Agusto&Co.

Research, Credit Ratings, Credit Risk Management

2024 Sovereign Rating Report on the Republic of Rwanda

RATING RATIONALE

Rating Assigned: **B+**
Outlook: Stable
Issue Date: 25 November 2024
Expiry Date: 30 September 2025

Agusto & Co. hereby affirms the "**B+**" rating assigned to the **Republic of Rwanda** ("Rwanda", "the Country", or "the Nation") and attaches a **stable outlook**. The rating affirmation reflects our opinion on Rwanda's resilient economy, which has achieved an average real GDP growth of circa 7% over the past two decades. Rwanda's public debt also remains well-managed, with a moderate risk of distress and a debt service to revenue ratio below the IMF threshold of 30%. Additionally, Rwanda's political stability, alongside key socioeconomic and structural reforms, continue to drive national unity and accelerate economic development. However, the rating is tempered by an elevated inflation rate (14.3%) above the regulatory threshold and a substantial depreciation (18.1%) of the Rwandan Franc in the financial year ended 31 December 2023 (FY 2023).

Rwanda's export earnings grew by 16.8% year-on-year (YoY) to USD 2.5 billion[1] in FY 2023 fuelled by a 6.1% increase in non-traditional exports attributable to high volume exports of manufactured food products and construction materials. Also, imports rose by 15.4% to USD 5.2 billion[2] compared to the previous year, largely due to a growing demand for capital and intermediate goods as well as imported food products following adverse weather conditions. Consequently, Rwanda's trade deficit widened by 14.2% to USD 2.8 billion in FY 2023. By the end of Q2'2024, the value of export earnings slightly increased by 0.9% following a growth in traditional exports while the value of imports increased by 6.4% due to a growth in consumer goods (8.3%), capital goods (3.7%) and intermediate goods (5.7%). As a result, the trade deficit expanded by 9.5% in Q2'2024. Going forward, we anticipate the trade deficit will continue to widen due to a rising oil import bill, spurred by expected increases in crude oil prices in 2024. Simultaneously, export earnings will be negatively impacted by the decline in coffee and tea prices which will further exacerbate the trade deficit by about 10% by December 2024.

By the end of the fiscal year ended 30 June 2024 (FY 2023/24), total revenue accrued to the Treasury amounted to RWF 3,801.4 billion[3], exceeding the budget by RWF 57.4 billion. This performance was primarily driven by additional revenue from administrative fees and charges and higher-than-expected disbursement of grants from foreign governments, particularly the grant received from UK relating to the Asylum partnership with Rwanda, which was not in the revised budget projections. Rwanda's total expenditure

1 *Monetary Policy and Financial Stability Statement | March 2024*
2 *Monetary Policy and Financial Stability Statement | March 2024*
3 *Ministry of Finance and Economic Planning | Budget Execution Report July – June 2023/24*

for FY 2023/24 was projected at RWF 4,795.4 billion[4], with spending focused on delivering the National Strategy for Transformation, economic recovery interventions, ongoing projects, and resilience against socio-economic shocks. However, expenditure stood at RWF 95.8 billion above budget as at the end of FY 2023/24, due to higher spending on infrastructure repairs and maintenance following flood damage, as well as relief efforts for flood-affected communities. Looking ahead, we expect government expenditure to rise in the short to medium term, due to improved domestic revenue mobilization through ongoing tax law revisions and the digitalization of revenue collection.

Rwanda's public debt rose by 29.8% to RWF 12,022 billion[5] (73.5% of GDP) as of December 2023, largely due to exchange rate fluctuations on the huge foreign exchange debt portfolio. With 88.9%[6] of the debt in concessional loans, the Country enjoys reduced exposure to global and domestic interest rate volatility. However, the continued depreciation of the Rwandan Franc is likely to heighten repayment pressures in the medium term. In 2023, Rwanda's estimated debt service to revenue ratio reached 12.2%, remaining below the International Monetary Fund (IMF) threshold of 30%. We expect Rwanda's debt to remain within sustainable levels, with a target of debt-to-GDP ratio below 65% by FY 2031 underpinned by a robust fiscal consolidation strategy focused on prudent spending, enhanced domestic revenue mobilization, and stronger fiscal risk management.

