REPUBLIC OF RWANDA
MINISTRY OF FINANCE AND ECONOMIC PLANNING

Medium Term Debt Management Strategy

FY 2023/2024-2025/2026

April 2023

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ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
AFD	Agence française de développement
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BFP	Budget Framework Paper
BNR	National Bank of Rwanda
COVID-19	Coronavirus Disease
DMC	Debt Management Committee
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GoR	Government of Rwanda
IDA	International Development Association
IMF	International Monetary Fund
MINECOFIN	Ministry of Finance and Economic Planning
MPC	Monetary Policy Committee
MTDS	Medium Term Debt Management Strategy
NST1	National Strategy for Transformation
PCI	Policy Coordination Instrument
PFM	Public Finance Management
PPG	Public & Public Guaranteed
PV	Present Value
RWF	Rwandan Francs
SOEs	State Owned Enterprises
SOFR	Secured Overnight Financing Rate
TDB	Trade development bank
TMC	Treasury Management Committee
USD	United States Dollar
WB	World Bank

EXECUTIVE SUMMARY

The Rwandan government has been committed to maintaining sustainable public finance management through the Medium-Term Debt Strategy (MTDS) since the fiscal year 2015/16. The MTDS aims to meet the government's financing needs while minimizing costs, prudently managing risks, and developing the domestic debt market. In particular, the government has set a goal of achieving a Debt to GDP ratio of 65% by 2031 despite facing external challenges such as the Covid-19 pandemic and geopolitical tensions. The current MTDS is applicable for the fiscal years 2023/24 through 2025/26 and covers public and publicly guaranteed debt.

As of June 2023, Rwanda’s total public debt stood at Frw 10.1 trillion, a 4.8% increase from the previous year. Notably, the debt-to-GDP ratio saw a slight decrease to 67.7%, which is attributed to a 24% GDP growth triggered by the surge in economic activity after the Covid-19 restrictions were lifted. The domestic debt, amounting to Frw 2,700.7 billion, is mainly constituted by Treasury Bonds and T-bills, while the majority of the external debt is held by multilateral creditors. The publicly guaranteed debt is mainly denominated in Special Drawing Rights and most of it is fixed-rate debt. A decomposition of the SDR reveals the USD as predominant at a level of more than 50%.

The Rwandan government has effectively managed refinancing risks for both domestic and external debts, with improved risk indicators reflecting this. Interest rate risk and foreign currency risk are strategically managed, despite being influenced by international market rates and foreign exchange fluctuations. The nation's public debt remains sustainable and carries a moderate risk of debt distress, largely because of the concessional nature of the debt portfolio. Looking ahead, Rwanda's economic future is promising despite global uncertainties arising from geopolitical tensions, the ongoing impact of COVID-19, inflation, and climate change-induced supply chain disruptions. The country projects its GDP to grow at 6.2% in 2023, and further accelerate beyond 7% between 2025 and 2028. The government's focus is on consolidating public finances by enhancing revenue generation, optimizing spending, and looking into innovative financing mechanisms. Among four debt strategies assessed, the chosen approach emphasizes external borrowing, primarily from semi-concessional bilateral sources. This strategy is aimed at easing the burden of large debts maturing simultaneously.

CHAPTER ONE: INTRODUCTION, OBJECTIVES AND SCOPE OF THE STRATEGY.

1.1 INTRODUCTION

As stipulated in article 64 of the Organic Law No 002/2022.OL of 12/12/2022 on Public Finance Management (PFM), the minister has the mandate to prepare and publish each year the public debt management strategies. The government of Rwanda has been preparing the Medium-Term Debt Strategy (MTDS) since the fiscal year 2015/16. The main aim of this strategy is to meet the financing requirements of the government at the lowest possible cost while managing risk exposure prudently and developing the domestic market. The strategy is reviewed annually to ensure it effectively manages the country's debt portfolio and aligns with the macroeconomic outlook. It also provides guidance to the government on its desired cost and risk in the short and medium term. Despite facing challenges such as the Covid-19 pandemic, Russia-Ukraine war, and climate change, the government remains committed to achieving a Debt to GDP ratio of 65% by 2031 through its fiscal consolidation efforts.

1.2 OBJECTIVES

According to the 2016 Ministerial order that established revised financial regulations, Rwanda's debt management strategy aims to achieve several objectives. Firstly, it seeks to ensure that the government's financing needs and obligations are met with low borrowing costs in the medium term. Secondly, it aims to maintain a prudent risk exposure. Lastly, the strategy aims to promote an active domestic debt market. Based on these overall objectives, the specific objectives for the strategy include maintaining a fiscal consolidation path to achieve 65 percent of debt to GDP by 2031, maximizing concessional and semi-concessional debt to reduce costs and refinancing, and reducing domestic debt refinancing risk by issuing longer-dated securities.

1.3 SCOPE OF THE STRATEGY

The current strategy covers the period FY 2023/24- 2025/26 over which the optimal debt portfolio will be achieved. In addition, the strategy covers PPG debt level on sectorization and loans and debt securities as instruments.

