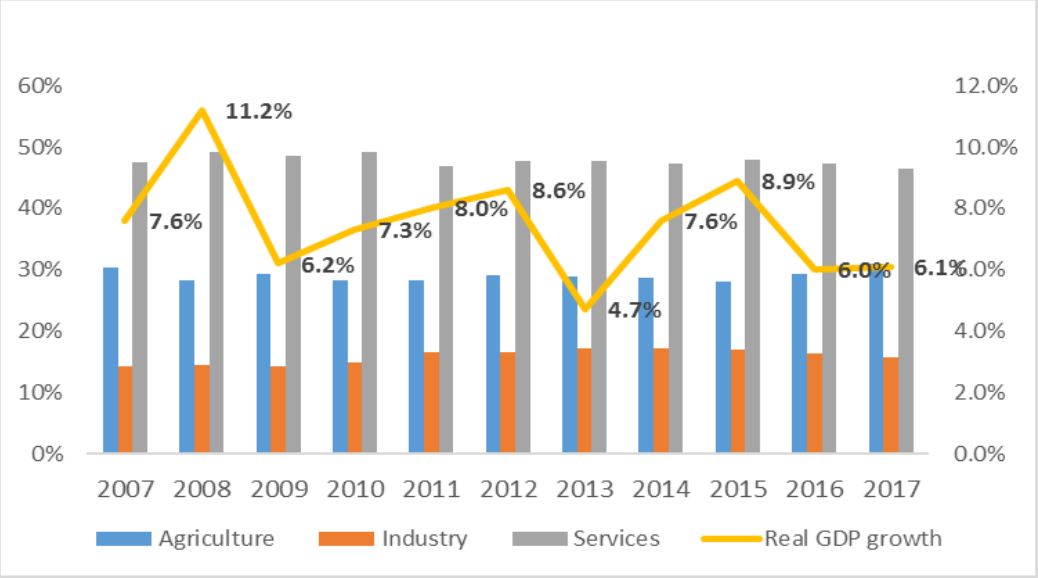
Risks for developing countries- Rwandan Case

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



Rwanda has achieved that through reforms:

- Implementation of structural reforms; i.e.: time to start a business, quality of regulatory environment, ease of accessing credit, ability to trade goods across borders, and the quality of judicial process.
- This pushed Rwanda up to the ranks of world's top performer in the World Bank's Ease of Doing Business Index;
- Sustained investment by the Government, which is expected to drive output growth in the coming years;

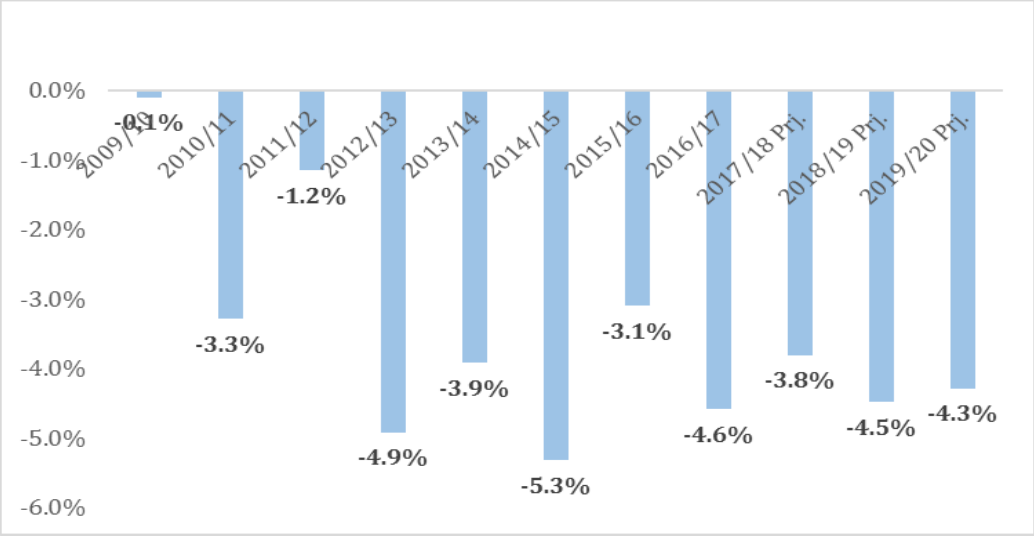
The Foundation of Rwanda's Robust Growth:

