matters of external debt management, by strictly avoiding nonconcessional foreign borrowing. All external arrears will be eliminated before end-1991, and no new arrears will be accumulated during the program period. The debt service ratio would reach 20.9 percent of exports of goods and nonfactor services in 1991, while the ratio of debt to GDP would be reduced to 28.2 percent.

(b) Budgetary policy

19. A restrictive budgetary policy will be pursued during the program period with a view to reducing the deficit of the consolidated operations of the Central Government (excluding grants and on a commitment basis) to RF 20.46 billion (9.3 percent of GDP) in 1991; including grants, this deficit will amount to RF 12.49 billion (5.7 percent of GDP). Domestic arrears, which amounted to RF 6.97 billion (including RF 1.64 billion for payment of principal) at end-December 1990, will be progressively reduced and eliminated before end-December 1991, and no new arrears will be accumulated during the program period. Taking into account the amounts programmed for arrears reduction, the deficit on a cash basis and the repayment of principal on external debt will be largely financed by concessional external resources, so that government indebtedness to the banking sector can be reduced in 1991.

20. Revenue will be increased as a result of discretionary measures and measures to strengthen tax administration, but also as a result of the exchange rate adjustment. One objective is to re-examine the entire tax system and its administration with a view to enhancing its efficiency, increasing its yield, and raising the share accounted for by domestic taxation. The Government is receiving IMF technical assistance and has begun to implement progressively the agreed measures. In December 1990, the Government adopted a set of measures designed to increase tax revenue: the minimum import duty was raised from 5 percent to 10 percent and will be levied on all imports, including those benefiting from exemption under the Investment Code; in addition to the broadening of the tax base, which is now based on the sale price instead of the cost of production, the turnover tax was raised from 6 to 10 percent for most goods, from 2 percent to 5 percent for essential goods, and from 1 percent to 10 percent for services and entertainment; and specific taxes on petroleum products were raised in line with the adjustment of the exchange rate. Furthermore, the Government has decided to grant no new customs duty exemptions and to impose a moratorium on those granted under the Investment Code. The Investment Code will be revised before June 1991. A temporary 5 percent fee on import license applications will be introduced before end-April 1991, and a temporary national solidarity tax on wages will be put in place before end-May 1991. To increase revenue from certain public enterprises and reduce the burden on the Government of their debt service, public transportation tariffs were raised by 20 percent in January 1991, and electricity rates will be increased before end-June 1991 in agreement with the World Bank. Other user fees will be adjusted to ensure full coverage of the cost of government-run commercial operations and to increase coverage of the cost of noncommercial public services. The measures already implemented and those to be implemented in the first months of 1991, taking into account the exchange rate adjustment, should yield the equivalent of about 2.5 percent of GDP and allow total revenues to increase by 32.6 percent in 1991. Quarterly targets have been established for

government revenue, and in the event that revenues fall short of targets, compensating measures will be adopted.

21. On the expenditure side, emphasis will be placed on the abolition of transfers to the coffee sector, a freeze on wage increases (including the statutory merit increase of 3 percent) with no new net recruitment except for a limited number in the education and health sectors, the reduction in indirect transfers granted by the Government to public enterprises and the compression of other nonsecurity current expenditure. Taking into account the impact of the devaluation and security requirements, these measures will permit total expenditure to be limited to RF 49.23 billion in 1991 (an increase of 16.3 percent). Current expenditure will be limited to RF 31.61 billion, although security expenditure will increase substantially and interest payments on the domestic debt will double as a result of higher interest rates. Excluding transfers to the coffee sector (RF 4 billion in 1990 but zero in 1991), other current expenditure will increase by 17.1 percent. The Government will ensure that the transfers to the coffee sector (while maintaining the export tax) are eliminated for the year as a whole. To ensure achievement of this target, the financial situation of the coffee sector will be re-examined toward mid-1991 taking into account export price developments, and necessary measures will be adopted. Capital expenditure, chiefly financed by grants and concessional lending, will increase by 55.8 percent in domestic currency terms, taking into account the new exchange rate. In order to improve planning and expenditure management, the Government is preparing a three-year rolling public investment program (PIP) in consultation with World Bank staff. This program will be based on the application of project selection criteria that ensure an adequate economic rate of return and tight follow-up of project execution and financing. For social sectors, project choice will be based on least-cost methods.

