



Rwanda: Fiscal Policy Choices in a Post- Conflict Environment

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Overview

- Emergency response to post-conflict situation
1994-1996
- Post-conflict recovery and reconstruction **1996-2004**
- Macroeconomic stability & debt sustainability
2002-2005
- Conclusion and **Key lessons**

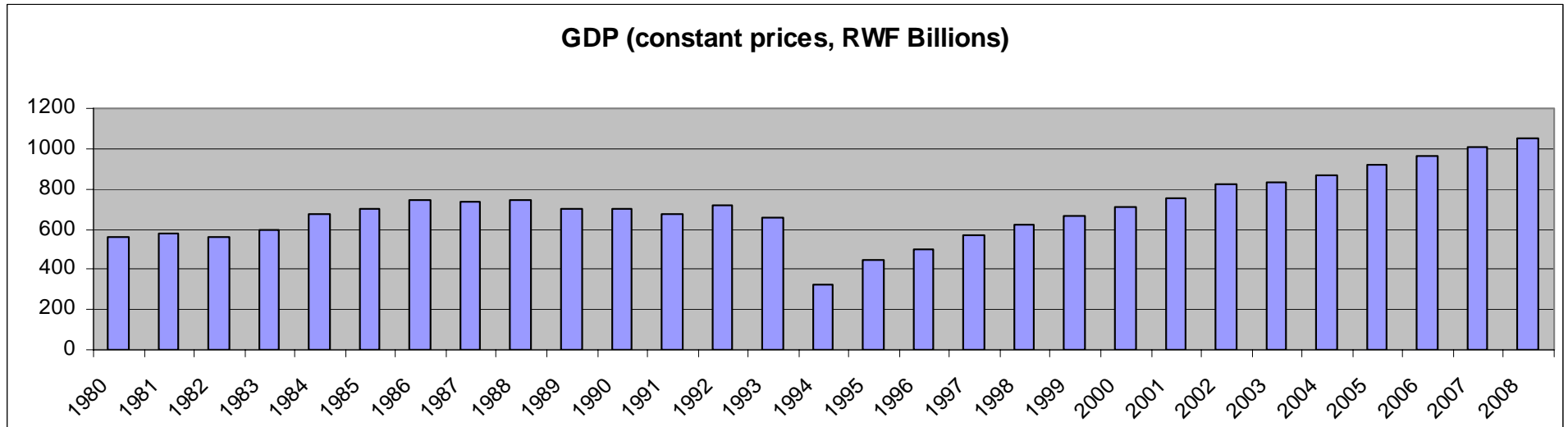


Emergency response to post-conflict situation **1994-1996**

- What were the effects of conflict on the key economic indicators?
- Can the economic effects purely be attributed to 1994, or were they due to structural constraints?

