Country Brief-Rwanda
August 2017

Introduction

Rwanda is a landlocked East African country located a few degrees south of the Equator. It is bordered by Uganda in the North, Tanzania in the East, Burundi in the South and the Democratic Republic of the Congo in the West. Located in the African Great Lakes region, Rwanda is highly elevated and its geography dominated by mountains in the west and savanna in the east, with numerous lakes throughout the country. With a combined area of just over 26,000 square kilometers, Rwanda is one of the smallest countries in Africa. It has a total population of around 12 million, with rural population accounting for about 70 percent of the inhabitants. Rwanda is mainly an agrarian economy with about 35% of the population engaged in subsistence agriculture, and a small portion of the population is in some form of mineral and agro-processing activities. Tourism, minerals, coffee and tea are also key sources of forex. The decades which followed the 1994 genocide have been some of the most transformative, with the country achieving sustained economic growth and poverty reduction.

Political environment

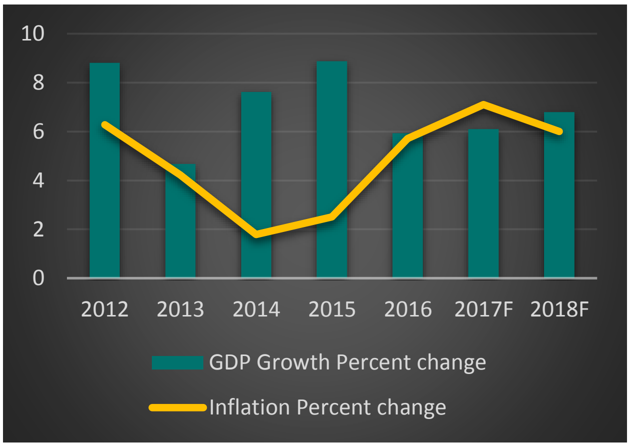
Rwanda has enjoyed political stability after the genocide of 1994. The last parliamentary elections held in September 2013 saw 64% of the seats taken by female candidates and the Rwandan Patriotic Front maintain absolute majority in the Chamber of Deputies. Rwanda had peaceful local government elections at the community and village levels in 2016. President Paul Kagame who has been the main architect of Rwanda's economic transformation and political stability emerged as the winner of the presidential election held on August 04, 2017 and will serve another seven-year term. Rwanda's ranking in the Mo Ibrahim Index of African Governance improved to 9/54 (score of 62.3; 100 = best)) in 2016 from 11/54 (60.7) in 2015, which is better than the East African (44.9) and continental (50.0) averages.

Economic overview

GDP Growth in Real Gross Domestic Product is estimated to have slowed down to 5.9% in 2016 from 8.9% in 2015 due to weak external demand and tight monetary policy. Despite this slowdown, Rwanda remains among the fastest growing economies in Africa, having achieved an average of 8% growth since 2000.

The decelerating growth performance recorded in 2016 was the result of a decline in agricultural output due to the recent drought and a contraction in mining activities owing to declining commodity prices. The contribution of the construction sector to growth was also modest following the completion of several major investment and infrastructure projects.

Figure 1: GDP Growth and Inflation



Source: IMF World Economic Outlook

GDP growth is expected to improve to 6.1% in 2017 and 6.8% in 2018, buoyed by the recovery in the agriculture sector. The services sector is also expected to bolster growth on account of recent investments in tourism. Additional generation capacity at the Lake Kivu power plant, along with the coming on stream of separate hydropower and peat-to-power plants in both 2017 and 2018, will add significantly to the national electricity supply and support expanded mining production. After seeing activity drop in 2016, construction is expected to pick up on the back of a new US$818 million airport as well as the building and rehabilitation of roads.

The key downside risks to the outlook are a high dependence on aid, which has declined over the last decade but still accounts for up to 40% of government revenues, unfavourable weather conditions and sustained low commodity prices.

Inflation: Inflation over the last 5 years has been moderate averaging around 4%. Headline inflation increased from an annual average of 2.5% in 2015 to 5.7% in 2016 due to increased food prices as a result of drought and to a lesser extent higher import prices following the depreciation of the Rwandan Franc (RWF). Latest official figures show that inflation has been moderating, posting 3.5% year-on-year in July 2017 compared with 6.1% year-on-year in May 2017. Inflationary pressures are being addressed by tighter monetary policies implemented by the National Bank of Rwanda (NBR) to reduce the growth of broad money supply.

