# REPUBLIC OF RWANDA

## Ministry of Finance and Economic Planning

# ANNUAL ECONOMIC REPORT
# FISCAL YEAR 2017/2018

## January 2019

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## EXECUTIVE SUMMARY

The fiscal year 2017/18 marks the first year of Rwanda's 7 Years Government Programme, the National Strategy for Transformation (NST 1) for which priorities have been categorized into three pillars: Economic Transformation with a strategy to accelerate private-sector-led economic growth and increased productivity, social transformation presenting strategic interventions to bringing positive qualitative change in all aspects of Rwandan people's lives and transformational Governance which builds on the strong governance architecture established so far to consolidate and provide building blocks for equitable transformational and sustainable national development. To achieve NST 1 objectives, an average GDP growth of 9.1 percent over the period will be required.

This Annual Economic Report (AER) covers Rwanda's Fiscal Year (FY) 2017/18. Rwanda recorded the highest real GDP growth rate of the last five years. Rwanda's growth takes place in the context of an overall steady global environment. Rwanda's growth continued its rebound from the slowdown in 2016; growth during the FY stood at a solid 8.9 percent (%). Rwanda's medium-term outlook remains strong. Growth was driven primarily by strong performance in the service sector, bolstered by the recovery of wholesale and retail trade, and construction. Heading into the second half of 2018 there are positive signals about agriculture exports and overall growth.

Consumer prices remained generally lower, with headline inflation averaging 2.3 percent over 2017/18 from 6.8 percent the previous year.

Fiscal performance during FY 2017/18 was influenced by domestic economic performance on the resources side, as well as by donor disbursement pattern. The rebound in economic activity in 2017 and the first months of 2018 boosted important revenue collections. This development together with timely disbursement of committed donor funds provided adequate resources to Government for spending.

The original envelope of the 2017/18 budget was revised upwards slightly to 2,187.5 billion FRW. The period under review showed a good performance for total revenues – coming in on par with revised projections – with respect to non-tax revenue (due in part to higher reimbursement from UN peacekeeping operations) and direct tax revenue. However, taxes on international trade fell, reflecting in part policies taken to reduce imports under the Made in Rwanda initiative. External grants and loans came in higher than projected, driven by project loans.

During FY 2017/18, total actual capital expenditure amounted to 850.2 billion FRW, representing 11.9 percent growth of the capital expenditures recorded in FY 2016/17. This was driven by foreign expenditure and offset the shortfall in domestic capital financing.

At the end of the fiscal year in June 2018, total revenue and grants registered at 1820.4 billion FRW, a slight shortfall of 0.2 billion FRW compared to the revised budget projection. Total expenditure and net lending registered 2187.5 billion FRW, 62.3 billion FRW above projections. FY 2017/18 closed with an overall cash deficit of 392.2 billion FRW; the deficit was financed with net foreign borrowing (356.0 billion FRW) and domestic financing (36.2 billion FRW).
During FY 2017/18, the overall balance of payments had a surplus of US$135.5 million, a decline from a surplus of US$159.5 million at the end of previous FY 2016/17. In contrast, the current account balance improved by 5.6 percent in FY 2017/18 compared to the previous FY 2016/17, specifically due to the trade balance improvement recorded since the second half of 2017 up to first half of 2018. In FY 2017/18 the trade balance has improved by 8.4 percent, to US$ -1,058.4 million from US$ -1,155.2 million in previous FY2016/17. The period was characterized by continued export growth and modest import growth. Positive export trends and modest import growth are expected to contain the current account deficit to around 9.8 percent of GDP by 2019 (excluding impact of the Bugesera airport construction).

The BNR continued to maintain an accommodative stance on monetary policy during FY2017/18, compared to the previous year which was characterized by a relative tightening of monetary policy. This was evidenced by the fact that the key repo rate was reduced to 5.5 percent in December 2017 compared to 6.0 percent the previous year. Keeping the policy rates low supported the financing of the economy by the banking sector, given that both inflationary and exchange rate pressures were expected to remain subdued.

Rwanda's growth and trade performance over FY 2017/18 confirms that the economy is on the rise and establishes a solid foundation for further upward trends in FY 2018/2019.

# 1. THE INTERNATIONAL ECONOMIC AND FINANCIAL SITUATION

Rwanda's growth takes place in the context of an overall steady global environment, though with emerging risks and the potential for geopolitical tensions.

Global economic growth was slightly higher in 2017 at 3.7 percent from 3.2 percent in 2016. It is projected to remain at 3.7 percent for 2018-19. In the United States, momentum is still strong as fiscal stimulus continues to increase, but the forecast for 2019 has been revised down due to recently announced trade measures, including the tariffs imposed on $200 billion of US imports from China. Growth projections have been marked down for the Euro Area and the United Kingdom, following suppressed activity in early 2018. Among emerging market and developing economies, the growth prospects of many energy exporters have been lifted by higher oil prices.

The downward revision (in October 2018, from an earlier forecast in April) reflects suppressed activity in early 2018 in some major advanced economies, the negative effects of the trade measure, as well as a weaker outlook for some key emerging market and developing economies arising from country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills.

Yet risks to global growth remain in a context of elevated policy uncertainty. Several downside risks such as rising trade barriers and reversal of capital flows to emerging market economies with weaker fundamentals and higher political risk have become more pronounced. While financial market conditions remain largely accommodative in advanced economies, they could tighten rapidly if, for example, trade tensions and policy uncertainty were to intensify.

**Table 1: World and Regional Real GDP Growth (%)**

| Real GDP Growth | 2015 | 2016 | 2017 | 2018 projections | 2019 projections |
|---|---|---|---|---|---|
| **World** | **3.2** | **3.2** | **3.7** | **3.7** | **3.7** |
| **Advanced Economies** | **2.1** | **1.7** | **2.3** | **2.4** | **2.1** |
| Euro Area | 2.0 | 1.8 | 2.4 | 2.0 | 1.9 |
| United States | 2.6 | 1.5 | 2.2 | 2.9 | 2.5 |
| **Emerging Markets and Developing Economies** | **4.0** | **4.3** | **4.7** | **4.7** | **4.7** |
| Developing Asia | 6.6 | 6.4 | 6.5 | 6.5 | 6.3 |
| China | 6.9 | 6.7 | 6.9 | 6.6 | 6.2 |
| India | 7.6 | 7.1 | 6.7 | 7.3 | 7.4 |
| **Latin America and Caribbean** | 0.0 | -0.9 | 1.3 | 1.2 | 2.2 |
| Middle East, North Africa, Afghanistan, and Pakistan | 2.3 | 5.0 | 2.2 | 2.4 | 2.7 |
| **Sub-Saharan Africa** | **3.4** | **1.4** | **2.7** | **3.1** | **3.8** |

### 1.1. World Trade

After rapid growth in 2017, world trade volumes and industrial production have slowed. There are trade tensions, as a sequence of US tariff actions on solar panels, washing machines, steel, aluminum, and a range of Chinese products, plus retaliation by trading partners has complicated global trade relations. Despite the intensification of trade disputes, there is continued momentum; at the same time, more trade-sensitive data have weakened since the start of the year.

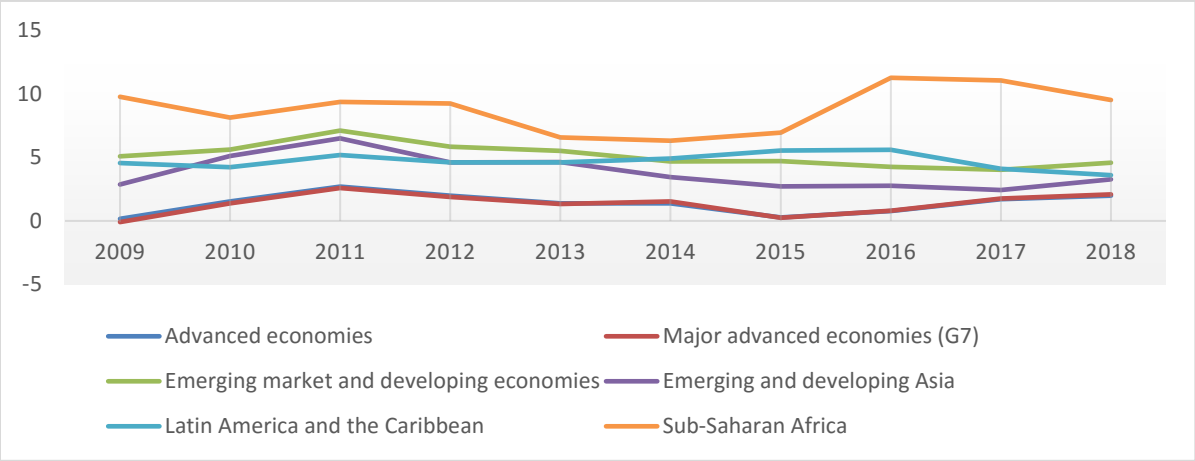
**Table 2: World Trade Volume (Goods and Services % change)**

| | Pre-crisis | Post-crisis | 2017 | 2018 projections | 2019 projections |
|---|---|---|---|---|---|
| | 1999-2008 | 2009-2014 | | | |
| **World Trade Volume** | **6.6** | **3.2** | **5.2** | **4.2** | **4.0** |
| **Imports** | | | | | |
| Advanced Economies | 5.7 | 2.2 | 4.2 | 3.7 | 4.0 |
| Emerging Markets and Developing Countries | 10.0 | 5.2 | 7.0 | 6.0 | 4.8 |
| **Exports** | | | | | |
| Advanced Economies | 5.7 | 2.8 | 4.4 | 3.4 | 3.1 |
| Emerging Market and Developing Countries | 9.1 | 4.3 | 6.9 | 4.7 | 4.8 |

