Euler Hermes Economic Research

Country Report

Rwanda

Favourable business environment

General Information

GDP	USD7.103bn (World ranking 141, World Bank 2012)
Population	11.46 million (World ranking 73, World Bank 2012)
Form of state	Republic, presidential & multiparty system
Head of government	President Paul Kagame
Next elections	Presidential August 2017, legislative September 2018

Strengths

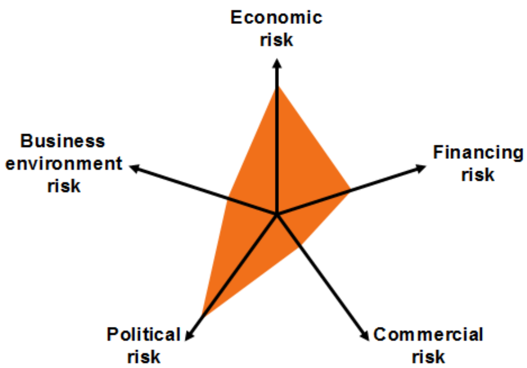
- Natural resource base includes gold, tungsten and cassiterite.
- Political and economic stability have improved markedly, albeit from a very low base in the 1990s when inter-tribal and ethnic clashes resulted in a genocide in which an estimated 900,000 people lost their lives.
- Structural business environment assessed by international agencies as among the best in Sub-Saharan Africa.

Weaknesses

- Landlocked, with associated high transport and trade costs.
- Highest population density in Sub-Saharan Africa.
- Ethnic divisions.
- There are long-term tensions in the Great Lakes Region, with localised military conflicts. Additionally, there are perceptions that Rwanda is actively involved in actions that may undermine regime stability in other countries.
- Dependence on internationally-determined commodity prices, particularly coffee and tea.
- Dependence on international aid.
- Twin current and fiscal account deficits.

Country Rating

C3



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
Dem. Rep. of the Congo	19%	1	16%	Uganda
China	15%	2	14%	Kenya
Malaysia	13%	3	10%	United Arab Emirates
United States	7%	4	8%	China
United Republic of Tanzania	6%	5	6%	United Republic of Tanzania

By product (% of total)

Exports		Rank		Imports
Metalliferous ores and metal	39%	1	6%	Road vehicles
Coffee, tea, cocoa, spices, and manufactures thereof	27%	2	6%	Non metallic mineral manufactures, n.e.s.
Petroleum and related materials	8%	3	5%	Petroleum and rlated materials
Cereals and cereal preparations	7%	4	5%	Iron and steel
Road vehicles	2%	5	5%	Medicinal and pharmaceutical products

Source: UNCTAD (2012)

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Economic Overview

Recent economic perfomance suggests that Rwanda is returning to its pre-2013 high growth trajectory...

In Q2 2014, GDP growth slowed to +6.1% y/y but this followed a strong Q1 outcome (+7.4%) that, in turn, reflected a rebound from a decade-low growth of +4.5% in full-year 2013. Q2 growth continued to be driven by the service sector (+8.5%). The important agricultural sector expanded by +4.8% in Q2, after +5.5% in Q1.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	8.0	4.5	6.5	7.5
Inflation (%, average)	6.3	4.2	2.3	2.8
Fiscal balance (% of GDP)	-4.7	-2.9	-3.2	-3.2
Public debt (% of GDP)	20.8	21.8	21.1	20.6
Current account (% of GDP)	-11.6	-7.6	-7.3	-7.2
External debt (% of GDP)	17.9	21.1	23.5	25.5

