Economic Snapshot H2, 2016

Rwanda

Inflation – Consumer price inflation has remained relatively elevated in 2016 compared with 2015 figures. After averaging 3.5% y-o-y during H2 2015, consumer price inflation averaged 4.7% y-o-y during the first half of 2016. The most recent figures show a marked jump in consumer prices, with the consumer price index (CPI) increasing by 6.9% y-o-y in July.

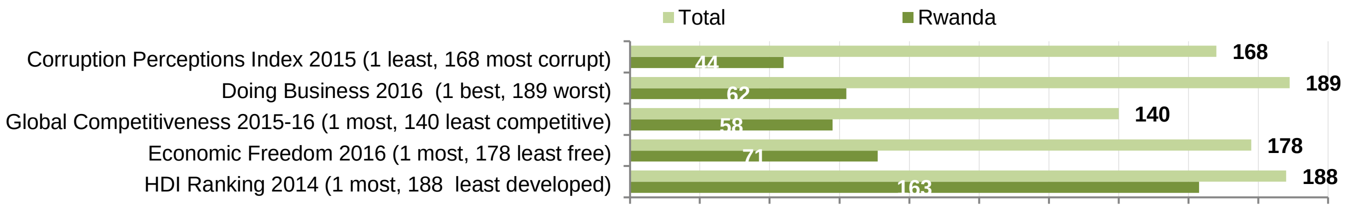
Growth – Economic growth in Rwanda remains strong, reaching 7.3% y-o-y in Q1 2016. This commendable growth has also been qualitative in nature, with agriculture, services, and industry all recording strong performances during the first quarter of the year. However, economic growth is expected to ease during the final three quarters of the year, with a slowdown in public investment accompanied by a potential tightening of monetary conditions. Real GDP growth is expected measure 6.4% this year.

National development plan – The government's current economic strategy is guided by the second phase of the Economic Development and Poverty Reduction Strategy (EDPRS2, 2013-18), with a particular focus on infrastructure investment. The strategy intends to create an environment conducive to private sector development through the adoption of market-friendly policies. Rwanda's long-term development plan, Vision 2020, has the main objective of transforming the country into a services-based, middle-income country by the end of 2020.

OPPORTUNITIES	STRENGTHS
The rapidly-expanding and well-diversified services sector supports domestic business development.	Significant progress in terms of economic reforms. Rated one of the world's best reformers since 2006 by the World Bank.
Ongoing integration within the East African Community (EAC) offers significant business opportunities.	Solid real GDP growth outlook.
Expanding mining sector (cassiterite, coltan, wolfram).	Low external debt levels.
Large-scale infrastructure projects (energy, transport) aimed at addressing the infrastructure shortfall.	Favourable relationship with most donors, as well as transparency in the government's handling of aid money.

VULNERABILITIES	WHAT IS BEING DONE?
Economic structure: relatively narrow export base; heavy reliance on agricultural sector and global commodity prices.	Solid progress is being made in terms of economic diversification, as seen by an improving business environment. The services sector continues to expand rapidly.
Substantial infrastructure deficit and development needs.	Kigali is directing significant resources towards the development of the energy sector in particular.
Sizeable twin deficits (fiscal and current accounts); lack of fiscal self-sufficiency.	Progress on this front is slow. Although improving, external financing (donor grants) still accounts for approximately 20% of the budget.
One of the countries in the world with low GDP per capita	Although still low, GDP per capita has increased in recent years. Good economic growth prospects auger well for this indicator going forward.

