FOR AGENDA

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SM/88/196

CONTAINS CONFIDENTIAL
INFORMATION

August 22, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Rwanda - Staff Report for the 1988 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with Rwanda, which has been tentatively scheduled for discussion on Monday, October 17, 1988.

Mr. Taylor (ext. 6511) or Mr. Ndoye (ext. 6517) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

RWANDA

Staff Report for the 1988 Article IV Consultation

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E.A. Calamitsis and A. Basu

August 18, 1988

I. Introduction

The 1988 Article IV consultation discussions with Rwanda were held in Kigali during the period May 17-31, 1988. The Rwandese representatives included the Minister of Finance and Economy; the Minister of Planning; the Minister of Industry, Mining, and Artisan Production; the Governor of the National Bank (the central bank); the Economic Advisor to the Presidency; other senior public officials concerned with economic and financial matters; and representatives of the private sector. The staff representatives were Mr. A. Taylor (head), Mr. S. Rajcoomar, Mrs. G. Devaux, Mr. I. Ndoye (all AFR), Mr. R. Alter (RES), and Ms. V. Hebron (secretary-AFR).

Rwanda continues to avail itself of the transitional arrangements of Article XIV. The Fund has no holdings of Rwanda francs subject to repurchase. Summaries of Rwanda's relations with the Fund and the World Bank group are provided in Appendices I and II, respectively. Statistical issues are discussed in Appendix III, and basic data are given in Appendix IV.

At the June 1987 Executive Board discussion of the last Article IV consultation report, Directors expressed concern that despite the authorities' attempts to promote a diversification of the productive base, improve production incentives, and pursue an import substitution strategy, economic growth had remained concentrated in the agricultural sector and export receipts relied almost exclusively on coffee and tea. Moreover, it was noted that the weak medium-term price prospects for coffee exports might lead to a deterioration in Rwanda's external position and a greater dependence on external borrowing, and could adversely affect the prospects for sustained growth. Directors urged the authorities to continue to pursue prudent economic and financial policies. In this regard, several Directors urged the authorities to correct the overvaluation of the currency and introduce a more flexible management of the exchange rate in order to help appropriately realign domestic and external cost-price relationships, improve the competitiveness of Rwanda's products in foreign markets, and eliminate various import restriction procedures.

II. Recent Economic Developments

Despite the efforts of the Government to improve the productive base of the economy and encourage import substitution (particularly in the production of beverages, tobacco, textile products, and construction materials), the Rwandese economy continues to be dominated by the agricultural sector (which accounts for over 40 percent of GDP), and foreign receipts are derived almost entirely from exports of coffee and tea. Besides, in recent years, demographic pressures have intensified and an increase in soil erosion and greater fragmentation of farms have adversely affected agricultural productivity. Production by the mining company ceased in 1985, with the closing down of the tin processing plant. Manufacturing output grew moderately, but capacity utilization remains low in several enterprises owing to the small size of the domestic market. Moreover, many enterprises require substantial protection to remain competitive, including a ban on some competing imports. The high domestic production costs have thus effectively prevented penetration in neighboring markets, and there has been little progress in diversifying the productive base of the economy. Finally, the efforts to restructure and improve the management of public enterprises have helped to rehabilitate this sector only slowly.

During the period 1985-86, economic performance in Rwanda was generally satisfactory as gross domestic product (GDP) grew by an average of 4.4 percent per annum, largely because of favorable weather conditions that helped agricultural output and moderate inflationary pressures (Table 1). The growth performance was based mainly on traditional agricultural products (especially bananas, beans, sorghum, and maize). Nonagricultural production fared poorly as a result of difficulties in the mining sector. The diversification of exports through the development of cinchona and pyrethrum appears to have had little success for lack of world demand. In the budgetary area, however, the overall central government deficit was contained to about 4-5 percent of GDP. While there was a rapid increase in current outlays, revenues grew sharply in response to the marked rise in receipts from taxes on international trade. Nevertheless, with the sizable recourse of the private sector to the banking system in 1985 and the increase in foreign reserves associated with the 1986 coffee boom, domestic liquidity growth averaged over 15 percent per annum. In the external sector, a sharp rise in the international price and export volume of coffee in 1986 resulted in a record balance of payments surplus of SDR 25 million. Consequently, gross official reserves rose to the equivalent of 5.6 months of imports, c.i.f., at end-1986. Owing to the largely concessional nature of Rwanda's external debt obligations, debt service payments averaged about 7 percent of exports of goods and services during 1985-86.

Table 1. Rwanda: Selected Economic and Financial Indicators, 1983-87

	1983	1984	1985	1986	1987 Prov.	1988 Prov.
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
GDP at constant prices	6.1	-4.0	4.5	4.3	-2.8	2.8
GDP deflator	2.4	16.6	4.4	-6.7	1.4	3.1
Consumer prices (average)	6.6	5.4	1.7	-1.1	4.1	...
External sector						
Exports, f.o.b. (in SDRs)	18.1	19.8	-10.6	26.4	-40.0	-4.8
Imports, f.o.b. (in SDRs)	-4.9	4.2	12.3	2.1	-6.8	0.1
Of which: capital goods	(4.5)	(-5.4)	(15.2)	(34.6)	(2.6)	(...)
Non-oil imports, c.i.f. (in SDRs)	-8.2	4.5	15.1	5.0	-2.0	...
Export volume	19.6	2.8	2.6	18.2	5.3	-17.9
Import volume	-1.2	17.4	6.6	7.7	-4.7	3.0
Terms of trade (deterioration -)	2.5	32.6	-14.0	13.0	-37.2	16.4
Nominal effective exchange rate (depreciation -) 1/	11.8	7.8	8.9	-1.7	3.0	...
Real effective exchange rate (depreciation -) 1/	8.1	2.7	0.6	-8.7	-0.1	...
Government budget						
Revenue (including grants)	2.7	10.3	17.1	7.3	-8.3	13.3
Revenue (excluding grants)	1.1	15.7	18.2	11.2	-8.5	16.2
Total expenditure and net lending	8.7	-0.9	19.8	11.0	12.0	7.2
Total expenditure and net lending (excluding foreign-financed projects)	8.3	-6.3	12.9	17.9	12.1	-3.9
Money and credit						
Domestic credit 2/	21.5	8.4	15.8	-1.3	15.2	...
Government	(15.1)	(-1.1)	(-0.2)	(-1.1)	(15.3)	(...)
Private sector	(6.4)	(9.4)	(16.0)	(-0.2)	(-0.2)	(...)
Money and quasi-money (M2)	11.8	10.1	17.2	13.6	10.3	...
Velocity (GDP relative to M2)	7.9	8.0	7.5	6.4	5.7	...
Interest rate (annual rate, one-year savings deposits)	7.0	7.0	7.0	7.0	4.5-5.0	...
	(In percent of GDP)					
Total revenue (including grants)	14.5	14.3	15.3	16.9	15.7	16.8
Total revenue (excluding grants)	10.9	11.3	12.2	13.9	12.9	14.2
Total expenditure and net lending	19.6	17.3	19.0	21.7	24.5	25.0
Total expediture and net lending (excluding foreign financed projects)	13.9	11.6	12.0	14.6	16.5	23.5
Consolidated overall deficit (including grants) 3/	-5.1	-3.0	-3.9	-4.8	-8.9	-8.1
Consolidated overall deficit (excluding grants) 3/	-8.7	-6.1	-7.0	-7.7	-11.7	-10.8
Domestic bank financing	1.5	0.5	-0.1	0.8	2.6	2.3
Foreign financing (net)	1.8	2.3	3.5	3.6	4.9	5.2
External current account (deficit -)						
Excluding public transfers	-10.7	-8.9	-10.3	-9.6	-12.0	-12.0
Including public transfers	-3.2	-2.6	-3.7	-3.6	-6.3	-6.4
External debt (outstanding at end of period)	15.0	16.7	18.8	21.8	27.1	30.4
Debt service ratio 4/	5.3	5.4	7.1	6.8	14.1	16.5
Interest payments 4/	1.7	1.8	2.4	2.3	4.2	5.1
	(In millions of SDRs)					
Overall balance of payments (surplus/deficit -)	-18.5	11.4	-0.2	24.9	-14.3	-16.5
Gross official reserves	108.0	108.5	102.9	132.8	116.5	100.0
In months of imports, c.i.f.	5.6	5.3	4.4	5.6	5.6	5.6

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

1/ Trade-weighted period averages.
2/ Expressed in percent of beginning period money stock.
3/ On a commitment basis.
4/ In percent of exports of goods and services.

