RWANDA

Table 1	2021
Population, million	13.3
GDP, current US$ billion	11.0
GDP per capita, current US$	828.7
International poverty rate ($1.9)[a]	56.5
Lower middle-income poverty rate ($3.2)[a]	80.3
Upper middle-income poverty rate ($5.5)[a]	91.9
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	131.3
Life expectancy at birth, years[b]	69.0
Total GHG Emissions (mtCO2e)	8.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ Most recent WDI value (2019).

Rwanda's economy grew at around 11 percent in 2021, as targeted measures helped economic activities to effectively navigate the pandemic. The twin deficits remained—requiring more external financing—and are expected to ease below their pre-crisis levels in 2022–2024. Despite an unprecedented assistance program, poverty likely increased due to the adverse effects of the pandemic on output and employment, but is expected to return to pre-crisis levels in 2022.

Key conditions and challenges

Despite exceptional economic performance in recent decades, including rapid growth in per capita income over 2005–2019, Rwanda faces major development challenges. Poverty rates (measured as US$1.90 a day) fell from 69.1 percent in 2005 to 56.5 percent in 2017 and was projected to fall even further to 52.9 percent in 2019 behind strong growth in GDP and private consumption. With the emergence of COVID-19, poverty is expected to have increased to 56.0 percent for 2020. 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. Rwanda now faces challenges in fully translating its strong growth into commensurate gains in poverty reduction and shared prosperity, with the aim of eliminating poverty by 2050.

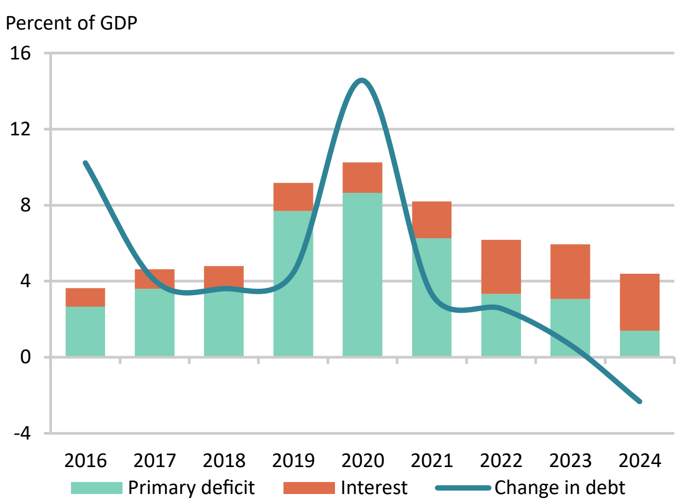
A shift from public investment-led growth to the private sector is key to Rwanda's aspiration of becoming an upper-middle income country by 2035 and a high-income country by 2050. Capital accumulation, mostly large-scale public investment in infrastructure, has been the main driver of growth. Limitations of the state-led development model have become apparent. Labor productivity and total factor productivity are low for its income level. Moreover, the private sector still maintains a relatively limited presence, restricted in part by high costs of finance, energy, and transport, coupled with dominance of SOEs. Key reforms should aim to enable competitive domestic enterprises, foster innovation, develop long-term finance, and foster regional integration.

Recent developments

Effective vaccination measures helped Rwanda navigate the pandemic. After grappling with the third—and more severe—wave in June–August 2021, Rwanda successfully contained the spread of infections while continuing its vaccination campaign. By end-February, about 68 percent of the total population had received at least one dose of COVID vaccine, while 60 percent had received two doses. These vaccination rates place Rwanda among the top ten countries in Africa. Rwanda started administrating a booster shot dose in December 2021.

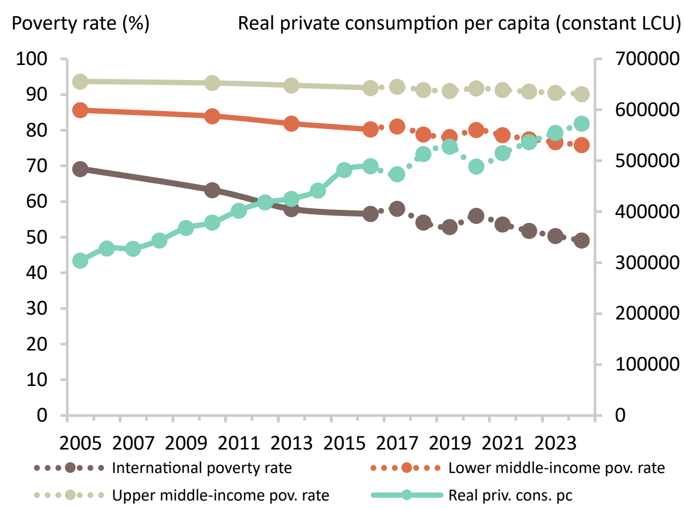
The economy surged in 2021, growing by about 11 percent. Gradually easing mobility restrictions have supported a broad-based rebound, stimulating private consumption, by increasing incomes amid the reopening of economic activities, and falling inflation. Household consumption made significant contribution to growth, thanks to government transfers rolled out to households affected by the pandemic. Government investment spending contributed significantly, accounting for one-third of GDP growth. However, unemployment continued to be higher relative to the pre-crisis levels as firms were not yet

FIGURE 1 Rwanda / Primary deficit, interest payments, and public debt



Source: World Bank.

