**Economic structure** - The primary sector is the backbone of Rwanda’s economy, with three-quarters of the population employed in agricultural activity. The country’s fertile soil allows for the production of diverse crops, including coffee, tea, bananas, beans, sorghum and potatoes. The secondary sector is small and counts construction as its largest component. The outlook for construction activity is amongst the brightest in Sub-Saharan Africa as private interest – supported by the plethora of opportunities in infrastructure and the government’s strong commitment to opening the sector to foreign investment – remaining robust. The tertiary sector is also a focus of economic diversification (away from agriculture), with the country aiming to become a technological leader on the continent. The government is very supportive of modern technology solutions to its historical challenges of poverty.

**Recent economic developments** – National elections took place in August 2017 and President Paul Kagame was re-elected for a third seven-year term after receiving 99% of the votes. The election was not expected to have an impact on foreign direct investment (FDI), as Rwanda has made huge development strides, infrastructure investment and improved their business environment under Kagame’s leadership. Rwanda’s budget deficit narrowed slightly in 2017 on the back of rising revenues as a widening tax base begins to show results. The International Monetary Fund (IMF) also pointed to underperformance in investment expenditure resulting in a smaller-than-expected deficit for the 2016/17 fiscal year. Headline inflation decreased from a recent peak of 13.4% y-o-y in February 2017 to 7.1% y-o-y in September. The Rwandese franc displayed a slower depreciatory trend during 2017 compared to the previous year which helped slow price inflation. The National Bank of Rwanda (NBR) cut the interest rate with 25 basis points in December 2016 to 6.25% and by another 25 basis points in June 2017 to 6%. Rwanda’s current account deficit is estimated to have decreased in 2017 to 10.2% of gross domestic product (GDP). Import growth slowed as the ‘Made-In-Rwanda’ initiative improved local production of goods.

**Opportunities**
- A virtual tax-free environment for export-oriented manufacturing firms is a major incentive for investment in the sector.
- The government maintains a high-profile anti-corruption effort.
- The government has established the Rwanda Development Board to fast-track development projects and encourage new investment.
- The government is taking steps to incentivise investment in the construction industry, making it easier and cheaper to secure construction permits.

**Threats**
- A severe shortage of teachers - particularly in rural areas - continues to severely restrict the size of the country’s labour force.
- Inconsistent application of tax incentives could pose a risk to investors.
- Poor e-government score worrying for investors bidding for public sector contracts.
- Government looks to reduce business tax exemptions as international aid decreases.

**Trade & Investment SWOT**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regionally and globally low corruption levels minimise operating costs.</td>
<td>Rwanda’s consumers have a distinct lack of purchasing power.</td>
</tr>
<tr>
<td>Firm intellectual property rights enable companies to generate a fair return on their investment into the research and development of new products.</td>
<td>Lack of an international bank could lead to investors losing money in transfer fees.</td>
</tr>
<tr>
<td>Tax incentives for large manufacturing are favourable to foreign investment.</td>
<td>The country’s agriculture-based subsistence economy and lack of natural resources limit its export potential.</td>
</tr>
<tr>
<td>Strong contract enforceability assures businesses they can wholly rely on the courts if a customer fails to pay.</td>
<td>The scarcity of bank accounts increases the financial risks for investors looking to hire employees with stable finances.</td>
</tr>
</tbody>
</table>

**Mega trends**

| Source: Business Monitor International (BMI), KPMG research |

**Population**
- Total: 12.158 million; female: 6.328 million; male: 5.83 million; age 0-14: 40.16% of total; age 15+: 59.84% of total; age 65+: 2.94% of total

**Population growth rate**
- 2015: 2.45%

**Life expectancy at birth**
- 2015: Total number of people living with HIV: 0.22 million; total adult prevalence: 3.1%; HIV AIDS orphans (age 0-17): 0.07 million

