NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

30th August 2017

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LIST OF ACRONYMS AND ABBREVIATIONS

ACH	: Automated Clearing House
AFR	: Access to Finance Rwanda
AML	: Anti Money Laundering
AMIR	: Association of Microfinance Institutions in Rwanda
ASSAR	: Association des Assureurs du Rwanda
ATM	: Automated Teller Machine
ATS	: Automated Transfer System
BIF	: Burundian Franc
BNR	: Banque Nationale du Rwanda
B2P	: Business to Person
BK	: Bank of Kigali
BPR	: Banque Populaire du Rwanda
BRD	: Banque Rwandaise de Développement
CAR	: Capital Adequacy Ratio
CBA	: Commercial Bank of Africa
CIC	: Currency in Circulation
CIEA	: Composite Index for Economic Activities
CIF	: Cost, Insurance and Freight
CMA	: Capital Market Authority
COMESA	: Common Market of Eastern and Southern Africa
CPS	: Credit to the Private Sector
CSD	: Central Securities Depository
CSD	: Central Securities Depository
CFT	: Combating Financing Terrorism
DGF	: Deposit Guarantee Fund
DRC	: Democratic Republic of Congo
EAC	: East African Community
EAPS	: East Africa Payment System

ECB	: European Central Bank
EDPRS-2	: Economic Development and Poverty Reduction Strategy-2
EUR	: Euro
FIU	: Financial Intelligence Unit
FOB	: Freight on Board (or Free on Board)
FOREX	: Foreign Exchange
FRW	: Franc Rwandais
FSD	: Financial Stability Directorate
FX	: Foreign Exchange
GBP	: Great British Pound
GDP	: Gross Domestic Product
IMF	: International Monetary Fund
JPY	: Japanese Yen
KCB	: Kenya Commercial Bank
KES	: Kenyan Shilling
M3	: Broad money
MFIs	: Microfinance Institutions
MINECOFIN	: Ministry of Finance and Economic Planning
NBFIs	: Non-Bank Financial Institutions
NCG	: Net Credit to Government
NDA	: Net Domestic Assets
NFA	: Net Foreign Assets
NISR	: National Institute of Statistics of Rwanda
NPISHS	: Non Profit Institutions Serving Households
NPLs	: Non-Performing Loans
OPEC	: Organization of the Petroleum Exporting Countries
P2G	: Payment to Government
POS	: Point of Sale
Q1	: Quarter one
Q2	: Quarter two

Q3 : Quarter three

Q4 : Quarter four

q-o-q : quarter-on-quarter percentage change

RBA : Rwanda Bankers Association

REPO : Repurchase Agreement

REPSS : Regional Payment and Settlement System

RIPPS : Rwanda Integrated Payment Processing System

RNIT : Rwanda National Investment Trust

ROA : Return on Assets

ROE : Return on Equity

RTGS : Real Time Gross Settlement System

RSSB : Rwanda Social Security Board

RRA : Rwanda Revenue Authority

SACCOs : Saving and Credit Cooperatives

SMEs : Small and Medium Enterprises

TA : Total Assets

T- Bills : Treasury Bills

TZS : Tanzanian Shilling

UGS : Ugandan Shilling

UK : United Kingdom

U-SACCOs: Umurenge Savings and Credit Cooperatives

US : United States

USA : United States of America

USD : American dollar

WASAC : Water and Sanitation Company

WEO : World Economic Outlook

y-o-y : year-on-year percentage change

EXECUTIVE SUMMARY

The global economy is improving in 2017 as negative shocks to aggregate demand and financial conditions are dissipating. The world economic growth is expected to continue picking up, rising from 3.2 percent in 2016 to 3.5 percent in 2017, supported by rising consumer confidence, investments, and global demand, complemented by favorable financial conditions. Despite a temporary slowdown in 2017Q1 in USA and India, as well as the progressive deceleration in UK, growth perspectives are improving in advanced, emerging and developing economies, mostly helped by the recovery in commodity producing countries.

Growth for emerging and developing economies is expected at 4.6 percent in 2017 from 4.3 percent in the previous year. On average, Chinese GDP growth is foreseen to stabilize at 6.7 percent in 2017, owing to high credit growth, and to the efforts to fix the non-performing loans issue.

Sub-Saharan African economic growth is projected at 2.7 percent on average in 2017 from 1.3 percent in the previous year, supported by recovering commodity prices. The Nigerian economy is expected to rebound as GDP growth is projected to increase from -1.6 percent in 2016 to 0.8 percent in 2017. Likewise, growth in South Africa is foreseen to recover from 0.3 percent to 1.0 percent while the Angolan economic growth is likely to rise from 0.0 percent to 1.3 percent during the same period. In EAC, the growth performance remains broadly high, though recently below historical trends. Economic growth for 2017 is *projected by the IMF at 6.8 percent in Tanzania, 6.2 percent in Rwanda, 5.3 percent in Kenya, 5.0 percent in Uganda and 0.0 percent in Burundi.*

On commodity markets, the overall price index which includes energy and non-energy commodities, rebounded in the first half of 2017 from a sharp decline during the same period last year. Prices for almost all commodities are expected to continue rising.

Despite improving global economic and financial conditions, the Rwandan economy is facing short-term domestic challenges such as the poor performance of agriculture and completion of big investment projects.

The Rwandan economy grew by 1.7 percent in 2017Q1, down from 8.9 percent recorded in 2016Q1. This slowdown in economic performance was mainly due to the completion of big construction projects, dragging down growth of the industry sector to -1.0 percent in 2017Q1 from 11.0 percent in 2016Q1. Owing to the long spell of the drought, growth of the agriculture sector also slowed to 3.0 percent in 2017Q1 from 8.0 percent of the same period of last year.

The rising commodity prices together with the completion of big construction projects had a positive impact on the Rwandan Balance of Payments (BOP). Compared to the same period of 2016, Rwanda's formal trade deficit eased by 25.6 percent in the first half of 2017, from USD 902.3 million to USD 671.2 million, as a result of the 39.8 percent increase in formal exports and 10.6 percent decline in formal imports. Consequently, formal imports coverage by exports improved to 35.9 percent in 2017H1 against 23.0 percent recorded in 2016H1. When informal cross border trade is included, the exports cover of imports improved to 39.9 percent in 2017H1 from 28.3 percent in 2016H1.

Headline inflation evolved around 7.0 in 2017H1 percent on average higher than 4.7 percent recorded in 2016H1 and 6.7 percent in 2016H2. However, headline inflation eased from 8.1 percent in February to 4.8 percent in June and 3.5 percent in July 2017 as food prices and exchange rate pressures subsided.

Core inflation, which excludes fresh products and energy, also went up on average from 5.2 percent in 2016Q4 to 5.5 percent in 2017Q1 but eased from 5.6 percent in February to 4.0 percent in June and 3.6 percent in July 2017.

In the first half of 2017, pressures on the Rwandan Franc against the USD continued easing, thanks to the improvement in Rwanda's export receipts and the decline in dollar demand in line with increased domestic production of some of the previously imported goods and the phasing out of some major construction projects. The FRW depreciated against the USD by 1.3 percent end June and 1.64 percent by 13th August 2017 compared to 4.8 percent by end June 2016 and is expected at around 3.0 percent end December 2017.

Consequently, BNR maintained an accommodative monetary policy stance to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange pressures were expected to decline. BNR reduced twice its policy rate (KRR) from 6.50 percent to 6.25 percent in December 2016 and to 6.0 percent in June 2017.

This contributed to the increase in broad money (M3) by 11.1 percent between December 2016 and June 2017, growth in credit to the private sector by 8.3 percent from 7.9 during the same period and to the decline in the deposit and lending interest rates to 7.80 percent and 17.08 *percent, on average in the first half of 2017, from 8.01 percent and 17.21 percent in December 2016 respectively.*

Despite the uptick in global inflation and the progressive increment in international oil prices, the improvement in global demand and the anticipated increase in the prices of metals and minerals is expected to lead to the reduction in Rwanda's trade deficit, not only helping to ease inflation and exchange rate pressures, but also re-enforce the positive effects from a supportive BNR monetary policy.

On the financial sector side, the first half of 2017 was marked by continued growth. Total assets of the financial sector grew by 12.4 percent (year-on-year) at end June 2017 to FRW 3.8 trillion. Assets of banks, the largest sub-sector, increased by 12.9 percent to FRW 2.6 trillion while the pension, insurance and MFI sub-sector assets increased by 13.0 percent to FRW 661.3 billion, 10 percent to FRW 365.6 billion 7.6 percent to FRW 247.7 billion respectively. This growth was however relatively lower than the growth rate observed in the previous periods. For example, the assets of banks grew by 14 percent in June 2016 and have been growing at an average rate of 20 percent over the last seven years. The lower growth rate of assets for both Banks and Microfinance Institutions (MFIs) reflected a sluggish economic performance during the year 2016 and beginning of 2017.

