RWANDA

Table 1	2017
Population, million	12.2
GDP, current US$ billion	9.1
GDP per capita, current US$	748
International poverty rate ($1.9)[a]	56.0
Lower middle-income poverty rate ($3.2)[a]	80.8
Upper middle-income poverty rate ($5.5)[a]	92.2
Gini index[a]	45.1
School enrollment, primary (% gross)[b]	137.0
Life expectancy at birth, years[b]	67.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2013), 2011 PPPs.
(b) Most recent WDI value (2016)

Rwanda economy grew by 6.1 percent in 2017. The growth momentum is projected to pick up even further to 7–8 percent over the medium-term supported by exports, agriculture and larger infrastructure. With low inflation and improved external accounts, the policy stance continues to be accommodative. Downside risks include adverse weather patterns, weakness in private sector activity, and a slump in global commodity prices of Rwanda's key exports. Prudent fiscal choices and export diversification remain priorities to reduce Rwanda's vulnerabilities.

Recent developments

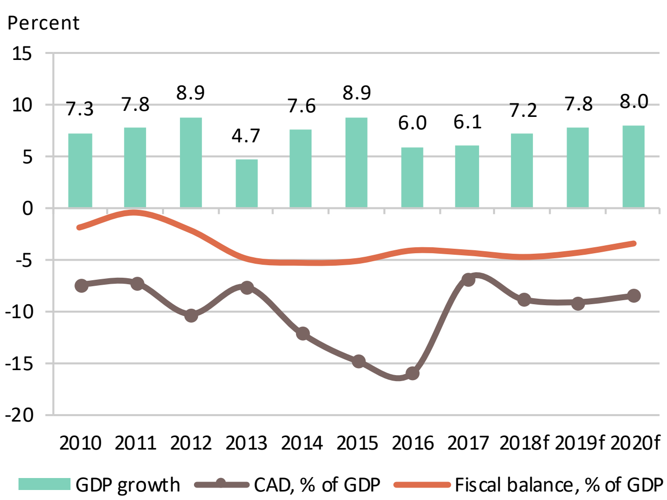
After growing at 6.1 percent in 2017, the growth accelerated further in the first quarter of 2018 and reached 8.3 percent for the year ending in March. The pick-up in the growth rate has been broad-based. On the supply-side, supported by improved weather conditions, agriculture grew by 8 percent while services expanded by 10 percent, fueled by commerce and transport sub-sectors. Industry grew by 6.2 percent, thanks to the revival in construction activities (including ongoing construction of the new airport) and solid performance of the agro-processing sector. On the demand side, robust expansion in investment and exports, 18.3 percent and 34.2 percent respectively, drove GDP growth, while consumption growth remained at low single digits, 3.1 percent, on account of subdued household consumption.

The current account deficit (CAD) more than halved in 2017 to less than 7 percent of GDP driven by strong export growth (32 percent). Capital and financial flows exceeded the CAD, allowing for some accumulation of foreign exchange reserves and helping to increase import cover of reserves to 4.2 months as of end of 2017. Net foreign direct investment reached 2.7 percent of GDP, while net public borrowing amounted to 4.2 percent of GDP, down from the peak of 8.8 percent of GDP a year earlier. The strong export growth momentum has continued in first half of 2018. In US$ terms, goods' exports grew 29 percent, outpacing import growth of 9 percent. Exports of traditional and other newly discovered minerals (sapphires, rubies, and tourmaline, among others) that made up almost 30 percent of goods exports grew 22 percent while coffee and tea, accounting for 15 percent of exports of goods, grew 16 percent.

Monetary policy remains accommodative amidst low inflation and a favorable external environment. Headline inflation fell to 2.9 percent in June. Food price inflation has been very low due to favorable agriculture harvest. Reflecting the sizable external adjustment of 2017, pressures on the exchange rate were quite mild resulting in only a 3.5 percent depreciation of the franc against US dollar in the year ending in June 2018. These have helped the National Bank of Rwanda to keep the policy rate at 5.5 percent. Nonetheless, the accommodative policy stance has not translated into a stronger credit growth (7.3 percent in June 2018 down from 13.9 percent in December 2017). Muted credit growth reflects frailties in the banking sector, given the recent large writing-off of non-performing loans accumulated during the economic slowdown of 2016 and 2017.

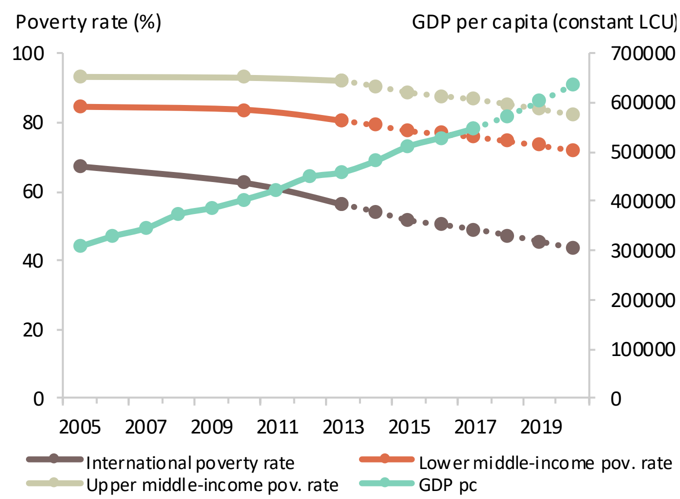
At 4.5 percent of GDP, the fiscal deficit remained largely unchanged for the fiscal year ending in June 2018. Spending remained at 27.2 percent of GDP, while revenues increased by 0.5 percentage points of GDP to 18.9 percent supported by ongoing administration measures. This improvement was however offset by declining grants that reached 4.5 percent of GDP, the lowest level since 2005.

