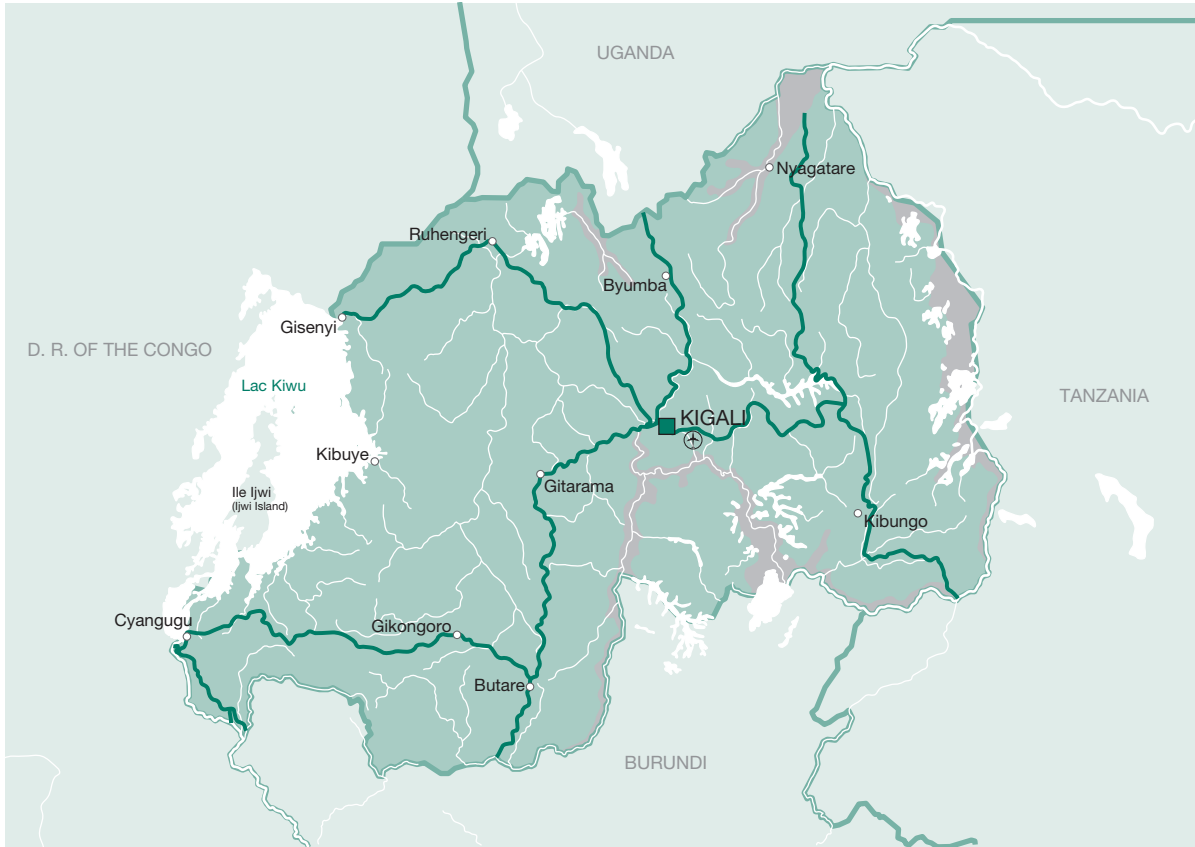


Rwanda

2011



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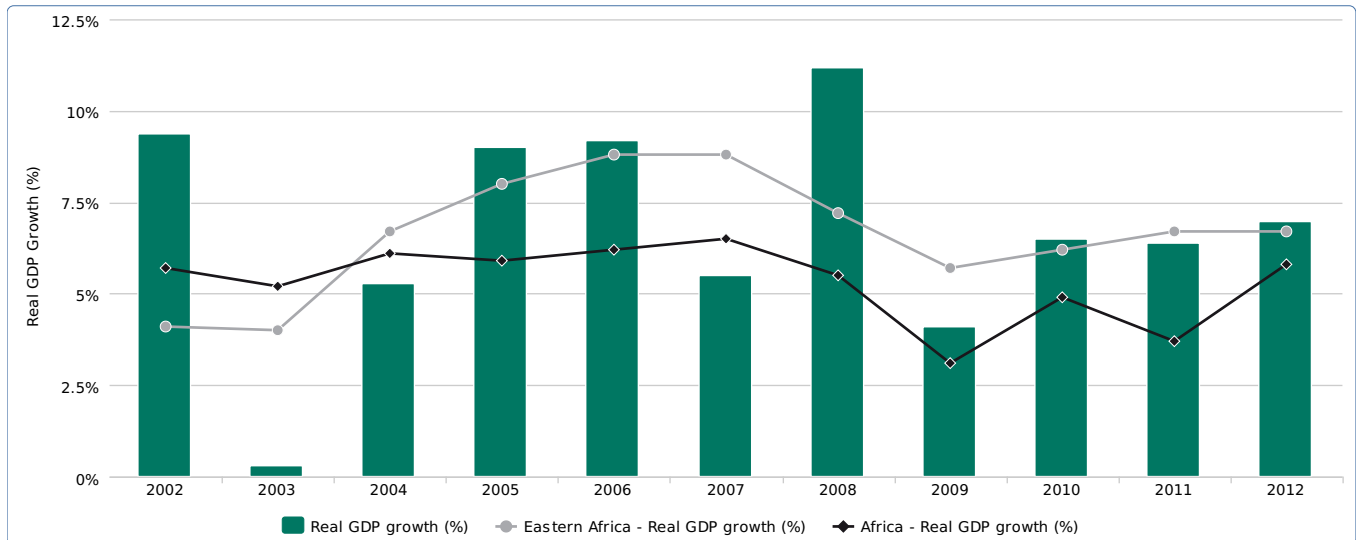
This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Rwanda

Overview

In 2010, the economy of Rwanda recovered from the sharp downturn it experienced in the previous year by growing at 7.4%. The outlook for 2011 and 2012 remains robust. The rebound is driven mainly by increased exports, expansion in the growth of services and construction sector. Inflation also has declined considerably in 2010 compared with 2009 when food prices increased by more than 20% in the wake of the global food crisis. The macroeconomic balance also improved in 2010 and is expected to remain stable in the mid-term.

Figure 1: Real GDP growth (E)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404465>

In the last decade and a half, Rwanda's economy has progressed by improving factor productivity, achieving a considerably higher level of output per worker. The mid-term outlook now depends on increased investment in core sectors. Public investment to improve power generation capacity, air transport, e-government and other sectors is expected to help sustain current growth. But the country's continued dependence on a few export commodities represents a serious constraint and the mobilisation of domestic resources to finance investment remains low.

Rwanda has undertaken impressive reforms to create a business-friendly environment for the private sector. It has the status of best reformer in the world and is one of the freer countries in economic terms. The hope is that these achievements will translate into increased economic activity in the private sector and attract investment from around the world.

There is impressive social as well as economic progress. Rwanda is on track to meet most of the Millennium Development Goals (MDGs).

Rwanda has the potential to achieve a much higher rate of economic growth. Investment in creating a skilled labour force, removing infrastructure bottlenecks and improving farm productivity could make a huge difference in the years to come. These are some of the priorities of the government's Economic Development and Poverty Reduction Strategy and Vision 2020.

