

The Changing Face of Rwandan Public Debt

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All views expressed and any errors are those of the authors only.

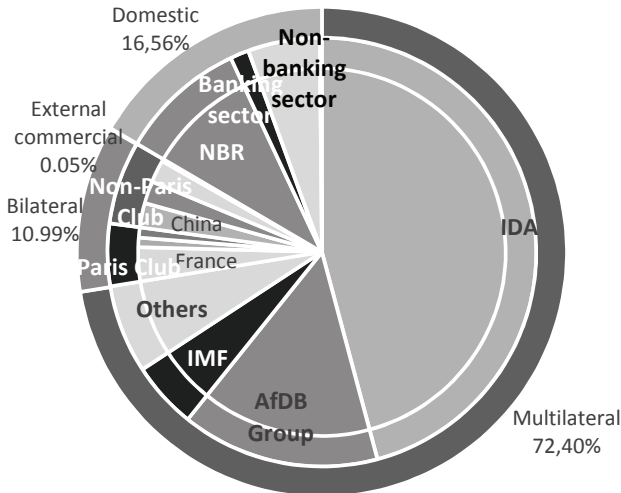
Motivation and contribution

- HIPC and MDRI debt relief provided Rwanda with a 'clean slate'
- Rwandan aspirations (cf. Vision 2020)
 - ▶ to reach MIC status by 2020
 - ▶ to fulfil large infrastructure needs
 - ▶ to reduce reliance on traditional donor aid (over MT)
 - ▶ ... while keeping debt sustainable
- Our contribution
 - ▶ To study evolution of size and composition of post-relief Rwandan public debt (+ consequences for debt management and sustainability)
 - ▶ To illustrate interaction of new debt with donor aid: case of 2012 aid suspension

Post-relief Rwandan debt accumulation

pre-HIPC composition of Rwandan public debt

End-December 1999 Rwandan public debt stock totalled US\$1.5 bn, most of it owed to (multilateral) external creditors

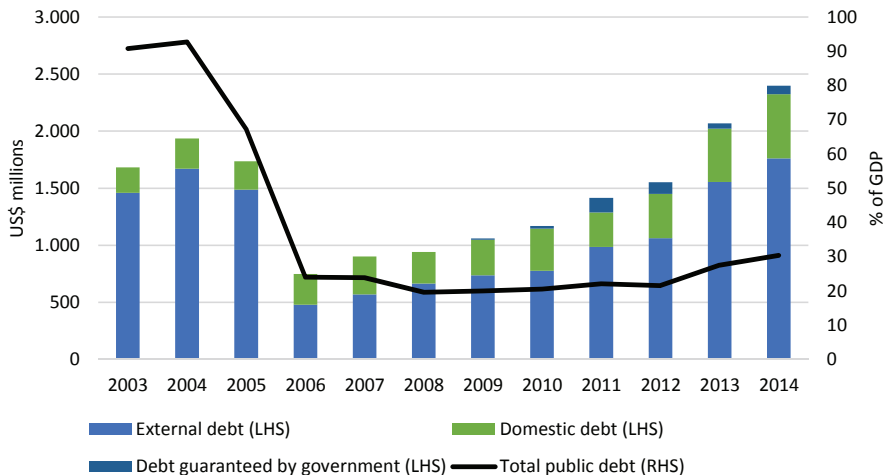


HIPC and MDRI debt relief

- HIPC decision point (December 2000)
 - ▶ External debt sustainability ($PV < 150\%$ of exports) attained with common reduction factor of 71.2%
- HIPC completion point (March 2005)
 - ▶ More debt relief needed, even after Paris Club top-up
 - ▶ Eventual debt stock reduction of US\$1.4 bn
 - ▶ Full debt relief by China, mostly rescheduling by Kuwait and Saudi Arabia
- MDRI qualification (January 2006)
 - ▶ Additional US\$516 mn debt stock reduction by IMF, IDA and AfDB

