Eighty Fifth Sovereign Debt News Update: Rwanda successfully repays its debut $400m Eurobond in time even as it subverts the IMF'S conditions

By:

The African Sovereign Debt Justice Network

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Rwanda successfully repaid its debut $400 million Eurobond which was due in the first week of May 2023 despite pressure on the country's coffers. The pressure results from ongoing global shocks linked to the prolonged impact of the Covid-19 pandemic, the war in Ukraine and the appreciation of the US dollar. The International Monetary Fund (IMF) was able to provide finance, which allowed the government to save money. One key feature of the debut $400 million bond was a precise list of how the proceeds would be used. In its prospectus, Rwanda stated that the proceeds would help finance the Kigali Convention Centre ($270 million) and capitalize RwandAir ($80 million), as well as contributing $50 million to the Nyabarongo hydro-power project. The projects were planned in detail and implemented, with the conference centre project completed in 2016, RwandAir continuing to fly passengers from around the globe to Kigali, and the hydro-power project producing electricity for the grid in 2014.

According to representatives of Rwanda's Ministry of Finance and Economic Planning, the government had set aside $63 million as part of the IMF's Special Drawing Rights (SDR) allocation that it received in 2021 as support to fight against the impact of Covid-19 on the economy. Impressively, this foresight and proactive measure by the Rwandan government significantly reduced the country's risk of default and allowed a successful repayment of the remaining 15.1% of the 2013 Eurobond. Notably, Rwanda successfully managed to reduce its debt burden during the pandemic when it took advantage of the low-interest rate environment and issued the second $620 million Eurobond, using part of its proceeds to repay part of the $400 million in May 2023. The 10-year Eurobond ($620 million) issued in April 2021 attracted a coupon rate of 5.5 percent, lower than the 2013 rate of 6.625 percent. The lower yield led to a reduction in its annual interest payments over the next 10 years, which has helped to make its debt sustainable.

With Rwanda's debut Eurobond successfully repaid, there would only be six African debut bonds left in the market (from 22 issuers). The largest are from South Africa ($1.5 billion maturing in 2024), Angola ($864 million due 2025), Egypt ($3.3 billion due in 2024), Ivory Coast ($498 million today but amortizing each year until 2032), Ethiopia ($1 billion due in 2024), Kenya (who have an untouched $2 billion tranche of their debut maturing in June 2024), Morocco (EUR 1.0 billion due in 2024). There are also smaller debut amounts maturing for Benin (EUR 178 million in 2026), Cameroon ($154 million in 2025) who have tendered most of these debut bonds, as well as an amortizing debut from Congo-Brazzaville that has $213 million outstanding today (due in 2029).

Recently, the IMF pushed for tighter monetary policy to reduce inflationary pressures in Rwanda's economy. Surprisingly, as to what may appear as a subversion of IMF's conditions, the National Bank of Rwanda (NBR) ignored the pressure from the IMF and instead maintained its central bank interest rate (CBR) at 7% to address inflationary pressures. From a peak of 21.7% in November 2022, Rwanda's headline inflation declined to 17.8% in April 2023, the lowest level in seven months.

Rwanda's subversion of IMF's conditions and instead opting to follow its internal monetary policies could mean a few things. Firstly, how effective or beneficial are the IMF's conditions to developing countries? And in the event a country fails to comply with these (unbeneficial) conditions, is it possible to get away with such subversion? What would be the consequences to the country?

Although the IMF claims that poverty reduction is one of its objectives, some studies show that the practice of conditionality affords international financial institutions including the IMF and World Bank with substantial policy influence on borrower governments' social expenditures, thereby reducing national policy space and undermining national development agendas. Moreover, IMF borrower countries experience higher rates of poverty as a result of strictly adhering to the loan the conditionalities. For instance, a 2022 study which used a sample of 81 developing countries from 1986 to 2016, found that IMF loan arrangements containing structural reforms contribute to more people getting trapped in the poverty cycle, as the reforms involve deep and comprehensive market-oriented changes that tend to raise unemployment, lower government revenue, increase costs of basic services, and restructure tax collection, pensions, and social security programmes, leading to worsened poverty. Conversely, loan arrangements promoting stabilisation reforms have less impact on the poor because borrower states hold more discretion over their macroeconomic targets.

So, as far as stabilisation reforms – including cutting government spending, raising interest rates, and repaying debts – are concerned, what happens if a country opts to exercise this discretion and decides to subvert the IMF conditionalities? Two plausible options: either fail and have a worsened economic situation, or succeed and improve its market economy. Indonesia and now Rwanda come to mind.

In November 1997, Indonesia experienced a banking crisis to the point it approached the IMF for bailout. The IMF prescribed some conditions in exchange for putting together a $43 billion bailout plan. These conditions included postponing or rescheduling major state enterprise infrastructure projects, enhancing revenues through an increase in the excise taxes, removal of some tax exemptions and increases in non-tax revenues, and tighter monetary conditions supporting fiscal policy. As the country was balking on these conditions, the southeast Asian country was avoided by traders in January 1998, who sent the local currency and stock market into free fall. As if that was not enough, then President Clinton called Indonesian then President Suharto from Air Force One to warn that a generation of economic gains in the world's fourth most populous nation could wash away like sand if Jakarta failed to play ball with the IMF. Indonesia had to bow. What ensued, however, was a wave of new shocks that worsened the financial market.

On the other hand, as already stated, Rwanda recently subverted the IMF stabilization reforms and was, impressively, able to successfully service its matured bonds. With large sums willing to enter Africa unconditionally thanks to Eurobonds investors, countries like Kenya, Rwanda, Zambia and Ghana discovered a new way to finance themselves with fresh money at hands and maturities as far as 10 years ahead. Now, there are two key questions: a) what to do with the money borrowed? and b) how to repay the Eurobond? While Rwanda chose to spend wisely the borrowed money, Kenya, Zambia and Ghana could have done better.

It is, therefore, imperative that even as countries go about seeking finances from IFIs and other international market options, the interest of its citizens should be paramount, even if it means subverting the conditionalities imposed. If Rwanda did it, so can other developing countries.