HOME ECONOMIC STUDIES RWANDA

POPULATION

11.8 MILLION

GDP

772 US$

A4 — COUNTRY RISK ASSESSMENT

A4 — BUSINESS CLIMATE

SYNTHESIS

MAJOR MACRO ECONOMIC INDICATORS

	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	6.0	6.1	7.2	7.8
Inflation (yearly average, %)	5.7	4.9	1.9	2.7
Budget balance (% GDP)*	-3.5	-4.9	-4.2	-4.9
Current account balance (% GDP)	-15.9	-6.8	-8.7	-8.6
Public debt (% GDP)	44.5	48.4	49.2	49.8

(e): Estimate. (f): Forecast. *Fiscal year from 1st July - 30th June. 2019 data: FY18/19.

STRENGTHS

- Geological potential: cassiterite, coltan, gold, precious stones (aquamarine, ruby, sapphire)
- Tourism potential
- Development of an industrial fabric
- One of the most favourable business environments on the African continent
- Significant progress in governance and relative political stability

WEAKNESSES

- High dependence on commodity prices and international aid
- Isolation and exposure to geopolitical tensions in the Great Lakes region
- High demographic pressure; population density among the highest in Africa

RISK ASSESSMENT

A growth model that continues to deliver growth

Activity will remain strong in 2019 and should continue to accelerate, reaping dividends from public investment in particular. Both planned and underway investment in the agricultural sector is expected to further increase the production of tea and coffee, the country's main export crops. The focus on the development of the mining sector and processing industries (textiles and leather, processed food) should also lead to increased production, and also contribute to a broader export base. Investment in tourism and infrastructure, such as the Bugesera airport construction project, will also continue to support activity. While the growth momentum will remain driven by the public sector, private investment is expected to continue to grow gradually, thanks to steady momentum of business-friendly reforms. The opening of the country's first vehicle assembly plant in 2018 is an example of the diversity of investment opportunities. In addition, the resumption of private sector credit growth (supported by an accommodative monetary policy) and low inflation will facilitate private consumption, notably catalysing trade activities, as well as financial and transport services.

The decline in aid influences fiscal policy

In 2018/19, the authorities' priority in terms of budgetary management remains the effort to improve the mobilisation of domestic revenues, in a context of gradually reducing budget aids. While the IMF's Policy Support Instrument programme has facilitated some progress, a new tax law that came into force in April 2018 aims to continue these efforts. On the expenditure side, authorities have adopted a new directive to contain the increase in the wage bill and to free up additional resources for capital investment. The latter will continue to progress with the aim of completing ongoing projects. Overall, the budget deficit is expected to deteriorate in 2018/19 in line with increased spending on social protection, health, and education.
Despite the rapid increase in public debt, mainly due to the investment made in recent years, it seems to be on a sustainable path, largely due to the high share of concessional loans.

Less vulnerable external position, despite a still large current account deficit

The current account deficit is expected to remain high in 2019, burdened by a trade balance that remains in deficit. Imports of capital goods as part of the construction of Bugesera airport will be particularly important. If they were excluded, the trade deficit would narrow through the development of a broader export base and the improvement of agricultural and mining output. An increase in tourism revenues should contribute to the gradual narrowing of the services account deficit. On the other hand, the income account is expected to continue to deteriorate due to the increase in profit repatriations and, to a lesser extent, employee compensation. The same could be true for the balance of transfers, with the structural decline in aid and grants. Despite this current account deficit, FDI flows and project loans are expected to finance the deficit. This is reflected in an accumulation of reserves, which amount to more than four months of imports, and a slowdown in the depreciation of the Rwandan franc.

Stable domestic environment despite border tensions

President Paul Kagamé secured a third consecutive term in August 2017, officially obtaining nearly 99% of the vote. In September 2018, the hegemony of the Rwandan Patriotic Front (RPF) and Mr Kagame was once again confirmed during the legislative elections: with a broad coalition of six parties, the RPF won 74% of the votes and 40 of the 53 seats put to the vote. The place of the opposition will be all the more limited, as nine other seats have been won by traditional allies of the RPF. Regularly accused of muzzling dissent and controlling political space, President Kagame and the RPF are also credited with restoring peace and political stability.
The country, which has been constantly improving in international rankings for 15 years, is continuing reforms aimed at improving the attractiveness of its business environment. In 2018, for example, measures to cut red tape in the construction sector, facilitate the issuance of building permits, and reduce power outages, were targeted to address weaknesses in the business climate. Ranked 29th (out of 190 countries) in the Doing Business 2019 report, the country has one of the most attractive business climates on the continent.
Nonetheless, relations with its neighbours in the Great Lakes region remain tense. Tensions with Burundi, which had deteriorated since the Burundian political crisis broke out in 2015, escalated in the summer of 2018 after attacks in southern Rwanda. The precarious security situation in the Kivu region (east of the Democratic Republic of the Congo) is also a source of tension with the Congolese neighbour.

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