(c) Monetary and interest rate policy

22. A restrictive monetary policy will be rigorously enforced during the program period, to contain the inflationary pressures resulting from the exchange rate adjustment and relieve the pressures on the balance of payments. The rate of growth in broad money will be kept below that of nominal GDP. One objective of this policy is to improve the efficiency of resource allocation and mobilization, and to reduce the Government's recourse to bank financing. The interest rate structure has been simplified and the rates raised to levels that will be positive in real terms toward the end of the first annual program. Accordingly, on November 12, 1990, the minimum borrowing rate for one-year deposits was raised to 12 percent; a unified rediscount rate was introduced and its level set at 14 percent; the maximum lending rate was raised to 19 percent; all preferential rates were removed; and all other rates on deposits and loans are now freely determined. Interest rates will be reviewed regularly during the program period in the light of the evolution of the inflation rate, and adjusted if necessary, to ensure that the levels are positive in real terms by the end of the first

program year. The Central Bank will continue to exercise the control and supervision necessary for the success of a restrictive credit policy, specifically by imposing quarterly credit ceilings on each bank. As indicated in the PFP, the Central Bank will progressively introduce an indirect credit control system, based on reserve requirements, liquidity ratios, and refinancing for commercial banks.

23. The increase in the money supply will be limited to 21.9 percent in 1991. Taking into account the target for net foreign assets, net domestic assets, which amounted to RF 28.93 billion at end-December 1990, will be limited to RF 30.27 billion at end-December 1991, and will thus increase by only 4.2 percent of the beginning-period money stock. Net credit to the Government (including counterpart funds), which amounted to RF 17.48 billion at end-December 1990, will be reduced to RF 16.64 billion at end-December 1991. Net domestic assets and net credit to the Government are the subject of quarterly financial benchmarks shown in Table 1 attached to this memorandum. These benchmarks will be revised downward by the amount of the counterpart of any drawing made under the structural adjustment credit to be granted by the World Bank, and by the amount of any drawing made under the Special Program for Sub-Saharan Africa that exceeds the budgeted amount of RF 13.11 billion.

(d) Structural policies

24. In conformity with the PFP, structural measures have been adopted and others will be put in place during the program period. In the area of pricing policy, the Government decided in November 1990 to abolish the existing system of controls on profit margins, except for monopolies (notably water, electricity, and telecommunications), and to phase out fixed prices for all goods except for a limited number of goods and services (retail prices of petroleum products, minimum producer prices for coffee, tea, wheat, paddy rice, sugar cane and pyrethrum, and fees for public medical consultations). For those imported goods and services whose prices remain fixed, the full impact of the exchange rate adjustment is being passed on. In particular, the prices of petroleum products were raised by 79 percent on November 9, 1990 to reflect the full impact of the exchange rate adjustment, the increase in the specific tax, and the recent rise in import prices for these products. The Government recognizes that it will be necessary to contain inflationary pressures and to reduce inflation quickly to its previous moderate levels. Contributing to the achievement of this goal will be a prudent public sector wage policy and restrictive budget and credit policies, as well as the anticipated improvement in supply and the liberalization of domestic and external trade.