CHAPTER TWO: ASSESSMENT OF THE EXISTING PUBLIC DEBT PORTFOLIO AS AT END JUNE,2023.

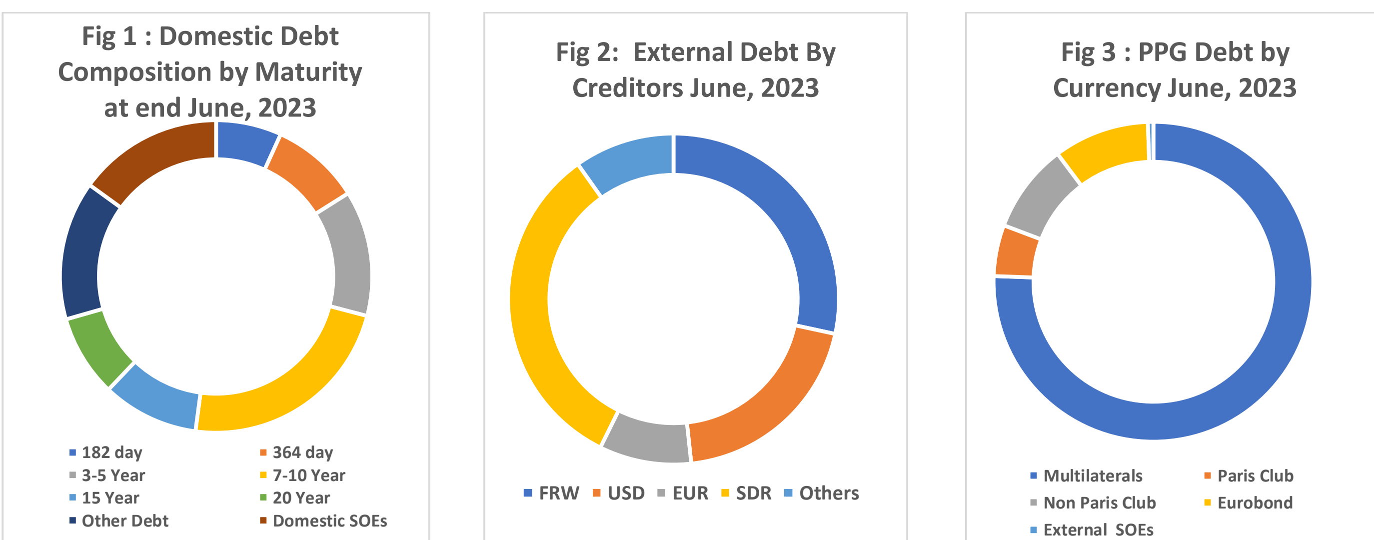
1.1 DESCRIPTION OF DEBT LEVELS, TRENDS AND COMPOSITION OF PUBLIC AND PUBLICKLY GUARANTEED DEBT PORTFOLIO

Rwanda's total public debt increased to Frw 10.1 trillion by the end of June 2023, which represents a 4.8% growth from the previous year. However, despite the increase in debt, the debt-to-GDP ratio slightly decreased to 67.7%, thanks to a higher GDP growth of 24% in the fiscal year 2022/23, which was driven by increased economic activity following the lifting of Covid-19 restrictions.

Domestic debt accounted for Frw 2,700.7 billion, with Treasury Bonds making up 54.5%, and T-bills accounting for 16.1% of the total. Rwanda's external debt was mostly held by multilateral creditors at 75.6%, followed by bilateral creditors at 14.2%, Eurobond at 9.7%, and external state-owned enterprises at 0.6%.

Regarding currency denominations, 32.9% of the publicly guaranteed debt was denominated in Special Drawing Rights, followed by 28.4% in Rwandan francs, 19.9% in USD, and 9.0% in EURO. The share of fixed-rate debt in the total public debt portfolio increased to 91.1% in June 2023.

Figure 1



Source: Minecofin, April 2023

1.2 REVIEW OF COST AND RISK INDICATORS OF PUBLIC DEBT.

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 1 below presents standard cost and risks indicators, which are normally included in the MTDS framework. This includes interest rate, foreign currency, refinancing risks as well as risks associated with Debt Sustainability.

Table 1: Cost and Risk Indicators for Existing Debt as at End-June 2023

		June, 2022			June, 2023			
Risk Indicators		**External Debt**	**Domestic Debt**	**Total Debt**	**External Debt**	**Domestic Debt**	**Total Debt**	**2020/21 Benchmarks**
Amount (in millions of RWF)		6339.9	2064.8	8404.7	7200.5	2700.7	9901.3	
Amount (in millions of USD)		6052.7	1971.2	8023.9	6255.8	2346.4	8602.2	
Nominal debt as % GDP		53.7	17.5	71.2	48.4	18.2	66.6	Max. 80
PV as % of GDP		34.8	13.9	48.7	32.5	13.6	46.1	Max.70
Cost of debt	Interest payment as % GDP	0.87	2.092	2.96	0.81	2.106	2.92	Max.5.0
	Interest payment as % Revenues	3.4	8.3	11.7	3.6	9.3	12.8	
	Weighted Av. IR (%)	1.6	15.0	4.9	1.7	15.5	4.7	
Refinancing risk	ATM (years)	14.2	3.7	12.1	14.7	4.7	13.1	Min. 10
	Debt maturing in 1yr (% of total)	3.2	39.2	10.6	1.8	29.6	6.1	Max. 15.0
	Debt maturing in 1yr (% of GDP)	1.7	5.4	7.1	1.3	4.0	5.3	
Interest rate risk	ATR (years)	13.6	3.7	11.6	13.7	4.7	12.3	Min. 10
	Debt refixing in 1yr (% of total)	9.5	39.2	15.6	10.6	29.6	13.5	Max. 25
	Fixed rate debt (% of total)	93.4	90.2	92.7	91.1	100.0	92.5	Min. 85
	T-bills (percent of total)				0.0	20.2	3.2	
FX risk	FX debt (% of total debt)			79.4			78.4	Max. 90
	ST FX debt (% of reserves)			10.0			8.7	Max. 15

