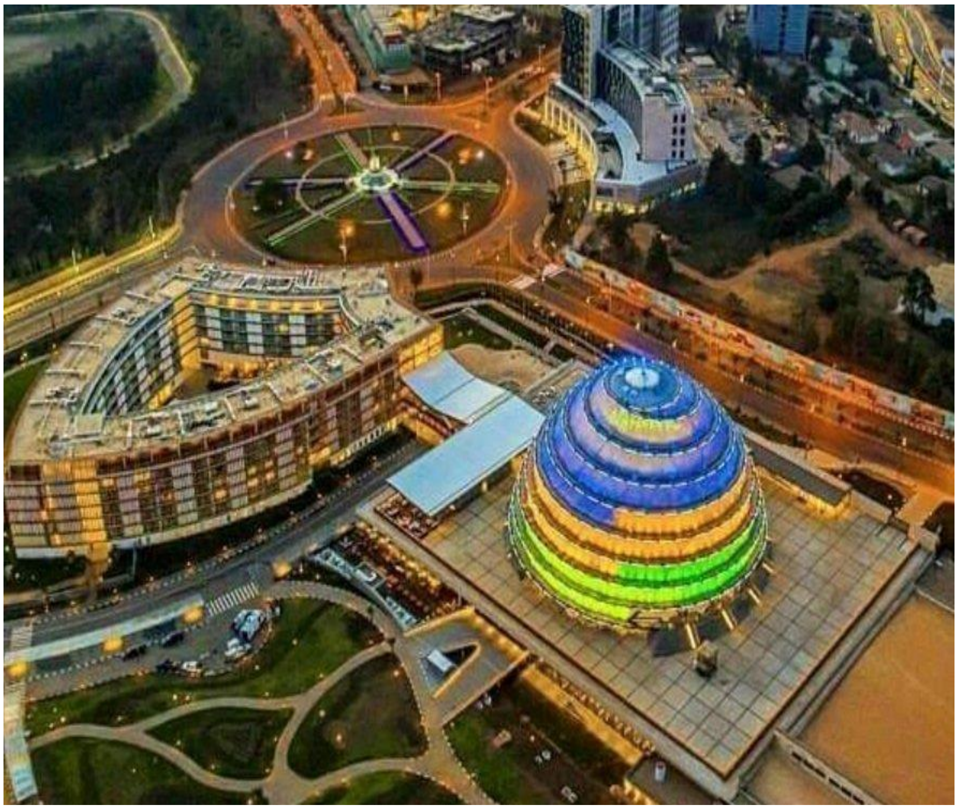

RWANDA MEDIUM TERM DEBT STRATEGY

Fiscal Year
2021/22- 2023/24

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LIST OF ACRONYMS

ADF	African Development Fund
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
AfDB	African Development Bank
BNR	Banque Nationale du Rwanda
CNY	Chinese Yuan
DSA	Debt Sustainability Analysis
EDPRS	Economic Development and Poverty Reduction Strategy
EAC	East African Community
EUR	European Euro
EU	European Union
FY	Fiscal Year
GoR	Government of Rwanda
GBP	Great Britain Pound
GDP	Gross Domestic Product
GDF	Gross Domestic Financing
GE	Grant Element
GEF	Gross External Financing
KCC	Kigali Convention Center
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IR	Implied Rate
JPY	Japanese Yen
KWD	Kuwait Dinar
MTDS	Medium Term Debt Strategy
MINECOFIN	Ministry of Finance and Economic Planning
PV	Present Value
TZS	Tanzanian Shillings
OBL	Organic Budget Law
OPEC	Organization of the Petroleum Exporting Countries
PSI	Policy Support Instrument
RSSB	Rwanda Social Security Board
RWF	Rwandan Franc
SAR	Saudi Riyal
SDR	Special Drawing Rights
USD	United States Dollar
XR	Exchange Rate

EXECUTIVE SUMMARY

Government of Rwanda's objective of The Medium Term Debt Management Strategy (MTDS) is to secure low cost funding and avoiding high risk. It is from the MTDS that Government lays out a three-year strategy that will guide its debt management to be able to achieve its desired debt composition. Taking into account the financial constraints brought by COVID-19 pandemic, the MTDS has been designed to suit the borrowing needs challenges for Rwanda. The focuses will remain on minimizing the risk exposure embedded in the debt portfolio, particularly the variations in the cost of debt servicing and its impact on the budget and the size of the debt.

With a lot of borrowing done to fund Covid-19 caused impacts, Rwanda's public and publicly guaranteed debt stock is estimated at, Frw 7687.3 billion as of end June 2021, or 76.2 percent of GDP compared to 63.9 percent in June 2020. The increase in public debt (12.2 percent of GDP) is mainly coming from external public debt that contributed 10.2 Percent of GDP. In present value term, the external public and publicly guaranteed debt is projected to reach 37.4 percent of GDP by end of 2021 compared to 32.7 percent as of end 2020.

The covid-19 pandemic measures put in place by government of Rwanda, contributed to keep Rwanda's risk of spreading corona virus infections low, however the macroeconomic variables were disrupted and as such the debt level surpassed the projected increase. However, with Rwanda's prioritization of concessional funding, Rwanda's overall cost and risk indicators will remain stable.

Going forward, the government's priority is to remain prudent and effective in its borrowing decisions. The main risk associated with Rwanda's debt portfolio is the approaching repayment of the 2023 Eurobond of $400 million, for which the government is currently exploring options that will help to mitigate the refinancing risk of a bullet payment in 2023. The main focus of the Rwanda borrowing strategy will be concessional terms, while taking into account the currency denomination and the effective cost of funds.

Three alternative financing strategies have been developed and evaluated against costs and risks trade-offs to select a strategy meeting Government's medium-term debt objectives. The chosen strategy for the MTDS, constitute a large share of concessional borrowing (from Bilateral creditors) in the medium-term on one hand and, on the other, the medium-term objectives for the development of the Government's domestic securities market focusing on issuance of long term domestic debt securities (Treasury bonds) as a proportion of the net domestic debt financing.

The desired debt strategy for Rwanda is "S2" which maximizes external bilateral creditors, and deepens the domestic capital market. This strategy stands out among all other strategies considered in the MTDS analysis, because it is feasible and implies low costs to the treasury. It assumes a higher external debt share to finance the deficit with special emphasis on non-traditional bilateral creditors, which will result into a high external average time to maturity (15.5 years against 15.4 and 15.2 years for S1 and S3 respectively) by end June 2024. Short-term domestic notes are not favored in this strategy, which reduces the refinancing risk of debt maturing in the coming year, but increases the cost of domestic borrowing. However, though S2 matches expected debt strategy targets, it may be subject to alternative macroeconomic and market performance which could affect its implementation, most specifically a higher than expected depreciation which would imply high debt

1. INTRODUCTION.

Guided by the macro-fiscal forecast, The Medium-Term Debt Management Strategy (MTDS) for FY2021/22 -2023/24 will assess the relative costs and risks of the debt portfolio relative to established benchmarks and will identify the optimal strategy consistent with the Government's cost-risk preferences.

With the International Monetary Fund projecting global growth at 6 percent in 2021, Rwanda's MTDS has been designed in a conservative manner to be able to absorb any pitfall that could arise out of the uncertainty surrounding combating the covid-19. However, with Rwanda embracing the vaccination program and prioritizing the frontline workers, the Government projects an upward growth of 5.1 and 6.8 percent in 2021 and 2022 respectively in addition to the increase in exports and revenues by 20.3 percent and 15.9 percent in 2021 respectively.

As a linkage between borrowing and macroeconomic policy, the MTDS is designed to set out the best strategy, which will take into account a longer than expected economic recovery from the impact of the COVID-19 pandemic

2. OBJECTIVES AND SCOPE OF THE FY2021/22 -2023/24-2024-25 STRATEGY.

The objectives of debt management in Rwanda has always been:

(i) To ensure that the Government's financing needs and settling of obligations meet the medium term objective of low borrowing costs
(ii) To keep a prudent risk exposure
(iii) To promote an active domestic debt market

The above objectives are elaborated in the January 2016 Ministerial order establishing revised financial regulations in its article 49.

3. DEVELOPMENT OF THE DEBT PORTFOLIO.

Public and Publicly guaranteed debt in Rwanda is projected to be at Frw 7687.3 billion as of end June 2021, or 76.2 percent of GDP compared to 63.9 percent in June 2020. This increase in public debt is attributed from external loans (58.8 percent of GDP) contracted to fund the effects of Covid-19 pandemic.

Rwanda's External Public debt is composed of development and budget loans from 17 development partners. Made of 7 bilateral, 9 multilateral donors and some commercial loans supporting various sectors of the economy such as Construction, Transport and Communication, Health, Energy, Agricultural and Rural development, Education and Human Resources Development. Most specifically, the year 2020 and 2021, are characterized by new development partners who have expressed their willingness to support Rwanda in fight against COVID-19, the purchase of vaccines, and the economic recovery.

