REPUBLIC OF RWANDA

MEDIUM TERM DEBT STRATEGY

MINISTRY OF FINANCE AND ECONOMIC PLANNING

FY 2017/18 – FY 2019/20

CONTENTS

LIST OF FIGURES AND TABLES

TABLES:

ABBREVIATIONS

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
KCC	Kigali Convention Center
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
UCL	Ultimate Concept Limited
XR	Exchange Rate

EXECUTIVE SUMMARY

1. Uncertainties in the global financial market and the increasing needs of the country for resources to accelerate development call for more comprehensive financing strategies. Persistent turbulence in the global financial market has emphasized the need for countries to develop clear strategies that help address vulnerabilities and uncertainties associated with the composition of government debt portfolio. This three year rolling Medium Term Debt Strategy (MTDS) helps determine how best the Government's financing requirements would be met faced with many potentially difficult trade-offs between alternative financing options from which a desired composition of the debt portfolio reflecting the preferred costs and risks trade-offs is selected.

2. The MTDS's overall objective is to maintain sustainable debt levels. A review of the existing debt portfolio shows that debt levels are low but increasing, while financing needs have soared with the pressing need to implement ambitious programs to fast track development.

3. Four alternative financing strategies have been developed and evaluated against costs and risks trade-offs and a strategy meeting GoR's medium term debt objectives have been selected. These Four alternative debt strategies with distinct portfolio composition have been evaluated, assuming a baseline macroeconomic framework. The strategy selection has been influenced by projected concessional financing needs in the medium term on one hand and on the other hand the medium term GoR's objectives of domestic securities market development.

4. The current selected strategy reviewed the cost and risks relative to the existing portfolio, especially the impact of the interest rate fluctuation and currency exchange rate shocks like the recent US dollar appreciation on debt servicing, and proposed ways to mitigate risks associated to it. The objective of this strategy is to ensure that government's financing needs and payment obligations are met at the lowest cost and risk levels while increasing concessional loans and developing the domestic capital market. This strategy lengthens the maturity of short term domestic instruments that meets the objectives of the MTDS while also providing the cheapest and less risky debt portfolio composition alternative. In addition, it is evident, from the assessment of alternative debt strategies, that a strategy that maximizes borrowing from concessional sources is cheaper than semi-concessional bilateral borrowing.

1. INTRODUCTION

As many low income countries, Rwanda has been struggling with low commodity prices over the last two fiscal years. As a result, external imbalances have widened together with the appreciation of the U.S. dollar. This led the country to the reduction of export receipts and put downward pressure on the exchange rate and official reserves.

In this challenging macroeconomic environment debt levels continued to rise while putting more pressure on the country's ability to service its debt.

Furthermore, public investment plan continues to expand with Government as the main investor, using Grants and concessional loans as its major source of funding. However, as they are gradually falling or hardening in their terms, the most probable financing option is the non-concessional funding.

Meanwhile, the MINECOFIN debt sustainability analysis conducted in 2016 revealed that Rwanda's risk of debt distress remained low, however with a moderate risk of losing that status if expected exports receipts and domestic revenues collection did not materialize. Therefore, clear projects prioritization and increase in foreign and domestic revenues should remain the main focus for Government.

It is in this context, that the medium term debt strategy for FY 2017-18 has been designed in order to ensure that the contracting and payment of borrowed funds is made at a lowest possible cost and risk level, while supporting the development of the domestic capital market. As opposed to previous debt strategies developed by the debt management unit, the present analysis includes strategic benchmarks that will help monitor both the strategy implementation as well as assess whether its objectives are achieved.

2. OBJECTIVES AND SCOPE OF DEBT STRATEGY IN THE MEDIUM TERM

2.1. OBJECTIVES

Reference made to the Ministerial order establishing revised financial regulations of January 2016, in its article 49 related to the Purpose and authority for public debt management, the objective of the current debt strategy will be to ensure that government's financing needs and settling of obligations should meet the medium term objectives of low borrowing costs; while maintaining a Prudent risk exposure, and promoting an active domestic debt market. The current strategy will not

2.2. SCOPE AND TIME HORIZON OF THE DEBT STRATEGY

The time horizon for this MTDS covers a three (3) year rolling period running from July 2017-June 2018 to July 2019-June 2020. Annual update of the strategy is required by the organic budget law on state finances to ensure that the strategy remains aligned and coherent with the medium term fiscal framework. In addition, it also enables regular monitoring of the debt portfolio costs and risks and assess whether the implementation of the borrowing transactions is in line with strategy under implementation. The scope of the strategy includes both public and publicly guaranteed domestic and external debt.

3. BACKGROUND AND DEVELOPMENT OF THE DEBT PORTFOLIO

3.0. EXISTING PORTFOLIO

The overall fiscal deficit (including grants) during fiscal year 2016/2017 represents Frw 324.3 billion or approximately 4.7 per cent of GDP while projected at Frw 298 billion or 3.7 per cent of GDP by the end of fiscal year 2017/18. It was financed through the contracting of external debt and issuance of Treasury-bills and Treasury- Bonds. In addition to that, guarantees were provided.

As a result, total public and publicly guaranteed debt for FY 2016/17 rose to a level of 42.1 per cent of GDP, of which 34.8 per cent is foreign denominated debt (an increase of 6.3 per cent compared to end June, 2016), while 7.2 per cent constitute local currency debt.

Table1: Rwanda Public Debt Stock _ in millions of USD (unless otherwise indicated)

Total public and Publicly guaranteed Debt	End June 2016			End June 2017(Prj.)		
	Mio (USD)	% of GDP	% of Total Debt	Mio (USD)	% of GDP	% of Total Debt
	2,955	36.0	100.0	3,638	42.1	100.0
External	2,341	28.5	79.2	3,012	34.8	82.8
Concessional	1,850	22.5	62.6	2,190	25.3	60.2
Commercial	491.3	6.0	16.6	821.9	9.5	22.6
o/w Eurobond	400	4.9	13.5	400	4.6	11.0
external guarantees	58	0.7	2.0	211	2.4	5.8
public enterprise debt (Rwandair)	34	0.4	1.1	210.9	2.4	5.8
Domestic(millions of USD)	614	7.5	20.7	626.2	7.2	17.2
Billions of Rwandan Franc	586	7.1	20.7	599.5	6.9	16.5
o/w Domestic guarantees	28			26.7		
Memorandum items						
Nominal GDP (RWF bn)	6,139			7,083		
Nominal fiscal year GDP (USD mn)	8,209			8,650		
Exchange rate(period average)	747.8			818.8		
Exchange rate(End of period)	783.26			818.8		