Source: MINECOFIN, MTDS Tool, April 2023

Analysis of Costs of Existing Public Debt Portfolio.

The overall cost of debt in nominal amount is increasing in line with the current market conditions, but still below the respected benchmarks. As of End-June 2023, total PPG debt interest payments as a share of GDP decreased by 0.05 percent compared to end June 2022, from 2.96 percent of GDP to 2.92 percent of GDP. Overall, the decrease in debt to GDP is attributed to the repayment of expensive debt mostly the remaining final portion of the issued 2013 Eurobond (USD 400 million) equivalent to USD 60.4 million using a concessional financing (SDR allocation initiative to cater for the impact of Covid 2019 and Ukraine Russia War).

Box 1: Successful Repayment of 2013 Eurobond:

Managing liabilities entails intricate decision-making and tactical measures to fine-tune the debt structure, curtail expenses, and mitigate the risks tied to the government's debt portfolio. Rwanda managed to successfully repay its 2013 Eurobond amidst a tumultuous market scenario, thanks to a combination of debt management choices made by the government in the years leading up to the due date.

1. **Composition of Rwanda's Total Debt Stock**: Rwanda's debt is predominantly concessional, signaling lower interest rates and more accommodating repayment conditions.
2. **The Magnitude and Allocation of Funds:** When Rwanda entered the bond market in 2013, the government ensured the issued amount was not excessively large and was aimed specifically at certain development projects.
   Most specifically, funds were allocated to both reducing the servicing costs of expensive short-term debt (RwandAir and Kigali convention Center), and directing other portions towards improving critical sectors such as power generation and tourism infrastructure.

   In 2021, Rwanda's decision to retire a portion of its Eurobond through a debt buyback also had a positive impact to the country's debt sustainability. By repurchasing its bonds, Rwanda effectively decreased a part of its debt, which not only lowers the total debt stock but also results in interest savings.

3. **The Timing:** A further unique aspect is how the Rwandan government leveraged favorable market conditions to refinance its debt. By monitoring market fluctuations closely, the government seized the opportunity of low interest rates to refinance its outstanding debt, right before the sudden increase of interest rates, in the aftermath of COVID-19 and Russia-Ukraine War crises.

However, Domestic debt interest payments account for 2.11 percent of GDP and have increased from 2.09 percent of GDP at end- June 2022 as a result of regular new issuance and reopening of treasury bonds to cater for the Government budget needs but also to support the development of the domestic capital market with improved yield curve. In addition, domestic interest payments have increased as result of the conversion of some external debt owned by State owned enterprises into domestic debt.

On the other hand, external interest payments have reduced by 0.06 percent of GDP due to the maturity of some loans including expensive ones like Eurobond, thanks to the Government liability management strategy where expensive foreign debt were repaid in some point with concessional financing.

Analysis of Risks of Existing Public Debt Portfolio.

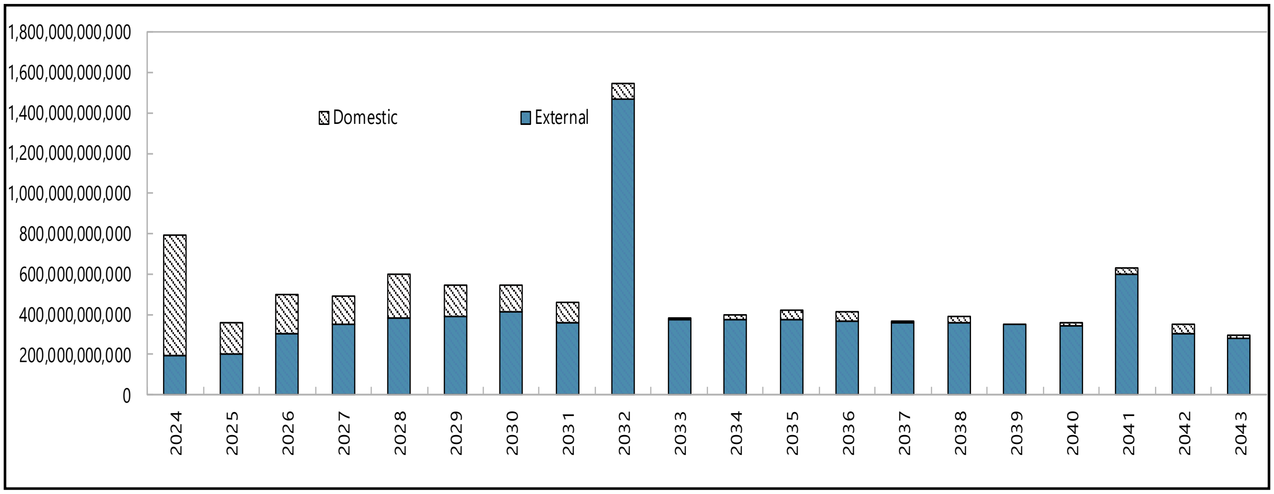
This section analyzes the risks characteristics of existing public debt portfolio as at end June 2023, to assess the costs and risks and to design the optimal borrowing strategy that minimize costs and risks over the medium term.

