East African Economic Dynamics

Rwanda and Kenya's Path Forward

We are alive in an era where data is available at the click of a button, an era where information can show what we are doing right and areas we can improve on. Is there a better way to improve other than learning from others? Is imitation the highest form of flattery? Surely, it should be from the East Africa community where charity should begin at home?

Rwanda and Kenya are as alike and as diverse as they come. Kenya has an estimated population of 55 million people while Rwanda is estimated to be at 14 million. The median age of both countries coalesces around 19 years. The GDP per capita is estimated at USD 1,949 with an annual growth rate of 5%. Rwanda's GDP per capita is estimated at USD 1,000 with an annual growth rate of **7%**.

Debt management is a priority for both countries. Rwanda's debt to GDP ratio as of 30 June 2024 was around **73.5%** while that of Kenya was around **70%**. These are obviously high numbers that should concern both governments seeing that they are 20% above the recommended 50% threshold for developing countries by the World Bank. Rwanda has an impressive (in relation to debt management) **85%** of its debt on concessionary terms while Kenya has over **50%** of its debt on commercial terms. The obvious effect of this is the high interest rates Kenya has to incur—perhaps some homework for Kenya on how Rwanda has managed its portfolio to ensure low interest debts.

The question of high interest debt payment is key because of the pressure it presents to the National Budget as it's a first charge item—this means priority will be given to paying debts over other necessary obligations like health or education. The pressure on the budget means that a government has to enhance revenue mobilization or enhance fiscal consolidation measures (basically expenditures rationalization) to stay afloat. It would be key to note that Moody's has Kenya's credit score at Caa1 but with a positive outlook. The obligations of Caa are judged to be of poor standing and are subject to very high credit. Rwanda has maintained a credit score of B2 with a stable economic outlook.

In FY 2023–2024, both countries ended up having a fiscal deficit of around **7%**. Fiscal deficit or budget deficit means both governments have to borrow as they are spending more than they are collecting. The Rwanda government has access to concessionary loans mostly in foreign currency; however, there is the problem of currency devaluation which ultimately makes even concessionary loans expensive. Kenya's options lie with non-concessionary loans which come with high interest rates, but the Central Bank of Kenya has managed to keep the exchange rate stable. Is there a risk for reduction in concessionary loans for Rwanda? Yes, the World Bank has indicated this. This means that, without fiscal deficit reduction, Rwanda's debt servicing costs may go up, creating a more urgent need for revenue mobilization, something that Kenya is experiencing. Debt servicing in Kenya is already taking up to **60%** of revenue collected, a situation that has put the Kenya Revenue Authority in a race against time to enhance tax collections. Both countries will have to enhance revenue mobilization or come up with measures to rationalize expenditure in the short and medium term.

Kenya's perceived risk and credit rating has meant that access to loans through the euro and domestic market is quite expensive. The last euro bond was obtained at **10.375%** to make a bullet payment for a previous USD2bn euro bond. As at September 2024, domestic market rates for T-bills were about **15%** with infrastructure bonds rates being as high as **18%** (it is notable that they have been coming down since late last year to the onset of 2025). Rwanda's domestic interest rates as at September 2024 were at **6.6%**. Is it sustainable for Kenya to bank on enhancing revenue mobilization seeing that the Finance Bill for 2024 was not adopted, which hindered Kenya's chances of obtaining the World Bank's concessionary loans? Isn't expenditure rationalization in the short term more sensible?

Revenue mobilization continues to be a key area for both governments to deliver. In FY 2023–2024, Kenya had a tax collection of USD16.3bn; Rwanda's was USD1.9bn. Kenya's yield on tax per person per year equates to USD 296 while Rwanda is at USD 135. This might pinpoint just how key the private sector is in Kenya's economy. Rwanda can surely pick some good points there. Both countries have employed technology to bolster collections—for VAT collections Kenya has eTIMS while Rwanda has utilized EBM. There is a lot of room available for technology to increase collections. Predictability in tax is a key matter for both countries to attract investments. Formalizing businesses to increase the tax pool is called upon. How well the citizens feel taxes have benefitted them has a direct relationship with their willingness to pay taxes. The government of Kenya has acknowledged a major trust deficit between the people and the government on the utilization of public funds. The Rwandan government has done well in this area.

Exchange rate movements are also a headache for both countries. Rwanda and Kenya are net importers and have significant loans denominated primarily in USD. Exchange rate variances influence debt servicing (ultimately putting pressure on revenue collection) and also the ease and predictability of doing business relying on importation. The Rwandan franc experienced a depreciation of **18.5%** in FY 2023/2024; this trend continued in the first quarter of FY 2024/2025 and it is showing no signs of stopping. Between 2022 and January 2024 the Kenyan shilling experienced an approximate **22%** depreciation which then followed an 18.5% appreciation (attributed to various factors, chief among them the bullet payment of the USD2bn euro bond, easing any fears of default). It has been stable around the 1 USD to 130 KES mark now for some months. Both countries have managed to largely keep their reserves to above four months of import cover. But just how has Kenya managed to maintain a steady USD exchange rate? Is it diaspora remittances? Attractiveness as a destination for foreign direct investment? Tourism? Government to government agreements on fuel importation? Can Rwanda pick up a few good points from the Central Bank of Kenya and National Treasury?

Apart from economy, Rwanda shares various cultural aspects with Kenya including language. "Turi Hamwe" in Kinyarwanda means "we are together" and it has the same meaning among a number of Bantu tribes in Kenya. A one hundred shilling note is called "igana" which again has the same meaning for a number of Bantu tribes in Kenya. As for head-to-head football matches, Kenya has won more, something that Rwanda would want to reverse!

Anthony Kinyatti Njeeh

Associate Director, PwC

rw_info@pwc.com

+250 252588203/4/5/6

LinkedIn

pwc