25. As regards public enterprises, the Government is planning to rehabilitate and restructure them with a view to improving their efficiency and performance, in particular by restoring their viability and ensuring the progressive removal of indirect transfers and the nonrestoration of the direct subsidies provided by the Government to

these entities. Beginning in June 1991, the Government will be phasing in programs for the rehabilitation, privatization, and liquidation of public enterprises according to the agreed timetable of the IDA-supported project which was approved by the World Bank in March 1990. In particular, action plans for the withdrawal of the State from three public enterprises (SONATUBE, STIR, and RWANTEXCO), and the privatization or liquidation of five others (Imprimerie nationale du Rwanda, Forge gouvernementale, OVAPAM, Papeteries du Rwanda, and the hotel activities of ORTPN) will be completed before December 1991.

26. The other sectoral measures to be prepared or implemented in 1991, in conformity with the PFP and its prescribed timetable, comprise: improving output and marketing in the agricultural sector; achieving the goal of food security for the population; revising the 1987 Investment Code; rehabilitating the mining sector; preparing a master electrification plan, and adopting electricity prices that reflect true economic costs; exploiting the possibilities of using energy sources other than petroleum and wood; and promoting private sector activity.

(e) Quantitative and structural benchmarks for the program

27. The implementation of the program until December 1991 will be monitored with particular reference to the financial and structural benchmarks shown in Tables 1 and 2 attached to this memorandum. The quarterly financial benchmarks comprise: (i) ceilings on the net domestic assets of the banking system; (ii) ceilings on net bank credit to the Government; (iii) a minimum amount for total government revenue; (iv) reducing the Government's domestic payments arrears, and ensuring that no new arrears will be incurred; (v) elimination of external payments arrears and no accumulation of new arrears; (vi) a minimum level for net foreign assets of the Central Bank; and (vii) no non-concessional external loans contracted or guaranteed by the Government in the medium term (from 1 to 5 years and from 1 to 12 years) and in the short term (other than import credits). In addition, the Government will not impose new or intensify existing restrictions on payments and transfers for current international transactions; will not introduce multiple exchange rate practices or alter those in place; will not impose new or intensify existing import restrictions for balance of payments purposes; and will not enter into new bilateral payments agreements that are inconsistent with Article VIII. The benchmarks for monitoring structural policy implementation relate to: (i) the liberalization of prices except for a limited number of goods and services; (ii) the introduction of a more liberal transitional import licensing and foreign exchange allocation system covering all import categories; (iii) the implementation of a comprehensive tax reform; and (iv) the enactment of revisions to the legal framework for public enterprises, the adoption of a general privatization strategy, and the completion of action plans for privatizing or liquidating a number of public enterprises.

Table 1. Rwanda: Financial Benchmarks for the First Annual Arrangement Under the Structural Adjustment Facility

(In billions of Rwanda francs)

	1990	Program 1991			
	Dec.	March	June	Sept.	Dec.
Net domestic assets of the banking system (amount outstanding) 1/	28.93	32.06	33.36	32.42	30.27
Net domestic credit to the Government (amount outstanding) 1/	17.48	20.06	20.06	18.82	16.64
Net foreign assets of the Central Bank	-0.27	-0.10	--	3.30	5.52
Total revenues of the Government (cumulative during the year)	21.88	6.00	13.00	21.00	29.02
Domestic arrears of the Central Government (stock)	6.97	6.97	6.00	4.00	--
External payments arrears (stock)	0.80	0.80	0.80	0.40	--
New nonconcessional external loans contracted or guaranteed by the Government					
1 - 12 years	--	--	--	--	--
1 - 5 years	--	--	--	--	--
Short-term (less than one year) 2/	--	--	--	--	--

1/ The quarterly ceilings will be adjusted downward by the amount of the counterpart of any drawing made under the World Bank's structural adjustment credit, and the amount of the counterpart of any drawing made in the context of the Special Program of Aid to Sub-Saharan Africa (SPA) in excess of the budgeted amount of RF 13.11 billion.

2/ Excluding import credits.