FIGURE 1 Rwanda / Actual and projected real GDP growth, fiscal and current account balance



Sources: World Bank and official data.

FIGURE 2 Rwanda / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

Public debt continues to increase, driven both by the deficit and guarantees reaching 48.3 percent of GDP. While Rwanda's risk of debt distress remains low, the recent DSA showed that the debt service-to-exports and debt service-to-revenue ratios will breach the thresholds in 2023 due to upcoming Eurobonds repayments.

According to the 2018 World Bank's projections, 47 percent of the population live under the international poverty line of U$1.90 – in 2011 PPP terms – down from 56 percent in 2013. Between 2010 and 2014 particularly rural areas exhibited strong performance in poverty reduction and shared prosperity. Consumption inequality, measured by the Gini coefficient, dropped from 51.3 in 2010/11 to 45.1 in 2013/14, but the gap between rural and urban poverty remains substantial. This overall trend is likely to have persisted from 2013 onwards with stronger poverty reduction in rural than in urban areas although no official data are yet available.

Outlook

Rwanda's economy is expected to grow 7.2 percent in 2018. Growth projections are between 7 and 8 percent over the medium-term. In 2018-2020, the growth will be driven by improved agriculture, strong exports, especially minerals, and large infrastructure projects. Government's renewed commitments to scaling up investments in agriculture, especially irrigation, will further strengthen the sectors' medium-term outlook. The ongoing construction of the new airport will continue to boost industrial activities. The competitiveness of the exchange rate will continue to provide support to export growth. Mining sector activity will continue to remain strong, supported by higher global prices and increased exploration and investment in the sector. With low inflation and a favorable external environment, monetary policy is expected to continue remaining accommodative.

Before converging towards the EAC target of 3 percent of GDP by 2021, the fiscal deficit is projected to temporarily rise in FY2018 reflecting spending needs for public investments and ongoing restructuring in public administration. Revenue mobilization should also improve on account of strong economic activity, administrative measures to boost VAT, and rationalization of exemptions. With respect to the current account deficit, strong investments will push it up slightly from the very low level achieved in 2017, but it is expected to remain at or below 9 percent of GDP in 2018-20.

The outlook for poverty reduction continues to be positive. Sustained growth is expected to continue driving down poverty incidence to 43.6 percent in 2020. A key challenge for ensuring inclusive growth is the need to accelerate the rate of job creation to keep pace with massive inflow of youth into the labor market.

Risks and challenges

Key risks to the growth outlook are associated with weather-related events, such as droughts and floods, external volatility (especially commodity prices), and weak private sector credit growth. A reversal in the recovery in global prices of minerals, coffee and tea may subdue production and exports. Continued weak private sector response to the improved investment climate remains a key risk. The pace of growth and economic transformation will largely depend on the extent to which private sector will scale up its investment activities.

TABLE 2 Rwanda / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	8.9	6.0	6.1	7.2	7.8	8.0
Private Consumption	18.2	-0.5	1.6	4.1	5.0	5.0
Government Consumption	3.3	9.5	6.9	7.3	4.7	-3.2
Gross Fixed Capital Investment	21.1	10.5	8.8	16.1	15.2	17.2
Exports, Goods and Services	6.3	12.9	33.6	14.3	13.5	14.8
Imports, Goods and Services	34.7	-1.1	10.1	10.8	9.5	8.8
Real GDP growth, at constant factor prices	8.5	6.1	6.8	7.2	7.8	8.0
Agriculture	5.0	3.9	6.6	6.0	5.3	5.0
Industry	8.9	6.7	4.2	8.2	10.1	12.0
Services	10.4	7.2	7.9	7.5	8.4	8.2
Inflation (Consumer Price Index)	2.5	5.7	4.8	2.8	5.0	5.0
Current Account Balance (% of GDP)	-14.7	-16.0	-6.8	-8.8	-9.1	-8.5
Fiscal Balance (% of GDP)	-5.2	-4.1	-4.3	-4.8	-4.3	-3.4
Debt (% of GDP)	35.6	43.5	48.3	48.7	48.3	46.6
Primary Balance (% of GDP)	-4.4	-3.2	-3.4	-3.6	-3.0	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	51.5	50.2	49.0	47.3	45.4	43.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	77.9	77.0	76.1	74.9	73.5	72.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.8	87.7	86.7	85.4	83.9	82.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2008-, 2014-, and 2013-EICV-IV. Actual data: 2013. Nowcast: 2014-2018. Forecast are from 2019 to 2020.
(b) Projection using point to point elasticity at regional level with pass-through = 1 based on GDP per capita in constant LCU.