Fiscal balance: The overall fiscal balance has been improving but remains in deficit, estimated at 4% of GDP in 2016, but is forecast to increase marginally to 4.8% of GDP in 2017 due to increased government spending. Fiscal deficits in recent years have been mainly driven by capital spending related to a number of investment projects. Fiscal policy remains focused on fiscal consolidation. The government's Fiscal Consolidation Strategy (FCS) emphasises cutting non-priority outlays, reducing domestic financing, and increasing public revenue mobilisation.

Tax policy measures remain focused on increasing domestic tax revenue to offset declining grants and concessional lending from development partners. The government is implementing several measures to increase domestic revenue, including an increased rollout of electronic billing machines, to raise value added tax (VAT) collection, and the revision of the investment code to eliminate unproductive exemptions. The Rwanda Revenue Authority (RRA) has also increased its efforts in the recovery of tax arrears. Along with other East African Community (EAC) member states, Rwanda has introduced an import levy to help finance infrastructure projects. Tax revenue has increased from 15.5% of GDP in 2014/15 to 16.2% of GDP in 2015/16.

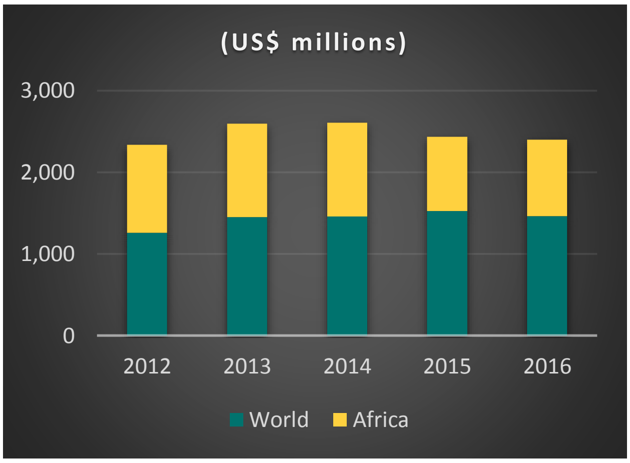
Overview of trade, reserves and financial sector

Total Trade: Rwanda is the 154th largest export economy in the world, the 34th largest export economy in Africa and the 81st most complex economy globally, according to the Economic Complexity Index (ECI). In 2015, Rwanda's exports were estimated at $622 million and imports at $1.78 billion, resulting in a negative trade balance of $1.16 billion. Rwanda sources 53% of the value of its imports from China, Uganda, Kenya, India and the United Arab Emirates(UAE).

The top exports of Rwanda are Niobium, Tantalum, Vanadium and Zirconium Ore, Tea, Refined Petroleum, Tin Ores and Coffee. Its top imports are Broadcasting equipment, Cement, Packaged Medications, Raw Sugar and Cars. The top export destinations of Rwanda are the Democratic Republic of Congo, Kenya, Switzerland and Burundi which collectively account for over 70% of the country's exports.

Intra-African Trade: Trade with Africa is signifcant, and accounts for about 59% of exports and 32% of imports, positioning Rwanda, which currently ranks 42nd in total intra-african trade value, as one of the most active countries in cross-border continental trade. The leading African trade partners include the Democratic Republic of the Congo and other East African Community Members (i.e. Kenya, Uganda, Tanzania and Burundi) as well as South Africa.

Figure 2: Rwanda Total Trade



Source: ITC Trade Map

Current and capital account balances: The government implemented a tight fiscal policy in 2015/16 aimed at mitigating the effects of declines in aid and export receipts on the country's deteriorating balance of payment position. To offset the pressure of excess foreign exchange demand on external reserves, the government reduced capital expenditure in sectors with higher import content, such as the energy and transport. The capital budget was reduced from 13.7% of GDP in 2014/15 to 11.7% of GDP in 2015/16 and is projected to increase back up to 13.0% of GDP in 2016/17.

Rwanda's current account deteriorated from a deficit of 13.4% of GDP in 2015 to 14.5% in 2016 due principally to lower current transfers and a relatively weak trade performance on the back of plunging commodity prices. According to IMF forecasts, the current account deficit will narrow to about 10.9% of GDP in 2017, owing to an expected recovery in commodity prices and government support for domesitc manufacturers and exporters. The deficit will mainly be financed by concessional lending from bilateral and multilateral creditors, drawing down on international reserves and, to a lesser extent, foreign direct investment inflows.

