



# Budget Brief

**Rwanda 2017**



# Economic overview

With a sustained economic growth rate averaging 7% over the past decade, and a projected growth rate of 6.2% in 2017 and 6.8% in 2018, the Rwandan economy has once again emerged among the top performers regionally and the wider sub-saharan Africa. Rwanda's growth is largely underpinned by expansion in agriculture which is expected to grow at 4.6% in 2017, certainly good news after the decline in agricultural production following adverse weather conditions in 2016.

The expected recovery of commodity and mineral prices is projected to hit 9.9% growth for the minerals sector in 2018. The construction sector, which is set to grow at 5.4% in 2017 is expected to almost double in 2018 to 10.5%, particularly given the construction works in Rwanda's new airport at Bugesera and the government's focus on other infrastructure projects in the medium term.

The Bugesera project is expected to positively impact the hospitality, tourism and related services sectors as Rwanda launches one of East Africa's biggest conference centres. The services sector is, however, set to slowdown in 2017 to 6.7 % from 7.1% in 2016, due to low performance in trade and transport driven by the slow recovery in the growth of credit to the private sector.

On matters fiscal, Rwanda's decreased reliance on aid is premised on the rising tax revenues which are expected to result in a narrowing fiscal deficit, estimated at 4.8% of GDP in 2017, down from 5.3% in 2015. With a capital spending ratio well above the Sub-Saharan average of 31.1 %, it is expected that Rwanda's fiscal deficit will continue to narrow in the medium term as development expenditure starts paying off.

## Inflation projection

The drought in 2016 which led to a reduced food supply coupled with a weaker currency and the rising global fuel prices continue to pose a significant threat to inflation. Consequently, Rwanda's inflation rate, though enviable when compared with her neighbours who have either breached or are nearing the double digit territory, is projected to increase in 2017 to about 7% reflecting the first round pass-through effect of rising fuel and food prices. These inflationary pressures continue to be felt as by the end of February 2017 inflation was estimated at 8.1 %from 7.4 % in January 2017.

## "Made in Rwanda" – a key cog in Rwanda's balancing act

Geographically, Rwanda is a landlocked country and imports significant quantities of goods, particularly sugar, garments, rice and cement in addition to the usual capital goods common in developing countries. The currency depreciation has offset the resultant foreign exchange earnings imbalance, the government's "made in Rwanda" initiative is bearing fruit and contributing positively to this balance of payments.

The IMF estimates that in 2016, Rwanda's sugar imports declined 25% while cement declined by a whopping 40%. Such reductions in the import bill can only be a pointer to the importance of the government's initiative in narrowing the current account deficit overtime, consolidating the private sector domestic activities particularly in manufacturing and creating jobs which will boost economic growth.



## Rwanda's narrowing current account deficit

Between 2017 and 2019, the current account deficit is expected to see-saw with decreases in 2017 and 2019 and an increase in 2018. The improvement in 2017 is mainly due to exports of goods which are expected to increase by 21.6 %. The fastest growing exports in 2017 are tea, which will grow 40% and minerals whose 23% growth is based on an uptick in commodity prices expected in 2017, and re-exports which are projected to grow 20%. Overall, exports will grow 5.8% and 12.9% over 2018 and 2019, respectively.

Conversely, imports in 2017 are expected to remain stable, increasing by only 0.7%. Although in 2016, Rwandair imported planes and does not anticipate to import other planes in 2017, the construction of the new Bugesera airport will drive higher imports of goods and services in 2018 and 2019.

Foreign direct investment is expected to peak at USD 439 million in 2019 up from USD 307.2 million in 2017. This aligns to the government's national development plan which focuses on rail, road and energy projects. In addition, the Bugesera airport is expected to attract USD 81.8 million in loans and USD 67 million as foreign direct investment.

### External debt – maintaining a good mix

At 34.2% of GDP, Rwanda's debt remains at low risk of debt distress with all the risks indicators positioned well below the World Banks and IMF indicative debt sustainability thresholds. The December 2016 Debt Sustainability Analysis shows that Rwanda's debt service to export stood at 19.4 % (against debt service to export threshold of 25 %) while the external debt to GDP ratio stood at 29.8 % by end 2016.

