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

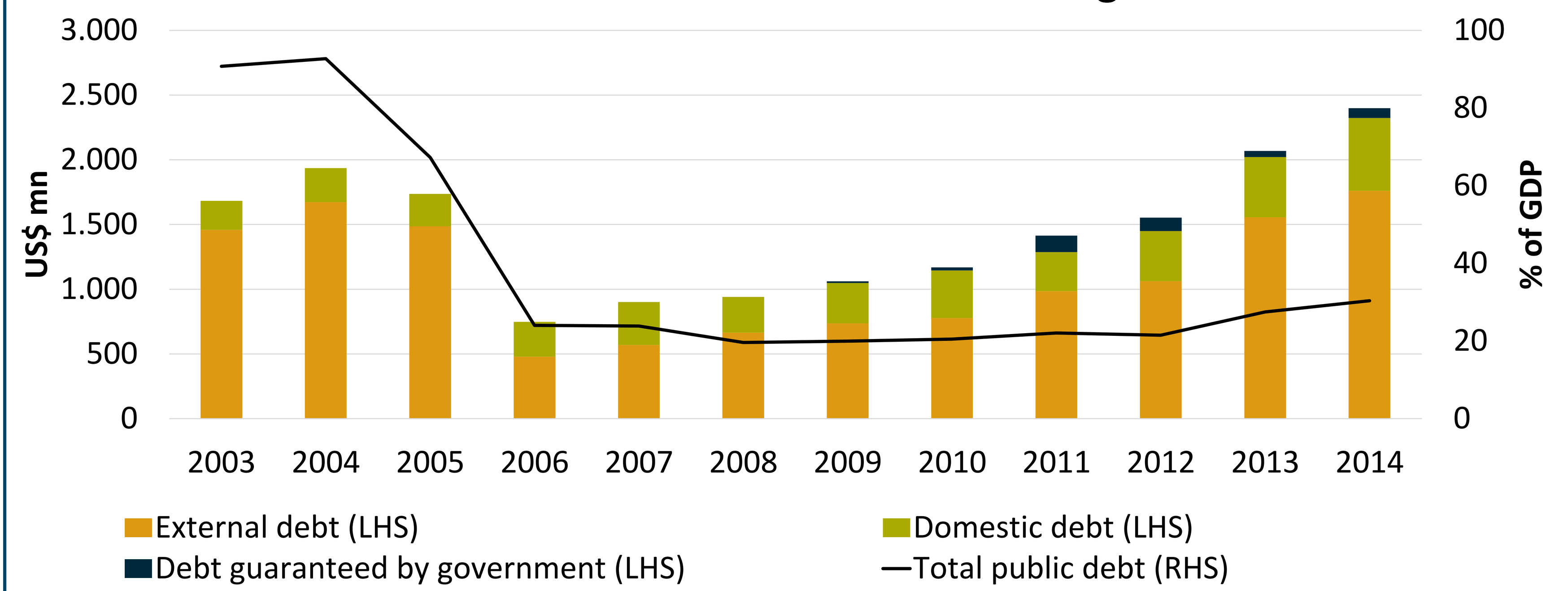
Lessons for Belgian development cooperation