Despite the challenges highlighted above, the Rwandan financial sector remains sound, resilient and stable. Banks and MFIs capital and liquidity buffers are strong relative to current regulatory minimums. As at June 2017, banks and MFIs' capital adequacy ratios stood at 20.7 percent and 33.3 percent respectively, higher than the required minimum of 15 percent. Similarly, the liquidity ratio of banks and MFIs was 39 percent and 91 percent respectively as at June 2017 well above the required minima of 20 percent and 30 percent respectively.

However, the asset quality deteriorated further as the rate of non-performing loans increased from 7 percent in June 2016 to 8.2 percent in June 2017 for banks, and from 7.5 percent in June 2016 to 12.3 percent in June 2017 for microfinance institutions. To deal with this issue, BNR intensified onsite inspections and is working with senior management and Board of Directors of banks to ensure that loans are well underwritten and monitored.

On the performance of the insurance sub-sector, notable improvements were observed in the private insurers that continued to improve their solvency positions. As at June 2017, 11 out of 14 private insurers (compared to only 5 in June 2016) met the solvency requirements. The assets of the insurance industry also continued to grow driven mainly by the recapitalization proceeds as well as improved incomes. The insurance sector's profits increased by 86 percent from a profit of FRW 10 billion in June 2016 to a profit of FRW 18.6 billion in June 2017.

The assets of the pension sub-sector also continued to increase in the first half of 2017 on account of increasing contributions and positive growth of investment income.

To ensure the sustainability of the financial sector and encourage its continued growth, BNR extensively reviewed its legal and regulatory frameworks in line with international standards. BNR will also continue to strengthen both micro and macro-prudential oversight of the financial sector.

INTRODUCTION

The Governor of the National Bank of Rwanda presents the Monetary Policy and Financial Stability Statement (MPFSS) twice a year to highlight the recent economic and financial developments and future prospects thereof. In the previous MPFSS held in February 2017, the main highlighted challenge was the slowdown of economic activities. However, positive prospects were noted, especially the ease in inflationary and exchange rate pressures, the improvement in Rwanda's external trade, the increase in economic financing by the banking sector and financial sector soundness.

The objective of this second MPFSS for 2017 is to assess developments for the first half of 2017 and give an updated outlook for 2017. The statement consists of six sections, presented after the executive summary and introduction. The first section highlights the global economic developments and outlook, followed by sections two, three and four, which discuss the domestic economic developments related with real, external and monetary sectors. The fifth section dwells on the financial sector stability analysis while section six presents the monetary policy and financial stability outlook, taking note of the context given in the preceding sections.

I. GLOBAL ECONOMIC ENVIRONMENT

This first part presents a large picture of the recent developments and near-term outlook in the global economy, particularly in advanced countries, and implications on emerging and developing economies. It covers the economic growth, developments in international prices, monetary policy and financial markets developments. This helps to contextualize the economic environment within which BNR has conducted its monetary policy and to rationalize Rwanda's economic outlook.

1.1 Economic Growth and Outlook

According to the IMF's July 2017 forecasts, growth of the world economy is expected to recover from 3.2 percent in 2016 to 3.5 percent in 2017, supported by rising consumer confidence, investments, and global demand, complemented by favorable financial conditions. Despite a temporary slowdown in 2017Q1 in USA and India, as well as the progressive deceleration in UK, growth perspectives are improving in advanced, emerging and developing economies, mostly helped by the recovery in commodity producing countries.

Table 1: Economic growth developments (percent)

	BLOOMBERG					Annual Average WEO July 2017		
	2016	2017						
	Q4	Q1	Q2	Q3	Q4	2016	2017	2018
World	-	-	-	-		**3.2**	**3.5**	**3.6**
Advanced economies	**1.9**	**1.8**	**2.6**	**2.2**	**2.1**	**1.7**	**2.0**	**1.9**
United States (q-o-q)	1.8	1.2	2.6	2.5	2.4	1.6	2.1	2.1
Euro area (y-o-y)	1.9	1.9	2.2	2.1	2.0	1.8	1.9	1.7
Japan (q-o-q)	1.7	1.5	4.0	1.0	1.1	1.0	1.3	0.6
United Kingdom (y-o-y)	1.9	2.0	1.7	1.5	1.1	1.8	1.7	1.5
Emerg. & developing economies	-	-	-	-	-	**4.3**	**4.6**	**4.8**
China (y-o-y)	6.8	6.9	6.9	6.7	6.6	6.7	6.7	6.4
India (y-o-y)	7.0	6.1	6.9	7.0	7.3	7.1	7.2	7.7
Sub-Saharan Africa	-	-	-	-	-	**1.3**	**2.7**	**3.5**

Source: BLOOMBERG & IMF WEO, July 2017

Real GDP for advanced economies is projected to increase by 2.0 percent in 2017 from 1.7 percent recorded in 2016. For the year 2017, US GDP growth rate is expected to pick up to 2.1 percent from 1.6 percent in 2016 on waning effect of past lower energy prices and past appreciation of the U.S. dollar. Despite the temporary deceleration observed in 2017Q1 (from 1.8 percent in 2016Q4 to 1.2 percent), estimates show that US real GDP increased by 2.6 percent in 2017Q2 and is expected at 2.5 percent for the 2017Q3, mainly supported by the recovery in both domestic and external demand.

Though the external demand is likely to dampen growth prospects, the Eurozone growth projection is revised upward to 1.9 percent on average in 2017 against 1.8 percent in 2016, supported by improved domestic demand and falling unemployment. Indeed, after stabilizing at 1.9 percent in 2016Q4 and 2017Q1, real GDP growth is estimated at 2.2 percent in 2017Q2 before settling at 2.1 percent and 2.0 percent respectively in 2017Q3 and 2017Q4.

Growth for emerging and developing economies, dominated by China, Brazil, India and Russia, is expected at 4.6 percent in 2017 from 4.3 percent in the previous year. On average, Chinese GDP growth is foreseen to stabilize at 6.7 percent in 2017, owing to high credit growth, and to the efforts to fix the non-performing loans issue. The Chinese economy increased by 6.9 percent in both 2017Q1 and 2017Q2 against 6.8 percent in 2016Q4, backed by strong consumption and a rebound in investments. It is projected to decelerate to 6.7 percent and 6.6 percent respectively in 2017Q3 and 2017Q4 on the account of anticipated decline in external demand and the negative effect of the likely further FED tightening of the policy stance.

Dominated by Nigeria, South Africa and Angola, Sub-Saharan African economic growth is projected at 2.7 percent on average in 2017 from 1.3 percent in the previous year, supported by recovering commodity prices. Significant rebound is expected in Nigeria as GDP growth is projected to increase from -1.6 percent in 2016 to 0.8 percent in 2017. Likewise, growth in South Africa is foreseen to recover from 0.3 percent to 1.0 percent while the Angolan economic growth is likely to rise from 0.0 percent to 1.3 percent during the same period.

In EAC, growth performance remains broadly positive, though recently below historical trends. Real GDP decelerated to 4.7 percent in Kenya in 2017Q1 from 6.1 percent in 2016Q4 due to a contraction in agricultural production, slowing growth in credit to economy as well as in electricity supply. During the same period, Rwanda's real GDP growth decelerated from 2.3 percent in 2016Q4 to 1.7 percent in 2017Q1. While, the Tanzanian economic growth slightly improved from 5.6 percent in 2016Q4 to 5.7 percent in 2017Q1, the Ugandan economy grew by 3.9 percent in 2017Q1 from 2.0 percent in 2016Q4 on the back of the recovery in agriculture and industrial production, together with continuous improvement in the services sector.

Table 2: Economic growth in EAC countries (percent)

	2016				2017	Annual average			
	Q1	Q2	Q3	Q4	Q1	2015	2016	2017 Proj.	2018 Proj.
Burundi	-	-	-	-	-	**-4.0**	**-1.0**	**0.0**	**0.1**
Kenya	5.3	6.2	5.7	6.1	4.7	**5.7**	**5.8**	**5.3**	**5.8**
Rwanda	8.9	7.4	5.3	2.3	1.7	**8.9**	**5.9**	**6.2**	**6.8**
Tanzania	6.8	8.5	6.9	5.6	5.7	**7.0**	**7.0**	**6.8**	**6.9**
Uganda	4.1	2.9	1.2	2.0	3.9	**5.7**	**2.3**	**5.0**	**5.8**

Source: National Bureau of Statistics Websites and IMF WEO, April 2017

For the year 2017, a slight improvement is anticipated for all EAC countries though Kenyan growth rate is likely to slow down due to the dry weather conditions.

1.2 Inflation and Commodity Prices

Global inflation increased in recent months and is projected to reach 3.0 percent in 2017 from 2.8 percent in 2016. Inflation in advanced economies is expected to increase from 0.8 percent in 2016 to 1.9 percent in 2017 while in emerging and developing countries, it is likely to rise from 4.3 percent to 4.5 percent during the same period.

