

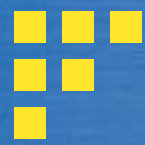


Recent Macroeconomic Developments in Rwanda and the World

Dmitry Gershenson, IMF

December 21, 2011

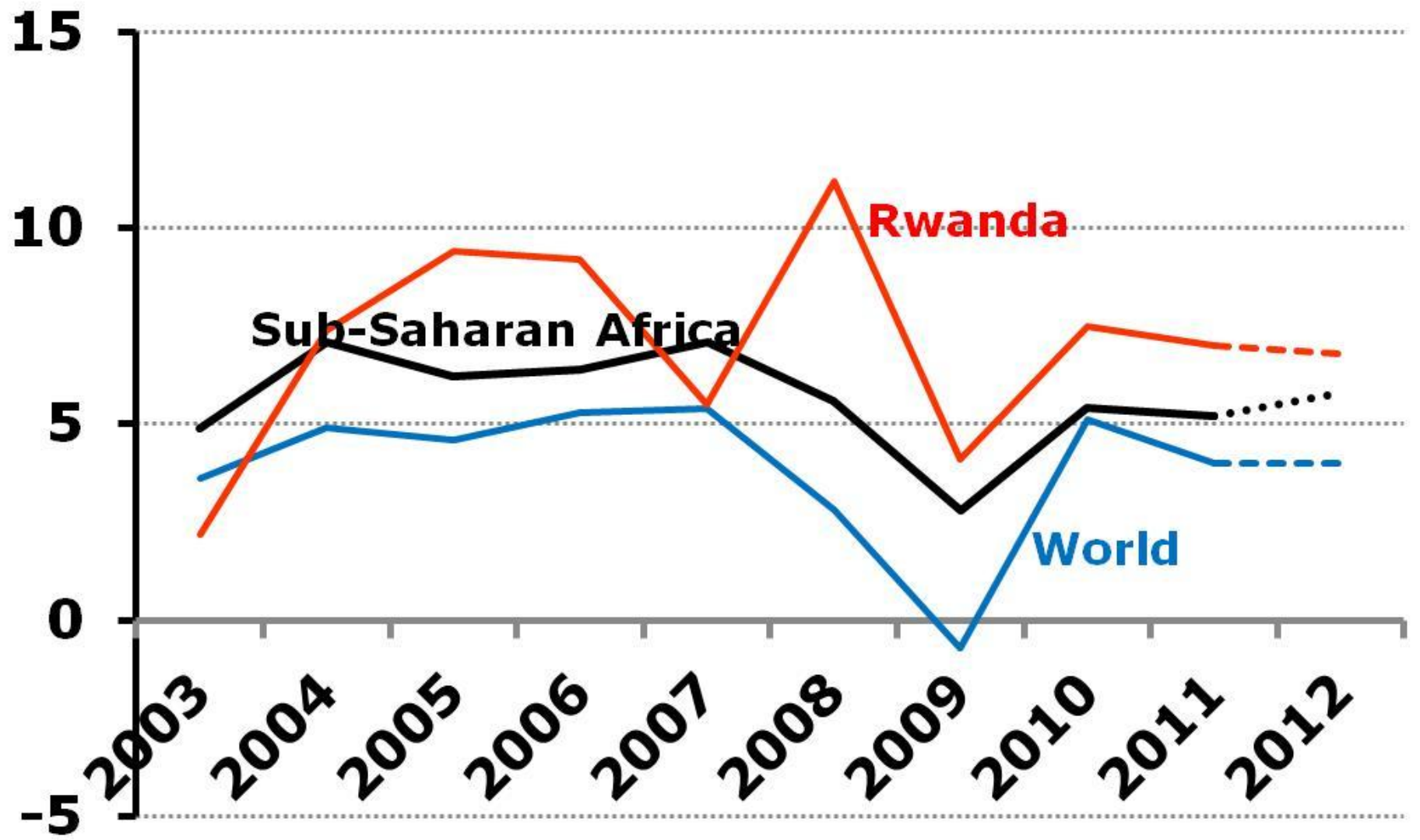
@ National University of Rwanda



Outline

- The world: uncertain recovery
- Africa: growth with risks
- Rwanda: high growth, high inflation
- Rwanda: the medium-term challenge

GDP Growth (%)





The world

- In 2010, global economy has been recovering strongly: 5.1 percent growth
- Growth forecast for 2011 and 2012 has been revised downward (from 4.3 - 4.5 percent to 4.0 percent) and is subject to downside risks
- What is the problem?



The world – sources of risk 1

- Delays in rebalancing (**not new**)
 - Internal – from public to private demand
 - External – between domestic and external demand



Unbalanced recovery \square AE

- Advanced economies:
 - crisis damaged balance sheets
 - high unemployment and low growth
 - yet high debt calls for fiscal consolidation
 - Only the strong external demand can allow for simultaneous fiscal consolidation and robust growth
 - Case in point: U.S. fiscal adjustment



Unbalanced recovery - EE

- Emerging economies:
 - No permanent damage from the crisis
 - High growth makes fiscal adjustment easier
 - Capital inflows have returned
- The challenge for EE is to avoid overheating



