Ministry of Finance and Economic Planning

Rwanda Fiscal Risk Statement 2020

June 2020

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I. INTRODUCTION

The Government of Rwanda is publishing its first Fiscal Risk Statement (FRS), which has been produced by the Ministry of Finance and Economic Planning (MINECOFIN). This is in line with global best practice and fulfils Rwanda's commitment to meet East African Community Monetary Union requirements.

The publication of the annual FRS outlines risks with a fiscal impact stemming from various sources and the Government's mitigating measures to reduce the impact. This demonstrates the Government's commitment to uphold its main policy objectives of promoting economic development and social cohesion whilst maintaining macro-economic stability.

For the purpose of this paper, **fiscal risks refer to the possibility of deviations in fiscal variables from what was expected at the time of the budget or other forecasts**. Specifically stated, fiscal risks are developments that can cause public finance outcomes to deviate from what was expected at the time of the budget, or in other macroeconomic forecasts. Such risks include but are not limited to unforeseen spending pressures, revenue shortfalls, terms of trade shocks, exchange rate volatility, natural disasters, and calls on Government guarantees.

Figure 1: Fiscal Risk Framework

Macroeconomic risks	External risks Forecast performance • Nominal GDP • Budget balance • Revenue • Expenditure
Specific risks	• Nonfinancial public corporations • Government guarantees • Pension liabilities • Local government • Financial sector • Natural disasters

The purpose of this inaugural statement is by and large to identify the fiscal risks facing Rwanda, and outline steps to mitigate such risks where appropriate, as sound management of fiscal risks contributes to macroeconomic stability.

This FRS has been prepared against the background of the COVID-19 pandemic, which has led to drastic change in all macroeconomic projections for all countries, including Rwanda. The impact of this health crisis on the global economy is like no other. In Rwanda, growth is expected to be lower than expected on account of global value chain disruption, global travel restrictions that will affect our tourism and necessary restrictions to prevent the spread of the virus. An economic recovery is expected in 2021 with the set of economic measures put in place by the Government, and growth is expected to go back to its pre-COVID-19 trend by 2022. While our baseline macroeconomic projections underlying the budget 2020/21 factor in the impact of the COVID-19 pandemic in our economy, uncertainties around the evolution of the pandemic and global decisions related to easing or not of some restrictions, represent for now the biggest source of fiscal risks.

In view of the uncertainty related to the evolution of the covid-19 situation globally, the Government views **the combined level of fiscal risks as moderate.**

The Statement groups fiscal risks into two categories: macroeconomic and specific risks. These risks are discussed in the rest of the document.

Government intends to publish the Fiscal Risk Statement annually. Over the medium term, coverage of risks will be progressively expanded to cover a wider array of risks, including more details on contingent liabilities associated with public-private partnerships and legal claims.

II. MACROECONOMIC RISKS

1. Primary external risks

Rwanda's main macroeconomic risks are largely external, arising from global price volatility, climate irregularities, and uncertainty about the level of external support commitments.

Global commodity price volatility creates significant uncertainty. Many raw materials and finished products used in Rwanda are imported from the region or further afield. Because Rwanda is landlocked, transport costs are generally high. Coffee, tea, and some minerals are important sources of foreign exchange, but these are also susceptible to global commodity fluctuation.

The COVID-19 pandemic exacerbates the commodity prices volatility. Prices in 2020 are projected to drop significantly. It also creates supply chain disruptions affecting manufacturing, export of goods and specially export of services: travel and tourism because the air traffic has been stopped and events cancelled.

Climate fluctuations are a source of risk in Rwanda because most food is locally produced. Low rainfall or drought can significantly reduce agricultural production, with knock-on effects for employment and income in rural areas while heavy rains with ensuing floods have also been of concern recently.

Unexpected foreign aid shortfalls can have a significant impact on budget implementation and economic growth in general. Delays in disbursements can create short-term funding gaps, and lead to pauses in development activity.

In the short run, the Government is committed to implement its economic recovery plan to return to its pre-COVID growth path, and prudent measures to manage these risks, improve the resilience of the economy, and maintain sustainable public finances. Recent tax compliance and administration measures will expand and diversify the revenue base in the medium-term, supported by revenue mobilization strategies and increased expenditure prioritization.

2. Forecast performance

Forecast errors can be a source of fiscal risk. Revenue shortfalls against forecast, or expenditure overruns, can lead to unanticipated borrowing. This section reviews the performance of several key fiscal and macroeconomic forecasts. In general, forecast performance has been satisfactory over the past several years, with some exceptions discussed below.

The macroeconomic projections underlying the budget 2020/21 or "Baseline scenario" already account for the negative consequences of the COVID-19 pandemic in all sectors of our economy. However, as the evolution of the pandemic remains uncertain and for the sake of analysing the fiscal risks directly or indirectly related to it, we present a second scenario as "worst case scenario", which assumes a much lower nominal GDP growth of 4.6 percent as opposed to 8.7 percent in 2020 in the baseline.