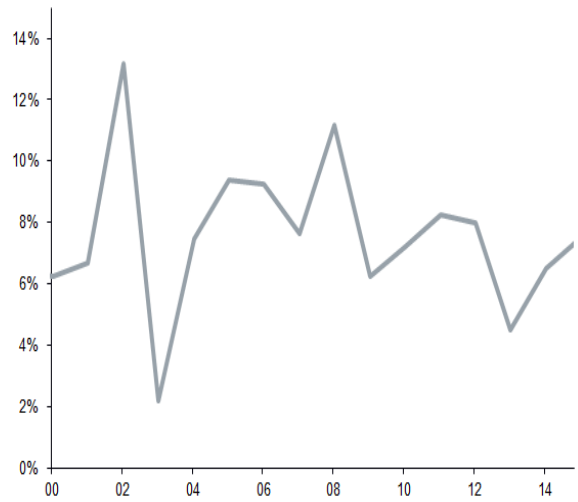
Sources: IHS, national sources, Euler Hermes

...and, as such, GDP growth will surpass that for the region of Sub-Saharan Africa

GDP growth has been relatively strong for several years but slowed to below +5% in 2013 as a result of weakness in the domestic construction and service sectors but also because of fiscal difficulties in donor countries, which limited aid and other disbursements. In addition, some aid was withheld and this resulted in cuts in public investment expenditure. Annual real GDP growth averaged +6.8% in the five-year period to end-2013 and this reflected relatively sound economic management and implementation of reforms that promote the private sector through a liberalised business environment.

Assuming rainfalls are adequate, international commodity prices do not collapse (although they may weaken) and that regional stability and security are maintained at current levels, EH expects GDP growth of +6.5% in 2014 and +7.5% in 2015, compared with a ten-year annual average up to end-2013 of +7.9%.

GDP profile (y/y % growth)



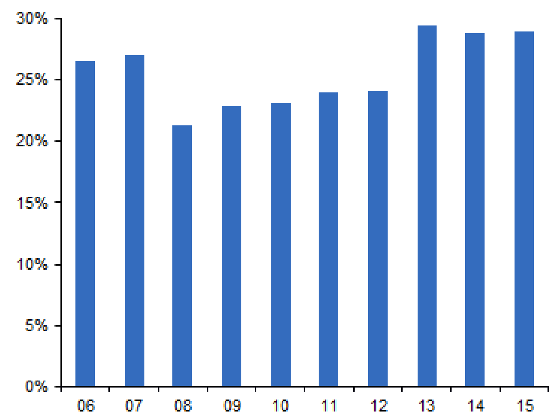
Sources: IHS, Euler Hermes

GDP growth in Rwanda has surpassed the average for Sub-Saharan Africa over an extended period. In comparison, the annual average regional growth in the ten-year period up to end-2013 was +4.9%. Moreover, growth in Rwanda is likely to remain strong as household consumption will increase as real wages improve as labour moves away from agriculture into more productive sectors.

Inflationary pressures are relatively benign

Inflationary pressures are expected to be benign in the period to end-2015, assuming that a local food price shock does not develop. EH expects inflation of around 2-3% (average and end-year in 2014), with similar rates in 2015, subject to uncertain commodity price movements.

General government gross debt (as % of GDP)



Sources: IHS, Euler Hermes

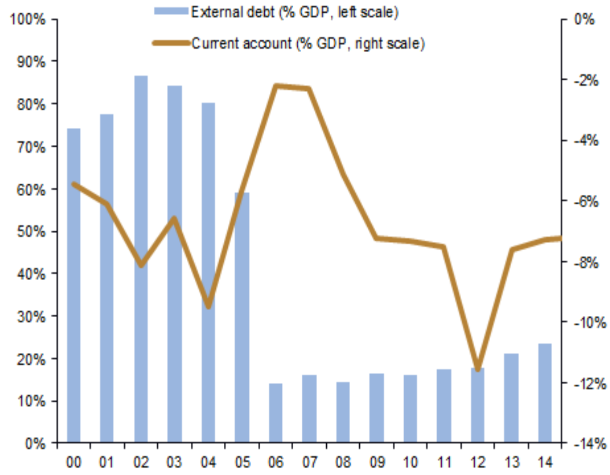
Although declining, the current account deficit is set to remain large, requiring careful management

