

RWANDA

Table 1 **2021**

Population, million	13.3
GDP, current US\$ billion	11.0
GDP per capita, current US\$	825.1
International poverty rate (\$2.15) ^a	52.0
Lower middle-income poverty rate (\$3.65) ^a	78.0
Upper middle-income poverty rate (\$6.85) ^a	92.2
Gini index ^a	43.7
School enrollment, primary (% gross) ^b	131.3
Life expectancy at birth, years ^b	69.3
Total GHG emissions (mtCO2e)	7.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2016), 2017 PPPs.
 b/ WDI for School enrollment (2019); Life expectancy (2020).

Rwanda is facing new challenges from increases in food and fuel prices, compounded by other spillovers from the war in Ukraine. Real GDP growth is projected at 6.0 percent in 2022 and 6.9 percent on average in 2023–24, after a 10.9 percent in 2021. Inflation is expected to rise to around 12 percent, raising households living costs. After increasing in 2020, poverty is expected to reach pre-crisis levels in 2024.

Key conditions and challenges

Rwanda achieved impressive economic growth over 2010–2019, averaging 7.2 percent, aided by a large public investment push. Capital accumulation, mostly large-scale public investment in infrastructure, was the main growth driver. Limitations of the state-led development model have become apparent. Labor productivity and total factor productivity are low for its income level. To sustain growth and create jobs to reduce poverty, the government must facilitate private sector-led development. Key reforms should aim to enable competitive domestic enterprises, foster innovation, develop long-term finance, and promote regional integration.

Rwanda remained with some wounds from the COVID-19 pandemic. Economic scarring may manifest in persistent increases in poverty and inequality, reductions in potential growth and increased debt vulnerabilities. Learning losses due to school interruptions, lower returns to spending on education due to the lack or low quality of remote learning, and premature youth employment following school dropouts, may result in permanent losses in lifetime earnings and productivity, especially among children from poor households. Negative impact on potential growth could be accentuated by the additional human capital depreciation through prolonged unemployment and deteriorating health conditions of productive individuals. With recent increases in

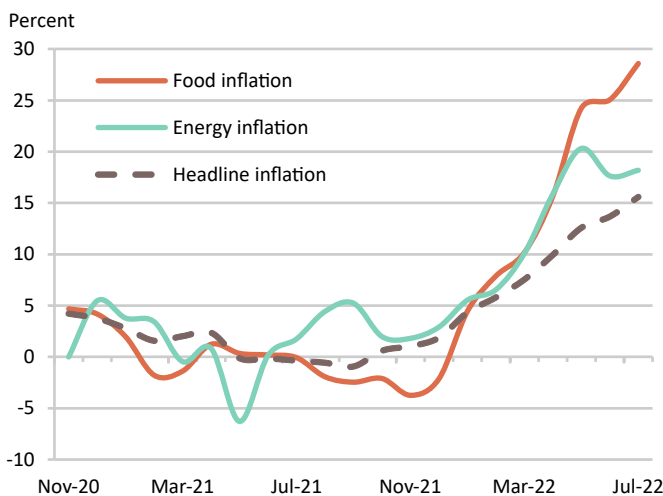
public and publicly guaranteed debt levels, at 73.3 percent of GDP in 2021, meeting spending needs, while safeguarding fiscal sustainability and containing debt vulnerabilities, will require stepping up efforts to ensure spending is well-targeted and cost-effective, secure concessional financing, and implementing measures to mobilize domestic revenues. Rwanda has relatively higher poverty rates than African peers with similar income per capita, and poverty reduction has become less responsive to growth in recent years. Inequality in Rwanda measured by the Gini coefficient is the second highest among low-income countries at 43.7 (2017). Rwanda now faces challenges in fully translating its strong growth into commensurate gains in poverty and inequality reduction.

High reliance on rainfed agriculture and livestock production, makes Rwanda highly exposed to seasonal weather patterns. Rapid urbanization and depletion of forest and water resources in recent years led to increased vulnerability to flood risks, land degradation, and biodiversity loss.

Recent developments

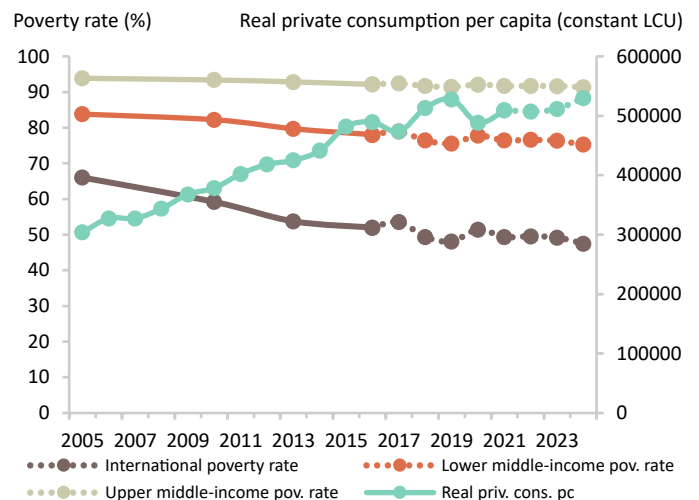
Early economic indicators point to potential moderation in growth in H1-2022, as inflation pressures, due to spillovers from the war in Ukraine, depress consumption and investment. The index of industrial production for formal activities increased by 9.4 percent compared to 21.4 percent in the same period of 2021. The composite indicator of economic activities rose by

FIGURE 1 Rwanda / Headline, food and energy inflation



Sources: 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.