Domestic Public debt is composed of loans and debt securities owed by Government of Rwanda to national and nonresidents.

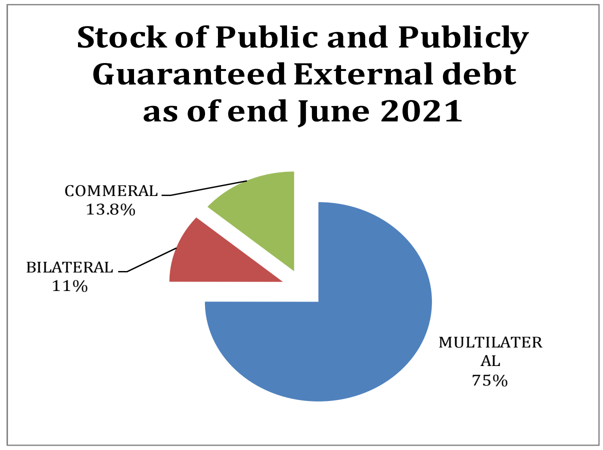
3.1 EXTERNAL PUBLIC AND PUBLICLY GUARANTEED DEBT PORTFOLIO ANALYSIS

3.1.1. STRUCTURE OF PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT.

Rwanda's total external public debt is estimated at Frw 5933.2 billion at the end of June 2021 from Frw 4640.3 billion at the end of June 2020, an increase of 27.9% explained by a high disbursement from multilateral institutions.

The external debt stock is currently dominated by the multilateral debt, which comprises 75 percent followed by Commercial debt with 13.8 percent and bilateral debt with 11.2 percent of the total stock.

FIGURE 1: EXTERNAL PUBLIC DEBT COMPOSITION BY CREDITOR PROJECTED FOR END JUNE 2021



***S*OURCE: MINECOFIN, JUNE 2021.**

3.1.2. EVOLUTION OF EXTERNAL PUBLIC AND PUBLICLY GUARANTEED DEBT STOCK BY CREDITOR TYPE.

Over the past year, Rwanda's public external debt stock (incl. guaranteed debt) has increased by 9.4 percent of GDP. This was mainly attributed to: (1) new loans contracted for the fight against COVID -19 pandemic impact (2) low performance of overall macroeconomic indicators (Lower than expected nominal GDP, higher than expected exchange rate depreciation). However, Out of the total external debt stock, the largest portion is made of concessional loans with 86.2 percent against commercial loans of 13.8 percent.

The concessional loan portion has increased by 1.6 percent compared the same period last year, while commercial loans have reduced by 1.6 percent compared to last fiscal year.

The increase in concessional loans continue to be driven by World Bank loans through the IDA window, for sectors like Infrastructure, education and agriculture. This is followed by African Development Bank (AfDB) loans through ADF window for the Infrastructure sector mainly energy.

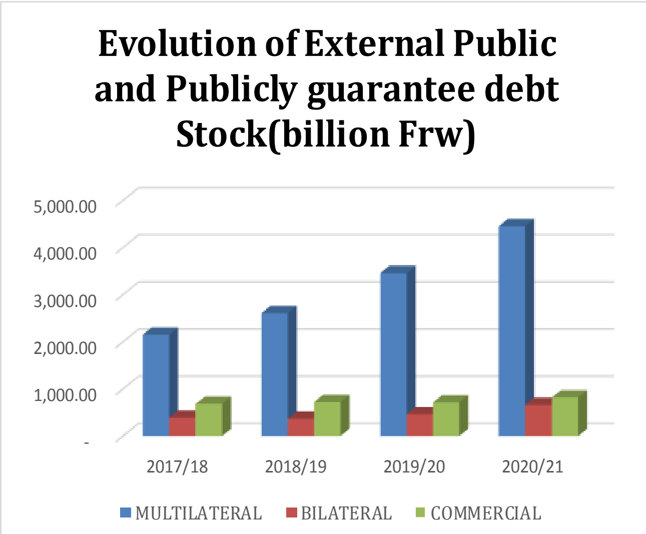
The table below shows how government borrowing needs continue to be dominated by multilateral creditors mostly IDA and AFDB, given the borrowing conditions, which are more competitive. Meanwhile, bilateral creditors like JICA, EFD are also increasing significantly in the portfolio.

Table 1: External Creditors and Sectors of Financing (USD Million)

Creditor	Sector	FY 19/20	FY20/21
IDA	Education	84.4	249.7
	Social	66.3	76.9
	Infrastructure	287.3	54.9
AFDB	Infrastructure	144.4	124.2
	Social	24.3	104.2

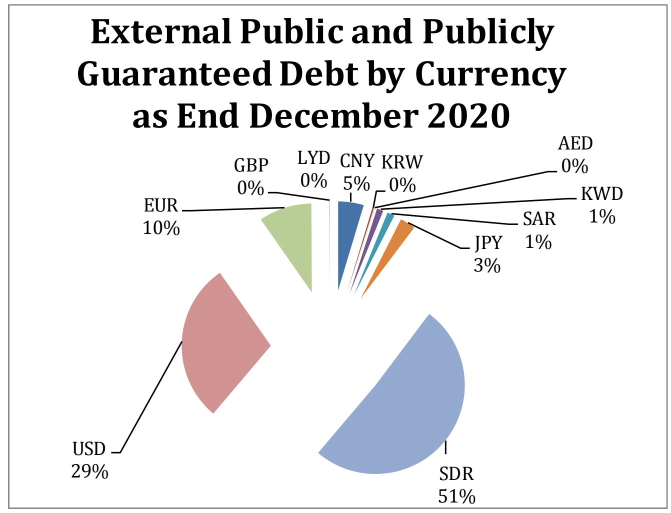
***S*OURCE: MINECOFIN, JUNE 2021**

Figure 2: External Public Debt composition by Creditor as at End June 2019/20-2020/21



*S*OURCE: MINECOFIN, JUNE 2021

Figure 3: External Public Debt composition by Currency as at End December 2020



*S*ource: MINECOFIN, DECEMBER 2020.

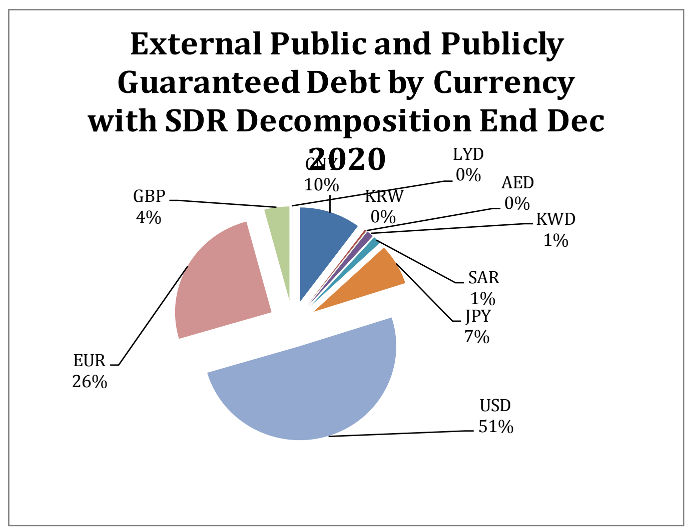
3.1.3. EXTERNAL PUBLIC AND PUBLICLY GUARANTEED DEBT COMPOSITION BY CURRENCY

In terms of currency, 50.9 percent of total Public and Publicly Guaranteed external outstanding debt was denominated in SDR as of the end of December 2020.

When SDR is split in its different currencies composition (USD, EUR, GBP, CNY, and JPY), we realize that there is a predominance of USD and EUR, which represent 50.4 percent and 25.3 percent of the total Public and Publicly Guaranteed external outstanding debt respectively as of End December 2020.

This suggests that the country's debt portfolio is more exposed to USD and EUR fluctuations. need more local currency in our treasury account to be able to repay our debt.

Figure 4: External public Debt composition by Currency with SDR decomposition as at End December 2020

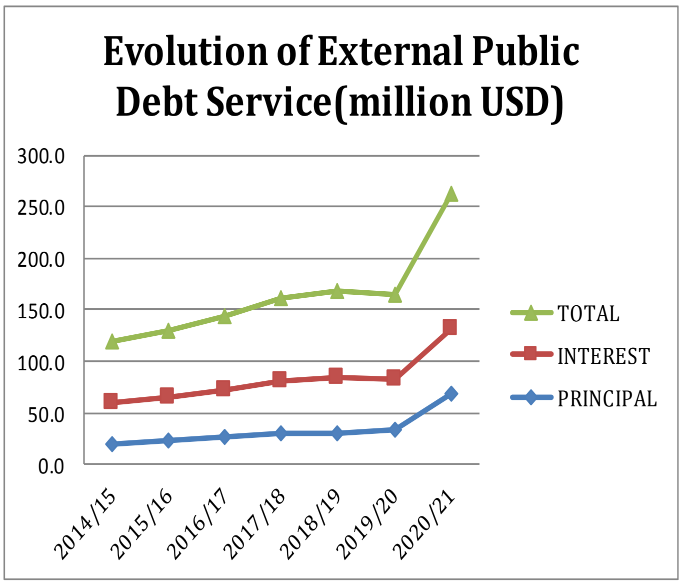


*S*OURCE: MINECOFIN, DECEMBER 2020.