### 1.2. Global and Regional Inflation

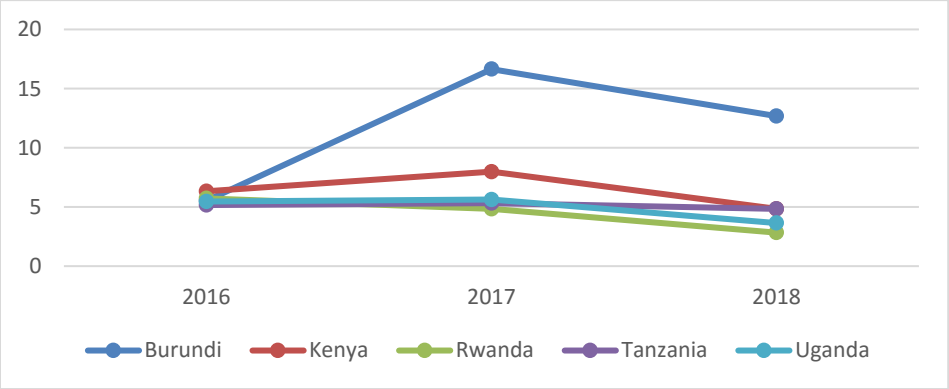
Globally, higher fuel prices have lifted headline inflation over the first half of 2018. In emerging market and developing economies, core inflation has also inched up. Wage growth, however, remains muted despite continued declines in unemployment rates. Core inflation—that is, excluding food and energy—remains below central banks' targets in most advanced economies. Among most emerging market and developing economies, core inflation remains below the average of recent years but has risen in recent months.

**Figure 1: Regional Consumer Price Inflation Rates (percent)**




For the EAC region, inflation fluctuated significantly across countries, with Rwanda consistently experiencing lower inflation rates. Compared to other EAC countries, Rwanda ended FY 2017/18 with the lowest inflation rate of 2.8 percent. The largest increase in inflation was in Burundi where inflation remained substantial at 12.7 percent during FY 2017/18. Kenya, Uganda, and Tanzania's inflation rates all stabilized and fell slightly from the prior year, to 4.8 percent, 3.6 percent, and 4.8 percent respectively.

**Figure 2: EAC Inflation Rates (%)**




### 1.3. Global Financial Markets Developments

Global financial conditions have marginally tightened over 2018. Although they remain accommodative and generally supportive of growth, significant differences have emerged between advanced and emerging market economies. In advanced economies, after spiking in the early months of 2018, market volatility subsided and risk appetite remains relatively strong.

Despite monetary policy tightening in the United States, financial conditions remain generally supportive of growth in advanced economies. Since early 2018, long-term government bond yields have diverged: a steeper path of expected policy rates has modestly lifted US 10-year government bond yields, while yields on German and UK long-term bonds have fallen. The US dollar has appreciated in real effective terms by about 6.5 percent over the first half of 2018 due to widening interest rate and growth differentials. Emerging market currencies have depreciated sharply.

# 2. DOMESTIC ECONOMIC PERFORMANCE

## 2.1. Real Sector

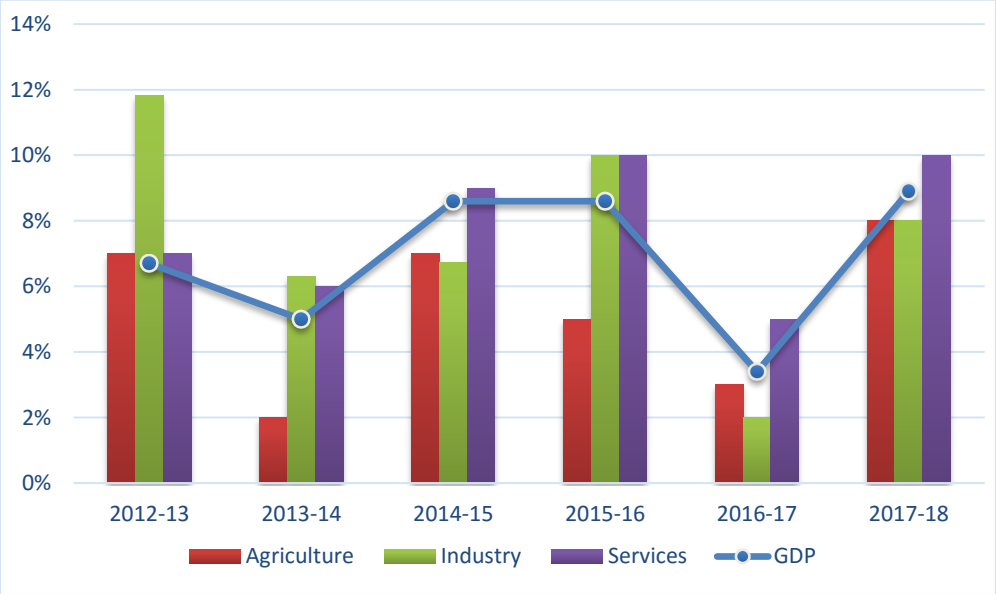
### 2.1.1. Economic Growth Performance

During FY 2017/18, the Rwandan economy grew by 8.9 percent, 5.5 percentage points higher than FY 2016/17 which stood at 3.4 percent. This was mainly driven by the service sector, which increased from 5 percent in FY 2016/17 to 10 percent in FY 2017/18 due in part to trade and transport, and taxes, respectively 15 percent and 8 percent in 2017/18. The Industry sector grew by 8 percent and Agriculture sector by 8 percent. As a result, available data indicate that GDP per capita stood at US$ 774 in 2017 compared to US$ 735 in 2016.

### 2.1.2. Real Sector: Growth and Contributions to GDP

The growth recorded in FY 2017/18 is the highest of the last 5 years: as shown below, growth rebounded from 3.4 percent in FY 2016/17 to 8.9 percent in FY 2017/18. This better performance of the Rwandan economy was largely due to the recovery of wholesale and retail trade, construction, and export crops, which recorded a growth of 14 percent, 4 percent, and 14 percent, respectively.

**Figure 3: Real sector Growth (2012/2013 to 2017/2018)**




*Source: National Institute of Statistics of Rwanda*

### Table 3: Real sector growth by sector (FY 2015/2016 to FY 2017/2018)

| | Contribution to Growth 2014 Constant Prices | | | Growth rate at Constant prices (%) | | | Shares of GDP at Current prices (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2015/16** | **2016/17** | **2017/18** | **2015/16** | **2016/17** | **2017/18** | **2015/16** | **2016/17** | **2017/18** |
| **Overall GDP** | **8.6** | **3.4** | **8.9** | **8.6** | **3.4** | **8.9** | **...** | **...** | **...** |
| **Agriculture** | **1.4** | **0.9** | **2.2** | **5** | **3** | **8** | **28** | **31** | **31** |
| Food crops | 0.7 | 0.4 | 1.31 | 4 | 3 | 8 | 17 | 20 | 18 |
| Export crops | 0.3 | -0.1 | 0.29 | 14 | -5 | 14 | 2 | 2 | 2 |
| **Industry** | **1.7** | **0.3** | **1.4** | **10** | **2** | **8** | **17** | **16** | **16** |
| Mining & quarrying | 0.0 | 0.1 | 0.62 | 1 | 5 | 23 | 2 | 2 | 2 |
| Manufacturing | 0.5 | 0.4 | 0.5 | 8 | 6 | 8 | 6 | 6 | 6 |
| Construction | 1.1 | -0.2 | 0.29 | 16 | -3 | 4 | 7 | 6 | 6 |
| **Services** | **4.6** | **2.4** | **4.7** | **10** | **5** | **10** | **47** | **47** | **47** |
| Trade and transport | 1.4 | -0.2 | 1.9 | 11 | -2 | 15 | 12 | 11 | 11 |
| Wholesale & retail trade | 0.9 | -0.4 | 1.1 | 12 | -5 | 14 | 7 | 7 | 7 |
| Financial services | 0.3 | 0.1 | 0.3 | 11 | 2 | 10 | 3 | 3 | 3 |

*Source: National Institute of Statistics of Rwanda*

### Agriculture

Agriculture Sector grew by 8 percent in FY 2017/2018, 5 percentage points higher than the previous fiscal year. This good performance was mainly due to a strong Season A, which led to an 8 percent growth in Food crops with a contribution of 1.3 percentage points to the overall Agriculture growth. Export crops and livestock also performed well with an increase of 14 percent and 12 percent, respectively, against 2016/2107.

### Industry

The industrial sector grew by 8 percent in FY 2017/18, 6 percent higher than the previous year. This good performance in growth was mainly due to construction, with a growth bouncing back from -3 percent in 2016/17 to 4 percent in 2017/18. The mining sector grew by 23 percent, an 18 percent improvement from the previous fiscal year thanks to the increase in international metal prices. The manufacturing sector grew by 8 percent in 2017/18 from 6 percent in the previous fiscal year, despite a negative growth of 4 percent recorded by beverages and tobacco.