Refinancing Risk:

Rwanda has been managing its external and domestic debt refinancing risk prudently. The overall debt portfolio refinancing risk indicators improved during the fiscal year 2023/24 and still below the benchmarks, as stock of Treasury bills decreased and more borrowing on concessional terms in line with the Country's debt management strategy. As at end June 2023, the ATM of all the principal payments in the external debt portfolio extended to 14.8 years from 14.2 years due to continued disbursement of loans with longer maturity and retirement of some commercial loans with shorter maturity. A comparison between MTDS June,2022 and June,2023 reveals that the external debt maturing in the next year has reduced from 10.6 percentage of total to 6.0 percent respectively, while the domestic debt maturing in one year has decreased from 5.4 percent of GDP to 4.0 percent of GDP. This reduction in external debt maturing next year is due to paying off the remaining portion of the 2013 Eurobond and converting some short-term external debt into long-term domestic debt.

On the domestic debt front, following the deliberate effort by the government to increase issuance of longer dated securities such as 15-year and 20-year notes instead of short-term notes, leading to a reduction in debt maturing in one year.

Figure 2: Redemption Profile By Maturity, End-June, 2023 (Frw Billion)



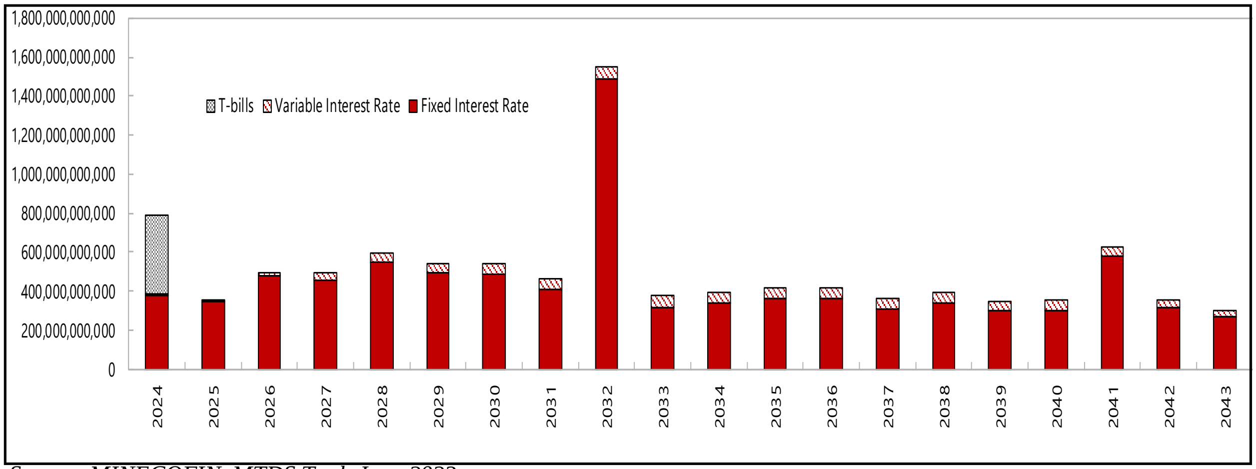
Source: MINECOFIN, MTDS Tool, April,2023

Interest rate risk:

Rwanda, like many other sub-Saharan African countries, may have to deal with higher borrowing costs due to several key factors. Firstly, external borrowing costs have gone up because of higher interest rates on US treasury bonds and the search for safe assets in times of global uncertainty. Secondly, concessional financing, which still constitutes the largest share of our overall Government borrowing, is becoming more limited and being replaced by mixed financing terms with variable interest rates.

This, in turn, increases the risk and complexity of the country's debt portfolio. Thirdly, there is a significant rise in domestic interest rates, which poses a high re-fixing risk for any debt maturing in a short period. The average time to re-fixing (ATR) is closely linked to the average time to maturity (ATM) and it shows an improvement from 11.6 years in June 2022 to 12.4 years in June 2023. 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 debt) to be re-fixed within the first year of projection. However, this may worsen in case the international market reference rates like SOFR keeps raising given increase of loans with variable rates in our debt portfolio.