Nominal GDP

Figure 1 shows that nominal GDP growth exceeded the forecast from 2013/14 to 2016/17. However, nominal GDP growth was weaker than expected in 2017/18 and 2018/19 due to lower-than-expected inflation during the period. Based on the historical forecast errors, Figure 2 shows a range of possible outcomes for nominal GDP growth in 2019/20 and 2020/21, currently projected at 10.5 percent and 8.0 percent respectively, with a 70 percent probability that nominal GDP growth will fall between 6 and 14 percent in 2019/20 and 4 and 12 percent in 2020/21.

Figure 1: Nominal GDP growth forecast and outcome (percent)

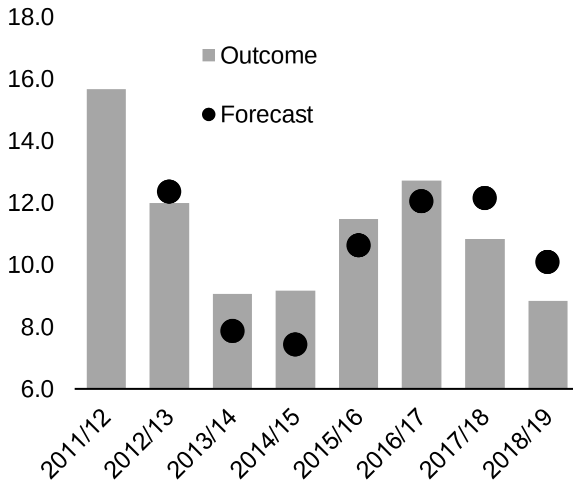
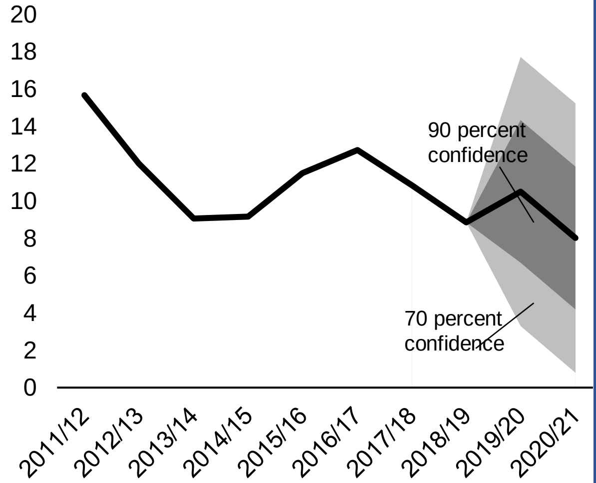


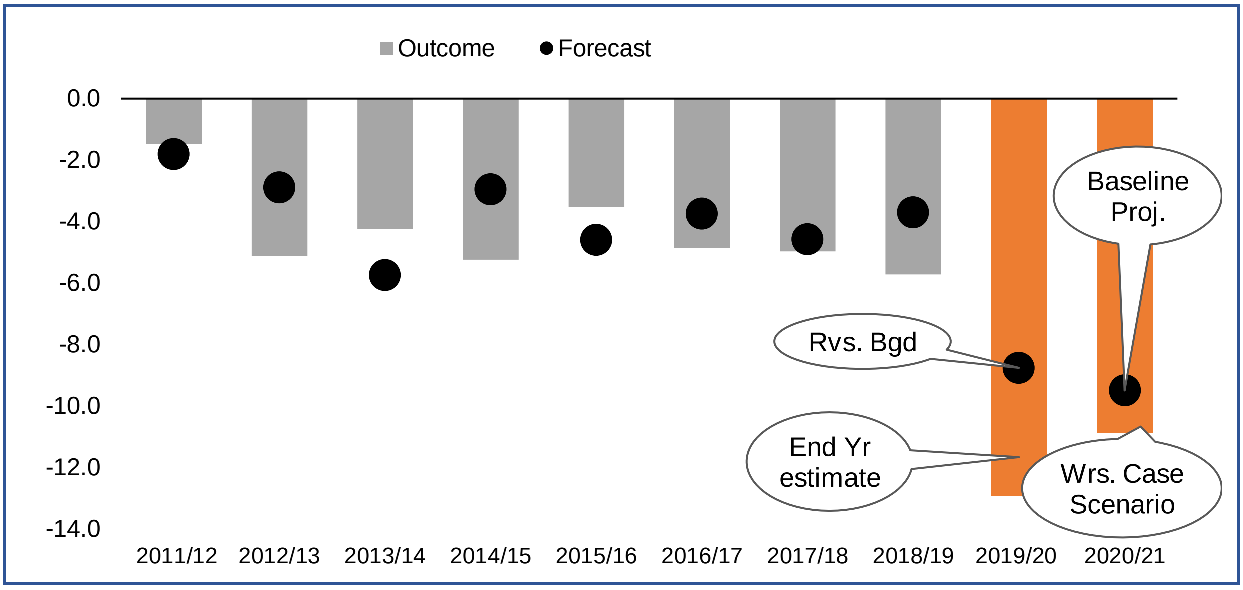
Figure 2: Nominal GDP growth and confidence intervals around the 2019-21 forecast (percent)



