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The Rwanda Economic Update: Unearthing the Subsoil

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In the Rwanda Economic Update (REU) launched today, the World Bank forecasts an economic growth rate of 5.7% in 2014 and 6.6% in 2015.
Rwandas growth slowed to 4.7% in 2013, the lowest growth since 2003, due to the aid shortfall in the second half of 2012 and resulting delays in budget expenditures. In 2014, the expansion of the services sector contributed to a recovery of growth rate to 7.4% in the first quarter of 2014.
Growth slowdown in 2013 reveals structural bottlenecks in Rwandas economy, says the report. The contraction of domestic demand was offset by positive external demand. Investments in mining in the past few years and favorable international commodity prices contributed to the sharp increase in mineral exports, which accounted for 40 percent of the total goods exports in 2013. "The lagged effect of the aid shortfall to the economy was extended to the second half of 2013, decelerating both public and private sector activities. However, signs of recovery are evident in 2014. In addition to GDP growth rates, turnovers of services and industries have been picking up. Therefore, we are hopeful that the growth in 2014 will be higher than that in 2013" said Toru Nishiuchi, World Bank Economist and co-author of the report.
According to the report, growth during the last decade was driven by high levels of public investment supported by significant aid inflows and effective use of them. Although aid resumed in the first half of 2013, their share in the economy is likely to gradually decrease. Therefore, future growth will increasingly hinge on progress of domestic resource mobilization and transformation in spurring private sector-led growth. "Rwandas high growth in the past decade did not stimulate a significant transformation of the economy, which is characterized by a large public sector, the dominance of the non-tradables sectors, and limited private investment," said Carolyn Turk, World Bank Country Manager for Rwanda.
"Going forward, Rwanda needs to transform its economy from being aid dependent, public sector led, and domestic demand driven, to being self-reliant, private sector led, and net export led through addressing constraints to private sector investment such as energy and transport. In this regard, public investment will focus more on how to leverage private sector investment," said Toru Nishiuchi.
Despite the current small-scale nature, the mining sector has potential to contribute to national development. According to the report, which has a special section on mining, the production capacity of the landlocked countrys mining sector has progressively increased, with export earnings in 2013 reaching US$225 million.
The sector also has potential to contribute to jobs and foreign direct investments. "Beyond export earnings, mining shows promise for non-farm job creation, an important pillar of the governments poverty reduction strategy," said Rachel Perks, World Bank Mining Specialist, and co-author of the report. "As of early 2014, mining in the rural areas directly employed more than 33,000 people. Mining jobs also pay better when compared against other wage workers in the rural areas," she said.
The governments ongoing efforts to transform its predominantly small-scale mining sector into semi-industrial and industrial activities will benefit from strategic focus on the following measures:
- Secure the Enabling Legal and Regulatory Environment for Investment
- Build the Geological Knowledge Base for Future Investment
- Increase Fiscal Receipts and Ensure Revenue Management
- Improve Recovery and Domestic Processing
- Strengthen Human Development

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