**HIV/AIDS**
- Total: 2.4%; female: 2.5%; male: 2.3%; youth (15 - 24): 3.1%

**Unemployment rate**
- Total: 2017: Agriculture: 75% of total; industry: 7.2% of total; services: 17.8% of total

**Labour participation rate**
- Total: 2017: ages 15+: 84.8% of total population

**Business languages**
- Kinyarwanda, French, English

**Telephone & internet users**
- Fixed telephone subscriptions: 0.01 million (2016); wired internet subscriptions: 0 million (2013); cell phone subscriptions: 8.92 million (2016)

**Quality of infrastructure (1 = underdeveloped, 7 = developed)**
- 2017: 4.68

Economic policy – The Economic Development and Poverty Reduction Strategy (EDPRS) 2013-2018 is based on Rwanda’s Vision 2020 and guides medium-term policy actions. The main aim of the EDPRS is to speed up the country’s progress towards achieving its goal of becoming a middle-income status country. The overarching goal is to accelerate progress to a middle income country status and a better quality of life for all citizens through sustained average GDP growth of 11.5% and accelerated reduction of poverty to less than 30% of the population. In this regard, economic and rural development priorities of the EDPRS include: 1) increase the domestic interconnectivity of the Rwandan economy; 2) increase the external connectivity and boost exports; 3) transform the private sector by increasing investment in priority sectors; 4) transform the economic geography of Rwanda by facilitating urbanisation and promoting secondary cities; 5) pursue a ‘green economy’ approach to economic transformation; 6) increase the productivity of agriculture; and 7) connect rural communities to economic opportunity, amongst other factors.

S&P Global Ratings affirmed in September 2017 their rating of Rwanda’s long-term foreign sovereign credit at “B” while keeping the outlook at stable. Its analysts see the country’s medium-term growth prospects remaining strong, improving monetary flexibility as well as government debt and debt servicing remaining moderate. In September 2016, S&P downgraded Rwanda from “B+” to “B” due to the country’s adverse external position – including a widening current account deficit and growing net external debt levels. In its 2017 review, the agency commented that the current account deficit remains structurally high and that the country’s rating could be lowered if this shortfall does not narrow. At present, S&P is projecting a gradual decline in the current account deficit, with financing coming from a combination of debt and FDI inflows. Fiscal flexibility is also a weakness, with expectations that the state will move away from grant financing toward concessional loans and project financing in the future.

Fitch Ratings affirmed Rwanda’s long-term foreign currency Issuer Default Ratings (IDR) in May 2017 at “B+” with a stable outlook. The outlook balances positive factors like strong governance metrics, low public debt/GDP and high economic growth potential against negative factors like low income per capita, persistent current account deficits and rising external debt. The “B+” rating could be pressured by fiscal and current account factors. If, for example, the country were to see a “sharper than expected contraction or suspension of donor grants and loans”, both balances would weaken. S&P also flagged other sensitivities such as failure to attract long-term capital to finance the large current account deficit and failure to stabilise the upward trajectory of the government debt/GDP ratio as risks. The current account deficit seems to be a key issue, with a marked narrowing in the shortfall basically the only way in the short term for Rwanda to secure a better rating.

Moody’s Investors Services assigned for the first time a foreign currency issuer rating to Rwanda in August 2016. The rating given was “B2” with a stable outlook, and the agency has since maintained this assessment. In an annual credit analysis published in October 2017, Moody’s said that the country’s credit profile “balances its relatively robust institutions and high economic growth potential against its narrow export base and large external imbalances.” It listed the country’s robust institutional framework and strong governance standards— both in a Sub-Saharan Africa (SSA) context —as credit positive. Conversely, it indicated that Rwanda “has a high susceptibility to event risk, driven by political risk, reflecting a combination of subdued performance on voice and accountability under the Worldwide Governance Indicators and very low GDP per capita. While Moody’s does not expect domestic political tensions to emerge in the near-term, the lack of visibility about a political alternative to the incumbent president raises succession risk in the future.”

