

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Rwanda

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Key messages

- The Government of Rwanda has been proactive in imposing restrictions on behaviour and also in terms of its monetary and fiscal policy response to the pandemic. The National Bank of Rwanda has offered liquidity support. Other responses include administrative tax responses, introduction of a food distribution programme and the imposition of price ceilings.
- Data on the economic and social impacts of COVID-19 are limited; what exists suggests the effects thus far are modest, though growth projections have been adjusted down from 8% to 5.1%. This owes to the impact on the services sector – the largest contributor to GDP. Monitoring and analysis of more recent data will be critical to inform policy responses.
- The IMF has announced the disbursement of \$109.4 million in funds to Rwanda under its Rapid Credit Facility. Rwanda has also announced \$14.25 million in funds from the World Bank in the form of the Rwanda COVID-19 Emergency Response Project, among other forms of funding from donors.

Introduction

To date, Rwanda has recorded the second highest number of confirmed cases of COVID-19 in East Africa (110 cases as of Wednesday 8 April). There have not, however, been any deaths confirmed as a result of the virus. None of the confirmed cases is in a critical condition and seven patients have been discharged from the government isolation centre set up to treat all patients confirmed to have the disease.

In a bid to mitigate the spread of COVID-19, the government has imposed considerable public health restrictions. Movement outside the home is permitted only for essential purposes (health care, food shopping and banking). Places of worship, educational institutions, bars, restaurants and cafes (other than for takeaway services) and shops and markets, with the exception of those selling food, and other essential items have been closed. Aside from essential workers, all employees (public and private) have been instructed to work from home. Travel between cities and districts is not permitted until further notice.

Health expenditure per capita is only 137th in the world. External health expenditure is the 16th highest ([\\$65.97](#) PPP, 2016) but domestic general government health expenditure is only 156th ([\\$44.18](#) PPP, 2016).

The Rwandan economy is vulnerable to a number of economic risks stemming from the pandemic.

Rwanda's relationship with China constitutes one of these risks: its trade with China, as a share of its total trade, is [17.5%](#). A related risk to Rwanda's outlook is the large share of international tourism receipts as a share of total exports – at 31.1% in 2017. There were also notable regional trade constraints before the pandemic: since February 2019, there have been [extensive restrictions on goods](#) passing through the Katuna (mainland) border between Uganda and Rwanda. At the beginning of March, [a bridge collapsed](#) on the Morogoro–Dodoma section of the highway between Kigali and Dodoma, thus restricting trade between Rwanda and Tanzania.

Since January 2020, Rwanda has experienced above average rainfall, causing [death](#), [displacement](#) and [crop destruction](#), and exerting pressure on food prices. Food price inflation was measured at 27% [year-on-year in February 2020](#). This has occurred as a result of unfavourable weather conditions as well as multiple trade restrictions in the region. In particular, a fall in the supply of maize has resulted in more than 30% price differentials between Kigali and Kampala.

Economic and social impacts

Despite little in the way of preliminary official data on the trade and production impacts of COVID-19 to date, there are some early indications of the economic impact of the virus. [The government and the IMF](#) have

adjusted growth projections for 2020 downward from 8% to 5.1%. The international tourism industry has also been particularly affected; by March 20th, the Rwandan Hoteliers Association had already [reported](#) losses in excess of \$14 million (0.15% of GDP) and the risk of job losses in the sector. At present, tourism and hospitality alone accounts for 142,000 jobs.

The early evidence is perhaps less negative than might have been expected. For example, although coffee [prices fell ~25%](#) between the end of 2019 and the beginning of February 2020, they have since started to recover and remain higher than at any point in 2019. This may reflect the expectation that coffee supply will fall as the virus spreads. At [27%](#) (2017), coffee is Rwanda's most important export, and it remains susceptible to price fluctuations in this commodity. Total export revenues in February 2020 were at their lowest since June 2019 [but higher than in February 2019](#). Year-on-year [CPI increases](#) for February 2020 were 8.7% compared with 7.3% in January 2020.

From the limited financial data available, there is also no major indication of an economic impact. The Rwanda Stock Market Index [remains stable](#) and, while the exchange rate has depreciated 1.6% against the dollar since the beginning of the year, this is in keeping with the previous trend.

Monetary and financial policy

Much in the same way that Rwanda was very responsive to the coronavirus pandemic in terms of how quickly it imposed restrictions on behaviour, it has been quick to offer monetary and financial policy responses. The National Bank of Rwanda (BNR) has eased loan repayment conditions by allowing for the exceptional restructuring of loans by banks, to facilitate borrowers facing cash flow challenges as a result of the outbreak. It has also offered liquidity support in the form of a [RwF 50 billion \(~\\$52.5 million\) lending facility](#), which can be accessed at the Central Bank Rate. BNR will also buy back bonds at the prevailing market rate and the reserve ratio is to be lowered by 100 BPS from 5% to 4%. The BNR has also shown support for electronic payments. Notably, it has waived the charges on transfers between bank accounts and mobile money accounts, as well as the charges on mobile money transfers and the merchant fees on all contactless POS transactions. It has also increased the limit for individual transfers using mobile money.

Fiscal policy

From a fiscal policy perspective, some assistance has been offered to Rwandan businesses. There has been a tax policy response whereby deadlines for [income](#)

[tax](#) have been extended from the 31 March to 15 April and 30 April for large and small businesses, respectively. [All tax audits](#) have been suspended until 18 April, and there has also been a suspension of the down payment for the amicable settlement appeals resolution process to 23 April. [Bank of Kigali](#) and [Banque Populaire](#) du Rwanda have offered grace periods of up to three months for principal or interest payments in support of Rwandan businesses.

A number of social protection measures have been introduced. The government has introduced a [food distribution programme](#) consisting of the door-to-door provision of food and other supplies to vulnerable homes at village and sector level. Thus far, food parcels have been distributed to 20,000 households in the city of Kigali alone (1.1 million, or 10.8% of the population, in 2012); this will gradually be extended to rural areas. Bank of Kigali has donated RwF 282 million (\$0.3 million) in support of these efforts.

Other policy responses include the introduction of [price ceilings](#) on some goods by the Ministry of Trade and Industry on 17 March following increases in the market price of some foodstuffs at the onset of the pandemic, to prevent speculative pricing. Over 100 traders were fined in March for raising prices. This intervention also introduced a cap on the quantity of each product an individual could buy per day.

Donor support

In order to stem further depletion in its foreign exchange reserves, on 2 April the [IMF](#) announced the disbursement of \$109.4 million (1.15% GDP) in funds under its Rapid Credit Facility (RCF). Interest-free financing provided under the RCF is concessional and targeted to coping with an external shock. Although there is limited conditionality, there is an expectation that Rwanda's policy-makers will stem any emergent balance of payments crisis.

On 9 April, Rwanda received \$14.25 million from the World Bank in the form of a new Rwanda COVID-19 Emergency Response Project – a multifaceted fund intended to aid Rwanda's response to, and resilience against, the pandemic. On 20 March, as part of the significant donation made to African states by the Jack Ma and Alibaba Foundations, Rwanda received 20,000 test kits, 100,000 masks and 1000 medical protective suits and face shields. Additionally, Rwanda has received medical assistance worth [\\$1](#) million (~0.01% GDP) from the US government.

Information in this note is correct as of 6 April 2020.

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