



Rwanda

The Rwandan economy achieved growth with stability in 2002, but all this could be threatened by the contradictory needs of maintaining fiscal prudence and increasing expenditure for post-genocide reconstruction, according to Economic Report on Africa 2003.

The economy grew by an impressive 9.9 percent in 2002, partly driven by favourable climatic conditions boosting agricultural output. Inflation was kept under four percent in 2001 and 2002. However, the large spending requirements of post-genocide social reconstruction raise critical problems for macroeconomic policy, particularly fiscal management.

The 1994 genocide increased deprivation dramatically with rural areas in particular suffering from the loss of labour and capital such as livestock. Poverty rose from 48 percent in 1985 to 68 percent in 2000. In addition the genocide left a subset of vulnerable female and child-headed households, many of whom have little access to land and little capacity to enter the labour market.

Despite these challenges the fiscal deficit fell from 13.2 percent to 8.3 percent of GDP between 1996 and 1998 as the economy recovered. But it will reach 11 percent of GDP in 2002 and remain high over the medium term. The Poverty Reduction and Growth Facility (PRGF) agreed in late 2002 with the IMF made some allowance for increased expenditures that were "exceptional" because of the consequences of genocide. These include *gacaca* (peoples courts), demobilization, the genocide survivors' fund and three governance commissions. However, some development partners recommend that Rwanda, with large fiscal deficits financed by grants and international borrowing, should reduce the deficit in the medium term rather than mobilize additional resources.

Further contradictions have emerged with Rwanda's Highly Indebted Poor Country (HIPC) status. The use of exports in calculating the HIPC debt sustainability ratios means that the level of debt over exports will be high for countries with low levels of exports such as Rwanda. This has increased debt relief available to Rwanda, but

also means a reduction in new borrowing in order to maintain debt sustainability.

So, over the medium term, rising spending needs for poverty reduction and post genocide reconstruction means Rwanda is unlikely to adhere to low debt-GDP ratios as required by HIPC. It is clear that adherence to HIPC debt ratios has hidden costs which may very easily outweigh its benefits.

GDP growth will continue to be driven by the agricultural sector and by high public expenditure supported with donor funding. GDP growth is expected to slowdown over the next two years to around 6.5 percent in 2003 and 2004, although eventual outcomes will be sensitive to weather. With Rwanda's high aid dependence, greater volatility of external flows would be damaging.

Monetary policy will remain centred around the objective of price stability although inflation is likely to drift upwards slightly to around four percent in 2003 as a result of VAT increases and gradual exchange rate depreciation. The main influence on the external balance will be international prices of Rwanda's main exports: tea and coffee. With inventories held by importing countries at record highs, the downward trend in coffee prices is expected to continue over the coming years keeping the trade and current account balances in deficit. The requirements of poverty reduction and reconstruction will continue to put upwards pressure on the fiscal deficit which is likely to be above 10 percent of GDP in 2003.

The PRSP's aim of cutting poverty to half the 2001 level by 2015 will require average annual GDP growth of 7-8 percent. Given the structural weaknesses and the interlocking political and economic risks poverty reduction of such magnitude is unlikely.