

RWANDA ECONOMIC UPDATE

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RWANDA AT WORK



THE WORLD BANK

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WHAT IS THE RWANDA ECONOMIC UPDATE?

The Rwanda Economic Update (REU) reports on and synthesizes recent economic developments and places them in a medium term, regional, and global context twice a year. The REU analyzes the implications of these developments and policies for the outlook of Rwanda's economy. These reports attempt to make an analytical contribution to the implementation of Rwanda's national development strategy. Each edition includes a special feature on a selected topic. The report is intended for a wide audience, including policy makers, business leaders, other market participants, and the community of analysts engaged in Rwanda's economy.

WHY IS THE REU IMPORTANT FOR YOU?

The REU is one of few comprehensive and regular analyses on Rwanda's economy. Building on the World Bank's experience and lessons from around the world, the REU analyzes Rwanda-specific analysis based on up-to-date information. Through dissemination events and dialogues, the REU intends to stimulate a discussion on Rwanda's economy and key development issues.

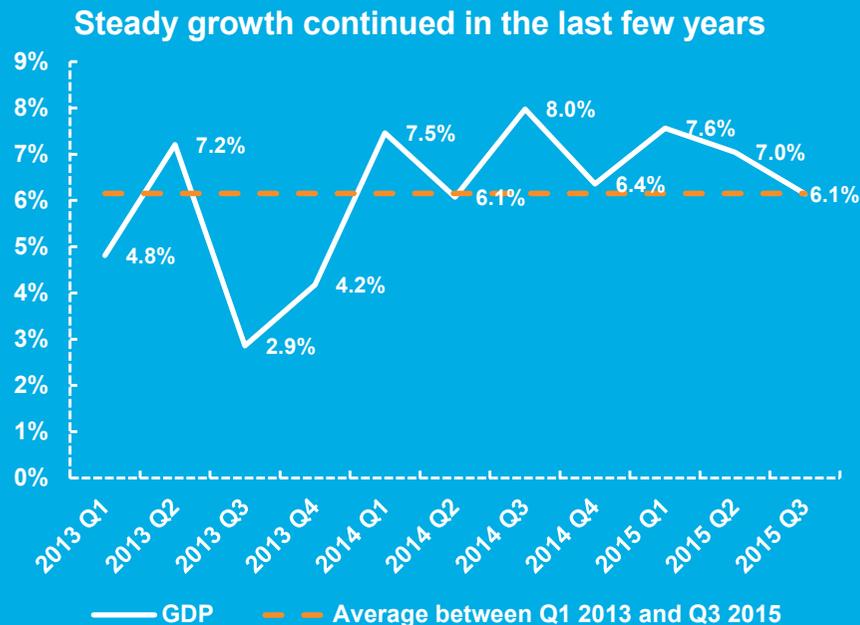
WHY DOES THE WORLD BANK FOCUS ON JOBS AS THE SPECIAL TOPIC OF THE NINTH EDITION OF THE REU?

The focus on jobs is motivated by two observations. First, the inter-sectoral shift of labor from agriculture to non-agricultural has been particularly fast in Rwanda, and has been a main driver of poverty reduction and economic growth. The extent to which Rwanda can sustain this shift will determine in part whether the country can keep up its pace of growth and poverty reduction. Second, as Rwanda moves gradually towards a middle-income status and the labor force keeps on growing rapidly, jobs, especially in the non-farm sector, will become increasingly important as a transmission mechanism between aggregate growth and household living standards.

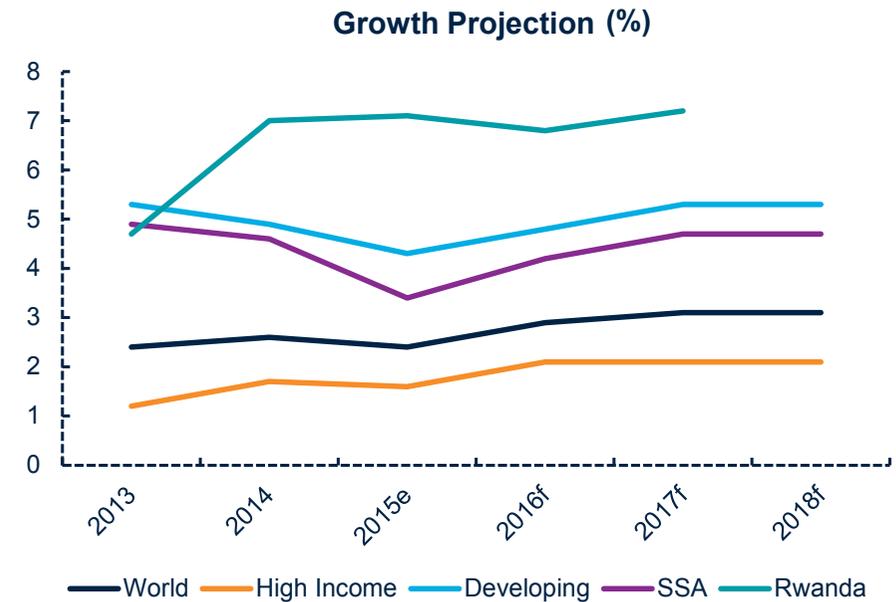


WHAT ARE KEY FINDINGS OF THE RWANDA ECONOMIC UPDATE?