Source: MINECOFIN, June 2017

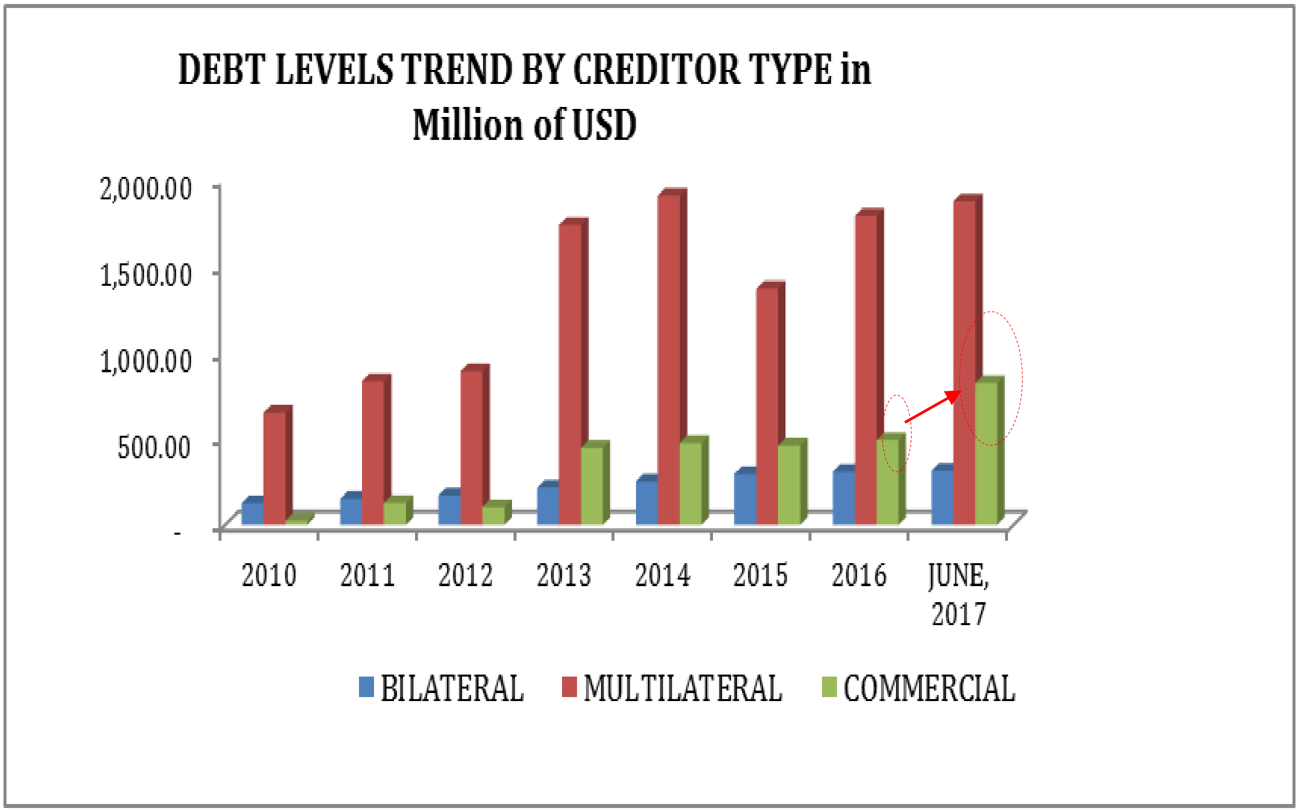
3.1. DESCRIPTION OF EXTERNAL DEBT LEVELS AND TRENDS

Despite Rwanda's higher level of Public external debt stock, (34.8 per cent of GDP by end June, 2017 compared to 28.5 per cent of GDP by end June, 2016); it remains among the lowest in the region as a result of prudent macroeconomic, and debt management.

The majority of the external debt portfolio remain constituted of concessional loans mainly multilateral debt (60.2 per cent), while domestic debt is mainly composed of government securities especially treasury bills (51.3 per cent of total public domestic debt as per figure 2 below).

However, with regards to non-concessional debt, 2016/17 was characterized by a significant increase from a level of 6 per cent of GDP in June 2016 to 9.5 per cent of GDP by end June 2017. This includes guarantees provided by the GoR to UCL for the completion of the KCC complex, and loans contracted by Rwandair for the acquisition of new aircrafts.

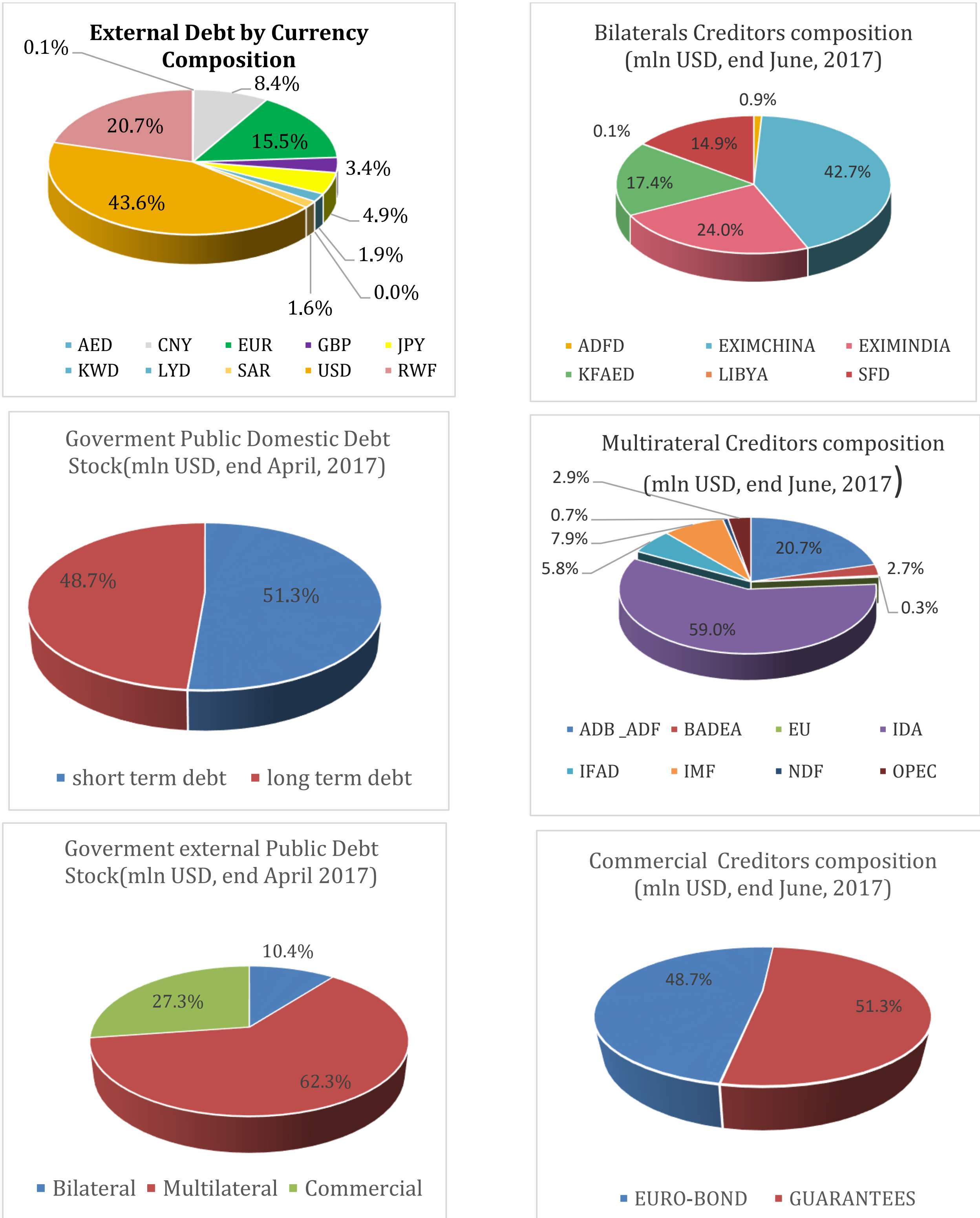
Figure 1: Debt Levels by Creditor Type in Millions USD



Source: MINECOFIN, April 2017

3.2. COMPOSITION OF DEBT PORTFOLIO (BY CURRENCY AND CREDITORS)

Figure 2: Composition of debt portfolio



Source: MINECOFIN, Debt Unit, June 2017

The panel of charts above sets out the composition of the debt portfolio. Concessional loans are mainly provided by IDA and AfDB (51.4 per cent), for projects related to transport, construction, energy, poverty reduction and rural development. In terms of currency composition, the SDR has the largest portfolio share, 39.6 percent as of April 2017. The decomposition of the SDR reveals a high exposure of 43.6 % of the external debt service to fluctuations in the US dollar.