### Services

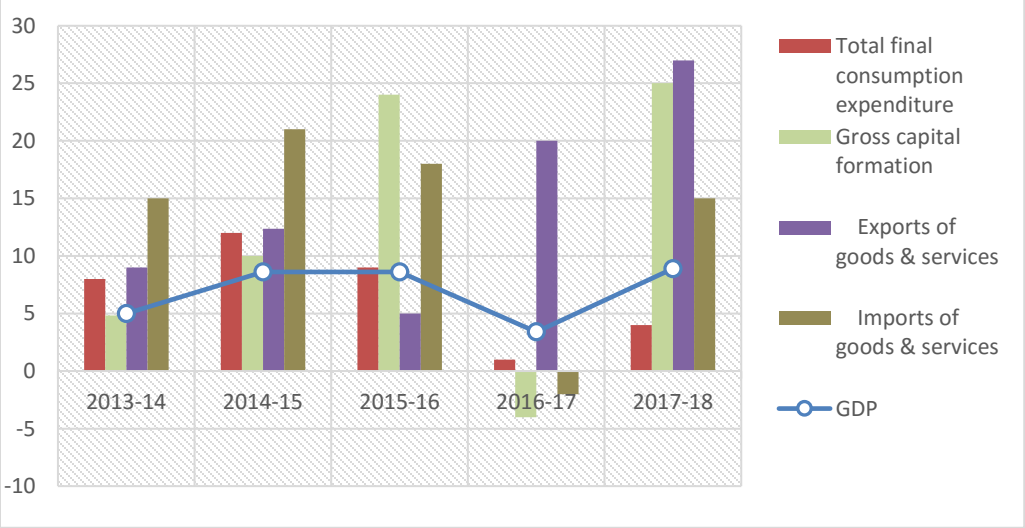
Remaining the largest share of GDP (47 percent), the service sector grew by 10 percent in 2017/18, 5 percent higher than the previous year. Trade and Transport was the largest contributor, growing by 15 percent in 2017/18. This was led by Transport and Wholesale and

retail trade which grew by 19 percent and 14 percent, respectively, in 2017/18 compared to 4 percent and -5 percent in the previous fiscal year. This rebound in Trade and transport can be explained by a 14 percent growth in Import in 2017/18 compared to a decline of -2 percent the previous fiscal year. Other Services grew by 8 percent in 2017/18, mainly driven by Administrative and support services (+12%), Financial services (+10%) and Information and communication (+20%).

### 2.1.3. Growth by Expenditure Component

After registering negative growth in 2016/17, Gross capital formation rebounded in 2017/18 and growth in Private consumption recovered. The pick-up in Gross capital formation is linked to the recovery of construction which grew by 4 percent in this fiscal year, compared to -3 percent the previous fiscal year.

**Figure 4: GDP Growth by expenditure components**




*Source: National Institute of Statistics of Rwanda*

**BOX: NST GDP Growth**

For the transformation of NST1 to be materialized, an accelerating GDP growth averaging 9.1 percent over 2017 to 2024 will be necessary. GDP per capita is expected to reach USD 1,382 by the end of the NST1 period. Growth will be driven primarily by the services and industry sectors, with 9.3 percent and 13.0 percent average growth per year, respectively; accompanied by a robust 5.7 percent performance in the agriculture sector. On average, agriculture, industry and services will respectively contribute 1.4, 2.7 and 4.5 percentage point, with the remaining growth accounted for by taxes and subsidies.

Rwanda's structural transformation is reflected in the share of industry in GDP rising from 16.5 percent in 2017 to 21.8 percent in 2024 while the share of agriculture in GDP will fall from 29.6 percent to 22.9 percent. The share of services in GDP will remain relatively stable, with only modest increases from 47.7 percent in 2017 to 48.3 percent in 2024.

The NST1 growth will depend on the amount of investment, public and private, that will materialize. Initial investments will lay the groundwork for future growth. For example, investments in the mining sector are expected to begin to impact the economy in 2019. For 2020-2021, GDP growth is anticipated to rise sharply, driven by the completion of large investment projects. Several industrial parks in secondary cities will be ready to begin production, especially in the textiles and agro processing industries which will experience significant growth. With the planned opening of the Bugesera international airport in 2020, the services sector will be boosted through increased tourism. From 2022 onwards, the economy will build on the momentum of all these investments, achieving even higher growth rates until the end of the NST1 period.

One of the prerequisite for these objectives is to significantly increase the rate of domestic savings to boost investment. With financial sector development and the introduction of innovative savings mobilization schemes, the private domestic savings rate is projected to increase from 12.1 percent in 2017 to 23.9 percent in 2024.

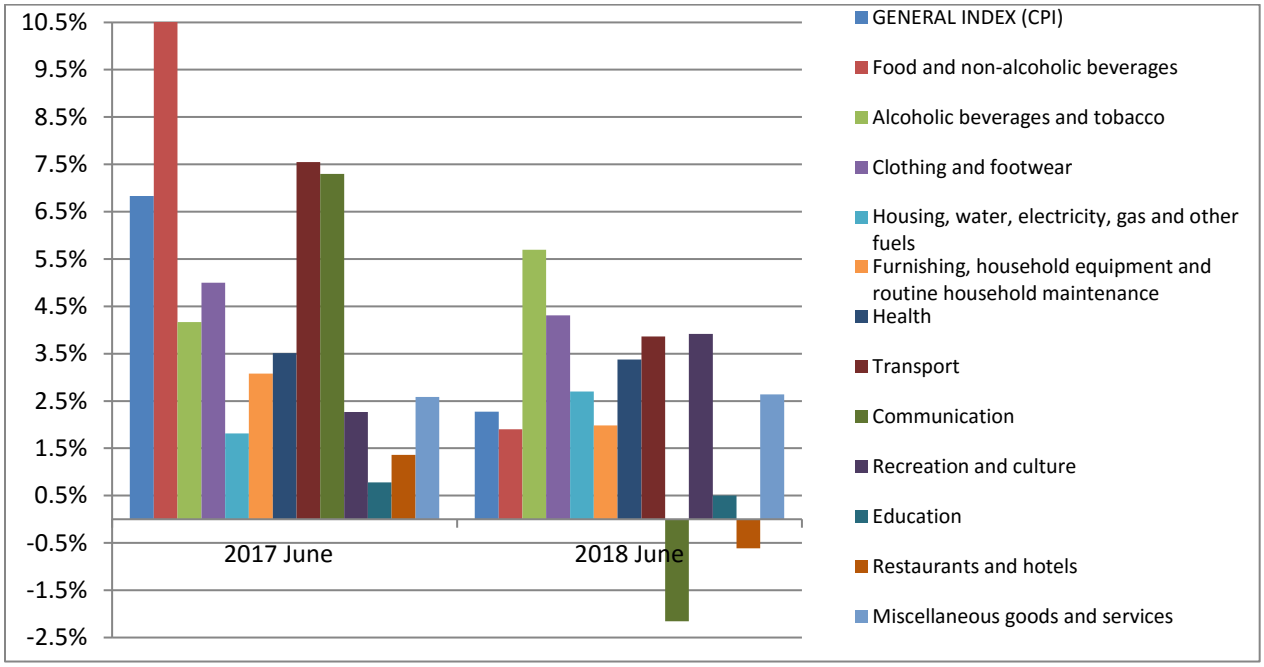
Investment as a share of GDP is projected to increase from 22.6 percent in 2017 to 31.1 percent in 2024.

## 2.2. Price Movements

Consumer prices remained generally low, with headline inflation averaging 2.3 percent over 2017/18 from 6.8 percent the previous year. Lower inflation was mainly explained by inflation of food (2% compared to 14.4%); communication (-2.2% compared to 7.3%), transport (3.9% compared to 7.6%), education (0.5% compared to 0.8%), clothing & footwear costs (4.3% compared to 5.0%). Meantime, prices increased for alcoholic beverages and tobacco (5.8% compared to 4.2%), housing and utilities (2.7% compared to 1.8%), recreation and culture (3.9% compared to 2.3%). In contrast, prices for health were stable (averaging 3.5% for the last two years). Energy and transport prices increased mainly due to the upward trend in international oil prices. Recent trends in commodity prices were mixed depending on both supply and demand factors. Inflation stood at 0.7 percent year-on-year in December 2017 and February 2018 and increased progressively to reach 2.9 percent in June 2018.

Domestic goods' inflation declined considerably to reach almost zero for five consecutive months from December 2017 to April 2018, mainly due to good harvest of season A 2018. Imported inflation increased to 4.7 percent in June 2018 from 4.2 percent in July 2017 mainly due to transport.

**Figure 1: Inflation for key items in annual average rates.**




*Source: National Institute of Statistics of Rwanda*

Consumer prices increased in all EAC countries for the FY 2017/18. Inflation rate in EAC averaged 4.5 percent from July 2017 to June 2018, as prices grew rapidly for transport and energy.

The producer price index in Rwanda increased by 3.0 percent year-on-year in 2017/18, after 8.4 percent rise in the previous period. It was the weakest since 2015/16.

## 2.3. Fiscal Sector

Fiscal performance during FY 2017/18 reflects domestic economic performance as well as donor disbursement patterns. The rebound in economic activity in 2017 and the first few months of 2018 boosted domestic revenue collections. This development, together with timely disbursement of committed donor funds, provided adequate resources to Government for spending.