In 1987, however, the economic and financial situation deteriorated substantially because of the very marked decline in the coffee export price (39 percent in U.S. dollar terms), which led to decreases in both export earnings and government revenues. As a result of adverse weather conditions, production of foodstuffs fell by 3 percent and contributed to a decline of about 3.5 percent in agricultural output. Consequently, the consumer price index rose by about 4 percent, compared with a decline of 1 percent in 1986. Overall GDP in real terms is estimated to have fallen by 2.8 percent.

The fiscal outcome in 1987 was adversely affected by the depressed coffee price levels in international markets. Compared with the record level achieved in 1986, revenues from coffee declined by the equivalent of 1.6 percent of GDP in 1987 (Table 2). In spite of the authorities' efforts to contain the growth of certain current expenditures, mainly on goods and services, an increase in government transfers and subsidies and the rapid rise in capital outlays (estimated at 9 percent) led to an increase in the overall deficit (on a commitment basis) from the equivalent of 5 percent of GDP in 1986 to 9 percent in 1987. The increase in government transfers and subsidies (equivalent to 1.6 percent of GDP) was entirely the result of transfers to the Coffee Stabilization Fund. 1/

The sharp reduction in revenues, compounded by the increase in expenditure commitments, led to the accumulation of domestic arrears in an amount of RF 1.2 billion. Net external financing of the resulting cash deficit rose by 36 percent, reflecting the higher investment outlays, but covered only 60 percent of the cash deficit in 1987, compared with 75 percent in 1986 and 89 percent in 1985. Financing of the fiscal deficit by the domestic banking system increased nearly threefold (to RF 4.4 billion) and exceeded the statutory limit substantially. With this volume of domestic borrowing, the stock of the Government's internal debt rose by 28 percent, to more than RF 21 billion at end-1987, which was equivalent to 13 percent of GDP compared with 10 percent at end-1986. As a result of higher levels of external and domestic borrowing, the share of debt service payments in current expenditures rose from 4.1 percent in 1982 to 7.3 percent in 1987.

The substantial increase in bank financing of the fiscal deficit in 1987, was accompanied by a strict implementation of credit ceilings for the other sectors (Table 3). Reflecting the contractionary impact of

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1/ Until 1982, 50 percent of the surplus was transferred to the Government as fiscal duty and 50 percent to the Coffee Stabilization Fund up to an amount equivalent to 10 percent of the ex-borders value. After that point, the remainder was also paid to the Government as fiscal duty. Since 1983, by government decree, the Stabilization Fund is not allowed to hold more than RF 5 million; the excess is automatically transferred to the Treasury. Conversely, the Treasury automatically provides for any lack of funds, in cases of intervention.

Table 2. Rwanda: Government Financial Operations, 1982-88 1/

(In billions of Rwanda francs)

	1982	1983	1984	1985	1986	1987 Prel.	1988 Budget
Revenue and grants	20.08	20.62	22.74	26.63	28.57	26.20	29.68
Total revenue	15.33	15.50	17.93	21.18	23.54	21.54	25.03
Tax revenue	13.13	13.72	16.14	18.76	21.47	20.00	21 71
On income and profits	3.02	3.28	3.22	3.57	3.64	4.01	4.46
On goods and services	4.01	4.43	4.77	5.77	5.94	6.89	7.84
On international transactions	5.82	5.75	7.81	9.01	11.47	8.65	8.80
Of which: coffee	(1.32)	(1.24)	(2.32)	(2.52)	(4.92)	(2.22)	(1.26)
Other tax revenue	0.27	0.26	0.33	0.40	0.42	0.45	0.60
Nontax revenue 2/	2.21	1.78	1.79	2.42	2.08	1.53	3.32
Grants	4.74	5.12	4.82	5.45	5.03	4.66	4.66
Total expenditure (commitment basis)	25.26	27.27	27.25	32.85	36.12	40.71	43.92
Current expenditure	14.44	15.97	15.44	17.32	20.19	23.40	23.82
Wages and salaries	7.44	7.74	8.22	8.75	9.49	9.92	9.63
Goods and services	4.79	4.78	4.49	4.81	5.93	5.64	5.57
Interest payments	0.60	0.71	1.06	1.23	1.40	1.70	2.42
On domestic debt	0.28	0.47	0.71	0.85	0.97	1.08	1.45
On external debt	0.32	0.24	0.35	0.38	0.42	0.62	0.97
Transfers 3/	1.69	2.82	2.11	2.34	2.82	5.37	6.19
Other unclassified expenditure 4/	-0.08	-0.08	-0.44	0.18	0.57	0.77	—
Capital expenditure	10.82	11.30	11.81	15.53	15.93	17.32	20.10
Development budget 5/	3.47	3.23	2.73	3.40	3.92	3.89	2.62
Extrabudgetary financed from abroad	7.35	8.07	9.08	12.14	12.01	13.43	17.48
Lending minus repayment	0.32	0.54	0.32	0.16	0.51	0.32	0.09
Deficit/surplus (commitment basis)	-5.50	-7.19	-4.82	-6.38	-8.06	-14.84	-14.33
Change in arrears (reduction -)	—	0.70	-0.35	-0.35	—	1.23	-1.23
Deficit/surplus (cash basis)	-5.50	-6.49	-5.17	-6.74	-8.06	-13.61	-15.56
Financing	5.50	6.49	5.17	6.74	8.06	13.61	15.56
Foreign (net)	2.09	2.55	3.59	6.03	6.03	8.20	9.25
Drawings	2.60	2.95	4.26	6.69	6.98	8.77	10.55
Amortization	-0.51	-0.40	-0.67	-0.66	-0.95	-0.57	-1.30
Domestic (net)	3.41	3.94	1.58	0.71	2.03	5.41	6.31
Banking system	1.79	2.18	0.81	-0.24	1.17	4.40	4.10
Other	1.62	1.77	0.77	0.95	0.86	1.01	2.21

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

1/ Figures may not add up because of rounding.
2/ Includes an adjustment-for-cash basis and unclassified operations.
3/ Includes transfers to OCIR-Café.
4/ Includes an adjustment for arrears.
5/ Includes capital expenditure in the current budget and in extrabudgetary accounts.

Table 3. *Rwanda: Monetary Survey, 1983-87*

	1983	1984	1985	1986	1987 Prel.
	(In millions of Rwanda francs; end of period)				
Foreign assets (net)	9,915.2	11,083.2	11,063.8	13,622.0	12,153.9
Assets	12,215.5	13,139.7	12,755.1	15,420.9	14,083.1
Liabilities	2,300.3	2,056.5	1,691.3	1,798.9	1,929.2
Domestic credit	13,098.5	14,592.4	17,743.0	17,438.8	21,462.4
Claims on Government (net)	3,211.8	3,005.2	2,975.2	2,718.1	6,781.3
Claims on private sector	9,886.7	11,587.2	14,767.8	14,720.7	14,681.1
Broad money	18,053.6	19,881.1	23,307.6	26,479.3	29,216.6
Narrow money	12,294.4	13,332.3	14,576.7	17,205.7	17,668.1
Quasi-money	5,759.2	6,548.8	8,730.9	9,273.6	11,548.5
Other items (net)	4,960.1	5,794.5	5,499.2	4,581.5	4,399.7
Memorandum items:	(Percentage change from previous year)				
Domestic credit	36.08	11.41	21.59	-1.71	23.07
Claims on Government (net)	314.32	-6.43	-1.00	-8.64	149.49
Claims on private sector	11.71	17.20	27.45	-0.32	-0.27
Broad money	17.76	10.12	17.23	13.61	10.33
	(Annual percentage change from broad money stock at end of previous year)				
Foreign assets (net)	-10.87	6.47	-0.10	10.98	-5.54
Domestic credit	21.50	8.27	15.85	-1.31	15.20
Claims on Government (net)	15.08	-1.14	-0.15	-1.10	15.34
Claims on private sector	6.41	9.42	16.00	-0.20	-0.15

Source: Data provided by the Rwandese authorities.

external transactions, domestic liquidity growth was contained at 10 percent (compared with nearly 14 percent in 1986). Velocity of circulation has declined sharply in recent years, probably due to generally positive real interest rates and low inflation rates, and generally increased monetization of the economy. After remaining unchanged since 1979, the interest rate structure was modified in July 1987, and generally lowered despite the rise in the inflation rate. As a result, the minimum lending rate was reduced from 6 percent to 3 percent and the maximum lending rate declined from 14 percent to 12 percent (or 9 percent for priority sectors). The minimum deposit rate was reduced from 6 to 3 percent but banks were permitted considerable upward interest rate flexibility depending on the size and maturity structure of the deposits.