Despite the slowdown in 2017Q2, headline inflation in advanced economies is expected to increase from 0.8 percent in 2016 to 1.9 percent in 2017, in line with the observed trend in 2017Q1. Nonetheless, core inflation remained subdued in most of these economies during the first two quarters of 2017 on the back of persistently negative output gap and subdued wage pressures, justifying the implementation of an accommodative monetary policy stance.

Table 3: Inflation in advanced countries (percent)

	2016				2017						2016	2017
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun		proj.
USA	0.9	1.0	1.5	2.1	2.5	2.7	2.4	2.2	1.9	1.6	**1.2**	**2.3**
Euro zone	0.0	0.1	0.4	1.1	1.8	2.0	1.5	1.9	1.4	1.3	**0.3**	**1.1**
Japan	0.0	-0.3	-0.5	0.3	0.4	0.2	0.2	0.4	0.4	0.4	**-0.1**	**1.0**
China	2.3	1.9	1.9	2.1	2.5	0.8	0.9	1.2	1.5	1.5	**2.1**	**2.3**

Source: National statistics offices & IMF WEO, April 2017

Despite the recent increase in food inflation in the US, headline inflation eased to 1.9 percent in 2017Q2 from 2.5 percent in 2017Q1 as energy inflation progressively eased. Core inflation also dropped to 1.8 percent from 2.2 percent during the same period.

In Eurozone, headline inflation decelerated to 1.3 percent in June 2017 from 1.4 percent in May 2017 due to a decline in energy, food, alcohol and tobacco as well as in services and non-energy industrial goods prices but largely higher compared to 0.1 percent in June last year on strong signs of recovering European economy as well as higher energy prices. Core inflation increased to 1.2 percent in June from 1.0 percent in May 2017.

From 1.9 percent in June 2016, Chinese annual inflation stood at 1.5 percent in June 2017, due to a decline in food prices (-1.2 percent) while prices increased for services (+3.0 percent), health care (+5.7 percent), residence (2.5 percent) as well as education, culture and recreation (+2.6 percent).

In Sub-Saharan Africa, recent inflationary pressures were mainly due to the impact of droughts. However, headline inflation is expected to fall from 11.4 percent in 2016 to 10.7 percent in 2017 as local currencies will be recovering with rising commodity exports.

In EAC, there was a buildup of inflationary pressures in the first half of the year 2017 compared to the same period last year, mainly due to rising oil prices and poor performance of agriculture due to dry weather conditions. However, agricultural harvests have started improving, leading to the deceleration in inflation.

Table 4: Headline inflation in EAC countries (percent)

	2015	2016				2017						Average	
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	2016	2017
Uganda	1.8	6.2	5.9	4.2	5.7	5.9	6.7	6.4	6.8	7.2	6.4	**5.5**	**6.3**
Kenya	6.0	6.5	5.8	6.3	6.4	7.0	9.0	10.3	11.5	11.7	9.2	**6.3**	**6.5**
Tanzania	4.8	5.4	5.5	4.5	5.0	5.2	5.5	6.4	6.4	6.1	5.4	**5.2**	**5.1**
Burundi	3.8	4.3	3.9	7.0	9.6	12.9	20.7	21.1	19.4	19.0	15.1	**5.5**	**12.4**
Rwanda	2.1	4.6	5.5	5.8	7.3	7.4	8.1	7.7	7.3	6.5	4.8	**5.7**	**7.1**

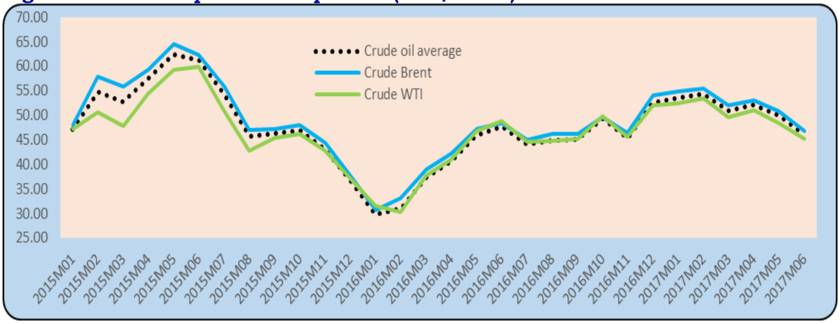
Source: National Bureaus of Statistics & IMF, WEO, April 2017.

On commodity markets, the overall price index which includes energy and non-energy commodities, rebounded in the first half of 2017 from a sharp decline during the same period last year. On annual basis, energy prices rose by 33.5 percent in 2017H1, driven mostly by crude oil, coal and natural gas. Crude oil prices rose by 32.1 percent after a decline of 30.8 percent in the first half of 2016 following rising oil demand and recent oil supply adjustments by OPEC and non-OPEC countries despite downward pressures from persistently high US oil inventories and shale oil production. Prices for Metals and minerals increased by 25.7 percent on the back of strong global demand, particularly Chinese and Indian demand, amid supply constraints including closures of mines due to environmental reasons, capacity constraints, among others. Agricultural commodity prices were broadly stable during the first half of 2017 (+1.8 percent) as the decline in the price of beverages (-5.3 percent) offset the increase in the price of food (+2.6 percent) and agricultural raw materials (+3.7 percent). Beverages' price decline resulted mainly from plentiful cocoa production in West Africa while prices increased for coffee and tea.

Recent trends in commodity prices were mixed depending on both supply and demand factors. In June 2017, the overall price index fell, by 3.7 percent month on month in June 2017 after a decline of 2.3 percent in May 2017.

Energy prices dropped by 6.1 percent in June 2017, mostly weighed down by oil prices (-7.5 percent) as oil supply remains high following the continuous buildup of US oil production that offset oil supply squeeze by other oil producing countries. In nominal terms, Brent prices reached USD 46.89/barrel, the lowest since the beginning of the year, from USD 50.87/barrel in May 2017.

Figure 1: Crude oil price developments (USD/barrel)



Source: World Bank

Non-energy commodity prices fell by 1.3 percent in June 2017 due to falling prices of agricultural commodities (-1.6 percent), metals and minerals (-0.7 percent) while prices rose for fertilizers (+1.6 percent).

Among agriculture commodities, prices for beverages fell by 0.7 percent, food prices by 1.1 percent and raw materials' prices by 3.5 percent, mostly due to good weather observed in April and May. Food prices went down as the decline in prices of oils & meals (-3.5 percent) and other food items (-1.9 percent) offset the increase in grains prices (+3.8 percent). Prices increased for rice, wheat and barley on persistent dryness in some regions including Thailand, Ukraine and delayed rain in Argentina.

Though prices for beverages declined in June 2017, Robusta coffee prices rose by 3.6 percent on the back of diminishing exports by Vietnam while Arabica coffee price declined by 4.5 percent reflecting a weaker Brazilian Real. Coffee exports in June were 8.8 percent higher than last year creating large inventories in importing countries and assuring the market to remain sufficiently supplied.

With regard to tea, average prices slightly changed (+0.3 percent) in June 2017, with price hikes in Kolkata (+3.9 percent) and Mombasa

(+4.9 percent), partly offset by decline in Colombo auction (-5.2 percent). In Mombasa, the supply of tea was affected by droughts in Eastern African countries, particularly in Kenya and Uganda. Tea production also fell in Bangladesh.

Table 5: Commodity prices (percent change)

	2016H1 /2015H1	2017		2017 (m-o-m)			2017 (y-o-y)			ANNUAL AVERAGE			
		2017H1/ 2016H2	2017H1/ 2016H1	Apr	May	Jun	Apr	May	Jun	2015	2016	2017(*)	2018(*)
ENERGY	**-30.8**	**8.7**	**33.5**	**2.7**	**-4.1**	**-6.1**	**31.4**	**13.7**	**1.7**	**-45.1**	**-15.2**	**14.1**	**-1.6**
OIL	**-30.8**	**9.2**	**32.1**	**2.5**	**-4.4**	**-7.5**	**28.0**	**8.6**	**-3.2**	**-47.3**	**-15.6**	**14.4**	**-0.8**
NON-ENERGY	**-8.5**	**2.4**	**7.2**	**-2.5**	**0.3**	**-1.3**	**4.0**	**2.8**	**-0.7**	**-15.0**	**-2.6**	**7.3**	**0.3**
BEVERAGES	**-5.0**	**-9.8**	**-5.3**	**-1.7**	**-0.8**	**-0.7**	**-7.4**	**-9.3**	**-12.8**	**-8.1**	**-2.7**	**-9.0**	**1.0**
Coffee, Arabica	-8.6	-9.3	2.0	-3.0	-3.5	-4.5	0.8	-3.3	-13.4	-20.3	2.4	-6.6	5.4
Coffee, Robusta	-15.0	6.2	31.8	-3.0	-5.0	3.6	29.2	17.2	18.6	-12.4	0.6	13.1	-2.0
Tea, Mombasa auctions	-11.4	20.0	23.8	-0.5	1.3	4.9	33.4	30.2	27.3	34.1	-16.2	30.8	1.4
METALS &MINERALS	**-18.1**	**12.2**	**25.7**	**-4.3**	**-2.4**	**-0.7**	**19.4**	**20.4**	**19.0**	**-21.1**	**-5.9**	**16.8**	**-2.0**
Tin	-4.8	1.4	23.5	0.2	1.5	-2.7	16.9	20.9	15.9	-26.6	11.6	11.2	-1.3
Iron Ore	-14.1	15.3	43.0	-19.9	-11.1	-7.9	15.3	13.2	10.6	-42.4	4.6	17.4	-14.5
Gold	1.2	-3.1	1.5	2.9	-1.6	1.1	2.0	-1.2	-1.3	-8.3	7.6	-1.9	-1.6
FERTILIZERS	-19.1	**1.2**	**-7.9**	**-6.0**	**-5.7**	**1.6**	**-7.7**	**-12.3**	**-8.9**	**-5.0**	**-21.1**	**0.8**	**2.2**