Non-Tax revenues registered solid performance under peacekeeping operations (PKO), offsetting a shortfall from other non-tax revenue including local government. Regarding outlays, the period saw improvement in the processing of contract documents to speed up expenditure implementation, even in the face of a shortfall in new spending. The introduction of the e-procurement process improved performance. There were indications of acceleration of several ongoing projects which resulted in the draw-down of deposits at BNR especially in the January-June 2018 period. Government has taken note of the lessons learnt from the implementation of the FY 2017/2018 budget with a view toward continuing to improve upon them in the FY 2018/19 budget.

### 2.3.1. Original and Revised Budget

The original envelope of the 2017/18 budget was revised upwards slightly from 2,125 billion FRW to 2,187 billion FRW. In economic classification terms, total revenue and grants were estimated at 1,821 billion FRW, comprising 1,473 billion FRW of domestic revenue collections and total grants of 347 billion FRW. Total expenditure and net lending was projected at 2,125 billion FRW, comprising recurrent expenditure of 1,159 billion FRW, 788 billion FRW of capital expenditure, and net lending outlays of 178 billion FRW.

### 2.3.2. Domestic Revenue Performance

During the period under view, non-tax revenue showed a good performance by reaching of 209 billion FRW, 2.6 billion FRW higher than projected; this is 14.9 billion FRW higher than in FY 2016/17. This was mainly due to higher reimbursement of PKO by the UN in the FY 2017/18. This good performance in PKO offset a shortfall observed in other non-tax revenue, including local government.

**Table 4: Revenue performance in 2017/2018 (in billion FRW)**

| | FY 2016/17 | FY 2016/17 | |
|---|---|---|---|
| | Act | Proj. | Act. |
| **Revenue and Grants** | **1,615.8** | **1,820.6** | **1,820.4** |
| **Total Revenue** | **1,285.6** | 1,473.2 | **1,461.5** |
| Tax Revenue | 1,104.1 | 1,267.2 | 1,252.9 |
| Direct Taxes | 468.4 | 534.2 | 538.7 |
| Taxes on goods and services | 544.6 | 617.4 | 616.1 |
| Taxes on international trade | 91.2 | 115.6 | 98.1 |
| Non-tax revenue | 193.7 | 206.0 | 208.6 |
| of which PKO | 128.5 | 137.4 | 150.1 |
| of which Other (Inc. Local Government) | 52.9 | 68.6 | 58.6 |

Source: MINECOFIN

Concerning tax revenues, Direct tax of 539 billion FRW came in slightly above the projection, 4.5 billion FRW higher. In contrast, revenue from taxes on goods and services were 1.3 billion FRW lower than the 617 billion FRW projected. Revenues from taxes on international trade fell by 17.5 billion FRW against the 116 billion FRW projected. This reduction in international trade tax reflects policies taken to reduce imports in FY 2017/18 under Made in Rwanda.

### 2.3.3. External Resource Performance

The actual disbursement of total grants was slightly higher than in the revised budget projection: 359 billion FRW was registered, compared to 347 billion FRW estimated in the revised budget; this is a 8.7 percent increase compared to FY 2016/17. This increase against the projection resulted from budgetary grants, while capital grants match came in on par with the projection at 168.7 billion FRW.

The total of projects and budgetary loans disbursements were 30.1 billion FRW higher than the estimated amount; this came mainly from project loans by FRW 38 billion which offset a shortfall of FRW 7.9 billion in budgetary loans.

**Table 5: External Resource Performance**

| External resource | FY 2016/17 | FY 2017/18 | |
|---|---|---|---|
| | Act | Proj. | Act. |
| **Total Grants** | **330.2** | **347.4** | **358.9** |
| Budgetary grants | 184.2 | 178.7 | 190.2 |
| Capital grants | 146.0 | 168.7 | 168.7 |
| **Total Loans** | **344.6** | **351.8** | **381.9** |
| Budgetary loans | 183.8 | 219.4 | 211.5 |
| Project loans | 160.7 | 132.4 | 170.4 |

Source: MINECOFIN

### 2.3.4. Outlays Performance

At end June 2018, total expenditure and net lending amounted to FRW 2,187 billion. This outturn amount was FRW 62.3 billion higher than the estimation for the entire FY 2017/18 in the revised budget. Both recurrent and capital spending contributed to the excess expenditure.

### 2.3.5. Recurrent Expenditure

Total spending under this category amounted FRW 1177 billion, FRW 17.9 billion higher than in the revised budget. FY 2017/18 current expenditure was 10.1 percent higher compared to FY 2016/17.

A further breakdown of actual expenditure for FY 2017/18, as compared to projections in the revised budget, is as follows:

- **Wages and salaries** – The expenditure under wages and salaries registered 324 billion FRW; 0.7 billion FRW slightly below the revised budget.
- **Goods and services** – The spending on goods and services were 216 billion FRW; 5.7 billion FRW lower than the revised budget.
- **Interest** – Interest payments amounted to 92 billion FRW; 0.6 billion FRW lower than in the revised budget. Lower than expected sale of securities in the fiscal year accounted for this small lower spending amount. An amount of 51 billion FRW was projected as interest payments on domestic debt; the actual amount spent was 1.1 billion FRW lower, and accounted for the lower expenditure.
- **Transfers and subsidies** – The actual amount of 363 billion FRW was lower by 25.9 billion FRW, compared to the revised budget estimate.
- **Exceptional expenditures** – Exceptional expenditures accounted an excess spending of 50.7 billion FRW to 131 billion FRW projected in revised budget, explained by spending in peacekeeping operations (PKO).

**Table 6: Expenditure performance**

| | FY 2016/17 | | FY 2017/18 |
|---|---|---|---|
| | Act | Proj. | Act. |
| **Total expenditure and net lending** | **1,942.9** | **2,125.2** | **2,187.5** |
| Current expenditure | 1,069.6 | 1,159.4 | 1,177.3 |
| Wages and salaries | 263.7 | 258.3 | 324.3 |
| Purchase of goods and services | 207.4 | 207.4 | 216.3 |
| Interest payments | 72.2 | 78.6 | 91.6 |
| Domestic Int(paid) | 35.3 | 40.6 | 48.9 |
| External Int(due) | 36.9 | 38.0 | 42.7 |
| Transfers | 366.9 | 389.2 | 363.3 |
| *of which expenditures on local government taxes* | *47.9* | | *53.9* |
| Exceptional social expenditure | 159.4 | 131.1 | 181.8 |
| Capital expenditure | 759.5 | 787.8 | 850.2 |
| *Domestic* | *418.2* | *486.6* | *463.2* |
| *Foreign* | *341.3* | *301.1* | *387.1* |
| Net lending | 113.8 | 178.0 | 160.0 |

Source: MINECOFIN

### 2.3.6. Capital Expenditure

During the FY 2017/18, total actual capital expenditure amounted to 850 billion FRW compared to the 788 billion FRW in the revised budget and representing 11.9 percent growth of the capital expenditures recorded in FY 2016/17. Contrary to the FY 2016/17, the increase performance under this category was driven by foreign financed expenditure and offset the shortfall in domestic capital financed. Regarding the domestically financed portion, the amount of 463 billion FRW spent was 23.4 billion FRW lower than the estimation for the period under review. This lower spending was due to some delays in completing all spending documents including those of tendering on time. While the excess in foreign capital expenditure was due to accelerated implementation of several on-going infrastructural projects especially in the roads sector which were financed with accumulated deposits for projects at the Central Bank. At end June 2018 an amount of 48 billion FRW of these deposits had been used for these projects.

### 2.3.7. Net Lending

Expenditure under net lending in the FY 2017/18 amounted to 160 billion FRW compared to the revised budget estimate of FRW 178 billion. This shortfall was mainly due to lower outlays for export promotion activities. This was due to delays in finalizing various documents including those in the tendering processes.

### 2.3.8. Deficit and Financing

As indicated above, the revised budget estimated total revenue and grants of 1,821 billion FRW and total expenditure and net lending of 2,125 billion FRW. This meant an estimated overall deficit of 328.8 billion FRW, which was to be financed mostly by external borrowings amounting to 327 billion FRW. This amount was not only to finance the deficit but it would also allow the government to build up a small banking sector deposit of 4.9 billion FRW. In percent of GDP the deficit (payment order) was actually 4.6 percent.

At the end of the fiscal year in June 2018, total revenue and grants essentially met projections at 1820 billion FRW, with a slight short fall of 0.2 billion FRW compared to the revised budget.

Total expenditure and net lending registered 2187 billion FRW, which exceeded the projected amount by 62.3 billion FRW. FY 2017/18 closed with an overall cash deficit of 392 billion FRW; 63.4 billion FRW higher than in the revised budget. This deficit was financed partly with net foreign borrowing of 356 billion FRW. Domestic financing of 36 billion FRW, from banking and non-banking sectors, also financed the deficit. The higher foreign borrowings reflect a correction to delays in disbursement of project loans for foreign financed capital projects.