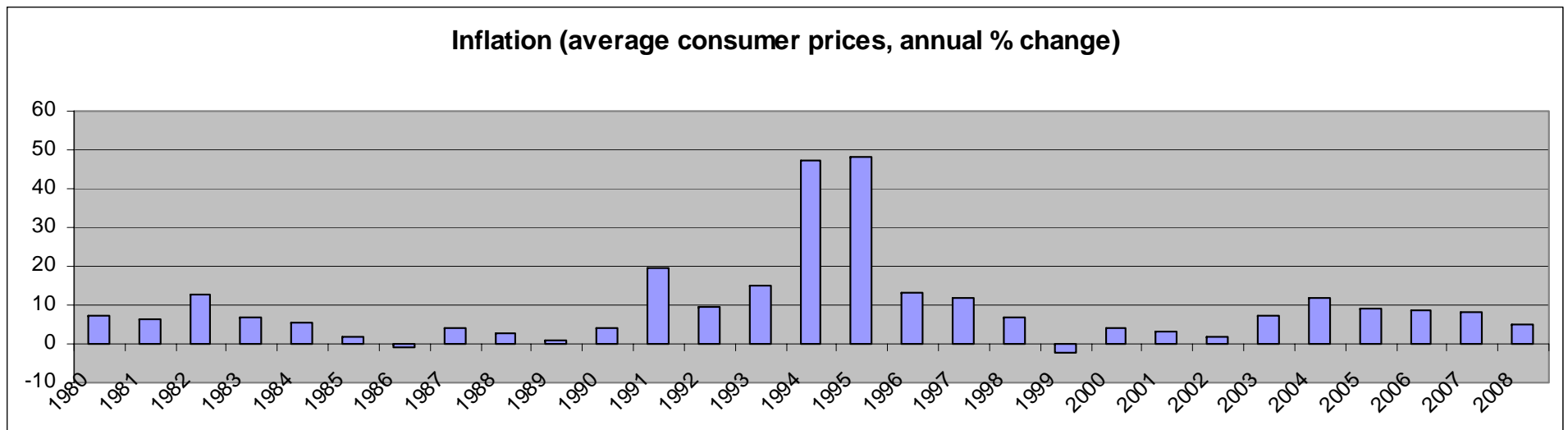
GDP

- Decline in GDP can be attributed to pre-existing structural constraints.
- However, economic decline began in the mid-1980s when conflict first arose.



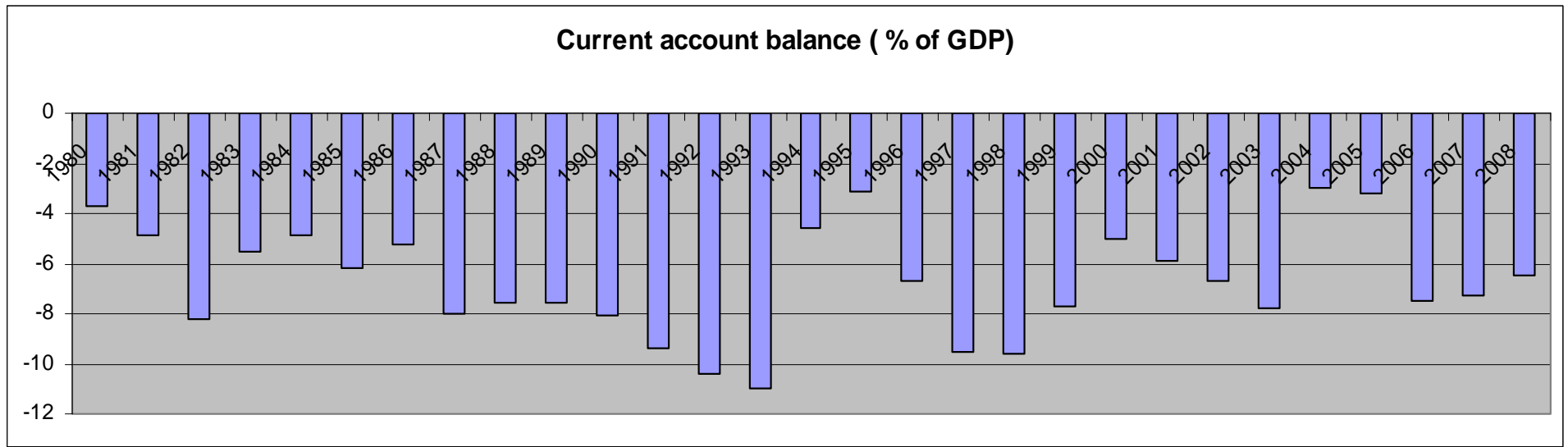
Inflation

- The impact of the conflict in the early 1990s can clearly be seen with inflation peaking at 50% in 1994.



Current Account

- Volatility in the size of Rwanda's current account deficit illustrates the responsiveness of aid flows to conflict.



Slide 6

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improve visibility of graph

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Interest rates

- Domestic rates have generally been low and are not a significant factor in Rwanda's story due to relatively unmonetized economy
- International interest rates generally low due to concessional nature of loans, but rising levels of external debt have led to high cost of debt service.