In FY 2023, Rwanda's real GDP growth was 8.2%, supported by improved performance in the services sector (11%) and the industry sector (10%). By the end of Q2 2024, the economy expanded further, registering 9.8% growth, with agriculture contributing 7%, industry 15%, and services 10%[7]. Agusto & Co. expects GDP growth to average 9% in 2024 and 9.5% in 2025, supported by strong performance in the service and industrial sectors, as well as a recovery in the agricultural sector following improved output from Season A[8] of the agricultural cycle. Furthermore, the Rwandan government's focus on attracting investments in strategic sectors such as tourism, renewable energy, and infrastructure continues to position the country as an attractive hub for business and investment, driving further economic expansion.

Rwanda has experienced a considerable rise in inflation over the past three years, averaging 9.6% from 2021 to 2023. In FY 2023, inflation reached an average of 14.3%, up from 13.9% in the previous year, largely driven by rising cost of inputs and food prices due to poor domestic agricultural production resulting from adverse weather conditions. In 2024, we expect inflation to ease to 5%, supported by improved food production, tighter monetary policies, and easing international commodity prices, as seen in the average inflation recorded in the first half of 2024 of 4.9%[9]. As of 31 December 2023, the Country's average unemployment rate was 16.8%[10], mainly driven by the shifts related to seasonal agricultural cycles. Agusto & Co. expects gradual improvement in Rwanda's unemployment rate as key economic sectors maintain strong performance elicited by the ongoing political stability following the recent conclusion of the Rwandan general election which saw Mr Paul Kagame retain the top seat for another 5-year term until 2029.

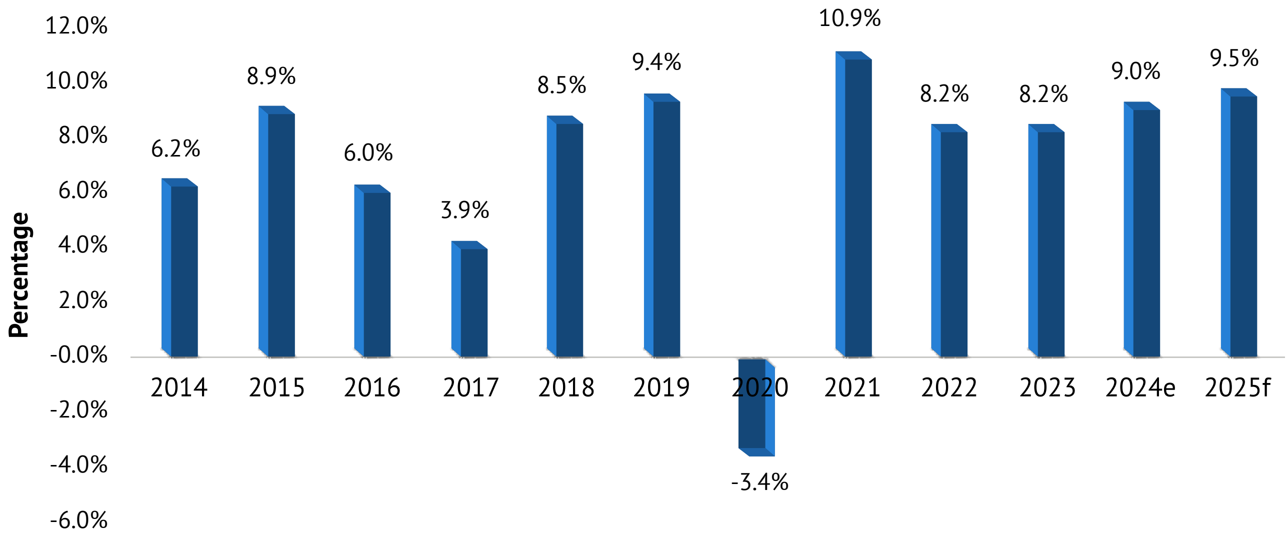
4 Ministry of Finance and Economic Planning | Budget Execution Report July – June 2023/24
5 Ministry of Finance and Economic Planning, Debt Stock End 2023
6 Ministry of Finance and Economic Planning, Budget Speech FY 2024/25
7 https://www.statistics.gov.rw/publication/gdp-national-accounts-second-quarter-2024
8 Season A typically runs from September to January and it coincides with the short rainy season. Season A is crucial for food security, as it often determines the availability of staple foods for the coming year
9 https://statistics.gov.rw/statistical-publications/subject/consumer-price-index-%28cpi%29
10 NBR Monetary Policy Report | May 2024