MEGA TRENDS	
Population	12,661,733 (July 2015 est.); Age 15 - 64: 55.7%
Population growth rate (%)	2.6% (2015 est.)
Life expectancy at birth	Total population: 59.7 years; male: 58.1 years; female: 61.3 years (2015 est.)
HIV/AIDS	Adult prevalence rate: 2.9%; People living with HIV/AIDS: 200,000 (2015 est.)
Adult literacy rate (age 15 and over, can read and write)	Total population: 71.2%; male: 74.7%; female: 68.3% (2015 est.)
Urbanisation	Urban population: 28.8% of total population (2015); Urban population growth: 5.8% (2014)
Population below national poverty line	44.9% (2011 est.)
Unemployment rate	10% (2012 est.)
Employment (% of total)	Agriculture: 75.3%; Industry: 6.7%; Services: 16.2% (2012 est.)
Labour participation rate (% of total population ages 15+)	85.7% (2014)
Business languages	Kinyarwanda, French, English
Telephone & Internet users	Main lines in use: 16,983; Mobile cellular: 8.8 million; Internet users: 2.3 million (2015)
Sources: CIA World Factbook, World Bank, National Institute of Statistics Rwanda, UNESCO, ITU, UNAIDS & NKC Research	



Source: NKC Research

Risk environment / Risk outlook

Sovereign Risk Ratings		
S&P Global Ratings	**Fitch**	**Moody's**
B+/Negative	B+/Stable	N/R

Fitch Ratings affirmed Rwanda's long-term foreign and local currency Issuer Default Rating (IDR) at "B+" at the end of May, keeping the outlook at stable. According to the agency, Rwanda's credit rating balances positive economic growth prospects, strong governance indicators relative to peers, and favourable fiscal reforms with low income per capita, large external imbalances, and high dependence on external donor support. The agency noted that Rwanda is facing numerous headwinds affecting the country's balance of payments, with lower mineral prices putting pressure on export receipts while rising imports related to infrastructure investment have exacerbated external imbalances. This has also put depreciatory pressure on the Rwandan franc exchange rate, which has resulted in foreign currency outflows, and consequently a reduction in the country's import coverage. On a more positive note, Rwanda is making progress with regard to structural reforms to its fiscal framework by replacing donor grants with concessionary loans. This has been accompanied by efforts to rationalise fiscal expenditure and to increase tax compliance. Furthermore, strong economic growth and low inflation relative to regional peers are also key rating strengths. In turn, **S&P Global Ratings** (S&P) affirmed Rwanda's long-term foreign and local currency sovereign credit rating at "B+" in early March this year, but the agency decided to adjust the outlook from stable to negative. According to S&P, the primary reason for the deteriorating outlook is increasing risks to Rwanda's external accounts. More specifically, the agency noted that lower commodity prices will have a detrimental impact on the country's export-oriented mining sector, which, in turn, will have a notable effect on the country's overall external balances. In addition, S&P stated that a gradual shift in donor financing from grants to loans could also put pressure on Rwanda's external and fiscal indicators. While the country's deteriorating current account balance outlook is the primary reason for the negative rating action, S&P noted that this will have undesirable spill-over effects into the franc exchange rate, the country's foreign currency holdings, external debt and government finances.

Rwanda is currently not rated by **Moody's Investors Service**.

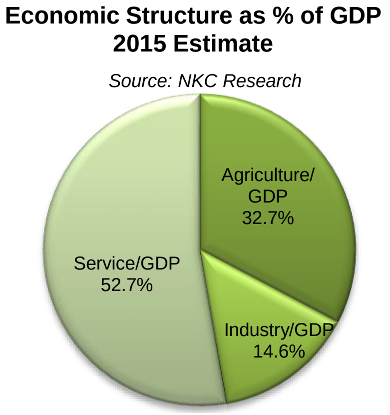
Infrastruc-ture	Diversity of the Economy	Banking Sector	Continuity of Economic Policy	GDP Growth	Key Balances	Foreign Investment	Socio-economic Develop-ment	Forex Reserves
Improving; but still limited	Highly dependent on agriculture	Fair and improving	Generally stable	Strong	Twin deficits	Fair	Low	Fair

Stock Market	Listed Companies	Liquidity	Market Cap	Dominant Sector	Daily Trading Volume
Rwanda Stock Exchange	7 (including cross-listed companies)	Limited	$3.8bn (RSE, late August 2016)	Food & Beverages, Finance	Highly variable; some days no trading

