

COUNTRY PROFILE

Quarterly update

July 2016



United Nations
Economic Commission for Africa

RWANDA

Introduction

The main objective of this document is to provide an update to the 2015 Rwanda Country Profile, with a particular focus on the recently released annual data for 2015.

Recent developments: Key highlights

- The economy continues to perform well, with a rate of growth of 7.3 per cent registered in the first quarter of 2016 (National Bank of Rwanda, 2016a: 10).
- However, the prospects for the whole of 2016 are slightly more downbeat, with a projected growth of 6.0 per cent. This is principally due to a poorer expected performance from the agricultural sector, which has been negatively affected by drought (a phenomenon which is currently impacting a number of countries across the region) (National Bank of Rwanda, 2016a: 10).
- The exchange rate continues to depreciate, albeit at a relatively stable pace. In 2015, the Rwandan franc depreciated by 7.5 per cent, the highest depreciation recorded in Rwanda over the past decade. The trend towards depreciation continued in the first half of 2016, due to low export revenues, high import demand and the need for foreign exchange to complete a number of major development projects, such as the Kigali Convention Centre (National Bank of Rwanda, 2016a: 47).
- Trading relations with Burundi have been negatively impacted by diplomatic tensions. Formal sector trade between the two countries is small – exports of 11.5 million United States dollars were registered in 2014, falling to US\$ 7.0 million in 2015 (National Institute of Statistics, 2016a: 25). But for the first semester of 2016, Burundi is also, after the Democratic Republic of the Congo, the second most important informal trading partner, accounting for one third (32.1 per cent) of all informal cross-border trade (a total of US\$ 130 million in 2015) (National Bank of Rwanda, 2016a: 33). In July 2016 the Burundian Government imposed export restrictions on Rwanda, citing domestic food security concerns. The banning of agricultural exports to Rwanda announced by Burundi is likely to cause some additional increments in food price inflation.

Key macroeconomic and sectoral performance

Growth in 2015 was 6.9 per cent, marginally down from the 7.0 per cent registered in 2014. Both the industrial and services sectors grew at an identical 7.0 per cent in 2015, with the agricultural sector lagging at 5.0 per cent. In the first quarter of 2016, growth of 7.3 per cent was registered, compared with 7.6 per cent for the first quarter of 2015. Overall economic growth is projected to decline to 6.0 per cent in 2016, due principally to a poorer performance of the agricultural sector, which is projected to slow down to 4.3 per cent in 2016, from 5 per cent in 2015 (National Bank of Rwanda, 2016a: table 8). From an expenditure perspective, consumption increased by 9.5 per cent in real terms in 2015, driven by strong

household consumption, which expanded by 14.3 per cent. Gross fixed capital formation rose by 9.4 per cent, slightly down from the 9.2 per cent expansion of 2014 (National Institute of Statistics, 2016b: table 3).

Fiscal policy

The total budget for the 2016/17 fiscal year is projected to reach 1,949.4 billion francs, 140.6 billion francs more than the 1,808.8 billion francs spent in 2015/16 (Ministry of Finance and Economic Planning, 2016a). The Government's fiscal strategy continues to focus on widening the tax base while reducing dependence on foreign aid. Concerns over waning donor support give added credence to this strategy. Total donor support grants amounted to 9.2 per cent of gross domestic product (GDP) in 2013/14, declining to 7.3 per cent of GDP in 2014/15, with a further decline to 5.7 per cent of GDP estimated for 2015/16 (Ministry of Finance and Economic Planning, 2016b: 17).

Monetary policy

Inflation remained contained in 2015, averaging 2.5 per cent, and has now been below the medium-term target of 5 per cent for more than two years (Government of Rwanda, 2016: 3). However, price rises escalated in the first half of 2016, with headline inflation reaching 6.9 per cent by July (National Bank of Rwanda, 2016a: table 18). Regarding interest rates, the Central Bank's policy rate has remained at 6.5 per cent since June 2014. Monetary policy is still accommodative, but is tighter in relation to the situation in 2015 – money supply increased by 6.1 per cent in the first semester of 2016, less than the 16.7 per cent recorded in the corresponding period of 2015 (National Bank Of Rwanda, 2016a: 36).

The Central Bank provides statistics regarding the sectoral spread of new authorized loans (National Bank of Rwanda, 2016a: table 20). From the perspective of structural transformation, it is interesting to note that over half (50.6 per cent) of all authorised loans in the first semester of 2016 went to the commerce, restaurants and

hotels sector, while only 8.4 per cent went to the manufacturing sector. Clearly, a faster flow of credit to the manufacturing sector may be required if goals of industrialization and improvements in the tradeable goods sector are to be achieved.

Current account

The current account of the balance of payments deteriorated substantially from a deficit of US\$ 945.4 million in 2014 to US\$ 1,098.7 million in 2015 as the balances for services and income all declined (Government of Rwanda, 2016:4). Over the past 18 months, exports have continued to be negatively impacted by low commodity prices, with a particularly marked decline in exports of minerals, which declined from US\$ 203.3 million in 2014 to US\$ 117.8 million in 2015 (National Bank of Rwanda, 2016a: 32). Including re-exports, total goods exports declined by -12.8 per cent in 2015 (National Institute of Statistics, 2016a). More positively, over the course of 2016, the Government is expecting new goods to be exported through new projects to export cut-flowers and garments. Through its "Made in Rwanda" campaign and the strategy to "Recapture the domestic market", the Government is simultaneously endeavouring to reduce the export bill, by focusing on three subsectors: construction materials, agro-processing and light manufacturing. Through the effective application of these policies, it is believed that around US\$ 450 million of foreign exchange could be saved per year (Ministry of Finance and Economic Planning, 2016c).

Finally, pressures from the worsening current account balance have led to a drop in international reserves for the second consecutive year. By the end of 2015, reserves in months of imports of goods and services was down to 3.6 months from 4.8 months at the end of 2013. There was also reportedly a substantial pressure on commercial banks, which saw their net foreign assets decrease by 70.5 per cent to 30.9 billion francs at the end of December 2015 (Government of Rwanda, 2016: 4).

Capital and financial accounts

Figures from the National Bank of Rwanda are not yet published, but foreign direct investment (FDI) figures reported by the United Nations Conference on Trade and Development for 2015 suggest that FDI experienced another strong performance in 2015, up to US\$ 471 million, compared to US\$ 459 million in 2014. These figures mark a very significant improvement in the FDI figures compared to earlier years – more than 4 times higher than in 2011 (US\$ 199 million), for instance – suggesting that the Government’s longstanding strategy to improve the business environment and rank highly in evaluations such as the World Bank’s “Doing Business” report is beginning to bear fruit. Figures released in June regarding the latest investment survey (National Bank of Rwanda, 2016b: 13) reveal that, by 2014, foreign investors were employing 37,120 workers, up from 30,717 in 2011.

Annex

Economic performance

Key macroeconomic and sectoral performance

	Value	Year
GDP, constant price (billions of Rwandan francs, 2011 prices)	5,011	2015
GDP, current prices (billions of Rwandan francs)	5,835	2015
Real GDP growth rate (%)	6.9	2015
Inflation rate (%)	2.5	2015
Current account balance (millions of United States dollars)	-1,098.7	2015

Monetary policy

(%)	Value	Year
Inflation rate	2.5	2015
Interest rate Central Bank	6.5	2015

Current account

	Value	Year
Total imports (billions of Rwandan francs)	1,919	2015
Total exports (billions of Rwandan francs)	841	2015
Trade balance (billions of Rwandan francs)	-1,077	2015
Current account (millions of United States dollars)	1,098.7	2015

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