In 2023, the Rwandan Franc experienced significant depreciation against major currencies, driven by an expanding current account deficit, which represented 11.7% of GDP, and the strengthening of the US dollar. As a result, the Rwandan Franc depreciated by 18% year-on-year, closing FY 2023 at RWF/US$1,263.9[11], compared to a 6.1% depreciation in 2022. In the short to medium term, ongoing global and domestic challenges are likely to continue exerting downward pressure on the currency, as the exchange rate stood at RWF/US$1,311.1 as at end of June 2024 and we expect it to depreciate further to about RWF/US$1,376.2 by the end of December 2024. Despite these pressures, Rwanda's foreign exchange reserves remained resilient, estimated at US$1.8 billion[12] by the end of 2023, equivalent to 4.4 months of import cover. We anticipate an increase in reserves to US$2.1 billion by the end of 2024, supported by government initiatives to attract foreign investments, while remaining sufficient to cover at least four months of imports.

We anticipate that Rwanda's economic growth trajectory will remain strong in the short to medium term, driven by a robust services sector along with a recovering industrial and agricultural base. Growth will be further supported by government initiatives aimed at boosting investments in key sectors, enhancing the country's attractiveness as a premier investment and financial services hub in East Africa. Additionally, Rwanda's political stability and ongoing transformational reforms are expected to foster national unity and accelerate development, reinforcing the country's economic resilience.

Hence, we attach a **stable** outlook to the Republic of Rwanda.

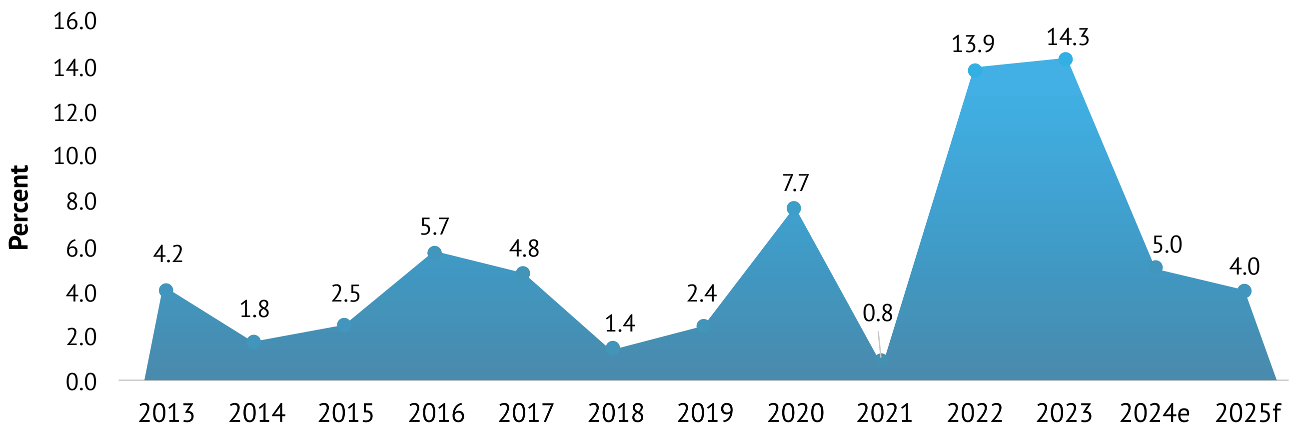
Figure 1: Rwanda's Real GDP Growth Rate (2014 – 2025f)