Domestic debt is mainly composed of short and long term debt, and is entirely denominated in Rwandese francs. Short term debt constitute 51.3 per cent, especially treasury bills.

4. ANALYSIS OF RISKS IN THE PUBLIC DEBT PORTFOLIO

Table 2 below presents standard risks indicators which are normally included in the MTDS framework. This includes sustainability risks, interest rate risks, exchange rate risks, and refinancing risks.

In addition, the debt management unit, have customized other risks indicators with the objective of making the cost and risk analysis of the debt portfolio more relevant to MINECOFIN executive management. For example: the ratio of debt service to revenues, debt service to expenditures as well as the external debt service to reserves.

Table 2: Cost and Risk Indicators for Existing Debt as of April 2017 (in %)

Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of RWF)		1,761.9	459.3	2,221.1
Amount (in millions of USD)		2,249.4	586.3	2,835.8
Nominal debt as % GDP		28.7	7.5	36.1
PV as % of GDP		18.3	7.5	25.8
Cost of debt	Interest payment as % GDP	0.6	0.5	1.1
	Weighted Av. IR (%)	2.1	6.6	3.0
Refinancing risk	ATM (years)	15.3	2.8	12.7
	Debt maturing in 1yr (% of total)	1.3	59.0	13.3
	Debt maturing in 1yr (% of GDP)	0.4	4.4	4.8
Interest rate risk	ATR (years)	15.0	2.8	12.5
	Debt refixing in 1yr (% of total)	6.2	59.0	17.1
	Fixed rate debt (% of total)	95.0	100.0	96.0
FX risk	FX debt (% of total debt)			79.3
	ST FX debt (% of reserves)			3.2

Source: MINECOFIN, Debt Unit, April 2017

4.1 Sustainability

Rwanda's public debt remains sustainable despite the US dollar appreciation on debt to GDP and Debt service to exports ratios. The MINECOFIN debt sustainability analysis conducted in December 2016, revealed that the risk rating status remains low. Rwanda's PV of debt to export stood at 117.7 per cent compared to the level of 112.7 per cent in December 2015 while the debt service to exports stood to 26.1 per cent in 2023; year of Euro bond repayment. The main reason for this deterioration is an increase in the level of non-concessional borrowing for Rwandair fleet expansion plan, and additional borrowing for the Kigali Convention Center, while export and domestic receipts kept slowing down as a result of low commodity prices on the international market and low domestic revenues collection respectively. Going forward, high return in exports receipts are expected from diversification in non-traditional products like horticulture, and floriculture, but also from the reduction of the high import bill through substitution by the ''made in Rwanda products''. Another important source of foreign earnings is Tourism, whereby, specific reforms have been put in place, such as marketing and infrastructure and high-end tourism strategy will enable Rwanda generate the targeted revenues. This, combined with a prudent medium term debt management strategy and a careful assessment of future projects financing remain important to prevent public debt levels from becoming unsustainable.

Table 3: The External Debt Sustainability

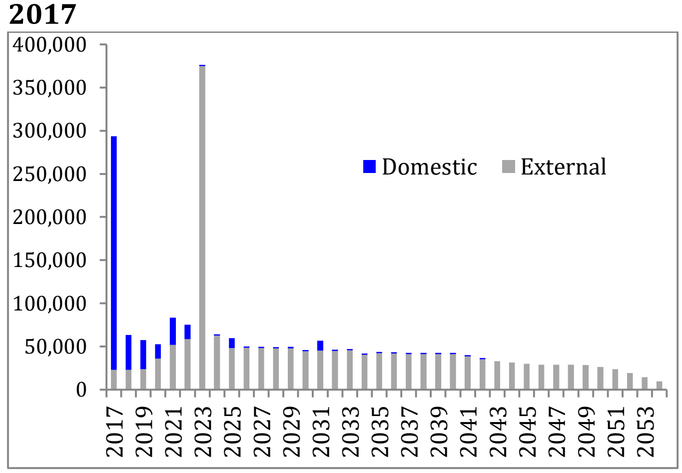
Indicators	2017	2018	2023	Threshold
PV Debt-to-GDP	21.7	23.2	20.6	50
PV Debt-to-Exports	117.7	118.7	100.9	200
Debt service-to-exports	5.7	5.6	26.1	25
Debt service-to-revenue	5.6	6.0	14.3	22

Source: MINECOFIN, Debt Unit, April 2017

4.2 Refinancing Risk

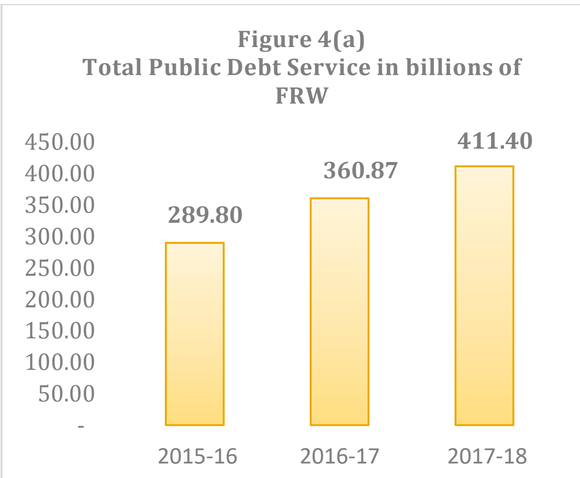
The average time to maturity (ATM), which measures the degree of refinancing risk, stood at a level of 12.7 years, mainly accounting for a large portion of the debt portfolio which is constituted of concessional loans. The time to maturity of the external debt averaged 15.3 years thanks to the government debt strategy which consists into exhausting all cheaper funding options available, while keeping the debt within sustainable levels. The major concern for Rwandan debt is the high refinancing risk (ATM of 2.4 years as of April 2017) caused by the predominance of treasury bills in the domestic debt portfolio see figure 3.
The government has been trying to reduce that risk through the implementation of a comprehensive bond issuance plan with the view to lengthen the maturity and therefore ensuring a smooth repayment profile.