Policy advice for sustainable recovery

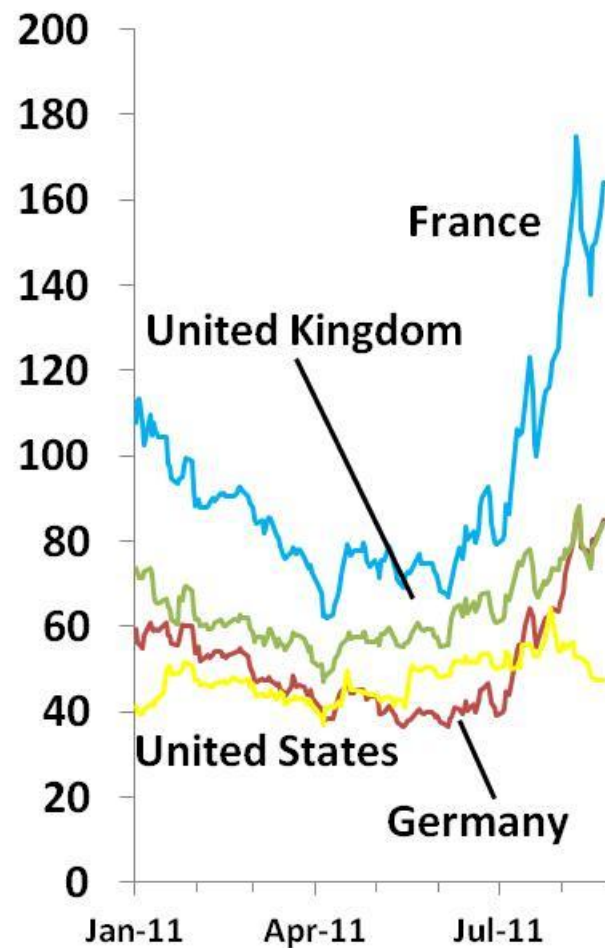
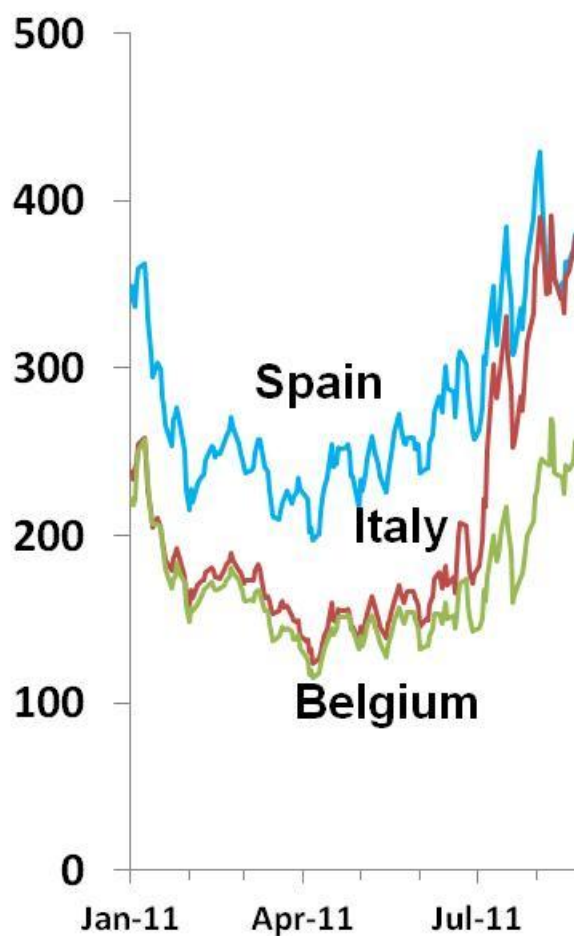
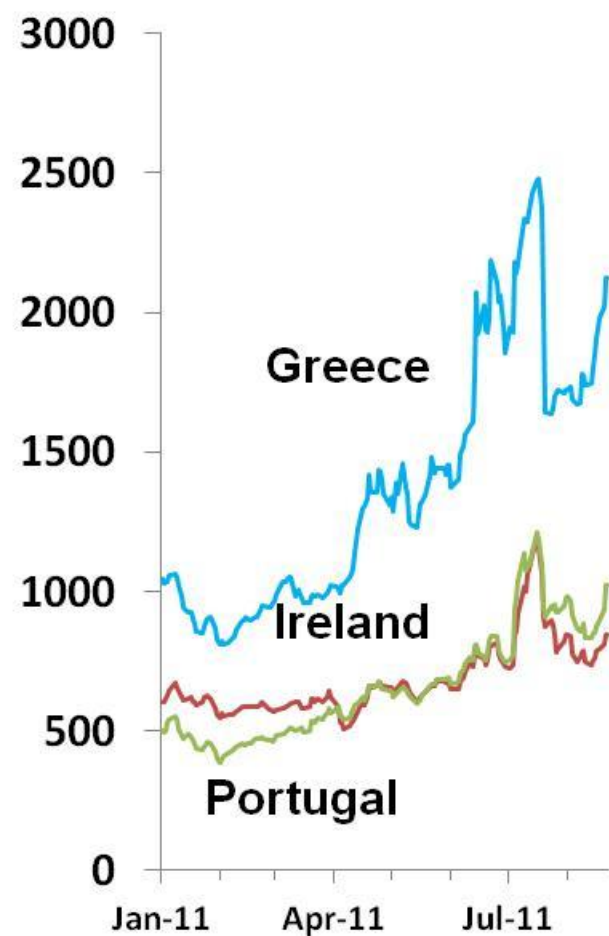
- AE: fiscal consolidation with reliance on ***external*** demand
- EE: fiscal consolidation with reliance on ***domestic*** demand
- For this to happen, currencies of the emerging economies must appreciate



The world – sources of risk 2

- Increased fiscal and financial uncertainty (**new**)
- Markets began to question the ability of countries to stabilize their public debt
- This brings about the possibility of vicious circle, as fear feeds on itself

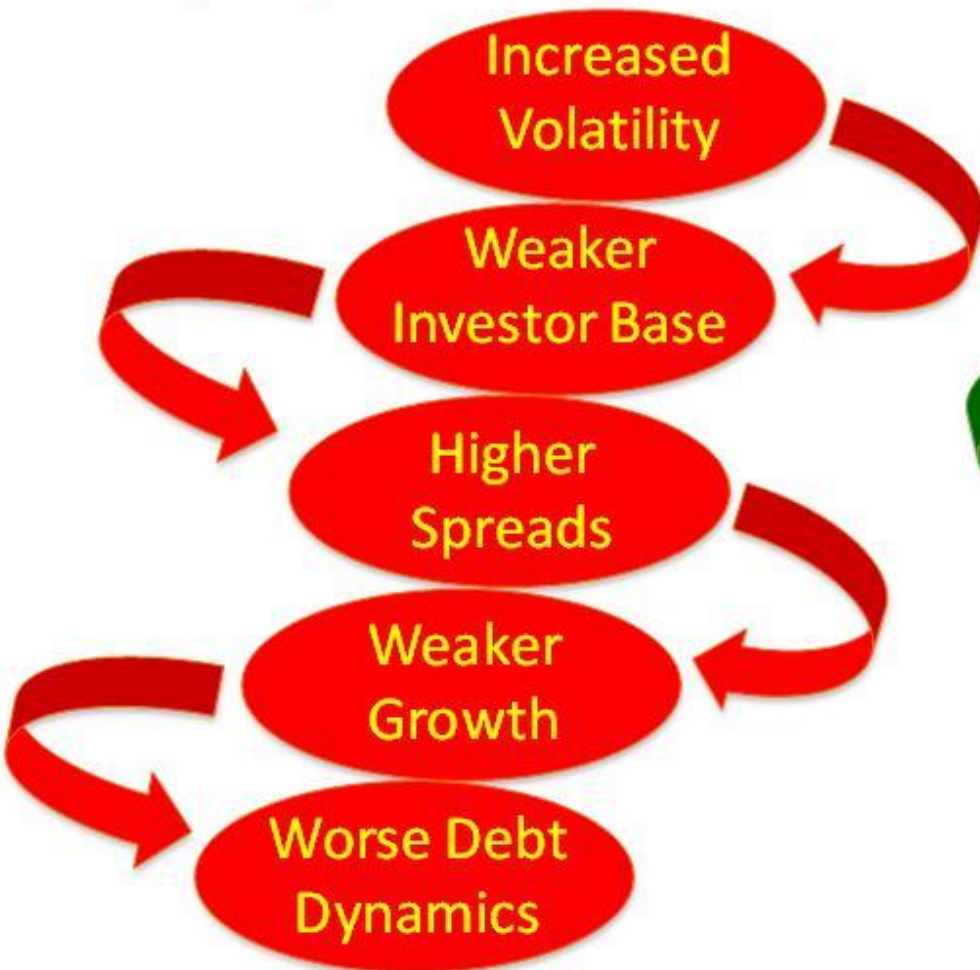
Sovereign spreads, \square basis points



Shock to Debt Dynamics for Vulnerable Sovereign

Bad Equilibrium
Inadequate
Policy Response

Good Equilibrium
Adequate
Policy Response





Outlook for Africa

- Growth in Africa is expected to be strong, above 5 percent, **assuming that the global growth is sustained at 4 percent.**
- How might the global slowdown affect Africa?



Impact of possible slowdown on Africa

Trade:

- Lower global demand = lower export volumes
- For natural resource producers, lower commodity prices = lower export prices

Private inflows:

- Reduced remittances
- Tighter lending conditions
- Less foreign direct investment

Public inflows:

- Weaker donor budgets = less aid
- More expensive to tap international financial markets



Impact of possible slowdown on Africa

- It will be stronger for the countries that are more integrated into the global economy (such as South Africa)
- Rwanda, with its dependence on agriculture and weak links to global economy, is unlikely to be much affected (crisis of 2008 as a natural experiment)