**Table 7: Budget financing for FY 2017/18**

| Performance of Financing | FY 2016/17 | FY 2017/18 | |
|---|---|---|---|
| | Act | Proj. | Act. |
| **Financing** | **347.2** | **328.8** | **392.2** |
| Foreign financing(net) | 322.7 | 326.7 | 356.0 |
| Drawings | 344.6 | 351.8 | 381.8 |
| Budgetary loan | 183.8 | 219.4 | 211.5 |
| Project loans | 160.7 | 132.4 | 170.4 |
| Amortization(due) | -21.9 | 9.9 | -25.8 |
| Domestic financing | 24.6 | 2.0 | 36.2 |
| Banking system(Monetary Survey) | 16.6 | -4.9 | 48.8 |
| Non-bank(Net) | 32.3 | 0.0 | -5.9 |
| Government Securities(Net) | 58.7 | 40.4 | 23.3 |
| Non-Bank Sector Repayment | -26.4 | -36.0 | - 29.1 |
| Errors and Omissions | -24.3 | 6.9 | -6.8 |

## 2.4. External Sector

### 2.4.1. Overall Balance of Payments

During FY 2017/18, the overall balance of payments had a surplus of US$ 135.5 million which is a slight decline from a surplus of US$159.5 million at the end of previous FY 2016/17. The 15

percent decrease was due to the decline in financial account due to delay in disbursement of grant in the first half of 2018. The current account and capital accounts have improved by 5.6 percent and 4.8 percent respectively, due to higher export increase and more modest import growth.

The current account balance has improved by 5.6 percent in FY 2017/18 compared to the previous FY 2016/17 specifically due to the trade balance improvement recorded since the second half of 2017 up to first half of 2018; and this component has around 53 percent of share to the current account. Trade of good balance has improved by 18.7 percent due to continued export growth and modest import growth. The secondary income net also increased by 23.6 percent due to increase in private transfers mainly remittances net which increased by 65.7 percent.

### 2.4.2. Trade Balance

In 17/18 the trade balance has improved by 8.4 percent, to US$ -1,058.4 million from US$ -1,155.2 million in previous FY 16/17. This was due to the export increase of 37.0 percent in terms of value against a slight increase of import value of 6.6 percent recorded in 17/18 compared to previous year 16/17. According to the export coverage of imports, it has increased to 58.3 percent in 17/18 from 45.3 percent in the previous year. Service sector has not performed well as its deficit has increased by 66.1 percent as service debit (import) has increased by 11.5 percent against to service credit (export) of 2.8 percent due to increase in travel debit (import) of 14.6 percent against to decline in travel credit (export) of 10.3 percent.

### 2.4.3. Exports of Goods

In 2017/18, export of goods has increased by 37 percent in value, to USD 1152.0 million from USD 840.7 million recorded in 16/17. This increase was especially due to the performance of Minerals (3ts) (+59.7%), and other ordinary products (+53.4%). In addition to this, tea and coffee export has increased by 17.8 percent and 18.5 percent respectively due to export volume increase of 10.0 and 10.5 percent respectively. Re-export has increased by 26.9 percent, especially due to the high demand from neighboring countries Burundi and DRC that led to increase in volume by 30.1 percent.

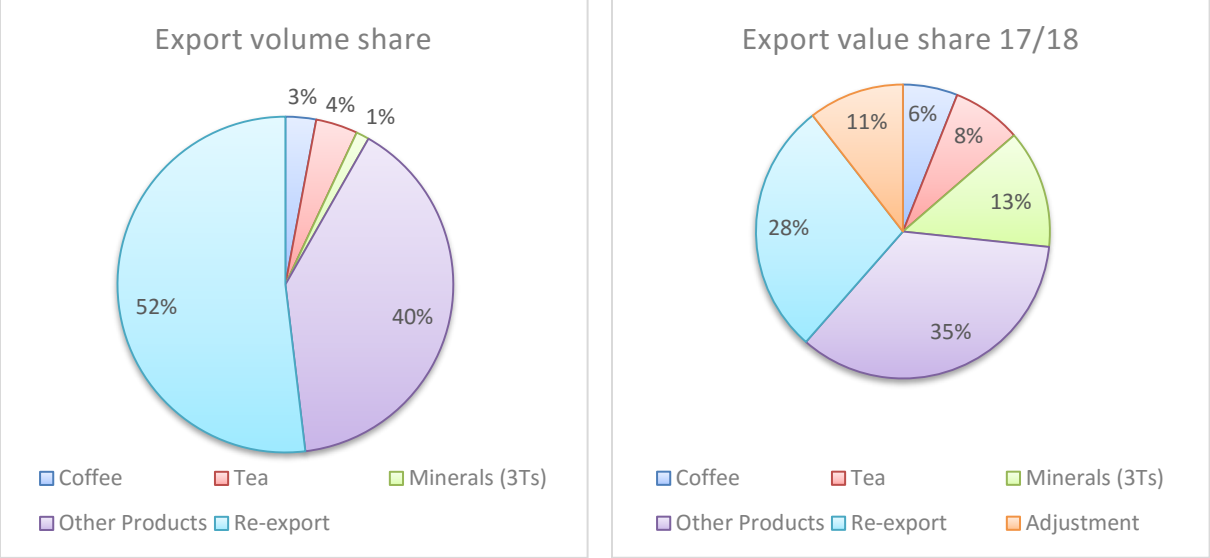
### Table 8: Trade balance in value (mln USD) and volume (Tons)

| | 2016/17 | | 2017/18 | | Change % | |
|---|---|---|---|---|---|---|
| | Value | Volume | Value | Volume | Value | Volume |
| **Exports** | **840.7** | **541,542** | **1152.0** | **689,202** | **37.0** | **27** |
| O/W Coffee | 58.5 | 18,502 | 69.4 | 20,353 | 18.5 | 10 |
| Tea | 74.6 | 25,147 | 87.9 | 27,784 | 17.8 | 10 |
| Minerals (3Ts) | 93.9 | 6,975 | 150.1 | 8,661 | 59.7 | 24 |
| Other Products | 98.8 | 216,088 | 151.5 | 274,721 | 53.4 | 27 |
| Re-export | 254.3 | 274,830 | 322.7 | 357,682 | 26.9 | 30 |
| **Imports** | **1855.7** | **1,950,246** | **1977.6** | **2,263,072** | **6.6** | **16** |
| O/W Consumer goods | 716.6 | 745,402 | 758.0 | 859,311 | 5.8 | 15 |
| Capital goods | 611.8 | 60,631 | 623.1 | 65,020 | 1.9 | 7 |
| Intermediate goods | 551.5 | 834,470 | 628.8 | 981,870 | 14.0 | 18 |
| Energy | 244.5 | 309,743 | 279.1 | 356,872 | 14.2 | 15 |
| **Trade Deficit** | **1015.0** | **1,408,704** | **825.6** | **1,573,870** | **-18.7** | **12** |

*Source: Statistics Department, BNR*

During FY 2017/18, the coffee export has increased by 17.8 percent in terms of value due to volume increase of 10.0 percent experienced in 2016 and 2017, and there is a seasonality factor in this sector, the high season starting in July towards November of the year.

### Figure 7. Export by Volume and value respectively FY 2017/18 (% share)



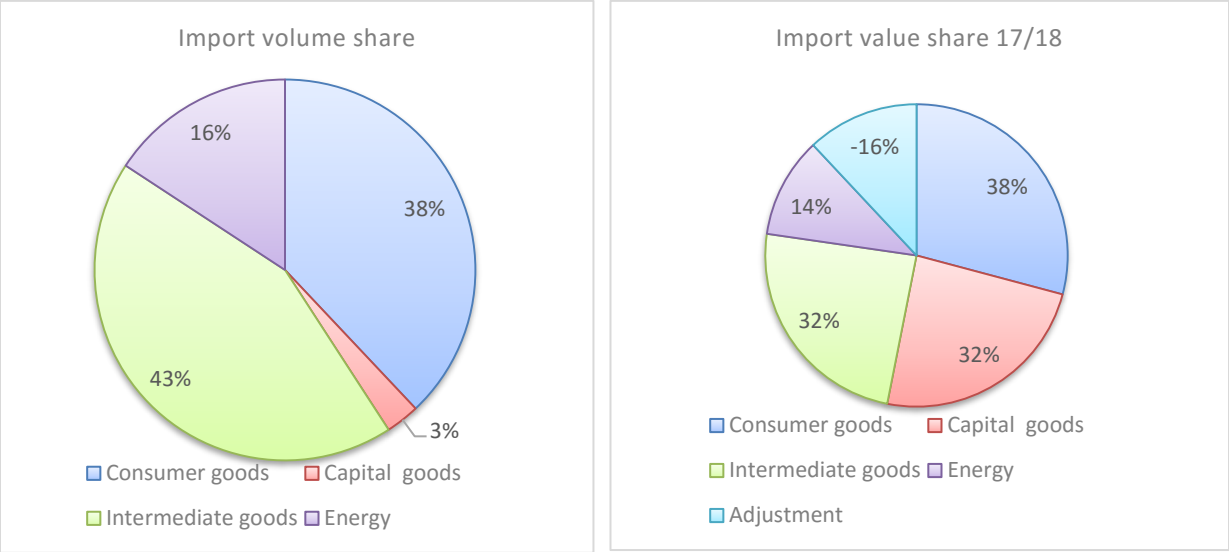

*Source: Statistics department, BNR*

In general, the mining sector has recovered since 2017 in terms of prices. When comparing 17/18 to the previous fiscal year, the sector gradually increased by 82 percent due to the high price increase mainly for other minerals and also volume increase of 24 percent for 3Ts. Cassiterite has increased in both value and volume by 23.3 percent and 23.1 percent respectively, Coltan doubled in value while volume increased by 41.5 percent and Wolfram increased both in value and in volume by 52.6 percent and 11.9 percent respectively.