The marked 37 percent deterioration in Rwanda's terms of trade in 1987, stemming from the substantial fall in international coffee and tea prices, led to a decline in export earnings of 40 percent in SDR terms (Table 4). The authorities responded to this shortfall by tightening further the restrictions on imports in the context of their annual import program, which gives priority to essential consumer goods, and inputs and spare parts for the productive sectors. As a result, despite the sharp rise in the trade deficit, imports declined by 7 percent. Nevertheless, the external current account deficit (excluding official transfers) reached a record level of SDR 194 million, equivalent to 12 percent of GDP, compared with about 10 percent in 1985-86. Although disbursements on public long-term debt to finance projects increased by over 25 percent, the balance of payments registered an overall deficit of SDR 14 million, compared with a surplus of SDR 25 million in 1986. As the deficit was financed entirely by a drawdown of the central bank's foreign assets, gross official reserves fell substantially, but remained at the equivalent of 5.6 months of the lower level of imports. Because of the increase in external debt amortization and the sharp decline in current receipts, the external debt service ratio rose markedly, to the equivalent of 14 percent of exports of goods and services, compared with 7 percent during 1985-86. At the same time, the ratio of total external debt to GDP increased to 27 percent at end-1987, compared with an average of 20 percent in the previous two years.

The Rwanda franc was pegged to the U.S. dollar at a fixed rate (US$1 = RF 92.84) from 1974 until September 1983, when the currency became pegged to the SDR at the fixed rate of SDR 1 = RF 102.71. Despite the shift, the real effective exchange rate continued to appreciate until the beginning of 1985 (Chart 1), reflecting the relatively large weight (42 percent) of the appreciating U.S. dollar in the SDR basket. Between end-1980 and end-1985, the effective exchange rate of the Rwanda franc appreciated by 80 percent in nominal terms and by 46 percent in real terms. Although it has declined since, the

Table 4. Rwanda: Summary Balance of Payments, 1983-87

(In millions of SDRs)

	1983	1984	1985	1986	1987 Prel.
Exports, f.o.b.	116.1	139.1	124.3	157.1	94.2
Of which: coffee	(76.3)	(91.2)	(92.0)	(131.2)	(81.3)
Imports, f.o.b.	-184.9	-192.6	-216.2	-220.7	-205.8
Trade balance	-68.8	-53.5	-91.9	-63.6	-111.6
Services (net)	-86.9	-85.6	-86.0	-100.8	-87.1
Private transfers	5.1	1.8	4.3	6.0	4.9
Current account balance	-150.6	-137.3	-173.6	-158.4	-193.9
Official transfers	105.1	96.8	110.5	99.8	92.5
Capital inflows (net)	27.0	48.4	63.6	86.5	90.0
Other items (net), including errors and omissions	—	3.6	-0.7	-3.1	-2.9
Overall balance	-18.5	11.4	-0.2	24.9	-14.3
Memorandum items:					
Current account deficit as percent of GDP					
Excluding official transfers	10.7	8.9	10.3	9.6	12.0
Including official transfers	3.2	2.6	3.7	3.6	6.3
Gross official reserves (in months of imports, c.i.f.)	5.6	5.3	4.4	5.6	5.6
Rwanda francs/SDR (period average)	100.86	102.71	102.71	102.71	102.71

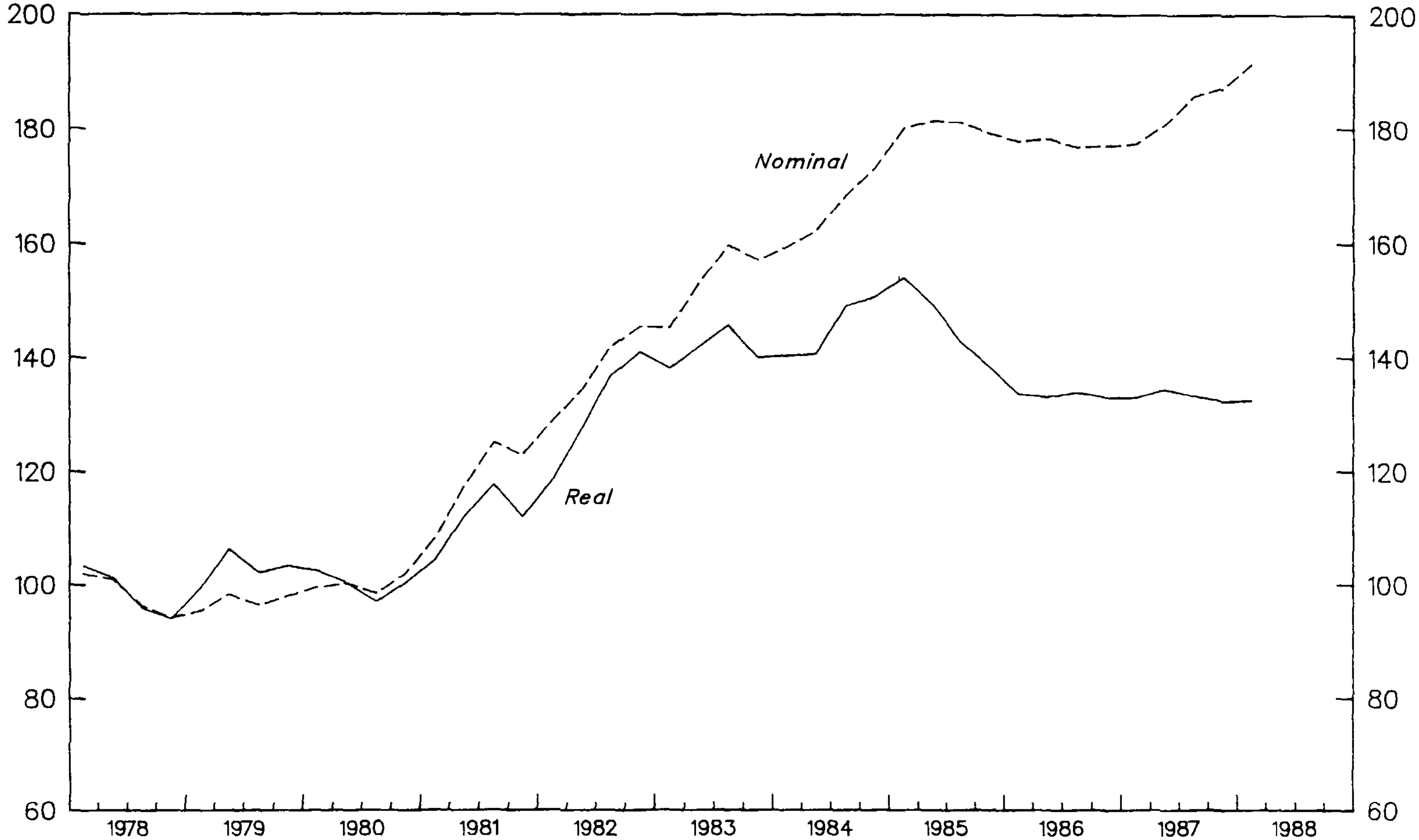
Sources: Data provided by the Rwandese authorities; and staff estimates.

CHART 1

RWANDA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1978 TO 1988

(Period average, 1980=100)



Source: Exchange and Trade Relations Department.

effective rate in May 1988 still indicated an appreciation in real terms of about 30 percent compared with the end-1980 level. 1/

Rwanda continues to maintain restrictions on payments and transfers for current international transactions that are subject to Fund approval under Article VIII. Although the advance import deposit requirement introduced in 1983 was abolished in October 1987, the importation of 16 consumer products is banned, 2/ and a rigorous system of import licensing is in effect. Moreover, foreign exchange availability for travel abroad for nonbusiness purposes has been suspended, while restrictions remain on transfers abroad of earned income by foreigners.