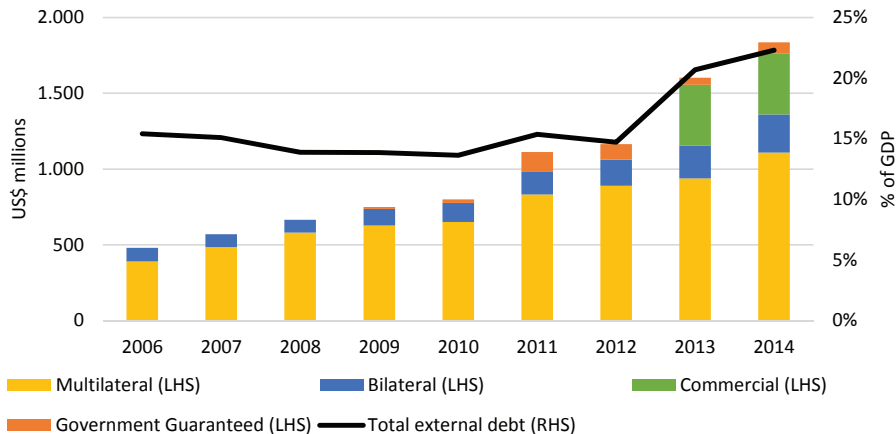
Public debt build-up after relief

Tripling of Rwandan public debt in absolute terms but only moderate increase in relative terms since 2006. This compares well to rest of SSA



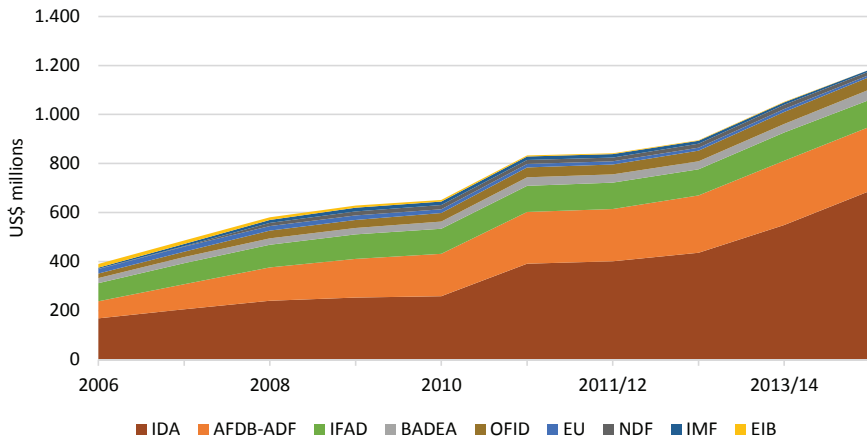
External public debt

Concessional loans from multilaterals still account for lion share of external public debt. Commercial debt only since 2013



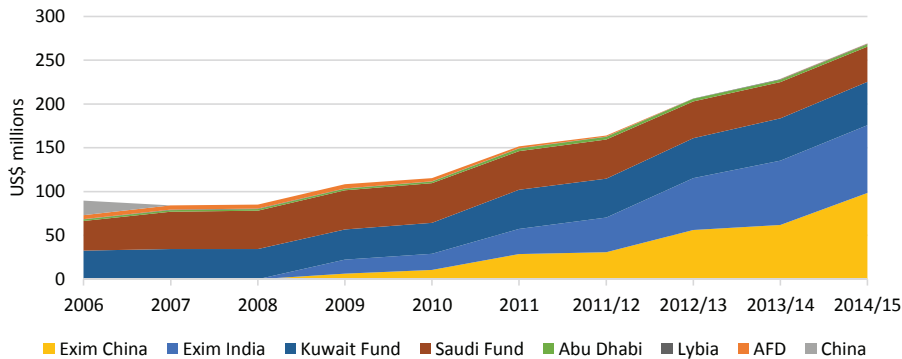
External public debt: multilateral creditors

Creditor composition of multilateral debt has hardly changed: IDA and AfDB dominate. Part of increase in levels due to shift from grants to loans



External public debt: bilateral creditors

Creditor composition of bilateral debt has changed significantly: no more Paris Club loans outstanding. Renewed interest in loans (SK, J). Will traditional donors (G, F, EU) follow?