Sources: http://www.worldbank.org/en/research/commodity-markets[1]
(*) IMF, July 2017 forecasts

Prices declined for metals and minerals reflecting slowing growth in global manufacturing activities, particularly in China. Precious metals prices recovered on monthly basis by 1.1 percent from a decline of 2.6 percent in May 2017 reflecting lower real interest rate expectations in USA. Prices hiked for fertilizers by 1.6 percent on average in June 2017, but were mixed across varieties.

Lower than earlier anticipated, oil prices are foreseen in the IMF July 2017 forecasts to rise by 14.4 percent in 2017, reflecting the extension of oil supply cut deadline by OPEC and non-OPEC countries until March 2018. Prices for metals are projected to increase by 16.8 percent in 2017, reflecting strong demand and tightening supply for

1 Average price of tea in Mombasa, Colombo and Kolkata for the forecasts

most metals. For agriculture commodities, prices are foreseen to remain stable but the outlook should differ across individual products.

1.3 Monetary Policy and Financial Markets

Monetary policy remained accommodative in most advanced economies as the central bank rate remained unchanged at 0.0 percent in the Euro, 0.25 percent in UK and -0.10 percent in Japan. While still accommodative in the United States, the Fed funds rate was revised up in the meeting of June 13-14th 2017 to a target range of 1.00-1.25 percent from 0.75-1.00 percent. The tightening cycle is expected to persist until 2019 so as to support the improvement in employment and drive inflation towards the target. With the recent developments in the Eurozone, the ECB is likely to reduce its stimulus at the end of the year. Meanwhile, the central bank rate remained unchanged and the bond buying program stays until at least the end of 2017.

Short-term interest rates slowed down in developed economies. Three-month deposit rates remained negative in the Eurozone and Japan to discourage bank deposits and ensure supportive financial conditions necessary to stimulate the economic recovery. In the Eurozone, the targeted long term refinancing operations (TLTRO) resulted into net injection of liquidity and the 3-month deposit rate stood at -0.39 percent in June 2017 from -0.31 percent in May 2017 on persistent excess liquidity. In Japan, the 3-month deposit rate declined further to -0.10 percent from -0.09 percent. In USA, the three-month deposit rate fell to 1.30 percent from 1.58 percent while it stabilized in UK at 0.40 percent respectively in June and May 2017.

Ten-year interest rates which were declining early this year, reversed the trend in June 2017 after the Fed revised upward its funds rate and expects to continue the move. In Europe, the hike in 10-year government bond yield reflected reduced uncertainty related to European elections together with firming signs of economic recovery.

Table 6: 10-year Government Bond rate end of period (percent p. a)

	2015	2016				2017					
	Dec	**Mar**	**Jun**	**Sep**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
USA	2.2694	1.7687	1.4697	1.5961	2.444	2.455	2.389	2.3874	2.2802	2.2028	2.3037
Euro zone	0.629	0.153	-0.130	-0.119	0.208	0.436	0.208	0.328	0.317	0.304	0.466
Japan	0.265	-0.029	-0.217	-0.089	0.0460	0.087	0.056	0.070	0.018	0.049	0.086
UK	1.960	1.415	0.867	0.746	1.239	1.417	1.151	1.139	1.085	1.046	1.257

Source: Bloomberg database

On the foreign exchange market, the dollar remained weak, reflecting uncertainty over the US administration and a lower growth in 2017Q1. The Euro gained versus the USD on improving the European economy, reduced political risk together with rising European inflation which fuels pressures on the ECB to review the monetary policy stance. The Euro was also supported by US capital outflows amid heightened political risk and capital flows from UK to the Eurozone following the BREXIT.

Table 7: Exchange rate

	2015	2016				2017					
	Dec	**Mar**	**Jun**	**Sep**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
USD/GBP	0.6786	0.6963	0.7539	0.7705	0.8101	0.7949	0.8039	0.7968	0.7722	0.7758	0.7677
USD/EUR	0.921	0.8787	0.9030	0.8901	0.9506	0.9261	0.9437	0.9385	0.9178	0.8894	0.8752
USD/JPY	120.22	112.57	103.19	101.35	116.96	112.80	112.77	111.39	111.49	110.78	112.39

Source: Bloomberg

In June 2017, compared to December 2016, the US dollar fell, for the sixth consecutive month against its peers. The dollar depreciated by 5.2 percent against the pound, 7.9 percent versus the Euro and 3.9 percent vis-à-vis the Japanese Yen. It had depreciated by 4.2 percent, 6.4 percent and 5.3 percent against the pound, the Euro and the Yen respectively in May 2017.

1.4 Expected impact on the Rwandan economy

The uptick in global inflation and the progressive increment in international oil prices may exert mild inflationary pressures to the Rwandan economy.

However, the improvement in global demand, in line with good economic performance around the world, is expected to positively affect the Rwandan economy. This coupled with the anticipated increase in the prices of metals and minerals may lead to the increase in Rwanda's export revenues and help to ease inflation and exchange rate pressures.

II. NATIONAL ECONOMIC PERFORMANCE

This section highlights the developments in the national economy, focusing on drivers of economic growth and external sector performance in the first half of 2017. The chapter shows that the Rwandan economy grew by 1.7 percent in 2017Q1 lower than 8.9 percent realized in 2016Q1 as result of the contraction of the industry sector (-1.0 percent) and a slowdown in both agriculture (+3 percent) and service (+4 percent) sectors. Compared to 2016H1, Rwanda's trade deficit eased by 25.6 percent in 2017H1 following an increase of 39.8 percent in formal export receipts and a reduction in the formal import bill by 10.6 percent.

2.1 Economic Growth

The Rwandan economy grew by 1.7 percent in 2017Q1, down from 8.9 percent recorded in 2016Q1. This slowdown in economic performance was mainly due to the completion of big construction projects which affected the performance of the industry sector (-1.0 percent in 2017Q1 from 11.0 percent in 2016Q1). Owing to the long spell of the drought, growth of the agriculture sector slowed to 3.0 percent in 2017Q1 from 8.0 percent of the same period of last year.

Table 8: Rwanda Real GDP growth (in percent)

	2014	2015	2016	2016				2017
				Q1	Q2	Q3	Q4	Q1
GDP	**7.6**	**8.9**	**5.9**	**8.9**	**7.5**	**5.4**	**2.4**	**1.7**
Agriculture	**6.7**	**5.0**	**3.8**	**8.0**	**3.0**	**1.0**	**3.0**	**3.0**
Food crops	8.8	3.6	2.9	5.0	5.0	1.0	1.0	4.0
Export crops	-2.0	14.4	2.4	73.0	-21.0	-13.0	3.0	-24.0
Livestock & livestock products	8.2	9.1	9.6	9.0	9.0	10.0	10.0	11.0
Forestry	3.4	3.8	3.8	4.0	3.0	4.0	3.0	3.0
Fishing	3.6	3.2	2.6	2.0	2.0	3.0	3.0	3.0
Industry	**11.0**	**8.9**	**6.8**	**11.0**	**9.0**	**6.0**	**1.0**	**-1.0**
Mining & quarrying	25.2	-5.0	10.4	10.0	15.0	19.0	-1.0	-1.0
Manufacturing	7.8	8.4	6.6	7.0	9.0	6.0	4.0	7.0
Electricity	8.7	8.0	15.8	16.0	13.0	14.0	12.0	5.0
Water & waste management	3.0	0.8	5.3	3.0	5.0	7.0	6.0	2.0
Construction	9.9	15.4	4.9	15.0	7.0	2.0	-3.0	-7.0
Services	**7.0**	**10.4**	**7.1**	**9.0**	**9.0**	**7.0**	**4.0**	**4.0**
Trade & transport	6.8	11.5	6.7	10.0	14.0	7.0	-4.0	-7.0
Maintenance and repair of motors	4.0	5.1	6.8	5.0	7.0	8.0	7.0	5.0
Wholesale & retail trade	8.4	12.7	6.1	10.0	14.0	8.0	-8.0	-12.0
Transport services	4.0	9.7	8.0	9.0	15.0	5.0	4.0	2.0
Other services	7.0	10.1	7.2	8.0	7.0	7.0	7.0	8.0
Hotels & restaurants	12.3	9.3	11.3	12.0	10.0	13.0	11.0	17.0
Information & communication	6.6	17.9	8.6	11.0	16.0	1.0	7.0	2.0
Financial services	3.5	12.2	3.4	9.0	5.0	2.0	-2.0	1.0
Real estate activities	5.7	4.5	6.2	4.0	7.0	5.0	10.0	8.0
Public administration and defense	6.9	5.5	11.6	9.0	12.0	15.0	10.0	-1.0
Education	3.4	1.7	1.7	4.0	4.0	4.0	4.0	4.0
Human health and social work activities	8.3	10.1	6.2	13.0	5.0	-8.0	15.0	1.0
Cultural, domestic & other services	16.1	19.2	7.0	10.0	3.0	7.0	8.0	3.0
Taxes less subsidies on products	**8.0**	**14.0**	**4.0**	**10.0**	**10.0**	**6.0**	**-8.0**	**-10.0**

