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June 29, 2021

**Statement by Mr. Chodos, Mr. Lischinsky, and Ms. Bustillo on Rwanda
(Preliminary)
Executive Board Meeting
July 1, 2021**

We thank staff for the detailed report and Mr. Andrianarivelo, Mr. N’Sonde, Mr. Alle, and Ms. Nankunda for their insightful Buff statement.

Rwanda continues to face economic and social challenges from the COVID-19 pandemic compounded by a recent surge in infection rates. Despite a swift and sizeable policy response that lessened the impact of the pandemic, real GDP contracted by 3.4 percent in 2020 and poverty increased. While the economy is expected to rebound in 2021, the recovery could be affected by constraints in the supply of vaccines and a prolonged pandemic.

We support the completion of the fourth review under the Policy Coordination Instrument (PCI) and the authorities’ request for a one-year extension, through June 27, 2023. Program implementation has been strong with all end-December 2020 quantitative targets and the continuous targets met. All but one reform target were met but we learn from the Buff statement that authorities are working to complete the reform. We positively note that the authorities have kept the reform momentum and maintained a strong track record of program implementation. A one-year extension will allow more time to support the recovery and advance the authorities’ economic transformation agenda.

A more gradual fiscal consolidation path than the one contemplated in the 3rd review is essential to provide fiscal stimulus to cushion the impact of the pandemic and support the recovery. As indicated in the Buff statement, fiscal policy seeks to accommodate additional COVID-related spending and increase domestic revenue mobilization. We positively note the increased spending for vaccine rollout and in education that would help alleviate the impact of learning losses as well as the provision of support to firms and the revamped Economic Recovery Fund. On revenue mobilization, we welcome the Medium-Term Revenue Strategy (MTRS-1) expected to be launched in July 2021. The combination of tax policy measures

and tax administration measures to enforce compliance will be critical to improve domestic revenue mobilization and help finance development priorities. We are encouraged by the authorities' commitment to managing fiscal risks and efforts at strengthening fiscal transparency and SOE reform. In this regard, we positively note the authorities' plan to be based on ongoing WB Public Expenditure Review and IMF Public Investment Management Assessment (PIMA).

On debt, though indicators have deteriorated, staff assesses debt to be sustainable with a moderate risk of external and overall public debt distress. As noted by Mr. Andrianarivelo, Mr. N'Sonde, Mr. Alle, and Ms. Nankunda in their statement, debt dynamics will improve as growth resumes and the fiscal stance gets better. In this regard, high return projects in infrastructure, education and health as well as more private investment are critical to boost productivity and resilient growth. Moreover, a prudent borrowing strategy, securing concessional resources, and refinancing of the Eurobond are key.

The accommodative monetary policy stance with a low inflation outlook remains appropriate to support the recovery. We agree that monetary policy should remain data-dependent and note the authorities' intention to monitor possible energy and food price pressures. We commend the National Bank of Rwanda on its progress in support of an interest rate based monetary policy framework and commitment to exchange rate flexibility in line with this framework.

The financial sector is assessed to be profitable, well capitalized and liquid. However, with a potential uptick in non-performing loans rising, the authorities should remain vigilant, closely monitor credit risk and, as well, increase financial supervision. Further, we welcome the progress in digitalization and a more inclusive financial system as well as the authorities' efforts to sustain the digital payment momentum. *We would appreciate if staff could provide information on progress in the financial inclusion of women and rural residents.*

On an inclusive recovery, we commend the authorities on the expansion of social protection programs to alleviate the impact of the pandemic on vulnerable populations. We appreciate Annex III on Financing Rwanda's Sustainable Development Goals. We learn that Rwanda would need additional resources of about 21¼ percent of GDP per year to meet its SDGs by 2030, against 15.7 percent of GDP per year pre-pandemic. In addition to domestic efforts, staff recommends a vigorous strategy to mobilize support from development partners, including private and institutional investors. *We would welcome staff elaboration on the proper balance between public and private external financing sources.*

Finally, we welcome the authorities' request for a voluntary safeguards assessment to be conducted as soon as possible.

With these comments, we wish the authorities and people of Rwanda all the best in these challenging times.