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June 29, 2021

**Statement by Mr. Sigurgeirsson and Mr. Damgaard on Rwanda
(Preliminary)
Executive Board Meeting
July 1, 2021**

We thank staff for the helpful report and Mr. Andrianarivelo, Mr. N'Sonde, Mr. Alle, and Ms. Nankunda for their informative Buff statement. The pandemic continues to take a heavy economic and social toll on Rwanda due to containment measures to address the second wave of the pandemic. The recovery is gradually underway, although risks remain tilted to the downside. We welcome the authorities' vaccination campaign and their commitment to reform progress. Given the solid program performance, **we support the completion of the fourth review under the Policy Coordination Instrument and the request for an extension of the Instrument.**

The authorities should strike a delicate balance between short-term public spending increases to support the recovery and medium-term debt sustainability. While we understand the reasons for adjusting the budget during FY20/21-FY22/23, we stress the need to put the public debt-to-GDP ratio on a downward path once the crisis abates. In this context, we welcome the authorities' pledge to implement revenue and spending measures before the program expires and the request for a one-year program extension to carefully plan these measures. On the revenue side, we support the medium-term revenue strategy and call for a strong implementation of the tax policy measures. On the spending side, we look forward to the recommendations from the World Bank Public Expenditure Review and the IMF Public Investment Management assessment.

Efforts related to mitigating fiscal risks and strengthening transparency and governance should be prioritized. We welcome the authorities' steps to manage fiscal risks from SOEs and public-private partnerships. We also welcome the plans to expand the coverage of published fiscal data and reports. At the same time, we encourage the authorities

to improve the transparency of pandemic-related contracts by publishing information about beneficial ownership information.

Monetary policy should continue to be data dependent. The current accommodative stance is appropriate given the subdued inflation environment, but the National Bank of Rwanda (BNR) should stand ready to adjust the monetary policy stance if necessary. We take positive note of the BNR's commitment to exchange rate flexibility, which serves as a useful first absorber of shocks. The BNR should continue to carefully monitor developments in banks' asset quality. NPLs did increase significantly in the beginning of 2021, and we welcome the decision to suspend dividends in 2020 to protect banks' capitalization. Moreover, we are pleased to see continued high levels of mobile money transactions, which will facilitate financial inclusion.

Ambitious structural reforms will be critical to enhance potential growth. We encourage the authorities to promote reforms to increase the role of the private sector. Moreover, we are concerned with the pandemic's long-term effect on inequality and earning losses. In this regard, we welcome the expanded social safety nets and accelerated investment in education to minimize scarring.