3.1.4. EVOLUTION OF EXTERNAL PUBLIC DEBT SERVICE.

Central Government External Public Debt Service for the FY 2020/21 is expected to increase by 55.8 percent compared to the pre-COVID-19 period (FY 18/19), mainly as a result of expiring grace periods for some loans, and the depreciation of the Rwandan franc vis-à-vis foreign currencies.

Figure 5: Evolution of External debt Service (USD Million)



***S*OURCE: MINECOFIN, JUNE 2021**

3.2. DOMESTIC PUBLIC AND PUBLICLY GUARANTEED DEBT PORTFOLIO ANALYSIS

3.2.1. EVOLUTION OF DOMESTIC PUBLIC AND PUBLICLY GUARANTEED DEBT STOCK

Domestic public and publicly guaranteed debt is also expected to increase by 31.4 percent from Frw 1305.6 billion before Covid-19 pandemic as of end June 2020 to 1754.0 as end June 2021.

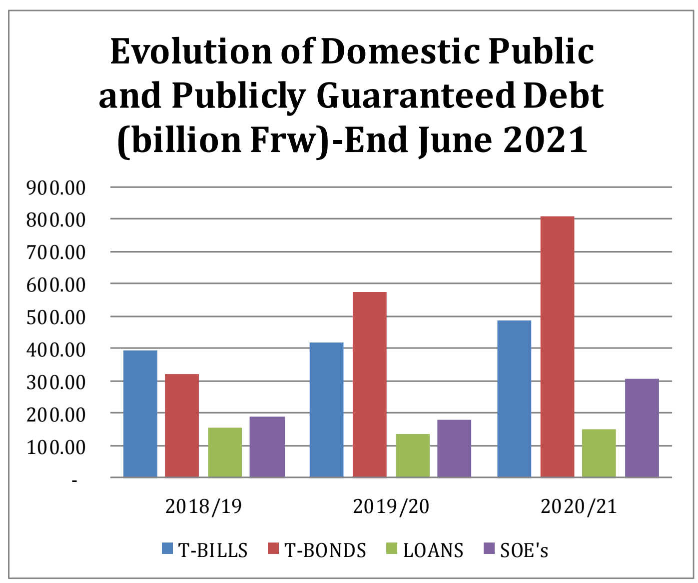
This is largely due to government response to COVID-19 pandemic, development of the domestic capital market, and the need to finance development projects in line with National Strategy for Transformation 1 (NST1) program.

Over the last two years (FY 18/19 to FY 20/21), domestic public and publicly guaranteed debt is projected to increase by 66.3 percent, of which increase of 81.7 percent is for debt securities (T-bills and T-bonds), and 34.1 percent for corporate loans and guaranteed debt.

In terms of central Government domestic debt compositions between short, medium and long-term maturity as of end June 2021, there is a predominance of long-term debt (66.3 percent against 33.7 percent) which is in line with Government debt policy of issuing long term securities in replacement of short in order to lengthen the maturity profile of the debt portfolio.

The graph below shows the comparison between the projected domestic debt level as of end June 2021, compared to the pre-pandemic period.

Figure 6: Domestic Public and Publicly Guaranteed Debt (billion Frw) _End June 2021

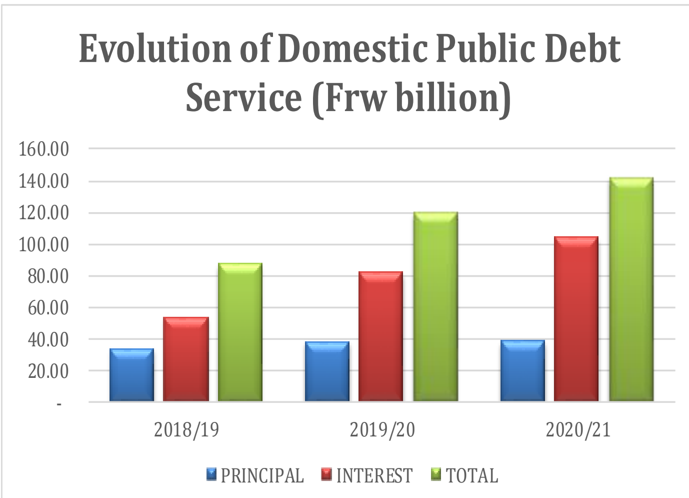


***S*OURCE: MINECOFIN, JUNE 2021.**

3.2.2. EVOLUTION OF PUBLIC DOMESTIC DEBT SERVICE.

The Central Government domestic debt service has increased by 37.6 percent from Frw 87.2 billion in the FY 18/19 to Frw 119.9 billion while over the past two years it has increased by 63.0 percent as a result of higher new issuance, and reopening of domestic securities to cover higher government financing needs.

Figure 7: Public Domestic Debt Service FY 18/19-FY 20/21



***S*OURCE: MINECOFIN, JUNE 2021**

4. DEBT SUSTAINABILITY ANALYSIS, MACRO AND MARKET ENVIRONMENT

4.1. DEBT SUSTAINABILITY ANALYSIS.

A. BACKGROUND.

The debt sustainability analysis assesses the levels of government debt over the medium term and its ability to service that debt without disrupting its budget implementation.

The latest debt sustainability analysis reveals that Rwanda's public debt levels will remain sustainable despite the shift from low to moderate risk of external and overall debt distress. The change in the risk of debt distress status is mainly attributed to the negative effect of the COVID-19 pandemic on growth, exports, and revenues, which have sharply raise external and domestic financing needs in 2020.

B. DEBT ASSUMPTIONS.

Rwanda's current DSA covers external and domestic central government debt and State Owned Enterprises guaranteed external and domestic loans.

Going forward, the assessment assumes that external financing will remain supported by official bilateral and multilateral partners in the medium term, but gradually shift to more market-based financing, as income of the economy levels rise. Furthermore, as domestic capital market develops the debt sustainability framework assumes that the financing structure will change from a predominance of external debt to a predominance of domestic debt. Overall, it is important to mention that government will keep prioritizing concessional funding in its borrowing plan, and ensure it is cost effective.

C. MACRO ASSUMPTIONS.

Economic Growth:

In order to contain the spread of the pandemic, the Government implemented some restrictive measures that led to an annual contraction of 3.4 percent in GDP growth for the year 2020 compared to a growth of 9.5 percent in 2019. Activities related to hospitality industry as well as Education continued to be the most affected. Services contributed 46% to GDP, Agriculture contributed 26% while Industry contributed 19%.

However, 2021 is expected to be characterized by a gradual recovery in economic activities, which will continue over the medium –term. Real GDP is projected to grow by 5.1 percent in 2021, 7.0 percent in 2022 and on average by 7.8 percent in 2023 and 2024, as government continue to implement the vaccine rollout throughout the country, and to support small and medium businesses to recover from the impact of the pandemic.

Fiscal Sector:

The overall fiscal deficit is projected to rise in FY 21/22 (8.7 percent of GDP) then decline to 7.5 per cent of GDP in 2022/23 and 5.1 per cent of GDP in 2023/24.

During the fiscal year 2021/22, domestic revenues will amount to 1,993.0 billion Frw of which 1,717.2 billion FRW from tax revenue. External grants are estimated at 612.2 billion FRW whilst external loans of 651.5 billion FRW is envisage to accrual to the Treasury.

Fiscal policies in the medium term will continue to be largely influenced by the COVID-19 pandemic through the impact on the economy (increases in spending, declines in revenues and in output growth) and the Government's measures to support the recovery (COVID-19 responses, fiscal injections etc.).

As a result of the COVID-19 pandemic, the Government is facing fiscal outlook of large deficits and increasing levels of debt, which call for fiscal consolidation starting from FY 2022/23 to avoid rapid debt accumulation in the future that can lead to a debt become unsustainable.

External Sector:

The current account deficit is expected to widen temporarily in 2021 by 15.8 percent of GDP driven by a pickup in imports, before starting to decline in the medium term. This will be mainly due to high expected imports of capital and intermediate goods as economic activity resume. Exports are expected to grow by 22.6 percent as result of both price and volume effect.

Monetary Sector:

The central bank policy is to allow the exchange rate be driven by the market which enables to adjust freely to the shocks of external trade balance deficit. In 2021, exchange rate pressures will be relatively moderate considering the Balance of Payments forecast.