Overall budget balance

In 2016/17 and 2017/18, the budget deficit was slightly larger than forecast (Figure 3). This reflected increased expenditure on new recruitment in the public service, restructuring in some ministries as well as in other Government agencies, and advance payment for peacekeeping operations. From 2012/13 to 2014/15, volatility in foreign aid disbursements led to major deviations from the budget forecast. The recent COVID-19 pandemic impacted significantly revenue collection and led to revenue losses. In addition, the government expenditure did not reduce since some urgent spending was needed in response to the pandemic. This leads to higher fiscal deficits for 2019/20 and 2020/21 compared to what was observed in the past. In 2020/21, the worst case scenario shows a higher deficit due to a lower nominal GDP.

Figure 3: Overall balance (cash basis) forecast and outcome (% of GDP)



Revenue

Tax revenues are highly sensitive to macroeconomic changes and effective revenue collection by the Rwanda Revenue Authority. MINECOFIN modelling suggests that for every percentage point increase in nominal GDP growth, tax revenue increases by RWF 4.5 billion. This highlights the importance of accurate macroeconomic forecasting in the budget process.

Revenue forecasts, by and large accurate from 2012/13 to 2015/16, have become more pessimistic (Figure 4) with a significant deviation in 2016/17 and 2017/18. The better-than-expected revenue performance in past three years is largely explained by administrative measures implemented by Rwanda Revenue Authority, combined with tax law changes that generated additional revenue. Reimbursements from Rwanda's participation in United Nations peacekeeping operations have also been consistently higher than expected in the non-tax revenue performance.

Figure 5 shows a 70 percent probability that the revenue-to-GDP ratio will be between 16 and 19 percent in 2019/20; 15 and 18 percent in 2020/21. However, as suggested by the revenue growth forecast in 2019/20 and 2020/21, a significant drop of 1.2 percent in 2019/20 (End year estimate), 1.8 percent in 2020/21 (current projection) and to 4.4 percent in 2020/21 (worst scenario) is expected. These unusual forecasts reflect domestic revenue losses due to COVID-19 pandemic impact which is disrupting the economic activities in general and the revenue collection in particular.

Figure 4: Revenue growth forecast and outcome

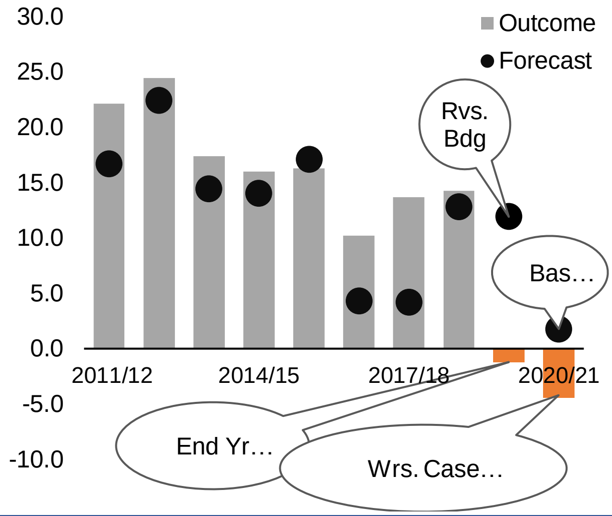
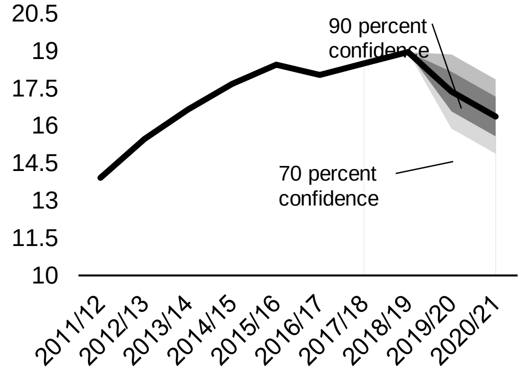
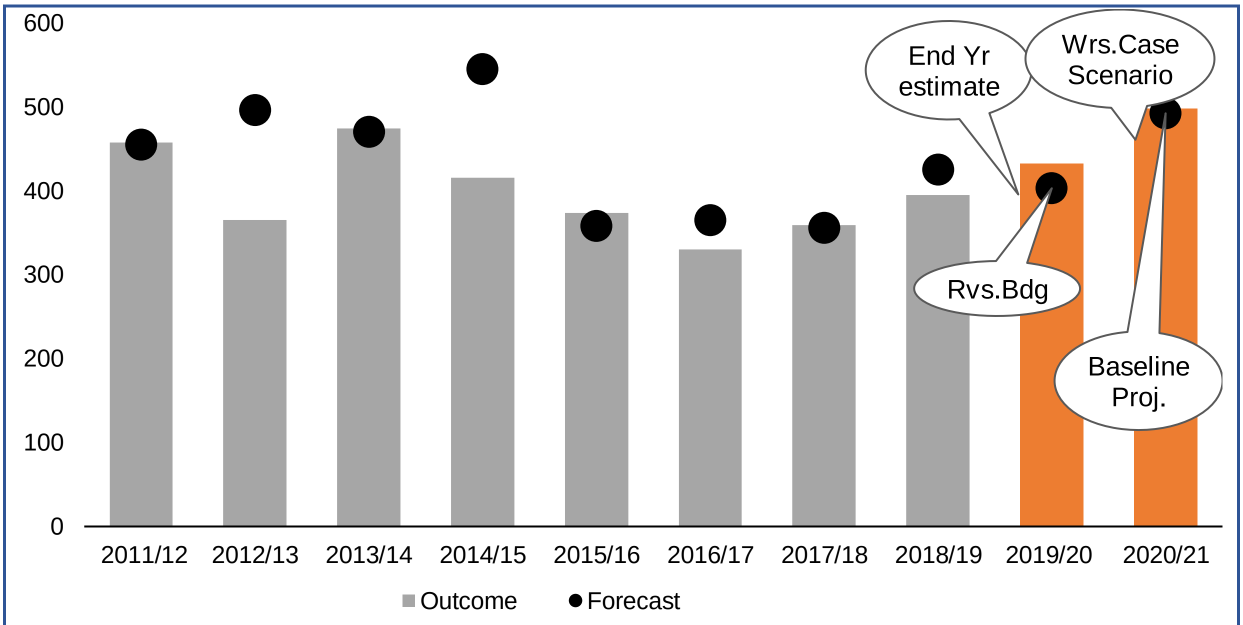