- 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

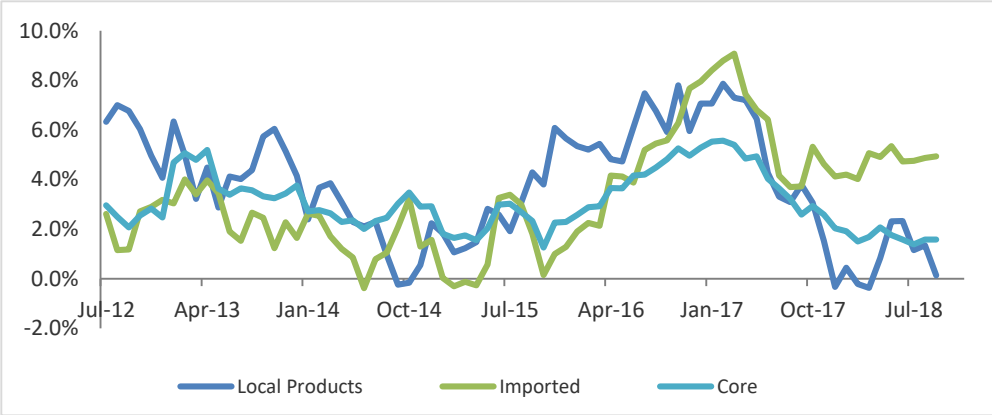


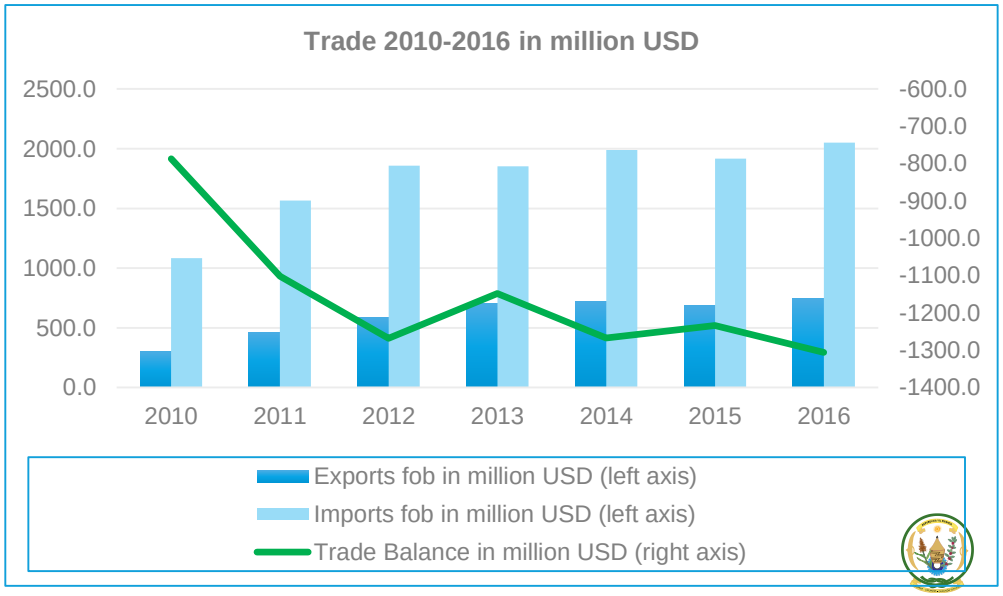
External Sector Imbalances

- 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.