Table 2. Rwanda: Structural Benchmarks for the First Annual Arrangement Under the Structural Adjustment Facility

Measures	Date
1. Pricing policy	
Adoption of laws and ministerial arrêtés abolishing controls on profit margins (except for monopolies) and fixed prices for all goods and services (already in effect).	By April 1991
Adjustment of electricity rates to cover increases in costs.	Before end-June 1991
2. Tax reform	
Reduce the tax exemptions granted under the Investment Code.	June 1991
Reduce the maximum import duty to 100 percent and reduce the number of rates to no more than 10.	April 1991
3. Import liberalization	
Introduction of a more liberal transitional system for import licensing and foreign exchange allocation.	Before end-April 1991
Replace import prohibitions by import duties or import surchages	Before end-April 1991
4. Reform of public enterprises	
Adoption of a general privatization strategy.	September 1991
Revision of the legal framework applicable to public enterprises.	December 1991
Completion of action plans for State withdrawal, privatization, or liquidation of eight public enterprises.	December 1991

RWANDA: Relations with the Fund
(As of February 28, 1991)

I. Membership Status

(a) Date of membership	September 30, 1963
(b) Status	Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota	SDR 43.80 million
(b) Total Fund holdings of Rwanda francs	SDR 37.37 million (85.31 percent of quota)
(c) Reserve tranche position	SDR 6.44 million
(d) Fund credit	--

III. Stand-By or Extended Arrangement

(a) Current stand-by or extended arrangement	None
(b) Previous stand-by or extended arrangement during the past ten years	None

IV. SDR Department

(a) Net cumulative allocation	SDR 13.7 million
(b) Holdings	SDR 7.03 million (51.36 percent of net cumulative allocation)

V. Administered Accounts

Trust Fund loans

(a) Disbursed	SDR 10.69 million
(b) Outstanding	SDR 0.07 million

RWANDA: Relations with the Fund (continued)
(As of February 28, 1991)

VI. Financial Obligations to the Fund

See attached table.

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

The Rwanda franc was pegged to the SDR at the rate of SDR 1 = RF 102.71 from September 6, 1983, until November 9, 1990, when the rate was devalued by 40 percent to SDR 1 = RF 171.18.

VIII. Last Article IV Consultation

Discussions were held by the staff in Kigali during the period May 23-June 3, 1989. The staff report (SM/89/140, 7/12/89) was discussed by the Executive Board on August 14, 1989.

The Executive Board's decision on the consultation, adopted on August 14, 1989, was as follows:

1. The Fund takes this decision relating to Rwanda's exchange measures subject to Article VIII, Section 2(a) and in concluding the 1989 Article XIV consultation with Rwanda, in the light of the 1989 Article IV consultation with Rwanda conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions described in SM/89/140 and SM/89/146 are maintained by Rwanda in accordance with Article XIV, Section 2, except that the exchange restrictions, also noted in the same reports, which relate to imports of merchandise items, travel allowances, and transfers abroad of personal income earned by foreigners, are subject to Fund approval under Article VIII, Section 2(a). The Fund encourages the authorities to adopt adjustment measures which would enable them to eliminate, as soon as possible, the exchange restrictions that are subject to approval under Article VIII.

Rwanda is on the standard 12-month consultation cycle.

RWANDA: Relations with the Fund (concluded)
(As of February 28, 1991)