Source: National Institute of Statistics Rwanda

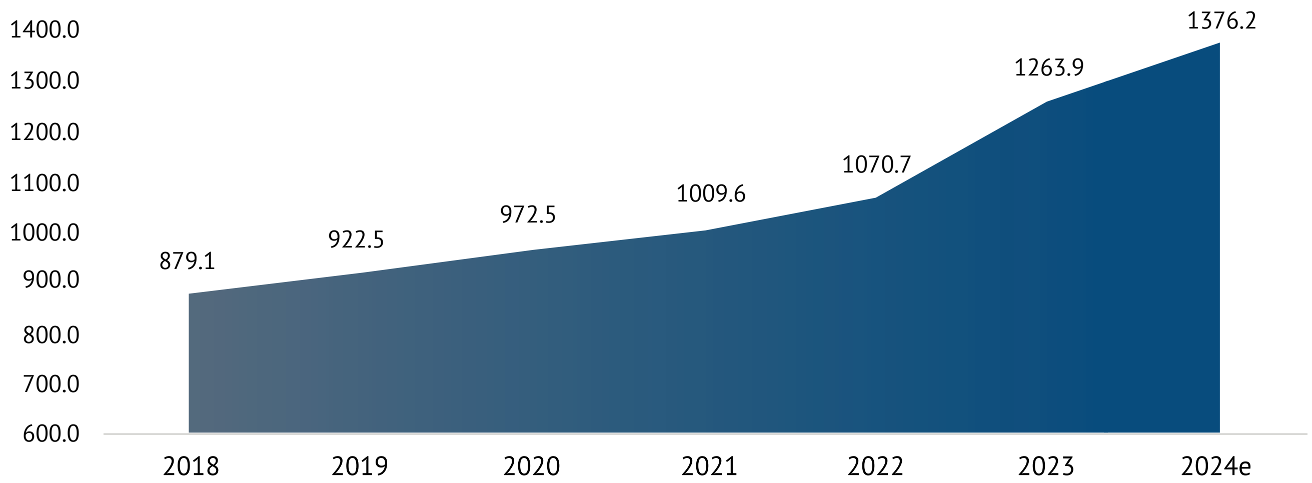
11 *National Bank of Rwanda*
12 *Ministry of Finance and Economic Planning Dataset, April 2024*

Figure 2: Rwanda's average Inflation (2013 – 2025f)



Source: National Institute of Statistics of Rwanda and National Bank of Rwanda

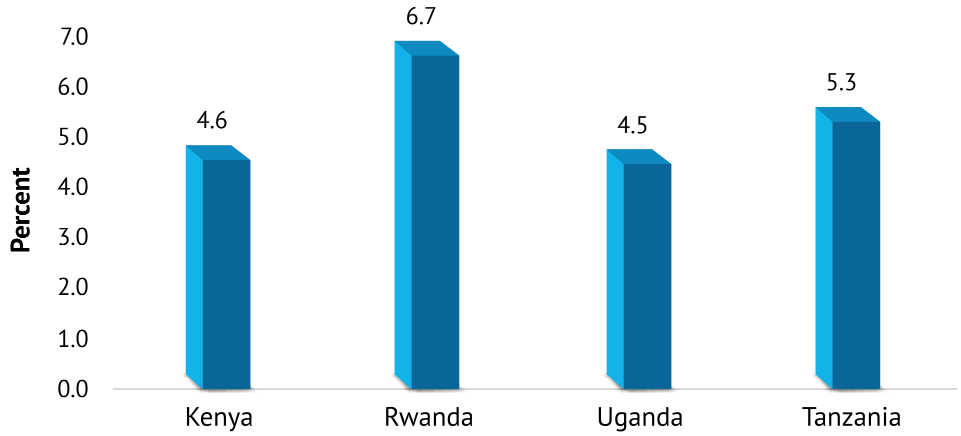
Figure 3: Rwandan Franc Exchange Rate to US Dollar as at Year End



Source: National Institute of Statistics of Rwanda

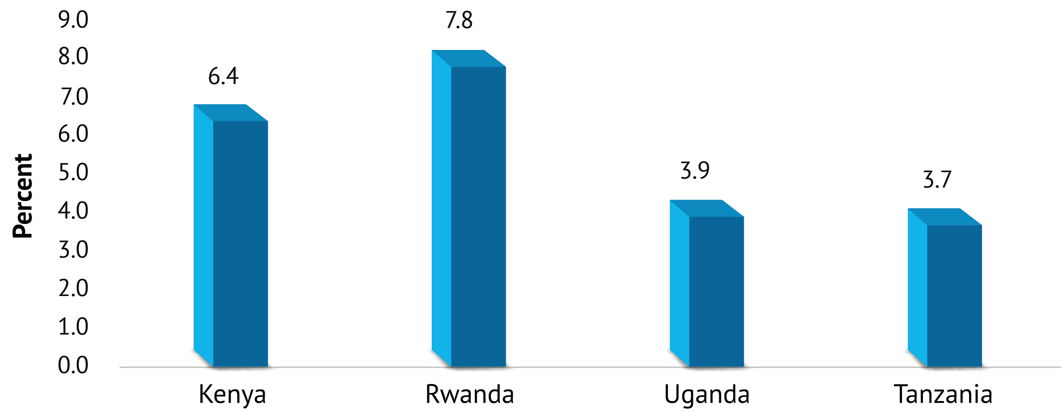
PEER COMPARISONS

Figure 4: Five Year Average Real GDP Growth Rates of Selected East African Countries