The table below summarizes the macroeconomic assumptions used in the debt sustainability analysis framework:

Table 2: Macroeconomic Indicators in the Medium Term

	2021	*2022*	*2023*	*2024*	*M&LT AVERAGE*
	FY 20/21	*FY 21/22*	*FY 22/23*	*FY 23/24*	
KEY MACRO PROJECTIONS (Percent of GDP unless otherwise indicated)					
Real GDP (CY)	5.1%	7.0%	8.1%	7.5%	6.9%
Revenues and Grants (FY)	25.0	24.2	24.4	24.6	24.6
Total Expenditures (FY)	34.2	32.8	32.0	29.7	32.2
Overall Deficit (%GDP) FY	9.2	8.7	7.5	5.1	7.6
Exports of goods and services (CY)	22.3	25.7	27.7	29.5	26.3
Memorandum Items					
Exchange rate EOP (Depreciation)	6.5%	6.0%	5.5%	4.0%	
Norminal GDP (Billion Frw) FY	10,092	11,105	12,617	14,335	

SOURCE: MINECOFIN, 2021

D. DEBT SUSTAINABILITY RESULTS.

The results of the debt sustainability analysis reveal that Rwanda's debt risk to default on its obligations remain moderate, as the country recovers from the impact of COVID-19. The present value of external debt-to-GDP will reach 37.4 percent at the end of 2021, which represents an increase of 4.7 percent compared to the end of 2020. The results of the analysis also show that the main risk associated with Rwanda's debt portfolio is the approaching repayment of the 2023 Eurobond of $400 million, for which the government is currently exploring options that will help to mitigate the refinancing risk of a bullet payment in 2023. Finally, the debt sustainability analysis suggest what Government will maintain as a policy to ensure that debt levels remain manageable:

1. Prioritize concessional funding in its borrowing plan (with lower and fixed interest rate, longer maturity and grace period) while taking into account the currency denomination.

2. To consider non-concessional borrowing only : (i) where grants or concessional resources are unavailable, (ii) where the project generates a high economic rate of return (ERR), (iii) and where the borrowing do not result in a significant and persistent increase in debt vulnerabilities.

3. To develop a domestic capital market that can support the needs of the Rwandan economy while it favors the issuance of long-term securities in replacement of short-term securities in order to increase the maturity profile of the domestic debt portfolio.

Table 3: Debt Sustainability Indicators, per March 2021 DSA

Indicators	**2020**	**2021**	**2022**	**2023**	**2024**	***Threshold***
PV Debt to GDP	32.7	37.4	40.4	42.7	43.9	***55***
PV Debt to exports	175.3	167.5	156.9	153.9	148.6	***240***
PV Debt service to Exports	5.0	25.6	6.5	11.0	6.9	***21***
PV Debt service to Revenues	5.0	30.1	8.9	15.9	10.8	***23***

SOURCE: MINECOFIN, JUNE 2021

4.2.MARKET ENVIRONMENT IN THE MEDIUM TERM.

While assessing the best borrowing option for the government it is important to review the market environment (interest rate, and exchange rate developments), in the domestic and international financial market.

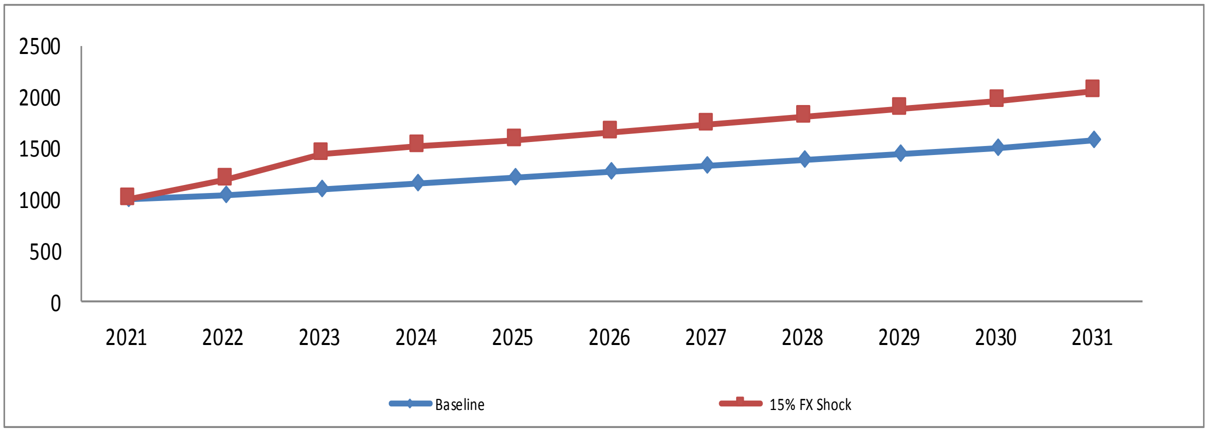
A. Exchange Rate Developments in the medium term.

During calendar year 2020, the Rwandan franc depreciated by 5.4 percent as a result of the rise in foreign currency demand especially in the second half of the year, to support the resumption of economic activities. This is the fastest depreciation rate since 2017. Going forward the National Bank of Rwanda continue to implement an accommodative monetary policy to support the economy during and after the COVID-19 period. In the medium term, Exchange rate policies will focus on a market driven exchange rate, which enables to adjust freely the shocks of external trade balance deficit.

For the purpose of government borrowing strategy going forward two possible depreciation shock are assumed, in order to assess the impact that a faster than anticipated exchange rate depreciation could have on the selected borrowing strategy by GoR:

Scenario 1: a depreciation shock, of 10 percent.
Scenario 2: a depreciation shock of 15 percent on top of the baseline depreciation rate of 3.1 percent.

Figure 8: Exchange rate projection, Baseline and Shocks (15%)



SOURCE: MINECOFIN, JUNE 2021

B. Interest Rate Developments in the medium term.

Over the past years interest rate for domestic securities has been stable given the decision of the Central Bank Monetary Policy Committee (MPC) that revised down the central bank rate from 6.0 percent to 5.0 percent then to 4.5 percent; this is also expected going forward to have an implication on interest rates of government securities, (T-bills and T-bonds).
However, the interest rate for external debt portfolio is increasing with new commercial instruments being introduced by multilateral donors like IDA Scale up, ADB Window etc.

The table below sets out the trend observed on the interest rates from June 2015 to October 2019.

Table 4: Interest Rate 2015-2019

	Jun-15	Jun-1	Dec-16	Jun-17	Dec-17	Apr-18	May-19	Oct-19
Key Repo Rate (%)	6.5	6.5	6.24	6.0	5.5	5.5	5.5	5.0
T-Bills Rate (Weighted avg %)	4.1	7.3	9.0	8.8	7.1	5.8	6.1	6.05
Deposit Rate (%)	8.8	7.9	8.0	7.9	8.7	8.2	7.8	7.8
Lending Rate (%)	17.3	17.0	17.2	16.8	17.2	16.8	16.9	16.2

SOURCE: BNR, JUNE 2021

5. ANALYSIS OF COSTS AND RISKS IN THE PUBLIC DEBT PORTFOLIO.

Another important aspect to consider before a borrowing strategy is selected is to assess the costs and risks associated with the current debt portfolio.

Table 4 below presents standard risks indicators, which are normally included in the MTDS framework. This includes interest rate risks, exchange rate risks, and refinancing risks.

Table 5: Cost and Risk Indicators for Existing Debt as at end-June 2021

		June, 2020			June, 2021			
Risk Indicators		External Debt	Domestic Debt	Total Debt	External Debt	Domestic Debt	Total Debt	Benchmarks
Cost of debt	Interest payment as % GDP	1.3	1.3	2.7	1.0	2.1	3.1	Max.5.0
	Weighted Av. IR (%)	2.7	12.8	4.5	1.7	14.5	4.2	
Refinancing risk	ATM (years)	13.5	2.8	11.6	14.6	3.6	12.4	Min. 10
	Debt maturing in 1yr (% of total	5.4	51.1	13.6	3.3	40.6	10.6	Max. 15.0
	Debt maturing in 1yr (% of GDP	2.6	5.4	8.0	1.9	5.8	7.7	
Interest rate risk	ATR (years)	12.7	2.8	10.9	13.9	3.6	11.9	Min. 10
	Debt refixing in 1yr (% of total)	15.3	51.1	21.7	10.1	40.6	16.0	Max. 25
	Fixed rate debt (% of total)	86.3	84.3	86.0	91.7	92.6	91.9	Min. 85
FX risk	FX debt (% of total debt)			82.1			80.5	Max. 90
	ST FX debt (% of reserves)			20.3			11.2	Max. 15

SOURCE: MINECOFIN, Medium-Term Debt Strategy Tool, JUNE 2021

5.1.ANALYSIS OF COSTS OF EXISTING PUBLIC DEBT PORTFOLIO.

As of End-June 2021, total public debt interest payments as a share of GDP increased by 0.43 percent compared to end June 2020 from 2.7 percent of GDP to 3.1 percent of GDP. This increase is mainly attributed to domestic debt interest payments.

Domestic debt interest payments account for 2.1 percent of GDP and have increased from 1.3 percent of GDP at end- June 2020 as a result of higher new issuance and reopenings of treasury bills and treasury bonds to cater for the Government budget needs but also to support the development of the domestic capital market. In addition, domestic interest payments have increased following the restructuring of external debt owned by State owned enterprises into domestic debts.