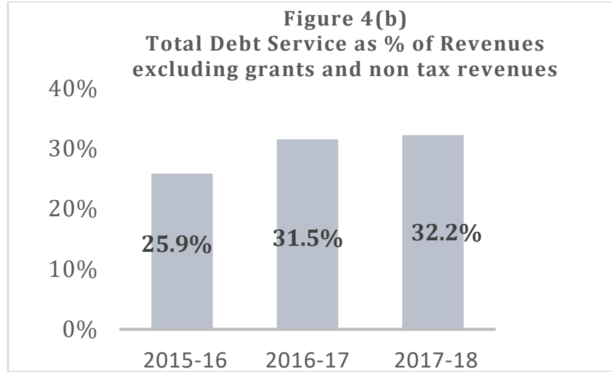
Figure 3: Redemption profile as of April 2017

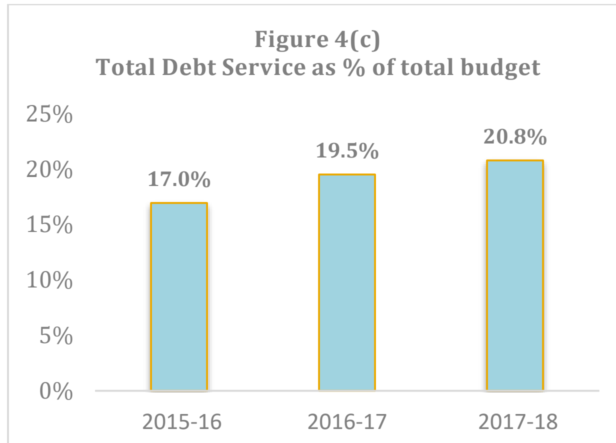


Source: MINECOFIN, Debt Unit, April 2017

The peak shown in the first year of Figure 3 above represents Rwf 289.8 billion of maturing securities. This also represents approximately 31.5 per cent of total revenues excluding grants or 19.5 per cent of total budget as per figure 4 (a), (b), and (c) below. This amount is subject to the risk of not being refinanced, should unfavorable market conditions occur.







Source: MINECOFIN, Debt Unit, April 2017

4.3 Interest rate Risk

The analysis of the interest rate cost reveals that 96 per cent of the Rwandan debt portfolio are constituted of loans with fixed interest rates, while the remaining portion constitute the amount of debt which is subject to a refixing of the interest rate. This is explained by the implementation of the government borrowing strategy which favors the contracting of loans with fixed interest rates instead of variable ones, in order to avoid variation of payments as the market interest rates change.

The analysis also reveals that 59 per cent of the debt denominated in local currency is subject to a refixing of the interest rate within the following year, as a result of a high proportion of short term debt .On the other hand, the level of external debt to be refixed in a year stood at 6.2 per cent, this is very small compared to refixing risk recorded in the domestic debt, but it constitutes an increase compared to FY 2015-16 due to the contracting of loans with variable rates during the fiscal year 2015-16.

4.4 Exchange Rate Risk

Since end 2014, the foreign exchange (forex) market in Rwanda is deteriorating as a result of a narrow export base, high imports, and trends in donor support US dollar, has put pressure on the value of the Rwandan franc. These developments have increased the forex risk exposure

which moved away from budget support grants to more project lending. In addition, the continued strengthening of

which stands at 79.3 per cent compared to a level of 77 per cent in FY 2014-15.

5. EXTERNAL SOURCES OF FINANCING FOR FUTURE NEEDS

Rwanda's available source of funding has essentially been composed of external loans. These include multilateral, bilateral and commercial creditors. With regards to domestic borrowing, the state relies on treasury bills and bonds. When required, sovereign guarantees are also issued to support state owned enterprises in the implementation of strategic projects.

The assumption for new external borrowing may vary from creditors to creditors, however, the Government is to the view that it may decline overall, and has put in place different strategies to develop the local bond market. This will also help to avoid exchange rate risks associated with the contracting of external loans.

More specifically, while multilateral external concessional loans are the ones assumed to decline, bilateral concessional loans are rather assumed to increase as a result of the low risk status of debt distress which is more attractive to non-traditional lenders like Japan, Korea, etc.

Over the current strategy timeframe, it is assumed that central government borrowing needs will be met mainly by disbursements of contracted external multilateral and bilateral debt. In addition, It is assumed that commercial debt may be an alternative source of fund despite its high cost levels as they are more accessible, and do not have any conditionality attached to it as opposed to concessional loans.

However, the government strategy with regards to commercial borrowing is to ensure that it is considered for projects where concessional funds may not be available, but also that the proceeds should be used for profitable projects, which constitute government priority.

Domestic borrowing could be the best financing option as it is not exposed to forex risk and contributes to the development of the domestic capital market. However, the measure concern is the size of the market which is still small and therefore do not constitute currently an alternative source of funding to external borrowing. The strategy assumes that domestic borrowing will gradually increase. The Government of Rwanda has put in place medium term strategies consistent with the East African Community roadmap of achieving monetary union by 2022, that will help develop the bond market. This includes increasing the bonds size as a share of GDP, attracting more institutional and retail investors, both local and foreign.

Sovereign Guarantees are used to support private investment in country's priority sectors. In Rwanda, guarantees have been provided to support the country's Airline Company, but also the Kigali Convention Complex which contribute all to the success of the MICE (Meetings Incentives Conventions Exhibitions) strategy. However, in order to avoid unsustainable levels of debt, the debt management unit takes into account guarantees when conducting the debt sustainability analysis.

6. MACRO- MARKET ENVIRONMENT & PROSPECTS

6.1. POLICY AND BUDGET ENVIRONMENT

Recent Development in the Rwandan Economy and Prospects

The Rwandan economy recorded a good performance in 2016 as real GDP grew by 5.9 percent slightly lower than the initially projected 6.0 percent. The country also faced challenges which resulted into a decline in export value (26 per cent by end 2016) due to the commodities price shock, mainly the value of minerals (Tin, tantalum and tungsten).In addition, private capital inflows as well as remittances declined (6.6% decline in remittance in 2016), leading to a downward pressure on the Rwandan franc and foreign exchange reserves.

The MTDS was designed following the previous and current macroeconomic framework agreed under the 7th review of the PSI arrangement with the IMF.

Despite uncertainties in the global and regional environment (slowdown of economic activity in China, lower prices for energy and other commodities, tightening of monetary policy in the United States), the Rwandan economy recorded a good performance in 2016 as real GDP grew by 5.9 percent, slightly lower than the initially projected 6.0 percent. This good performance was mainly driven by the service sector which grew by 7.1 percent, albeit lower than 10.4 percent recorded in the same period of 2015 while projected to slow slightly by 0.4 per cent (6.7 per cent growth in 2017).

Adversely affected by drought in the Eastern and Southern provinces, growth of agricultural sector slowed to 3.8 percent in 2016 compared to 5 percent recorded for the previous year 2015.In addition to that, the fiscal sector continued to struggle due to the combination of lower revenues and higher expenditure.

The original budget for fiscal year 2016/17, approved by Parliament at end June 2016 amounted to 1,949.4 billion FRW. According to economic classification context, total revenue and grants were projected at FRW 1,601.9 billion including 1,236.6 billion FRW for total domestic revenue and 365.3 billion FRW estimated grants. Regarding total expenditure and net lending, these were projected at FRW 1,848.8 billion which includes 989.7 billion FRW of recurrent spending, 750.6 billion for capital spending and 106.5 billion FRW for net lending. It was expected that this fiscal year (2016/17) will end with an overall cash deficit of 266.8 billion FRW.