III. Report on the Discussions

The discussions focused on the economic and financial performance in 1987, the outlook for 1988, and the medium-term prospects, together with the policies that would be required to ensure financial viability and resumption of growth on a sustainable basis.

1. Medium-term projections

The medium-term projections assume that the authorities will attempt to contain the government deficit/GDP ratio and the inflation rate at the 1987 levels, and pursue an appropriately restrictive monetary policy. Rwanda's external position remains highly vulnerable over the medium term. The main area of uncertainty concerns the volume of coffee exports. During 1986-87, quotas under the International Coffee Agreement were suspended with the result that Rwanda was able to increase the volume of coffee exported by 27 percent in 1986 and by 12 percent in 1987 to 46,063 tons. With the reactivation of the agreement in October 1987, Rwanda's export quota in 1988 has been set at 28,200 tons. With maximum feasible sales to nonquota markets of about 6,000-7,000 tons, total export volume in 1988 is unlikely to exceed 35,000 tons, a decline of 24 percent compared with 1987. In the period 1989 to 1992, the annual coffee export volume growth is unlikely to exceed 2 percent. Based on staff commodity price projections prepared in the context of the WEO exercise, Rwanda's coffee export prices (in U.S. dollar terms) are projected to increase by 22 percent in 1988 following the sharp decline of 39 percent in 1987, and to rise by 2-3 percent per annum until 1992. As for tea, export volume is projected to rise by an average annual rate of about 8 percent during 1988-92.

1/ The year 1980 was selected as the base because the exchange rate was quite stable in real terms during most of the 1970s, and the 1980 level was comparable with adjacent years; at the same time, the external position was relatively sustainable.

2/ Mainly blankets, plastic products, radio sets, small agricultural implements, certain food products, cement, boxes, and some construction materials.

Tea prices are projected to increase by 5 percent in 1988 (after having fallen by 14 percent in 1987), and by about 4-5 percent per annum in the medium term. Mineral exports are not expected to resume until 1990, pending the rehabilitation of the mines, and other exports are not expected to increase their share in total export receipts. On this basis, total export earnings are projected to decline by nearly 5 percent in 1988, to SDR 90 million, and to increase thereafter by an annual average of 7 percent during the period 1989-92 (Table 5). 1/ It is assumed that imports will rise by about 3 percent in volume in 1988, because of the substantial drawdown of stocks that took place in 1987, and by at least 1.5 percent annually thereafter (consistent with an annual growth rate of real GDP of about 3 percent). On this basis, the trade deficit, which reached a record level of SDR 112 million in 1987, will widen further in the medium term. Following the increases projected for coffee and tea prices in 1988, the terms of trade are not expected to improve further during 1989-92.

The projections assume that public unrequited transfers and net long-term borrowing will increase only modestly during 1988-92, but that new capital inflows will continue to be contracted on highly concessional terms from multilateral and bilateral creditors, in line with the structure of Rwanda's existing external debt obligations (Table 6). With these assumptions, the current account deficit (excluding official transfers) is projected to remain at about 12 percent of GDP throughout the period 1988-92, despite the continued implementation of a strict program of import control. The overall external balance is projected to register successively larger deficits, resulting in a complete drawdown of gross official reserves by 1991-92. Because of the concessional nature of Rwanda's external debt, the debt service ratio is projected to average about 15 percent of exports of goods and services during 1988-92, compared with 6 percent during 1982-86 and 14 percent in 1987. The stock of outstanding external debt is projected to rise gradually to the equivalent of 40 percent of GDP by 1992, from 22 percent in 1986 and 27 percent in 1987.

Regarding reserve management policy, should the authorities decide to pursue their stated objective of maintaining a minimum level of gross official reserves of about RF 9 billion (equivalent to 5 months of imports, c.i.f.), this could be achieved only by further constraining imports. As a result, import volume would decline by about 3-4 percent annually during the period 1988-92, which would yield a level substantially below the volume required to satisfy the needs of the productive sectors and the demand for essential consumer goods. With the compression of imports, the budgetary position would deteriorate in the absence of effective measures to offset the decline in revenues from taxes on international trade. With a likely increase in the fiscal deficit in relation to GDP, and the projected small increase in net

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1/ Without a strengthening of relative price incentives, the export performance may turn out to be weaker than projected.

Table 5. Rwanda: Medium-Term Balance of Payments Projections, 1987-92

(In millions of SDRs)

	1987	1988	1989	1990	1991	1992
	Prel.	Projections				
Exports, f.o.b.	94.2	89.7	93.3	102.3	109.0	116.8
Of which: coffee	(81.3)	(69.3)	(72.2)	(75.8)	(79.5)	(83.8)
Imports, f.o.b.	-205.8	-205.9	-216.2	-226.9	-239.3	-252.4
Trade balance	-111.6	-116.2	-122.9	-124.6	-130.3	-135.6
Services (net)	-87.1	-91.2	-99.1	-107.3	-116.1	-123.7
Private transfers	4.9	5.0	5.2	5.4	5.6	5.8
Current account balance	-193.9	-202.4	-216.8	-226.5	-240.8	-253.5
Official transfers	92.5	94.8	97.2	99.6	102.1	104.7
Capital inflows (net)	87.1	91.1	96.2	100.4	103.4	105.9
Overall balance	-14.3	-16.5	-23.4	-26.5	-35.2	-43.0
Financing	14.3	16.5	23.4	26.5	35.2	43.0
Change in gross reserves (increase -)	14.3	16.5	23.4	26.5	35.2	14.9
Financing gap	—	—	—	—	—	28.1
Memorandum items:						
Current account deficit (as percent of GDP)						
Excluding official transfers	12.0	11.3	12.0	11.8	11.9	11.9
Including official transfers	6.3	6.3	6.6	6.6	6.9	7.0

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

Table 6. Rwanda: Medium-Term External Debt Projections, 1986-92

(In millions of SDRs)

	1986	1987	1988	1989	1990	1991	1992
			Projections				
Outstanding debt,							
beginning of period	317.9	359.2	439.1	512.3	590.1	671.6	755.7
Drawings	67.4	85.4	88.0	90.6	93.3	96.1	99.0
Amortization	9.2	13.6	14.8	12.8	11.7	12.0	12.9
Adjustments	-16.9	8.1	—	—	—	—	—
Debt at end of period	359.2	439.1	512.3	590.1	671.6	755.7	841.8
Interest	4.6	5.7	6.7	7.7	8.8	9.9	11.0
Average debt	338.5	399.2	475.7	551.2	630.8	713.7	798.8
Average interest (in percent)	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Debt service	13.8	19.3	21.5	20.5	20.5	21.9	23.9
Exports							
Goods	157.1	94.2	89.7	93.3	102.3	109.0	116.8
Services	44.9	42.6	40.2	39.2	38.3	37.5	38.1
Total	202.0	136.8	129.9	132.5	140.6	146.5	154.9
Debt service ratio	6.8	14.1	16.5	15.5	14.6	14.9	15.4
Ratio of outstanding debt (to GDP)	21.8	27.1	29.8	32.6	35.1	37.4	39.5

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

foreign resources, bank financing of the public sector is expected to crowd out even further private sector demand for credit. The sharp increase in government recourse to bank credit would lead to an expansion in domestic liquidity that would be incompatible with the pursuit of price stability.

On the other hand, if the appreciation of the exchange rate were substantially reversed, the trade deficit would decline over the medium term with a stronger expansion of exports and a growth rate of import volume that is roughly in line with real GDP growth. 1/ In the short run, however, a deterioration of the trade balance cannot be excluded since the elimination of import controls would help satisfy the import demand that is currently repressed. Over a longer period, domestic production of import substitutes would be stimulated, reflecting improved competitiveness of the manufacturing sector. A strengthening of the financial position of the Government is also likely, resulting from both the increase in taxes on international trade and the reduction in transfers to the Stabilization Fund. To some extent, the devaluation would initially be translated into a rise in domestic prices; the inflationary impact, however, could be moderated by the import liberalization process as well as by the adoption of appropriate restrictive policies with respect to wages and overall demand management.

The staff's discussions with the authorities were held in light of these difficult medium-term prospects, and the policy recommendations reflect the need to redress on an urgent basis the growing financial imbalances and structural distortions in the economy.