Sources:
- World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International
- Trading Economics
- World Bank, African Alliance, Analyse Africa, KPMG research

*Week ending 27 October 2017
Economic growth - Rwanda’s GDP growth is driven primarily by the construction and services sectors. These two sectors prevented a more substantial economic slowdown in Rwanda in 2016-2017 as their strong growth outweighed the drought-induced slowdown in agricultural. It is expected that construction will continue on a strong growth trajectory in 2018 as the government implements its Vision 2020 programme, which is aimed at improving the diversification of Rwanda’s economy. Continued infrastructure investment such as the new airport near Kigali will raise productivity within the economy and will act as an additional growth driver. Rwanda is a outlier in Sub-Saharan Africa regarding economic growth due to above average administration systems and low levels of corruption, regardless of the geographical limitations and unrests in neighbouring countries.

Foreign investment – When looking at Rwanda’s FDI inflows as a percentage of GDP, the country performs better than the average in Sub-Saharan Africa and similar to the average for low income countries globally. According to BMI, investors face financial barriers due to the small banking sector, limited access to international financial markets and some geographical limitations. Nevertheless, relatively low legal costs and low levels of corruption, along with limited red tape and bureaucratic procedures, are positive for investment. From a political perspective, national elections took place in August 2017 and President Paul Kagame was re-elected for a third seven-year term after receiving 99% of the votes. The election was o expected to have an impact on FDI, as Rwanda has made huge development strides, infrastructure investment and improved their business environment under Kagame’s leadership.

Main Imports: % share of total

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical equip.</td>
<td>11.9%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Machinery</td>
<td>9.2%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5.0%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Cereals</td>
<td>5.4%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Main Exports: % share of total

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee &amp; tea</td>
<td>18.2%</td>
<td>22.8%</td>
</tr>
<tr>
<td>Fuels</td>
<td>15.8%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Mineral ores</td>
<td>31.0%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Gold</td>
<td>1.2%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Source: Trade Map
**External trade** – Rwanda’s current account deficit is estimated to have decreased in 2017 to 10.2% of GDP. Import growth slowed as the ‘Made-in-Rwanda’ initiative improved local production of goods. Cement is one of the main products under this initiative, and investment into Cimerwa (a state-owned cement company) has seen growth in production. As domestic cement prices are higher than imported cement, Rwanda will still rely somewhat on imported cement. This illustrates a broader trend where import demand growth will only taper off slowly over the years ahead as the country’s productive capacity rises. A US trade preference programme under the African Growth and Opportunities Act (AGOA) will support the country’s apparel, agricultural and other exports in 2018 and beyond. Improving weather conditions should also increase the production of tea and coffee, which represents about 20% of all exports.

**Fiscal policy** – Rwanda’s budget deficit narrowed slightly in 2017 on the back of rising revenues as a widening tax base begins to show results. The IMF also pointed to underperformance in investment expenditure resulting in a smaller-than-expected deficit for the 2016/17 fiscal year. Rwanda’s government is focussed on investment and is expected to maintain its disciplined stance towards expenditure in 2018, focusing its limited resources on growth-boosting infrastructure projects and wide-ranging social programmes. The country’s investment spending is high and its wage bill low compared to peers. Rwanda has an effective and competent public financial administration, with low levels of corruption, and for the most part expenditure meets its target – this will contribute to improving the fiscal deficit.

**Monetary policy** - Headline inflation decreased from a recent peak of 13.4% y-o-y in February 2017 to 7.1% y-o-y in September. The Rwandese franc displayed a slower depreciatory trend during 2017 compared to the previous year which helped slow price inflation in the small economy. The NBR cut the interest rate with 25 basis points in December 2016 to 6.25% and with another 25 basis points in June 2017 to 6%. This will support credit expansion and boost economic activity. Inflation is expected to average 7.1% in 2017 and 6% in 2018, remaining in the upper limits of the central bank’s target of about 5% over the medium term.