Post-Conflict Recovery and Reconstruction 1996-2002

- What were the changes in **tax administration**?
- Did **donor financing** and debt relief initiatives have a significant impact on expenditure decisions?
- What developments were there in the **civil service**?
- Were reforms set out by IMF's **Enhanced Structural Adjustment Facility** realistic and appropriate?
- Was availability and collection of **data** a problem?



Tax Administration

- Rwanda Revenue Authority established to consolidate tax-collecting institutions
- Shift towards consumption taxes
- As part of consolidation of GoR's domestic debt, public enterprises were offered the Cross-Debt Settlement



Donor financing & Public expenditure

- Government expenditure was heavily constrained debt servicing
- HIPC and MDRI brought debt relief and greater flexibility in government spending
- Result was a progressive shift in spending from security to social sectors, justice, reintegration and governance.



Civil Service

- Overgrown civil service due to returning refugees
- One of IMF's conditions was to restructure the civil service
- Census carried out followed by retrenchment program
- Successfully lowered the government's wage bill.



Enhanced Structural Adjustment Facility

- First attempt to reduce Rwanda's debt burden through establishing the Multilateral Debt Transfer Fund
- Targets were not effective but several reforms were implemented
 - Forex liberalisation
 - Trade tariffs restructured



Data

- Data and collection process destroyed due to conflict
- National Bureau of Statistics set up in 1994
- Lack of data made policy decisions very difficult



Macroeconomic management and stability **2002-2005**

- How was the transition of putting **aid on budget** and the increases in aid flows managed?
- What impact did financing the **external debt service** have on public expenditure?
- What **reforms** to PFM were implemented and was the sequencing important?



Putting aid on budget

- Most aid given through NGOs after 1994
- Once credible budget process set up in 1997, donors began to move aid on budget
- However, donors had a significant influence on deciding priority expenditures