2. Production policies

With an area of 26,000 square kilometers inhabited by 6 million people, Rwanda has one of the highest population densities in Africa. As a result of the population pressure, and the increasing subdivision of farm plots, farming practices have led to a reduction in soil fertility. The Government has taken a number of steps to promote extension and information services to encourage producers to use more appropriate farming techniques and to discourage farm fragmentation, and intends to intensify efforts to arrest and reverse soil erosion. In addition, a number of agricultural research centers have been set up to study soil types in various parts of the country to determine the optimum cropping patterns, and the Government is making efforts to reclaim land in the uncultivated swamp areas. Concerned about the scarcity of arable land and the need to introduce new crops to help diversify the productive base of the economy away from coffee and tea, the Government has promoted the cultivation of pyrethrum and cinchona. Neither of these products, however, has yet exerted a significant impact on export

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1/ During the five-year period 1983-87, real imports grew at an average annual rate of about 5 percent while real GDP growth averaged less than 2 percent.

earnings largely because of competition from synthetic substitutes, though pyrethrum is expected to benefit from the recent discovery of certain noxious substances in the synthetic product.

The authorities indicated that their main objectives in the agricultural sector remained unchanged, viz., self-sufficiency in food production, improvement in wages and standards of living, and strengthening of the coffee and tea sectors, combined with a policy of diversification of the export base. In contrast to the favorable output of foodstuffs in 1986, production in 1987 was adversely affected by floods in several parts of the country, which contributed to inflationary pressures. The authorities are currently considering various means of strengthening the mechanism for determining official prices for agricultural crops, which are essentially of an indicative nature. The staff team advised against the introduction of excessive rigidity in the price determination system which should be left largely to market forces.

Two large parastatal bodies are responsible for the collection, processing, and marketing of coffee (OCIR-Café) and tea (OCIR-Thé). Although coffee export volume rose sharply in both 1986 and 1987 to record levels, the substantial decline in the international price of coffee in 1987 led to a precarious financial situation for OCIR-Café; as a result, the enterprise needed RF 3 billion in subsidies from the Treasury to cover its operating losses. As far as OCIR-Thé is concerned, the financial performance has been unfavorable over a longer period because of poor management (particularly overstaffing) and the low level of capacity utilization; the enterprise has been unable to meet fully its current expenditure commitments, and has incurred arrears to the Government on the servicing of publicly guaranteed external loans. Although some efforts have been made to reduce current outlays, especially on wages, and to increase tea acreage in order to expand the currently low level of capacity utilization in the tea factories, the financial viability of the tea sector remains uncertain. The staff representatives stressed the need to implement a pricing policy for producers that combined flexibility with realism by taking more explicitly into account developments in world commodity markets and domestic budgetary constraints, and the possible advantages of a flexible exchange rate policy.

The performance of the manufacturing sector, which is dominated by publicly-owned agro-based and import-substitution industries, has been constrained by the small size of the domestic market, as well as by management and technical inadequacies and overdependence on imported inputs. As a result, domestic value added has been marginal and production in several areas economically unviable. Consequently, many domestic manufacturing enterprises are able to operate only because of a complete ban on competing imports; the number of such banned imported products has risen from 7 in 1985 to 16 in 1988. In the light of the currently low levels of capacity utilization in the manufacturing sector, and the need for sustained protection in several cases, the authorities have decided to grant future licenses for industrial development only when it has been established that the proposed investment is likely to be financially viable without the need for protection against competing imports. In addition, the new Investment Code eliminates the relative disincentives to foreign investors and encourages investment in the provinces. Nevertheless, the Rwandese representatives indicated that some sectors would continue to benefit from complete prohibition on certain imports or appropriate levels of tariff protection. The staff representatives cautioned against excessive reliance on protection and stressed the need to improve the productivity and profitability of the traded goods sector by the adoption of more appropriate pricing and exchange rate policies.

With regard to the mining sector, production by the mining company ceased in 1985 when the tin processing factory closed down. The Government is in the process of reorganizing the industry. In addition to a new mining company that is expected to be incorporated in July/August to restart the exploitation of the mines, several cooperatives have also been established. However, the balance of payments is not expected to benefit from the resumption of mineral exports before 1990.

Regarding energy policy, the Rwandese authorities informed the mission that domestic prices of all imported petroleum products had remained unchanged over several years through the operation of a variable levy whereby the budget had benefited from the recent decline in the world price of oil. Despite the stagnation of prices at the retail level, petroleum products are relatively expensive in Rwanda (at about US$3.25 per gallon), partly because of the high insurance and freight costs for a landlocked country. In order to reduce the dependence on imported energy products, the Government is implementing a project to develop gas deposits in one of the lake districts for use in a new electricity-generating plant. The staff cautioned that the recent decision to reduce electricity tariffs by 9-29 percent with effect from 1988 (after several years of unchanged tariffs) might undermine the financial position of the electricity company, or even encourage wasteful consumption.

The Rwandese representatives stated that considerable delays had been experienced regarding the new Five-Year Plan because of the institution of a highly decentralized procedure that required the participation of the population at various levels. As a result of the delays, an interim investment program was implemented in 1987. It was expected that the Fourth Plan, covering the period 1988-92, would be ready toward the end of the year. The main economic objectives of the Plan will remain self-sufficiency in food, a more rational utilization of land, and improvement of the agricultural and livestock sectors; a more balanced development of industrial and artisanal production; greater incentives to cooperatives to promote output and marketing; a more efficient transport and communication infrastructure to help achieve food self-sufficiency; and more regional balance in the development program. The mission urged the authorities to expedite the preparation of the Plan, and stressed the need for a coherent macroeconomic policy framework as a basis for appropriate project selection and implementation. Moreover, it was important to ensure that the selection of projects and the financing of the Plan did not lead to excessive recurrent outlays or an unsustainable public debt service burden.

3. Fiscal policies

The government budgetary accounts for 1988 have benefited from the explicit inclusion for the first time of transactions relating to projects financed by foreign loans and grants. The mission has adjusted the data for prior years to include these transactions.

On the basis of the 1988 budget, the fiscal outlook would appear to be more difficult than in 1987. Despite efforts to raise taxes and restrain certain items of current expenditure, the overall deficit on a commitment basis and including grants is envisaged to decline only marginally to RF 14.3 billion, equivalent to 8.1 percent of GDP, compared with 8.9 percent in 1987, largely because of the continued provision of large subsidies (RF 3.3 billion) to the Coffee Stabilization Fund and a projected 16 percent increase in capital expenditures. If account is taken of the need to liquidate the domestic arrears accumulated last year, financing of the fiscal deficit would require more external assistance and borrowing from the banking system and other domestic financial institutions. The staff representatives stressed that the fiscal deficit was unsustainable and incompatible with the pursuit of relative price stability with growth, and that the adjustment of the exchange rate would improve the financial position of the Stabilization Fund as well as generate other benefits. The Rwandese authorities indicated that in view of the difficult fiscal situation negotiations were being undertaken to reschedule the domestic public debt, which consists mainly of development bonds and treasury bills.

Several revenue measures are included in the 1988 budget aimed at compensating for the loss of revenue arising from lower coffee exports and the continued restraint on imports. These measures, which include tax increases on vehicles, beer, soft drinks, and domestically produced cigarettes, and higher import duties on petroleum products, as well as a strengthening of tax arrears collection procedures, are expected to yield RF 1.3 billion. The Government has also adopted certain expenditure-containing measures, including a freeze on wages and salaries and a net reduction in civil service employment that could lead to a 3 percent reduction in the wage bill, a freeze on transfers to parastatals and decentralized government agencies, and a 1 percent reduction in expenditure on goods and services. The impact of these measures, however, will be largely offset by the increase in interest obligations and transfers to the Stabilization Fund, and the sizable growth in capital outlays.

The staff representatives urged the authorities to adopt measures to reduce the fiscal deficit more rapidly by intensifying efforts to improve resource mobilization and curtail expenditure. The mission suggested that the tax revenue base could be broadened to reduce the excessive reliance on coffee, and that the tax system and its administration could be improved; in particular, a consolidation of the taxable income base would result in increased taxation of higher incomes and multiple-income earners, while the current sales tax could be restructured to become more efficient. On the expenditure side, the staff representatives cautioned against too rapid a rate of expansion of capital expenditure in view of the growing indebtedness of the public sector, both domestic and external, and stressed the need for a thorough and careful review of investment projects to ensure their profitability and necessity. The staff representatives also expressed concern regarding the rise in transfers to the Coffee Stabilization Fund in support of producer prices, and suggested that a more appropriate exchange rate policy would restore the profitability of the export sector more effectively and eliminate the budgetary burden. A reversal of the effective exchange rate appreciation would have been sufficient to restore the viability of the coffee sector in 1988, as well as alleviate the budgetary burden from subsidies.