On the other hand, external interest payments have reduced by 0.3 percent of GDP, thanks to the Government liability management strategy where expensive foreign debts were refinanced with domestic debts. This has significantly improved the implied weighted average interest rate by 0.3% lower than the previous year.

5.2. ANALYSIS OF RISKS OF EXISTING PUBLIC DEBT PORTFOLIO

5.2.1. REFINANCING RISK.

The key indicators for refinancing risk are Debt maturing in one year as a percentage of total debt, Average Time to Maturity (ATM) and Debt maturing in one year as a percent of GDP.

The debt maturing in one year is projected to reduce by 0.3 percent of GDP. This is a positive development, which is in line with Government plan of issuing long-term domestic debt securities in replacement of short-term domestic debt securities.

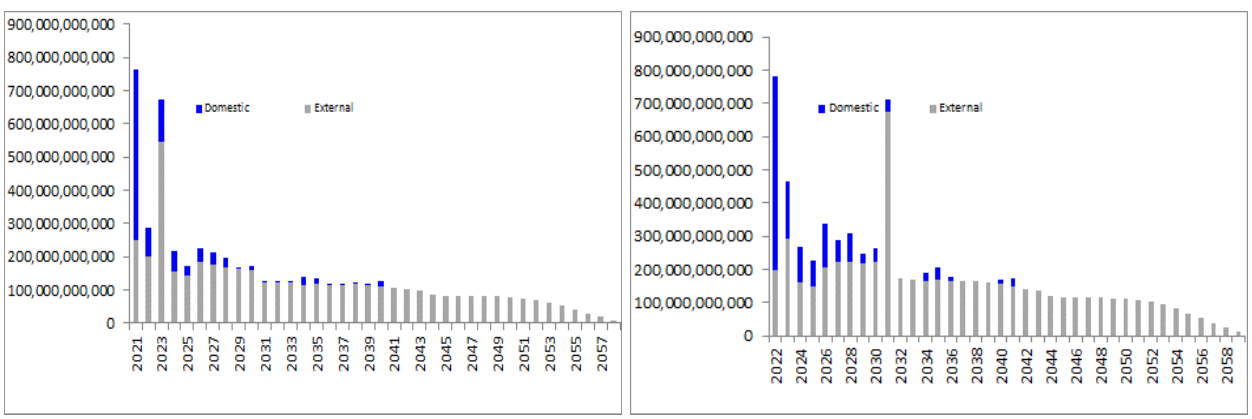
The average time to maturity (ATM) of the entire portfolio is projected as at end June 2021 to reach the level of 12.4 years from the level of 11.6 years the previous year due to the settlement of external debts as well as Government objectives to lengthen the maturity profile of the total public debt portfolio with contraction and issuance of long term debt both external and domestic.
The Figure 10 describes the magnitude of the total principal external and domestic debt payments associated with the current debt portfolio.

It shows a smooth redemption profile of the existing debt portfolio compared to the previous year FY 2019/20.

The total repayment for the next FY 2021/22 amounts to Frw 779.3 billion higher than 762.8 billion that was projected for the same previous year. Domestic debt will account for Frw 583.0 billion or 74.8 percent of the total amortization profile, while external debt will amount to 25.2 percent.

Figure 9: Redemption Profile, End-FY 2020/21 (Frw billion)

Redemption Profile End June, 2020 | *Redemption Profile End June, 2021*



SOURCE: MINECOFIN, MEDIUM-TERM DEBT STRATEGY TOOL, JUNE 2020 and 2021

5.2.2. INTEREST RATE RISK.

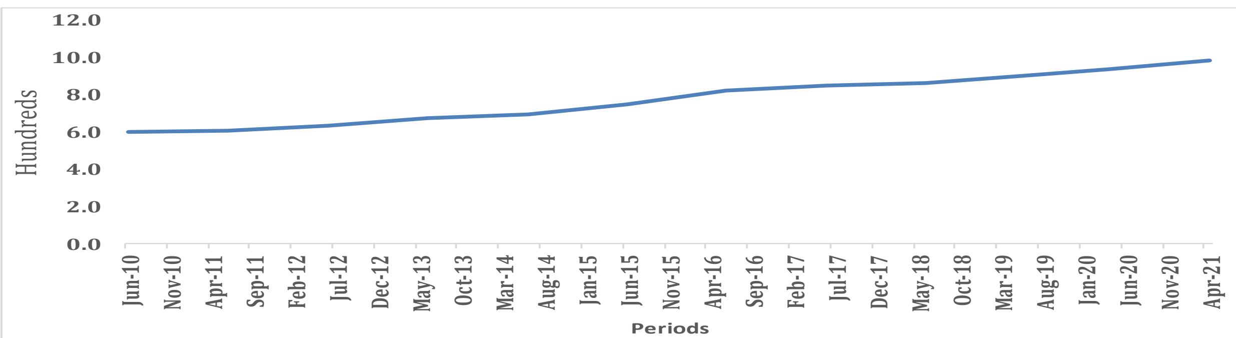
The average time to re-fixing (ATR) is closely linked to the average time to maturity (ATM) and similarly it shows an improvement from 10.9 years in June 2020 to 11.9 years in June 2021. However, the ATR reflect a lower number of years compared to the ATM because it considers total debt repayments (both fixed and variable) while ATR considers future total repayments (notably variable short-term domestic debts) to be re-fixed within the first year of projection.

In addition, this increase is mainly attributed to the settlement of expensive variable foreign debts using fixed debt instrument and the Government borrowing strategy during the FY 20/21 designed to prioritize fixed rate debts over variable rate debts.

5.2.3. EXCHANGE RATE RISK.

By end June 2021, foreign currency denominated debt will still dominate the overall public debt portfolio. Foreign debt as percentage of total decreased to 80.5 percent as end June 2021 compared to 82.5 percent in June 2020, indicating a high increase in share of domestic debt in the public debt portfolio as a result of liability management for the repayment of external debts using domestic debt instruments. However, the continuous depreciation of the local currency against foreign currencies may pause significant exchange rate risks going forward.

Figure 10: FRW/USD Foreign Currency trends From June 2010 to April 2021



SOURCE: NATIONAL BANK OF RWANDA, JUNE 2021

5.3. COST AND RISK INDICATORS EVALUATION AGAINST 2018/19 BENCHMARKS.

The table 4 shows comparison of the current cost and risk indicators as end June2021 against the medium term benchmarks set during the FY 2018/2019, in order assess the achievement of each cost and risk indicator.

Rwanda's overall medium term cost and risk indicators, remains stable and well below the benchmarks set during the last Fiscal year, despite the increase of debt stock both in nominal and relative terms. This is explained by the predominance of concessional external loans whose characteristics are fixed with low interest rates, long grace periods and maturities.

The refinancing risks are still below the benchmarks with the Average time to maturity (ATM) of 12.6 years lower than the medium term target of 10 years. Even though, the debt maturing in 1 year is still higher with 10.6 years but still far from the medium term benchmark of 15 years.

On the other side, interest rate risks and Exchange rate risks are still below the benchmarks with the Average time to Refixing (ATR) that stood at 11.9 years and foreign debt as percentage of total debt that stood at 80.5 percent of total as of end June 2021 against respective benchmarks of 10 years and 90 percent.

6. FINANCING ASSUMPTIONS AND STRATEGY SELECTION.

6.1. FINANCING ASSUMPTION.

External source of funds (largely concessional), will continue to be prioritized among different financing instruments available to the Government. Those includes multilateral and bilateral lenders. But also non traditional lenders like JICA and EXIM KOREA who have extremely favorable terms and more recently lenders like the European Investment Bank (EIB), the Asian Investment Bank (AIIB), the IDA SUF and Agence Française de Développement (AFD). However, this will gradually shift to more market-based financing, as income of the economy levels rise.

With regards to domestic financing structure, the government will continue to use domestic debt securities, as the main financing instrument, while focusing on mitigating the refinancing risk, but also develop the domestic capital market. The main holders of Government domestic securities includes Commercial Banks, non-bank institutions, insurance companies, pension funds and retailers (both foreign and local).

The table below sets out the type of loans/securities considered for the design of three alternative borrowing strategies.