(I) **What is the current status of the Rwandan economy?** Our assessment of the status of the Rwandan economy is almost unchanged from our previous assessment made in July 2015. Despite an adverse external environment stemming from a slowdown of the Chinese and European economies, Rwanda has maintained steady growth in the first three quarters of 2015. GDP growth remained steady at 6.9 percent during this period. Thus far, the decline in commodity prices has been favorable for Rwanda – a net importer of energy products. Macroeconomic stability measured by inflation and exchange rates has been maintained.



Source: NISR



Source: World Bank's Global Economic Prospects

(II) **What are Rwanda's economic prospects?** Downside risks have been increasing, both externally and domestically. A deteriorating external environment has led the World Bank to revise down its global and regional growth forecasts in early 2016. On the domestic front, risks are on the horizon, including delayed execution of the budget and inadequate financing for development. Put together, both external and domestic risk has led the World Bank to adjust its growth projections for 2015 (7.1 percent), 2016 (6.8 percent), and 2017 (7.2 percent).

(III) **What has been happening in Rwanda's labor market?** Three main trends have characterized Rwanda's employment landscape over the previous decade: (i) a substantial move towards non-farm occupations, mainly driven by the youth, (ii) an uptake of additional jobs, with more than 60 percent of Rwandan workers working several jobs, and (iii) an increase in labor earnings, mainly linked to the shift towards non-farm occupations and the uptake of additional jobs. Employment outcomes increased across the board, but mainly in agriculture, linked to the increase in agricultural productivity since 2008.

A Snapshot of Rwanda's Macroeconomic Development

(IV) What are the main challenges for employment going forward? As with many countries, Rwanda is faced with the twin challenges of (i) creating more jobs for a rapidly-growing working-age population and (ii) improving job outcomes for the majority of workers who are still in agriculture. Despite non-farm employment growing rapidly, it has not kept pace with a growing labor force, resulting in increasing underemployment. Though earnings and productivity in agriculture have increased, both are still low and further substantial productivity increases are needed to improve the labor outcomes for the bulk of the population.

Strengths

Steady growth: Average growth rate at 6.9% in the first three quarters of 2015

Macroeconomic stability: Inflation rate was 2.5% in 2015. Real effective exchange rates have been appreciating

Sound macroeconomic policy and management: Continued policy reforms in the areas of tax, trade, and business regulatory environment

Weaknesses

Worsening external balance and concern on financing: Gross international reserves fluctuated in 2015

Monetary sector: High and sticky lending rates

Low private investment: Private investment is less than half of the total investment

Opportunities

Decline in oil prices: Rwanda is a net oil importer

Regional growth: Neighboring countries also have positive growth outlook

Policy flexibility: Macroeconomic stability gives (monetary policy) flexibility

Threats

Decline in prices of Rwanda's traditional export commodities: High correlation with oil prices

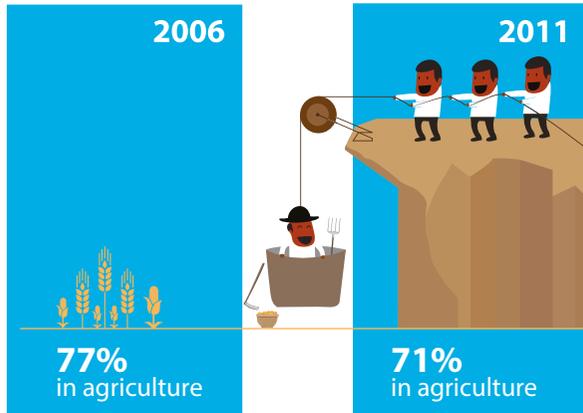
High reliance on foreign aid: 30-40% of the total revenue and grants

Global economy: Increase in US interest rates, and a slowdown of the Chinese and European economies



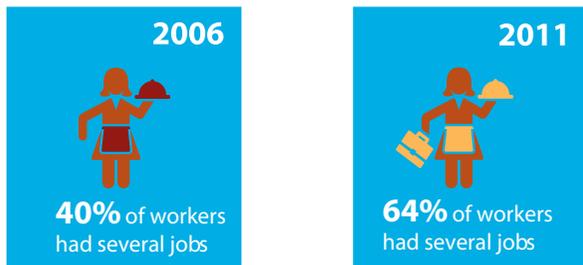
Employment Dynamics in Rwanda 2006-2011

A move away from the farm



Driven by the youth: the share of youth with a main job in the non-farm sector increased from 34% in 2006 to 47% in 2011