The government's aim for the medium term debt policy is to ensure that the financing needs and settlement obligations meet the medium term objective of low borrowing costs, prudent risk exposure and promotion of an active domestic debt market. This will be achieved through a combination of strategies, including the development and deepening of the capital market which offers long term domestic financing in place of short term notes.

### Harnessing the power of Cooperatives

The government has recognised the power of cooperatives to drive access to finance and in turn, economic development. As a result, the automation and consolidation of Umurenge SACCOs into a Cooperative Bank is expected to be completed in 2017.



### Majority of Rwandans to access social saving schemes for their old age welfare.

The Rwanda Social Security Board (RSSB) pension scheme barely covers 10% of Rwanda's workforce, majority of whom are public and private sector salaried employees. To increase pension scheme and retirement benefit coverage, the government has developed a long term savings policy proposal which in addition to expanding social security coverage, also introduces pre-retirement benefits. The major benefits expected from the implementation of the long term savings scheme in 2017/18 will be raising national savings levels which provide a captive funding source for long-term government borrowing, providing adequate resources for long term productive investments, providing a pension product for the informal sector (currently not provided for by RSSB) and ensuring adequate housing and tertiary education for all.

The proposed expanded scheme will cater for three population segments:

- (i) public sector salaried employees,
- (ii) private sector salaried and self-employed business owners and
- (iii) people involved in the informal sectors (earning irregular and low income).

### Revamping Capital Market

Rwanda's capital market is relatively young and under-developed. With only seven listed and cross-listed companies, the government together with the Rwandan Capital Markets Authority developed the 10 year master plan to deepen the capital markets. This plan will advance a strategic agenda for expanding listings on the Rwanda Stock Exchange, developing an ecosystem of financial sector intermediaries, and further integrating Rwanda's capital markets with those of its East African neighbours.

The master plan is awaiting cabinet approval in order to start its implementation, which is expected to start in 2017/18.

## **Creation of an international business and financial services centre**

Rwanda enjoys a relatively stable political environment in addition to its favourable regulatory regime that draws on IT to drive efficiency and attract investments. Despite enviable attributes, sectors such as key infrastructure projects, financial services, energy, agriculture and health sector remain largely untapped.

The new international business and financial services centre will help develop Rwanda's domestic financial services industry and ecosystem and facilitate diversification and growth of the economy. The International business and financial services centre initiative converges well with the investments in infrastructure including a new and modern airport at Bugesera, which, together with Rwandair's new aircraft, energy, and business tourism, make Rwanda a compelling regional business hub.

## **Agriculture, food and sustainability programs**

Coming off the food scarcity in 2016 occasioned by lower than normal rains, and in a bid to build resilience to climate change, the government has invested in additional hectares of irrigated land on export targeted irrigation project through hillside irrigation. In addition, the government is increasing crop productivity through access to improved seeds and fertilizer under the crop intensification programme.

Although there are many incentives to investors in the energy sector, energy development is still a challenge and a key priority sector for the government of Rwanda in 2017 and 2018. Network rehabilitation and strengthening through construction of substations and transmission lines to enhance efficient energy use therefore remains a top priority.

The government projects to increase electricity generation from 190 MW to 212MW. Based on this growth, an estimated 96,648 households will be connected to the grid.



## **Tax Measures Buy Rwanda, Build Rwanda**

Given the positive impact of the "made in Rwanda" initiative, particularly in improving the external trade deficit, the government has proposed to increase tax on second hand clothes. As a result, import duties for second hand clothes will increase from USD 2.5/Kg to USD 4 /Kg while second hand shoes will continue paying USD 5/Kg instead of 35% or USD 0.4/Kg whichever is higher.

Local manufacturers of garments are gearing up to invest more in the textile industry in order to fill the gap that will be created by the increased import duties especially given that most Rwandans rely on second hand clothes.



## **Taxation of basic goods to the national welfare**

The government will continue to give fiscal incentives to the following different strategic sectors in addition to supporting the entire population to access basic needs:

- a. Rice: will continue attracting import duty rate of 45% instead of 75%.
- b. Sugar: will continue attracting import duty rate of 25% instead of 100%.
- c. Goods imported for the use by armed forces Shop (AFOS): will continue paying duty at 0% instead of 10% and 25%.

**Electronic transaction devices:** To promote a cashless economy, all smart cards, ATM cards, Point of Sale cards and their operating machines pay duty at 0% instead of 25%.

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