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

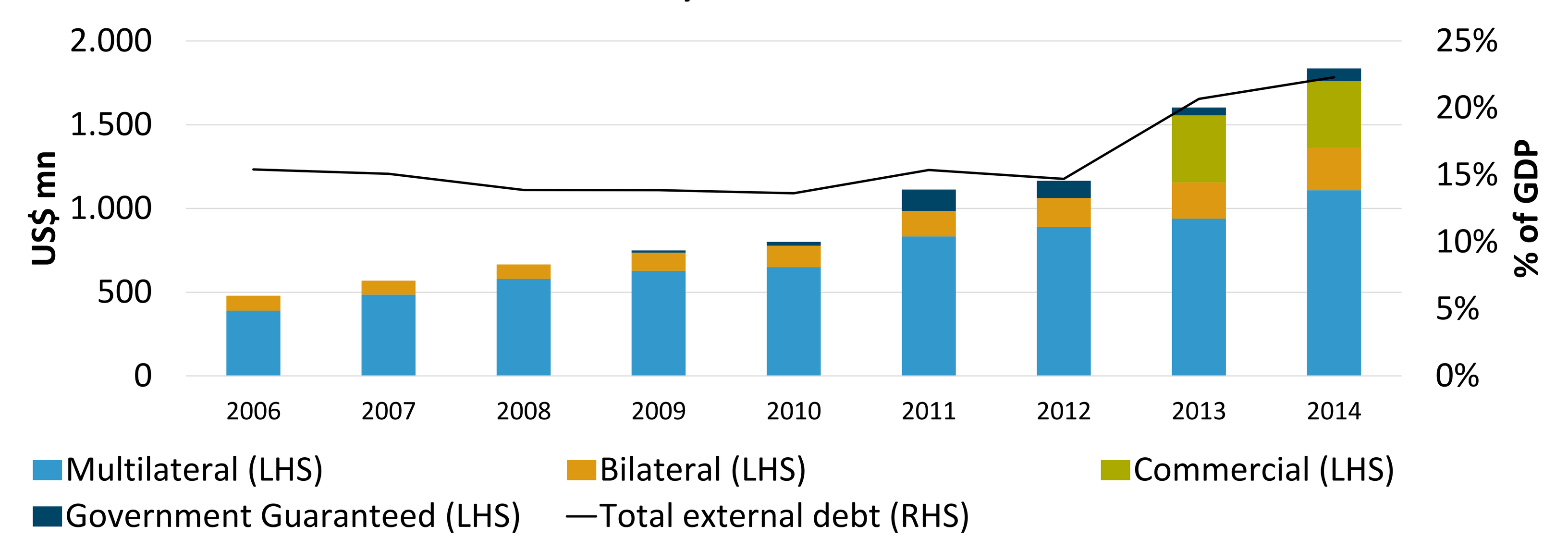
Post-relief evolution of public debt

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



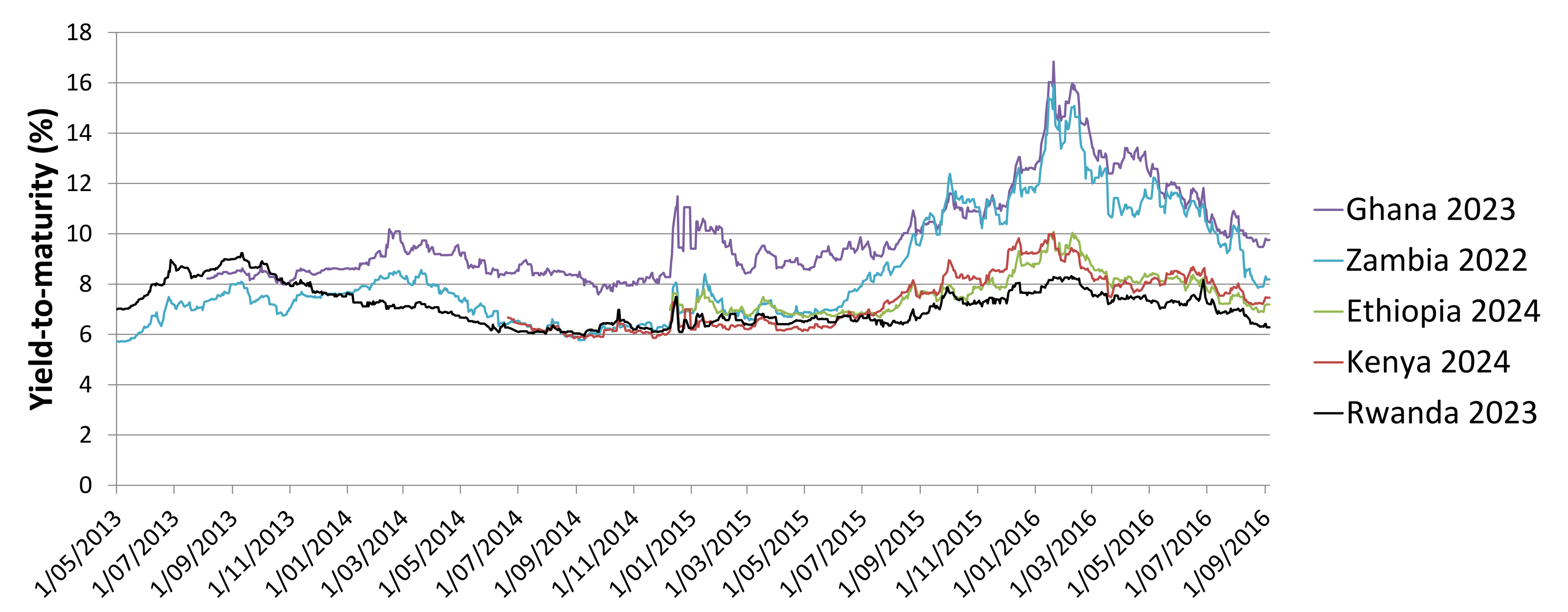
External public debt

Concessional multilateral loans (esp. from IDA and AfDB) still account for lion share. Commercial debt only since 2013



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.**



- Plans for second (larger?) Eurobond temporarily shelved

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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