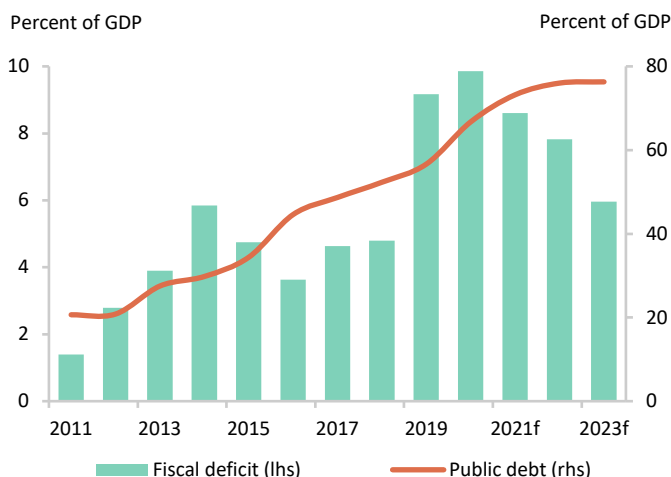# RWANDA

Rwanda's economy fell into recession in 2020 as the COVID-19-induced crisis severely hit tourism, education, and mining sectors. The twin deficits deteriorated—requiring more external financing—and are expected to remain at above their pre-crisis levels in 2021. The adverse effect of the crisis on output and employment means that poverty is expected to increase between 2019 and 2021. Real per capita GDP is expected to return to its pre-crisis level in 2022.

Key conditions and challenges

The global pandemic has exposed limitations in Rwanda's growth model. Its heavy emphasis on public investment spending (which increased by 14 percent annually between 2010 and 2020) helped Rwanda become one of the world's fastest-growing economies. But public debt grew rapidly as well—more than tripling relative to GDP since 2010—raising concerns about its long-term sustainability. In June 2020, Rwanda's risk rating of debt distress shifted from "low" to "moderate" as the pandemic severely hit growth, exports, and tax revenues. This underscores the need to adopt a credible fiscal consolidation path, strengthen debt management capacity, and shift from large public investments to growth that is led by the private sector and increased productivity. Inclusive growth remains a challenge, as the responsiveness of poverty reduction to growth has declined since 2010/11. In terms of the international poverty line of US$1.90 (2011 PPP), poverty rate declined from 69 percent to 55.4 percent over 2005–2019, but due to COVID, poverty is projected to increase in 2021 by almost 4 percentage points with respect to its 2019 value, adding close to 900,000 new poor in 2 years. This uptick in poverty increases the urgency to design a medium-term public investment strategy to achieve a more efficient allocation of resources geared toward projects critical for broad-based and inclusive economic recovery following the pandemic (e.g., supporting agriculture economy and rural livelihood, etc.).

Recent developments

The COVID-19 pandemic has driven Rwanda into its first recession since 1994. Countrywide mobility restrictions and closure of businesses caused almost all sectors to contract in Q2 and Q3 of 2020. GDP is estimated to have declined by about 3.3 percent over the full year. Heightened uncertainty weakened business sentiment, resulting in a large investment decline. Private consumption remained constant due to lower household income. The external position has deteriorated due to collapsed services exports, partially cushioned by the exports from the new gold refinery. Nevertheless, the CAD widened in 2020 and was mainly financed through external borrowing. Containment measures also led to job losses, with the unemployment rate reaching 22 percent in May (from 13 percent before COVID-19). The job market showed some improvements in August, with the unemployment rate declining to 16 percent as economic activities started gaining some momentum. These job losses are expected to result in poverty increases (using the international poverty line of US$1.90) of 1.8 percentage points in 2020, or more than 400,000 Rwandans falling into poverty. Rwanda reinstated containment policies in early 2021 following renewed

FIGURE 1 Rwanda / Fiscal balance and public debt

Source: World Bank staff estimates.

FIGURE 2 Rwanda / Actual and projected poverty rates and real private consumption per capita
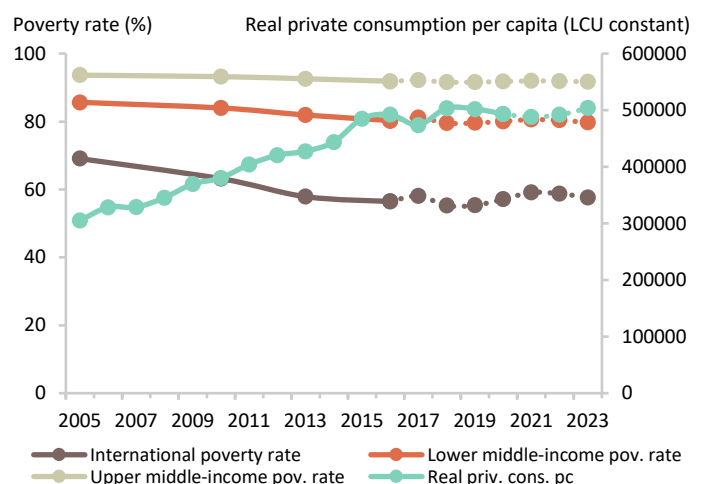
Source: World Bank. Notes: see Table 2.