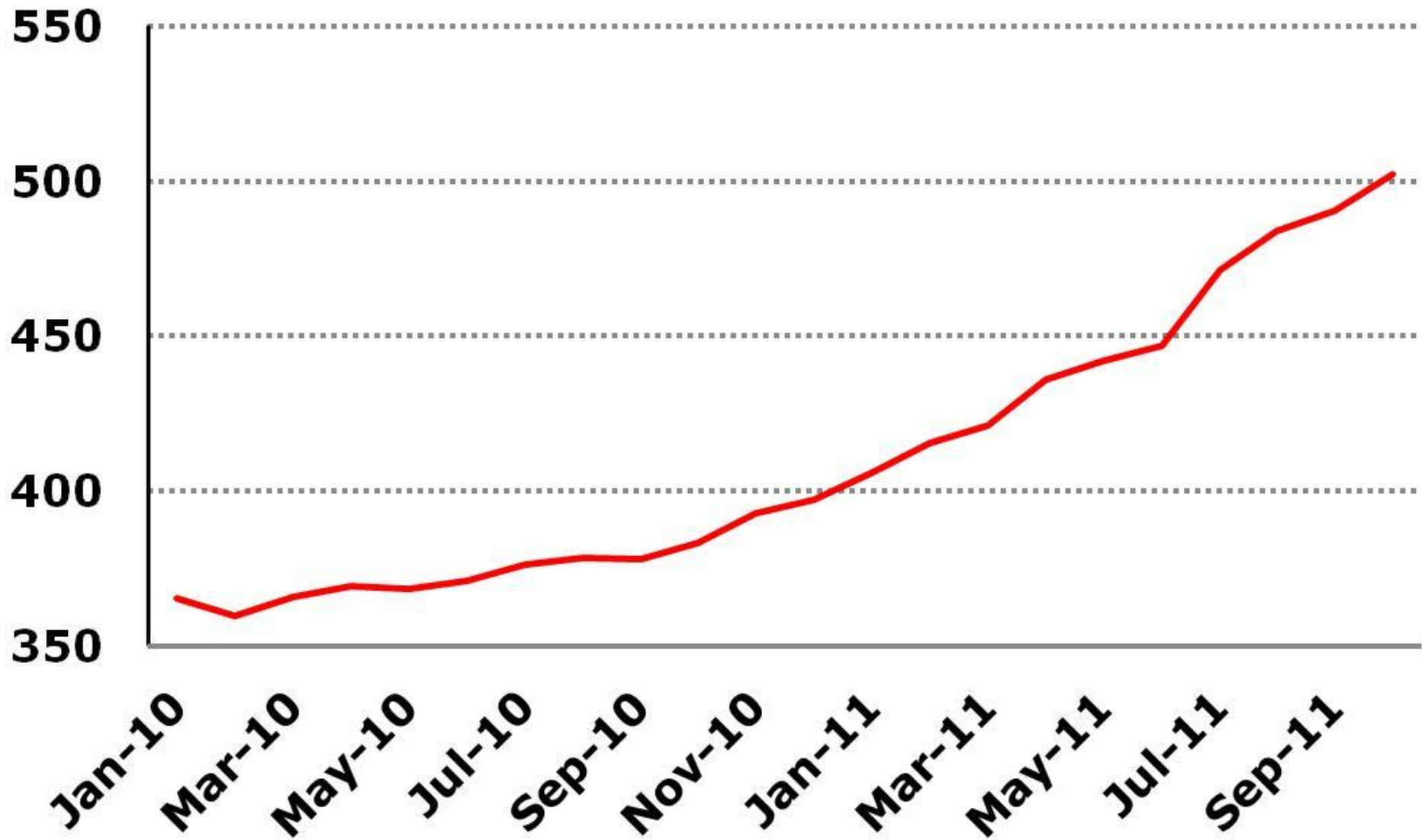


Rwanda – high growth, high inflation

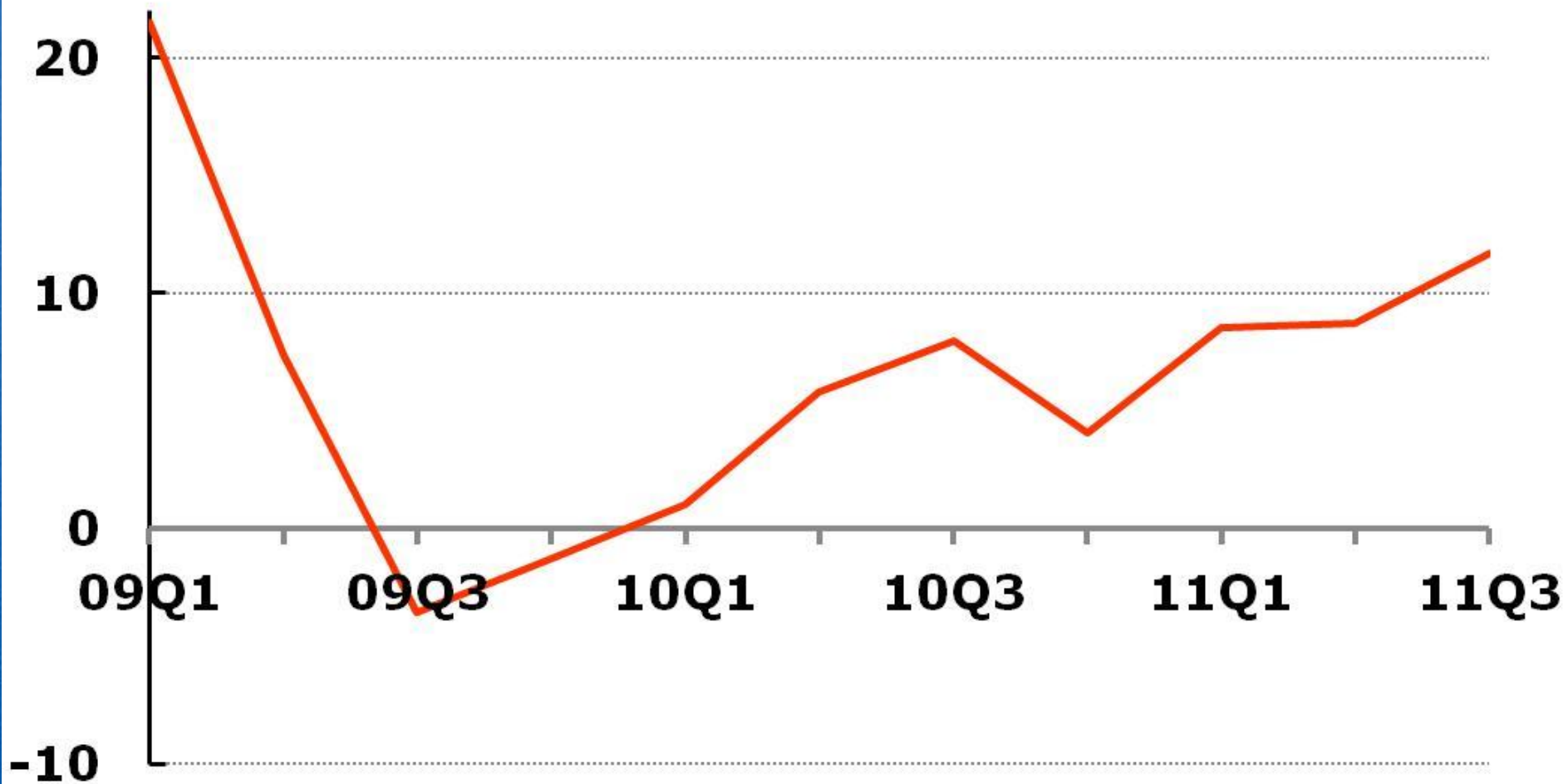
- Full-scale recovery began in the second half of 2010
- Prices were stable through December 2010; inflation picked up after that, but it is still the lowest in the EAC
- RWF was stable against the US\$, but strengthened vis-à-vis regional currencies
- Rwanda's competitiveness has remained broadly unchanged
- Exports grew, but so did imports; trade deficit remains large

Private Sector Credit (Billions, FRW)