Figure 5: Revenue as a percent of GDP and confidence intervals around 2018-19 forecast



Grant revenue forecasting has improved in recent years (Figure 6), following sharp deviations in 2012/13 and 2014/15.

Figure 6: Grants forecast and outcome (RWF billions)



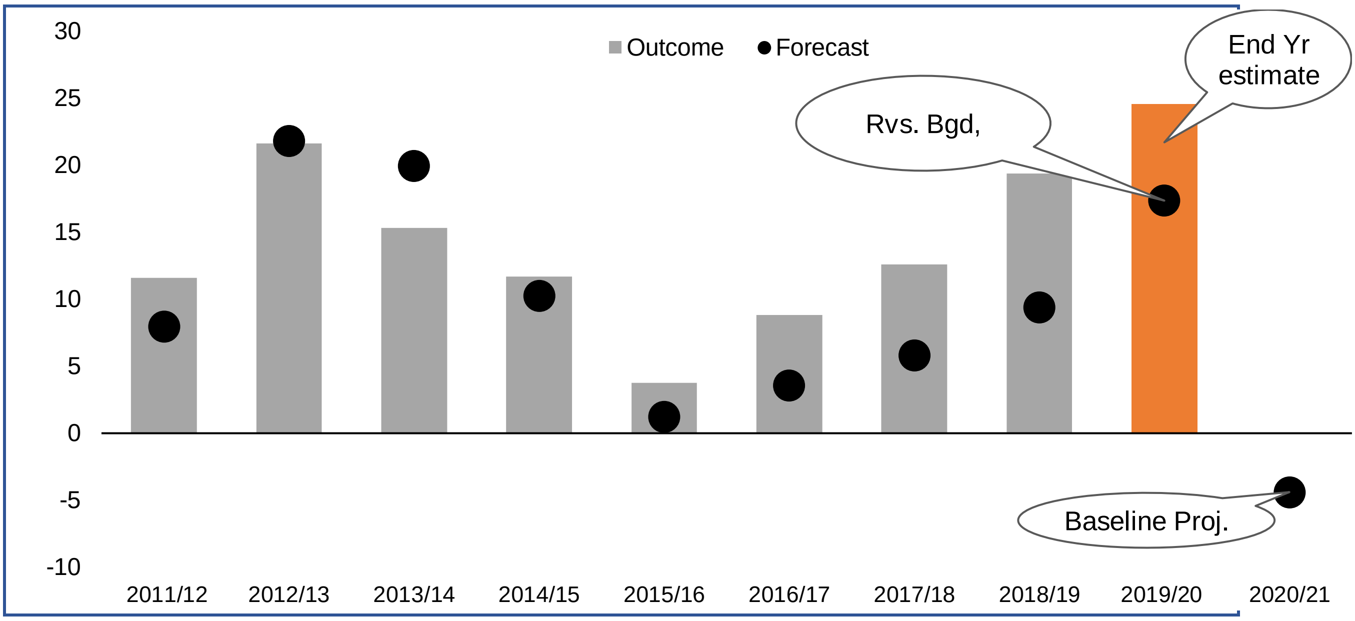
Expenditure

Expenditure outcomes have been higher than forecast for four years. This reflects unexpected expenditure on wages and salaries and some ministries and agencies restructuring.