In addition, there are familiar vulnerabilities of uncertainty regarding donor funding disbursements and agricultural vulnerabilities; export base that is heavily reliant on global price trends. The Rwandan government is therefore focusing on areas that can both lead to substitution away from imports and boost exports in the coming years, noticeably in textile industry and with Meetings Incentives Conferences & Events (MICE) tourism. Credit growth to the private sector is expected to accelerate to 12.6% over the medium term, thanks to higher growth and stronger bank liquidity given the return to normal of governments' funding needs

Table4: Fiscal Policy

	Actual	2016/17	2017/18	2018/19
Revenues and Grants (Billion RWF)	1479	1567.1	1742	1933.7
Total Expenditures (Billion RWF)	1,785	1,891	2,027	2,281
Overall deficit(% GDP)	4.9	4.7	3.7	4.0
International Reserves (Million USD)	922	1,012	1,098	1,298

Source: Minecofin, 2016

A key source of growth in the medium-term will be regional integration, notably within the northern corridor of the EAC (Uganda, Kenya and Rwanda). In addition, a tripartite negotiation is also pending between COMESA, EAC and SADC, but some projects have been agreed upon and started being implemented especially on movement of goods and services within three blocks. High growth rates are also expected in agriculture, mines, tourism and services.

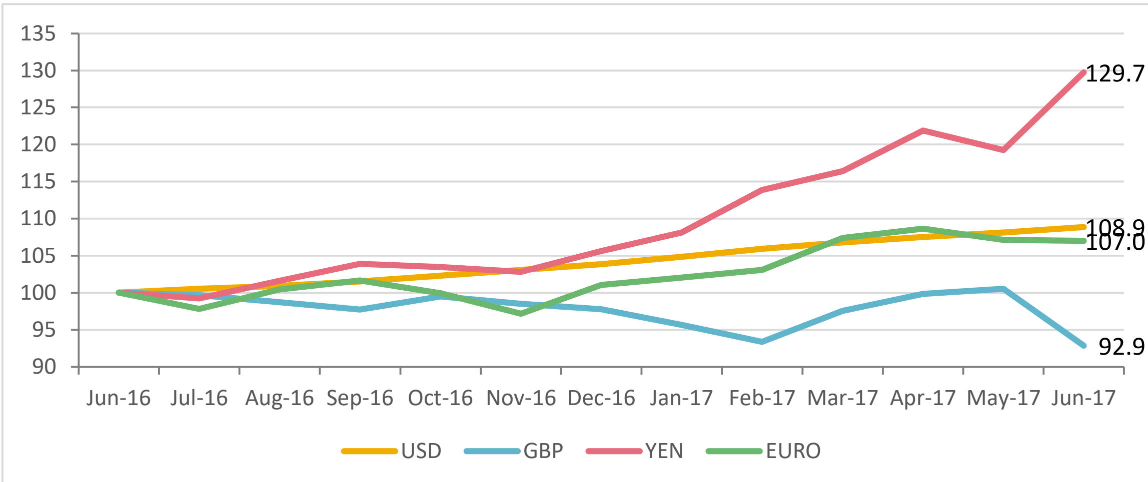
It is in that context that the government of Rwanda plans to implement its substantial infrastructure investment in order to achieve the targets set in the second generation of EDPRS.

6.2. MARKET ENVIRONMENT

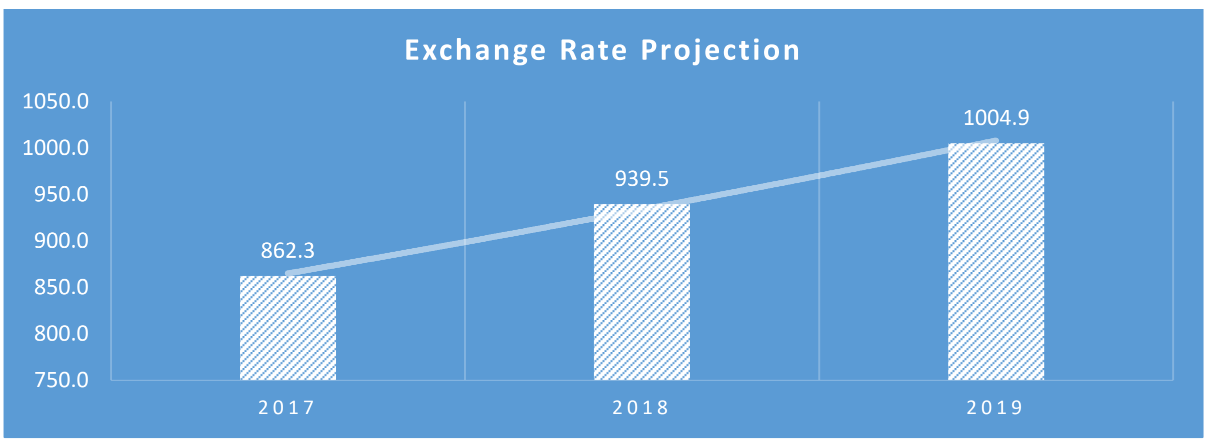
Figures 13 below shows the actual exchange rate fluctuation and the MTDS assumption over the next three years. In 2015/16, the Rwandan Franc depreciated more than it has in any previous fiscal year this century due to pressure from the USD strengthening and Rwanda's poor export receipts. BNR allowed these market forces to determine the direction of exchange rate depreciation but did intervene in the domestic foreign exchange market by selling foreign exchange to banks to smoothen RWF volatility. Over the year this meant that the RWF depreciated gradually against the USD with total depreciation reaching 8.9% compared to 5.2% in 2013/2014 as shown in figure 13. In addition to this depreciation, the RWF depreciated 7.0% against the Euro and 29.7% against the Yen, although it did appreciate against GBP as the UK's vote for Brexit caused the pound to fall in value. Looking at regional currencies, in contrast to 2014/2015, the RWF depreciated against three of the four in the EAC throughout fiscal year 2015/2016, the exception being the TZS. This is partly caused by the fact that prices of natural resources declined throughout the year which weakened the terms of trade of Kenya, Uganda and Tanzania. This means that overall the

RWF Real Effective Exchange Rate (REER) gradually depreciated 23% between June 2015 and June 2016 whilst it depreciated by 5.3% in nominal effective terms. Based on the recent depreciation of the currency, countries exports performance and on world economic outlook, the strategy assumed depreciation against USD of 10.1%, 9.0% and 7.0 % respectively in the next consecutive three years. Considering the 20 per cent extreme shock in 2018, the exchange rate will depreciate by 18.0%, 24.0% and 16.9 per cent over the next 3 strategic years.