Figure 3: Redemption Profile By Interest rate, End-June, 2023 (Frw Billion)



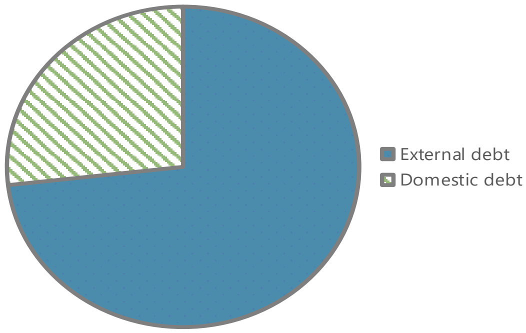
Source: MINECOFIN, MTDS Tool, June,2023

Foreign Currency risk:

Rwanda's debt portfolio consists mainly of foreign currency-denominated debt (84.6% of total PPG debt stock, June,2023), making it vulnerable to foreign exchange risk due to global uncertainties and increased prices, which may lead to the depreciation of the Rwandan Franc.

Thus, higher exchange rate risk. By end June 2023, foreign currency denominated debt as percentage of the overall public debt portfolio has reduced compared to the last fiscal year 2021/22 from 79.4 percent in June 2022 to 78.4 percent as of end June 2023, indicating an increase in the share of domestic debt in the public debt portfolio. this is deemed a good policy given that the continuous depreciation of the local currency against foreign currencies may reduce exchange rate risks going forward.

Figure 4 : **Composition of PPG Debt Oustanding, as at End June, 2023**



Source: MINECOFIN, MTDS Tool, April,2023

Sustainability Risk:

Rwanda's public debt remains sustainable despite its constant increase currently (as per the IMF-World Bank debt sustainability analysis conducted in November 2022 in collaboration with MINECOFIN), projected at nominal debt to GDP ratio of 73.9 per cent as of end December 2023 (equivalent to 55.0% in Present value terms) vs 67.7 per cent projected as of end June,2023 and carries only a moderate risk of debt distress, largely owed to the concessional nature of the portfolio (89.8% of total PPG External debt).

The latest debt sustainability analysis reveals that both Liquidity and solvency indicators are well below their respective thresholds.

Table 2: Debt Sustainability Indicators_November 2022

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Threshold
PV External Debt to GDP	33.6	35.8	38.8	40.4	39.9	39.5	39.2	37.9	37.1	36.3	35.3	55
PV External Debt to Export	139.3	142.9	149.9	151.9	149.3	146.2	153.2	150.2	148.3	146.2	142.9	240
PV External Debt Service to Export	6.8	8.6	7.3	8.6	10.7	11	10.8	10.3	9.6	18.6	9.2	21
PV External Debt service to Revenue	8.7	11.6	10	11.5	14.2	14.5	13.4	12.3	11.1	21.3	10.3	23

Source: IMF-WB-RWANDA, DSA, November,2022

CHAPTER THREE: ENVIRONMENT FOR DEBT MANAGEMENT.

1.1 MARKET ENVIRONMENT IN THE MEDIUM TERM

Global economic growth remains uncertain due to the ongoing geo-political tensions, effects of COVID-19 pandemic, global inflation pressures and climate change related supply chain disruptions. As a result, global growth is projected to slow to 2.7 percent in 2023 from the projected growth of 3.2 percent in 2022. GDP growth for Rwanda is projected at 6.2 percent in 2023, 6.7 percent in 2024 and return to above 7 percent in 2025-2028 period.

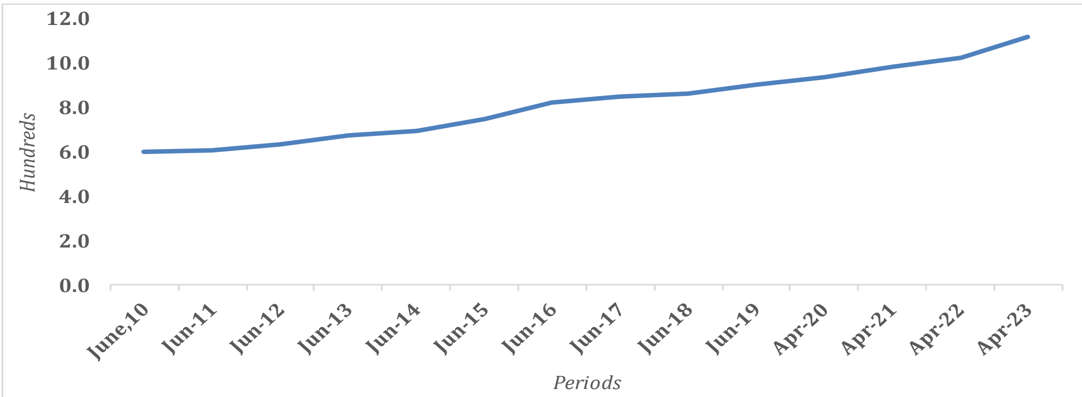
Exchange Rate Developments in the Medium Term.

During calendar year 2022, the Rwandan franc depreciated by 6.05 percent (much higher than 3.8% in 2021) 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, linked with high international commodity prices that increased the imports bill.

Exchange rate pressures are expected to continue in the FY 2023/24 due to high import bill and lower external financing than expected. 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.