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	4.1	7.4	6.5	7
CPI inflation	10.3	2.3	5.2	5.5
Budget balance % GDP	-2.2	-0.5	-3.5	-1.4
Current account % GDP	-8.4	-6.7	-9.1	-6.5

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932406821>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	40.9	36.1
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	34.6	30.5
Mining and quarrying	0.7	0.4
Mining, manufacturing and utilities	-	-
of which oil	0	0
Manufacturing	7.5	6.7
of which hydrocarbon	-	-
Electricity, gas and water	0.1	0.2
Electricity, water and sewerage	-	-
Construction	6.5	8
Wholesale and retail trade, hotels and restaurants	13.9	15.4
of which hotels and restaurants	-	-
Transport, storage and communication	6.7	8.2
Transport and storage, information and communication	-	-
Finance, real estate and business services	10.8	13.9
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	11.5	10
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	1.4	1
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department, based on data from Statistics Rwanda.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407790>

Rwanda's economy made a quick rebound from the decline it experienced in 2009, which was driven partly by

the contagion effect of the global economic and financial crisis that reduced demand for exports as well as liquidity constraints faced by banks in the domestic economy. It is estimated that real GDP grew at 7.4% in 2010. The main drivers of the recovery in GDP are continued growth in agriculture, recovery in the services sector, particularly telephones, construction and the export sector.

Agriculture in Rwanda is a source of livelihood to the vast majority of the population. The government has taken steps to help the sector play a developmental role, transforming lives as well as ensuring stable food prices for the expanding non-agricultural sector. The Crop Intensification Programme seeks to improve farm productivity through the utilisation of fertilisers, improved seeds and extension services. The programme promotes the import of fertiliser in sufficient quantities, training of district and sector agronomists in its optimal application, storage of produce at village level to prevent waste, and the provision of improved seeds for crops such as maize, wheat, Irish potatoes and cassava cuttings. Of equal importance is the government's programme for rural areas: *Vision 2020 Umurenge*. It combines land development activities in the hill-ranges with employment opportunities for the poorest of the poor. These concerted efforts by the government, as well as better weather conditions, have led to robust growth in the last three years. In 2010, crop production in the first two seasons increased by 8.2%, driven mainly by substantial growth in root crops (18.8%) and cereals (18.7%). The production of export crops also boomed in 2010, with coffee registering a rebound of 22.5% and tea up 10.8%. These increases can be attributed to new investments in the production of coffee, better terms of trade, the privatisation of some of the tea producing firms, and the treatment of diseases that had attacked tea leaves in the preceding year.

The industrial sector grew by 8.4% in 2010, compared with 1.4% in 2009. The construction sector led the way expanding at 10.9% after registering a mere 1.9% growth in 2009 due to liquidity constraints faced by the banks. This recovery was assisted by growth in the manufacturing sector where food processing led the way. Ongoing investment in utilities such as gas, electricity and water also contributed to the recovery.

Services expanded at a double-digit rate between 2005 and 2008, driving overall growth in the economy during the period. In 2009, growth in services retreated to 5.9% but rebounded in 2010 by growing to 7.3%. The recovery in the service sector was made possible by growth in the financial sector (20.0%) and transport and communications (10.8%), particularly the exceptional growth in telecommunications and increased Internet penetration. This is evident from Table 2 where the share of the services and construction sector in total GDP increased by about 7.5 percentage points in 2010, in comparison to 2005, while that of agriculture declined despite robust expansion in recent years.

The mid-term outlook for the Rwandan economy depends very much on strategic public investment programmes and global demand for its main exports, as well as the loosening of domestic credit to the private sector. Strategic investments include the broadening of access to electricity for the population by increasing household grid-connectivity from 6% to 16% in 2013; completion of the Fiber Optic Programme that will allow wireless access for up to 100 000 users; the international railway line that will facilitate Rwanda's import/export trade across the borders of Tanzania and Burundi; the construction of an international airport in Bugesera, which on completion has the capacity to make Rwanda a gateway across East and Central Africa; and the new convention centre in Kigali together with a five-star hotel that caters to demands by a variety of customers visiting the country. Rising public investment and efforts to raise agricultural productivity have created an optimistic scenario for the economy to grow at 7% or more in the next three consecutive years.

