Rwanda's IMF Program

Presentation to Parliamentary Budget Committee

IMF mission team

Kigali, October 23, 2016

Outline of presentation

- Brief overview of the IMF and its work.
- Global and regional economic environment.
- Trends in Rwanda.
- Policy adjustment.

VERY brief overview of the IMF and its work

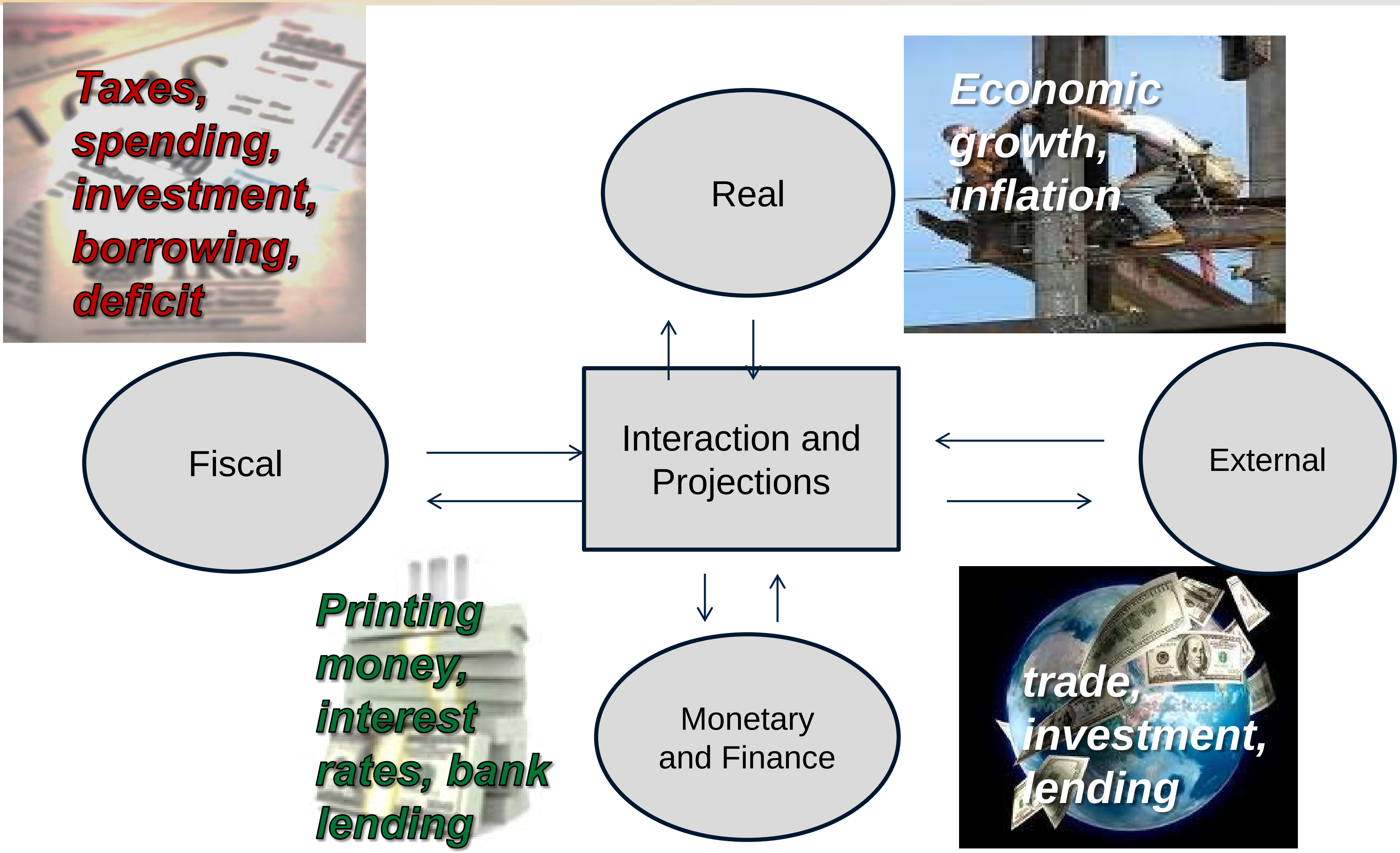
IMF = International Monetary Fund

IMF: Policy advice and loans of foreign exchange to reinforce central bank reserves or for governments to buy imports. Provides advice on macroeconomic policies.

World Bank: loans or grants for a specific development purpose, e.g. building a dam, financial system, or social safety net. Policy advice is more “micro” and specific.

Both created after WWII, the respective mandates of the two institutions overlap.

Macro framework scenarios:
“Baseline” = what happens with status quo
“Policy” = what happens with new agreed policies



Overview of IMF modes of engagement

(1) Programs focus on **fixing problems**:

Financing needs $$$$ or not;

Government takes actions to fix problems;

Focus on next 6 months- 2 years;

IMF has different financing “facilities” for LICs vs. others.

(2) Surveillance (“Article IV consultations”) focuses **preventing problems.**

All IMF members have a check up each year (2 years for program countries.

Standard set of checks.

Focuses more on longer term trends.

(3) Technical Assistance is in-depth advice on **specific needs**, e.g. how to set up a VAT.

Type of IMF engagement with Rwanda

Ongoing 3 year “signaling” programs.

Like a regular program, reviews every 6 months, but no financing. Gatekeeping function for donors with budget support. (Technically = “policy support instrument” or PSI program)

Since June 2016, a US$200 million credit.

US$100 million at approval by IMF Board. This “review” will unlock ½ of remainder, and another third review in early 2017 will unlock the rest.

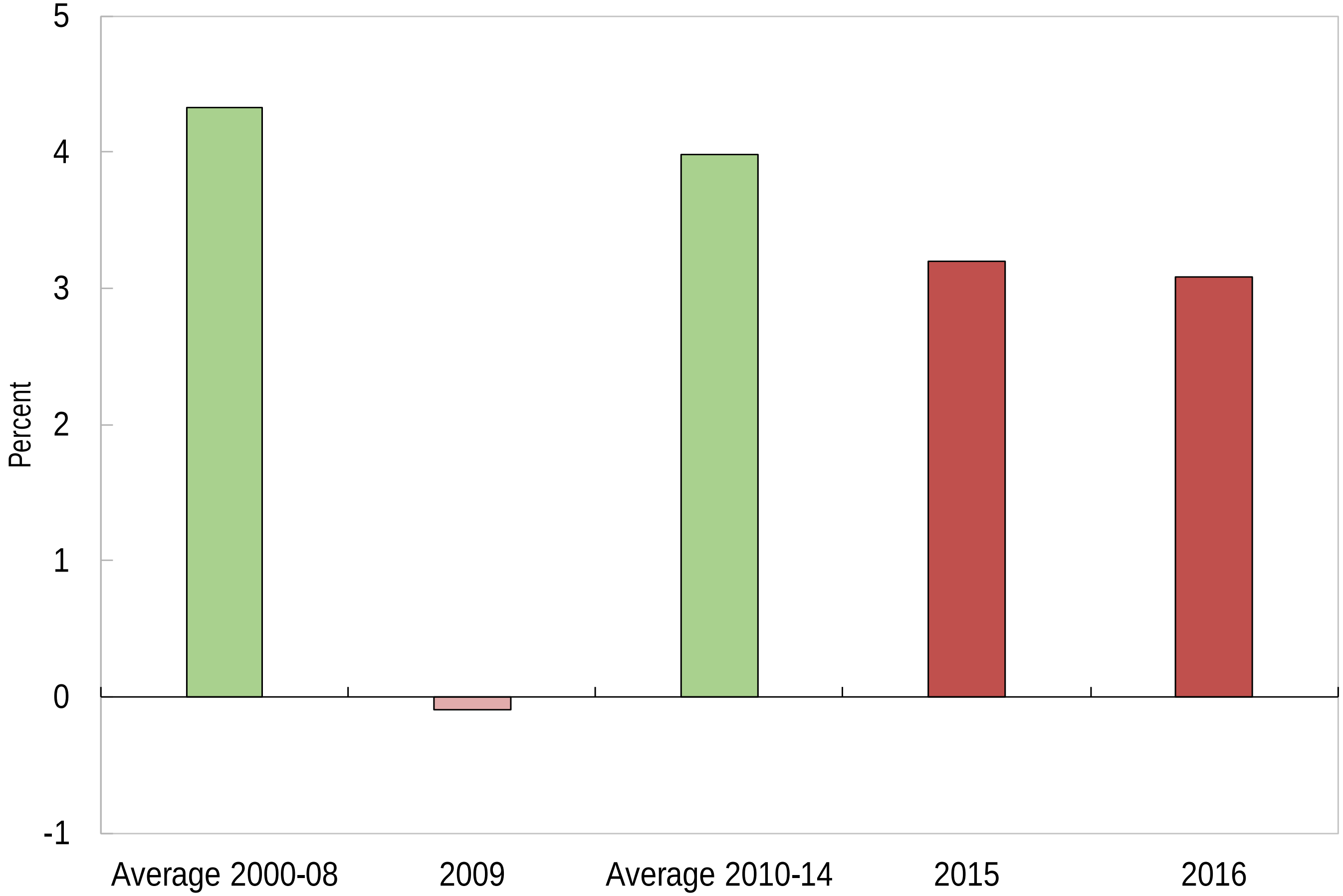
IMF agreed to combine these programs for the first time, based on the Rwandan government’s request.