More workers with multiple jobs, through increasing underemployment

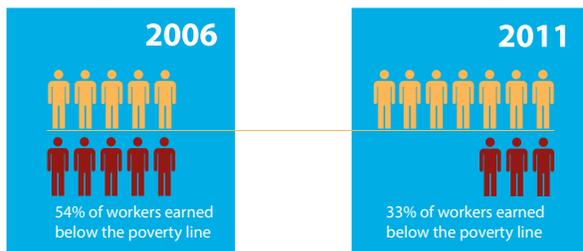


Despite the uptake of additional jobs, underemployment increased from 34% to 36%

Yet, average working hours are decreasing



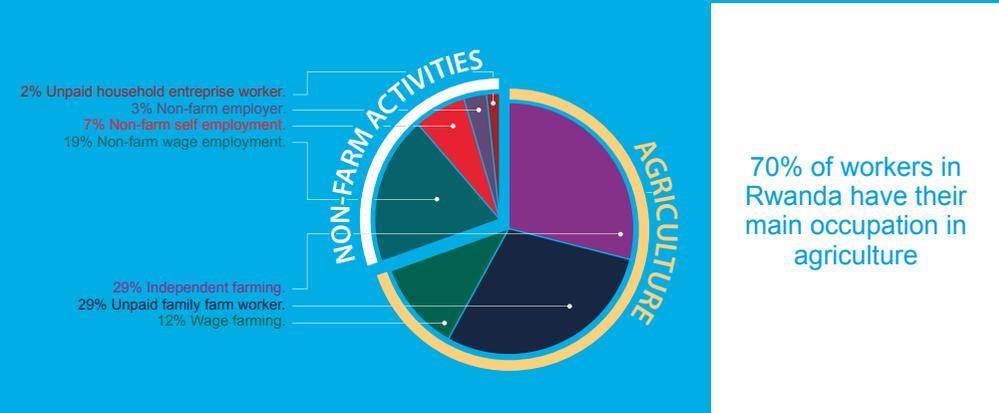
Earnings are increasing substantially



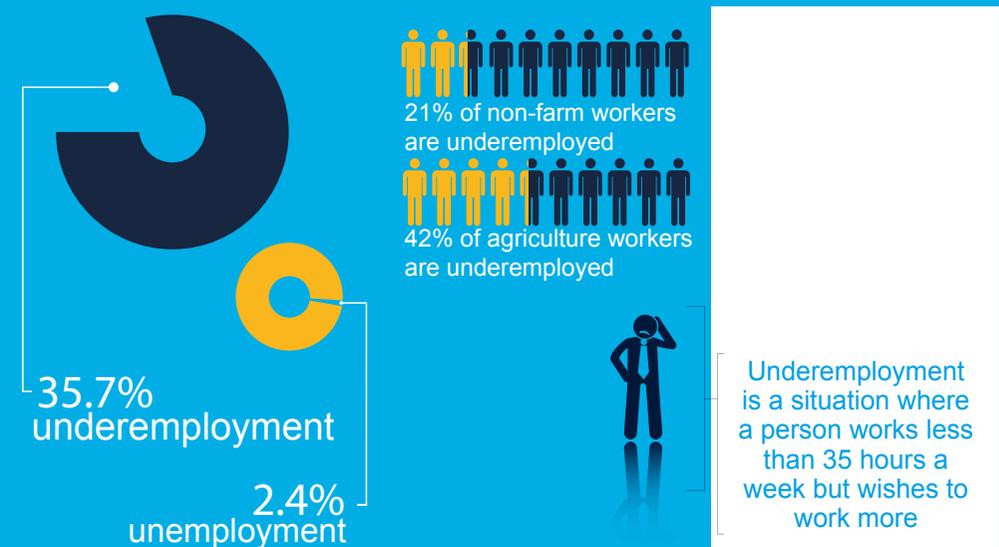
Earnings increased across the board, mainly through agriculture

A Snapshot of Employment in Rwanda

Agriculture remains the mainstay of employment



Low earnings for the majority of the population



Unemployment is low, underemployment is rampant



HOW CAN YOU ACCESS MORE INFORMATION?

In order to meet the specific needs of different types of development practitioners in Rwanda, the World Bank team can make customized presentations. In previous editions, the World Bank organized separate presentations for the government and development partners.

For more information, visit the World Bank Rwanda country page:

(<http://www.worldbank.org/en/country/rwanda>)

And find regular updates on the World Bank's activities in Rwanda on Facebook:

(<https://www.facebook.com/search/top/?q=world%20bank%20rwanda>)



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