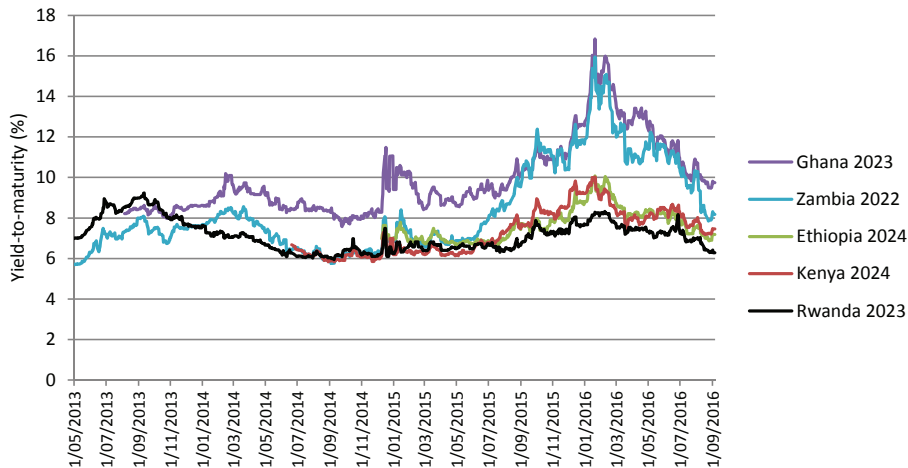


External public debt: commercial creditors

- In April 2013 Rwanda issued its maiden 'Eurobond'
 - ▶ US\$400 mn with maturity of 10 years
 - ▶ Fixed annual coupon of 6.625% and bullet repayment in May 2023
 - ▶ Proceeds used to (re)finance infrastructure: Kigali Convention Centre, RwandAir, Nyabarongo hydropower
 - ▶ Main investors are UK- and US-based fund managers
- Relatively low yield at issuance and massive oversubscription (almost 900%)
 - ▶ Low risk of debt distress and favourable fundamentals
 - ▶ Clarity and vision about use of proceeds
- Plans for second (larger?) Eurobond temporarily shelved

External public debt: evolution of Eurobond yields

Rwandan Eurobond yields compare well to those of other SSA Eurobonds



Domestic public debt

- Due to *external* debt relief *domestic* debt now non-negligible: close to 25% of total in 2014
- 'Marketable' part of Rwandan domestic public debt (T-bills and T-bonds) is on the rise
 - ▶ Sporadic issuance of T-bonds in 2008, 2010 and 2011; quarterly programme since 2014
 - ▶ Maturities up to 15 years
 - ▶ Auction-determined yields between 8 and 13.5%
 - ▶ Main investors are local commercial banks and pension/insurance funds (esp. RSSB)
 - ▶ Little foreign participation (due to currency exchange costs and limited supply)
 - ▶ Very limited secondary market trading on RSE

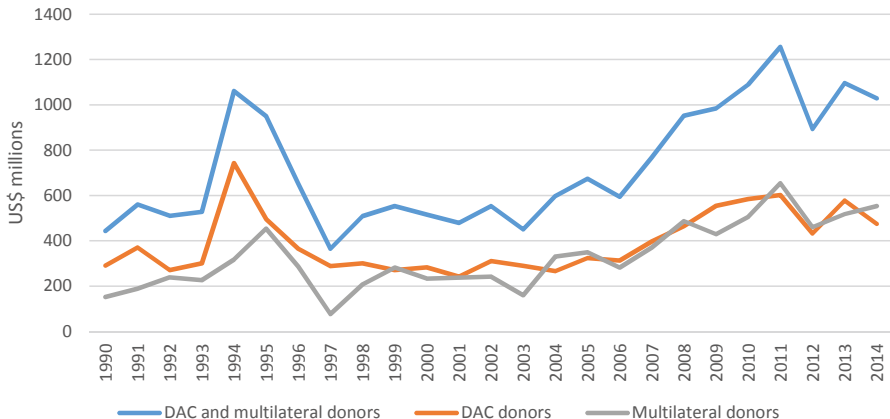
Debt management and sustainability

- 'New age of choice' (Prizzon and Mustapha 2014): Rwanda needs to trade off different creditors and debt instruments
- Debt management capacity remains limited
- IMF/World Bank DSAs classify Rwanda as having 'low risk of debt distress' (since December 2013)
- Main debt sustainability risks relate to generation (and use) of forex
 - ▶ Public infrastructure investments demand forex now, in return for forex supply later (esp. tourism)
 - ▶ Rwandan exports (coffee, tea, minerals) expose country to international price fluctuations
 - ▶ June 2016: US\$204 mn SCF of IMF to boost forex reserves
 - ▶ Over MT/LT Rwanda will need to expand *and* diversify exports
 - ▶ Reduced reliance on donor aid will put extra pressure on forex reserves

Case study: 2012 aid suspension

Aid suspension

Upward trend in net ODA disbursements came to abrupt end in 2012, following publication of critical UN report on Rwandan involvement in Eastern DRC