Table 6: Financing Assumptions

Loan Type / Name	Fix / Var	Maturity (y)	Grace (y)	Currency Type	Scope
Concessional					
1. Multilateral					
o/w IDA	Fix	38	6	USD	Although tied to specific projects, and a number of conditionality attached to it, this instrument has the most favorable terms with interest rate below 2 percent. However, nontraditional lender like AIB have variable instruments.
ADF	Fix	40.0	10.0	USD	
AIB	Var	35.0	10.0	USD	
2. Bilateral					
o/w JICA_EXIMKOREA	Fix	40.0	10.0	USD	
AFD	Var	20.0	6.0	EUR	
Non- Concessional					
1.debt securities					
o/w EURO BOND	Fix	10.0	9.0	USD	This instrument is costly, but not tied to specific projects. The interest rate is market based and takes into account the country's credit worthiness rate. GoR would only consider this instrument to refinance expensive loan and/or high revenue generating projects.
TBILLS< 1 Year	Fix	1.0	0.0	Frw	This instrument is costly, but not exposed to forex risk and contributes to domestic capital market development.
TBONDS > 1 Year	Fix	4.0	3.0	Frw	
2. Guarantees					Sovereign guarantees, may involve fiscal and debt risks, but could be used to support government strategic projects, which are profitable for the Economy.
o/w EXT GUARANTEES	Var	8.0	2.0	USD	
DOM GUARANTEES	Fix	8.2	2.0	Frw	

SOURCE: MINECOFIN, JUNE 2021

6.2. STRATEGY DESIGN AND DESCRIPTION OF COSTS AND RISKS ASSOCIATED.

The analysis of the current debt portfolio suggest three options in terms of borrowing instruments that the Government of Rwanda can consider to (i) ensure that the Government's financing needs and settling of obligations meet the medium term objective of low borrowing costs (ii) keep a prudent risk exposure, (iii) promote an active domestic debt market.

Strategy 1 (S1): "Status quo:

The status quo as its name indicate is unchanged from the current debt borrowing plan that GoR has been implementing for number of years.

It is essentially composed of external concessional financing (55.8 % for the first year of the strategy, gradually increasing to 78 percent and 84.6 percent of new debt for the FY 2022/23 and FY 2023/24 respectively).

Domestic borrowing represents a significantly higher share compared to previous fiscal years (44.2 percent against 29.2 percent last year).

Cost and risk analysis of S1 reveals that it has a relatively high refinancing risk compared to S2 but lower to S3. This is mainly attributed to the level of treasury bills) which is higher compared to S2.

Strategy 2 (S2):

This strategy is designed to maximize external bilateral concessional while develop domestic capital market.

This strategy is the cheapest, as it assumes a larger share of concessional external debt compared to S1 and S3 (83.0 percent and 94.6 percent of new debt in the FY 2022/23 and FY 2023/24). This is addition, to the change in the composition of external debt disbursements in favor of bilateral non-traditional lenders like JICA and Exim Korea, with extremely favorable financing terms.

The volume and composition effect of S2 design led to lower refinancing risk with portfolio longer Average Time to Maturity (ATM) of 14.7 years compared to S1 (14.6 years) and S3 (14.3 years). However, on the other hand dominance of more external debts result to higher forex risk exposure.

Strategy 3 (S3):

This strategy intend to develop the domestic debt market with assumption of a larger share of local currency bond in replacement of treasury bills (no issuance assumed in this strategy) in order to deepen the domestic debt market. This makes this strategy, the highest costly of all strategies.

The table below sets out the cost and risks indicators associated to the design of the above three strategies.

Table 10: Cost and Risk Analysis of Strategies as of End June 2024

Risk Indicators		2021	As at end 2024		
		Current	S1	S2	S3
Interest payment as % of GDP		3.1	3.4	3.4	3.7
Implied interest rate (%)		4.2	4.9	4.8	5.2
Refinancing risk	Debt maturing in 1yr (% of total)	10.6	7.6	5.3	8.6
	Debt maturing in 1yr (% of GDP)	7.7	2.0	1.9	2.1
	ATM External Portfolio (years)	14.6	15.5	15.5	15.2
	ATM Domestic Portfolio (years)	3.6	7.1	7.4	9.2
	ATM Total Portfolio (years)	12.4	14.6	14.7	14.3
Interest rate risk	ATR (years)	11.9	13.2	13.5	13.0
	Debt refixing in 1yr (% of total)	16.0	13.3	12.2	14.9
	Fixed rate debt (% of total)	91.9	90.1	91.9	91.5
FX risk	FX debt as % of total	80.5	84.9	86.3	81.2
	ST FX debt as % of reserves	11.2	9.1	9.1	9.1

SOURCE: MINECOFIN, MEDIUM-TERM DEBT STRATEGY TOOL, JUNE 2021.

6.3. STRATEGY SELECTION.

The choice of the best strategy will be guided by the overall objective of cost-risk minimization of new contracted and guaranteed loans, while maintaining sustainable levels of debt. The best strategy shall also support monetary policies objectives of maintaining a stable inflation while protecting the economy against external shocks.

In this perspective, S2 stands out among all designed strategies, as it is the cheapest and more realistic option to implement. S2 also assumes lower new issuance of treasury bills as an effort to reduce the amount of debt maturing in one year and achieve a smoother repayment profile. S1 is similar to S2, in terms of cost effectiveness but with higher interest rate risks. On the other hand, S3 implementation may not be logistically feasible, given the high cost level that it may have on the treasury.

The table below shows set of medium term targets that were designed by the Debt Directorate, to monitor the implementation of S2.

Table 8: Benchmarks-End June 2024

Risk Indicators		2021	Benchmark End June 2024
Nominal debt as % of GDP		76.2	Max. 80
Present value debt as % of GDP		37.4	Less than 45
Interest payment as % of GDP		3.1	Max.5.0
Refinancing risk	Debt maturing in 1yr (% of total)	10.6	Max. 15.0
	ATM External Portfolio (years)	14.6	Min. 12
	ATM Domestic Portfolio (years)	3.6	Min. 2.5
	ATM Total Portfolio (years)	12.6	Min. 10
Interest rate risk	ATR (years)	11.9	Min. 10
	Debt refixing in 1yr (% of total)	16	Max. 25
	Fixed rate debt (% of total)	91.9	Min. 85
FX risk	FX debt as % of total	80.5	Max. 90
	ST FX debt as % of reserves	11.2	Max. 15

***S*OURCE: MINECOFIN, MEDIUM-TERM DEBT STRATEGY TOOL, JUNE 2021**

6.4. THREATS TO STRATEGY IMPLEMENTATION.

The main threats to the implementation of the selected strategy amid COVID-19 pandemic, will be primarily connected with:

1. A weaker than expected macroeconomic performance with a lower GDP growth, a low export performance, and a higher-than-expected depreciation of the Rwf against major currencies (US dollar primarily). This could adversely impact on the financing needs, contribute to a depletion of existing reserves buffers and would raise the cost of servicing the existing and forthcoming external debt stock.

2. Liquidity constraints on local currency market may be unfavorable to further develop the domestic market for Government securities.

3. The execution of guarantees granted to Public enterprises, having major fiscal risk that government owned enterprises may default on their debt obligations

6.3. RECOMMENDATION & STRATEGY IMPLEMENTATION.

The consultative committee on debt management (DMC) will continue to act as a forum for the exchange of opinions on the position and prospects of financial markets, and the Treasury's debt management and borrowing plans, both domestically and abroad.

The committee will propose a monthly issuance plan for the FY 2021-22 that will be consistent with the selected strategy S2, and submits the proposals to the Treasury Management Committee. Once approved, the issuance plan will be communicated to the market. The DMC will meet once every quarter or more frequently as needed to monitor the implementation of the issuance plan and propose amendments as necessary.

The government will continue to favor external concessional loans while non-concessional loans will be for profitable and forex generating projects. Hence, the Debt Directorate is focused on helping reveal the real cost of new borrowing proposals using Cost Benefit Analysis methodology.

With regards to domestic debt, the government will continue working closely with the National Bank of Rwanda to improve awareness and access to primary market of government securities in order to ensure well-functioning primary market.

The Central Bank will continue to act as front office in implementing the government domestic debt issuance plan, while decision on the final market results or cut-off rates will be approved after prior communication with the Debt Directorate.

In the medium term, BNR in collaboration with the Ministry of Finance and other stakeholders plans to put in place the Market Makers framework to boost liquidity in the secondary market and facilitate the price discovery mechanism of government bonds in order to build a stable and dependable demand for government securities and broadening the customer base for bonds, thereby reducing the government's market and refinancing risk.