Higher-than-expected wages and salaries resulted from increased staffing in the health and education sectors that responded to urgent requirements. Restructuring costs in some ministries, as well as late payments of some bonuses and allowances, have also increased expenditure above projections. Exceptional expenditures include the costs of Rwanda's engagement in peacekeeping operations, the timing of which is difficult to predict. Lumpy project loan disbursements also increase the difficulty of capital expenditure projections.

Figure 7 below shows that expenditure forecast in 2019/20 (end year estimate) is expected to grow by 24.6 percent compared to 2018/19. This historical pick is explained by the unexpected emergencies due to natural disaster spending as well as spending in response to COVID-19 pandemic outbreak.

Figure 7: Expenditure growth forecast and outcome (Percent)



Impact of COVID-19

The uncertainty of Global health, social and economic crisis resulting from the COVID-19 pandemic is affecting Rwanda significantly in different areas and largely the macroeconomic situation. As illustrated in the above charts, the period of 2019/20 and 2020/21 is expected to record an unusually low performance compared to previous period. It is in this context that impact of COVID-19 pandemic constitutes a fiscal risk as it is affecting all economic activities, the level of tax and non-tax revenue collection, the pace of Government expenditure, which consequently lead to higher fiscal deficit and higher financing need. Uncertainty around the evolution of the situation caused by the COVID-19 is a further risk.

Considering the current forecast for fiscal year 2019/20 and 2020/21, it is expected that domestic tax revenue loss due to COVID-19 will amount to FRW 556 billion for the two consecutive fiscal years. It is not only domestic revenue loss resulting from COVID-19 pandemic in this period but also additional expenditures associated to COVID-19 pandemic so far estimated at Frw 882 billion for both FY 2019/20 and 2020/21. As a result, the fiscal year 2019/20 and 2020/21 are expected to register higher deficits.

Looking at the COVID-19 worst case scenario, it assumes a much lower nominal GDP growth of 4.6 percent as opposed to 8.7 percent in 2020 baseline on calendar year basis and nominal GDP growth falling to 8.4 percent in 2019/20 and 6.4 percent in 2020/21 on fiscal year basis. This shock may affect all economic activities that will lead to public finance challenges like decline in tax revenues on one hand and on the other hand increased need for government intervention to mitigate the impact. So far, by considering fiscal year 2020/21 (as 2019/20 is close to end), domestic revenue loss is estimated to be FRW 488.6 billion. With no change in expenditures, the Government would have to get an additional financing equivalent to FRW 259.9 billion.

III. SPECIFIC RISKS

1. Non-financial Public Corporations

Rwanda's 19 Public Corporations support economic growth and development objectives. Collectively, these non-financial public corporations meet a range of social and economic needs, including increasing access to basic services such as water, energy, and transport. Government investments also bridge gaps where the private sector is not willing to invest due to large capital requirements – such as fiber-optic infrastructure – and in areas perceived as high risk – such as agriculture.

The Government expects all companies in which it holds an interest to be well governed, managed and financially sustainable. In principle, over the long term, Public Corporations should be profitable to achieve their mandates. In some cases, however, the substantial demands of expanding economic and social infrastructure put pressure on company balance sheets.

In recent years, the Government has taken steps to strengthen governance, management, and operations of Public Corporations by ensuring the availability and compliance of operation guidelines meant to strengthen internal control and risk management, regular capacity building of key official and reporting compliance.

However, in terms of profitability two largest non-financial public corporations namely Rwanda Energy Group (REG) and Water and Sanitation Corporation Ltd by net assets show losses.

These losses stem from their social and economic mandates coupled with important investments to support national development. The Rwanda Energy Group generates and distributes most of the country's electricity. The Water and Sanitation Corporation Ltd distributes water to the entire country. The Government has taken a policy decision to support these entities with grants over the medium to long term to enable them fulfil their mandates.

Other Public Corporations, like Rwandair, that contribute significantly to the National economic development and as other airline companies, have strongly been affected both worldwide and nationally by the COVID-19 Pandemic can lead to an important need for support from Governments globally and Government of Rwanda in particular.

On the other hand, there remain some companies that have not been audited over the past years. These corporations are usually audited by the Office of the Auditor General considering the nature of their mandate and investment done by the Government. And delayed audits mean that Government cannot independently assess the financial condition of these companies.