FIGURE 2 Rwanda / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

confident about the recovery sustainability and did not hire permanent employees. In August 2021, the unemployment rate was more than 3 percentage points higher than in August 2019.

The authorities have maintained a fiscal expansion to support the recovery amid rising revenues. Total government revenues (including grants) peaked in 2021, estimated at 25.5 percent of GDP, up from 23.6 percent in 2020. Government outlays also increased, reaching 33.3 percent of GDP in 2021, compared to 32.9 percent in 2020, driven mainly by continued fiscal support for firms and households affected by the pandemic. The government fast-tracked a US$250 million package to support private investments in manufacturing and construction. The overall fiscal deficit eased to 8.2 percent of GDP in 2021, compared to 10.3 percent of GDP in 2020, as Rwanda continued to benefit from large external COVID-related support.

Driven mainly by rising prices of fresh food and energy products, annual urban inflation rose to 5.8 percent in February and is expected to remain high in 2022. In expectation of higher inflationary pressures from higher international commodities, the National Bank of Rwanda raised the policy interest rate by 50 basis points (to 5 percent) in mid-February 2022, while continuing to support the recovery.

Outlook

Short- to medium-term growth prospects of Rwanda's economy are positive but conditional on continued national vaccination, recovery of the domestic economy, as well as the economic consequences of the Russian invasion in Ukraine. Energy and commodity prices (especially wheat) have surged, adding to inflationary pressures from supply chain disruptions and hobbling the rebound from the COVID-19 pandemic. While the economic consequences of the Russian invasion, war, and associated sanctions are still unfolding, Rwanda's GDP growth is likely to be lower than expected in 2022. Commodity prices and fiscal subsidies are expected to be the main channels of the crisis. Even though poverty is expected to return to pre-crisis levels in 2022 behind expected increases in household consumption, large increases in food prices have the potential to delay or even revert these poverty gains. With eased COVID-19 restrictions, domestic demand and trade are expected to gradually improve, raising GDP growth to around 7 percent over 2022–2024, a lower growth trajectory than before the pandemic. Rwanda is likely to reach its pre-pandemic trend on its real per capita US$ GDP by 2023. The pace of national vaccination should be kept up to ensure that 70 percent of the population 12 years and above is fully vaccinated by mid-2022.

The fiscal deficit is expected to remain elevated at around 7.4 percent of GDP in 2022 before gradually declining as revenues recover and emergency spending subsides. The deficit is projected to narrow to about 4 percent of GDP in 2024 in line with government commitments. Public debt is forecast to peak in 2023 (Table 2), but Rwanda remains susceptible to external shocks to growth and/or exports, and worse-than-expected external financing conditions, which can be aggravated by a prolonged pandemic and uneven recovery. Rwanda needs to identify credible revenue and spending measures for a growth-friendly fiscal consolidation with a view to reaching their debt anchor within a reasonable timeframe and further strengthening their debt management capacity. However, higher interest payments could put pressure on fiscal space in the medium-term, absent revenue reforms.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	9.5	-3.4	10.9	6.8	7.2	7.4
Private Consumption	5.5	-5.0	8.8	6.2	6.1	5.8
Government Consumption	17.5	1.9	4.3	7.7	7.5	8.3
Gross Fixed Capital Investment	32.1	-4.5	17.0	15.2	7.6	6.6
Exports, Goods and Services	19.9	-9.2	2.8	14.9	16.2	15.7
Imports, Goods and Services	18.0	-3.4	3.6	17.7	11.0	9.3
Real GDP growth, at constant factor prices	8.9	-3.5	10.9	6.8	7.2	7.4
Agriculture	5.0	0.9	5.8	5.5	5.5	5.0
Industry	16.6	-4.2	14.7	10.7	9.2	8.5
Services	8.3	-5.5	12.2	6.0	7.2	8.2
Inflation (Consumer Price Index)	2.4	7.7	0.8	7.2	6.8	5.0
Current Account Balance (% of GDP)	-11.9	-12.2	-10.9	-11.8	-11.4	-10.2
Net Foreign Direct Investment (% of GDP)	2.5	1.0	1.9	3.2	3.6	3.7
Fiscal Balance (% of GDP)	-9.2	-10.4	-8.4	-7.4	-5.7	-4.2
Debt (% of GDP)	56.8	72.4	74.9	77.9	78.8	76.0
Primary Balance (% of GDP)	-7.7	-8.8	-6.3	-5.0	-3.2	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	52.9	56.0	53.6	51.8	50.4	49.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	78.1	80.0	78.6	77.5	76.6	75.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.1	91.8	91.3	90.8	90.5	90.2
GHG emissions growth (mtCO2e)	2.8	2.1	2.9	3.2	3.3	3.2
Energy related GHG emissions (% of total)	26.1	25.9	25.3	24.6	24.0	23.4

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