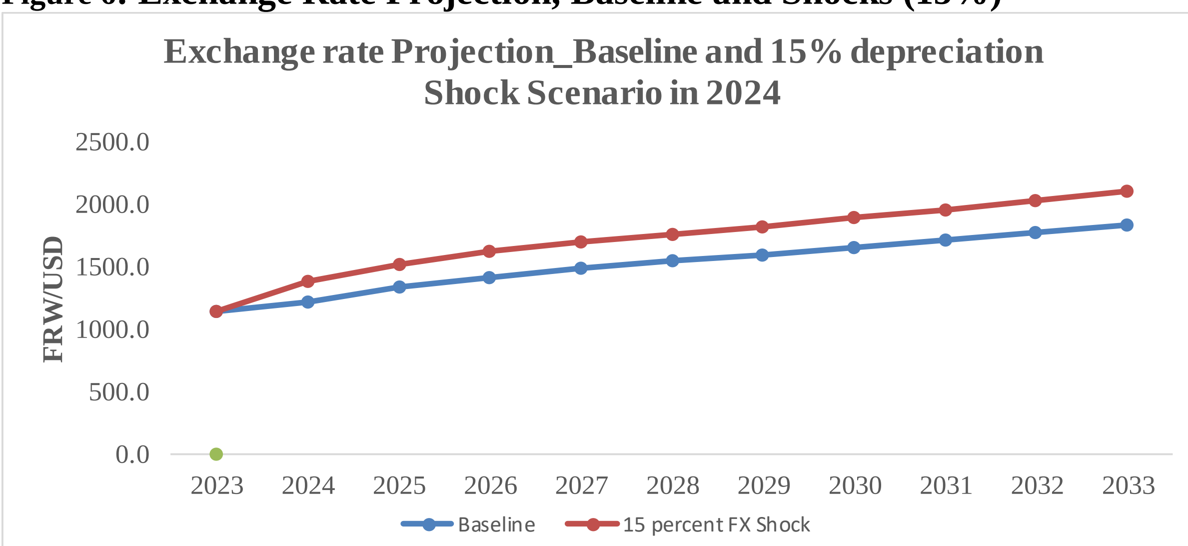
For the purpose of government borrowing strategy going forward two possible depreciation shocks are assumed, in order to assess the impact that a faster than anticipated exchange rate depreciation could have on the selected borrowing strategy:

Figure 5 : FRW/USD Foreign Currency Trends, June 2010 to April 2023



Source: National Bank of Rwanda, April 2023

Figure 6: Exchange Rate Projection, Baseline and Shocks (15%)



Source: MINECOFIN, MTDS Tool, April,2023

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 to 4.5 percent then to 5 percent again. Since February 2022, the National Bank of Rwanda started process of tightening monetary policy in line with anticipation of inflationary pressure.

The Monetary Policy Committee increased the central bank rate by cumulative 250 basis points to 7 percent in February 2023since February 2022 when it was revised up from 4.5 percent. These decisions were taken in an effort to curb down inflation and back within the medium-term target range of 2 to 8 percent.

On external financing, the Financial stability risks have increased rapidly as the resilience of the global financial system has been tested by higher inflation pressures and fragmentation risks currently proving to be more persistent than anticipated. As a result, some traditional instruments are being priced with variable based instruments. Thus, implying higher interest rate risks.

The table below sets out the trend observed on the interest rates from June 2015 to March 2022.

Table 3: Interest rate, 2015-2023

	Jun -15	**Jun -1**	**Dec -16**	**Jun -17**	**Dec -17**	**Apr -18**	**May -19**	**Oct -19**	**Mar -22**	**Mar -23**
Key Repo Rate (%)	6.5	6.5	6.24	6.0	5.5	5.5	5.5	5.0	5.0	7.0
T-Bills Rate (Weighted avg %)	4.1	7.3	9.0	8.8	7.1	5.8	6.1	6.05	7.27	8.5
Deposit Rate (%)	8.8	7.9	8.0	7.9	8.7	8.2	7.8	7.8	7.39	7.39
Lending Rate (%)	17.3	17.0	17.2	16.8	17.2	16.8	16.9	16.2	16.53	16.29

Source: BNR, April 2023

1.2 CONSTRAINTS ON POLICY CHOICES REGARDING DEBT PORTFOLIO.

The policies and strategies over the medium term are by and large guided by the National Strategy for Transformation (NST1). The Government will continue to consolidate the public finances to reduce fiscal deficits and stabilize debt levels. Most specifically the ratio of debt to GDP is projected to hit 65% in the fiscal year 2029/30. The strategy for fiscal consolidation hinges on balancing revenue generation and streamlining spending, while focusing on preventing and addressing climate change impacts and disasters, support to vulnerable people, improve the quality of and access to education, health, and increase the stock of affordable housing.