Revenues from the external sector remain dependent on a narrow product range, principally those related to tourism (including guided wildlife visits) and coffee. Coffee, tea and related products remain key exports, although now accounting for a markedly-reduced proportion (around 27%) of the total (previously >50%). Crop-based exports expose Rwanda to potential downside risks from weather conditions and from commodity price shocks. Mining provides scope for further diversification, with resources that include gold, tungsten and cassiterite. Strong import growth, particularly capital goods, will continue and EH expects the current account deficit will remain over -7% of GDP in 2014 and in 2015. Even so, with international support, this should be manageable and FX reserves currently provide over four months of import cover, compared with the internationally-acknowledged "safe" minimum of three months.

External debt was reduced significantly through multilateral initiaitves and servicing of debts is now manageable

Rwanda completed its programme under the HIPC initiative in April 2005 thereby signifying an effective exit from the debt relief process. Further relief under the MDRI initiative followed, with a significant improvement in external debt ratios (see chart). Since then, external debt ratios have increased but remain manageable - nominal EDT/GDP and EDT/export earnings require careful management at 24% and 81%, respectively, but servicing obligations on that debt is low (debt service/export earnings is only 1%).

External debt and current account balance (% of GDP)



Sources: IHS, Euler Hermes

Public finances

Fiscal accounting is complicated by the impact of periodic interruptions to budget support financing from the donor community in response to perceptions of human rights' abuses and allegations of an increasingly autocratic regime. Overall, EH forecasts a shortfall in the budget deficit of around -3% of GDP in both 2014 and 2015 but this assumes that donor support will be maintained, perhaps partially. Otherwise, fiscal deficits will widen even if government spending is scaled back.

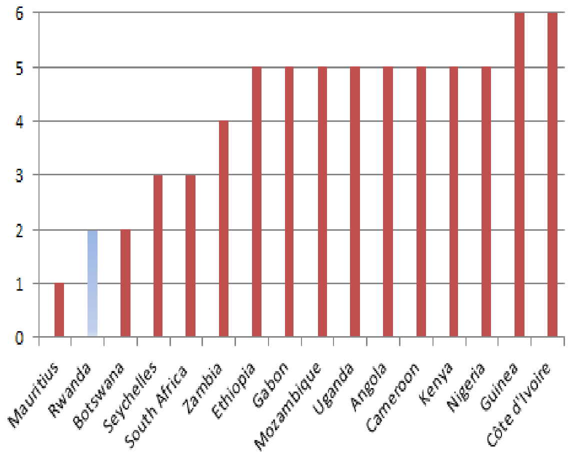
Planning for the future

Rwanda is generally assessed by international agencies (including Euler Hermes, see bar chart) as having one of the most favourable business environments in Sub-Saharan Africa. Reforms have been introduced to improve the business climate and encourage inward investment. These include strengthening private property rights, reduction of bureaucratic procedures and attempts to limit corruption.

Rwanda does not have an IMF financial facility currently in place (a fully-drawn ECF expired in August 2009) but is following an economic programme that is monitored by the Fund under a Policy Support Instrument. Following the IMF's latest Article IV consultation (October 2014), the Fund declared that policy performance remains satisfactory and that all quantitative indicators up to end-June 2014 were met. This level of support and monitoring provides a measure of market assurance that future policy formulation and implementation will remain relatively consistent with current practice. The Fund acknowledges the Rwandan authorities' medium-term plan to transition from a public sector-led, aid-dependent economy to one that is led more by the private sector.

At the end of 2013, members of the East African Community (EAC), including Rwanda, signed a protocol that outlines a ten-year transitional period towards a common currency. This is part of the ongoing move towards an increasingly integrated economic bloc.

EH structural business assessment
(grades 1 --> 6, with 1 the most favourable)



Sources: Euler Hermes (position as at 10/12/2014)

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