KPMG

Economic Snapshot H1, 2017

Rwanda

Inflation overview – Headline inflation decreased from 13.0% year-on-year (y-o-y) in March to 12.9% y-o-y in April. The National Bank of Rwanda (NBR) is expected to hold off on further interest rate cuts in 2017 - the central bank cut the interest rate with 25 basis points in December 2016 to 6.25%. Inflation is expected to average 7.1% in 2017 and 6% in 2018.

Growth summary – Rwanda's GDP growth is driven primarily by the construction and services sectors. These two sectors prevented a more substantial economic slowdown in Rwanda in 2016 as their strong growth outweighed the drought-induced slowdown in agriculture. It is expected that construction will continue on a strong growth trajectory during 2017 as the government implements its Vision 2020 programme.

Economic policy – The Economic Development and Poverty Reduction Strategy (EDPRS) 2013-2018 is based on Rwanda's Vision 2020 and guides medium-term policy actions. The main aim of the EDPRS is to speed up the country's progress towards achieving its goal of becoming a middle-income status country.

Trade & Investment SWOT

Strengths	Weaknesses
Regionally and globally low corruption levels minimise operating costs.	Rwanda's consumers have a distinct lack of purchasing power.
Firm intellectual property rights enable companies to generate a fair return on their investment into the research and development of new products.	Lack of an international bank could lead to investors losing money in transfer fees.
Tax incentives for large manufacturing are favourable to foreign investment.	The country's agriculture-based subsistence economy and lack of natural resources limit its export potential.
Strong contract enforceability assures businesses they can wholly rely on the courts if a customer fails to pay.	The scarcity of bank accounts increases the financial risks for investors looking to hire employees with stable finances.
Opportunities	**Threats**
The government has established the Rwanda Development Board to fast-track development projects and encourage new investment.	Government looks to reduce business tax exemptions as international aid decreases.
The government is taking steps to incentivise investment in the construction industry, making it easier and cheaper to secure construction permits.	Poor e-government score worrying for investors bidding for public sector contracts.
A virtual tax-free environment for export-oriented manufacturing firms is a major incentive for investment in the sector.	A severe shortage of teachers - particularly in rural areas - continues to severely restrict the size of the country's labour force
The government maintains a high-profile anti-corruption effort.	Inconsistent application of tax incentives could pose a risk to investors.

Source: Business Monitor International (BMI)

Mega trends

Population	2017	Total: 12.16 million; female: 6.33 million; male: 5.83 million; age 0-14: 40.16% of total; age 15 +: 59.84% of total; age 65+: 2.94% of total
Population growth rate	2015	2.34%
Life expectancy at birth	2014	Total: 63.97 years; female: 67.03 years; male: 61.05 years
HIV/AIDS	2015	Total number of people living with HIV: 0.20 million; total adult prevalence: 2.9%; HIV/AIDS orphans (age 0-17): 0.07 million
Adult literacy rate	2015	Total population: 71.24%; female: 68.27%; male: 61.05%
Urbanisation	2015	Urban population: 28.81% of total; annual urban population growth: 5.76%; rural population: 71.19% of total
Population below $1.90 per day poverty line	2013	23.69%
Unemployment rate	2017	Total: 2.4%; female: 2.5%; male: 2.3%; youth (15 - 24): 3.1%
Employment	2012	Agriculture: 75.3% of total ; industry: 6.7% of total ; services: 16.2% of total
Labour participation rate	2017	Total (ages 15+): 84.8% of total population
Business languages	n/a	Kinyarwanda, French, English
Telephone & Internet users	2015	Fixed telephone subscriptions: 0.02 million (2013); wired internet subscriptions: 2.3 million; cell phone subscriptions: 8.76 million

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Development Indicators, UNAIDS, International Labour Organisation

Human Development Index (HDI) 2015		Index of Economic Freedom 2016		Global Competitiveness Index (GCI) 2016		Doing Business 2017		Corruption Perceptions Index 2016	
159th	out of 188 countries	71st	out of 179 countries	52nd	out of 148 countries	56th	out of 189 countries	50th	out of 177 countries

Source: Transparency International, Doing Business, World Economic Forum, UN Human Development Report, The Heritage Foundation