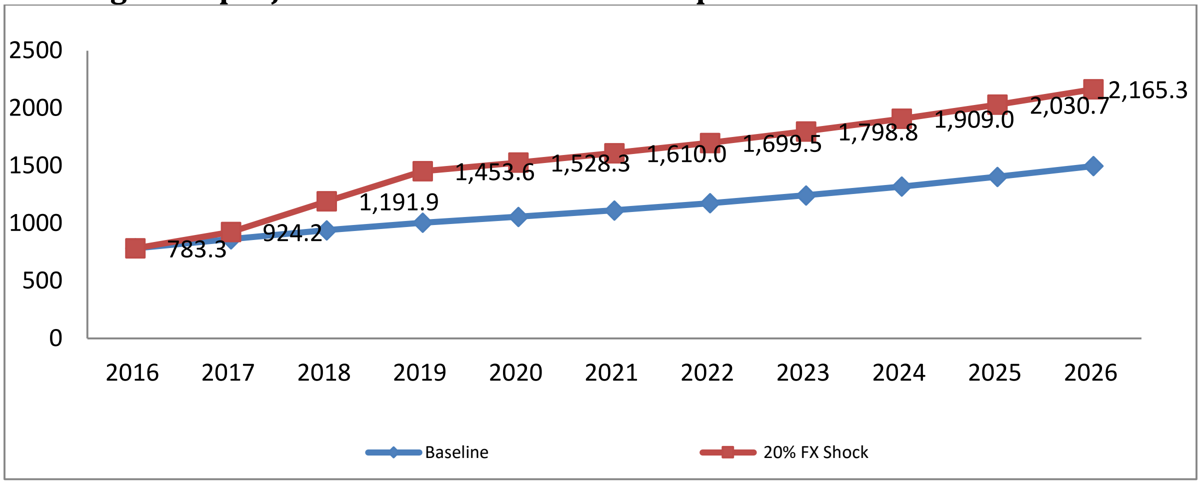
Figure 6: Exchange Rate Developments



Source: BNR, 2016



Exchange rate projection: Baseline and 30% depreciation shock



Source: Minecofin, 2016

The table 5 below shows the interest rates of existing portfolio and extreme shocks that may affect the instrument over the next three years. Throughout 2015/2016 BNR maintained its monetary policy stance by keeping the Key Repo Rate at 6.5% after it was reduced to this level in June 2014. Whilst inflation has increased substantially this year, as it is mostly due to the increase in prices of fresh products and imported goods. This increase in interest rates reflected the relatively low level of liquidity in the banking system compared to the previous year, even if it was still high by historic standards. As in previous years, inflexibility in lending rates is driven by structural problems such as high operating costs of the banks in Rwanda and the bargaining power of individual borrowers which is in many cases restricted by lack of information on terms and conditions embedded in loan contracts but both the Deposit Rate and the Lending rate did decrease over the levels seen throughout 2014/15.
The interest rates of our portfolio are fixed to all instruments except to ADB/IBRD and 4% depreciation shock is assumed to both T-bills and T-bonds while it is assumed at 3% depreciation on Euro-bond in 2019 once Rwanda decide to rollover.

Table 7: Inflation and Interest rate

	Jun-14	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Key Repo Rate (%)	6.5	6.5	6.5	6.5	6.5	6.5
T-Bills Rate (%)	5.6	4.1	4.6	6.8	6.3	7.3
Deposit Rate (%)	8.6	8.8	8.3	7.6	7.3	7.9
Lending Rate (%)	17.5	17.3	17.2	17.0	17.1	17.0

Source: BNR Financial Sector Developments

Table 8: Interest Rate Developments.

		Average Interest Rate			Extreme Shock		
Instruments		**2016/17**	**2017/18**	**2018/19**	**2016/17**	**2017/18**	**2018/19**
EXISTING AND NEW IDA	USD_1	0.75%	0.75%	0.75%			
ADF	USD_2	0.75%	0.75%	0.75%			
ARAB FUNDS	USD_3	1.60%	1.60%	1.60%		2.0%	2.0%
EURO BOND	USD_4	6.63%	6.63%	6.63%			3.0%
ADB_IBRD	USD_5	1.30%	1.37%	1.44%	2.0%	2.0%	4.0%
CHINA_INDIA	USD_6	1.75%	1.75%	1.75%	2.0%	2.0%	2.0%
TBILLS-6MONTHS	RWF_7	6.53%	7.03%	7.53%	4.0%	4.0%	4.0%
TBILLS-1 YEAR	RWF_8	8.00%	8.50%	9.00%	4.0%	4.0%	4.0%
RSSB_CSR_BCR	RWF_9						
BNR	RWF_10	10.00%	10.00%	10.00%			
TBONDS 7-10YRS	RWF_11	13.20%	13.70%	14.20%	4.0%	4.0%	4.0%
TBONDS 15YRS PLUS	RWF_12	14.00%	14.50%	15.00%	4.0%	4.0%	4.0%
TBONDS 3-5YRS	RWF_13	12.30%	12.80%	13.30%	4.0%	4.0%	4.0%

Source: Minecofin, 2016

6.3. VULNERABILITIES, RISKS AND STRUCTURAL CONSTRAINTS

6.3.1. VULNERABILITIES TO THE RWANDAN MACRO ECONOMY.

Rwanda's economy remains vulnerable and extremely constrained by internal and external imbalances exacerbated by savings and investment imbalances. The debt portfolio has a large component of foreign currency denominated debt which makes it vulnerable to exchange rate risks.

On the domestic debt side, the high level of short term notes increases rollover and liquidity risks.

6.3.2. IMPLICATIONS OF VULNERABILITIES AND CONSTRAINTS TO THE MEDIUM TERM DEBT STRATEGY.

Despite a robust macroeconomic environment and the efforts of the GoR to sustain its stability, some associated implications were identified as indicated below:

1. Constraints on domestic financing may be unfavourable to further develop the domestic market for Government securities.

2. A higher inflation on the domestic market, leading to monetary policy interventions could raise the cost of issuing financing instruments with investors only willing to hold instruments at higher nominal interest rates to protect themselves from yield losses resulting from high inflation.

3. Higher external current account deficits, mainly through increasing trade deficits (resulting from stagnant export prices and increasing import prices assuming unchanged volumes) and a larger current account deficit (resulting from lower official transfers) could adversely impact on the financing needs and contribute to a depletion of existing reserves buffers.

4. A greater than expected depreciation of the Rwf against major currencies (US$ mainly), although beneficial for export competitiveness could raise the cost of servicing the existing and forthcoming external debt stock.

5. Exchange rate policies to smoothen currency volatility could weigh on available international reserves and increase the foreign exchange risk indicator of short term debt to reserves.

6. Higher than envisaged domestic financing resulting from higher financing needs could crowd out private sector credit and adversely impact on growth.

7. ANALYSIS OF RESULTS

7.1. DESCRIPTION OF ANALYSIS UNDERTAKEN (INCLUDING ASSUMPTIONS AND FORECASTS)

Potential sources of financing from abroad were identified, and strategies were designed in order to ensure that funding plans are achieved while minimizing the possible impact on the costs and risks of the debt portfolio. The expected costs (interests and exchange rates) and the risks have been calculated for each of the borrowing strategies. Further detail is provided in the annexes.

Table 9: Risks Indicators of Public Debt (in %)

	Jun-16 Current strategy	Jun-19 Targeted strategy 1	Jun-19 Targeted strategy 2	Jun-19 Targeted strategy 3	Jun-19 Targeted strategy 4
Sustainability incl.					
Nominal debt as % GDP	36.2	44.1	44.1	44.2	44.1
PV as % of GDP	25.8	26.5	26.0	28.5	27.4
Cost					
Weighted Av. Implied Interest (%)	3.1	3.1	3.0	3.5	3.2

Interest Payment as % GDP	1.0	1.2	1.1	1.3	1.2
Refinancing					
Total ATM (years)	10.8	15.6	16.0	14.5	15.1
Debt maturing in 1yr (% of total)	10.9	5.1	3.1	2.7	3.8
Interest rate risk					
Total ATR (years)	10.6	15.2	15.5	14.1	14.7
Debt refixing in 1 year	14.1	8.4	8.0	6.4	7.7
Exchange rate					
FX debt (% of total debt)	65.0	91.7	93.0	86.7	93.3

Source: MINECOFIN, April2017

Strategy 1: Status Quo

This strategy is similar to the current debt portfolio. The ATM is the second higher risky with 15.6 years, which is explained by the fact that commercial borrowings are not more included.

The exposure to exchange rate risk in this strategy is higher (91.7 per cent) due to a high level of debt denominated in foreign currency. However, the cost implied by this strategy is the second lowest because it is characterized by more concessional funding.