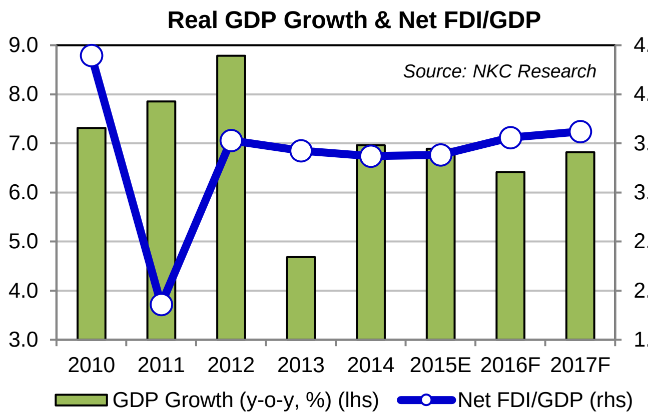
Capital Market	Development	Liquidity	Maturity Range	Municipal Bonds	Corporate Bonds
Yes	Underdeveloped	Limited	28-days to 364-days (T-bills); 1-Yr to 7-Yr (Govt. Bonds)	N/A	Yes

Macro-economic overview

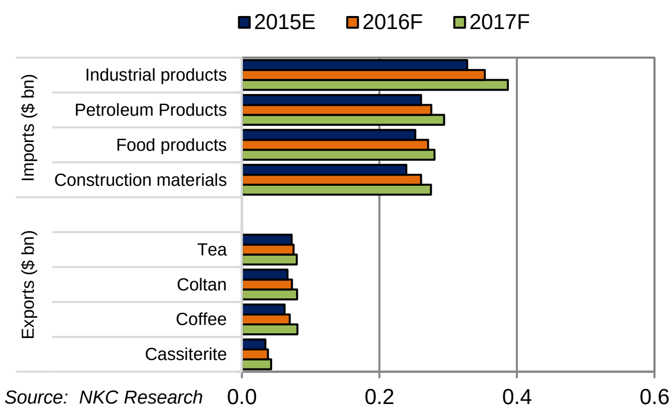
The Rwandan economy continues to face numerous external headwinds. Lower prices and demand for the country's mineral exports have almost halved mining receipts, leading to a significant loss in export revenue. This has been exacerbated by disappointing inflows of private capital and remittances, which have put negative pressure on the Rwandan franc and foreign exchange reserves. However, Rwandan authorities have shown that they are willing to forego slightly stronger economic growth in favour of improving macroeconomic fundamentals. Fiscal policy has assumed a relatively prudent undertone, driven by government efforts to reduce donor dependence and increase fiscal autonomy. More recently, the government has also indicated that it will ease capital expenditure – which has been a key driver behind the country's commendable economic growth – in order to alleviate some of the pressure on the country's external balances. In addition, the National Bank of Rwanda (NBR) has loosened its control over the franc exchange rate, thus stemming the outflow of foreign currency reserves and increasing the currency's competitiveness. These three factors, namely fiscal consolidation focused on reducing donor dependence; an easing of capital investment in order to alleviate pressure on external balances; and the slight relaxation of the franc's management will have a negative impact on headline GDP growth and increase consumer price inflation over the short term, but will benefit the country's macroeconomic fundamentals over the medium term. One prominent risk factor is a further deterioration in external balances. This could either occur if mining exports continue to deteriorate relative to 2015 figures – without being counterbalanced by an improvement in non-mining exports – or if adverse weather conditions affect agricultural exports. In addition, fiscal consolidation efforts continue to show results, but Rwanda remains highly donor dependent and any disruptions in donor support will have detrimental effects on both fiscal sustainability and economic growth. That being said, Rwanda's development prospects are supported by an economically inclusive and politically accountable – albeit increasingly authoritarian – institutional environment, with business-friendly policies and a supportive public investment programme.