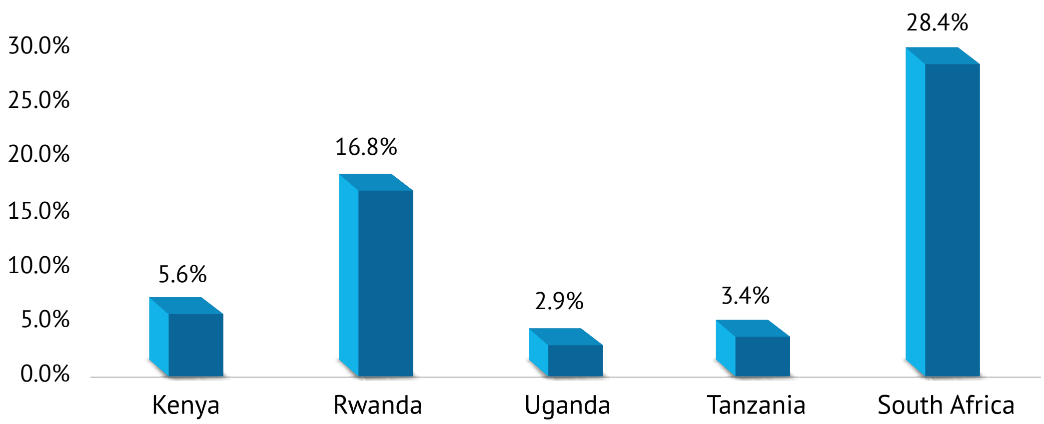
Source: Kenya National Bureau of Statistics, World Bank and Agusto & Co. Research

Figure 5: Five Year (2019 – 2023) Average Inflation Rate of Selected East African Countries



Source: National Institute of Statistics of Rwanda, National Bank of Rwanda, World Bank and Agusto & Co. Research

Figure 6: Unemployment Rate in Selected African Countries as at 2023



Source: Agusto & Co. research

RATINGS DEFINITIONS	
Aaa	**Extremely Low Risk** Peaceful changes in leadership is assured, government pursues outstanding economic policies. Life, property and investments are very secure. The country therefore attracts very significant savings and investments and her citizens enjoy an extremely high standard of living.
Aa	**Very Low Risk** Peaceful changes in leadership is assured, government pursues very good economic policies. Life, property and investments are secure. The country therefore attracts significant savings and investments and her citizens enjoy a very high standard of living.
A	**Low Risk** Recent track record of peaceful changes in leadership, government pursues acceptable economic policies characterized by moderate government deficits financed by borrowing. Crimes involving fatalities are infrequent therefore the country attracts moderately high level of investments and savings, can access international credit and her citizens enjoy a moderately high standard of living.
Bbb	**Acceptable Risk** Recent track record of peaceful changes in leadership, government pursues acceptable economic policies characterized by moderate government deficits financed partly by monetary growth. Crimes rates are high but declining therefore the level of investments and savings is low but improving, Country may not be able to access international credit however new private investments are being attracted. Although standard of living of the citizens is low it is improving.
Bb	**Moderately High Risk** Country has a history of violent changes in leadership, central government runs a large deficit financed mainly with monetary growth thereby resulting in a moderate level of inflation. Crime rate is high and poses a risk to life and property, therefore savings and investments are low. A significant proportion of the population cannot access all the basic needs.
B	**High Risk** Violent changes to leadership are not unusual, central government runs large deficit financed with monetary growth resulting in a high inflationary environment. Serious crimes are prevalent and pose a high risk to life and property and investments therefore savings and investments are very low. A substantial proportion of the population does not have access to all the basic needs.
C	**Very High Risk** Violent changes to leadership are normal, central government runs very large deficits financed with monetary growth resulting in hyperinflation. Serious crimes are prevalent and pose a very high risk to life, property and investments therefore savings and investments are virtually non-existent. A very large proportion of the population lives in abject poverty.
D	**Major Civil Disturbance or Breakdown of the system or War** There really is no central government as the country is at war or there is a major civil disturbance. Central government financing is unrecorded or there is an unreasonably large deficits financed with monetary growth resulting in hyperinflation. Life, property and investments are not secure therefore there is significant capital flight. A significant proportion of the population lives in extreme poverty.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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