The changing face of Rwandan public debt

**Background**

- Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt relief Initiative (MDRI) slashed Rwanda's debt burden ('clean slate')
- Rwanda's aspirations (cf. Vision 2020)
  - Reach middle-income status by 2020 and fulfill infrastructure needs
  - Reduce reliance on traditional donor aid (over medium term)
  - ... while keeping debt sustainable
- We study evolution of size and composition of post-relief Rwandan public debt and its interaction with donor aid

**Public debt relief**

- HIPC decision point (December 2000)
  - Common debt reduction factor of 71.2% (in present value terms)
- HIPC completion point (March 2005)
  - Total debt stock reduction of US$1.4 bn
  - Full debt relief by multilaterals, Paris Club and China, mostly rescheduling by Kuwait and Saudi Arabia
- MDRI qualification (January 2006)
  - Additional US$516 mn debt stock relief by IMF, IDA and AfDB

**Case study: 2012 Aid suspension**

- Upward trend in ODA came to abrupt end in 2012 following publication of critical UN report on Rwandan involvement in Eastern DRC
- Several donors (temporarily) suspended (part of) their aid
  - UK initially delayed general budget support (GBS). Later half of tranche disbursed as GBS and half as sector BS. Subsequent tranches of GBS reprogrammed
  - World Bank did not present planned development policy loan to Board
  - Germany canceled GBS and reprogrammed to three projects
  - Belgium suspended military cooperation. SBS planned in Rwandan budget not disbursed
- Short-term consequences
  - Fiscal impact of decline in grants
    - New recruitments halted, new projects postponed or slowed down
    - Temporary increase in arrears, T-bill sales and central bank overdrafts
  - Balance of payments impact
    - Widening current account deficit
    - Decrease in forex reserves and depreciation of Rwandan franc
  - Impact on public debt portfolio
    - Postponement (increased size?) of international bond issuance
    - Increased T-bill issuance hindered maturity lengthening of domestic debt
- Long-term consequences
  - Rwanda and donors have reconsidered reliance on GBS
  - Influence on high-level dialogue structures between government and donors; now more decentralised and/or narrower in scope

**Lessons for Belgian development cooperation**

Role of traditional development cooperation is changing, also in Rwanda

- Leverage of a grant-only donor will diminish
- But smart grant-only donor can still be relevant
- A donor like Belgium could try to smooth out partners' problems with transitioning towards new public debt regime
  - Frontloading of aid towards deserving projects (incl. those that generate forex)
  - Technical assistance in project appraisal/management
  - (Supporting) technical assistance in public debt management
  - (Supporting) technical assistance in building local currency bond markets

**Post-relief evolution of public debt**

- Tripling of Rwandan public debt in absolute terms since 2006; only moderate increase in relative terms due to fast GDP growth

**Commercial external public debt**

- In April 2013 Rwanda issued its first international bond/Eurobond
  - US$400 mn with 10-year maturity, mainly bought by fund managers
  - Fixed annual coupon of 6.625% and single principal repayment in 2023
  - Proceeds used to (re)finance infrastructure: Kigali Convention Centre, RwandAir, Nyabarongo hydropower
- Relatively low yield at issuance and massive oversubscription (900%)
- African Eurobond yields have increased since summer 2015 but less so for Rwanda.

**Domestic public debt**

- Non-negligible due to external debt relief: close to 25% of total debt
- Domestic public debt now mainly Treasury bills and bonds:
  - Issued for infrastructure investment, deficit financing and capital market development
  - T-bond maturities up to 15 years; auction yields of 8 to 13.5%
  - Main investors are local banks and pension/insurance funds
  - Very little foreign participation or secondary market trading

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