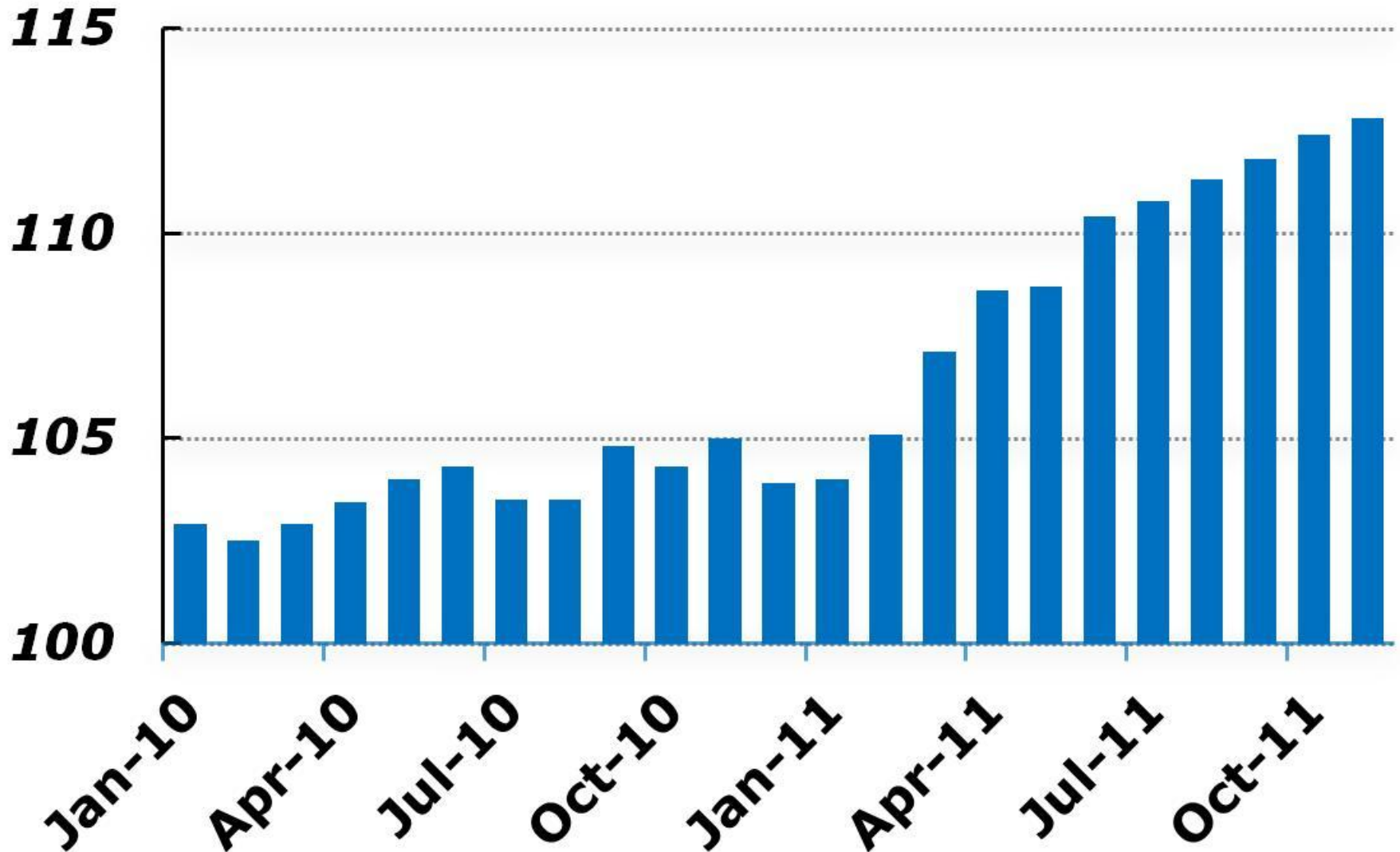
Jan 2010- October 2011



Composite indicator of economic activity, % growth



CPI, Jan 2010 - Nov 2011

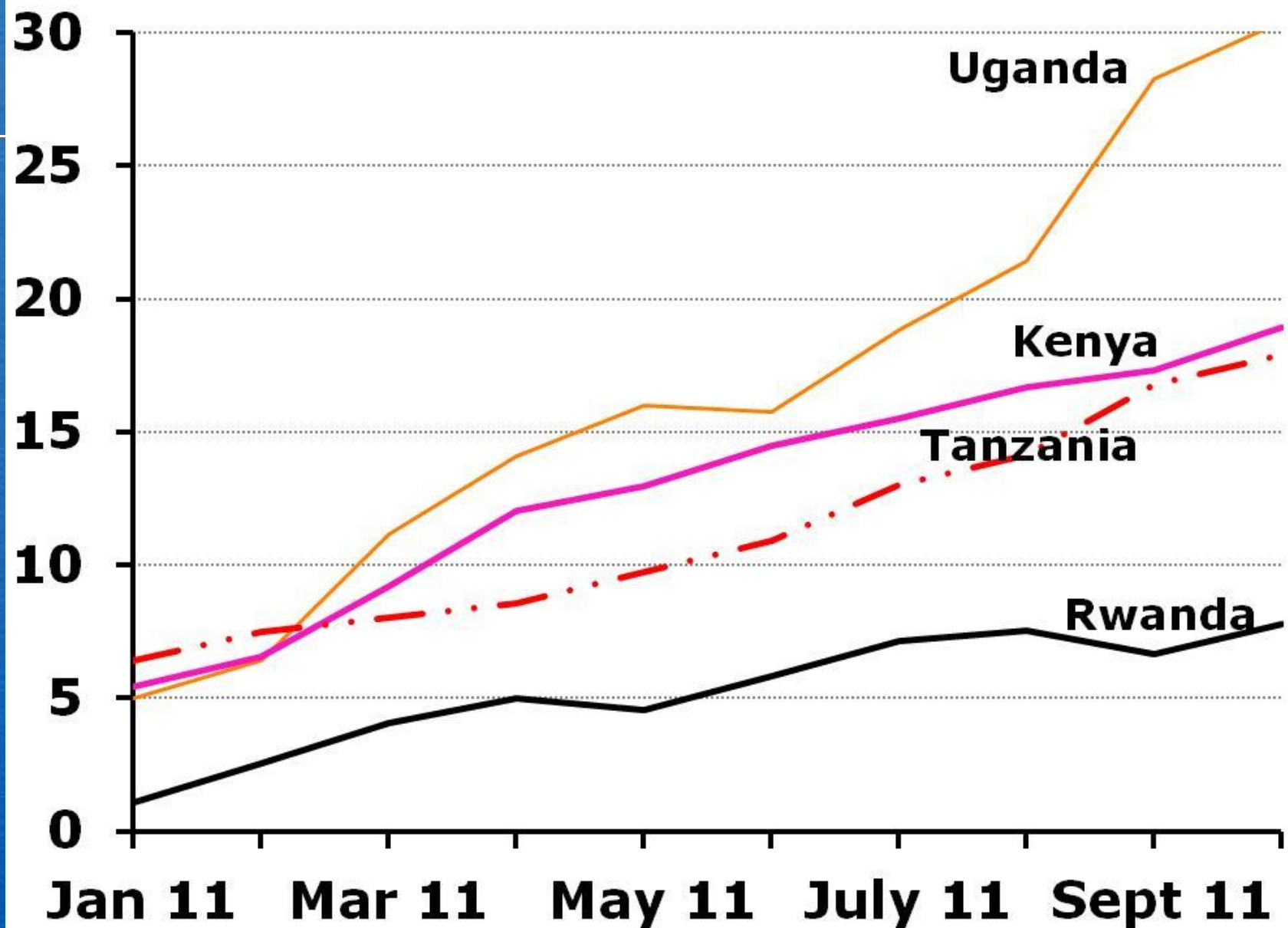




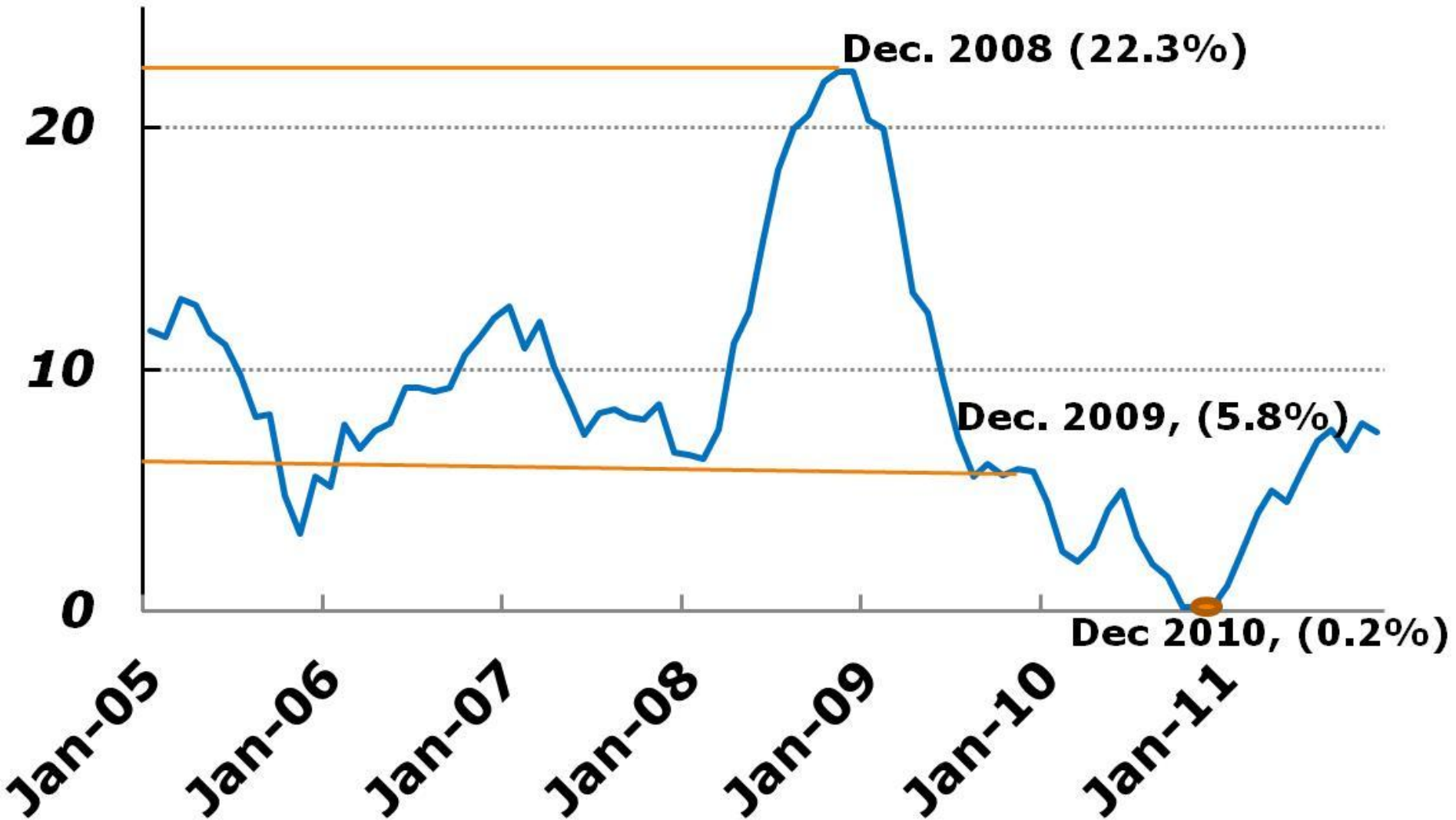
Inflation in Rwanda: low or high?

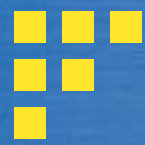
- Right now, the lowest in the EAC
- But volatile over the years, with strong increase in the underlying inflationary pressures this year