### 2.4.4. Imports of Goods

During 17/18 FY, import of goods has increased by 6.6 percent during 17/18, driven by the increase of Energy products and Intermediate goods by 14.2 percent and 14.0 percent respectively compared to the previous FY due to a volume increase of 17.7 percent and 15.2 percent respectively. Capital goods also increased by 1.9 percent after a reduction occurred in previous FY. Consumer goods also increased by 5.8 percent due to an increase in volume of 15.3 percent compared to 16/17 FY.

**Figure 8. Import by Volume and value respectively FY 2017/18 (% share)**




*Source: Statistics department, BNR*

## 2.5. Public Debt

### 2.5.1. Debt Stock Developments

Total public and publicly guaranteed debt for FY 2017/18 rose to a level of 49.8 percent of GDP. The majority of Rwanda's debt is external (83.3 percent share of total debt), predominantly composed of concessional loans provided by multilateral institutions (55.6 percent of total debt).

Concessional loans are mainly provided by the World Bank (IDA) and African Development Bank (AfDB). Other key external funders include the Arab Funds, JICA, China, and India. The funds were used for projects in the areas of transport, construction, energy, poverty reduction and rural development. In terms of currency composition, the SDR has the largest portfolio share.

Although concessional loans still constitute the majority of public debt, non-concessional loans have seen a significant increase over recent years. This includes guarantees provided by the GoR for the completion of the Kigali Convention Centre (KCC), as well as loans and leases contracted by Rwandair for the acquisition of new aircrafts in anticipation of new service routes.

Domestic debt including guarantees stands at 10.6 percent of GDP mainly composed of government securities (Treasury bills together with Treasury bonds).

**Table 9: Public Debt Stock FY 2017/18**

| Public and Publicly Guaranteed Debt in mio of FRW | June , 2017 | | | June , 2018 | | |
|---|---|---|---|---|---|---|
| | Billion (FRW) | % of GDP | share of total debt (% ) | Billion (FRW) | % of GDP | share of total debt (% ) |
| **Total public debt** | 3207.9 | 45.0 | 100.0 | 3933.2 | 49.8 | 100.0 |
| **External** | 2540.1 | 35.7 | 79.2 | 3092.9 | 39.2 | 83.3 |
| Concessional | 1900.8 | 26.7 | 59.3 | 2411.2 | 30.5 | 61.6 |
| Multilateral | 1628.7 | 22.9 | 50.8 | 2094.6 | 26.5 | 55.6 |
| Commercial | 639.4 | 9.0 | 19.9 | 681.7 | 8.6 | 21.7 |
| o/w Eurobond | 332.1 | 4.7 | 10.4 | 346.4 | 4.4 | 8.3 |
| **Domestic** | 667.8 | 9.4 | 20.8 | 840.3 | 10.6 | 16.7 |
| Domestic Guarantees in billion of RWF | 44.9 | - | - | 148.5 | 1.9 | - |
| GDP( current ) in billions of Rwf | | | **7125.0** | | | **7898.0** |
| Exchange Rate ( end of period) | | | **830.2** | | | **866.0** |

*Source: MINECOFIN, Debt Unit*

### 2.5.2. Debt Servicing

External debt service increased by USD 7.9 million during FY 2017/18. This is due to the beginning principal payments to some loans after their grace periods had concluded, as well as payment of interests to new loans without grace periods. However, at 3.9 percent of exports and 3.3 percent of all total revenues in this fiscal year, Rwanda's external debt service remains sustainable.

Domestic debt service also increased due to the higher amortization associated with some corporate securities tending towards its maturities, as well as higher interest payments from the refinancing of T-bills that have been rolled over during the year. These have been rolled over due to the cash flow needs and for the development of Rwanda's capital market.

**Table 10: External and domestic debt service FY 2017/18**

| | June , 2017 | | | June , 2018 | | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Total | Principal | Interest | Total |
| External (USD million) | 27.6 | 44.7 | 72.3 | 30.4 | 49.8 | 80.2 |
| External (% Exports) | 1.6 | 2.6 | 4.2 | 1.5 | 2.4 | 3.9 |
| External (% Revenues) | 1.8 | 2.8 | 4.6 | 1.2 | 2.0 | 3.3 |
| Domestic (RWF Billion) | 14.1 | 40.6 | 54.7 | 23.8 | 49.6 | 73.4 |

***Source: MINECOFIN Debt Management Unit***

### 2.5.3. External Debt Sustainability Analysis (DSA)

Although the level of public debt has been growing, Rwanda's debt levels remain below the EAC threshold of 50 percent of debt-to-GDP. According to the latest debt sustainability analysis, the country's risk of debt distress remains low and will be maintained.

**Table 11: Debt Sustainability Indicators, per June 2018 DSA**

| Indicators | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | *Threshold* |
|---|---|---|---|---|---|---|---|---|
| PV Debt to GDP | 27.7 | 30.5 | 29.4 | 27.7 | 26.6 | 25.6 | 24.7 | ***50*** |
| PV Debt to exports | 120.2 | 126.3 | 121.3 | 116.4 | 112.7 | 107.1 | 102.4 | ***200*** |
| PV Debt to Revenues | 153.8 | 161.8 | 151.4 | 140.7 | 134.1 | 129.2 | 134.6 | ***300*** |
| PV Debt service to Exports | 7.2 | 7.5 | 10.8 | 11.4 | 8.1 | 17.3 | 6.5 | ***25*** |
| PV Debt service to Revenues | 9.2 | 9.6 | 13.5 | 13.8 | 9.6 | 20.8 | 8.5 | ***22*** |

*Source: MINECOFIN, Debt Unit*

## 2.6. Monetary and Financial Sector

### 2.6.1. Monetary Sector Developments

The BNR continues to maintain an accommodative stance on monetary policy during FY 2017/18, compared to the previous year which was characterized by a relative tightening of monetary policy. This was evidenced by the fact that the key repo rate was reduced to 5.5 percent compared to 6.0 percent the previous year. Keeping the policy rates low supported the financing of the economy by the banking sector, given that both inflationary and exchange rate pressures were expected to remain subdued. On an annual basis, broad money (M3) grew by 9.6 percent in June 2018 compared to 12.7 percent in June 2017 while growth in outstanding credit to private sector stood at 7.3 percent against 8.0 percent during the same period.

This growth in monetary aggregates was mainly driven by the increase in net domestic assets (NDA) of 9.7 percent against 3.5 percent and an increase in net foreign assets (NFA) of 9.4 percent from 29.0 percent during the same period. Furthermore, growth in NDA was mainly driven by the increase in credit to private sector by 7.3 percent year-on-year (y-o-y) in June 2018.

On the money demand side, the currency in circulation (CIC) increased by 13.7 percent (y-o-y) in June 2018 from 5.9 percent in June 2017. This upward trend in CIC is driven by an improvement in economic activities. In addition, demand deposits increased by 2.5 percent y-o-y in June 2018 against 6.3 percent in June 2017, time and saving deposits grew by 13.5 percent from 5.8 percent, and foreign currency deposits rose by 14.4 percent from 44.9 percent during the same period. The increase in time and saving deposits can be partially attributed to the removal of the 15 percent withholding tax on term deposits with maturity of one year and above.

**Table 12: Monetary Aggregates (end period, FRW billion)**

| | | | | | | Percentage Change (%) | | |
|---|---|---|---|---|---|---|---|---|
| | Jun-16 | Dec-16 | Jun-17 | Dec-17 | Jun-18 | Jun-16/ Jun-15 | Jun-17/ Jun-16 | Jun-18/ Jun-17 |
| **Net Foreign Assets** | **567.5** | **739.5** | **731.9** | **803.3** | **800.8** | **-5.3** | **29.0** | **9.4** |
| **Net Domestic Assets** | **1004.9** | **855.2** | **1040.3** | **988.4** | **1141.2** | **20.0** | **3.5** | **9.7** |
| *Credit to Private Sector* | 1287.4 | 1285.4 | 1390.3 | 1464.2 | 1491.3 | 23.5 | 8.0 | 7.3 |
| *Credit to Government* | 318.3 | 284.5 | 344.4 | 379.4 | 441.6 | 10.9 | 8.2 | 28.2 |
| **Broad Money (M3)** | **1572.4** | **1592.7** | **1772.2** | **1791.7** | **1942.0** | **10.1** | **12.7** | **9.6** |
| *Current in Circulation* | 150.8 | 145.9 | 159.7 | 162.7 | 181.6 | 11.8 | 5.9 | 13.7 |
| *Deposits* | 1421.6 | 1448.8 | 1612.5 | 1628.9 | 1760.4 | 10.0 | 13.4 | 9.2 |
| **Reserve Money** | **316** | **302.8** | **307.4** | **329.5** | **372.48** | **15.8** | **-2.7** | **21.2** |

*Source: BNR*

### 2.6.2. Interest Rate Developments

Through FY 2017/2018, money market interest rates have been declining in line with an accommodative monetary policy stance and improved banking system liquidity conditions. The Key Repo Rate dropped from 6.0 percent to 5.50 percent. The weighted normal rate of T-Bills decreased from 8.78 percent to 6.00 percent between June 2017 and June 2018. With regard to commercial banks' interest rates, lending rates slightly declined to 16.98 percent, on average, in the first half (H1) of 2018 compared to 17.07 percent in the 2017 H1 while deposit rates increased compared to 7.80 percent in the same period last year. For corporates, lending rates declined to 16.4 percent in 2018H1 from 16.7 percent in 2017H1. However, lending rates for individual borrowers slightly increased to 17.8 percent from 17.4 percent during the same period.