Donor reactions: some examples

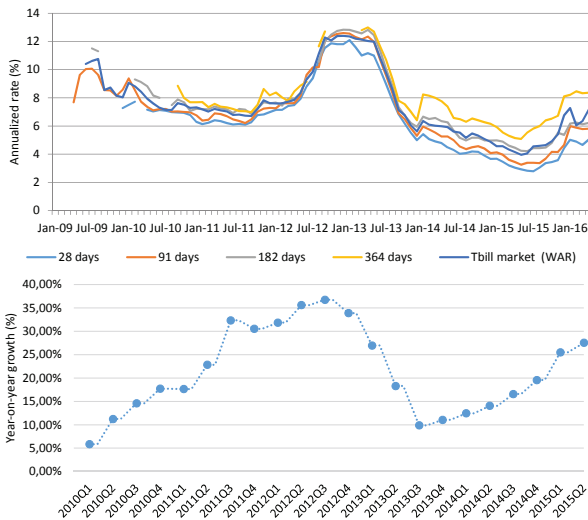
- Several donors (temporarily) suspended (part of) their aid
 - ▶ UK initially delayed *general budget support* (GBS) tranche planned for July 2012; half was disbursed later, other half reprogrammed as *sector budget support* (SBS); subsequent tranches of GBS were all reprogrammed
 - ▶ Germany cancelled planned GBS disbursements; all was later reprogrammed to three projects
 - ▶ GBS-like DPL of World Bank was not presented to Executive Board for approval; World Bank provided some emergency support on demand of Rwandan government; all earlier committed funds were reprogrammed to SBS and projects

Short-term consequences

- Fiscal impact of decline in grants (cf. differences in original, revised and executed budget)
 - ▶ New civil service recruitments halted, new projects postponed or slowed down
 - ▶ Temporary increases in arrears, T-bill sales and use of BNR overdraft facility
- Balance of payments impact
 - ▶ Widening of current account deficit
 - ▶ Decrease in forex reserves and depreciation of RWF
- Impact on public debt portfolio
 - ▶ Postponement (increased size?) of maiden Eurobond
 - ▶ Increased T-bill issuance hindered maturity lengthening of domestic debt

Short-term impacts: T-bill rates and private sector credit

Increased sale of T-bills induced higher rates and crowded out credit to private sector

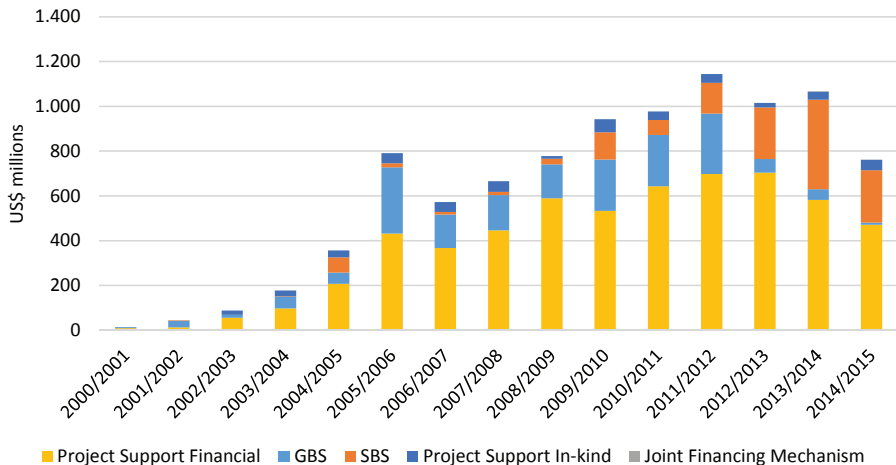


Longer-term consequences

- Following 2012 aid suspension Rwanda and donors have reconsidered heavy reliance on GBS modality
 - ▶ Rwanda asked donors to consider more predictable and reliable instruments
 - ▶ World Bank has not presented any new demands for GBS to Board; instead use of Program-for-Results (PforR)
 - ▶ DFID decided to discontinue GBS in Rwanda
- Influence on high-level dialogue structures between government and donors
 - ▶ Rwanda dissolved Budget Support Harmonisation Group (BHSG) where general economic, fiscal and governance issues were discussed
 - ▶ New dialogue structures much more decentralised and/or narrower in scope

Longer-term impacts: aid modalities

Since 2012 aid suspension GBS has fallen out of grace in Rwanda



Key takeaways

- Overall Rwanda has fared a prudent course in re-accumulating public debt
- However, more diverse debt portfolio complicates debt management, requiring important trade-offs
- Case study of 2012 aid suspension illustrates direct and indirect channels through which Rwanda's new debt portfolio interacts with traditional donor aid
- 2012 aid suspension also caused longer-lasting shifts in aid modalities and fora for dialogue with donors

Thank you for your attention
Questions?