Risks for developing countries- Rwandan Case

Stella Rusine Nteziryayo- Head of Debt Office, Ministry of Finance & Economic Planning –October 2018
Rwanda Economic Growth Context

Rwanda development over the last two decades

- Rapid and inclusive economic growth and macroeconomic stability: resilient to shocks;
- Important poverty reduction;
- Reduced inequality and increased access to services: health, education, financial inclusion;

The Foundation of Rwanda’s Robust Growth:

- Growth is mainly attributed to construction, service, agriculture and mining activities;
- Recent slow down is explained by the low commodity prices, a slow growth in agriculture (drought), and the impact of external sector adjustment measures;
- Going forward growth should remain robust over the medium term: the economy is expected to grow by 7.2% in 2018.
Sound macroeconomic management

Fiscal Policy

- Fiscal policy FY2016-2018 is guided by the need to address external imbalances at the same time continue expenditure prioritization.
- Rapid Expansion Of Revenues (Tax to GDP is 16.3%), reflecting an improving level of efficiency in revenue collections.

Monetary Policy and Financial Stability

- However the main objective in the medium term is to maintain low level of inflation whilst providing adequate credit to the private sector to promote sustainable growth.

External Sector Imbalances

- Improved Trade Balance is consistent with expansion of export base and implementation of import substitution measures and initiatives such as Made in Rwanda.
- Tourism receipts have experienced very strong growth in recent years, growing by 82% between 2010 and 2015. A continued focus on MICE (Meetings, Incentives, Conferences & Events) is expected to boost tourism receipts, aided by the construction of a new international airport.
Rwanda’s nominal debt-to-GDP at 49 percent- end June 2018.  
• in nominal term comparable to pre-HIPC levels…  
• However, Rwanda’s risk of debt distress remains low.  
• For domestic debt, share of T-bonds increased as total share of Domestic debt.  

Key drivers of public debt accumulation for Rwanda includes:  
1. Public investment drive  
2. Extension of government guarantees
Cost and risks indicators as of end April 2018

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>External debt</th>
<th>Domestic debt</th>
<th>Total debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (in millions of RWF)</td>
<td>3,275,467,813,750.2</td>
<td>490,437,871,893.5</td>
<td>3,765,905,685,643.7</td>
</tr>
<tr>
<td>Amount (in millions of USD)</td>
<td>3,808,683,504.4</td>
<td>570,276,595.2</td>
<td>4,378,960,099.6</td>
</tr>
<tr>
<td>Nominal debt as % GDP</td>
<td>41.0</td>
<td>6.1</td>
<td>47.1</td>
</tr>
<tr>
<td>PV as % of GDP</td>
<td>27.2</td>
<td>6.1</td>
<td>33.3</td>
</tr>
<tr>
<td>Cost of debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest payment as % GDP</td>
<td>1.0</td>
<td>0.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Weighted Av. IR (%)</td>
<td>2.4</td>
<td>9.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATM (years)</td>
<td>13.9</td>
<td>2.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>2.0</td>
<td>55.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of GDP)</td>
<td>0.8</td>
<td>3.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR (years)</td>
<td>13.4</td>
<td>2.4</td>
<td>11.9</td>
</tr>
<tr>
<td>Debt refixing in 1yr (% of total)</td>
<td>14.3</td>
<td>62.8</td>
<td>20.6</td>
</tr>
<tr>
<td>Fixed rate debt (% of total)</td>
<td>86.5</td>
<td>91.6</td>
<td>87.2</td>
</tr>
<tr>
<td>FX risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX debt (% of total debt)</td>
<td></td>
<td></td>
<td>86.9</td>
</tr>
<tr>
<td>ST FX debt (% of reserves)</td>
<td></td>
<td></td>
<td>6.0</td>
</tr>
</tbody>
</table>

MTDS FY18-19

Redemption Profile – MTDS FY 2012-13

Redemption Profile – MTDS FY 2018-19

Risks related to Rwanda debt portfolio:
- Forex risk percent - 86.9% denominated in Fx (o/w: 60.9 is USD).
- Refinancing risk – 13 years external ATM while domestic ATM is 2.8 year.
- Eurobond maturing, and high T-bills as well.
- US interest rates rising
Institutional Arrangement

Treasury Management committee chaired by PS-ST

External Finance Division (front office - external)

Ministry of Finance - Chief Economist

Debt Management Unit (middle & Back office)

Central Bank (Fiscal Agent)

Financial Market (front office - Domestic)

Treasury Unit

Macro Policy Division

Budget department

Planning department

Debt Management committee chaired by Chief Economist in MoF

cash position & funding requirements of Gvt

Debt financing operations reviewed on the basis of TMC decision

Debt management functions
Rwanda’s Eurobond Experience

1. **Size:** $400 mio; did not go for more, because not needed.
2. **Yield:** 6.625%
3. **Maturity:** May 2023
4. **Use of proceeds:** Repayment of expensive Debt+ Tourism infrastructure and Energy projects.
5. **Debt Strategy:** Not cost/risk effective vs Concessional debt, but sustainable and support the country’s economic program without conditionality attached to it.
6. **Selection of Transaction/legal adviser as well as lead arranger:** on a competitive basis.

**Advantages:**
1. Alternative source of finance, reduce the risk of crowding out the private sector
2. Untied to any conditionality
3. Incentive to maintain macroeconomic discipline and a broadening of the country’s investor base/both for the public and private sectors.
4. Increased transparency through the Prospectus

**Risks:**
1. Forex risk
2. Interest rate risk
3. Refinancing risk
Rwanda Debt Management Strategy:

- Low risk of debt distress as fiscal anchor.
- Maximizing external concessional,
- Careful prioritization during the projects selection process and their implementation.
- commercial loans will only be considered as a last resort, for profitable and forex generating projects.
- Policy on issuance of Guarantees that can be extended to SoEs.
- Development of domestic capital market( treasury bonds issuances/ re-openings)
- Strong coordination mechanism (Debt committees)
- Dedicated debt office as per Cabinet decision.
THANK YOU