Global Financial Crisis: Impact on Rwanda's economy

Kampeta Sayinzoga
Director of Macroeconomic Policy Unit
Ministry of Finance and Economic Planning

2008 Trade: Imports and Exports

- Trade balance continues to widen
  - Main exports performed well this year in ***value*** terms – BUT – ***volumes*** continue to underperform.

- Main drivers of exports: increase of international prices in minerals and recovery of production/supply from coffee. But volumes of mineral production actually dropped

- Main drivers of imports: mainly capital and intermediate goods in line with EDPRS.

Nominal	2007	2008 (est)	% change
Trade balance	-404.39	-634.48	56.9%
As % of GDP	-11.9%	-14.2%	
Imports	*-581.16*	*-885.32*	*52.3%*
Exports	*176.77*	*250.84*	*41.9%*

2009 EXPORTS

Tea and Coffee:

- Prices could drop but not significantly in 2009
- Rise in volume exported in 2009 are required to mitigate the price fall.

Minerals

- Strong performance of 2008 was due solely to higher international prices. Volumes produced in Rwanda actually dropped.
- Production is very volatile to prices. In 2009, we project a large drop in minerals receipts (drop in prices AND volumes) as international demand drops.

Trade Balance

- 2009 total imports are expected to fall due to lower domestic demand and fall in international prices (esp. fuel and food). Drop in demand will affect the speed at which we plan to achieve our EDPRS though we expect to remain broadly on track in the medium term.
- In 2009 total exports and imports are expected to fall greatly. The trade balance is expected to improve slightly in 2009 but not in the medium term (ie. 2010-2012) as per EDPRS requirements

TOURISM

- Tourism is a small percentage of GDP but high contributor to foreign exchange receipts
- In 2008, tourism also performed very well with more total numbers of visitors especially leisure visitors. Total tourism related expenditures grew by 50%.
- In 2009, Rwanda anticipates a very sharp a decline in tourism receipts. This is due to an expected drop in leisure tourism (visiting parks and gorillas) and less spending by business tourists due to financial stress in developed countries and potential cost savings by international partners.

REMITTANCES

- Very small contribution to GDP and forex inflows.
- In 2009, Rwanda anticipating large fall compared to 2008 in line with IMF Global projections.

*Due to the loss of jobs abroad and reduced ability of the Diaspora to send funds home

*Remittances are important for many Rwandan families and therefore could affect consumption at micro level.

Foreign Direct Investment

- In 2008 FDI doubled to 190 million USD (83 million USD in 2007)

  * However, ½ concern one-off payment which are not expected to be reproduced in the near future (i.e 60mio TIGO and 25 mio Lap Green)

- Projections for Rwanda after taking off the 85 million one-off receipts from 2008, suggest a decrease in FDI in line with IMF global projections for developing countries.

Financial Sector

- Rwandan Financial sector has not yet been affected by the Global Financial Crisis because it is rather isolated from global development
- Highly affected by domestic liquidity crunch caused by :
  - Withdrawal by large depositors
  - Foreign investments made in 2008
  - Banque populaire becoming a commercial bank
  - Less savings due to high inflation

Financial Sector cont'd

- Consequence:
  - Mismatch of short term deposits vs. long term investment needs by economy in the medium term.
  - Less credit to Private Sector in 2009 esp. for construction and large investments
- Solutions:
  - Special facilities offered by BNR for commercial banks
  - Access to credit lines from regional development banks
  - Financial intermediation

OVERSEAS AID

- However, in 2009 there will be less donations for Churches and NGOs from Charity contributions.
  - NGOs in Rwanda have already started to feel the "pinch"
- For ODA: No financial crisis impact recorded in 2008. No anticipated drop in 2009. Any cancellation or scaling down of aid in 2009 will have serious aggravating effect to the economy.

What does this mean?

- As a result of decline in resources, imports will reduce.
- However, there is a minimum required to keep the economy running to achieve projected GDP growth rate.
- This has implication for economic performance in 2009 and medium term.

2008 Growth

- Growth to exceed initial estimates of 8.5%, to reach 11.2%
- Double digit growth reached because of STRONG performance of agriculture (holding 31% share of GDP).
- Construction again contributed most to industrial growth.
- Restaurants and hotels continue to grow.