With regards to the short term performance, the high share of treasury bills assumed in this strategy implies a higher refinancing risk, more than other strategies, for debt maturing in one year (5.1 per cent). The interest rate of the strategy will not be affected sooner (15.2 years) due to small share of short term domestic debt in the portfolio.

Strategy 2: External Concessional Maximization and Domestic Market Development

Focuses on concessional funding as external debt, while domestic financing continues with the issuance of more treasury bonds. This strategy is the most sustainable and less costly with the ATM of 16 years but highly exposed to exchange rate fluctuations with 93 per cent of total portfolio. Concessional funding as the majority of this strategy is preferable (in terms of interest, maturity and grace period), but limited to specific projects.

This strategy also focus more on the development of the domestic capital market as it suggests more long term domestic debt, in replacement of short term notes. This strategy indicates that major developments are required in the structure of the domestic debt instruments in order to improve the existing indicators of risks related to refinancing of debt maturing in one year which currently stands at lower level with 3.1 per cent.

Even though, this strategy ensures the lowering of the refinancing risk for debt maturing in one year while the exposure to exchange rate fluctuations is positioned at higher level, it is the less costly strategy with implied interest rate payments standing at 3 per cent which remains moderate.

Strategy 3: Domestic Debt Market Development

Aims at more long-term domestic debt instruments combined with a reduction of short term debt in order to contribute to domestic capital market development. A higher share of domestic debt would lower the exposure to exchange rate risk which is the lowest among all strategies with 86.7 per cent of total portfolio. However, this strategy is the high costly (3.5 per cent) and its interest rate would be affected sooner compared to other strategies (14.1 years) due to the big share of domestic denominated currency.

Strategy 4: External Commercial

According to this strategy, the new borrowing demand is met through external non-concessional borrowing complemented with other external debt and some issuance of bills and bonds. The key point of this strategy is the foreign commercial borrowing, mainly through the financing of high return projects. The risk indicators associated with this strategy are relatively accentuated especially the ATM (15.1 years) which is lower than strategy 1 and 2 as its share of non-concessional borrowing is lower, the cost implied by the interest payments which increases to 3.2 per cent and the PV of debt to GDP ratio which increases to 27.4 per cent.

8. STRATEGIC GUIDELINES

8.1. BENCHMARKS (DESIRED PORTFOLIO)

Table10: Benchmarks for desired portfolio		2016		
		Current	S2	Benchmarks
Nominal debt as % of GDP		36.2	39.7	Max.45
Present value debt as % of GDP		25.8	26.7	Less than 40
Debt service as % of Revenues incl. grants		58.5	31.9	Max.55
o/w Interest payment		3.68	4.4	Max.4.5
Debt service as % of Revenues excl. grants		80.5	23.3	Max.75
o/w Interest payment		5.06	6.0	Max.5.0
Debt service as % of Expenditures		52	19.3	Max.47
Refinancing risk	Debt maturing in 1yr (% of total)	10.9	16.5	Max. 13.3
	ATM External Portfolio (years)	15.3	18.7	Min. 15.3
	ATM Domestic Portfolio (years)	2.4	2.6	Min. 2.8
	ATM Total Portfolio (years)	10.8	15.8	Min. 12.7
Interest rate risk	ATR (years)	10.6	15.2	Min. 12
	Debt refixing in 1yr (% of total)	14.1	12.1	Max. 17.1
	Fixed rate debt (% of total)	96.7	94.6	Min. 90
FX risk	FX debt as % of to	65	82	Max. 83
	ST FX debt as % of reserves	3.2	3.2	Max. 4.5

Source: MINECOFIN, 2016

9. RECOMMENDATIONS AND CONCLUSION

Referring to the strategy analysis it is evident that the portfolio suggested in strategy 4 is with high risk because non-concessional borrowing constitutes a considerable share, hence implying high interest costs and more exposed to the exchange rate fluctuation. The borrowing option indicating lower risk is strategy 2 which uses a high share of concessional instruments.

The analysis of the costs related to the existing strategy indicates the importance of reducing short term domestic debt and increasing long term domestic debt; otherwise the financial negative effects shall be considerable, causing higher payments for the debt service. All strategies intend to reduce the amount of short-term debt, except strategy 1 which keeps the status quo.

Going forward, the government's large investment agenda will require funding between 2017 and 2019 that remains within sustainable limits. All four strategies achieve this outcome but some strategies may have conditions attached to it or, take longer to materialize.

Strategy 2 could be the most appropriate and feasible financing option, given the fact that it is less costly.

Annex 1: Potential Sources of Funding and Financing Strategy

Instrument Nr.	Instrument Type / Name	Concessional / Mkt instrument	Maturity (y)	Grace (y)	Nominal IR
USD_1	IDA	Concessional	38	6	0.75%
USD_2	ADF	Concessional	40	10	0.75%
USD_3	ARAB FUNDS	Concessional	28	8	1.60%
USD_4	ADB_IBRD	Concessional	20	5	1.24%
USD_5	CHINA_INDIA	Bilateral	20	6	1.75
USD_5	EUROBOND	Mkt	10	9	6.63%
RWF_6	T-BILL 6 MONTH	Mkt	1	0	6.03%
RWF_7	T-BILL 1 YEAR	Mkt	1	0	7.50%
RWF_8	RSSB_CSR_BCR	Mkt	9	4	12.25%
RWF_9	BNR	Mkt	15	3	10.00%
RWF_10	T-BOND 7-10 YEARS	Mkt	9	8	12.70%
RWF_11	T-BOND 15 YEARS	Mkt	15	14	13.50%
RWF_12	T-BOND 3-5 YEARS	MKT	4	3	11.80%
RWF_13	GUARANTEES	MKT	8	2	0.87%

Strategy 1		**2016/17**	**2017/18**	**2018/19**
USD_1	External	55.0%	27.8%	38.5%
USD_2	External	23.9%	28.1%	26.8%
USD_3	External	13.5%	25.4%	17.5%
USD_4	External	0.0%	0.0%	0.0%
USD_5	External	3.9%	8.8%	8.8%
USD_6	External	3.8%	9.8%	8.5%
RWF_7	Domestic	57.0%	57.0%	57.0%
RWF_8	Domestic	6.0%	6.0%	6.0%
RWF_9	Domestic			
RWF_10	Domestic			
RWF_11	Domestic	7.0%	7.0%	7.0%
RWF_12	Domestic			
RWF_13	Domestic	30.0%	30.0%	30.0%
USD_14	External			
RWF_15	Domestic			
Total	**External**	**100.00000%**	**100.00000%**	**100.00000%**
Total	**Domestic**	**100.000%**	**100.000%**	**100.000%**

Strategy 2		2016/17	2017/18	2018/19
USD_1	External	55.0%	25.0%	45.0%
USD_2	External	23.9%	32.0%	27.0%
USD_3	External	13.5%	18.0%	10.0%
USD_4	External	0.0%	0.0%	0.0%
USD_5	External	3.9%	13.0%	10.0%
USD_6	External	3.8%	12.0%	8.0%
RWF_7	Domestic	57.0%	47.0%	37.0%
RWF_8	Domestic	6.0%	6.0%	6.0%
RWF_9	Domestic			
RWF_10	Domestic			
RWF_11	Domestic	7.0%	10.0%	18.0%
RWF_12	Domestic			
RWF_13	Domestic	30.0%	37.0%	39.0%
USD_14	External			
RWF_15	Domestic			
Total	**External**	**100.000%**	**100.000%**	**100.000%**
Total	**Domestic**	**100%**	**100%**	**100%**