Sovereign Risk Ratings		
S&P Global Ratings	**Fitch Ratings**	**Moody's Investors Service**
B/Stable	B+/Stable	B2/Stable

S&P Global Ratings affirmed in March 2017 their rating of Rwanda's long-term foreign sovereign credit at "B" while keeping the outlook at stable. In September 2016, S&P downgraded Rwanda from "B+" to "B" due to the country's adverse external position – including a widening current account deficit and growing net external debt levels. Currently, S&P believes "*that the most immediate financing pressures have abated and continued programs with the International Monetary Fund (IMF) will help to anchor policy going forward*" and have therefore affirmed this rating decision this time around. The stable outlook reflects the balance between stronger-than-expected economic growth and weak fiscal performance.

Fitch Ratings affirmed Rwanda's long-term foreign currency Issuer Default Ratings (IDR) in November 2016 at "B+" with a stable outlook. Fitch highlighted falling commodity prices (especially for coffee and metal ores), which has increased the balance of payments pressures facing Rwanda. Factors that could potentially trigger negative rating action are if Rwanda does not narrow its current account deficit and/or fails to attract long-term capital to finance this deficit, if the country fails to stabilise the large gross general government debt/GDP ratio, if there is large contraction of donor grants and loans to the country, and if there is a material threat to political stability. Factors that could lead to positive rating action are a continued strong GDP growth, a significant narrowing of the current account deficit and an increase in tax revenue, declining government debt/GDP and increased fiscal financing flexibility.

Moody's Investors Services assigned for the first time foreign currency issuer ratings to Rwanda in August 2016. The rating given was "B2" with a stable outlook. This first rating assignment was based on the low economic strength but with strong growth prospects, the institutional strength of the country with regards to policy implementation, the debt burden of about 50% of GDP and the susceptibility to event risk. Upgrading basic infrastructure and human capital to generate a favourable business environment and improve its competitiveness will place upward pressure on Rwanda's future ratings. Negative rating pressure, on the other hand, would occur if the balance of payments deteriorated more than expected or if political tensions with neighbouring Burundi or the DRC were to flare up.

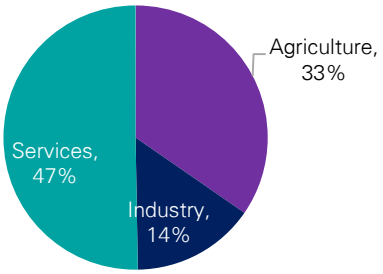
Quality of infrastructure	Economic diversity	Banking sector	Continuity of economic policy	GDP growth	Fiscal / current account balances	Foreign investment	Socio-economic development	Forex reserves
Limited although improving	Very dependent on agriculture	Small but growing	Quite stable	Robust	Twin deficits	Healthy and rising	Low	Adequate

Stock market	Listed companies	Liquidity	Market capitalisation	Largest sector	Weekly trading volume
Rwanda Stock Exchange	8	Low	$326 million Source: African Alliance	Financials, food, beverages	Highly variable
Capital market	**Level of development**	**Liquidity**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Limited	Low	28 days to 7 years	No	Yes

Macroeconomic overview

Economic structure - The primary sector is the backbone of Rwanda's economy, with three-quarters of the population employed in agricultural activity. The country's fertile soil allows for the production of diverse crops, including coffee, tea, bananas, beans, sorghum and potatoes. The secondary sector is small and counts construction as its largest component. The outlook for construction activity is amongst the brightest in Sub-Saharan Africa as private interest – supported by the plethora of opportunities in infrastructure and the government's strong commitment to opening the sector to foreign investment – remaining robust. The tertiary sector is also a focus of economic diversification (away from agriculture), with the country aiming to become a technological leader on the continent. The government is very supportive of modern technology solutions to its historical challenges of poverty.