In terms of financing options available, concessional financing will remain a priority, however, the government will continue to monitor market conditions and seize any opportunity to optimize its debt portfolio. As concessional financing is more and more limited, the government will explore innovative approaches to development financing that go beyond traditional Official Development Assistance. This includes leveraging private sector investment and promote innovative financing mechanisms such as impact investment (Sustainability linked bonds, Green bonds, Debt for nature swaps, etc.) and blended finance. But also, semi concessional financing instruments like export credit type (ECAs). Rwanda's external debt encompasses a range of foreign currencies, which necessitates prudent management to mitigate currency fluctuations relative to the US dollar, ensuring debt service costs remain stable.

On the Domestic debt side, the on-going implementation of reforms aimed at deepening the domestic market will continue to cushion the Government against downside risks from external factors.

Finally, contingent liabilities are an important factor in fiscal planning. Particularly risks related to State-Owned Enterprises and Public-Private Partnerships need to close monitoring in order to maintain a balanced fiscal environment.

CHAPTER FOUR: FINANCING ASSUMPTIONS AND STRATEGY SELECTION.

1.1 POTENTIAL SOURCES TO FINANCE THE MEDIUM-TERM BUDGET

The Government funds the deficit through borrowing from both domestic and external sources. Traditionally, the external borrowing sources comprise of multilateral, bilateral and commercial sources while treasury bonds and bills remain the main instruments used by the Government to raise funds from the domestic market. In the medium term, the Government will source financing as follow:

Concessional	Favorable terms with interest rate below 2%, Long Maturities (30 to 40 years), and grace periods(5 to 10 years) Tied to specific projects.
Non- Concessional external	Costly, not tied to specific projects. Market-based interest rate. Maturities are between 7 and 10 years, with or without grace periods.
Non-Concessional Domestic	Costly, but not exposed to forex risk. Supports domestic capital market development.

Source: *MINECOFIN, APRIL 2023*

1.2 STRATEGY DESIGN AND DESCRIPTION OF COSTS AND RISKS ASSOCIATED.

The 2023 MTDS assesses four strategies: i) a status quo, ii) maximization of external bilateral borrowing, iii) external commercial borrowing as priority, and iv) Lengthening maturity profile with domestic debt development.

Strategy 1 (S1) – "Status quo" financing towards more external concessional borrowing: This strategy assumes that 82.4 percent of the borrowing will come from external sources and 17.6 percent from domestic sources, which is in line with the financing strategy outlined in the Medium term fiscal framework. The external funding sources are expected to include concessional debt from multilateral organizations, as well as some semi-concessional debt with variable interest rates. Commercial borrowing will be minimized to reduce the cost of debt and exposure to foreign exchange rate risks. On the other hand, domestic borrowing will primarily involve issuing Treasury bonds while maintaining the stock of Treasury bills unchanged. When analyzing the cost and risk, it is found that S1 has a relatively higher refinancing risk compared to S2 and S4, but lower than S3. This is mainly due to the higher reliance on external multilateral financing and the presence of long-term securities.

Strategy 2 (S2) –financing towards more external bilateral semi-concessional debt: This option is similar to the status quo (S1), but more expensive, as it assumes borrowing mainly from external debt. Around 90.8 percent of the financing will come from external sources, while only 9.2 percent will be sourced domestically. The higher reliance on external financing is due to the expectation that the government will first consider semi-concessional loans, such as insurance-backed financing (Export Credits), before turning to commercial loans to meet its development needs. Therefore, the majority of financing under this strategy will come from semi-concessional bilateral sources. On the domestic front, the strategy assumes that 79.7 percent of overall domestic financing will come from Treasury bonds. This strategy is the cheaper than S3 and S4 but costlier than S1.

Strategy 3 (S3) –financing towards more external Commercial debt: This assumes more commercial debt instruments, with an average of 74.2 percentage of gross external borrowing, while the domestic borrowing is increased to cover the shortfall from concessional external financing. This strategy is the most expensive with 5.0 percentage implied interest rate compared to 3.8 percent, 3.5 percent and 4.9 percent for S1, S2 and S4 respectively.

Strategy 4 (S4) – Gradual lengthening of domestic debt maturity profile: This strategy assumes financing the fiscal deficit through domestic debt essentially, with a gross domestic financing of 70.7 percent and 73 percent in the second and third years respectively.

The strategy aims at gradually reducing the stock of Treasury bills to mitigate the refinancing risk and replace with medium-long term Treasury bonds with intention to develop the domestic market. This makes this strategy, second best after S3 in terms of cost at 4.9 percentage implied interest rate compared to 3.8 percent and 3.5 percent respectively for S1 and S2. This strategy also beats all other strategies on the forex risk exposure.