As Company boards of directors are responsible to ensure that all entities subject themselves to audit, and resolve audit queries, the Government will continue to ensure that board members of non-financial public companies receive adequate training to ensure sound corporate governance.

2. Contingent Liabilities & Public Private Partnerships

Contingent Liabilities are obligations that arise or are triggered by discrete but uncertain events that may occur in the future. Within the realm of public private partnerships where Government enters into some form of contractual arrangement with one more or more private sector partners, we track two main categories of explicit contingent liabilities.

1. **Loan guarantees**, whereby the Government guarantees loans made to a company (often state owned) in the furtherance of a specific project.
2. **Demand/revenue guarantees** in a public-private partnership contract whereby the Government guarantees to the investor a baseline level of income as a hedge against a shortfall in private sector demand. Although rare, examples of such guarantees have been in energy production or specialized & innovative manufacturing.

Some of the loan guarantees entered into as part of a public private partnership are listed below in Section 6.

<u>**Note:**</u> Planned Government expenditure under a public-private contract is not "contingent" (eg: an offtake), but is instead budgeted for by the relevant contracting authority. Therefore, this type of expected expenditure does not fall within the scope of explicit contingent liabilities tracked in the two categories above.

3. Government guarantees

Table 1: Government guarantees as of December 2019 - Guaranteed external Debt stock (USD million)

Entity	Original guaranteed amount	Remaining guaranteed amount end December 2019
Rwandair	103.2	67.1
Ultimate Concept Ltd (UCL)	130	130
Bugesera Airport Company (BAC)	46.6	46.6
New Horizon Ltd	56.1	47.6
Total	**335.9**	**291.3**
Guaranteed Domestic Debt stock (Billion FRW)		
Ultimate Concept Ltd (UCL)	26.2	25.2
EWASA	19.1	16
SONARWA	4.6	4.6
Bugesera Airport Company (BAC)	77.7	77.7
New Horizon Ltd	25.6	21.9
Total	**153.2**	**145.4**

To help public corporations and selected joint ventures attract private investment in infrastructure and enable them to borrow at affordable interest rates, the government issues guarantees. These guarantees commit the Government to cover the debt obligations of borrowers in the event of loan default. Rwanda's current guarantee portfolio stands at FRW 414.1 billion, equivalent to 4.5 percent of GDP, of which FRW 145.4 billion is domestic and USD 291.3 million is external. The guarantees, issued to six entities, are shown in Table 4.

A call on guarantees would result in the commitment of fiscal resources by Government. This risk is deemed to be low. Guarantee requests are subjected to strict assessments by the Debt Management Unit within MINECOFIN.. Over the past five years, there have been only one call on Government guarantees.

4. Pension liabilities

Pension benefits play an important role in securing and improving the livelihoods of retirees and their dependents. The Rwanda Social Security Board (RSSB) administers the country's social security plan. The RSSB pension covers all formal-sector employees in the public and private sectors. Its defined-benefit scheme is paid to beneficiaries when they become eligible.

The RSSB pays close attention to financial stability and minimizing its risks. As Table 5 shows, the pension board remains profitable and highly liquid.

Table 2: RSSB financial position

Designation	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Return on Assets Ratio	22%	15%	9.2%	8.5%	14%
Profit Margin Ratio	93%	90%	78.5%	78.9%	88%
Net Profit - Frw (bln)	124,2	97,1	68,5	71,0	132,2

The RSSB remains highly liquid, which means it can cover its expenses and obligations using its own cash reserves. With a low debt-to-equity ratio (5 percent), the RSSB funds the large majority of operations through its own funds, rather than through debt.

5. Local Government

Local government plays an important role in providing essential social and economic services, and government considers local financial management capacity when assessing fiscal risk.

In recent years, financial management and reporting capacity at district government level has improved. As of June 2020, 1,022 local government entities have enrolled on Government's integrated financial management and information system (IFMIS), up from 994 a year earlier. This therefore represents 100 percent coverage of targeted local government entities to use IFMIS, with the schools using SDMS in place of IFMIS. Nevertheless, there has been additional hands-on specialist support to build financial management capacity in local government.

Table 3: Trend of local government budget composition

Designation	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
District Own revenue(taxes &fees)	22	29	28	31	37	40	46	49	53	64
Transfers from CG	116	133	215	270	279	310	327	343	348	391
External Grants	11	14	23	38	30	24	28	43	23	45
Total District Budget	149	176	266	339	346	374	401	435	424	500
% of own Revenue to the LG Budget	15	16	11	9	11	11	11	11	13	13
%of CG Transfers to the LG Budget	78	76	81	80	81	83	82	79	82	78
% of External Grants to the LG Budget	7	8	9	11	9	6	7	10	5	9

As the table above shows, the percentage of local government budgets contributed by central government has stabilized at about 80 percent over the past five years. Own revenues have proven more variable. Where local government planning for infrastructure projects is inadequate, Central Government may be asked to provide additional budget support. Tax law changes that took effect in January 2019 are expected to boost own-revenue generating capacity in local governments, reducing pressure for demands on unbudgeted national funds.