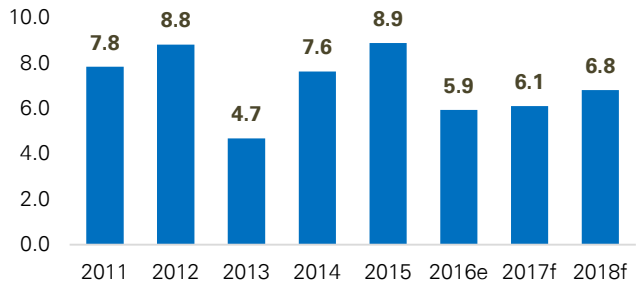
Economic structure as % of GDP 2015



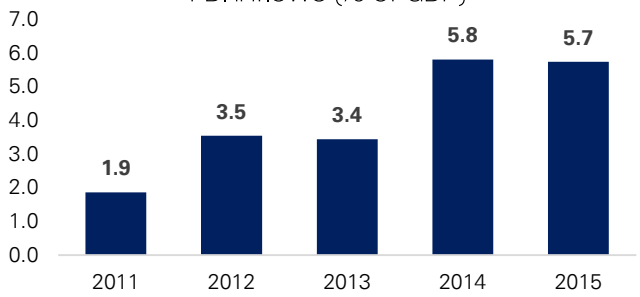
Source: World Bank: World Development Indicators

Economic growth – Rwanda's GDP growth is driven primarily by the construction and services sectors. These two sectors prevented a more substantial economic slowdown in Rwanda in 2016 as their strong growth outweighed the drought-induced slowdown in agricultural. Rwanda's services sector is sizeable when compared to other countries in Sub-Saharan Africa (SSA) – thus shielding Rwanda against the much slower growth that other commodity dependent economies in the region saw during 2014-2016 economic slump. It is expected that construction will continue on a strong growth trajectory in 2017 as the government implements its Vision 2020 programme - aimed at reducing the country's reliance on agriculture and investing into infrastructure, power, transport and the ICT sectors. Continued infrastructure investment will raise productivity within the economy and will act as an additional growth driver.

Real GDP growth (%)



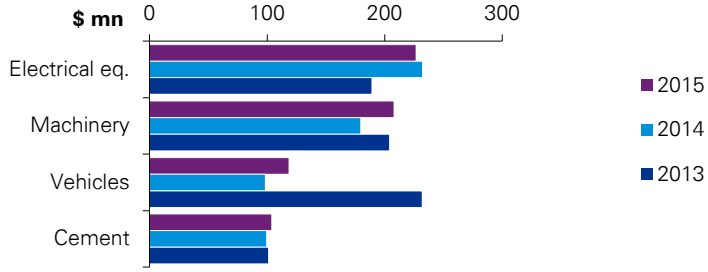
FDI inflows (% of GDP)



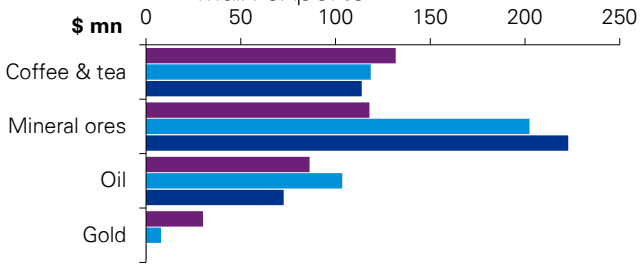
Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Rwanda is continuing to show higher foreign direct investment (FDI) inflows on a yearly basis. In 2005, FDI was less than 5% of gross fixed capital formation and 10 years later in 2015, these inflows accounted for 24%. This is up to 10 percentage points higher than other countries in the East African Community (EAC). When looking at Rwanda's FDI as a percentage of GDP, the country performs better than the average in sub-Saharan Africa and similar to the average for low income countries globally. According to BMI, investors face financial barriers due to the small banking sector and limited access to international financial markets. Nevertheless, relatively low legal costs and low levels of corruption, along with limited red tape and bureaucratic procedures, are positive for investment. Rwanda's elections are set to take place on 4 August 2017. President Paul Kagame will be running for a third seven-year term after 98% of voters agreed to modify the constitution in the December 2015 referendum to allow Kagame run another term. The election should not have a major effect on FDI, as Rwanda has made huge development strides, infrastructure investment and improved their business environment under Kagame's leadership.