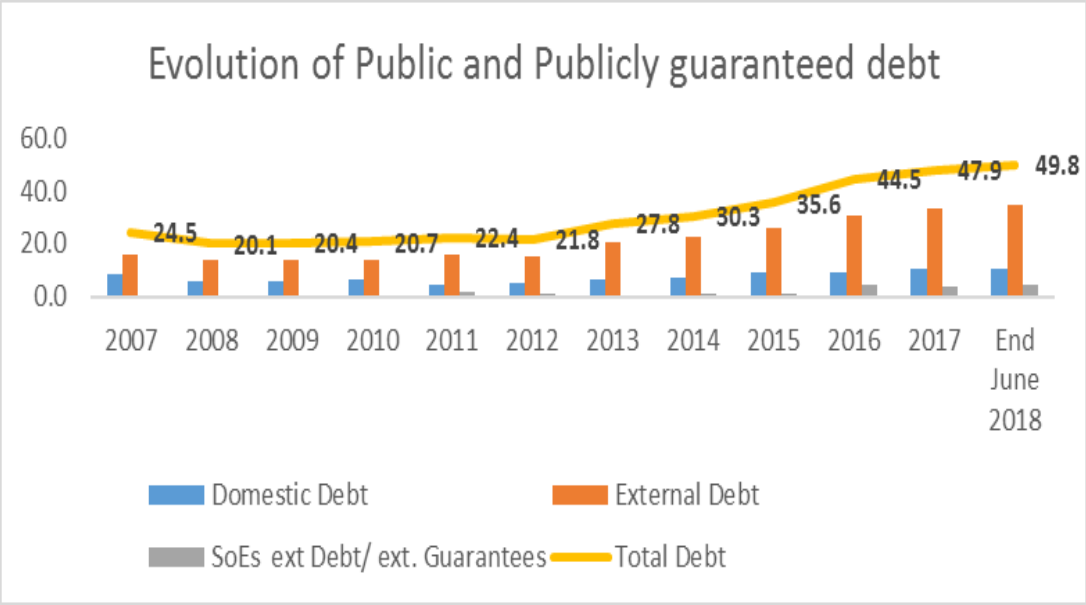
Monetary Policy and Financial Stability

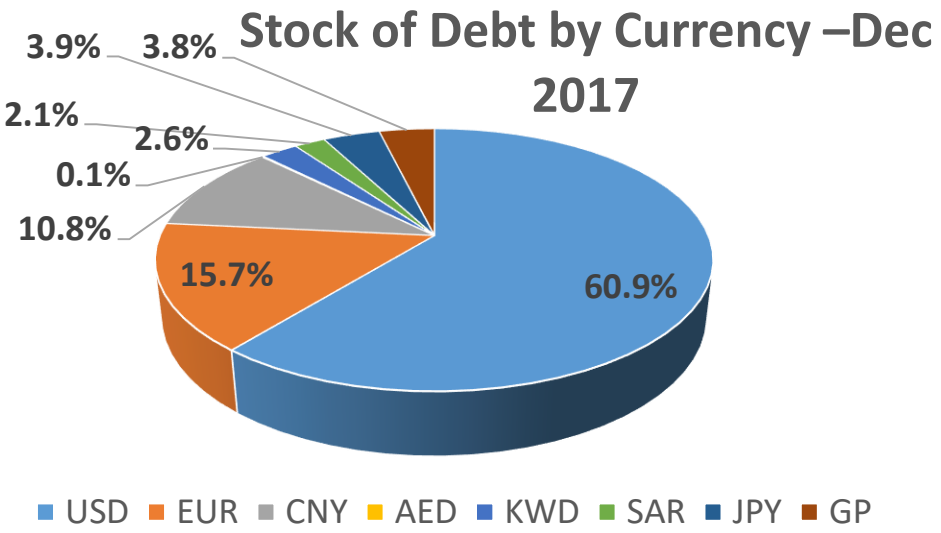
- However the main objective in the medium term is to maintain low level of inflation whilst providing adequate credit to the private sector to promote sustainable growth;