IX. Technical Assistance

1983: FAD mission on Tax Survey

1984-90: CBD Expert - National Bank of Rwanda

1990: FAD mission on Tax Survey

X. Resident Representative: None

Rwanda: Financial Obligations to the Fund, 1991-2000

(In millions of SDRs)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Remaining period	Total
A. Obligations from outstanding use of resourses												
1. Principal												
Trust Fund repayments	0.07	—	—	—	—	—	—	—	—	—	—	0.07
2. Charges and interest 1/	0.56	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	—	5.51
Total	0.63	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	—	5.58
(Percent of quota)	(1.4)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(—)	(12.7)
B. Obligations from prospective use of resources												
1. Principal												
SAF repayments	—	—	—	—	—	0.88	3.07	5.26	6.13	6.13	9.19	30.66
Charges and interest 1/	0.03	0.09	0.14	0.15	0.15	0.15	0.14	0.12	0.09	0.06	0.07	1.19
Total	0.03	0.09	0.14	0.15	0.15	1.03	3.21	5.38	6.22	6.19	9.26	31.85
(Percent of quota)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(2.4)	(7.3)	(12.3)	(14.2)	(14.1)	(21.2)	(72.7)
C. Cumulative (outstanding and prospective)												
1. Principal												
SAF repayments	—	—	—	—	—	0.88	3.07	5.26	6.13	6.13	9.19	30.66
Trust Fund repayments	0.07	—	—	—	—	—	—	—	—	—	—	0.07
2. Charges and interest 1/	0.59	0.65	0.70	0.71	0.70	0.71	0.70	0.68	0.65	0.62	0.07	6.78
Total	0.66	0.65	0.70	0.71	0.70	1.59	3.77	5.94	6.78	6.75	9.26	37.51
(Percent of quota)	(1.5)	(1.5)	(1.6)	(1.6)	(1.6)	(3.6)	(8.6)	(13.6)	(15.5)	(15.4)	(21.1)	(85.6)

Source: IMF Treasurer's Department.

1/ Projections are based on current rates of charge; current interest rates for SAF and Trust Fund; and current SDR interest rate for net use of SDRs.

RWANDA: Relations with the World Bank Group

Over recent years, the World Bank's policy dialogue and lending program in Rwanda have emphasized (a) agricultural and rural development; (b) human resources, basic education and manpower training, and, more recently, family planning programs; (c) infrastructure development, particularly roads, to reduce the country's isolation and to provide incentives for diversification through better marketing; and (d) development of domestic energy sources. Continuing assistance in these areas will increasingly be restructured to identify policy, institutional, and procedural reforms that could provide the basis for the preparation of sectoral credits. In addition, to support comprehensive reforms envisaged in the Policy Framework Paper, the Bank is expected to disburse during the course of 1991, the first tranche of a structural adjustment credit.

Rwanda is eligible for IDA credits, which are mostly for the financing of projects in infrastructure, agriculture, forestry, education, and health. Three IFC loans for tea processing and marketing were made in 1975, 1979 and 1985. An IBRD resident mission has been maintained in Kigali since 1979.

RWANDA: Status of World Bank Group Operations in Rwanda

(As of March 2, 1991)

A: Statement of IDA Credits

Status of credit	Fiscal Year	Purpose	Amount in US$ million (less cancellations) Bank	IDA	Undis-bursed	Closing Date
Closed credits:				212.77		
Active credits:						
	1983	Bugesera II		16.30	0.71	12/31/91(R)
	1985	Agricultural Research		11.50	4.31	12/31/91(R)
	1985	Public Sector Management		4.80	3.69	06/30/92(R)
	1986	Highways VI		11.00	4.28	12/31/91(R)
	1986	Development Bank IV		9.00	3.88	12/31/93
	1986	Gitarama Agricultural Services		12.70	4.89	09/30/91
	1986	Family Health		10.80	11.06	06/30/92
	1986	Education III		15.60	12.43	12/31/91
	1987	Water Supply II		15.00	8.97	12/31/94
	1987	Public Sector Management		7.40	7.83	12/31/94
	1987	Forestry II		14.10	12.09	06/30/93
	1988	Highways VI		10.00	11.51	12/31/91(R)
	1989	Agricultural Services		19.90	21.20	06/30/95
	1989	Urban Institutions		32.00	35.17	12/31/96
	1990	Public Enterprises		4.40	4.89	12/31/94
	1990	Transportation 1/		40.00	44.74	06/30/97
	1991	Communications II 1/		12.80	12.80	12/31/95
		Subtotal active credits		247.30	204.45	
	Total 2/			460.07		
	Of which: repaid			9.46		
	Total held by Bank & IDA			450.61		
	Total undisbursed				204.45	

B. Statement of IFC Investments in Rwanda

IFC's investments in Rwanda comprise the investments made in Sorwathé and Sorwal, amounting to US$0.3 million.