Technical assistance provided in many areas. Rwanda is an intensive user of IMF expert advice.

Global and Regional Economic Outlook

Global growth will remain subdued

World: Real GDP Growth, 2000–16



Source: International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016.

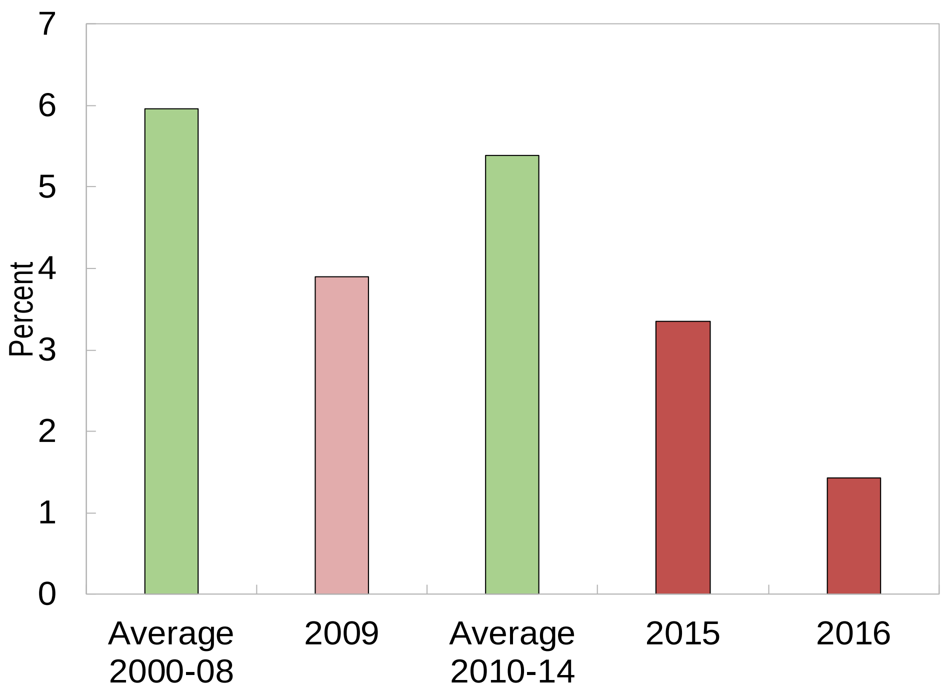
Global growth projections

	World	Advanced Economies	U.S.	Euro Area	Emerging Market and Developing Economies	China	Commodity Exporting Economies	Low Income Developing Countries
2015	**3.2**	**2.1**	**2.6**	**2.0**	**4.0**	**6.9**	**0.8**	**4.6**
2016	**3.1**	**1.6**	**1.6**	**1.7**	**4.2**	**6.6**	**0.9**	**3.7**
Revision from Jul. 2016	0.0	-0.2	-0.6	0.1	0.1	0.0	-0.6	-0.1
2017	**3.4**	**1.8**	**2.2**	**1.5**	**4.6**	**6.2**	**2.5**	**4.9**
Revision from Jul. 2016	0.0	0.0	-0.3	0.1	0.0	0.0	-0.3	-0.2

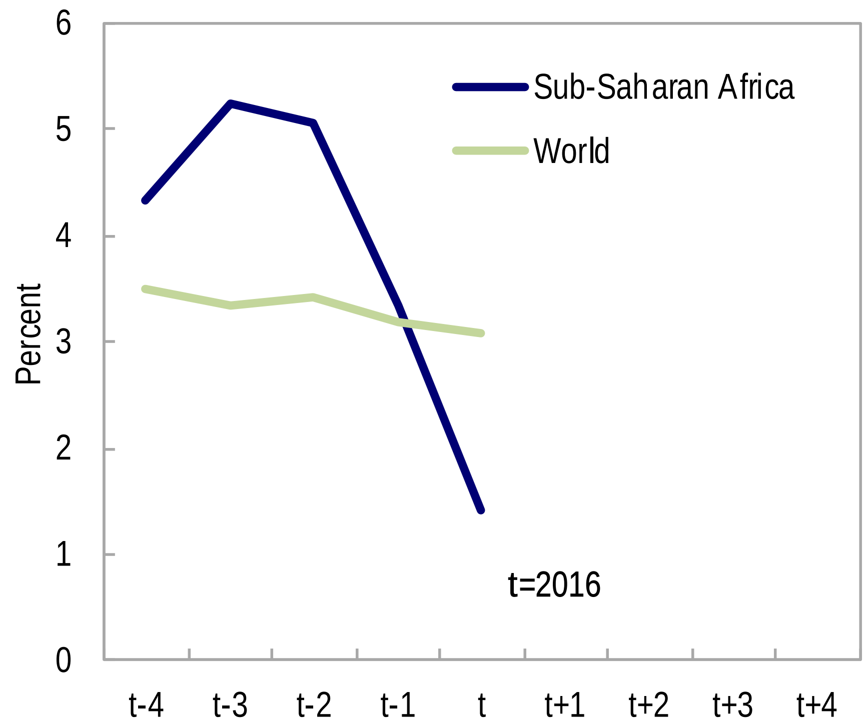
Sources: IMF, *World Economic Outlook* July 2016 Update; and IMF, *World Economic Outlook* October 2016.