Source: Rwanda National Institute of Statistics (NISR)

The poor performance recorded in the industry sector was mainly due to the decline in the construction sub-sector with a share of 42.2 percent in that sector. This sub-sector fell by 7.0 percent in 2017Q1 after rising by 15.0 percent in 2016Q1. The poor performance was also attributed to the mining and quarrying sub-sector which recorded a negative growth (-1.0 percent) as a result of quarrying activities that fell by 5.0 percent in 2017Q1 after a growth of 14.0 percent in the corresponding period of 2016, despite improving mining sub-sector (+ 8.0 percent in 2017Q1 from -1.0 percent in 2016Q1) due to increased international prices for minerals and metals.

The reduced performance of the agriculture sector was mainly due to export crops that were negatively affected by unfavorable weather conditions and low international coffee prices. Consequently, export crops growth decelerated from 73.0 percent in 2016Q1 to -24.0 percent in 2017Q1. However, the deceleration was mainly offset by an increase in Livestock & livestock products, which grew by 11.0 percent and food crops that grew by 4.0 percent.

The service sector went up by 4.0 percent in 2017Q1 from 9.0 percent recorded in 2016Q1, attributed mostly to Administrative & support services (+25.0 percent), Professional, scientific & technical activities (+19.0 percent), hotels and restaurants (+17.0 percent) and real estate activities (+8.0 percent). The slow pace in service sector compared to the same period of the previous year was a result of a decline in wholesale and retail trade (-12.0 percent).

The performance of the Rwandan economy is expected to remain low in 2017Q2 compared to the same period of 2016 but higher than in 2017Q1 as evidenced by the Composite Index of Economic Activities (CIEA). In real terms, the CIEA increased by 10.3 percent in 2017Q2, lower than 14.6 percent recorded in 2016Q2 but higher than 7.2 percent in 2017Q1. It grew by 8.8 percent in 2017H1 from 16.2 percent during the same period of last year.

Table 9: CIEA (percent change, y-o-y)

CIEA	Nominal		Real	
	2016	2017	2016	2017
Q1	22.0	10.2	18.0	7.2
Q2	20.2	13.7	14.6	10.3
January - June	**21.1**	**12.0**	**16.2**	**8.8**

Source: BNR, Monetary Policy and Research Department

Total turnovers rose by 16.3 percent in 2017Q2 from 14.7 percent registered in 2017Q1, attributed to the good performance in services sector (+17.6 percent) and industry sector (+12.6 percent). In 2017H1, they grew by 15.5 percent from 10.9 percent in 2016H1, with services sector gaining by 17.0 percent and industry sector rising by 11.4 percent.

Table 10: Turnovers of industry & services (percent change, y-o-y)

	2016			2017		
	Q1	Q2	Jan-Jun	Q1	Q2	Jan-Jun
Total turnovers	**11.9**	**10.1**	**10.9**	**14.7**	**16.3**	**15.5**
Industries	**13.4**	**4.2**	**8.4**	**10.1**	**12.6**	**11.4**
Mining and Quarrying	-48.2	-21.6	-36.7	9.1	8.8	**8.9**
Manufacturing	24.9	5.0	14.4	9.6	27.0	**18.0**
Energy, water & Sanitation	57.5	73.5	65.9	19.1	6.5	**12.1**
Construction Sector	6.5	-6.0	-0.7	7.7	-4.2	**1.2**
Services	**11.4**	**12.3**	**11.9**	**16.4**	**17.6**	**17.0**
Wholesale and retail trade	9.4	4.2	6.6	16.8	27.4	**22.3**
Petroleum Distributors	1.9	22.7	12.3	44.1	14.4	**27.8**
Transport and Storage	12.8	25.6	19.3	18.8	10.6	**14.4**
Hotels and Restaurants	18.2	14.7	16.3	1.9	1.3	**1.6**
Information and Communication	11.4	30.0	20.7	0.9	-4.8	**-2.2**
Banks	33.2	30.1	31.6	7.7	11.5	**9.6**

Source: BNR, Monetary Policy and Research Department

The industry sector, which represents 25.6 percent of the total turnovers, increased by 11.4 percent in the first half of 2017 from 8.4 percent recorded in the same period of 2016, mainly attributed to the good performance of manufacturing (+18.0 percent from +14.4 percent), mining and quarrying (+8.9 percent from -36.7 percent) and construction (+1.2 percent from -0.7 percent) sub-sectors. Despite growing by 12.1 percent in 2017H1 after 65.9 percent in 2016H1, the energy, water & sanitation sub-sector also contributed to this increase.

The service sector, which represents 74.4 percent of the total turnovers, increased by 17.0 percent in the first half of 2017, higher than 11.9 percent registered in the corresponding period of 2016. This good performance was mainly attributed to the wholesale and retail trade, whose total sales increased by 22.3 percent after 6.6 percent in the corresponding period of 2016. Furthermore, the services sector's performance was attributed to the petroleum companies (+27.8 percent), financial and insurance services (+10.1 percent) as well as transport & storage (+14.4 percent). The transport sub-sector continues to be led mainly by Rwandair following its business expansion as evidenced by growth in its sales by 52.3 percent during the first half of 2017.

2.2 External Trade Performance

Rwanda's formal trade deficit reduced by 25.6 percent in the first half of 2017 compared to the corresponding period of 2016, from USD 902.3 million to USD 671.2 million. This improvement was due to the recovery in international commodity prices which started in the fourth quarter of 2016 at the back of a higher deficit that was recorded in 2015, a year that was much affected by the drop in commodity prices.

The recovery in commodity prices boosted formal exports which grew by 39.8 percent while formal imports declined by 10.6 percent.

As a result, formal imports coverage by exports improved to 35.9 percent in 2017H1 against 23.0 percent recorded in 2016H1. When informal cross border trade is included, the exports cover of imports improve to 39.9 percent in 2017H1 from 28.3 percent in 2016H1. The improved trade balance helps to ease exchange rate pressures.

2.2.1 Formal Exports Developments

Rwanda's exports are composed of traditional exports, non-traditional exports and re-exports; accounting for 31.0 percent, 32.5 percent and 36.5 percent of the total export earnings in 2017H1 respectively. The export base has continued to be progressively diversified as the share of traditional exports in total exports declined from 77.9 percent in 2011 to 36.8 percent in 2016H1 and 31.0 percent in 2017H1.

Table 11: Evolution of exports: 2011–2016 (percent share)

	2011	2012	2013	2014	2015	2016	2016H1	2017H1
Total exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Traditional exports	**77.9**	**59.4**	**62.1**	**55.2**	**47.5**	**36.6**	**36.8**	**31.0**
Coffee	19.2	12.6	9.6	10.0	11.1	9.8	5.9	4.2
Tea	16.5	13.6	9.7	8.6	13.0	10.6	13.5	12.6
Cassiterite	25.0	11.0	10.7	12.0	6.1	5.8	5.8	6.4
Coltan	10.0	11.8	23.5	17.5	11.8	6.6	7.2	5.1
Wolfram	4.1	5.4	5.2	4.4	3.1	2.0	2.2	1.3
Hides and Skins	2.0	3.0	2.8	2.4	1.9	1.2	1.2	1.1
Pyrethrum	1.2	2.0	0.7	0.3	0.4	0.6	1.0	0.3
Re - exports	**9.6**	**22.4**	**23.6**	**27.6**	**31.8**	**37.5**	**39.9**	**36.5**
Non - traditional exports	**12.5**	**18.2**	**14.3**	**17.3**	**20.7**	**25.9**	**23.3**	**32.5**

Source: BNR, Statistics Department

In 2017H1, total exports increased by 39.8 percent in value, to USD 375.92 million from USD 268.93 million in 2016H1, while the volume increased by 32.5 percent. The increase in exports value is mainly attributable to good performance in all categories of exports following the resurgence in international commodity prices: traditional exports by 17.9 percent, other ordinary exports by 95.2 percent as well as re-exports by 26.6 percent.