1/ Not yet effective.
2/ Total approved, repayments and outstanding balance represent both active and inactive loans and credits.
(R) Indicates formally revised closing date.

RWANDA - Statistical Issues

1. Outstanding statistical issues

a. Real sector

The authorities have requested that publication of data on Rwanda's effective exchange rate in IFS be postponed, pending a future review of the country's basic data sources.

b. Government finance

The latest annual data received by the Bureau of Statistics are for 1980 and are published in the IFS Yearbook. Recently, the Ministry of Plan has published a document synthesizing the various budgets in Rwanda; however, these data are not yet used by the Ministry of Finance.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Rwanda in the March 1991 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the National Bank of Rwanda.

Status of IFS Data

		Latest data in March 1991 IFS
Real Sector	- National Accounts	1990
	- Prices: CPI	November 1990
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Authorities	- Monetary Authorities	November 1990
	- Deposit Money Banks	October 1990
	- Other Banking Institutions	October 1990
Interest Rates	- Discount Rate	December 1990
	- Bank Lending/ Deposit Rate	December 1990
	- Government Bond Yield	n.a.

RWANDA - Statistical Issues (concluded)

External Sector	-	Merchandise Trade	
		Values:	September 1990
		Prices: All Exports	September 1990
		Coffee	September 1990
		Tea	September 1990
	-	Balance of Payments	December 1989
	-	International Reserves	November 1990
	-	Exchange Rates	December 1990

3. Technical assistance missions in statistics (1985-present)

None

RWANDA - Basic Data

Social and Demographic Indicators

Area	26,338 square kilometers
Population	
Total (1990 estimate)	7.4 million
Growth rate	3.7 percent
GDP per capita (1990)	SDR 231
Crude birth rate	54 per thousand
Crude death rate	18 per thousand
Infant mortality rate	11.5 percent
Average life expectancy at birth (years)	
Men	50.0
Women	48.5
Food availability (calories/person/day/average)	2,243
Literacy rate (adult)	55.8 percent
School enrollment ratio (of relevant age group)	
Primary	61.0 percent
Secondary	6.0 percent
Number of telephones per 1,000 inhabitants	0.8
Circulation of daily newspapers per 1,000 inhabitants	0.1
Installed electricity-generating capacity (kilowatts per 1,000 inhabitants)	4.1

	1986	1987	1988	1989	1990 Est.
Gross domestic product	(In billions of Rwanda francs)				
GDP at 1985 constant prices 1/	183.20	182.57	183.08	172.61	169.17
Of which: primary sector	(74.78)	(73.54)	(71.83)	(63.52)	(66.94)
secondary sector	(42.13)	(42.45)	(42.56)	(42.11)	(39.64)
tertiary sector	(60.56)	(60.19)	(62.45)	(61.01)	(56.67)
GDP at current prices	170.34	171.91	177.93	174.20	176.15
Private consumption	136.06	137.89	142.18	138.24	137.00
Public consumption	20.13	23.16	24.28	25.04	32.39
Gross fixed investment and changes in stocks	27.04	26.85	27.90	27.19	22.08
Exports 2/	21.44	16.94	16.09	15.10	16.27
Imports 2/	34.33	32.94	32.53	31.38	31.59
Price indices	(Percentage change)				
GDP deflator	-7.0	1.3	3.2	3.8	3.2
Private consumption deflator	-8.9	6.0	2.6	4.6	8.7
Consumer price index (Kigali)	-1.1	4.1	3.1	0.9	4.2
Export price index	5.9	-37.5	16.9	-11.3	-19.5
Import price index	-6.0	-0.9	0.4	0.4	10.9