Evolution and Composition of Public Debt





- Rwanda's nominal debt-to-GDP at 49 percent- end June 2018.
- in nominal term comparable to pre-HIPIC 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

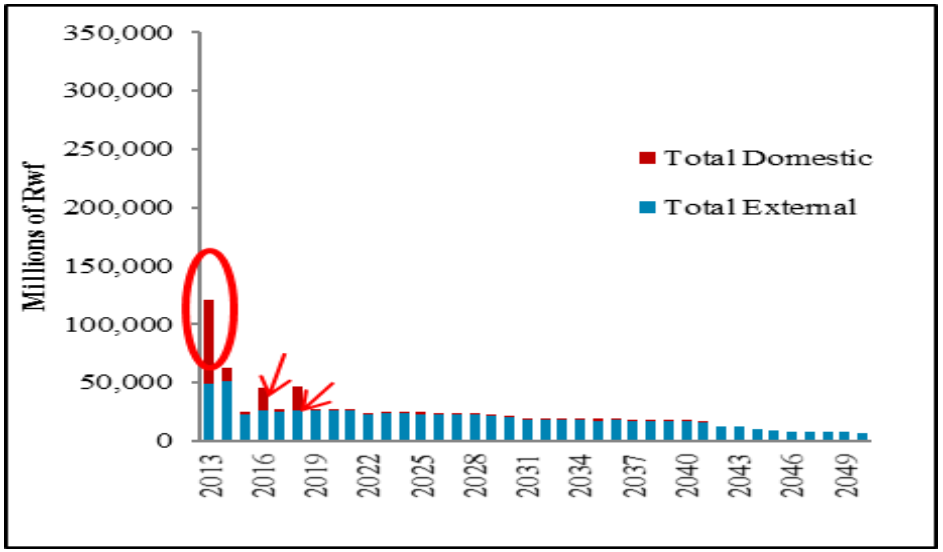
Cost and risks indicators as of end April 2018