Inflation Rates (%): Jan-Oct 11

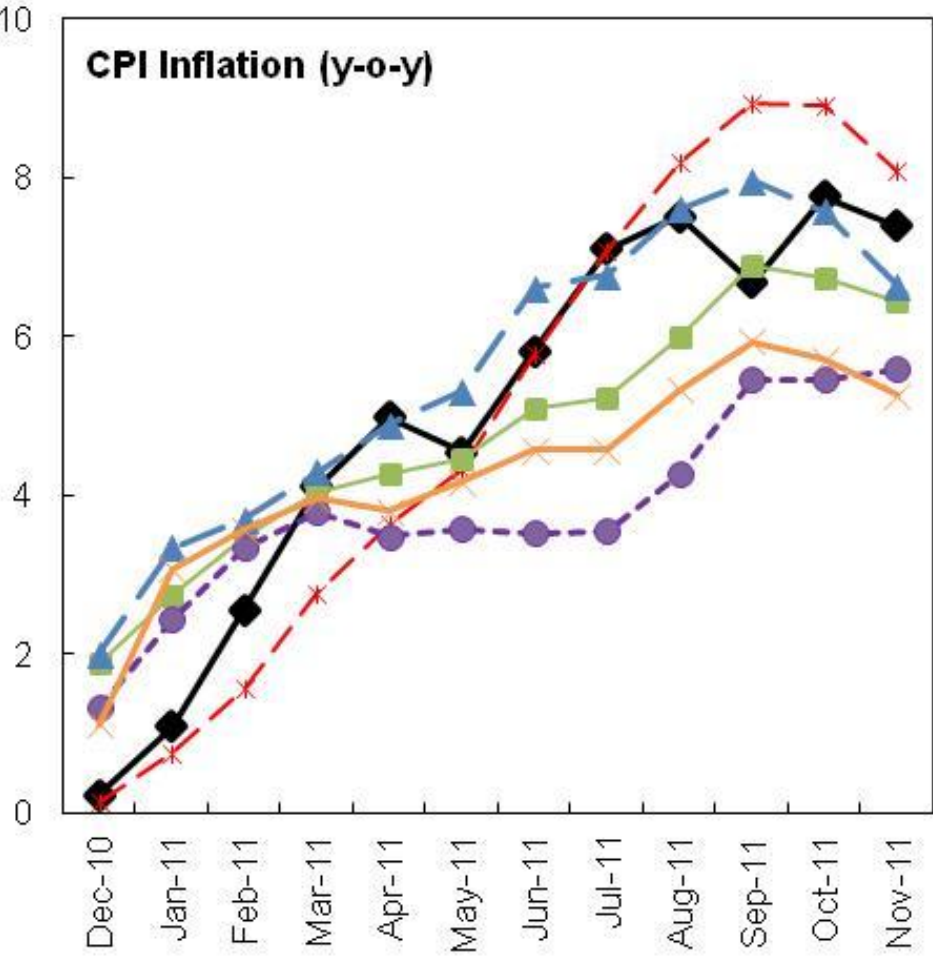


Inflation, percent, Jan 2005 – Nov 2011



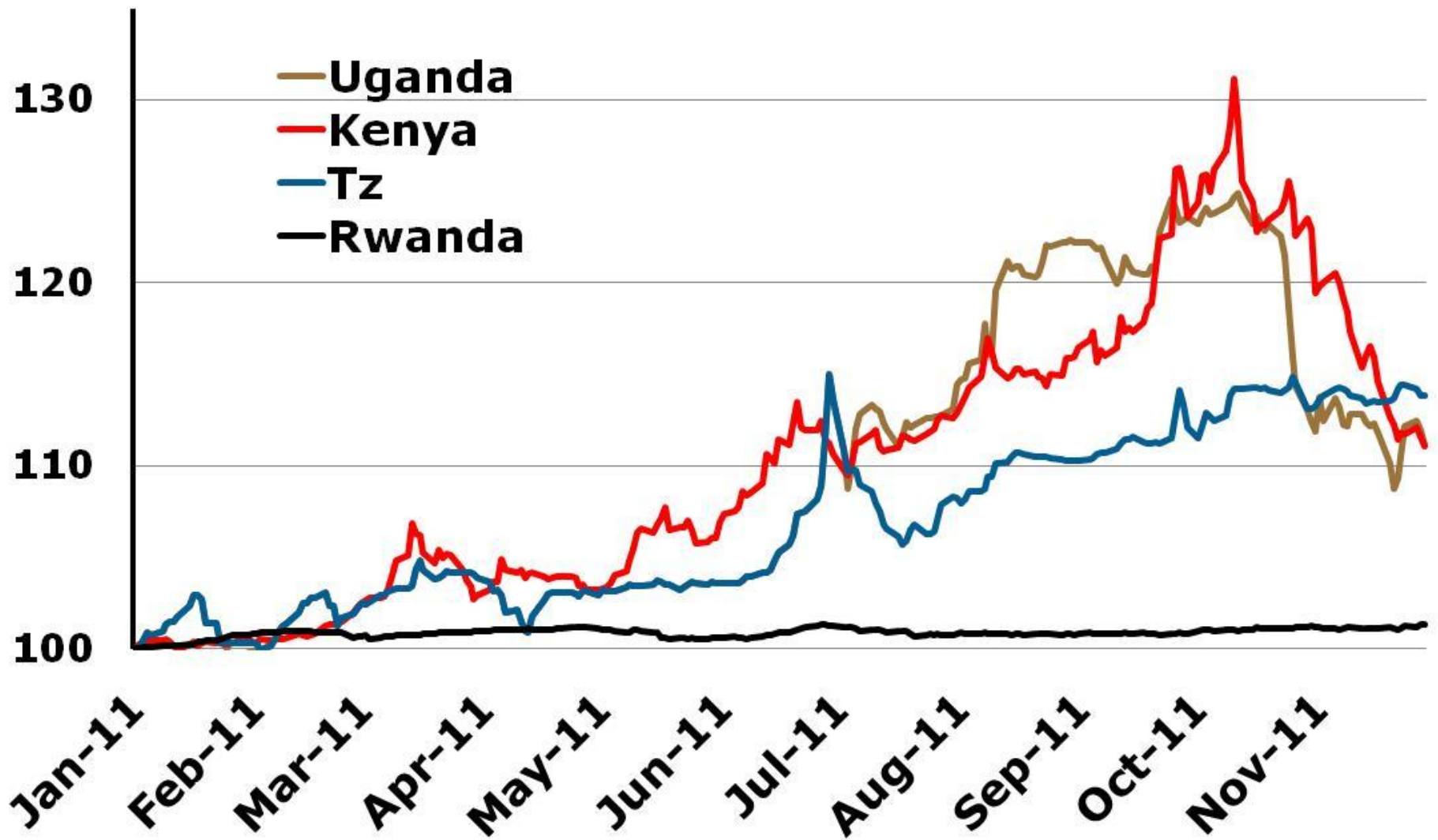


CPI Inflation (y-o-y)

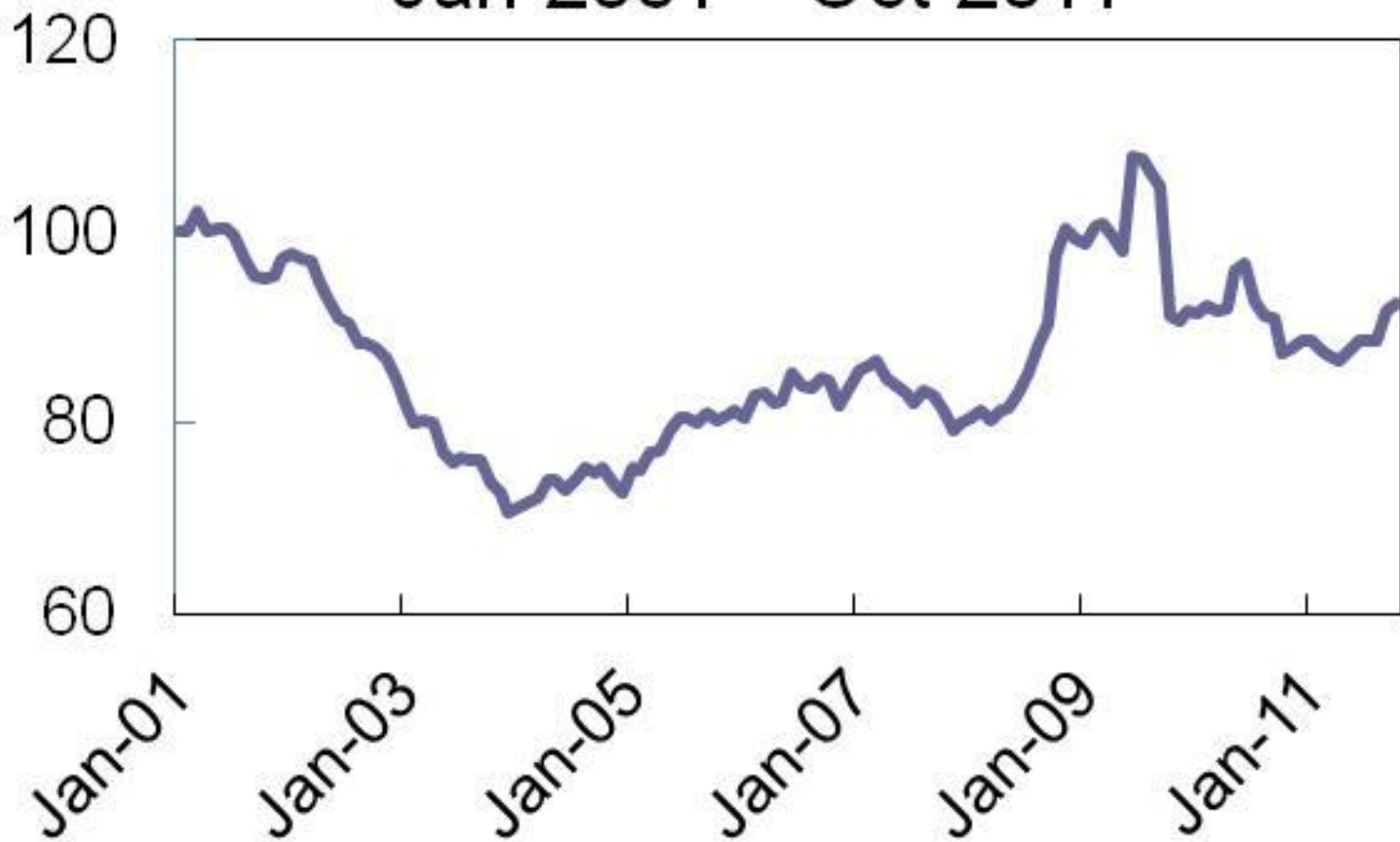


- ◆ General index
- * General index excluding "fresh products" and "energy": authorities' proxy for underlying inflation
- General index excluding "food and non-alcoholic beverages"
- General index excluding "food and non-alcoholic beverages" and "transport"
- ▲ General index excluding "food and non-alcoholic beverages" and "housing, water, electricity, gas and other fuels"
- × General index excluding "food and non-alcoholic beverages", "transport", and "housing, water, electricity, gas and other fuels"