Table 12: Major Exports Developments (Value FOB in USD millions, Volume in thousands of tons and change in percent)

	2011	2012	2013	2014	2015	2016	2016H1	2017H1	Percent change
Coffee									
- Value	74.60	60.89	54.90	59.68	62.04	58.49	15.83	15.86	0.2
- Volume	15.60	16.99	19.99	15.97	18.79	18.64	6.09	5.95	-2.3
- Price USD/KG	4.78	3.58	2.75	3.74	3.30	3.14	2.60	2.66	2.6
Tea									
- Value	63.90	65.72	55.48	51.76	72.46	63.42	36.24	47.36	30.7
- Volume	23.73	22.45	21.01	22.67	24.68	24.41	14.40	15.11	5.0
- Price USD/KG	2.69	2.93	2.64	2.28	2.94	2.60	2.52	3.13	24.5
Mining									
- Value	151.43	136.07	225.70	203.32	117.81	86.42	40.73	48.25	18.5
- Volume	8.85	7.53	9.58	10.47	7.28	6.54	3.13	3.57	14.0
Cassiterite									
- Value	96.82	52.90	61.07	71.95	34.26	34.81	15.54	24.07	54.9
- Volume	6.95	4.64	4.90	5.95	3.85	3.55	1.68	2.24	33.7
- Price USD/KG	13.93	11.41	12.48	12.08	8.91	9.81	9.26	10.74	15.9
Coltan									
- Value	38.58	56.91	134.57	104.78	66.20	39.74	19.40	19.13	-1.4
- Volume	0.89	1.14	2.47	2.30	1.65	1.27	0.60	0.66	9.6
- Price USD/KG	43.35	49.72	54.57	45.51	40.08	31.29	32.44	29.19	-10.0
Wolfram									
- Value	16.03	26.26	30.05	26.59	17.34	11.87	5.79	5.04	-13.0
- Volume	1.01	1.75	2.22	2.21	1.78	1.72	0.86	0.67	-21.4
- Price USD/KG	15.93	15.00	13.55	12.01	9.72	6.92	6.76	7.49	10.7
Hides and Skin									
- Value	7.62	14.37	16.02	14.22	10.38	7.44	3.32	4.04	21.7
- Volume	6.22	10.03	10.30	9.62	8.27	6.19	3.05	3.31	8.8
- Price USD/KG	1.22	1.43	1.56	1.48	1.26	1.20	1.09	1.22	11.8
Pyrethrum									
- Value	4.51	9.71	3.98	1.83	2.48	3.36	2.76	1.05	-62.0
- Volume	0.02	0.04	0.02	0.01	0.01	0.02	0.01	0.01	-60.2
- Price USD/KG	240.37	257.86	238.88	171.20	177.15	188.33	190.69	182.06	-4.5
I. Traditional exports									
- Value	302.06	286.76	356.08	330.81	265.16	219.14	98.87	116.56	17.9
- Volume	54.42	57.04	60.89	58.74	59.03	55.80	26.68	27.95	4.8
II. Re-exports									
- Value	37.26	107.99	135.04	165.35	177.87	224.28	107.42	137.09	27.6
- Volume	20.37	57.05	97.59	105.73	159.16	230.37	107.25	151.70	41.4
III. Non-traditional exports									
- Value	48.35	88.00	81.91	103.60	115.73	155.27	62.63	122.27	95.2
- Volume	93.06	174.59	149.89	159.63	172.42	179.86	87.58	113.89	30.0
TOTAL EXPORTS									
- Value	**387.67**	**482.75**	**573.03**	**599.76**	**558.75**	**598.69**	268.93	375.92	39.8
- Volume	**167.84**	**288.67**	**308.37**	**324.10**	**390.61**	**466.03**	221.51	293.54	32.5

Source: BNR, Statistics Department

Traditional exports, which include coffee, tea, minerals, pyrethrum as well as hides and skins grew by 17.9 percent, amounting to USD 116.56 million in 2017H1 from USD 98.97 million in 2016H1 due to increase in value cassiterite by 54.9 percent, tea by 30.7 percent as well as hides and skins by 21.7 percent as a result of rising unit prices, which rose by 15.9 percent, 24.5 percent and 11.8 percent respectively compared to the same period of 2016.

Compared to 2016H1, coffee exports slightly increased in value by 0.2 percent in 2017H1, from USD 15.83 million in 2016H1 to USD 15.86 million in 2017H1, but decreased in volume by 2.3 percent from 6,091 tons in 2016H1 to 5,952 tons in 2017H1 due to the decline in coffee production by 12 percent. The increase in value was due to the rise in coffee unit price by 2.6 percent, from 2.60 USD/Kg to 2.66 USD/Kg.

Tea exports increased in value by 30.7 percent, from USD 36.24 million in 2016H1 to USD 47.36 million in 2017H1. This increase was due to both increase in unit price and volume. The price increased by 24.5 percent from 2.52 USD/Kg in 2016H1 to 3.13 USD/Kg in 2017H1 and the volume by 5.0 percent, from 14,396 tons in 2016H1 to 15,110 tons in 2017H1.

The mining sector performed well in 2017H1 due to the continued recovery in commodity prices at the international market. The exported value of the main minerals (Coltan, Cassiterite and Wolfram) increased by 18.5 percent, from USD 40.73 million recorded in 2016H1 to USD 48.25 million in 2017H1. This growth is due to the increase in cassiterite exports, which constitutes 49.9 percent of the total minerals export receipts. It increased by 54.9 percent in value, from USD 15.54 million in 2016H1 to USD 24.07 million in 2017H1, as the unit price increased by 15.9 percent, from 9.26 USD/Kg in 2016H1 to 10.74 USD/Kg in 2017H1, and in volume by 33.7 percent, from 1,677 tons in 2016H1 to 2,242 tons in 20017H1.

Receipts from exported hides and skins increased in value by 21.7 percent, from USD 3.32 million to USD 4.04 million and its volume increased by 8.8 percent, from 3,046 tons to 3,314 tons. This is due to the fact that hides and skins are no longer exported in raw form but transformed into intermediate form, known as wet blue, which fetches a relatively higher price than the raw hides and skins. The Unit price of hides and skins increased by 11.8 percent from 1.09 USD/Kg in 2016H1 to 1.22 USD/Kg in 2017H1.

Non-traditional exports (other exports) which are dominated by other minerals, products of milling industry and other manufactured products significantly increased by 95.2 percent in value and 30.0 percent in volume. The increase was mainly driven by the surge in other minerals component which is composed of beryllium and unwrought lead, iron ore and gemstones, the exported value rose by 172 percent from USD 26.44 million in 2016H1 to USD 72.00 million in 2017H1 due to the increase in international price. In addition, the products of milling industry, whose main products are wheat and maize flours and mainly exported to DRC, increased by 51.2 percent in value and 30.2 percent in volume.

Re-exports, mainly composed of petroleum products, machines and engines, vehicles and other re-exports, grew by 27.6 percent and 41.4 percent in value and volume respectively, mainly driven by the increase in re-exports of petroleum products by 46.3 percent in value and 51.7 percent in volume. The latter are mainly re-exported to DR Congo which accounts for 78 percent of the total re-exports value. Petroleum products represent 55.5 percent of the total re-exports volume and 54.9 percent of total re-exports earnings.

2.2.2 Formal Imports Developments

Rwanda's formal imports are composed of consumer goods, capital goods, intermediary goods as well as energy and lubricants. In the first half of 2017, formal imports decreased by 10.6 percent in value, to USD 1,047.1 million from USD 1,171.3 million in 2016H1 and in volume by 1.6 percent, from 946,041 tons to 931,123 tons. The decline in formal imports was driven by the fall in all the categories of imports except energy and lubricants following lower domestic demand for investment goods notably equipments, and inputs for the services sectors in line with the phasing out of some big construction projects as well as the positive impact of Government's made in Rwanda initiative.

Table 13: Formal imports developments (Value in millions of USD, Volume in thousands of tons and change in percent)

		2011	2012	2013	2014	2015	2016	2016H1	2017H1	Percent change
Total imports	Value	1,890.6	2,199.2	2,247.4	2,386.9	2,311.2	2,248.5	1,171.3	1,047.1	-10.6
	Volume	1,333.4	1,708.5	1,781.9	1,846.6	2,068.1	1,965.2	946.0	931.1	-1.6
Consumer goods	Value	553.1	626.1	633.6	656.2	694.1	728.3	362.2	350.5	-3.2
	Volume	453.2	577.0	574.4	592.4	695.9	763.2	357.9	340.1	-5.0
Capital goods	Value	465.3	589.2	596.3	642.2	652.6	713.0	404.6	303.3	-25.0
	Volume	50.5	68.1	59.0	60.6	70.2	69.1	38.9	30.4	-21.8
Intermediary goods	Value	526.6	622.4	632.9	720.0	682.5	569.5	293.7	275.8	-6.1
	Volume	609.2	810.3	878.9	914.7	992.2	821.9	400.8	413.4	3.1
Energy and lubricants	Value	345.6	361.4	384.6	368.5	282.1	237.7	110.8	117.5	6.1
	Volume	220.5	253.2	269.7	278.9	309.8	311.0	148.4	147.2	-0.8

Source: BNR, Statistics Department

In the first half of 2017, the imports value was dominated by consumer goods with a share of 33.5 percent, followed by capital goods with a share 29.0 percent, intermediary goods representing 26.3 percent as well as energy & lubricants constituting 11.2 percent. In volume terms, intermediary goods were dominant with a share of 44.4 percent, followed by consumer goods accounting for 36.5 percent, energy & lubricants with a share of 15.8 percent and capital goods constituting 3.3 percent of the total formal import volume.