6. Financial sector

The financial sector plays an integral role in the economic performance of the Rwandan economy. It facilitates saving and borrowing, enables risks sharing, facilitates payment among economic agents and enables people to save for future retirement. Moreover, it pays taxes and employs people. The analyses of fiscal risks related to financial sector focuses on assessing the performance and resiliency of the financial sector and the adequacy of prudential regulatory and supervisory standards to safeguard this soundness in the near-term to medium-term. In the Rwandan context, fiscal costs from the financial sector largely entails costs of managing failure of financial institutions. The assessment indicates that these risks are moderate, based on the soundness of the sector, and enhancement of the regulatory and supervisory standards performed in the last 5 years.

The financial sector maintains adequate capital and liquidity buffers. As at March 2020, the banking sector Capital Adequacy Ratio (CAR) stood at 24.9 percent, compared to the 15 percent prudential requirement, while banks' Liquidity Coverage Ratio (LCR) ratio stood at 209 percent, compared to the 100 percent prudential minimum. Banks' Non-Performing Loans (NPLs) ratio stood at 5.5 percent slightly above the 5 percent supervisory benchmark. Microfinance institutions also maintained adequate capital position with aggregate CAR of 35.8 percent as at end March 2020, compared to 15 percent prudential requirement and an aggregate liquidity ratio at 103.3 percent, above the minimum prudential requirement of 30 percent. Private insurers' aggregate solvency ratio stood at 135 percent, compared to 100 percent minimum requirement, while liquidity ratio stood at 136 percent as at March 2020 above 120 percent prudential requirement. Overall, the capital and liquidity buffers held by financial institutions, combined with adequate supervision, minimize the possibility of bank failures and related fiscal costs to bail them out.

The recent enhancement in the legal and regulatory framework provides a good foundation for a stable and sound financial system. In the last 5 years, NBR reviewed its regulatory policies required for an efficient and stable financial sector. For example, the Banking Law[1] as revised in 2017 and implementing regulation provide a strong foundation for compliance with the Basel core principles for effective banking supervision, strengthened the corporate governance requirements, provides for effective consolidated supervision, and spells-out prompt corrective actions and recovery measures. The NBR's implementation of Basel II (pillar 1-3) [2] enhanced the capital position and risk management of banks, while implementation of Basel III liquidity tools—LCR and NSFR— also enhanced the liquidity resiliency of banks. The establishment and implementation of a supervisory framework for Systemically Important Banks (SIBs) in 2019 mitigates the systemic risks from failure of DSIBs (Banks whose failure would cause disruption in the entire financial sector). Starting with 2020, NBR will annually identify systemically important banks and subject them to additional supervisory requirements, including capital surcharge[3] . Financial vulnerabilities related to exposure to commercial real estate were dealt with by establishing Loan to value (LTV) limits[4].

Financial stability in the medium-term will be supported by the raised minimum capital requirement for banks and insurance companies. In 2018, NBR increased the minimum paid up capital requirement for commercial Banks from FRW 5 billion to FRW 20 billion. For development Banks, it was increased from FRW 3 billion to FRW 50 billion, while for other categories of banks (Cooperative and Mortgage Banks) it was established at FRW 10 Billion[5].

In the same spirit, NBR increased the minimum paid up capital for general insurers from FRW 1 billion to FRW 3 billion, and for life insurance from FRW 1 billion to FRW 2 billion[6]. Banks and insurers were given a transitional period of 5 years. This capital increment of capital is expected to strengthen the resiliency of the banking and insurance sector in the medium-term.

The Deposit Guarantee Fund (DGF) exists to pay for the resolution of small non-systemic banks and MFIs. As at March 2020, DGF funds stood at FRW 5.3 billion, capable of fully paying the insured depositors of 10 small banks (based on a maximum ensured amount of FRW 500,000). The funds of the fund continue to expand through contributions and investment income.

[1] https://www.bnr.rw/laws-and-regulations/banking/laws/
[2] https://www.bnr.rw/laws-and-regulations/banking/regulations/
[3] https://www.bnr.rw/laws-and-regulations/banking/directives-guidelines/
[4] Directive No 2600/2019-00015[613] on LTV for residential and commercial property loans
[5] Regulation N° 2310/2018 – 00013 of 27/12/2018)
[6] Regulation N° 2310/2018 - 00014[614] of 27/12/2018),