Rwanda remains highly dependent on its agricultural sector. While only accounting for around a third of formal economic production, agriculture remains the most important economic sector as the majority of Rwandans are dependent on subsistence farming, or on the employment that the sector generates. In addition, tea and coffee are two of the country's most important foreign currency generators. Rwanda's agricultural sector also produces cassava, bananas, potatoes, and sweet potatoes in significant quantities. Formal economic production is dominated by the services sector, with the latter accounting for over 50% of GDP. Sub-sectors such as wholesale & retail trade, real estate activities, and education are some of the largest contributors to overall GDP, while the financial services and information & communication technology sectors have shown strong growth in recent years. The industrial sector has also been a key driver behind growth in recent years as a result of the government's ambitious infrastructure investment programme. The mining sector has also increased in prominence in recent years.



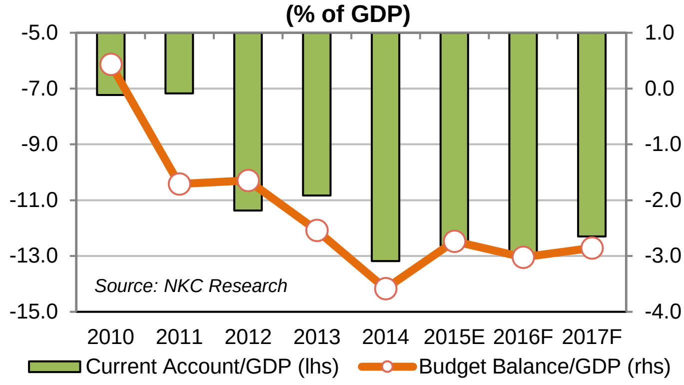
The commendable 7.3% y-o-y real GDP growth rate in Q1 2016 was driven by strong performances in numerous sectors. The agricultural sector recorded 7% y-o-y growth during the quarter, while the industrial and services sectors recorded 10% y-o-y and 7% y-o-y expansions, respectively. Sub-sectors that also recorded particularly strong growth during the quarter include construction (+13% y-o-y), wholesale & retail trade (+11% y-o-y), manufacturing (+10% y-o-y), and electricity provision, with the latter expanding by a substantial 25% y-o-y during Q1 2016. The only sub-sector that recorded a contraction during the quarter was mining – marking the fifth consecutive quarterly contraction. The mining sector contracted by 5% y-o-y during Q1 2016, following a 4% y-o-y contraction in Q4 2015. The mining sector has been devastated by subdued international mineral prices, with the sector now reversing the double-digit expansions witnessed during 2013 and early 2014. In addition, the information & communication sector showed no growth during Q1 2016, following a strong 10% y-o-y expansion during the previous quarter. Turning to foreign direct investment (FDI), Rwanda's accommodative business environment continues to attract foreign investor interest. Recent developments include plans by Dubai-based DP World to construct a $35m inland container logistics centre in the east of Rwanda's capital Kigali, while the KivuWatt power plant on Lake Kivu, which was developed by US-based ContourGlobal, was recently inaugurated.



Main Imports: % share of total	2015E	2016F	2017F
Industrial products	17.10	17.35	18.02
Petroleum Products	13.58	13.52	13.69
Food products	13.15	13.29	13.04
Construction materials	12.47	12.79	12.80
Main Exports: % share of total	**2015E**	**2016F**	**2017F**
Tea	10.60	10.26	9.97
Coltan	9.68	9.98	10.05
Coffee	9.07	9.53	10.10
Cassiterite	5.01	5.19	5.30