The Rwandese representatives indicated that the income base was already consolidated for the calculation of the tax liabilities of businesses, and that a consolidation of incomes from salaries and other sources would unduly penalize salaried workers who already faced an excessive tax burden. Regarding the sales tax, they pointed out that receipts had suffered a shortfall because of misinterpretation of the relevant tax laws by revenue inspectors and by taxpayers, and that efforts were being made to rectify the situation. Given the need to ensure proper funding for priority expenditures, the Government had created special funds that were operated on an extrabudgetary basis; for example, the Road Fund had been created to finance road maintenance through a special tax on petroleum products. The staff representatives cautioned that the creation of such funds could reduce the transparency of government operations, and emphasized that sound fiscal management required the consolidation into the budget of all central government operations, including those of the Road Fund and subsidies to the Coffee Stabilization Fund.

4. Monetary policies

The authorities have continued to implement monetary policy actively in order to control the rate of domestic credit expansion, by setting limits on bank credit both by individual banks and by economic category. Seasonal bank credit for agricultural crops is not subject to any ceiling, whereas the credit ceiling for other categories is related for each bank to the changes in the deposit base of the bank during the preceding period. Despite these regulations, credit expansion was rapid in 1987, mainly because of the substantial increase in bank financing of the fiscal deficit, which significantly exceeded the statutory limits.

The Rwandese representatives indicated that, apart from the credit limits for the commercial banks (which were established on a semiannual basis to permit any required corrections in the second half of the year), the central bank also actively enforced a policy of prior approval of large loans provided by the commercial banks; the ceiling for such prior approval has now been raised from RF 10 million to RF 15 million. In 1987 the central bank also expanded the category of credits eligible for rediscounting; these now include all commercial loans, in addition to credit to the coffee and tea sectors. This new provision, however, has had only a minimal impact on the level of rediscountable credits because of the commercial banks' excess liquidity.

With regard to interest rates, the Rwandese authorities pointed out that, following the low levels of inflation recorded in 1985-86, there had been demands by both banks and borrowers for a reduction in rate levels, since real interest rate levels had become high. They stated that the lending rates were discouraging borrowing for investment activity, while the relatively high deposit rates made banks reluctant to accept new savings and time deposits. Accordingly, the interest rate structure was simplified in 1987 and the minimum interest rates were lowered for both lending and deposit operations. However, the authorities indicated that in practice, deposit rates granted by commercial banks were higher than the minimum rate, which helped ensure positive interest rates in real terms.

The Rwandese representatives stated that the National Bank had in 1987 abandoned the practice of providing forward cover for the export receipts of the coffee sector, by which the Bank had guaranteed the exchange rate prevailing on the date of contract agreement, and thus assumed the risk of exchange rate fluctuations until the date of effective payment. With the sharp depreciation of the U.S. dollar vis-à-vis the Rwanda franc in 1986-87, the Bank had incurred sizable losses from this practice. The staff team welcomed this change in policy, which implied that the coffee sector was now absorbing exchange rate fluctuations in line with the rest of the traded goods sector.

5. External sector policies

With regard to the external sector, the Rwandese representatives indicated that there had been only a few changes in the exchange and trade system. Imports continued to be regulated by a very detailed import programming list, and a complete import ban was currently in effect for 16 commodities. Advance import deposit requirements had been introduced in 1983, but became interest-bearing only in July 1984, thereby eliminating the multiple currency practice. With effect from 1986, the advance deposit requirement was abolished for imports from neighboring countries, which were members of various regional economic groupings. As the import programming and licensing procedures have been effective in controlling the level and composition of imports, the central bank decided to abolish all advance import deposit requirements with effect from October 1987.

Concerning the exchange rate, the authorities attributed the low inflation record since 1983 partly to the pegging of the Rwanda franc to the SDR, and favored the simplicity of operation of the current system. The mission reiterated the staff's long-standing position that appropriate action to correct the substantial appreciation of the exchange rate in real effective terms since 1980 was necessary to improve the external competitiveness of Rwandese products, and to broaden the productive base of the economy. Moreover, the external medium-term prospects were not favorable in light of likely price developments and constraints on coffee export volume. At the same time, neighboring countries had adopted more flexible exchange rate policies to achieve substantial depreciations in both nominal and real terms. An exchange rate adjustment was probably the most effective instrument available for restoring the profitability of the coffee and tea sectors, while simultaneously improving the competitiveness of manufacturing enterprises.

While the authorities were generally in agreement with the mission's assessment, they stressed that policy implementation should be related to domestic economic and social constraints. The authorities remain concerned about the possible inflationary consequences of a devaluation, and are skeptical about a significant positive supply response in the context of the Rwandese economy. Furthermore, they referred on several occasions to the devaluation-inflation cycle that they had observed in many neighboring countries. Despite these reservations, they have proceeded with their own study to examine in detail, and assess quantitatively, the various positive and adverse consequences of an exchange rate adjustment. Accordingly, they indicated that they were unable at this stage to respond to the recommendations contained in the exchange rate study conducted by the Fund staff and submitted to the authorities last year.

The staff representatives emphasized that the initial inflationary effects could be dampened and the beneficial relative price changes preserved if an exchange rate adjustment were accompanied by appropriate wage, fiscal, and monetary policies. Moreover, the adoption of a currency basket based on Rwanda's trading partners and competitors could be used to implement a flexible exchange rate policy which, after the initial correction of the real appreciation, could help to minimize the need for subsequent sharp adjustments in the exchange rate. The staff stressed the desirability of timely action in view of the potentially severe external payments difficulties that the medium-term projections reveal.

IV. Staff Appraisal

Economic performance in Rwanda was generally satisfactory during the period 1985-86, when favorable weather conditions helped stimulate agricultural production and moderate inflationary pressures, with overall output registering significant growth. Moreover, with relatively prudent financial policies, the budgetary deficit was contained to manageable levels, and a sharp increase in international coffee prices led to a record balance of payments surplus in 1986. In 1987, however, the economic and financial situation deteriorated markedly as international coffee prices fell sharply, and domestic production of foodstuffs declined because of adverse weather conditions.

The authorities' efforts at diversifying the productive base of the economy have so far met with little success. Agricultural output is constrained by a scarcity of arable land and productivity is hampered by extensive soil erosion and lack of adequate inputs. The cultivation of the new export crops (pyrethrum and cinchona) has been adversely affected by unfavorable international price developments. As a result, the economy has remained heavily dependent on the coffee and tea sectors. Moreover, as the international price of coffee has fallen substantially compared with 1986, the coffee sector has incurred large losses, necessitating sizable subsidies from the Government to finance the operating costs of the Stabilization Fund. The tea sector is also facing financial problems. The production of tin ceased in 1985 with the closing down of the tin processing plant. Output of tin is not expected to resume until about 1990. The manufacturing sector has been characterized by low capacity utilization and many enterprises are not economically viable; production in several cases is made possible only by substantial protection against foreign competition, including a ban on the importation of several goods. The efforts to rehabilitate the public enterprises have improved the performance of this sector only marginally.

Under these circumstances, the policy of restricting imports in order to achieve equilibrium in the balance of payments will have adverse effects on economic growth. In fact, the situation requires an economic and financial adjustment strategy aimed at stimulating productive activities and domestic savings, especially in the public sector. A critical element of this strategy would be the restoration of international competitiveness by correcting the exchange rate appreciation since 1980 and by reducing pressures on domestic costs of production. In this context, the authorities should expedite the formulation and preparation of the Fourth Development Plan, ensuring that a coherent macroeconomic policy framework is developed as the basis for appropriate project selection and implementation; in addition, the financing of investment expenditure should be carefully assessed in order to minimize future recurrent outlays and the debt-servicing burden, and to avoid excessive dependence on external assistance.