RWANDA - Basic Data (continued)

	1986	1987	1988	1989	1990 Est.
Government finance	(In billions of Rwanda francs)				
Total revenue and grants	28.02	27.23	29.50	29.87	27.67
Of which: tax revenue	(21.47)	(20.18)	(20.00)	(20.89)	(18.58)
Total expenditure 3/	35.57	40.79	38.53	36.65	42.34
Current	(20.19)	(23.95)	(23.83)	(23.92)	(31.03)
Capital	(15.38)	(16.84)	(14.70)	(12.73)	11.31)
Of which: externally financed	(11.46)	(12.87)	(10.42)	(9.33)	(7.76)
Net lending	0.51	0.23	0.25	0.16	0.18
Overall deficit on a commitment basis (including grants)	-8.06	-13.79	-9.28	-6.94	-14.85
Domestic financing	2.03	5.03	2.72	4.45	6.90
Of which: banking system	(1.17)	(4.45)	(1.36)	(2.65)	(5.62)
External financing (net)	6.03	7.84	5.05	4.10	2.62
Money and credit (end of period)					
Foreign assets (net)	13.62	12.15	9.18	6.11	2.76
Domestic credit	17.44	21.46	26.54	30.76	36.71
Claims on Government (net) 4/	(2.72)	(6.78)	(8.48)	(10.55)	(17.48)
Claims on private sector	(14.72)	(14.68)	(18.07)	(20.22)	(19.23)
Of which: coffee-related credit	(4.75)	(4.09)	(4.30)	(5.28)	(...)
Narrow money	17.21	17.67	18.21	15.93	16.70
Quasi-money	9.27	11.55	13.16	14.13	14.99
Other items (including medium- and long-term loans)	4.58	4.40	4.35	6.81	7.78
Balance of payments	(In millions of SDRs)				
Exports, f.o.b.	157.1	94.2	87.7	81.6	80.3
Of which: coffee	(121.0)	(70.9)	(63.0)	(45.6)	(48.6)
Imports, f.o.b.	-221.2	-207.1	-207.3	-197.9	-172.0
Trade balance	-64.1	-112.9	-119.6	-116.3	-91.7
Services (net)	-100.8	-89.1	-84.2	-71.2	-76.8
Private transfers (net)	6.0	5.8	7.9	6.4	4.8
Official transfers (net)	99.8	92.0	103.7	99.3	90.4
Current account balance	-59.1	-104.2	-92.2	-81.8	-73.3
Capital (net) 5/	83.9	89.9	63.2	51.9	25.7
Overall surplus or deficit (-)	24.9	-14.3	-29.0	-29.9	-47.6

RWANDA - Basic Data (concluded)

	1986	1987	1988	1989	1990 Est.
			(In millions of SDRs)		
Gross official reserves (end of period)					
SDR holdings	8.4	8.0	7.8	7.5	7.2
IMF reserve position	9.3	9.3	7.1	7.1	6.5
Foreign exchange	115.1	99.2	73.3	38.3	17.6
Total	132.8	116.5	88.1	53.0	31.3
Exchange rate of the Rwanda franc per SDR					
End of period	102.71	102.71	102.71	102.71	171.18
Period average	102.71	102.71	102.71	102.71	112.41
Nominal trade-weighted effective exchange rate (1980 = 100) 6/	143.3	141.3	144.1	148.3	138.5
Real trade-weighted effective exchange rate (1980 = 100) 6/	133.2	133.0	134.9	132.9	122.9

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

1/ Including net indirect taxes (not included in the three sectors).
2/ Exports and imports include both goods and nonfactor services.
3/ On a commitment basis.
4/ Including Government deposits at the central bank, as well as special deposit accounts held by a number of public entities.
5/ Including errors and omissions.
6/ Based on a weighted average vis-à-vis 16 countries.