Strategy 3		2016/17	2017/18	2018/19
USD_1	External	55.0%	28.0%	20.0%
USD_2	External	23.9%	22.0%	20.0%
USD_3	External	13.5%	25.0%	24.0%
USD_4	External	0.0%	0.0%	0.0%
USD_5	External	3.9%	9.0%	9.0%
USD_6	External	3.8%	16.0%	27.0%
RWF_7	Domestic	57.0%	20.0%	5.0%
RWF_8	Domestic	6.0%	6.0%	6.0%
RWF_9	Domestic			
RWF_10	Domestic			
RWF_11	Domestic	7.0%	22.0%	31.0%
RWF_12	Domestic			
RWF_13	Domestic	30.0%	52.0%	58.0%
USD_14	External			
RWF_15	Domestic			
Total	**External**	**100%**	**100%**	**100.000%**
Total	**Domestic**	**100.000%**	**100.000%**	**100.000%**

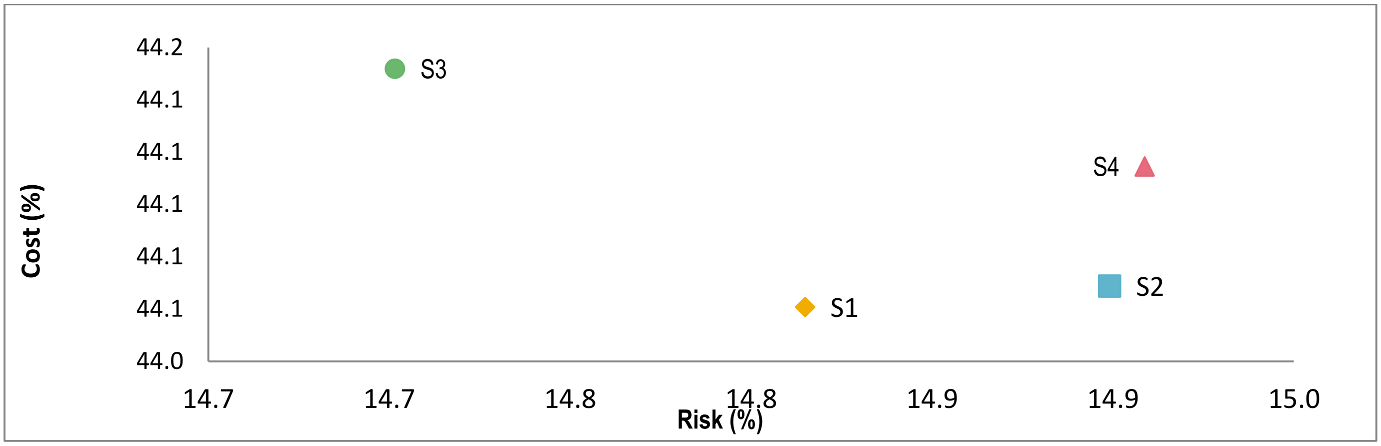
Strategy 4		2016/17	2017/18	2018/19
USD_1	External	55.0%	18.0%	28.5%
USD_2	External	23.9%	23.0%	17.0%
USD_3	External	13.5%	25.0%	17.0%
USD_4	External	0.0%	15.0%	20.0%
USD_5	External	3.9%	9.0%	9.0%
USD_6	External	3.8%	10.0%	8.5%
RWF_7	Domestic	57.0%	57.0%	57.0%
RWF_8	Domestic	6.0%	6.0%	6.0%
RWF_9	Domestic			
RWF_10	Domestic			
RWF_11	Domestic	7.0%	7.0%	7.0%
RWF_12	Domestic			
RWF_13	Domestic	30.0%	30.0%	30.0%
USD_14	External			
RWF_15	Domestic			
Total	**External**	**100%**	**100%**	**100%**
Total	**Domestic**	**100%**	**100%**	**100%**

Annex 2: Macro and Market Data

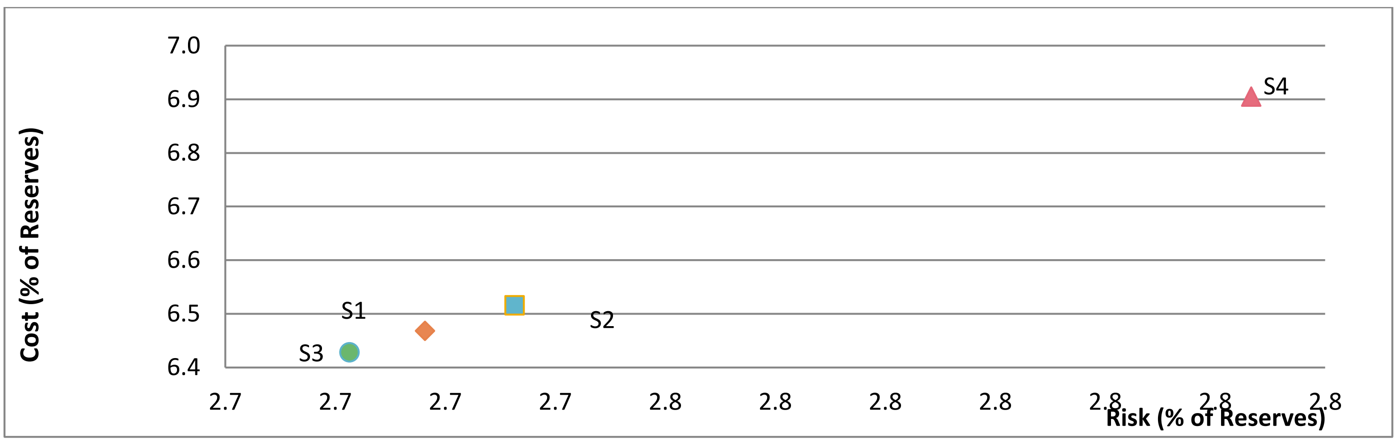
	FY2016/17	FY2017/18	FY2017/18
Public revenues (Inc. grants)	1567.1	1742	1933.7
Public sector primary expenditures	1,823	1945.4	2192.8
Public sector expenditure	1891.3	2026.8	2281
Public sector interest expenditure	68.6	81.4	88.2
International reserves (USD million)	1011.9	1011.9	1011.9
GDP	6852	7663	8586
Exchange rate, national currency per U.S. Dollar, average	862.2	939.4	1004.9
Primary Deficit	255.6	203.4	259.1
Interest Payments	68.3	58.4	57.3
Interest on Existing Debt	68.3	58.4	57.3
Interest on New Debt	0	0	0
Amortization	296.0	310.4	306.5
Amortization on Existing Debt	296.0	310.4	306.5
Amortization on New Debt	0	0	0
Gross Financing Need	619.9	572.2	623.0
Gross Financing Need in USD millions	718.9	609.1	619.9
Gross Financing Need to GDP (%)	9.0	7.4	7.2
Primary Deficit (in % of GDP)	3.7	2.6	3.0
Fiscal Deficit (in % of GDP)	4.7	3.4	3.6

Annex 3: Cost& Risk Indicators_ Graph

Debt to GDP as at end, 2019



External Debt Service to International Reserves as at end, 2019



Interest to Revenues as at end, 2019