Main imports



Main exports

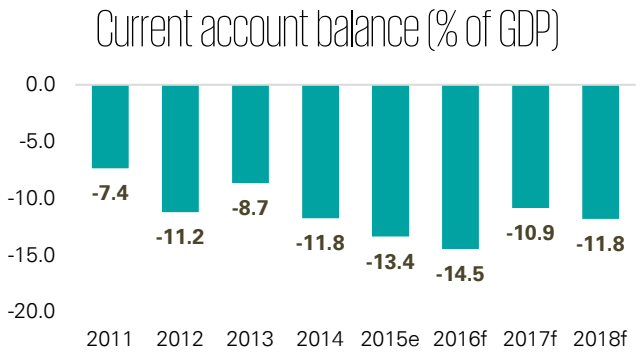


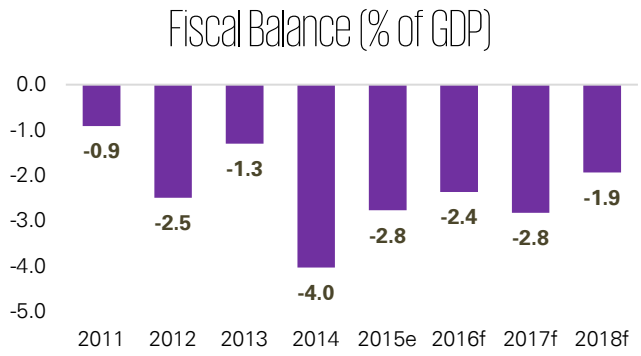
Main Imports: % share of total	2013	2014	2015
Electrical eq.	9.5%	11.9%	12.2%
Machinery	10.3%	9.2%	11.2%
Vehicles	11.7%	5.0%	6.4%
Cement	5.1%	5.1%	5.6%

Main Exports: % share of total	2013	2014	2015
Coffee & tea	18.7%	18.2%	22.8%
Mineral ores	36.6%	31.0%	20.4%
Oil	11.9%	15.8%	14.9%
Gold	0.0%	1.2%	5.2%

Source: Trade Map

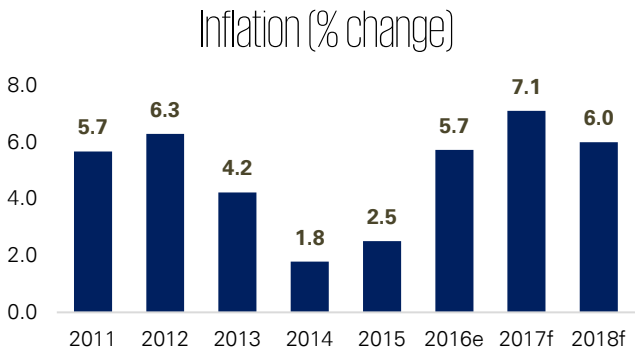
External trade – Rwanda's current account deficit is expected to remain large in the years ahead. Import growth is expected to slow in 2017, as the 'Made-In-Rwanda' initiative improves local production of goods. Cement is one of the main products under this initiative - investment into Cimerwa (a state-owned cement company) has seen growth in production. As domestic cement prices are higher than imported cement, Rwanda will still rely somewhat on imported cement. This illustrates a broader trend where import demand will only taper off slowly over the years ahead as the country's productive capacity rises. A US trade preference programme under the African Growth and Opportunities Act (AGOA) will support the country's apparel, agricultural and other exports.





Source: IMF

Fiscal policy – Rwanda's budget balance is expected to improve, but to remain in deficit territory. The deficit is forecast to ease from 4% of GDP in 2014 to 1.9% of GDP in 2018. Rising revenues will lead to the deficit narrow significantly as a widening tax base begins to show results. Rwanda's government is focussed on investment and is expected to maintain its disciplined stance towards expenditure, focusing its limited resources on growth-boosting infrastructure projects and wide-ranging social programmes. Rwanda has an effective and competent public financial administration, with low levels of corruption, and for the most part expenditure meets its target – this will contribute to improving the fiscal deficit.



Source: IMF

Monetary policy - Headline inflation decreased from 13.0% y-o-y in March to 12.9% y-o-y in April. The Rwandan economy currently has the benefit of higher expected economic growth and lower interest rates compared to previous years. However, the NBR is expected to hold off on further rate cuts in 2017 - the NBR cut the interest rate with 25 basis points in December 2016 to 6.25%, the first reduction since mid-2014. This will support credit expansion and boost economic activity. Inflation is expected to average 7.1% in 2017 and 6% in 2018, remaining in the upper limits of the central bank's target of about 5% over the medium term.

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