Real growth	2008	2007	2002-2006 average
GDP	**11.2%**	**7.9%**	**6.2%**
Agriculture	15.0%	0.7%	3.3%
Industry	10.7%	10.2%	7.9%
Services	7.9%	12.8%	8.2%

A closer look at 2008 Growth Performance

Real growth	2008	2007	2002-2006
Agriculture			
Of which: *Food crop*	16.4%	1.8%	3.3%
Export crop	20.3%	-33.1%	9.6%
Industry			
Mining and quarrying	-14.7%	37.5%	4.0%
Manufacturing	- 4.1%	6.9%	6.0%
Construction	25.9%	11.6%	10.7%
Services			
Restaurants & hotels	29.1%	25.3%	6.8%
Transport & comm.	14.2%	18.4%	9.8%

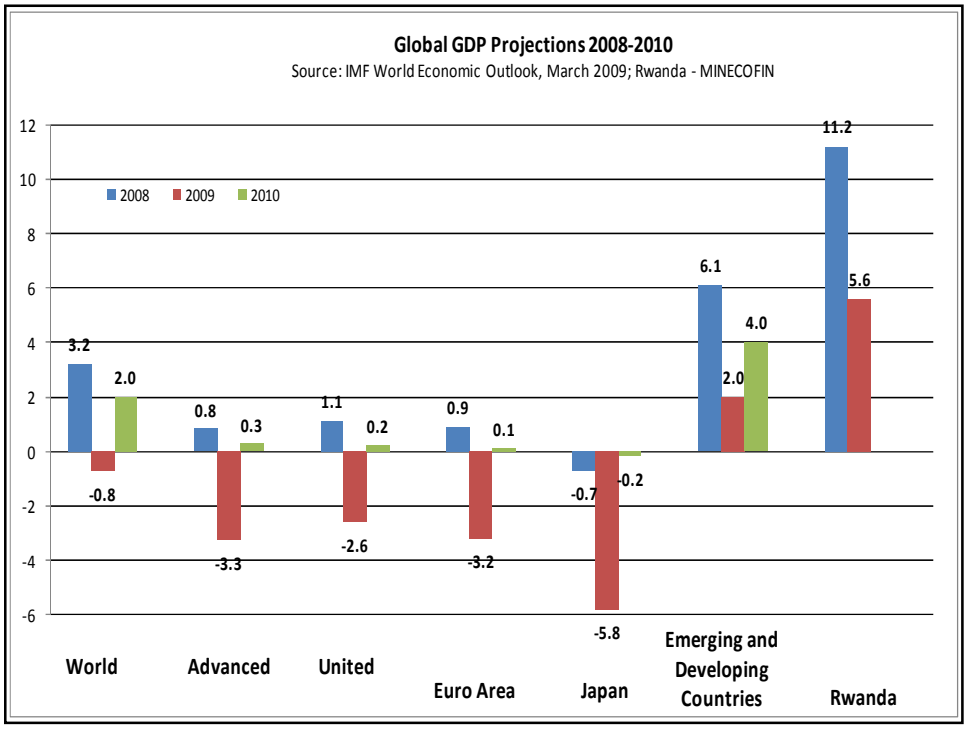
- Food crop: Success of land consolidation and crop intensification programs (inc. fertilizer application).
- Export crop: recovery from poor performance of coffee in 2007 and price effect for tea. Value-addition is stagnant
- Mining: Volumes dropped by more than increase in international prices.
- Manufacturing: drop due mainly to slowdown of factories (esp. Kabuye Sugar)
- Restaurants and hotels: increasing number of leisure and business visitors in service sector

GDP 2009

Initially projected 7.2% now revised down 5.7% due to Global Financial Crisis and domestic liquidity issue

5.7% will only be possible if :

1. EDPRS expenditures stay on track (depends on aid disbursements)
2. Agriculture continues to perform well (one third of GDP comes from this sector). Season 2009 A = 19% growth already compared to Season A 2008.
3. Aid inflows are sustained



Impact of GFC and Domestic Liquidity Crunch

- Less taxes collections (due to less trade and less economic activity)
- So less GoR expenditures than initially projected for 2009-2010 budget.. But still an increase compared to 2009 mini-budget.
- => There is financing gap to be covered by additional grants. If not economic performance should be revised even further !!

What can be done by GoR?

- **Coffee, Tea, Minerals and Tourism:**
  - Increase productivity, and competitiveness e.g., higher production of quality tea and coffee, improving customer service and value for money in tourism.
  - Strengthen legal framework for mining sector
  - Pay special attention to tea and coffee because they are the most readily influenced by government policies.
- **Agriculture – Food Crops:**
  - Sector is protected/isolated from both GFC and liquidity crunch. It accounts for one third of GDP.
  - Focus on irrigation, agri-business and Crop Intensification Program.

What can be done by GoR?

- **Develop strategies to counteract effects of declining remittances.**
  - How to attract flows from the diaspora, e.g. better organize investment schemes (some already exist) and embassies to do outreach programmes with the diaspora.
- **Improve the investment climate and investor promotion and aftercare.**
  - As total FDI levels in Rwanda are, in absolute terms, very small, just a few significant deals can counteract the effects of the global financial crisis.

What can be done by Rwanda's Development Partners?

- DISBURSE AS PLANNNED
- FRONTLOAD AID
- COVER THE GAP
- DIRECT SUPPORT TO PRIVATE SECTOR (e.g. credit lines)