Sub-Saharan Africa is experiencing a sharp slowdown in growth since mid-2014

Sub-Saharan Africa: Real GDP Growth, 2000–16

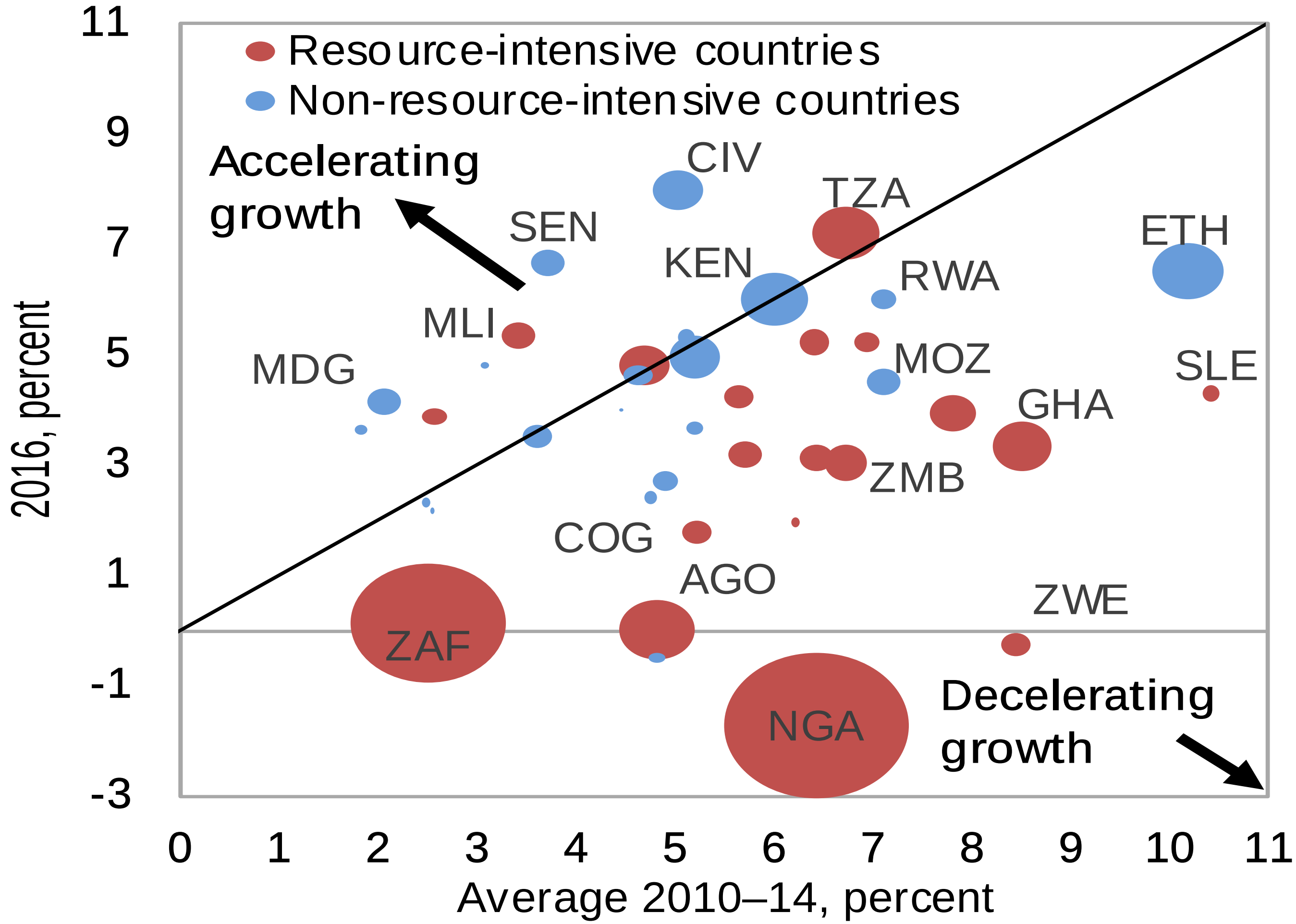


SSA Growth Asynchronous with Global Growth



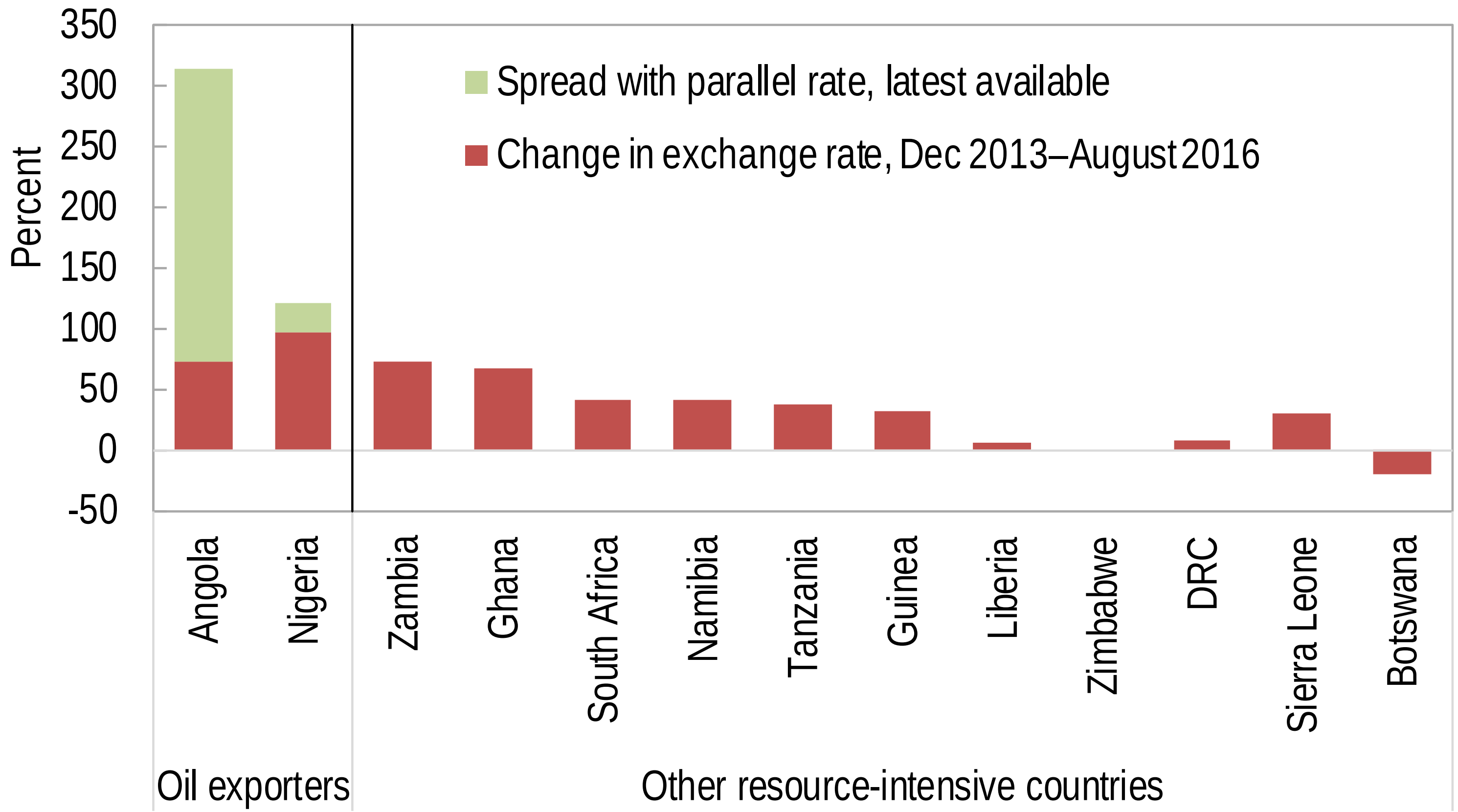
Source: International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016.