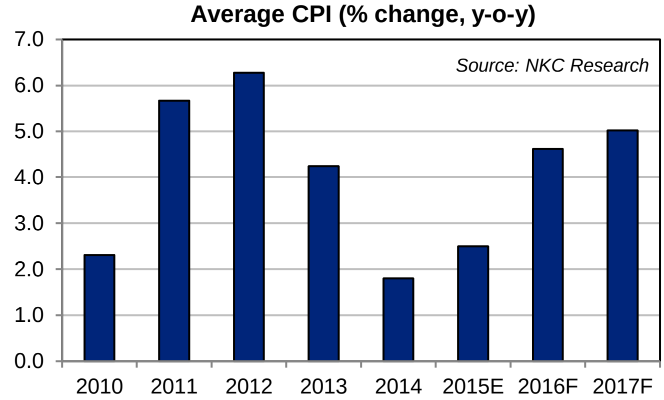
Total exports amounted to $215m during the first five months of 2016, reflecting a 6.2% y-o-y decrease. Tea was the largest export category during the period, with receipts increasing 4.8% y-o-y to reach just under $30m. With the exception of coffee exports, which rose by 3.4% y-o-y to reach $13m, all other salient export categories saw significant decreases in receipts during the period under analysis. These disappointing performances were driven by lower international mineral prices. Coltan exports dropped by 45.6% y-o-y to reach $15m, while cassiterite and wolfram exports decreased by 32% y-o-y and 42.8% y-o-y to reach $12m and $5m, respectively. In turn, total imports during the first five months of 2016 amounted to $907m, reflecting a 6.7% y-o-y increase. The largest import categories during the period were machinery (+44% y-o-y to reach $221m), industrial products (-8.5% y-o-y to reach $124m), and food products (+6.3% y-o-y to reach $103m). Overall, this resulted in a merchandise trade deficit of $753m, which is 11% y-o-y wider than the previous year's deficit.

Current Account & Budget Balance (% of GDP)



Rwanda has outperformed its East African peers with regard to fiscal consolidation. The government has focused on revenue mobilisation, while adopting a prudent stance with regard to expenditure prioritisation. The 2016/17 fiscal year's (FY) budget is no different, with total expenditure projected to increase by a marginal 3.6% to reach RWfr1.85trn ($2.4bn). Domestic revenue is expected to amount to 18.2% of GDP, while total grants are expected to fall from 6.1% of GDP in the previous fiscal year to 5.4% of GDP in 2016/17. Current expenditure is expected to remain largely stable at 14.5% of GDP, while capital expenditure is expected to drop from 12.6% of GDP to 11% of GDP in the 2016/17 FY. The government has been compelled to adopt a more prudent fiscal policy stance in an attempt to reduce the country's dependence on donor support and increase fiscal autonomy. Recent external headwinds have encouraged the government to ease demand for imports by reassessing its infrastructure investment programme. This will undoubtedly have a negative impact on economic growth. That being said, the benefits of lower donor dependence and improved macroeconomic stability should outweigh the costs related to lower growth over the short term. Turning to external balances, Rwanda's wide merchandise trade deficit is expected to maintain a shortfall in the overall current account going forward. The country's merchandise trade deficit is expected to remain between 14% of GDP and 15% of GDP over the 2015-17 period before commencing a narrowing trend. Consequently, the current account deficit is expected to remain wide over the medium term, fluctuating between 12% of GDP and 13% of GDP, before commencing a narrowing trend by the end of the forecast period.

Average CPI (% change, y-o-y)



Consumer price inflation maintained a strong upward trajectory in July, marking the second consecutive month that inflation exceeds the central bank's medium-term target of 5%. In addition, the 6.9% y-o-y consumer price inflation rate in July exceeded the country's benchmark interest rate, currently at 6.5%. An extended period of accommodative monetary policy, a loosening of the franc exchange rate and adverse weather developments affecting food prices have all combined to stoke inflationary pressure. While the central bank is unable to affect exogenous supply-side price developments such as weather conditions impacting food crops, the NBR could be compelled to tighten monetary conditions over the short term in an attempt to ease inflation expectations – largely by containing imported inflation. The franc recently reached the RWfr793/$ level before recording a slight recovery, which is notably weaker than the RWfr685/$ level maintained for most of H1 2015. Inflation readings over the short term will be key in assessing the future path of monetary policy, with the accommodative policy stance possibly coming to an end in the near future – the policy rate has been kept at 6.5% since June 2014.

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