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

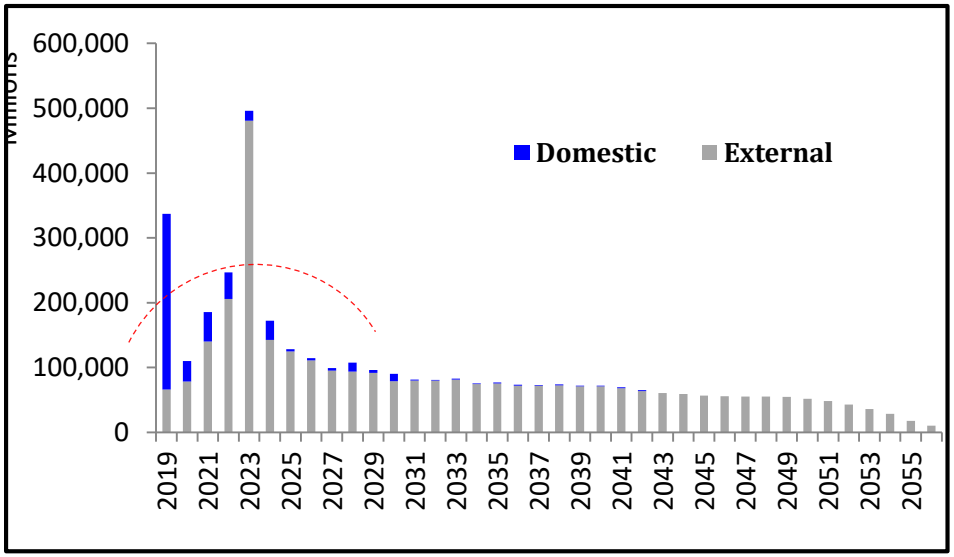
MTDS FY18-19

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

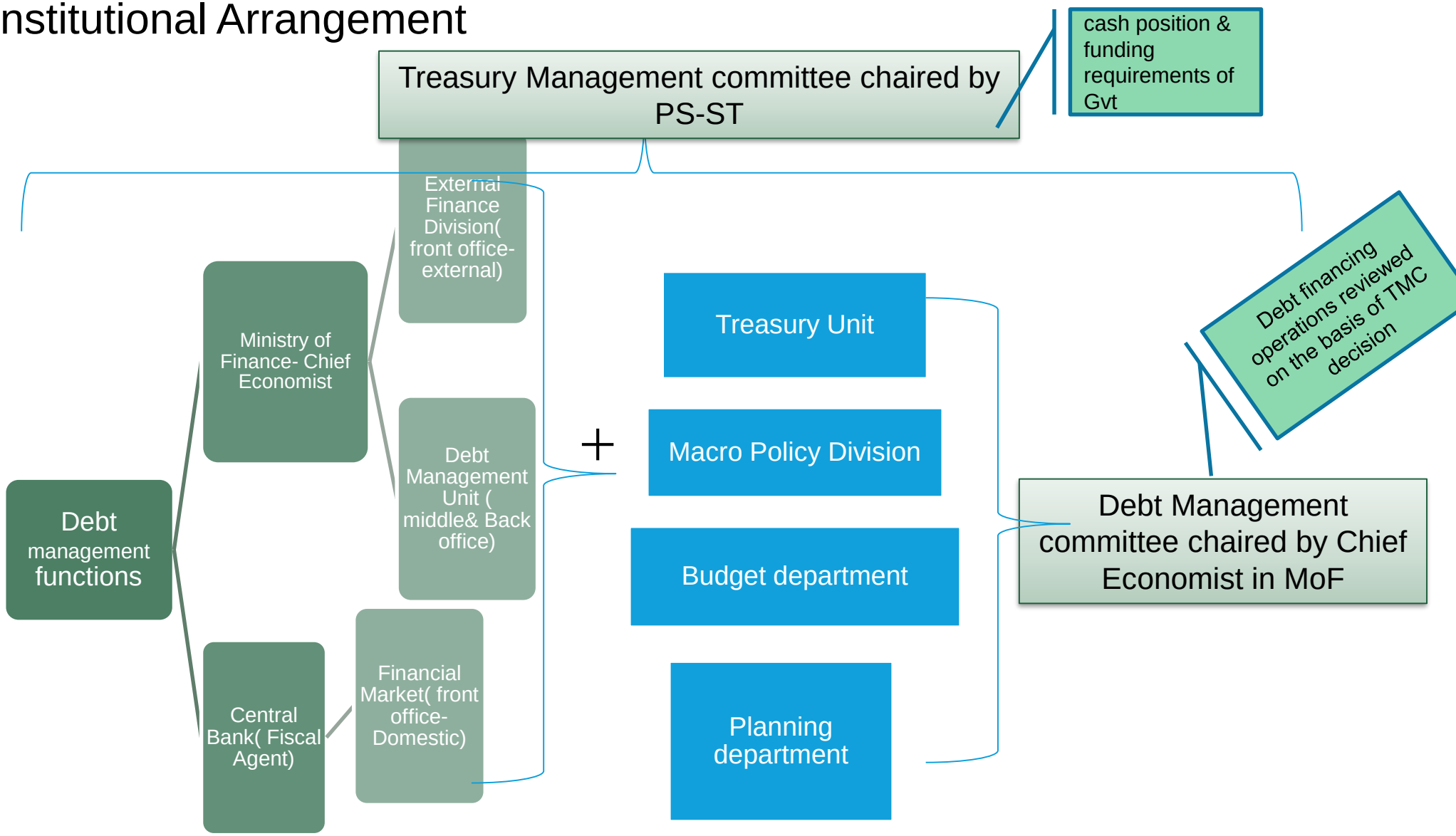


Redemption Profile – MTDS FY 2012-13



Redemption Profile – MTDS FY 2018-19

Institutional Arrangement



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