SSA Real GDP Growth since 2010



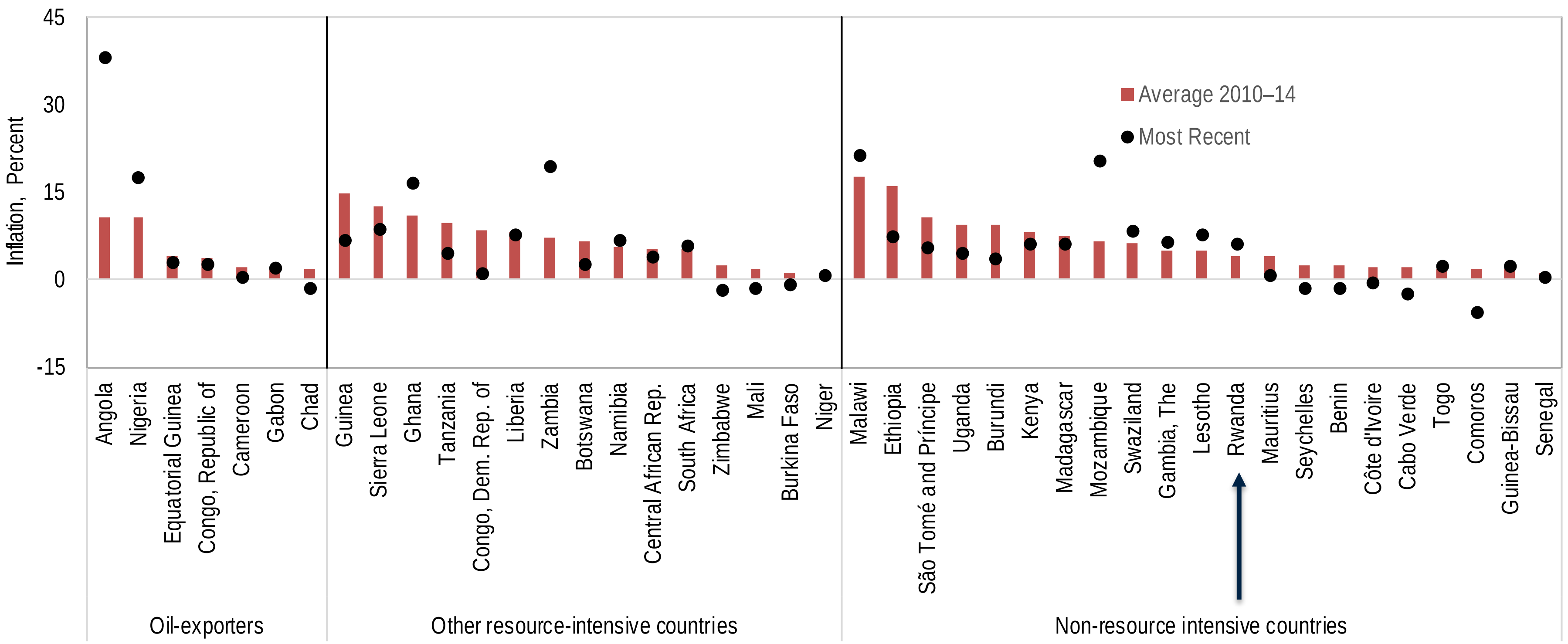
Source: International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016.

Large depreciation against US dollar



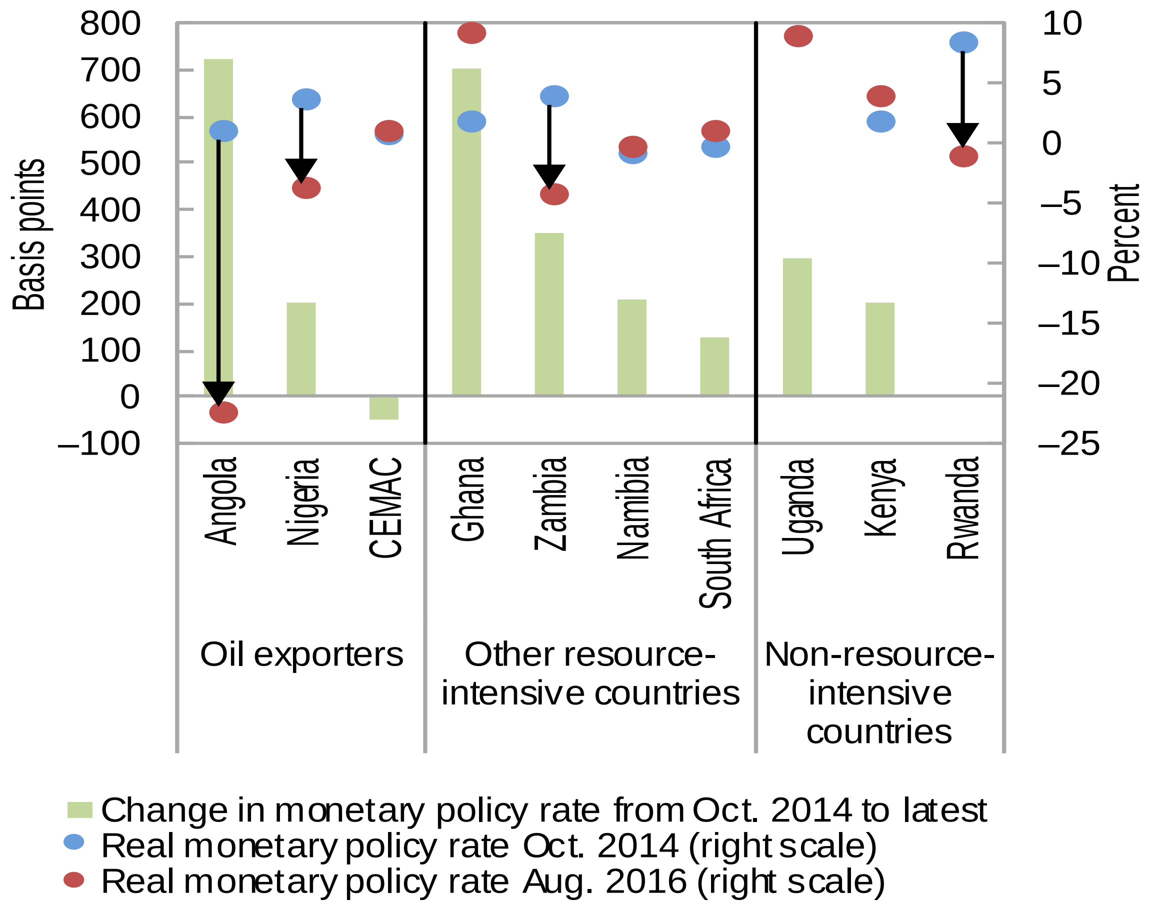
Source: International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016.