waves of infections. The government continues to implement its US$900 million Economic Recovery Plan (ERP), reflected in the FY21 budget, with policies focusing on increased spending to contain the epidemic and to strengthen the health system, social protection, education, as well as support for the private sector through the recovery fund. The government is relying mainly on support from development partners to finance the ERP. BNR continues to maintain an accommodative monetary policy by keeping the policy rate at 5 percent since April 2020. Credit growth reached 21.8 percent in 2020, mainly driven by loans restructuring granted to borrowers whose activities were negatively affected by the pandemic. The banking sector remained well-capitalized and well-positioned to withstand the pandemic.

Outlook

Rwanda's medium-term outlook is clouded by COVID-19. With the pandemic likely to continue dampening business activity in 2021, GDP is projected to grow by 4.9 percent—below the pre-crisis trajectory of around 8.0 percent per year—with a gradual recovery by 2023. Real per capital GDP

is expected to remain below its 2019 level until 2022. This outlook reflects the heightened uncertainty surrounding the second wave of the coronavirus at global and African levels—mainly fueled by new COVID-19 variants—that weighs on investment decisions and external demand. In addition, the elevated unemployment rate and other weaknesses in the labor market will continue to slow growth in private consumption. The recovery in private consumption will contribute to reducing poverty slightly in 2022 compared to 2021, but still at a higher level than in 2020.

Rwanda's outlook also hinges on how efficiently the government executes its economic recovery plans, as well as on the support of development partners. Government spending is projected to remain relatively high over the next few years. The fiscal deficit is expected to narrow in 2021 and 2022 as domestic revenue recovers but remain above the pre-crisis level. Besides higher financing requirements, the government will reallocate fiscal resources to priorities as defined in the ERP. The CAD is expected to remain elevated in 2021 due to lower trade and tourism activities, as global demand remains subdued. Inflation is expected to remain within the central bank's target range of 5±3 percent.

Even though Rwanda managed the second wave of COVID-19 relatively well and recent vaccine approvals have raised hopes of a turnaround, delays in obtaining a vaccine would imply longer border closures and a slower economic recovery in 2021. A downside scenario could see a 2.5 to 3 percent growth in 2021.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	8.6	9.4	-3.3	4.9	6.4	7.5
Private Consumption	9.1	2.4	0.9	1.7	3.5	5.2
Government Consumption	5.1	17.5	2.2	15.7	9.7	1.9
Gross Fixed Capital Investment	6.0	32.1	-11.8	7.3	7.8	10.5
Exports, Goods and Services	10.6	19.9	-6.5	11.0	14.7	16.7
Imports, Goods and Services	8.1	18.0	-1.2	8.5	8.5	8.5
Real GDP growth, at constant factor prices	8.5	8.9	-3.3	5.0	6.5	7.5
Agriculture	6.1	5.0	0.9	3.6	5.5	5.5
Industry	8.7	16.6	-4.0	7.4	10.7	10.7
Services	9.7	8.2	-5.2	4.9	5.3	7.3
Inflation (Consumer Price Index)	1.4	2.4	7.4	2.5	4.1	5.0
Current Account Balance (% of GDP)	-10.2	-11.0	-12.2	-12.5	-11.4	-9.3
Net Foreign Direct Investment (% of GDP)	3.6	3.7	2.4	3.6	3.6	3.8
Fiscal Balance (% of GDP)	-4.8	-9.2	-10.0	-8.6	-7.7	-5.8
Debt (% of GDP)	52.4	56.7	67.5	73.2	75.7	75.6
Primary Balance (% of GDP)	-3.6	-7.7	-8.2	-6.8	-6.0	-4.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	55.3	55.4	57.2	59.1	58.8	57.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	79.6	79.6	80.1	80.6	80.4	79.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.6	91.6	91.8	92.0	91.9	91.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2010-EICV-III and 2016-EICV-V. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using microsimulation for 2020 and 2021, and average elasticity (2010-2016)
with pass-through = 0.7 based on private consumption per capita in constant LCU for 2022 and 2023.