The downside risks for the mid-term outlook are the reliance on a limited number of export commodities for which there is sluggish growth in global demand and the tightening of credit by commercial banks despite the efforts by the National Bank of Rwanda to reduce liquidity problems. Furthermore, low domestic resource mobilisation increases reliance on external resources and infrastructural bottlenecks continue to hamper the country's competitiveness in regional and global markets.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	16.9	21.6	8.9	6	6	2.1	1.4	1.4
Public	5	7.1	8	4	4	0.6	0.3	0.3
Private	11.9	14.4	9.4	7	7	1.5	1.1	1.1
Consumption	100.4	95.8	8.8	7.5	8.2	8.4	7.2	8
Public	19	14.5	6.7	5.4	5.3	1.1	0.9	0.8
Private	81.4	81.3	9.2	7.9	8.8	7.3	6.4	7.1
External sector	-17.3	-17.4	-	-	-	-3	-2.1	-2.4
Exports	7.7	11.6	3.7	3.8	3.6	0.5	0.5	0.5
Imports	-25	-29	10.9	7.8	8.5	-3.6	-2.6	-2.9
Real GDP growth rate	-	-	-	-	-	7.4	6.5	7

Source: Data from the National Bank of Rwanda; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Fiscal Policy

In the 2009/10 fiscal year, the total budget approved by parliament was around 35 billion Rwandan francs (RWF) (about USD 630 million), of which close to 50% was covered from domestic sources. Compared to early 2000, domestic resource mobilisation jumped by about 4% in 2009/10 fiscal year. The continued reliance of the government's budget on aid is one of the structural constraints confronted by the country in terms of resource mobilisation. Seeking alternative sources of development finance remains a key component of the long-term strategy.

The Economic Development and Poverty Reduction Strategy (EDPRS) is based on 384 policy actions that guide the allocation of budgetary resources. These policy actions are formed around three clusters: economic, social and governance. The economic cluster covers macroeconomic management, sectoral development with an emphasis on agriculture, infrastructure, private sector development, climate change and natural resources. The social cluster focuses on improvements in the state of education, health, social protection and access to clean water. The governance cluster covers performance indicators on public financial management, justice, reconciliation law and order. As of mid-2010, 374 of the 384 policy actions had been implemented – an implementation rate of close to 97% and proof it would seem of an alignment of the budget with development strategies. Government spending on key priority areas of the EDPRS had exceeded 94% by the end of March 2010 with a firm possibility that full execution of budget plans would be realised in the 2009/10 fiscal year. The alignment of government spending with EDPRS priorities has increased from about 7% of GDP in 2005 to over 10% of GDP in 2010 – a sign of commitment to its stated strategies and perhaps a unique record of achievement within the region. This commitment has led to decline in the expenditure share of wages and salaries, and of goods and services, and a rise in the share of public investment in total government expenditure (Table 4).

There have been improvements in the mobilisation of government revenue as well. Reforms of the Rwandan Revenue Authority (RRA) have paid off in higher collections of direct taxes and some indirect taxes. The increased revenue has offset shortfalls in international trade taxes that originated mainly from shifts in imports from EAC and COMESA, a decline that led to corresponding reductions in revenues. In 2009, RRA registered 1 257 new taxpayers bringing the total to 34 193, which is a significant achievement in terms of broadening the tax base and enforcing compliance, one of the key structural requirements for domestic resource mobilisation. This effort translates into a one-to-one increase in total revenue with respect to GDP in the mid-term (Table 4).