Has also contributed to higher inflation



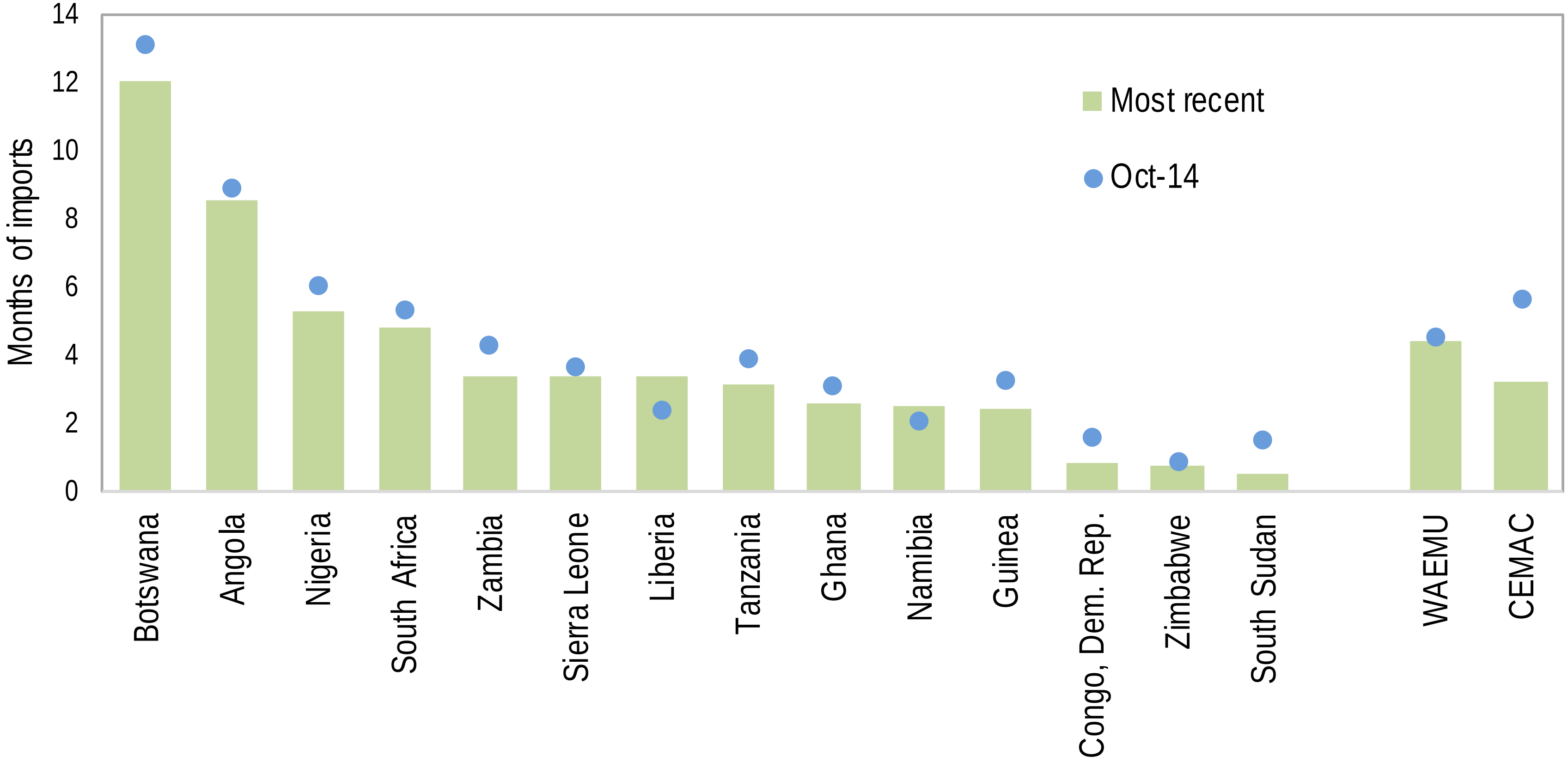
Source: International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016.

Supported, in some cases, by an accommodative monetary stance.



Source: International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016.

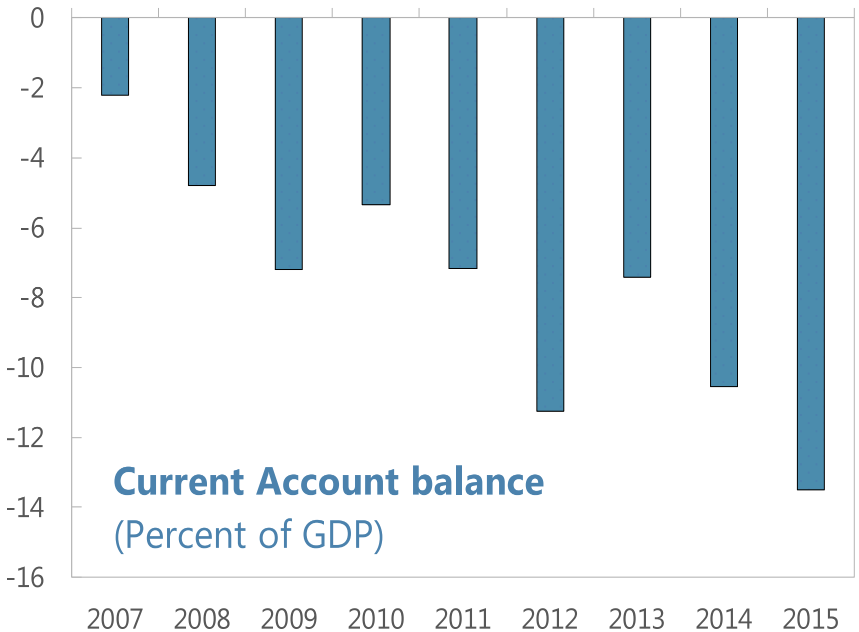
Foreign exchange reserves have dropped since 2014



Source: International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016.

Structural trends in Rwanda

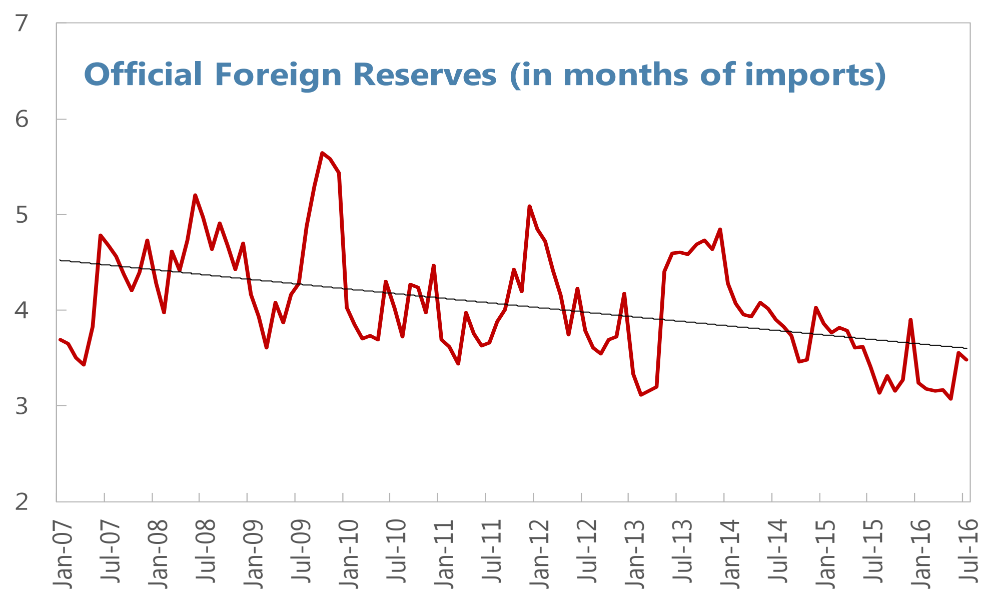
Import-led growth led to increasing external imbalances undermining foreign exchange reserves



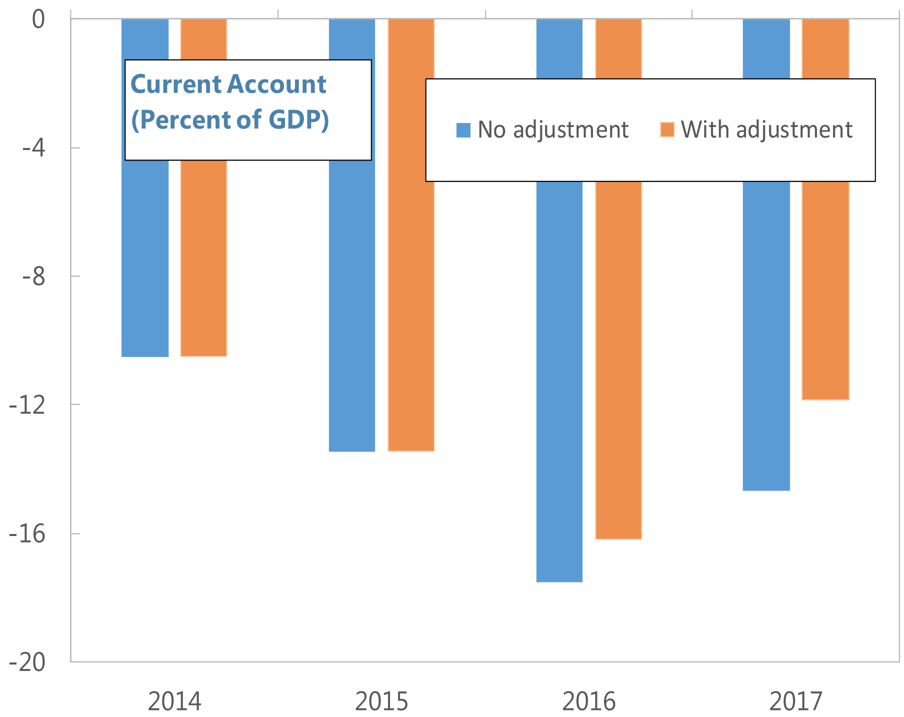
Current account = trade of exports and imports and transfers/grants to and from the rest of the world.