Table 4: Financial Soundness Indicators for the Banking Sector

Financial Soundness Indicators	Mar-19	June-19	Sept-19	Dec-19	Mar-20
Core Capital/Risk weighted Assets (MN12.5%)	22	22	22	23	23
Leverage ratio (MN6%)	14	15	14	14	14
MEASURES OF ASSET QUALITY	Mar-19	June-19	Sept-19	Dec-19	Mar-20
NPLs/Gross Loans	7	6	5	5	5
Provisions/NPLs	66	80	85	81	77
MEASURES OF EARNNGS(ANNUALISED)	Mar-19	June-19	Sept-19	Dec-19	Mar-20
Return on Average Assets	2	2	2	2	2
Return on Average Equity	12	9	12	12	12
MEASURES OF LIQUIDITY	Mar-19	June-19	Sept-19	Dec-19	Mar-20
Liquidity Coverage Ratio (LCR (MN100%)	215	180	193	192	202
Net Stable Funding Ratio (NSFR) (MN100%)	174	164	146	129	135

Table 5: Financial Soundness Indicators for the Insurance Sector

Insurance Sector (Private+Public insurers)	Mar-19	June-19	Sept-19	Dec-19	Mar-20
Solvency margin (min.100%)	1,109	1,190	1,217	1,266	1,133
ROE	11	13	12	9	14
ROA	8	10	9	12	11
Liquidity ratio ((MIN100%)	363	323	315	325	319
Private Insures	Mar-19	June-19	Sept-19	Dec-19	Mar-20
Solvency margin (min100%)	151	174	188	170	139
ROE	12	17	14	4	24
ROA	4	5	4	11	8
Liquidity ratio ((MIN120%)	124	125	133	130	136
Public Insures	Mar-19	June-19	Sept-19	Dec-19	Mar-20
Solvency margin (min100%)	2,279	2,297	2,304	2,426	2,390
Claim a ratio (max60%)	53	52	52	51	54
Expenses ratio (max 30%)	21	15	14	12	17
Combined ratio(max 90%)	74	66	66	63	71
ROE	11	12	12	12	13
ROA	11	12	12	12	12
Liquidity ratio ((MIN120%)	5,275	4,058	4,033	4,636	3,956

Table 6: Financial Soundness Indicators for the Micro-Finance Sector

Financial Soundness Indicators	Mar-19	June-19	Sept-19	Dec-19	Mar-20
CAR					
Capital Adequacy ration	34.1	33.9	35.3	35.7	35.8
NPLs Ratio					
NPLs/Gross Loans	7.3	6.7	6.1	5.7	8.0
MEASURES OF EARNNGS(ANNUALISED)					
Return on Average Assets	4.8	4.3	4.2	3.7	2.8
Return on Average Equity	14.4	12.8	12.2	10.5	7.8
Liquidity Ratio					
Liquidity Assets/Current deposits	108.4	108.8	87.8	80.6	103.3

7. Natural disasters

Rwanda is highly dependent on its diverse ecosystems to sustain its population and support economic growth. The country is prone to storms, landslides, and floods, and 55 percent of total land area is at risk of soil erosion. On average, five districts per year face serious natural disasters, but in 2016 and 2018 the spread and severity of floods and landslides rose well above average, with over 2 million people affected, and negative consequences for agriculture, trade, and industry.

While the effects on specific industries and communities can be pronounced, the effect on GDP has been moderate. In 2017, for example, disasters cost an estimated 7.9 billion, or 0.1 percent of GDP. However, disasters invariably require significant emergency management and longer-term responses. By disrupting normal business activities, they can also reduce revenue collection. Tourism is the country's largest source of foreign exchange, and disaster pose particular risks to wildlife tourism.

In 2017/18 and 2018/19, the Government allocated 4.5 billion and 5.9 billion respectively for disaster management through the relevant ministry. However, the Government incurred additional expenditures of 11 billion as a result of floods in 2018.

According to the Ministry in charge of Emergency Management in the recovery needs estimates document, abundant and prolonged rains from September 2019 to May 2020 affected heavily sectors of agriculture, housing, infrastructure and environment among others in all districts.

As natural disasters remain one of the major source of fiscal risks, the Government's disaster risk financing has led to the formulation of recovery needs estimates that intends to address the four (4) levels of disaster risk financing mentioned above namely agriculture, housing, infrastructure and environment as well as strengthen disaster preparedness and management:

Building on lessons learnt over the past several years, the Government has shifted to a more proactive approach. The country has strengthened the institutional, legal and coordination framework for disaster risk management.

IV. Risk mitigation

The Government of the Republic of Rwanda is aware of the current economic crisis resulting from the COVID-19 outbreak. However, due to external uncertainty beyond control, risks remain on the scale of the general economic impact. Government will continue to monitor and control regularly the fiscal impact to mitigate the fiscal risk.

V. Conclusion

Rwanda's first fiscal risk statement outlines a range of risks. In the current covid-19 situation, the **Government assesses the general level of fiscal risk as moderate**, and has put in place mitigation measures across a range of risks. Future statements will expand the range of risks assessed.