Table 9: Selected MTDS Macro-Market Indicators, FY 2021/22-2023/24

	FY 2021/2022	FY 2022/2023	FY 2023/2024
RWF UNITS			
Revenues and grants	2,686,878,133,212	3,080,886,144,642	3,533,481,230,651
Total primary expenditures	3,391,163,710,946	3,732,342,954,147	3,942,291,063,423
Total expenditures	3,647,782,016,469	4,031,551,380,990	4,263,990,691,616
Total interest expenditure	256,618,305,522	299,208,426,843	321,699,628,193
International reserves (USD million)	1,695,720,787	1,667,533,577	1,726,353,278
GDP	11,105,053,151,751	12,617,478,894,644	14,334,943,498,712
Baseline exchange rate, RWF per USD	1,035.42	1,097.39	1,154.69
Primary Deficit	704,285,577,735	651,456,809,505	408,809,832,772
Interest Payments	312,368,926,839	326,009,552,781	322,051,775,771
Interest on Existing Debt	312,368,926,839	326,009,552,781	322,051,775,771
Interest on New Debt	0	0	0
Amortization	785,510,201,520	493,836,469,013	293,043,990,315
Amortization on Existing Debt	785,510,201,520	493,836,469,013	293,043,990,315
Amortization on New Debt	0	0	0
Gross Financing Need	1,802,164,706,093	1,471,302,831,299	1,023,905,598,857
Gross Financing Need in USD millions	1,740,518,192.6	1,340,732,998.7	886,732,888.9
Gross Financing Need to GDP (%)	16.2	11.7	7.1
Primary Deficit (in % of GDP)	6.3	5.2	2.9
Fiscal Deficit (in % of GDP)	9.2	7.7	5.1

Table 10: Key Potential Sources of Funding and Financing Strategies

Instrument Nr.	Instrument Type / Name	Fix / Var	For PV calculation, apply discount rate?	Maturity (y)	Grace (y)	Currency Type	Currency (3-letter code)
USD_1	IDA	Fix	Yes	38	6	FX	USD
USD_2	ADF	Fix	Yes	40.0	10.0	FX	USD
USD_3	ARAB FUNDS	Fix	Yes	31.0	10.0	FX	USD
USD_4	EURO BOND	Fix	No	10.0	9.0	FX	USD
USD_5	ADB_IBRD	Var	Yes	26.0	15.0	FX	USD
USD_6	CHINA_INDIA	Fix	Yes	23.0	5.0	FX	USD
USD_7	JICA_EXIMKOREA	Fix	Yes	33.0	10.0	FX	USD
RWF_8	TBILLS-6MONTHS	Var	No	0.5	0.0	DX	RWF
RWF_9	TBILLS-1 YEAR	Fix	No	1.0	0.0	DX	RWF
RWF_10	BNR / BK/ Corporate Loans	Fix	No	15.0	3.0	DX	RWF
RWF_11	TBONDS 7-10YRS	Fix	No	9.0	8.0	DX	RWF
RWF_12	TBONDS 15YRS PLUS	Fix	No	15.0	14.0	DX	RWF
RWF_13	TBONDS 3-5YRS	Fix	No	4.0	3.0	DX	RWF
USD_14	EXT GUARANTEES	Var	No	8.0	2.0	FX	USD
RWF_15	DOM GUARANTEES	Fix	No	8.2	2.0	DX	RWF

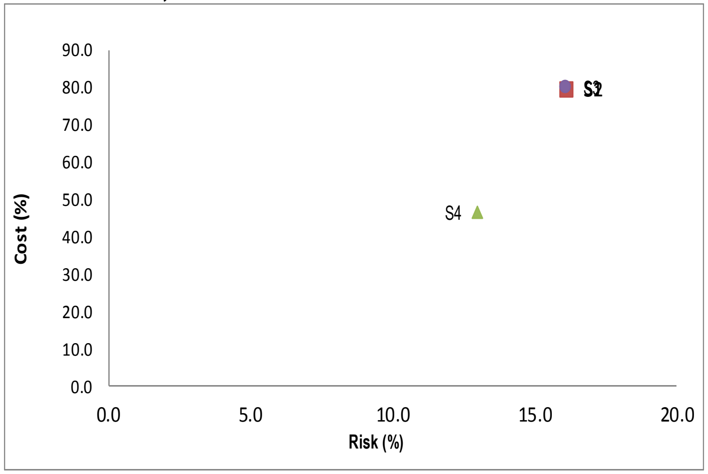
Table 11: New Gross Borrowing Debt by Instrument, as of end 2024 (Percentage & Millions USD)

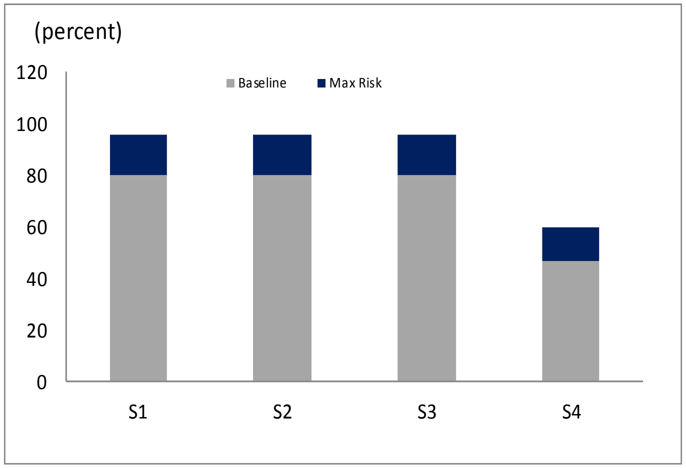
New debt		S1	S2	S3
IDA	FX	23%	24%	18%
ADF	FX	4%	4%	4%
ARAB FUNDS	FX	7%	9%	6%
EURO BOND	FX	11%	12%	10%
ADB_IBRD	FX	12%	9%	11%
CHINA_INDIA	FX	8%	10%	10%
JICA_EXIMKOREA	FX	6%	7%	5%
TBILLS-6MONTHS	DX	2%	1%	0%
TBILLS-1 YEAR	DX	5%	4%	4%
BNR / BK/ Corporate Loans	DX	0%	0%	0%
TBONDS 7-10YRS	DX	7%	7%	10%
TBONDS 15YRS PLUS	DX	10%	10%	21%
TBONDS 3-5YRS	DX	5%	3%	1%
EXT GUARANTEES	FX	0%	0%	0%
DOM GUARANTEES	DX	0%	0%	0%
External		71%	76%	63%
Domestic		29%	24%	37%
		100%	**100%**	**100%**

In millions of U!	FY2021	As at end FY2024		
Outstanding by	Current	S1	S2	S3
IDA	2,604,594,598	3,520,432,531	3,554,257,112	3,283,234,251
ADF	946,386,822	1,101,660,266	1,108,672,632	1,085,210,376
ARAB FUNDS	698,817,083	843,304,986	922,910,278	791,537,866
EURO BOND	660,000,000	980,881,507	1,007,972,802	919,451,166
ADB_IBRD	330,268,426	858,350,230	722,503,193	803,959,047
CHINA_INDIA	332,859,598	604,465,154	687,069,391	701,765,333
JICA_EXIMKORE/	179,423,678	438,019,691	482,720,408	412,403,414
TBILLS-6MONTH	105,902,845	75,270,747	29,928,453	0
TBILLS-1 YEAR	365,308,848	31,396,386	8,413,068	33,370,110
BNR / BK/ Corpo	129,915,955	43,678,350	43,678,350	43,678,350
TBONDS 7-10YR!	222,236,480	467,089,061	479,887,468	593,274,332
TBONDS 15YRS F	116,340,934	500,052,054	509,190,436	988,156,600
TBONDS 3-5YRS	247,618,529	232,438,711	140,892,579	64,761,635
EXT GUARANTEE!	156,770,404	40,212,791	40,212,791	40,212,791
DOM GUARANTE	242,178,972	141,082,490	141,082,490	141,082,490
External	5,909,120,609	8,387,327,156	8,526,318,607	8,037,774,244
Domestic	1,429,502,562	1,491,007,799	1,353,072,845	1,864,323,518
Total	**7,338,623,170**	**9,878,334,955**	**9,879,391,452**	**9,902,097,762**

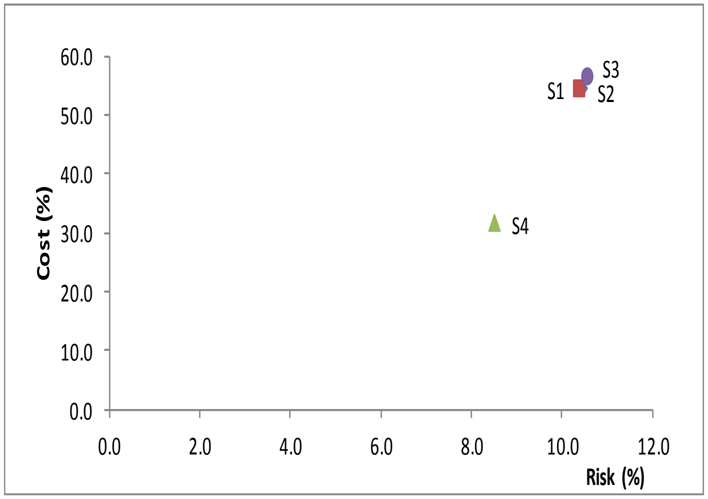
Figure 10: Key Cost and Risk Indicators by Strategy (as of end-2024, %)