If in deficit, need to borrow or use foreign exchange "savings"

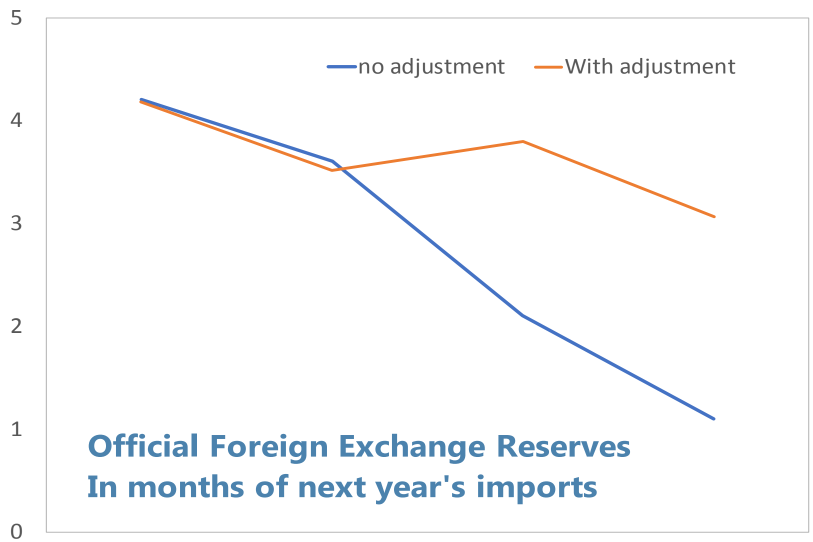
Official foreign exchange ("forex") reserves = a stockpile of hard currency savings in the central bank



These, plus global developments, made "adjustment policies" imperative to avoid crisis



Adjustment = macro policies to mute import demand and reduce the current account deficit



…thereby reducing the use of forex reserves

Policy adjustment in Rwanda

Adjustment policies to temper imports and avoid crisis

Short term belt-tightening measures:

- Allow exchange rate to adjust (affects all economic actors equally).

- Containing increases in government spending as of FY16/17 (contribution of large public sector).

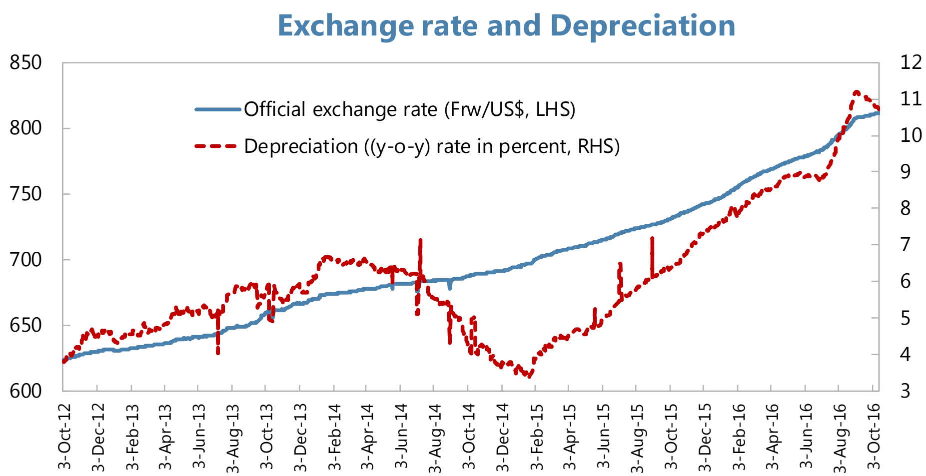
- More prudent monetary policy, leading to slower private sector growth.

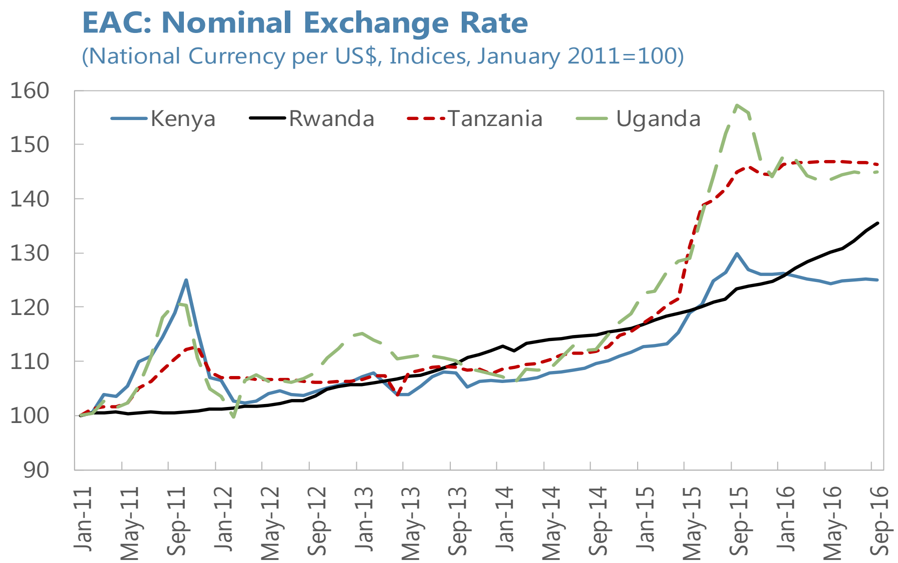
= slightly lower growth in 2016 and 2017.

Exchange Rate Developments

- Rwanda's exchange rate was more stable compared to regional currencies in 2014-early 2015

- But faster depreciation in recent months which has led to some decline in import volumes.