Due to higher-than-expected revenue and low expenditure, the overall government budget (including grants) showed a moderate deficit in 2010 (-0.5% of GDP) and is expected to expand to 3.5% in 2011.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	18.1	21.7	24.2	24.6	25	24	23.9
Tax revenue	9.7	11.6	12.7	12.3	12.2	12	11.9
Oil revenue	-	-	-	-	-	-	-
Grants	7.6	9.4	9.4	11.1	11.7	10.9	10.9
Other revenues	0.8	0.7	2	1.1	1.1	1.1	1.2
Total expenditure and net lending (a)	19.3	24	24.8	26.8	25.5	27.6	25.4
Current expenditure	13.1	15.3	14.3	13.9	14.5	14.6	14.2
Excluding interest	12.3	14.8	13.8	13.4	13.9	14	13.6
Wages and salaries	4.8	3.6	3.3	3.3	3.3	3.3	3.3
Goods and services	3.6	3.8	3.1	3.5	3.8	3.8	3.6
Interest	0.8	0.5	0.5	0.4	0.5	0.7	0.6
Capital expenditure	6.1	9.1	10.4	10.4	10.6	10.4	10
Primary balance	-0.4	-1.8	-0.1	-1.7	0	-2.9	-0.8
Overall balance	-1.2	-2.4	-0.6	-2.2	-0.5	-3.5	-1.4

a. Only major items are reported.

Source: Data from Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409728>

Monetary Policy

The key objectives of monetary policy in Rwanda are macroeconomic stability and sustained growth. Following a series of reforms, the current monetary policy framework is geared towards a flexible foreign exchange regime determined by market forces to encourage trade and investment, coupled with open market operations to manage money supply to ensure positive returns for bank savings in real terms and facilitate access to finance for the private sector.

Part of the economic slowdown experienced by Rwanda in 2009 could be explained by severe liquidity problems faced by domestic banks, blocking private sector access to finance. The National Bank of Rwanda intervened to ease the money supply by reducing reserve requirements from 8% to 5% in early 2009 and cut its policy rates (key repo rate) to increase the liquidity position of commercial banks. Banks responded, albeit slowly, and domestic credit expanded by 9.4% in the first three quarters of 2010 – the bulk of it being extended to the construction and services sectors. Deposit rates showed signs of picking up during the liquidity crunch to 9% but gradually eased to 6.7% as of September 2010.

By end of 2008, the consumer price index in Rwanda reached a record high of 22.3% reflecting partly the sharp increase in world food and oil prices as well as the monetary expansion of the previous year. By the end of 2009, inflation declined to 5.7% as overall import prices declined, and food prices stabilised due to a better harvest and slower growth in the money supply. In 2010, inflation declined further, reaching its lowest point in October 2010 at 0.2%. The annual average for 2010 was estimated to be 2.3% with a potential of rising in 2011 due to the surge in world prices for petroleum.

External Position

Exports suffered in 2009 due to reduced global demand for coffee and tea. In 2010, between January and

September, overall receipts from exports approached USD 186 million, coffee and tea alone contributing close to 48% of export receipts. With minerals, the share reached 67% of total exports, underlying the dependency of exports on primary products. Import bills in 2010 were close to USD 998 million and almost two-thirds of it went to import capital and intermediate goods. The rise in import bills is partly explained by the shift in the direction of trade towards the East African Community and the COMESA free trade area where import barriers have been reduced considerably.

As a result, the current account balance registered an estimated deficit of 6.6% of GDP in 2010 and is projected to hit 9.1% in 2011 before falling again to 6.4% (Table 1).

A rise in private direct investment bolstered the balance of payments in 2009 helping it achieve a surplus to the tune of USD 139 million that in effect raised the country's reserve to 6.2 months of imports (up by 1.2 months from the previous year). In 2010, the overall balance of payments was expected to experience a moderate deficit of USD 9.4 million, reducing slightly the reserve position by a small margin from its 2009 level.

Rwanda's level of debt is one of the lowest in sub-Saharan Africa, partly due to substantial debt relief (which amounted close to USD 1.5 billion in 2005) and the government's prudent debt management. In 2010, Rwanda's external debt was less than 5% of GDP while the average for sub-Saharan Africa was close to 23% and that of the EAC 26% and about 30% for Low Income Countries (LIC).