Table 4: Cost and Risk Analysis of Strategies as of End June 2026

Risk Indicators		2023	As at end 2026			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		67.7	65.0	65.0	65.8	65.1
Present value debt as % of GDP		46.6	47.8	47.4	52.2	50.0
Interest payment as % of GDP		2.9	2.3	2.2	2.8	2.7
Implied interest rate (%)		4.6	3.8	3.5	5.0	4.9
Refinancing risk	Debt maturing in 1yr (% of total)	6.0	4.2	3.9	3.7	3.9
	Debt maturing in 1yr (% of GDP)	5.3	2.7	2.5	2.4	2.5
	ATM External Portfolio (years)	14.8	13.7	14.1	11.9	13.2
	ATM Domestic Portfolio (years)	4.7	5.9	5.5	5.5	12.2
	ATM Total Portfolio (years)	13.2	12.9	13.4	11.4	13.0
Interest rate risk	ATR (years)	12.4	11.7	11.6	10.7	12.2
	Debt refixing in 1yr (% of total)	13.3	13.9	18.2	9.9	11.4
	Fixed rate debt (% of total)	92.7	90.0	85.4	93.5	92.2
	T-bills (percent of total)	3.1	0.4	0.1	0.1	0.1
FX risk	FX debt as % of total	78.4	87.7	89.7	89.7	77.3
	ST FX debt as % of reserves	8.7	11.1	11.1	10.3	11.1

Source: MINECOFIN, MTDS Tool, June,2023

1.3 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. Most importantly, it will help achieve the objective of reducing the debt levels under the PCI Program to 65 % by 2031. The best strategy shall also support monetary policy objectives of maintaining a stable inflation while protecting the economy against external shocks.

From this viewpoint, S2 emerges as the most practical strategy to adopt. S2 also involves a reduction in the issuance of new treasury bills to mitigate the burden of a large amount of debt maturing in a single year and ensure a more manageable repayment schedule. While S2 is similar to S1 in terms of cost effectiveness, it does carry a higher risk of interest rate fluctuations due to the inclusion of more semi-concessional loans tied to market rates. Conversely, implementing S3 and S4 may not be realistic as they would impose a significant financial burden on the treasury. The table below shows a set of medium term targets that were designed by the Debt Directorate to monitor the implementation of S2.

Table 5: Selected Strategy against Operational Benchmarks-End June 2024

Risk Indicators		S2	**Benchmark**
		2023	**End June 2024**
Nominal debt as % of GDP		65.0	Max. 76.8
Present value debt as % of GDP		47.4	Max.56.1
Interest payment as % of GDP		2.2	Max.5.0
Refinancing risk	Debt maturing in 1yr (% of total)	3.9	Max. 15.0
	ATM External Portfolio (years)	14.1	Min. 12
	ATM Domestic Portfolio (years)	5.5	Min. 2.5
	ATM Total Portfolio (years)	13.4	Min. 10
Interest rate risk	ATR (years)	11.6	Min. 10
	Debt refixing in 1yr (% of total)	7.1	18.2
	Fixed rate debt (% of total)	85.4	Min. 85
FX risk	FX debt as % of total	89.7	Max. 90
	ST FX debt as % of reserves	11.1	Max. 15

Source: MINECOFIN, MTDS Tool, April,2023

1.4 RECOMMENDATION FOR PUBLIC DEBT RISKS AND COSTS MITIGATION STRATEGY.

- ✓ Continue to prioritize public spending in order to support inclusive economic growth while also maximizing opportunities for concessional financing.

- ✓ Take proactive measures to optimize the current debt portfolio through liability management operations whenever possible, in order to mitigate refinancing risk. This can involve issuing longer-term securities and reducing short-term instruments. Additionally, efforts should be made to improve the infrastructure of the domestic debt market, attracting capital and lowering yields for domestic borrowing.

- ✓ In order to promote awareness and encourage a savings culture, it is important to enhance investor education and outreach, particularly in government securities. This will help broaden the investor base and promote financial inclusion.

- ✓ Consider exploring the use of climate finance and innovative financing options to support Rwanda's adaptation and mitigation efforts. However, it is crucial to ensure that sustainable debt levels are maintained throughout this process.

CHAPTER FIVE: STRATEGY IMPLEMENTATION, MONITORING AND EVALUATION

The Debt Management Office (DMO) will create a borrowing plan for both domestic and external sources for the 2023/24 financial year. This plan will include projected borrowing and the settlement of maturities. The Consultative Committee on Debt Management (DMC) will serve as a platform for discussing the current state and future prospects of financial markets, as well as the Treasury's management and borrowing plans. The committee will propose a monthly issuance plan for the fiscal year 2022-23, in line with the selected strategy S2. These proposals will be submitted to the Treasury Management Committee. Once approved, the issuance plan will be communicated to the market. The DMC will meet quarterly, or more frequently if necessary, to monitor the implementation of the issuance plan and the selected strategy. Any necessary amendments will be proposed during these meetings. The actual costs and risks associated with the debt will be assessed against sustainability threshold indicators. Any deviations from these indicators will inform the strategy review in the next Medium-Term Debt Strategy (MTDS) cycle. Additionally, the costs and risks of the 2023 MTDS will be evaluated annually to identify any deviations from the benchmarks and suggest mitigation measures.

External borrowing will be monitored on regular basis using the Present Value monitoring tool while State Owned Enterprises' debt, fiscal commitments and contingent liabilities will be tracked and assessed against overall sustainability levels in close collaboration with MININVEST;

To uphold commitment to debt transparency principles and ensure public access to information on public debt, the Ministry of Finance and Economic Planning will publish and upload the 2023 MTDS on the MINECOFIN's website upon approval by Parliament; 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 borrowing agreed upon under the Public Credit Investment (PCI) program will be regularly monitored using the PV monitoring