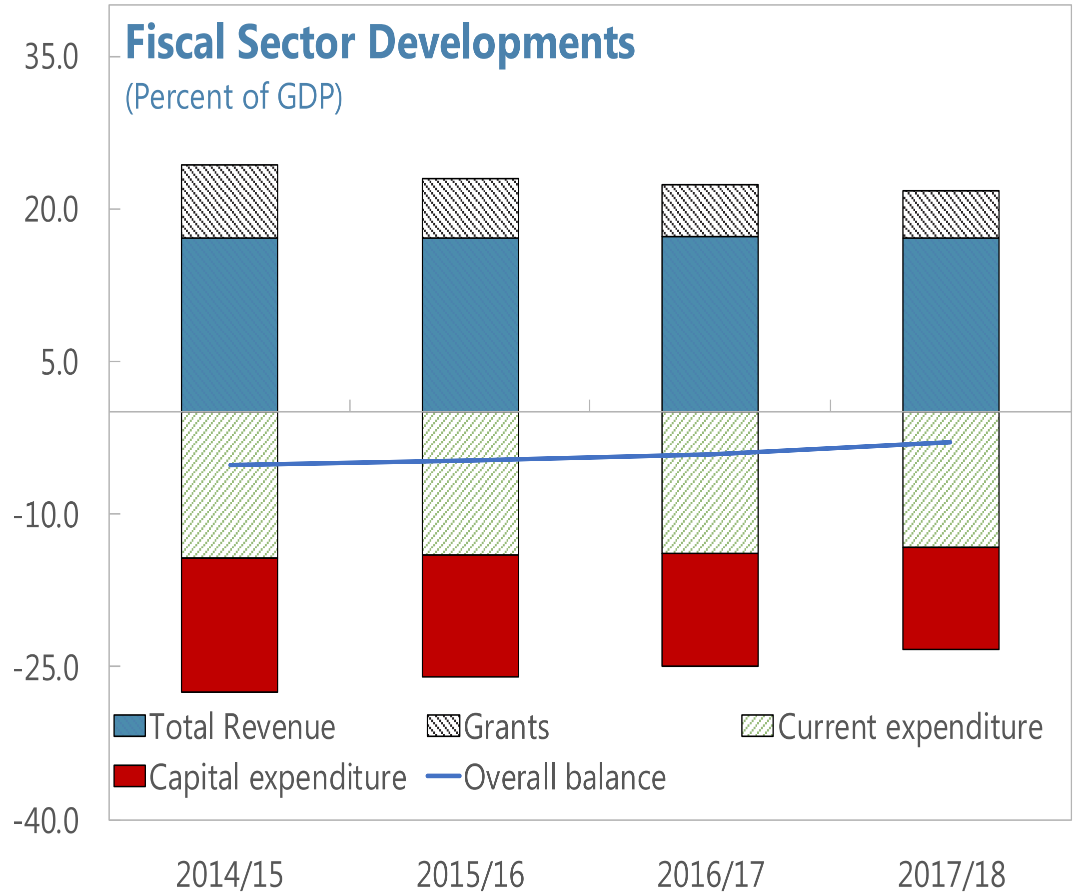


Fiscal policy: contain spending

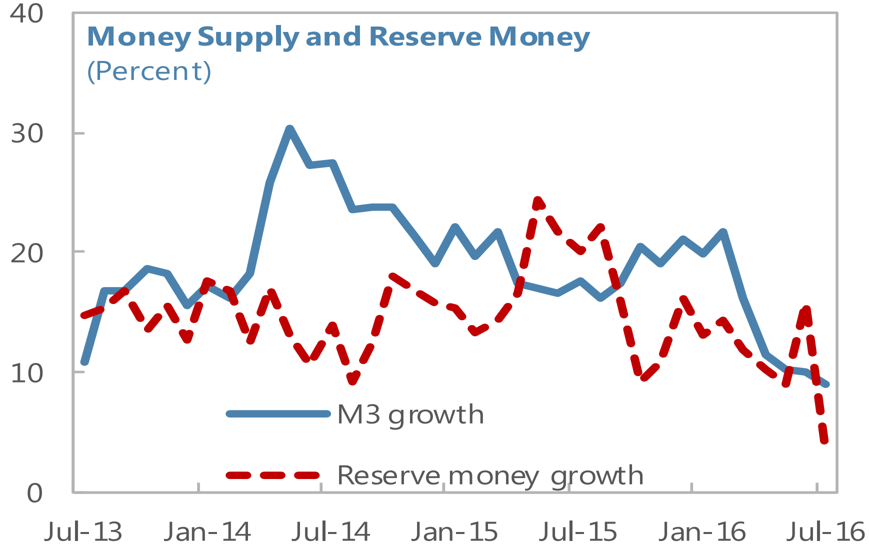
•Revenue stable, but grants declining.

•Not cuts, just slowing down NEW spending.

•Public investment spending can create future growth, but also demands more imports.