Table 5: Current account (percentage of GDP)

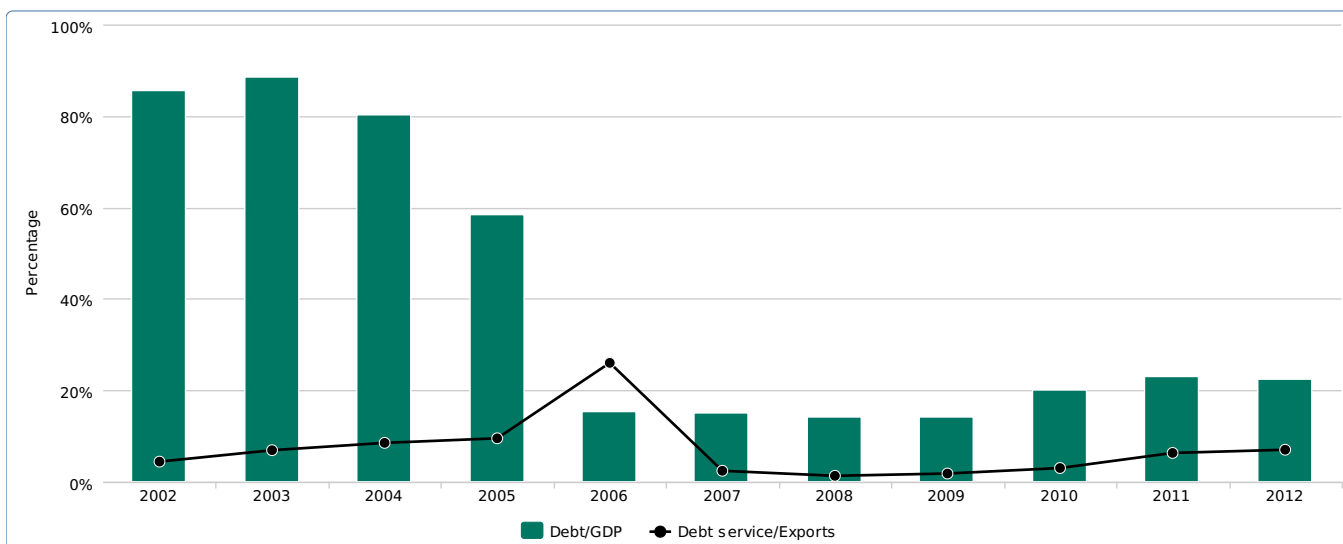
	2002	2007	2008	2009	2010	2011	2012
Trade balance	-8.2	-10.8	-14.6	-15.8	-18.7	-20.5	-21
Exports of goods (f.o.b.)	3.9	4.7	4.1	3.7	3.9	3.6	3.4
Imports of goods (f.o.b.)	12.1	15.5	18.7	19.5	22.6	24.1	24.4
Services	-8.2	-3.3	-1.7	-3.4	0.2	-0.5	4.2
Factor income	-1.1	-0.5	-0.7	-0.7	-0.7	-0.9	-1.1
Current transfers	8.5	12.3	11	11.5	12.5	12.8	11.4
Current account balance	-9	-2.2	-6	-8.4	-6.7	-9.1	-6.5

Source: Data from the National Bank of Rwanda; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410697>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404465>

Structural Issues

Private Sector Development

Rwanda is one of the leading reformers in the world when it comes to creating a private sector conducive to doing business. It ranked 58th out of 183 in the 2011 World Bank's *Doing Business* report, the first country in sub-Saharan Africa to be ranked so highly. Within Africa, Rwanda has gone from a rank of only 37th in 2006, more or less on the same level as its neighbour Burundi, to 5th in 2011, surpassing all other members of the East African Economic Community. Some of the dramatic changes the country has made include the reduction of the number of days required to start a business to just one, the minimum possible time it takes anywhere in the world. For businesses, the number of days required to obtain construction permits fell from 210 days to just less than 30 days. The effort of the government to automate custom clearance is expected to facilitate cross-border trade by significantly reducing the time it takes to process necessary the paper work.