12.1 percent compared to 21.8 percent of the same period in 2021. In 2022, food production fell by 2.3 percent. Furthermore, external demand for Rwanda's goods and services has moderated, potentially widening Rwanda's trade deficit (about 0.7 percent of GDP in 2022).

Headline inflation reached 15.9 percent in August 2022, mostly due to high food inflation (29.2 percent), amid rising global commodity prices and adjustments to fuel and fertilizer prices and reduced agricultural food production. Poorer households are expected to be more affected by food inflation since food purchases represent more than 70 percent of their budgets. To reduce inflationary pressures and preserve the purchasing power of consumers, the National Bank of Rwanda raised its policy rate to 6.0 percent from 5.0 percent in August 2022, building on a 50-basis point increase in February.

The government maintained a fiscal stimulus to protect human capital and support the recovery. The pandemic response significantly accentuated the prioritization of human capital spending. The share of social sectors in total spending was maintained at about 23 percent for the last three FYs to FY22, reflecting the expansion of spending on health and social protection to protect the most vulnerable. The Economic Recovery Fund, amounting to US\$250 million, has

been the cornerstone of the support the recovery from the COVID crisis. Additionally, the government fast-tracked a US\$250 million package—through the Manufacture and Build to Recover Programme—to support private investments in manufacturing and construction. With grant increases, the fiscal deficit is estimated to have declined to 6 percent of GDP in FY21/22 from 7.5 percent in FY20/21.

Outlook

GDP growth is expected to accelerate to 6.9 percent on average in 2023–24 due to uncertainty surrounding the war in Ukraine. Tapering growth in private consumption is expected to drive small reductions in poverty to reach pre-crisis levels (below 48 percent) in 2024. Rwanda is being affected through slower external demand, inflation (higher oil and fertilizer prices) and higher Central bank interest rate. Industrial activities will continue benefiting from government support of the manufacturing and construction sectors and a recovery in tourism activities. However, softening global growth momentum will negatively affect Rwanda's current account deficit in the near term. The Central Bank projects headline inflation to average about

12.1 percent in 2022, well above the upper bound of the central bank's target range of 5±3 percent. The inflation will start trending toward its target range in mid-2023. Persistence of higher levels of inflation, especially in food, has the potential to delay or even revert the expected small poverty gains in the next few years. If food inflation is twice as high as non-food inflation, as has been the case for the last few months, poverty in 2024 is projected to be 2.4 percentage points higher than the pre-war projection.

The government plans to rationalize both recurrent non-wage spending and capital budgets to preserve space for growth-enhancing investment. This will be driven by phasing out COVID-related spending, tight recurrent spending control, discontinuing underperforming public investment and avoiding inefficient spending (through digitalizing delivery of some public goods and strengthening the oversight of SOEs). On the revenue side, the implementation of the Medium-Term Revenue Strategy through tax policy reforms (personal/corporate income tax and value-added taxes). Fiscal consolidation, however, faces rising challenges, including from the increased spending pressures from measures to contain the impact of the war in Ukraine (such as the current fuel and fertilizer subsidy).

TABLE 2 Rwanda / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	9.5	-3.4	10.9	6.0	6.7	7.0
Private Consumption	5.5	-5.0	7.2	2.2	3.5	6.4
Government Consumption	17.5	-1.9	4.3	4.1	6.2	8.3
Gross Fixed Capital Investment	32.1	-2.3	21.1	24.6	2.2	0.7
Exports, Goods and Services	19.9	-9.2	2.8	34.5	25.1	13.2
Imports, Goods and Services	18.0	-3.4	3.6	30.8	8.9	5.9
Real GDP growth, at constant factor prices	8.9	-3.5	10.9	6.0	6.7	7.0
Agriculture	5.0	0.9	5.8	2.9	5.5	5.0
Industry	16.6	-4.2	14.7	9.7	9.2	8.5
Services	8.3	-5.5	12.2	6.2	6.3	7.4
Inflation (Consumer Price Index)	2.4	7.7	0.8	12.1	8.0	5.0
Current Account Balance (% of GDP)	-11.9	-12.2	-10.9	-12.4	-11.2	-10.1
Net Foreign Direct Investment Inflow (% of GDP)	2.5	1.0	1.9	3.0	3.2	2.9
Fiscal Balance (% of GDP)	-9.2	-10.4	-7.9	-7.1	-6.2	-6.0
Debt (% of GDP)	56.8	72.4	73.3	73.1	75.9	76.4
Primary Balance (% of GDP)	-7.7	-8.8	-5.7	-4.6	-3.8	-3.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	48.1	51.4	49.4	49.6	49.2	47.5
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	75.6	77.8	76.5	76.6	76.4	75.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	91.5	92.1	91.7	91.8	91.7	91.4
GHG emissions growth (mtCO₂e)	1.3	1.7	3.4	4.0	4.3	4.4
Energy related GHG emissions (% of total)	17.0	17.4	17.6	17.7	17.8	17.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on 2010-EICV-III and 2016-EICV-V. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.

b/ Projection using average elasticity (2010-2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.