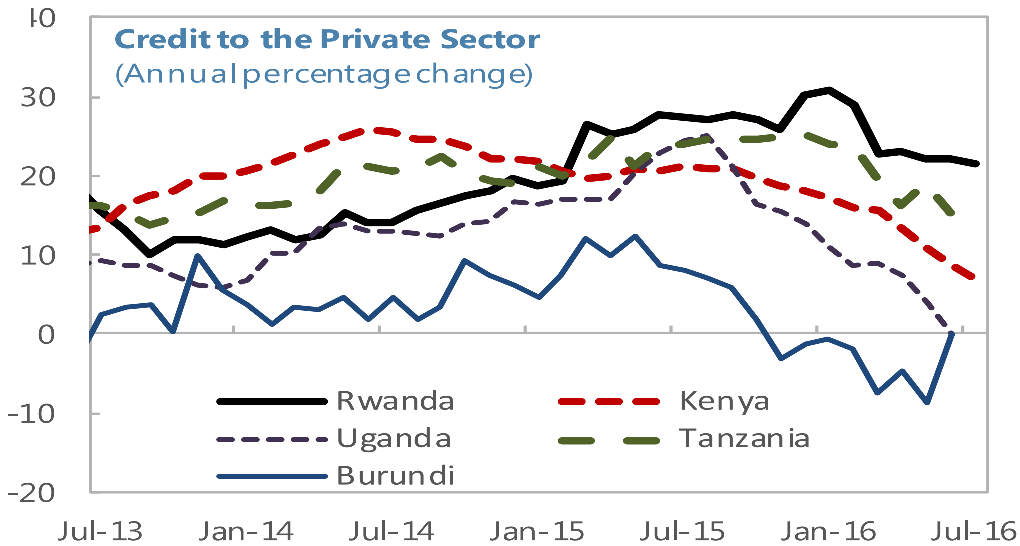


Interest Rates and Private Credit

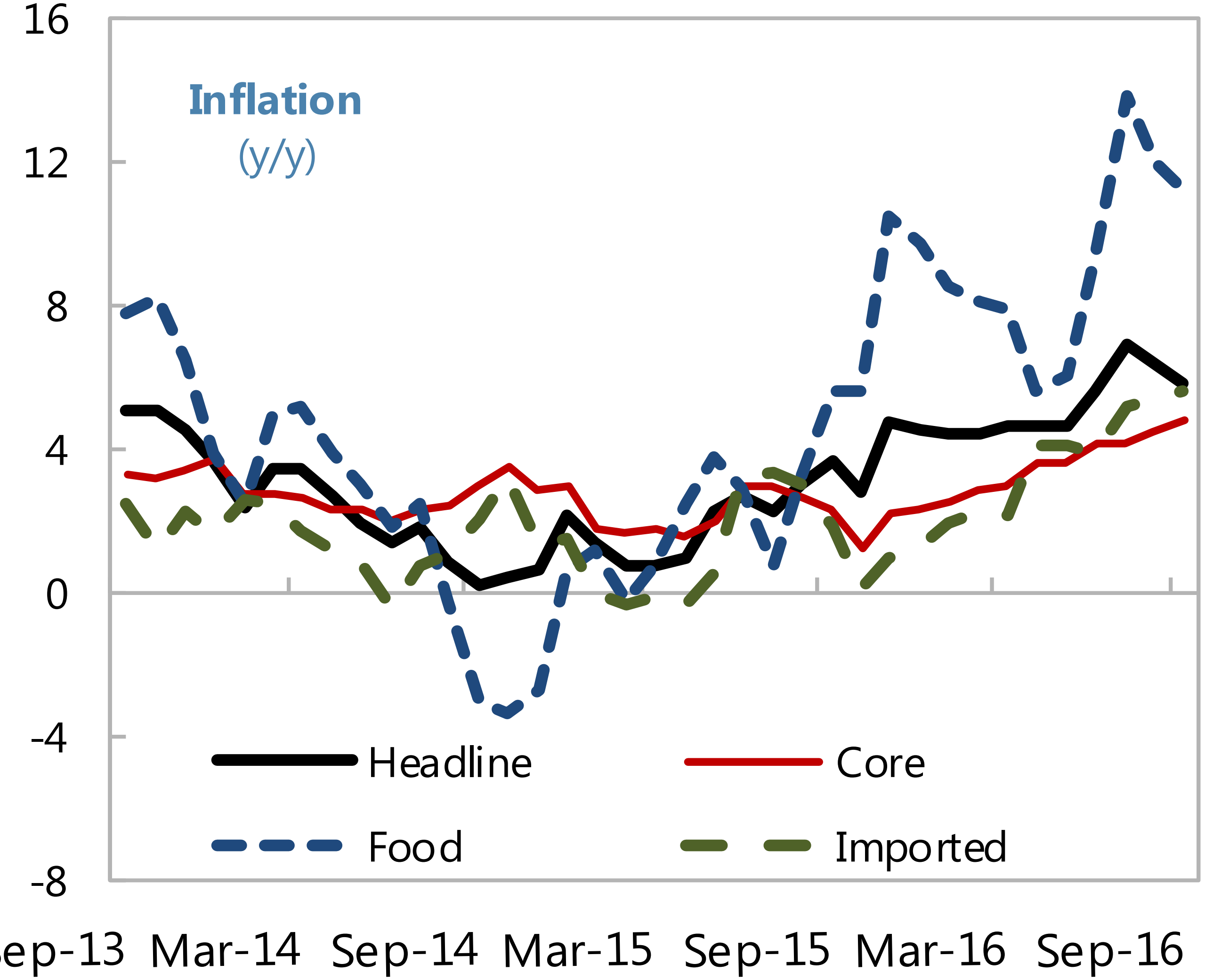


More prudent targets for creating money in line with somewhat lower rates of growth of economic activity and private sector credit

Even so, Rwanda's rate of growth of private sector credit remains higher than peer countries in the region



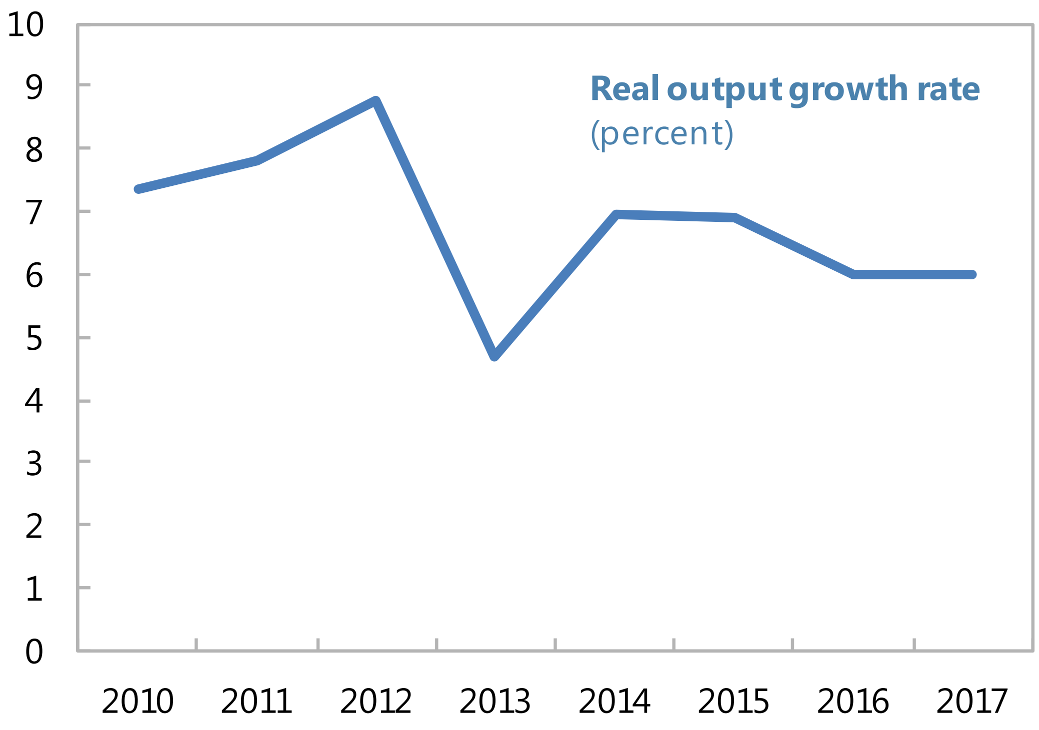
Inflation rising due to food prices and higher import prices (partly because of depreciation)



Implications for GDP growth

Average growth very high, around 7% on average over last 10 years.

Adjustment policies will dampen growth slightly, to 6% in 2016-2017.



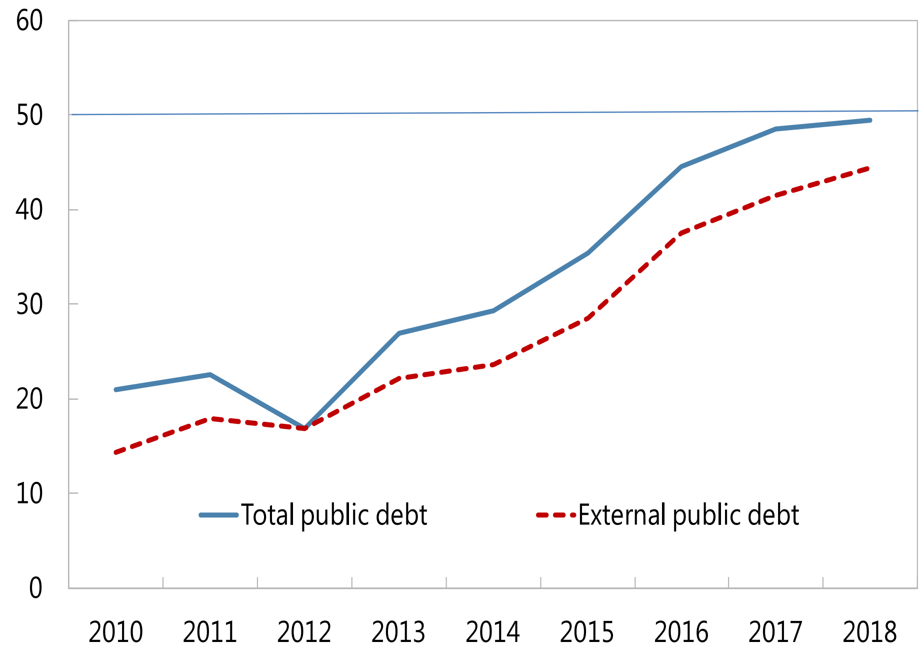
And debt is also rising

- Debt levels have risen recently, supporting economic growth

- Going forward there is little room to maneuver.

- The hope is that the infrastructure that has been put in place will support private sector growth

Public Debt Profile
(in percent of GDP)



Sources: Rwandan authorities and IMF staff calculations

Longer term policies

Longer term structural measures:

- Accelerating export promotion measures (looking at value added chain and finding promising export markets).
- “Made in Rwanda” – introducing import substitution measures. Why buy cement and rice from other countries?

= *living within means and boosting growth in the long term.*

Conclusion

•Rwanda is growing fast but it has come up against a foreign exchange constraint, partly associated with the recent weakness in the global economy

•The IMF is offering financial support in conjunction with some belt tightening from government

•This will have growth implications

•The hope is that once the global economy recovers and commodity prices normalize, the private sector can follow the public sector's lead in stimulating growth, building on public infrastructure investment.

Thank you!