Rwanda was also acknowledged as a country that has made the most progress in economic freedom according to the global Index of Economic Freedom released every year by the Wall Street Journal and the Heritage Foundation. The index tracks countries based on ten factors that include freedom to do business and trade, levels of government spending and investment, transparency and competitiveness.

The improved business climate is expected to facilitate capital inflows into the country. Government estimates suggest that foreign direct investment (FDI) and other capital flows will increase by about 12% per year in the next three years from the USD 143 million recorded in 2009. The share of private sector credit-to-GDP in the last decade has increased almost six-fold, hitting a record of 12%, at least partly as a result of the government's effort to nurture a budding private sector.

This does not mean everything necessary to foster the private sector in Rwanda is in perfect order. Infrastructure bottlenecks, high taxes and tax administration issues remain a challenge to the private sector as it competes in global and regional markets.

Other Recent Developments

Other structural reforms that are underway include: measures to improve public financial management through the rollout of an Integrated Financial Management Information System to various government agencies to make the utilisation of public resources more efficient; the consolidation of social security contributions under the direct supervision and management of RRA; measures taken by the National Bank of Rwanda (NBR) to enhance the effectiveness of monetary policy through frequent meetings of the Monetary Policy Committee (MPC); and the introduction of an exchange rate corridor as a stepping stone towards a more flexible exchange rate.

Emerging Economic Partnerships

Rwanda has drawn inspiration from the success stories of China, India, Vietnam and other emerging economies. South-South partnerships in Rwanda, like elsewhere on the African continent, are an emerging trend with a lot of potential. China clearly is one of the important players in Rwanda – bilateral trade has increased at a steady pace, reaching USD 23 million in 2009, or about 7% of total exports. Trade with India has begun to pick up in the last decade, reaching 3% of total exports in 2008 but declining again significantly in 2009. By contrast, the share of trade with traditional trade partners has declined steadily in the last decade.

Rwanda's partnership with China is not limited to trade alone. Chinese companies operating in Rwanda completed projects costing close to USD 500 million in 2009. For its part, China provided Rwanda access to its markets on a zero-tariff basis.

China's investment in Rwanda is set to grow significantly over the next five years. Star Media, a digital pay TV operator with 10 000 subscribers since it began operation in 2009, is one of the rapidly growing Chinese companies in Rwanda. The company plans in the next five years to diversify its services to include wireless Internet and mobile TV. China is active in building the New Century five-star hotel, which is expected to meet rising demand for hotel services by tourists, business travelers and others. China is also engaged in a project to rehabilitate roads in urban areas, particularly in the capital, Kigali. It has expressed interest in collaborating in the government's effort to build enough power plants to double capacity in the next few years. Most importantly, China's engagement in Rwanda has helped create jobs and led to a transfer of skills and technology. Rwanda and China are taking further steps to deepen their co-operation by signing the Bilateral Investment Protection Agreement and Agricultural Technological Co-operation Agreement.

India is also an important player in Rwanda. A series of agreements between the governments of Rwanda and India since the late 1990s have led to technical and economic co-operation that provides opportunities for both countries. Even though small, trade between the two countries has been growing over the years, with Rwanda importing mainly Indian drugs and pharmaceutical products, transport equipment and machinery. More importantly, student exchange programmes are promoting the transfer of professional ICT skills – more than 500 Rwandan students have received higher education in India. Furthermore, Indian teachers are working in Rwanda and providing critical support to advance higher learning.

