Rwanda and the global financial crisis:

Impacts felt, measures taken and prospects for the coming year.

Development Partners Retreat, Friday 5th February 2010
Kampeta Sayinzoga, PS-ST, MINECOFIN

1

Introduction

- What was initially expected?
- What emerged over 2009?
- Actions taken and rationale.
- Prospects for the coming year.

2

Rwanda and the global financial crisis

- Initial analysis carried out in December 2008 suggested that due to its limited integration in international markets, the impact of the GFC in Rwanda over 2009 would be low.
- By March 2009, it was clear that although not as exposed as more developed economies, the impact of the GFC was beginning to be felt in Rwanda.

Initial expectations

- As at March 2009, it was anticipated that:
  - The industrial and services sectors would be most affected – tightening of credit, decline in demand.
  - Prices achieved for tea and coffee exports would remain broadly stable and volumes exported would increase.
  - As import prices fall, a narrowing of the trade deficit would occur.
  - Tourism revenues could decrease by up to 45%.
  - Remittances could fall by up to 30%.
  - No significant declines in FDI or ODA.

What recommendations were made?

- Maintain the course on real sector development along EDPRS priorities – avoid short-termism.
- Consider a fiscal stimulus – support domestic demand.
- Monetary policy should be flexible to reduce inflationary pressures whilst ensuring liquidity.
- Introduce greater flexibility in exchange rate policy – aid export competitiveness.

What materialised?

- In general, the effects of the crisis were managed well. However, commodity prices did not behave fully as expected, leading to issues in the trade balance.
- Domestic liquidity strain (not a direct result of the GFC) also took its toll, restricting credit to sectors that were also facing pressure from the crisis.
- Flows into the country did not reduce as much as was initially anticipated.
- Signs that industry and services have seen some decline in growth rates – as expected.

Special focus on the external sector

- External sector is an important source of revenues for the country, which ultimately supports investment projects.
- The Balance of Payments (exports particularly), is the source of key parameters in Rwanda's debt sustainability analysis (DSA).

Balance of Payments: expectations (1)

- What was anticipated (as at end 08/early 09)?

NB: The details below are for the full calendar year 2009, but trends are applicable to the mini-budget period also.

- Exports:
  - Large falls in price received for minerals (up to 45%) – significant declines in world demand (esp. China)
  - Although coffee and tea prices were expected to register a slight decline, volumes were projected to increase under export promotion strategies.
  - Tourism and remittances were expected to decline by up to 40%.

Balance of Payments: expectations (2)

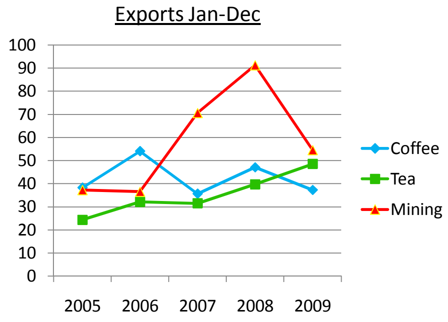
- Imports:
  - Imported goods of all categories (capital, consumer, energy) were expected to decline in value terms across the board, by an average of around 20%.
  - These value declines were expected to be driven in the main by falling prices, with volumes showing only modest declines (less than 5% in most cases).

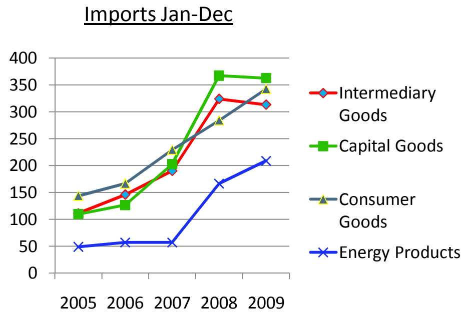
Balance of Payments: export performance

	Jan-Dec 2008		Jan-Dec 2009		%change	
US$, millions / kg, millions	Value	Volume	Value	Volume	Value	Volume
Total Exports (selected)	**182.7**	**45.1**	**140.1**	**39.8**	**-23.3%**	**-11.8%**
Coffee	47.1	18.2	37.3	15.0	-20.8%	-17.6%
Tea	44.9	19.8	48.2	18.7	7.3%	-5.7%
Mining	90.7	7.1	54.6	6.1	-39.8%	-14.1%

- For coffee – prices fell (by more than was expected), but a double-blow was dealt on the volumes side, with delayed financing affecting yields.
- Although falls in mining values appear high, this was anticipated in such a volatile market.
- In addition, tourism revenues recorded a modest fall (6%), although this was much less than expected.

Export and import good values 2005-2009





Note: Value in US$, millions

- The largest value declines for exports were in mining (back to below 2007 levels), whilst consumer goods saw the biggest increase for imports.

11

Balance of Payments: import performance

	Jan-Dec 2008		Jan-Dec 2009		%change	
US$, thousands / kg, millions	Value	Volume	Value	Volume	Value	Volume
Total Imports	**1,134.1**	**848.5**	**1,227.0**	**993.0**	**8.2%**	**17.0%**
Consumer goods	284.1	253.7	342.4	354.8	20.5%	39.9%
Capital goods	367.3	39.9	362.7	39.7	-1.3%	-0.3%
Intermediary goods	323.9	367.9	313.1	408.8	-3.3%	11.1%
Fuels and energy	158.9	187.1	208.8	189.6	31.4%	1.4%

- The expected decline in import values did not occur, although the rate of increase in import values was the smallest for more than five years.
- Import growth (both volume and value terms) was high at the beginning of the year, but slowed in Q3&4.
- The volume of consumer goods increased substantially, despite rising prices.
- Whilst energy imports remained broadly stable, prices increased by over 30%.

12

Have we seen the worst?

- Inflation falling (from above 20% to approaching 5% in twelve months).
- Import growth slowing in second half of year.
- Some key commodity prices (minerals) showing signs of increase.
- Tax revenue meeting targets.
- Major infrastructure projects financed.
- Some delays in donor disbursements, but no confirmed reductions and not related to the GFC.

The coming year

- In the external sector, early signs that commodity prices will improve – particularly true of minerals.
- However, oil prices are set to rise as the world moves out of recession – analysts predict demand outstripping supply in the latter half of the year with subsequent price increases.
- GDP is projected to remain positive and above the SSA average for 2009 (based on IMF WEO estimates, October 2009) and recovery to begin in 2010.
- Moving in to 2010 → Strong foundation remains, benefits of EAC CU membership expected to contribute to a steady recovery.

Thank you