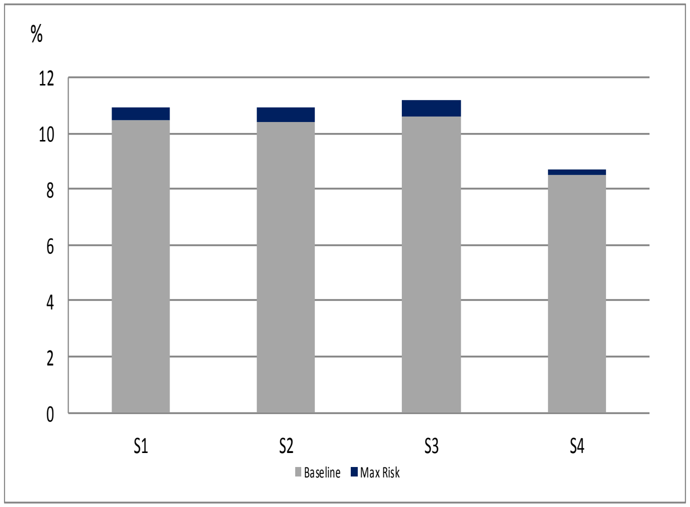
DEBT TO GDP, 2024



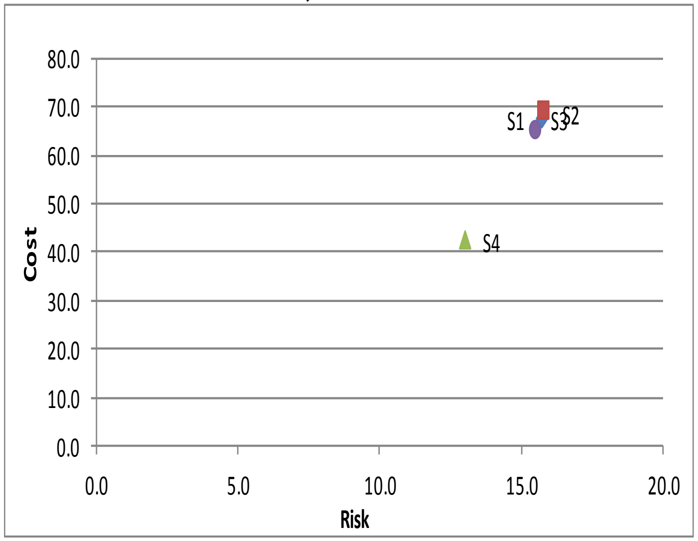


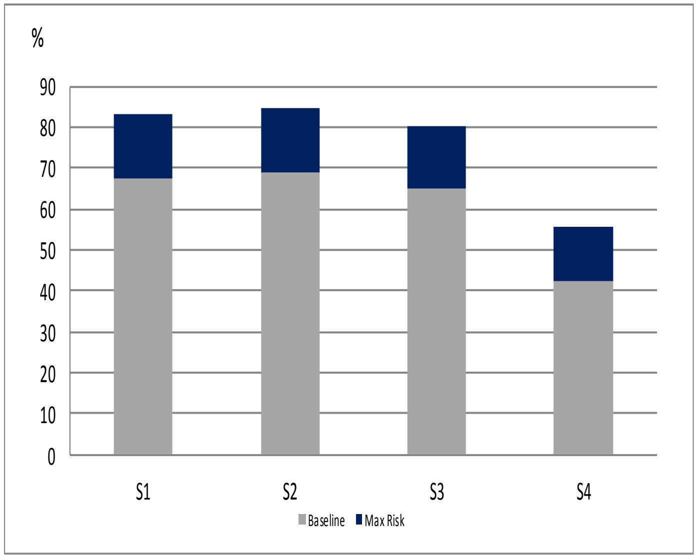
PV OF DEBT TO GDP, AS OF END 2024



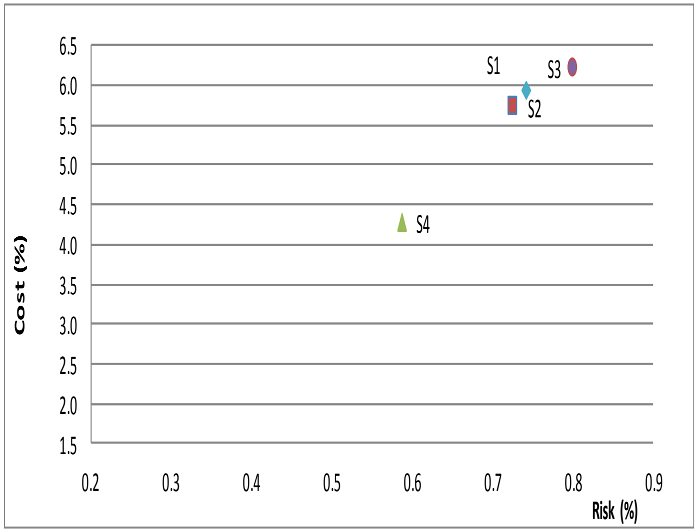


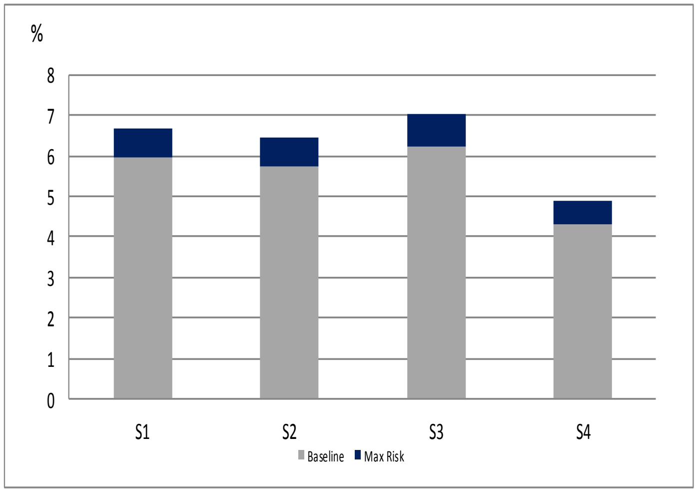
EXTERNAL DEBT TO GDP, AS AT END 2024



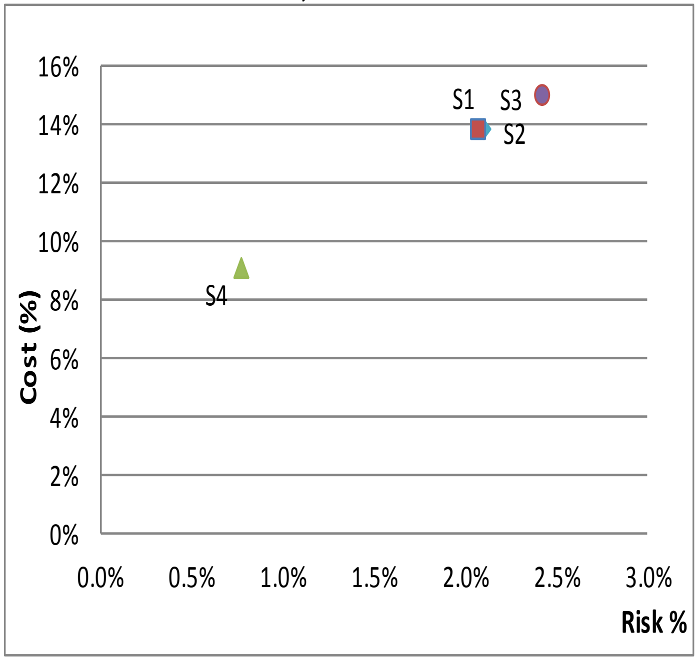


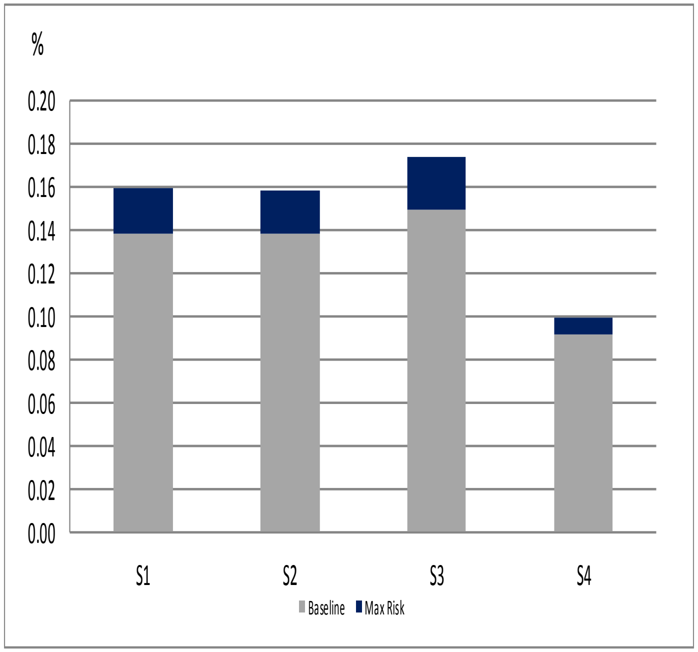
TOTAL DEBT SERVICE TO GDP, AS OF END 2023





INTEREST TO REVENUES, AS OF END 2023





EXTERNAL DEBT SERVICE TO INTERNATIONAL RESERVES, AS OF END 2024