Imports of consumer goods dominated by food products declined by 3.2 percent in value, to USD 350.50 million in 2017H1 from USD 362.23 million in the corresponding period of 2016. The main components of the consumer goods category are food products with a share of 45.6 percent in value and 80.4 percent in volume and other consumer goods with a share of 54.4 percent in value and 19.4 percent in volume. The decrease in consumer goods is mainly driven by the decline in other consumer goods such as health and care, articles of clothing and domestic articles which declined by 12.0 percent, 59.4 percent and 8.5 percent respectively. The decline in articles of clothing is attributed to increased taxes on second hand clothes in a bid to promote made in Rwanda garments. In contrast, food products increased by 26.5 percent in value while its volume declined by 0.3 percent driven by increased prices for cereals, flours and sugar following low production within the EAC countries as result of unfavorable weather conditions that affected agricultural production towards the end of 2016.

Imports of capital goods, dominated by machines, devices and tools as well as transport materials, declined by 25.0 percent in value and 21.8 percent in volume compared to 2016H1. This decline in imports of capital goods is mainly driven by machines, tools and devices which account for 61.1 percent of the total capital goods value that decreased by 31.9 percent, from USD 272.27 million in 2016H1 to USD 185.33 million in the corresponding period of 2017 and by 29.2 percent in volume, from 18,162 tons in 2016H1 to 12,852 tons in 2017H1. This decline relates to high taxes imposed on big machines imported to undertake big construction projects following the ratification of the new investment code that removed the exemptions that were formerly given to importers of such big machines.

Imports of intermediary goods, dominated by construction materials, industrial products and fertilizers, decreased by 6.1 percent in value in 2017H1, mainly due to the decrease in the value of construction materials by -26.6 percent, fertilizers by -26.5 percent, other intermediary goods by -12.4 percent. In contrast, imports volume of intermediary goods increased by 3.1 percent, due to an increase in the volume of imports of industrial products by 22.2 percent. The main component under industrial products are food products, of which 70 percent is wheat and meslin, representing 54.0 percent of industrial products volume.

The continued decline in imports of construction materials is explained by the reduction in cement imports by 10.9 percent, from 132,401 tons in 2016H1 to 117,908 tons in the corresponding period of 2017, following the increase in domestic production of cement by CIMERWA. The latter increased by 21.2 percent, from 134,001 tons in 2016H1 to 162,351tons 2017H1.

Table 14: Domestic production and trade of cement (tons, unless otherwise indicated)

	2014	2015	2016	2016H1	2017H1	Percent change
Domestic production	**119,083**	**181,050**	**293,091**	**134,001**	**162,351**	**21.2**
CIMERWA	**106,120**	**172,848**	290,437	131,347	162,351	**23.6**
KCC	**12,963**	**8,203**	2,654	2,654	0	**-100**
Imports of cement	**469,447**	**421,892**	268,353	132,401	117,908	**-10.9**
Exports of cement	**15,970**	**20,380**	27,338	10,640	32,479	**205.3**
Re-Export of cement	**190**	**4,878**	2,455	41	0	**-100**

Source: BNR, Statistics Department

The decline in imports of fertilizers was due to the fact that the distribution, use and management of fertilizers is now handled by one company known as Agro-processing trust company (APTC) which has improved the efficiency with which fertilizers are distributed and managed. This coupled with the existing high stock of fertilizers imported during the second half of 2016 led to an overall reduction in fertilizers volume imports by 23.0 percent in in 2017H1.

Imports of energy and lubricants, of which more than 90 percent is fuel, increased by 6.1 percent in value while its volume decreased by 0.8 percent. This increase is explained by the rise in imports of petroleum products by 6.0 percent in value, on the account of increased price on international market following a decision by OPEC countries to cut oil production by 1.8 million barrel per day between January 2017 and March 2018 in a bid to rebalance the oil market. However, the price has started declining in June 2017 due to the fact that USA started exporting its fuel inventories.

2.2.3 Formal trade with other EAC Countries

Rwanda's exports to other East African Community (EAC) member countries, representing 19.2 percent of the total formal exports in 2017H1 increased by 8.5 percent in value, to USD 72.2 million in from USD 66.6 million in 2016H1. The increase in export receipts was driven by the increase in exports to Kenya (+21.4 percent) and Uganda (+246.0 percent). The increase in exports to Kenya is mainly due to the high exports of tea while exports to Uganda increased mainly due to the rise in products of the milling industry, specifically corn soya blend, which constitute 56.0 percent of the total exports to Uganda.

Imports from EAC countries, which represent 20.7 percent of total formal imports, decreased by 4.8 percent, from USD 232.9 million recorded in 2016H1 to USD 221.6 million recorded in 2017H1. The trade deficit reduced by 10.1 percent, to USD 149.4 million in 2017H1 from USD 166.3 million in 2016H1.

Table 15: Trade flows with EAC (USD million)

		2011	2012	2013	2014	2015	2016	2016H1	2017H1
Exports to EAC	Value in USD millions	80.7	115.6	122.9	142.5	120.2	149.9	**66.6**	**72.2**
	percent change	*49.0*	*43.2*	*6.4*	*15.9*	*-15.7*	*24.7*	***7.7***	***8.5***
	Share of total formal exports	20.8	23.9	21.5	23.8	21.5	25.0	**24.7**	**19.2**
Imports from EAC	Value in USD millions	785.8	532.6	516.4	546.8	519.4	470.3	**232.9**	**221.6**
	percent change	*53.1*	*-32.2*	*-3.0*	*5.9*	*-5.0*	*-9.4*	***-7.4***	***-4.8***
	Share of total formal exports	41.6	24.2	23.0	22.9	22.5	20.9	**19.9**	**20.7**
TRADE BALANCE		**-705.1**	**-417.0**	**-393.5**	**-404.3**	**-399.2**	**-320.5**	**-166.3**	**-149.4**

Source: BNR, Statistics Department

Rwanda's main exports to EAC member countries remain tea sold at the Mombasa auction, petroleum products mainly sold to different airlines at Kigali International Airport as well as those re-exported to Burundi, raw hides and skins of bovine, motor cars and sorghum usually exported to Uganda. Imports from EAC member counties are composed of cartons, boxes, cases, bags, and other packing containers from Kenya, home used products and agriculture products.

2.2.4 Informal Cross Border Trade

Rwandan informal cross-border exports with neighboring countries, which account for 12.4 percent of formal exports in the period under review, decreased by 29.4 percent, amounting to USD 46.7 million in 2017H1 from USD 66.2 million in 2016H1. Exports to the DRC represent a big share of 79.7 percent of the total informal Cross-border trade exports, followed by Uganda (+15.5 percent), Burundi (+4.8 percent) and Tanzania (+0.2 percent). The decline is mainly due to poor harvest since agricultural products are predominant in informal

Cross-border trade and imposition of non-tariff barriers on beef, chicken and eggs by DR Congo since March 2017.

Table 16: Rwanda informal cross border trade (USD million)

		2011	2012	2013	2014	2015	2016	2016H1	2017H1
Exports	**Value in USD millions**	71.4	101.8	110.7	107.5	108.3	121.9	**66.2**	**46.7**
	Percent change	*46.2*	*42.6*	*8.7*	*-2.9*	*0.7*	*12.6*	***28.3***	***-29.4***
	Share of total formal exports	18.4	21.1	19.3	17.9	19.4	20.4	**24.6**	**12.4**
Imports	**Value in USD millions**	23.5	22.6	17.6	19.2	21.8	30.5	**14.8**	**11.0**
	Percent change	*-166.8*	*-3.7*	*-22.2*	*9.2*	*13.4*	*40.0*	***39.5***	***-25.6***
	Share of total formal imports	1.2	1.0	0.8	0.8	0.9	1.4	**1.3**	**1.0**
Trade balance		**47.9**	**79.2**	**93.1**	**88.3**	**86.5**	**91.4**	**51.4**	**35.7**

Source: BNR, Statistics Department

Informal imports decreased by 25.6 percent, from USD 14.8 million in 2016H1 to USD 11.0 million in 2017H1. The main sources of these imports are Uganda, Burundi and the Democratic Republic of Congo (DRC) with shares of 61.0 percent, 19.7 percent and 16.6 percent respectively. The decline in imports was a result of the after effects of poor harvest that was experienced by all regional countries which affected imports of food stuffs particularly from Uganda where substantial flows of informal imports come from.