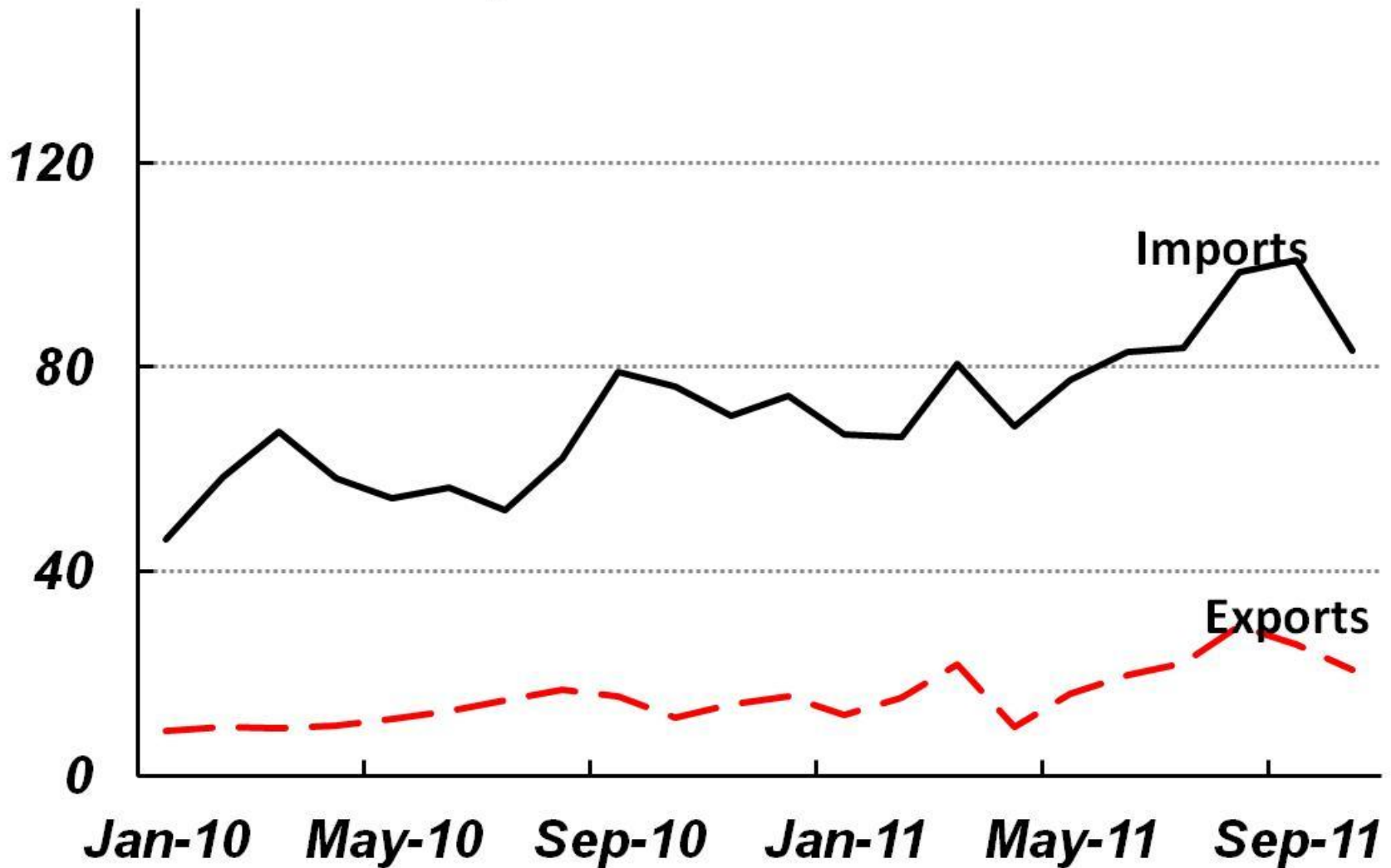
Currency units per US\$, Jan 2011 = 100



Real Effective Exchange Rate, Jan 2001 - Oct 2011



Exports & Imports, (RWF billions), January 2010 - October 2011

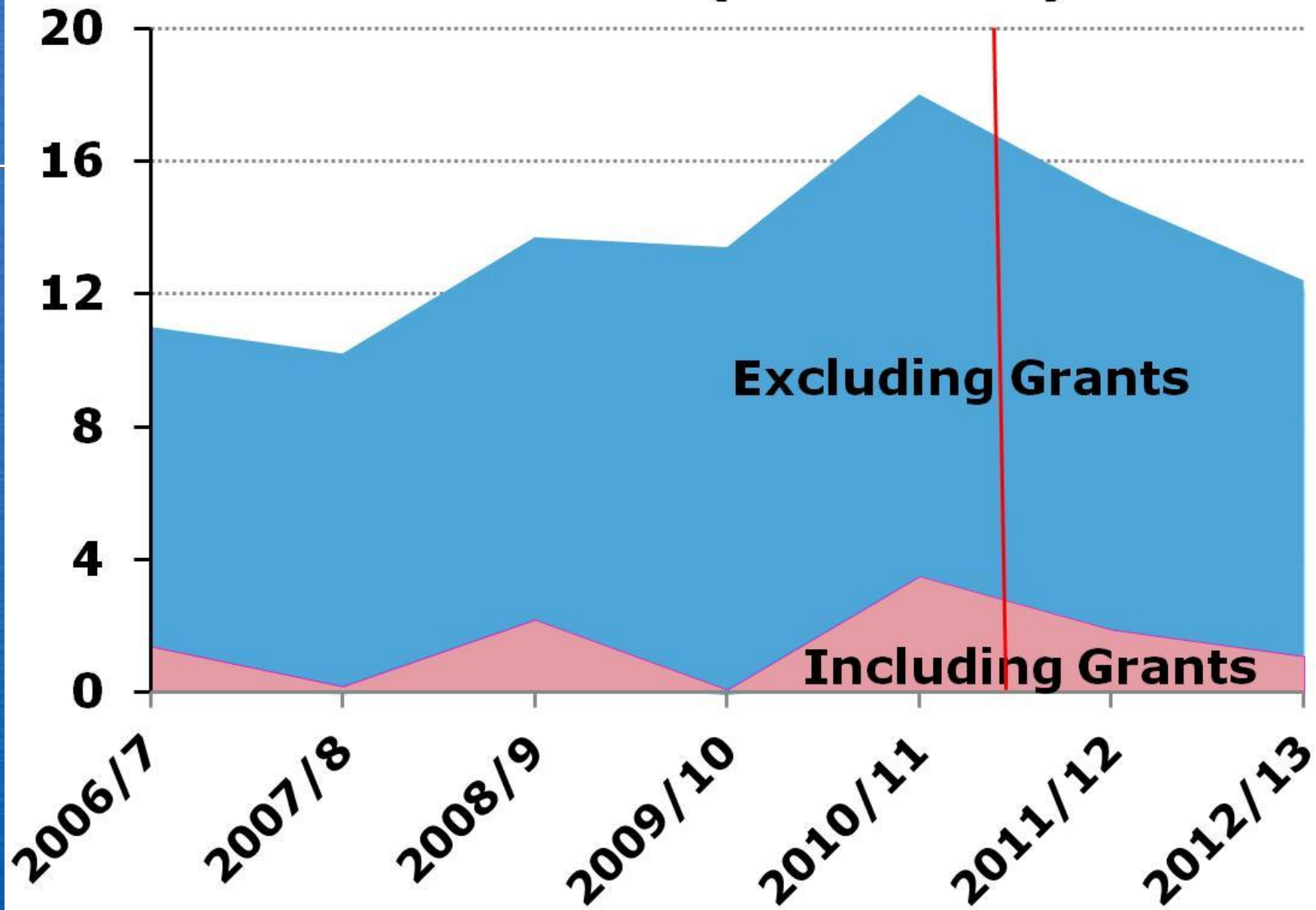




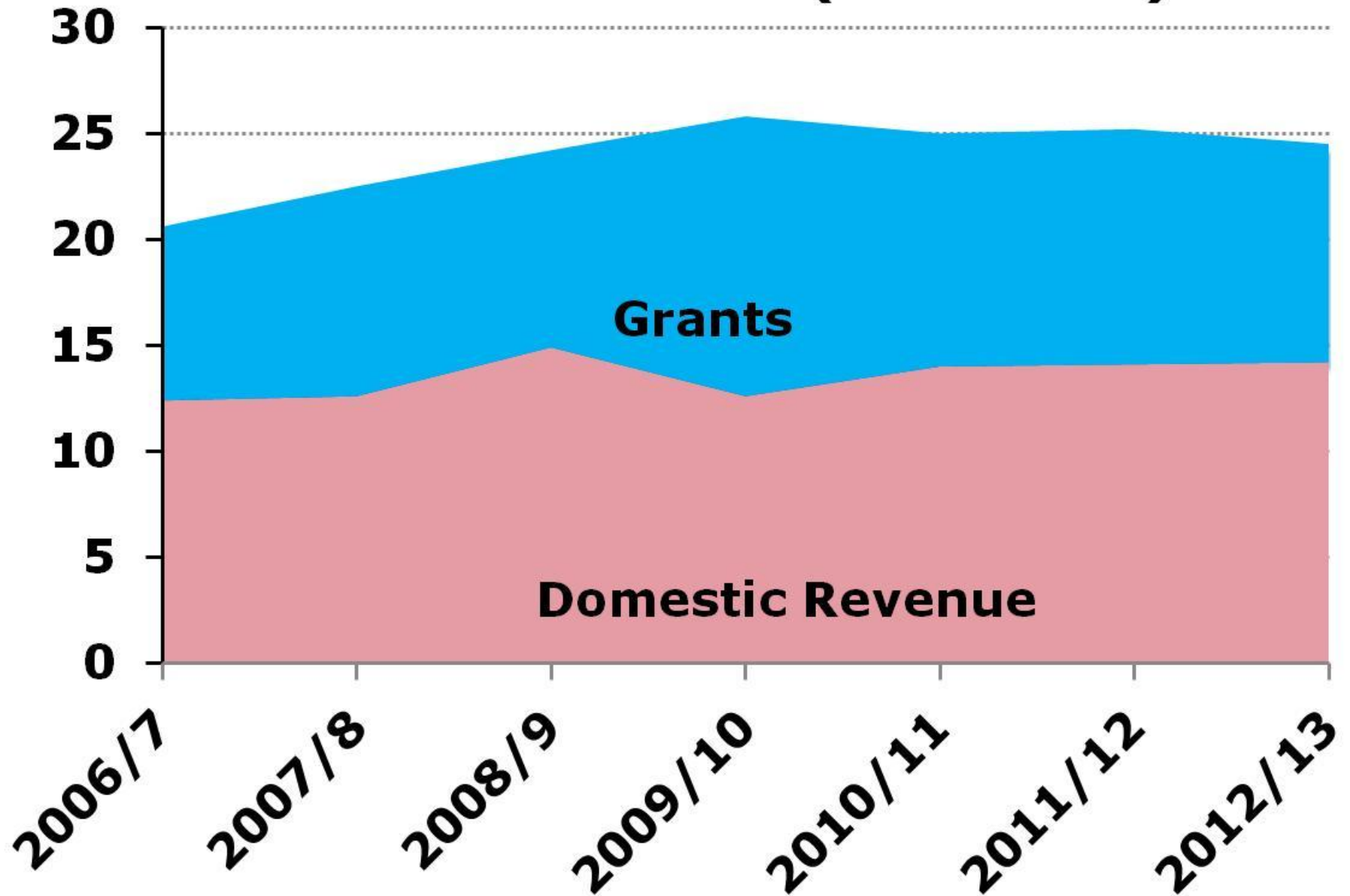
Medium-term challenge

- Rwanda remains an import-driven aid-dependent economy
- Pillars of sustainable growth:
 - Further mobilization of domestic revenue
 - Increase in net exports (higher exports, lower imports)