Political Context

According to the constitution that was put in effect in 2003, Rwanda is a republic that follows a multi-party, presidential system where the Chief Executive is elected directly by the public every seven years. The country concluded in August 2010 its second presidential election where President Paul Kagame, leader of the Rwandan Patriotic Front (RPF), was re-elected for the second term by a sweeping majority of 93%. Opposition parties that participated in the election include the Social Democratic Party and the Liberal Party which won, respectively 5% and 14% of the popular vote. The government refused to register two opposition parties for the elections, the Democratic Green Party and the FDU Inkingi, and charged a prospective presidential candidate, Victoire Ingabire, with promoting genocide. Turnout in this election was substantial, exceeding 95%, where more than 5 million eligible voters cast their vote to elect the President. Generally the election was peaceful; a few politically motivated incidents were reported in the aftermath of the election. However, a grenade attack took place two days later in the capital, wounding 12 people.

The recovery of the country from the devastating genocide of 1994 surpasses human imagination. It is a story of resilience and sheer determination to write a new chapter in a deeply divided, traumatised and war-torn country. The leadership's efforts to bring about national unity through reconciliation, its abhorrence of genocide ideology, intolerance to corruption, commitment to decentralisation to empower communities, and its record of financial transparency have helped the ruling party stay in power. Evidently, the political system, as elsewhere on the continent, is experimenting with democratic ideals against a background of poverty, ethnic dissent, illiteracy and human deprivation – all this poses a clear and present danger to its continuity and durability. It should come as no surprise that the government of Rwanda has placed enormous priority on improving the social and economic conditions of the population.

Social Context and Human Resource Development

Rwanda has come a long way since the 1994 genocide that destroyed its human resources. As can be seen from Figure 2, Rwanda's performance in the Human Development Index improved considerably over the last sixteen years overtaking any previous achievements. The transition from a low-human-development country to a medium-human-development country is almost complete.

The country's progress towards the Millennium Development Goals (MDGs) is on a steady path. Real GDP has grown close to 7% between 2006 and 2010 and if sustained could ensure the country reduces extreme poverty by 20% in 2015, from a level of 53% in 2005.

One of the concerns in Rwanda is the high level of income inequality that may hamper progress in reducing extreme poverty. The Gini coefficient for the country increased slightly between 2000/01 and 2005/06 from 44 to 47%, mainly driven by income disparities in urban areas. Table 4 provides factors that contribute to the level of income inequality. Major factors driving income disparities in the country in 2005 were the differences in the level of education attained by heads of households (24%) and regional inequality (27%). To a certain extent, demographic characteristics also play a role (3%). Transitory shocks, including measurement error, account for 40% of the variation in the Gini coefficient. One would expect a decline in the level of income inequality in recent years for a number of reasons. First, the rise in the level of education would have a labour market effect on wages so that the difference in the returns to education eventually would come down. Secondly, agricultural policies, coupled with the ongoing social protection programme under Vision 2020 *Umurenge*, is expected to close the urban-rural gap so that inequality can be reduced significantly as these policies impact not only rural incomes, but also mitigate adverse shocks.

On education and health, Rwanda has also made impressive progress towards achieving the MDGs. According to the Ministry of Finance and Economic planning, the primary school completion rate has increased from 52% in 2007 to 75% in 2009, with completion rate for girls even higher at 78% compared with that of boys at 71%. The transition rate from primary to secondary school has also increased from 54% in 2008 to 88% in 2009. It is easy to see that Goal 2 of the MDGs is on track in Rwanda. On the health front, the UN MDGS Report (2010) acknowledges that Rwanda is very likely to meet or even surpass the target of reducing infant and maternal mortality by one-third. The rate of birth attended by skilled staff increased from 39% to 52% and proportion of children under five sleeping under insecticide-treated bed nets increased from 4% to 56% in a space of just three years. Rwanda is also the country with the highest representation of women in parliament in the world. The country's commitment to the environment is exemplary. It is the only country in Africa where plastic bags are banned. Its capital, Kigali, and other towns in Rwanda are among the cleanest on the continent.