Dutch Disease

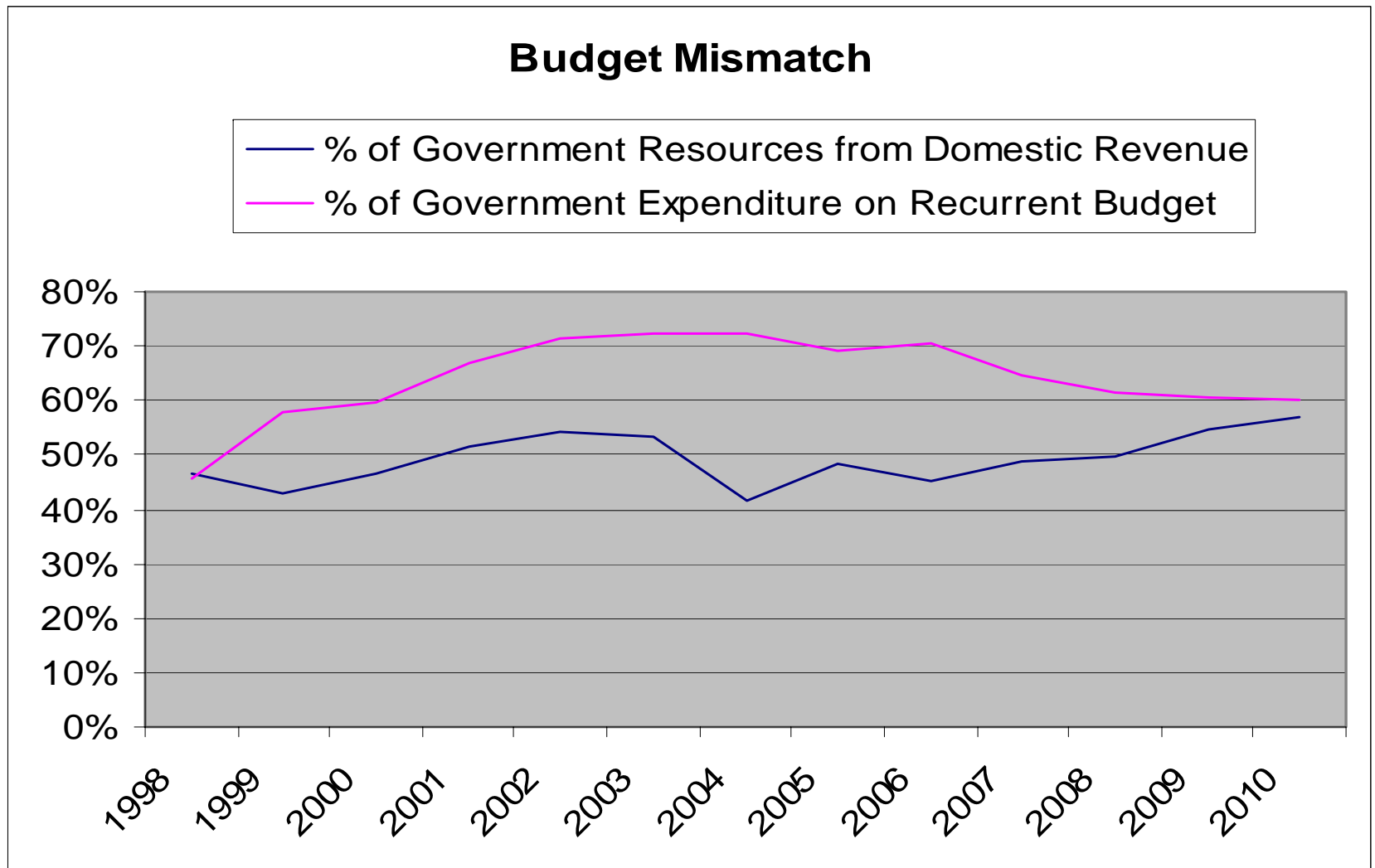
- The possible inflationary effects of a large scaling up of aid have not been observed in Rwanda
 - Exchange rates & Inflation have remained stable
- Monetary Policy: a mix of selling foreign exchange and the sale of treasury bills
- Fiscal Policy: increasing the import component of the budget



Aid dependency

- Unpredictability of aid had made forward fiscal planning difficult
 - Aid policy introduced to ensure more aid as budget support and in the form of grants
- The risk of aid dependence is a real issue for Rwanda
 - Mismatch of recurrent spending and domestic revenue

Budget Mismatch





External Debt

- HIPC established good record of macroeconomic management
- Not until MDRI in 2006 was the debt burden significantly lifted



Sequencing of PFM reforms

1. MINCOFIN and BNR established by 1995
2. Credible budget process and accounting system by 1997
3. BNR given autonomy in 1998
4. Medium Term Expenditure Framework and Strategic Planning Framework implemented by 2000



Key PFM reforms

- Creation of '*exceptional expenditures*' in the budget to separate those transitional costs, associated with the conflict, from the primary budget.
- Decentralisation process begun in 1998
- Organic Budget Law passed to improve budget process in 2006



Conclusion

1980s	2000s
1) Terms of trade ↓	1) Terms of Trade ↑
2) High and growing debt burden	2) Debt sustainable due to debt relief
3) Fiscal Management Poor with a high fiscal deficit <ul style="list-style-type: none">▪ Large subsidies especially in agriculture▪ Price controls▪ High levels of corruption with no focus on performance in PFM▪ High levels of government intervention in Private Sector especially through SOE▪ Rising cost of debt servicing due to high foreign interest rate▪ Tax administration weak	3) Fiscal Management improved with fiscal deficit contained <ul style="list-style-type: none">▪ Subsidies reduced▪ Prices liberalized▪ Good governance▪ SOE privatized▪ Cost of debt servicing low due to debt relief and low foreign interest rate▪ Rwanda Revenue Authority established