In the budgetary area, the fiscal deficit on a commitment basis averaged about 4-5 percent of GDP until 1986. However, in 1987, in the absence of sufficient adjustment measures, the sharp coffee-induced decline in revenues was compounded by the continued expansion of both current and capital outlays, resulting in an overall deficit equivalent to 9 percent of GDP. The expenditure momentum generated by the boom in coffee prices in 1986 was not reversed in 1987 despite a decline in revenue estimated at about 1 percent of GDP. The 1988 budget projects an overall deficit on a commitment basis only marginally below last year's level, reflecting mainly the continued provision of subsidies to the Coffee Stabilization Fund and a sharp increase in capital expenditure. Although some adjustment measures have been adopted to offset the loss of revenue from lower coffee export earnings and lower taxes on imports, the staff would urge the authorities to adopt more wide-ranging measures to broaden the revenue base and to contain outlays. On the revenue side, the tax structure and administration (especially with respect to the sales tax) need strengthening, while a consolidation of the taxable income base would generate greater revenues from higher-income and multiple-income earners. On the expenditure side, the authorities need to review the investment program and concentrate on viable projects, given the rapidly rising debt service obligations. The sharp increase in transfers and subsidies in 1987-88 is also a major source of concern; this category of expenditure is budgeted to rise to RF 6.2 billion (of which RF 3.3 billion would be used to support producer prices), from RF 1.7 billion in 1982. The staff would urge the authorities to restore the financial viability of the Stabilization Fund by adopting a more appropriate exchange rate policy instead of relying exclusively on budgetary transfers.

While welcoming the improvement in budgetary accounting procedures resulting from the inclusion in the budget of transactions relating to projects financed by external resources, the staff is concerned about the creation of special funds to which earmarked revenues are allocated. The creation of such funds, which normally operate on an extra-budgetary basis, should be avoided to improve fiscal transparency and promote sound budgetary management.

The authorities have followed generally prudent monetary and credit policies in the 1980s. Nevertheless, the sharp expansion in bank financing of the fiscal deficit in 1987-88 is likely to generate additional inflationary pressures or the crowding out of the private sector. Credit to certain nonpriority sectors has been contained by a strict implementation of credit ceilings. In response to the relatively low rates of inflation over several years, and repeated requests by banks and borrowers, the central bank simplified the interest rate structure in 1987 and reduced all borrowing and lending rates. The staff representatives believe that interest rate policy should be more flexible and that adjustments should be made in order to ensure that interest rates are positive in real terms, to encourage savings and domestic resource mobilization, and to promote efficiency in resource allocation.

With regard to external policies, the staff welcomes the elimination of the advance import deposit requirement. However, it is concerned about the increase in the number of products subject to outright import prohibition, and the continued inefficiency it fosters in the domestic manufacturing sector. With the pegging of the Rwanda franc to the U.S. dollar until 1983 and to the SDR since then, the real effective exchange rate appreciated significantly until 1985; although it has depreciated since then, the effective exchange rate in May 1988 still suggested an appreciation in real terms of about 30 percent compared with the end-1980 level. The staff believes that a reversal of the real appreciation is required to improve external competitiveness and help in the effort to diversify the productive base. Moreover, it would be necessary to accompany an initial discrete adjustment of the rate by the adoption of a new basket of currencies that reflects more accurately Rwanda's competitors and trading partners.

In 1987 the central bank eliminated forward cover arrangements that it had provided for exports of coffee, thus removing the implicit multiple currency practice, and it also abolished all advanced import deposit requirements. Rwanda maintains restrictions on payments and transfers for current international transactions subject to approval under Article VIII; most imports not financed with own foreign exchange are controlled, and the prior approval of the central bank is required for all payments for invisibles. Moreover, foreign exchange availability for travel abroad is limited to business purposes, while restrictions remain on transfers abroad of earned income by foreigners. The staff believes that the authorities should be encouraged to eliminate these restrictive practices; in the meantime, Executive Board approval is not recommended.

It is recommended that the next Article IV consultation be held on the basis of the standard 12-month cycle.

RWANDA: Relations with the Fund
(As of July 31, 1988)

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 36.20 million (82.7 percent of quota)
(c) Reserve tranche position	SDR 7.56 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	

Arrangement	Date	Duration	Amount	Utilization
Stand-by	October 31, 1979	12 months	SDR 5 million	--

IV. SDR Department

(a) Net cumulative allocation	SDR 13.7 million
(b) Holdings	SDR 7.95 million (58.0 percent of net cumulative allocation)

RWANDA: Relations with the Fund (concluded)
(As of July 31, 1988)

V. Administered accounts

Trust Fund loans

(a) Disbursed	SDR 10.69 million
(b) Outstanding	SDR 3.59 million

VI. Overdue Obligations to the Fund — None

B. Nonfinancial Relations

VII. Exchange rate arrangement

The Rwanda franc has been pegged to the SDR at the rate of SDR 1 = RF 102.71 since September 6, 1983.

VIII. Last Article IV Consultation

Discussions were held by the staff in Kigali during the period February 13-27, 1987. The staff report (SM/87/102, 05/07/87) was discussed by the Executive Board on June 1, 1987.

IX. Technical Assistance

1983: FAD mission on Tax Survey

1984-87: CBD Expert - National Bank of Rwanda
Since 1987: CBD Expert - National Bank of Rwanda

X. Resident Representative: None

RWANDA: Relations with the World Bank Group

Over the past five 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 along sectoral and subsectoral adjustment lines to identify policy, institutional, and procedural reforms that could provide the basis for the preparation of sectoral adjustment credits or other policy-based lending for fiscal year 1988 and after.

Rwanda is eligible for IDA credits, which are mostly for the financing of projects in infrastructure, agriculture, livestock, and forestry. Three IFC loans for tea processing and marketing were made in 1976, 1980 and 1985. An IBRD resident mission has been maintained in Kigali since 1979.

RWANDA: Status of World Bank Group Operations

A. Statement of IDA Credits 1/
(As of March 31, 1988)

Loan or Credit number	Year Signed	Borrower		Amount in US$ million Disbursed	Undisbursed
1. Fifteen credits fully disbursed				123.69	--
2. Ongoing projects					
1126	1981	REP. OF RWANDA	Coffee & Foodcrop Improvement	15.0	0.53
1217	1982	MIN. OF PLANNING	Technical Assistance	5.00	0.99
1250	1982	MIN. PUBLIC WORKS	Fifth Highway	25.90	6.24
1263	1982	REP. OF RWANDA	Second Education	10.00	4.22
1283	1983	GOVT. OF RWANDA	Bugesara & Gisaka Migongo	16.30	3.87
1344	1983	GOVT./BRD	Third BRD	7.00	2.08
1345	1983	GOVT./ELECTROGAZ	Water Supply	13.00	0.33
1420	1983	REP. OF RWANDA	Ruzizi II Regional Hydroelec	15.00	1.93
1546	1985	GOVT. OF RWANDA	Agricultural Research	11.50	9.85
1565	1985	GOVT. OF RWANDA	Technical Assistance	4.80	5.70
1641	1986	MIN. PUBLIC WORKS	Sixth Highway	11.00	14.04
A008-0	1986	MIN. PUBLIC WORKS	Sixth Highway (SFA)	15.00	10.10
1650	1986	GOVT./BRD	Fourth BRD	9.00	11.79
1669	1986	GOVT. OF RWANDA	Gitamara Agric. Dev.	12.70	12.67
1678	1986	REP. OF RWANDA	Family Health	10.80	12.43
1683	1986	REP. OF RWANDA	Third Education	15.60	18.04
* 1783	1987	REP. OF RWANDA	2nd Water Supply	15.00	16.51
* 1796	1987	REP. OF RWANDA	Sectoral Pre-Investment Studies	7.40	8.19
* 1811	1987	REP. OF RWANDA	2nd Integrated Forestry	14.10	15.26
*A008-1	1988	MIN. PUBLIC WORKS	Sixth Highway Supplement (SFA)	10.00	11.10
		Subtotal 16 active projects		244.10	165.87
		Total less cancellations:		367.79	
		Of which has been repaid		2.59	
		Total outstanding excluding undisbursed:		365.20 3/	
		Amount sold:		4.38	
		Of which has been repaid		4.38	
		Total now held by Bank and IDA (1):		255.12 3/	
		Total undisbursed:		165.87 3/	

1/ Rwanda has received no Bank loan.
2/ U.S. dollar amounts are computed at rate of negotiations dates for original principals whereas the current rate is applied to the undisbursed amounts.
3/ Because of the depreciation of the U.S. dollar vis à vis the SDR (i) it is possible that the Undisbursed amount is higher than the original amount; and (ii) the sum of Total now held by IDA and Bank and total undisbursed is higher than total outstanding.
* Not yet effective.