**Table 13: Interest Rate Developments (percent)**

| | Jun-16 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 |
|---|---|---|---|---|---|---|
| Key Repo Rate | 6.50 | 6.00 | 6.00 | 5.50 | 5.50 | 5.50 |
| T-Bills Rate | 7.30 | 8.78 | 7.42 | 7.07 | 6.27 | 6.00 |
| Deposit Rate | 7.94 | 7.92 | 7.86 | 8.70 | 8.24 | 8.33 |
| Lending Rate | 17.00 | 16.76 | 17.33 | 17.19 | 17.08 | 17.03 |

*Source: BNR*

### 2.6.3. Exchange Rate Developments

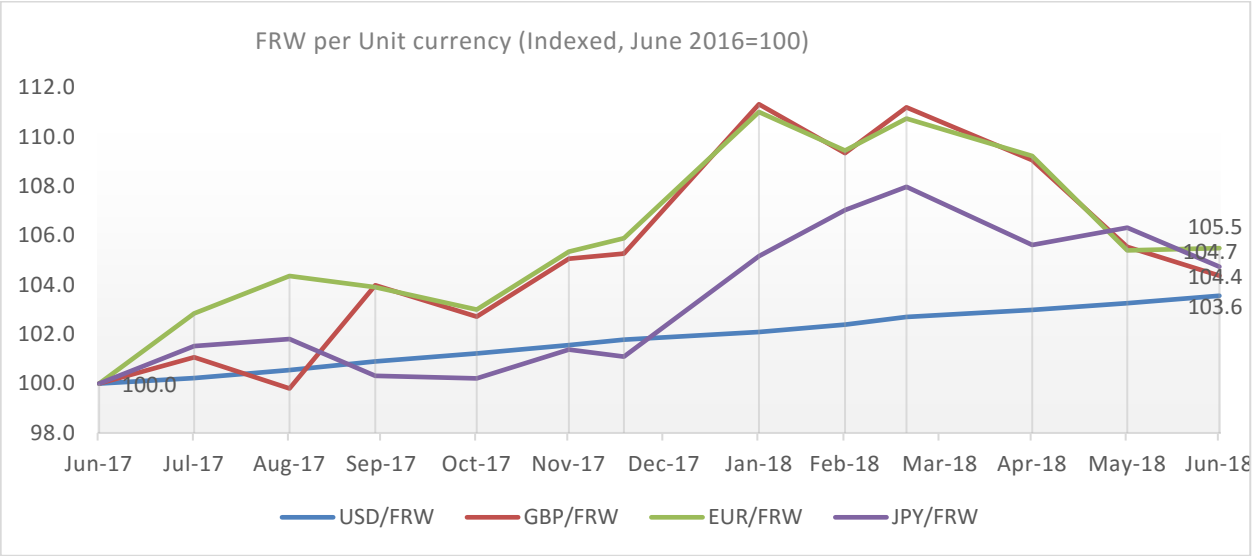
Relative to December 2017, the FRW depreciated by 1.7 percent against the US Dollar (USD) by end June 2018 compared to a depreciation of 1.3 percent registered end June 2017, following the relatively increased demand for dollars to finance imports. However, pressures on exchange rate remained moderate due to the improvements in external sector resulting from a significant increase in exports by 23.8 percent while imports grew by 7.0 percent; the Made in Rwanda initiative and international conferences in Rwanda injected further foreign currencies in the economy.

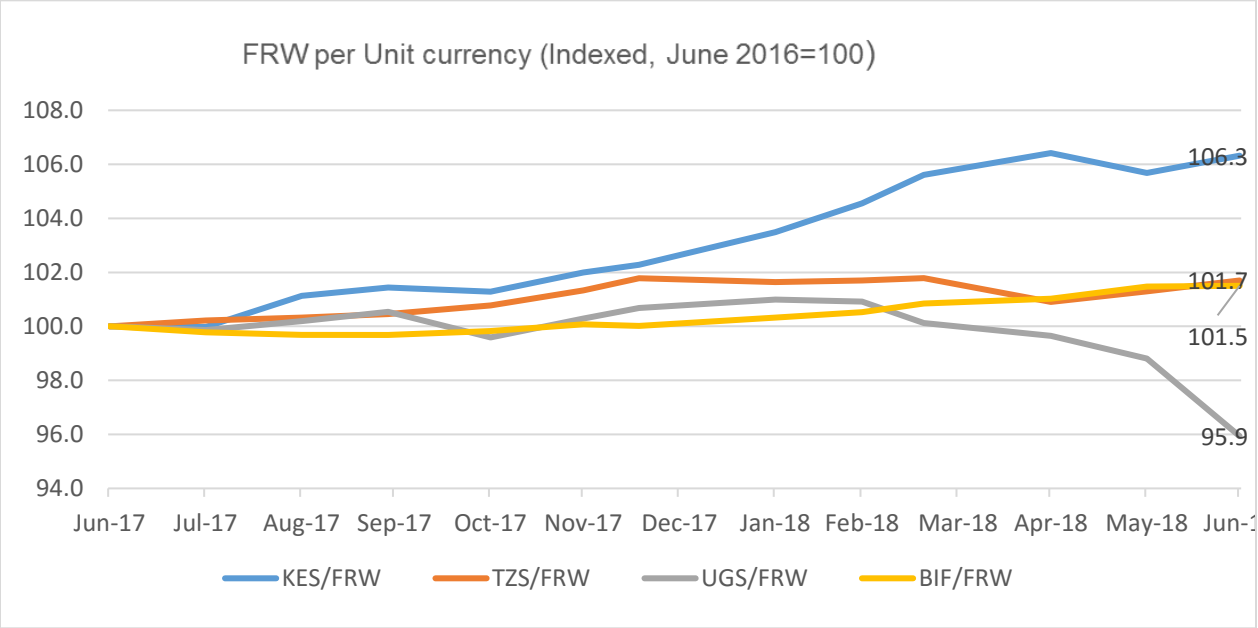
During the same period, The Rwandan Franc (FRW) appreciated by 0.9 percent to the British Pound (GBP) and 0.4 percent to the Euro (EUR), while it depreciated by 3.6 percent against the Japanese Yen (JPY). Compared to regional currencies, the FRW depreciated by 4.0 percent and 1.5 percent against the Kenyan Shilling (KES) and the Burundian Francs (BIF), respectively, but appreciated by 4.7 percent and 0.1 percent against the Ugandan Shillings (UGX) and the Tanzanian Shillings (TZS).

Looking at the currency basket for Rwanda's main trading partners, the FRW real effective exchange rate depreciated by 2.7 percent (y-o-y) end June against 4.5 percent recorded during

the corresponding period in 2017. This was mostly attributed to the depreciation of the nominal value of the FRW against currencies of some of the major trading partners. In nominal effective terms, it depreciated by 2.8 percent in June 2018 compared to a depreciation of 5.8 percent at the end of June 2017.

**Figure 9: FRW per unit currency (Indexed, June 2016 = 100)**



### 2.6.4. Financial Sector Developments

There were no major changes in the Rwanda financial sector compared to June 2017. The banking sector continues to hold the largest combined share of the financial sector assets at 65.5 percent, followed by pension at 17.4 percent; insurance at 9.8 percent, Micro Finance Institutions (MFIs) at 6.6 percent and voluntary pension schemes at 0.7 percent. In terms of number of institutions, as of June 2018, the financial sector consisted of 513 institutions: 16 Banks (from 17 in June 2017 following a merger of CBA Africa and Crane Bank Rwanda), 473 MFIs, 16 Insures and 11 pension funds (including 1 Mandatory pension Scheme and 10 Voluntary Pension Schemes).

Total assets of the banking sector stood at FRW 2,824 billion as of end of June 2018, indicating a y-o-y growth of 9.8 percent. Growth of the banking sector assets slowed down compared to the 12.9 percent growth registered in the same period of 2017. The moderation of growth in banking sector assets is mainly reflected in slower growth of banking sector loans, the main components of banks' assets. As of end of June 2018, total banking sector loan book (outstanding loans) increased by 7.8 percent (y-o-y) to FRW 1,630 billion, compared to 14.4 percent growth registered in the same period in 2017.

With regards to the financial soundness indicators of banks, in FY 2017/18 the banking system remains adequately capitalized. The total Capital Adequacy Ratio (CAR) for the banking sector stood at 21.4 percent as of June 2018 compared to 20.8 percent from the previous year. Banks also continue to maintain high quality capital. Common equity, which primarily constitutes core capital accounted for up to 96.7 percent of total capital of banks as of June 2018. The banking sector leverage ratio, which compares capital of banks to total assets, including off-balance sheet assets, stood at 11.8 percent in June 2018, higher than the minimum prudential standard of 6 percent. During the period under review banks increased their paid-up capital by 26 percent (from FRW 209 billion in June 2017 to FRW 262 billion in June 2018), supporting the capital position of banks. The capital buffers held by banks demonstrate the capacity of the banking sector to withstand financial and economic shock. Recent stress tests suggested that banks have sufficient capital to withstand economic shocks.