Reserves: The mismatch between high demand for foreign exchange and its limited availability due to the decline in external flows from aid and exports in a context of sustained declines in commodity terms of trade led to a significant drawdown in external reserves from 6.3 months of imports in 2014 to 5.6 months in 2016. However, vibrant intra-African trade and ongoing steps by the government to accelerate the process of structural transformation are likely to reduce the exposure of countries to global volatility.

Exchange rate: For now, Rwanda's wide current-account deficit has been exerting strong downward pressure on the Rwandan franc. To prevent a further decline in external reserves, the NBR implemented a flexible exchange rate regime to allow the local currency to adjust freely to changes in demand and supply for foreign exchange. The floating of the Rwandan franc (RWF) led it to depreciate by about 8.95% against the US Dollar in 2016. It has traded within a narrow band since January 2017, losing around 2.5% of its value in the first half of the year.

Financial Sector: According to the latest reviews, Rwanda's financial sector comprises 16 banks, 491 micro-finance institutions and Savings and Credit Cooperatives (SACCOs) and 54 non-bank financial institutions. The sector is dominated by banks, which account for 66.9% of the total assets of the entire industry, followed by the pension sector with 19% and the insurance sector with 10.9%. The core measures of financial stability in banks slightly weakened in 2016 due to the relative slowdown in the economy, but the quality of risk management remains satisfactory. The Capital Adequacy Ratio (CAR) for banks and microfinance slightly declined to 21.8% in December 2016, compared to 25% in December 2015. However, it was higher than the prudential requirement of 15.0%.

Total public and publicly guaranteed debt increased to USD 2.8 billion (33.6% of GDP) in June 2016 from USD 2.5 billion (32.5% of GDP) in June 2015, largely accounted for by external debt. The share of external debt in total public debt increased by 1.4 percentage points to 72.4% during the same period. Public external debt has risen due to new borrowing to purchase two planes for RwandAir. The share of concessional loans in external debt rose to 74.2 % in December 2016 from 73.3% in December 2015. The debt sustainability analysis in December 2016 shows that Rwanda's debt remains sustainable, with a low risk of debt distress. The main source of vulnerability is the narrow export base and the recent decline in global commodity prices, which has reduced export receipts.

Opportunities for Bank Support

Rwanda's tourism, manufacturing, industrial and agro-processing industries are strong opportunities that can be used to support further economic growth. Given the importance government has placed on local manufacturing to address the current account deficit and the adoption of the "Buy Rwanda Programme", the Bank should continue to assess opportunities in the industrial, agro-processing and manufacturing sector. Rwanda is also seeking to become a regional leader in information and communication technologies. In 2012, Rwanda completed the first modern Special Economic Zone (SEZ) near Kigali. The

SEZ seeks to attract investment in all sectors, but specifically in agribusiness, information and communications, trade and logistics, mining, and construction. In 2016, the government launched an online system to give investors information about public land and its suitability for agricultural development. Rwanda also benefits from a low level of corruption, a professional judiciary and accessible justice. Rwanda has been an Afreximbank member country since 1993 and hosted the 24th Annual General Meeting of the Bank. During that meeting the Bank announced disbursements worth US$500 million in favour of trade development efforts in Rwanda.

Table 1: Rwanda: Selected Macroeconomic and Financial Indicators

	2012	2013	2014	2015	2016	2017F	2018F
Real GDP (%)	8.8	4.7	7.6	8.9	5.9	6.1	6.8
Inflation (%), Annual average	6.3	4.2	1.8	2.5	5.7	7.1	6.0
Exports of Goods and Services (% y/y)	21.1	9.6	8.6	-3.7	9.8	9.0	3.2
Current acc. (% GDP)	-11.2	-8.7	-11.8	-13.4	-14.5	-10.9	-11.8
Gross reserves, Months of import	5.2	6.7	6.3	5.8	5.6	-	-
Gross Gov't debt, (% GDP)	20.0	26.7	29.1	33.4	37.6	41.4	43.5
External aid (Grants and loans) (% of GDP)	-	7.8	9.2	7.5	6.1	6.5	5.9

Source: IMF and African Economic Outlook