 - Increase in private foreign financing (FDI, remittances)

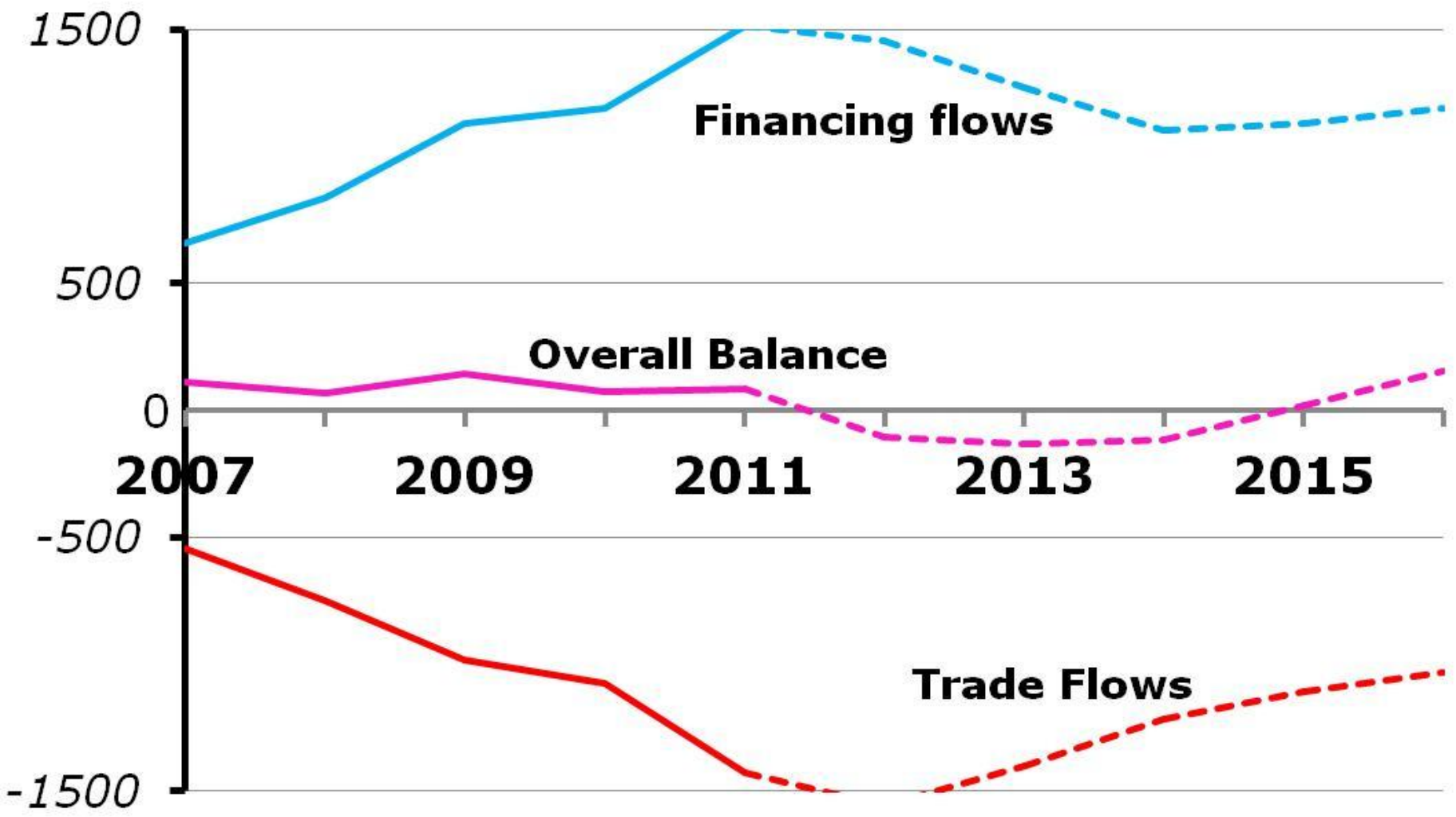
Fiscal deficit (% of GDP)



Revenue & Grants (% of GDP)



Balance of Payments, US\$ millions





In conclusion

- The risks of slowdown in global economic growth are increasing
- Any slowdown will negatively affect growth in Africa, although not so much in Rwanda
- Rwanda's macroeconomic performance in 2011 has been generally good, although inflationary pressures are picking up
- Medium-term objective for Rwanda – **sustainable** growth