The quality of bank's loan portfolio improved, with the Non-Performing Loans (NPLs) declining to 6.9 percent as of June 2018 from 8.2 percent in June 2017. In absolute amount, NPLs stock dropped from FRW 149 billion in June 2017 to FRW 138 billion in June 2018. The improvement in the banking sector asset quality was underpinned by a strong performance of the economy during the first half of 2018 that enhanced the debt servicing capacity of borrowers, as well as write-offs of bad loans that were in the loss category for more than one year.

## Table 14: Financial Soundness Indicators (percent)

| | June 2016 | June 2017 | June 2018 |
|---|---|---|---|
| Capital Adequacy: Solvency Ratio (min 15%) | 23.3 | 20.8 | 21.4 |
| Asset Quality: NPLs/Gross Loans | 7.0 | 8.2 | 6.9 |

# 3. ECONOMIC OUTLOOK

## 3.1. Real Sector

In FY 2017/18, Rwanda rebounded from the slowdown in first half of 2017 and the medium-term outlook is strong. Economic growth for 2018 is expected to remain strong and in line with the second part of 2017. Based on preliminary estimates, growth in 2018 is on track to meet the projection of 7.2 percent.

Over the medium term, growth is expected to return to its historic rates of 7-9 percent, as the investments undertaken generate returns and with continued improved performance in exports. Rwanda's GDP growth rate is one of the strongest in the EAC.

End year inflation for 2018 is also likely to be below the 5.0 percent target. For the short term, government spending will lead the level of inflation. Since June 2017, Rwanda has consistently had the lowest inflation rate in the EAC.

## 3.2. Fiscal Policy Outlook for FY 2018/19 and Medium-Term

FY 2018/2019 is on track to support the implementation of the government's medium-term fiscal policy objectives: (a) Fiscal and debt sustainability with progress toward the EAC macroeconomic convergence criteria, (b) Reducing the external current account deficit and the reliance on external financing, (c) Further improving prioritization and efficiency of public expenditure, in support of growth, poverty reduction and structural current account improvement.

The FY 2018/19 budget will continue to reflect the policies of fiscal consolidation and prudent borrowing to keep debt and external balances sustainable. The fiscal deficit is projected to rise slightly from 4.6 percent of GDP in FY 2017/18 to 5.1 percent of GDP in FY 2018/19. Domestic tax revenue collections are projected to decline slightly from 15.9 percent of GDP in FY 2017/18 to 15.6 percent of GDP in FY 2018/19. This reduction is mainly attributable to the 'one off' (in FY 2017/18) collection of arrears from a telecom company as well as import taxes from electricity and water companies, in total amounting to 0.3 percent, of GDP.

In the medium term, the overall deficit, which will reach 5.1 percent of GDP in FY2018/19, is projected to decline to 4.6 percent of GDP in FY 2019/20 and to 4.2 percent of GDP in FY 2020/21. In FY 2021/22 and FY 2022/23, the deficit is expected to be in line with the 3.0 percent of GDP EAC target. In the case of revenue collections, tax revenue collections are projected to be 15.6 percent of GDP in FY 2018/2019 to 15.9 percent in FY 2020/21 and 16.3 percent in FY 2021/22. Increased yields from on-going tax policy and administrative measures mentioned above are expected to boost revenue collections in the medium term.

In terms of expenditures, implementation of expenditure prioritisation measures are expected to allow expenditures to decline from 28.2 percent of GDP in FY 2018/19 to 26.8 percent of GDP in FY 2019/20 and to 26.3 percent of GDP in FY 2020/21. The prioritisation strategy will mostly affect recurrent spending, which is projected to decline from 14.6 percent of GDP in FY 2018/19 to 14.2 percent of GDP in FY 2019/20 and 13.8 percent in FY 2020/21. Development spending remains focused on completing projects under way or in the pipeline, in line with NST1 objectives and contributing to Rwanda's growth.

### 3.3. External Sector Outlook

The external position is expected to continue to strengthen over the medium term. In 2018, the current account deficit is expected to widen to 10.0 percent of GDP from 8.3 percent in 2017, due to imports associated with the construction of Bugesera Airport. Excluding the impact of the new airport, positive export trends and more modest import growth are expected to support the continued narrowing of the current account deficit to around 9.8 percent of GDP in 2019. Together with a gradual increase in financial flows, these current account improvements should support a continued recovery in external buffers: gross official reserves are projected to reach 4.1 and 4.0 months of prospective imports by 2018 and 2019, respectively.

### 3.4. Debt Outlook

In the medium-term, careful accrual of new, growth- and export-enhancing debts should be managed against the rising costs of annual debt service. This includes consideration of state-owned liabilities and leases, risks which, if materialized, would erode Rwanda's capacity to invest in economic development. It will be particularly important to ensure a sound macroeconomic framework is in place to set the stage for the 2023 maturity date of Rwanda's USD-denominated $400 million Eurobond.

The Debt Sustainability Analysis (DSA) conducted in April 2018 by MINECOFIN shows that Rwanda remains at low risk of debt distress. This is based upon careful management of debt service, accelerating economic growth, and continued improved performance in exports in 2017-2018, which will expand domestic production and implementation of sound macroeconomic policies, including improved revenue mobilization and exchange rate flexibility. Except for a minor and temporary breach associated with Eurobond rollover, baseline indicators remain below thresholds.

### 3.5. Regional Integration Outlook

Rwanda considers regional economic integration as one of the crucial elements of achieving Visions 2020 and 2050. It will be necessary to pursue an open, liberal trade regime, removal of barriers to trade as well as implementing policies to encourage FDI. Rwanda is a full member of three key regional economic blocs: The East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the Economic Community of the Great Lakes Countries (CEPGL). These blocs are at different stages of integration and Rwanda is currently dealing with a tripartite agreement including the EAC, COMESA and SADC with the purpose of resolving issues surrounding overlapping membership.

In terms of progress made, the EAC is at the most advanced stage, and Rwanda has significantly deepened its integration with the EAC. Currently, the customs union (since July 2009) and common market (since July 2010), and monetary union protocols (since November 2013), are being implemented and allow people, capital and goods to move freely within the region. During 2016/17, for example, several projects have been fast trucked through Northern Corridor Integration Projects (NCIP), such as Immigration, Trade, Tourism, Labor and Services, Single Customs Territory, Commodity Exchanges, Mutual Defense Cooperation, Mutual Peace and Security Cooperation and Airspace Management, and then Power Generation and ICT. Addition to these projects, Partner states are implementing macro convergence criteria already set in the East Africa monetary union protocol which will allow establishing the single currency in the region. Meanwhile, bills establishing EAC institutions such as East African Monetary Institute (EAMI), East African Central bank (EACB), and other relevant institutions are being negotiated by partner states. Furthermore, Rwanda is expected both to benefit from and to drive reforms in the reduction of transaction costs for businesses, thereby improving the incentive to invest in Rwanda.

### 3.6. Monetary and Financial Policy Outlook

In FY 2018/19, the external sector continues to record good performance, in line with the progressive increase in international commodity prices linked to the uptick in global demand. Exports receipts as well as other foreign exchange inflows improved significantly, helping to ease exchange rate and inflationary pressures. As initially projected, the depreciation of the FRW against the USD is expected not to exceed 4.0 percent end December 2018 In March 2018, BNR announced that they would be shifting from monetary targeting to a price-based monetary policy framework by end of 2018.

The financial sector is expected to remain sound as measured by the solvency and liquidity metrics. The capital and liquidity positions of banks will strengthen further under the new Basel II/III capital and liquidity standards. BNR has issued an implementation guideline in this regard

to ensure that a smooth and sector wide consistent application of the standard. In addition, credit risk remains a major risk facing banks and microfinance institutions in form of loan concentration to some sectors, as well as higher NPLs in some sectors. BNR will continue working with banks and MFIs on proper loan classification and adequate provisions for bad loans. On-going efforts by the Government to improve the “foreclosure process of collateralized loans” and the “the auction standards” is also expected to increase recovery of bad loans by banks and MFIs.

# 4. CONCLUSION

Overall Rwanda's economic performance and outlook remain positive. In Rwanda, FY 2017/18 showed a continued improvement of economic activities, increasing growth and narrowing the trade balance compared to the prior two years. At 8.9 percent, growth in Rwanda for FY 2017/18 was markedly higher than projected growth in EAC countries and across Sub-Saharan Africa. This took place in the context of overall strong growth in the region: as the fastest growing region on the continent, Eastern Africa recorded an annual average growth rate of 6.7 percent between 2013 and 2017 – this is more than double the African average. Ethiopia, Tanzania, and Rwanda registered the highest growth rates over 2013-2017.

In Rwanda, the story of steady growth above 7 percent on average since 2007 was achieved through: sound economic policies, government-led investments with donors, major infrastructure projects, and relatively strong performance in agriculture, initially in coffee and tea but with an increasing share in non-traditional agriculture exports.

Today, the Government of Rwanda is striving to accelerate economic growth in line with its Vision 2050 aspiration of making Rwanda a high-income, high standard-of-living country. Looking forward to FY 2018/19 and beyond, strong and inclusive GDP growth, sustained over an extended period, is at the heart of Rwanda's ambitions. Over the medium term, Rwanda plans to drive growth through: higher agriculture productivity and growth; export diversification and import substitution through Made in Rwanda; a diversified industrial base, moving into light manufacturing, logistics, and domestic production; services, built on public spending, credit growth and private consumption; and addressing bottlenecks in project implementation to ensure investments yield stronger returns to the economy.