RWANDA: Status of World Bank Group Operations (concluded)

B. Statement of IFC Investments in Rwanda
(As of March 31, 1988)

IFC's existing investments in Rwanda consist of one investment in Sorwathé and two investments in its predecessor companies, SIRT and USINE. Details are as follows:

(In millions of U.S. dollars)

Investment Number	Fiscal Year	Obligor	Type of Business	US$ million Equity	Loan	Total	Total Held by IFC	Undisbursed
337-RW	1975	Sorwathé)	Tea processing and marketing	-	0.53	0.53	0.16	--
470-RW	1979	Sorwathé)		0.06 1/	0.23	0.29	0.09	--
764-RW	1985	Sorwathé)		--	0.29	0.29	0.32	--
Total				0.06 1/	1.05	1.11	0.57	--

Source: Data provided by the World Bank.

1/ Canceled in July 1984.

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 review of the country's basic data sources by a technical assistance mission, which is scheduled to visit Rwanda in the second half of 1988.

b. Government finance

No government finance data are currently published in IFS. The last year of central government finance data published in the Government Finance Statistics Yearbook (GFSY) relates to 1980. No data for local governments are published in the GFSY.

c. Monetary accounts

Financial data reported for the IFS is now fairly current and the Bureau is awaiting the response from the Governor of the Banque Nationale du Rwanda on the comprehensive review of the compilation of financial data being undertaken by the bank.

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 August 1988 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the National Bank of Rwanda, which during the past year have been provided on an irregular basis, although the currentness of the data has improved.

Status of IFS Data

		Latest data in August 1988 IFS
Real Sector	- National Accounts	1986
	- Prices: CPI	December 1987
	- 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	March 1988
	- Deposit Money Banks	March 1988
	- Other Financial Institutions	March 1988
Interest Rates	- Discount Rate	March 1988
	- Bank Lending/ Deposit Rate	March 1988
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade	
	Values: Prices:	December 1987
	Total exports	Q2 1987
	Coffee, tea exports	December 1987
	- Balance of Payments	1986
	- International Reserves	June 1988
	- Exchange Rates	February 1988

RWANDA - Basic Data

Area, population, and GDP per capita

Area	26,338 kilometers
Population	
Total (1983 estimate)	5.7 million
Growth rate	3.7 percent
GDP per capita (1983)	SDR 249

	1982	1983	1984	1985	1986	1987 Prel.
Gross domestic product and expenditure			(In billions of Rwanda francs)			
GDP at 1985 constant prices	163.12	173.02	166.15	173.66	181.09	176.07
Of which: primary sector 1/	(74.65)	(77.91)	(71.04)	(72.67)	(73.11)	(70.55)
secondary sector	(33.79)	(39.78)	(38.47)	(40.29)	(42.11)	(42.76)
tertiary sector	(51.59)	(52.33)	(52.19)	(55.23)	(60.65)	(58.43)
Gross domestic expenditure at current prices	149.17	157.28	172.90	191.36	185.13	185.95
Private consumption	108.98	121.34	131.52	141.74	137.96	138.25
Public consumption	16.91	16.71	16.24	19.57	20.13	19.80
Gross fixed investment and changes in stocks	23.28	19.23	25.14	30.05	27.04	27.90
Resource gap at current prices 2/	-18.25	-15.12	-13.79	-17.71	-16.15	-19.44
Price indices			(Percentage change)			
GDP deflator	6.6	2.4	16.6	4.4	-6.7	1.35
General consumer price index (average)	12.6	6.6	5.4	1.7	-1.1	4.1
Export price index (in US$ terms)	16.8	1.8	16.2	-11.8	23.4	-34.3
Import price index (in US$ terms)	10.6	-4.2	-12.4	2.5	9.3	4.6
Government finance			(In billions of Rwanda francs)			
Total revenue and grants	20.08	20.62	22.74	26.63	28.57	26.20
Of which: tax revenue	(13.13)	(13.72)	(16.14)	(18.76)	(21.47)	(20.00)
Budgetary expenditure	25.26	27.27	27.25	32.85	36.12	40.71
Current	(14.44)	(15.97)	(15.44)	(17.32)	(20.19)	(23.40)
Capital	(10.82)	(11.30)	(11.81)	(15.53)	(15.93)	(17.32)
Of which: externally financed	(7.35)	(8.07)	(9.08)	(12.14)	(12.01)	(13.43)
Net lending	0.32	0.54	0.32	0.16	0.51	0.32
Overall deficit on a commitment basis	-5.50	-7.19	-4.82	-6.39	-8.06	-14.84
Domestic financing	3.41	3.94	1.58	0.71	2.03	5.41
Of which: banking system	(1.79)	(2.18)	(0.81)	(-0.24)	(1.17)	(4.40)
External financing (net)	2.09	2.55	3.59	6.03	6.03	8.20
Money and credit (end of period)						
Foreign assets (net)	11.67	9.92	11.08	11.06	13.62	12.15
Domestic credit	9.63	13.10	14.59	17.74	17.43	21.46
Claims on Government (net) 3/	0.78	(3.21)	(3.01)	(2.98)	(2.72)	(6.78)
Claims on private sector	(8.85)	(9.89)	(10.97)	(14.09)	(14.08)	(14.68)
Of which: coffee-related credit	(2.55)	(2.18)	(2.99)	(4.61)	(4.75)	(...)
Money	11.44	12.30	13.33	14.58	17.21	17.67
Quasi-money	4.71	5.76	6.55	8.73	9.27	11.55
Other items (including medium- and long-term loans)	5.14	4.96	5.79	5.50	4.58	4.40

1/ Including the subsistence sector.
2/ Exports of goods and nonfactor services minus imports of goods and nonfactor services.
3/ Including Treasury balances with the central bank, as well as special deposit accounts held by a number of public administrative units.

RWANDA - Basic Data (concluded)

	1982	1983	1984	1985	1986	1987 Prel.
	(In millions of SDRs)					
Balance of payments						
Exports, f.o.b.	98.2	116.1	139.1	124.3	157.1	94.2
Of which: coffee	(61.9)	(76.3)	(91.2)	(92.0)	(131.1)	(81.3)
Imports, f.o.b.	-194.4	-184.9	-192.6	-216.2	-220.6	205.8
Of which: petroleum	(28.4)	(32.7)	(33.6)	(33.2)	(28.6)	(17.5)
Trade balance	-96.2	-68.8	53.5	91.9	63.6	-111.6
Services (net)	82.0	-86.9	-85.6	-86.0	-100.8	-87.1
Unrequited transfers (net)	99.5	110.2	98.6	114.8	105.8	97.4
Current account balance	-78.7	-45.5	-40.5	-63.1	-58.6	-101.4
Capital (net) 1/	40.7	27.0	51.9	62.9	83.5	87.1
Overall surplus or deficit (-)	-38.0	-18.5	11.4	-0.2	24.9	-14.3
Gross official reserves (end of period)						
SDR holdings	10.8	8.4	8.3	8.2	8.1	8.0
IMF reserve position	7.3	9.6	9.6	9.3	9.3	9.3
Foreign exchange	99.9	87.9	90.6	85.4	115.4	99.2
Total	118.1	106.0	108.5	102.9	132.8	116.5
Exchange rate of the Rwanda franc per SDR						
End of period	102.41	102.71	102.71	102.71	102.71	102.71
Period average	102.50	100.86	102.71	102.71	102.71	102.71
Nominal trade-weighted effective exchange rate (1980 = 100)	137.6	153.7	165.7	180.5	177.5	182.8
Real trade-weighted effective exchange rate (1980 = 100)	130.8	141.5	145.2	146.0	133.4	133.2

Social and demographic indicators

Population characteristics (1985)

Life expectancy at birth (years) - 40
Mortality rate (percent) - 1.8

Education

Enrollment rates - 64

Health (1981) (in thousands)

Population per physician - 32.2
Population per nurse - 10.3

1/ Including allocation of SDRs, errors and omissions, and valuation adjustments.