Changes in exports and imports led the Rwanda's informal trade balance with neighboring countries, which is still positive, to decrease by 30.5 percent from USD 51.4 million to USD 35.7 million.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

After taking note of the global and domestic economic environment, this chapter focuses on how BNR conducted its monetary policy and the outcomes thereof. The section explains that BNR implemented an accommodative monetary policy, to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange pressures were expected to decline.

3.1 Monetary Policy Stance in 2017H1

In the first half of 2017, BNR maintained an accommodative monetary policy stance to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange pressures were expected to decline. BNR reduced twice its policy rate (KRR) between December 2016 and June 2017 to 6.25 percent from 6.50 percent and to 6.0 percent respectively.

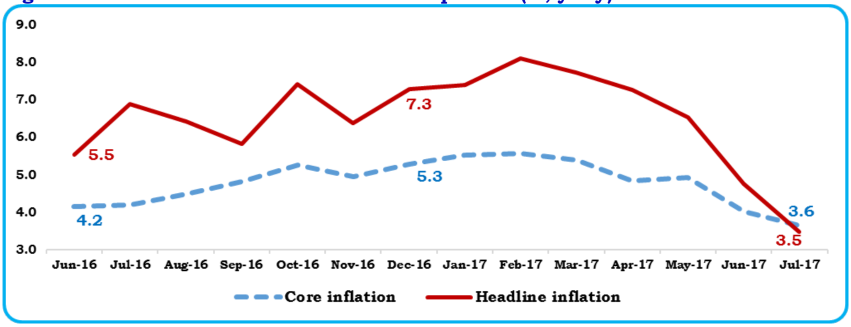
BNR ensured that the banking sector continued to finance the economic activities while limiting inflationary pressures from the monetary sector. As a result, outstanding credit to the private sector increased by 8.3 percent between December 2016 and June 2017 against 7.9 percent recorded in the corresponding period of 2016. The broad money increased by 11.1 percent compared to 6.1 percent during the same period and 14.0 percent projected in 2017.

3.2 Inflation Developments in 2017H1

In the first half of 2017, headline inflation evolved around 7.0 percent on average higher than 4.7 percent recorded in 2016H1 and 6.7 percent in 2016H2. However, upward pressures have started to ease with headline inflation falling from 8.1 percent in February to 4.8

percent in June and 3.5 percent in July 2017. During the same period, core inflation also declined from 5.6 percent to 4.0 percent and 3.6 percent respectively.

Figure 2: Headline and Core inflation developments (%, y-o-y)



Source: BNR, Monetary Policy and Research Department

The increase in the first quarter was mostly reflected in food prices and transport inflation surging from 15.4 percent and 7.7 percent in 2016Q4 to 16.6 percent and 8.5 percent in 2017Q1 on average respectively. The same components decreased in 2017Q2 to 13.3 percent and 5.4 percent. Food inflation eased following the improvement in food supply while transport inflation reduced with the deceleration in FRW depreciation.

Domestic inflation that reflects the local food supply increased from 6.9 percent in 2016Q4 to 7.4 percent in 2017Q1 but fell to 6.0 percent in 2017Q2. Similarly, imported inflation picked up from 7.3 percent to 8.8 percent and bounced back to 6.9 percent during the same period. The trend in domestic inflation is essentially influenced by domestic food prices, while imported inflation mostly reflected costs of fuels and lubricants, clothing and transport.

Core inflation, which excludes fresh products and energy, also went up on average from 5.2 percent in 2016Q4 to 5.5 percent in 2017Q1 but eased to 4.6 percent in 2017Q2 in line with the prevailing level of aggregate demand.

Table 17: Inflation developments for key items (annual percent change)

	2016								2017					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun
Headline	5.5	6.9	6.4	5.8	7.4	6.4	7.3	7.3	7.4	8.1	7.7	7.3	6.5	4.8
Domestic	6.1	7.5	6.8	5.9	7.8	6.0	7.1	7.1	7.1	7.9	7.3	7.2	6.4	4.3
Food:	9.4	13.8	12.0	11.2	16.3	13.5	16.4	16.4	16.2	17.6	16.1	15.8	14.3	9.8
- Vegetables	20.2	30.8	24.6	18.8	26.7	18.2	22.2	22.2	21.7	23.1	18.4	18.3	16.2	5.3
- Bread & Cereals	0.2	1.4	1.4	2.7	5.8	7.1	7.6	7.6	7.1	7.7	8.6	8.9	9.3	10.5
Alcoholic	8.7	5.1	0.1	0.2	-0.4	0.5	2.0	2.0	2.8	6.6	7.5	8.4	8.6	8.6
Education	1.7	1.7	1.7	2.3	2.3	2.3	2.3	2.3	0.9	-0.8	-0.8	-0.8	-0.8	-0.8
Housing	2.9	2.8	3.0	0.9	1.3	1.0	1.4	1.4	1.4	2.1	2.5	2.2	1.8	1.5
Transport	7.0	8.7	8.6	8.7	7.9	7.5	7.7	7.7	8.3	8.3	8.9	6.1	5.4	4.6
Imported	3.9	5.2	5.5	5.6	6.3	7.7	7.9	7.9	8.4	8.8	9.1	7.4	6.8	6.4
Core	4.2	4.2	4.5	4.8	5.3	5.0	5.3	5.3	5.5	5.6	5.4	4.8	4.9	4.0
Energy	4.1	6.0	6.0	-0.3	0.7	1.7	2.6	2.6	1.2	4.6	6.9	6.1	4.0	5.6

Source: BNR, Statistics Department

3.3 Monetary Developments

3.3.1 Money Supply

Broad money (M3) increased by 11.1 percent between December 2016 and June 2017, to FRW 1772.2 billion, higher than 6.1 percent recorded in the corresponding period of 2016. This increase was due to growth in net domestic assets (NDA) to 21.6 percent compared with 19.7 percent in the same period of the year before while net foreign assets (NFA) slightly declined by 1.0 percent compared to -11.7 percent realized in the same period of last year.

The increase in net domestic assets between December 2016 and June 2017 resulted from an increase in credit to the government to FRW 343.7 billion from FRW 284.5 billion. Positive contribution also came from an uptick in credit to the private sector, which grew by 8.3 percent from 7.9 percent last year. The credit to the private sector stood at FRW 1375.3 billion end June 2017 while new authorized loans amounted for FRW 416.7 billion in the first half of 2017.

Table 18: Monetary aggregates developments (end period, FRW billion)

	2014	2015		2016		2017	Percent change	
	Dec	Jun	Dec	Jun	Dec	Jun	Jun-16/ Dec-15	Jun-17/ Dec-16
Net foreign assets	**690.4**	**599.5**	**642.6**	**567.5**	**739.2**	**731.9**	***-11.7***	***-1.0***
Foreign assets	890.9	818.6	860.8	890.0	1078.2	1101.8	**3.4**	**2.2**
Foreign liabilities	200.5	219.1	218.1	322.5	339.0	369.9	**47.9**	**9.1**
Net domestic assets	**533.5**	**837.5**	**839.5**	**1004.9**	**855.5**	**1040.3**	***19.7***	***21.6***
Domestic credit	897.0	1181.4	1223.1	1436.3	1325.6	1560.6	**17.4**	**17.7**
Credit to government	222.3	287.0	304.1	318.3	284.5	343.7	**4.7**	**20.8**
Government Deposits	243.6	162.0	264.6	193.9	272.3	202.7	**-26.7**	**-25.5**
Private sector	***906.3***	***1042.1***	***1178.1***	***1271.6***	***1269.6***	***1375.3***	***7.9***	***8.3***
Other items net (Assets: + Liab :-)	-363.5	-343.8	-383.7	-431.4	-470.0	-520.3	**-12.4**	**-10.7**
Broad money M3	**1223.9**	**1427.8**	**1482.1**	**1572.4**	**1594.7**	**1772.2**	***6.1***	***11.1***
Currency in circulation	118.5	134.9	142.6	150.8	145.9	159.7	**5.7**	**9.5**
Deposits	1105.3	1292.9	1339.5	1421.6	1448.8	1612.5	**6.1**	**11.3**
o/w Demand deposits	456.2	616.2	614.6	640.0	587.9	680.2	**4.1**	**15.7**
Time and Savings deposits	407.3	441.1	469.0	512.4	532.4	542.3	**9.3**	**1.9**
Foreign currency deposits	241.8	235.6	255.9	269.2	328.5	390.0	**5.2**	**18.7**

Source: BNR, Statistics Department

The decrease in net foreign assets was mainly due to a decline in the central bank's net foreign assets by 7.1 percent, offset by an expansion in commercial banks' net foreign assets by 49.9 percent. This increase resulted from an expansion in formal export receipts by 39.8 percent and a decline in the import bill by 8.7 percent in the first half of 2017 against a reduction of 2.4 percent in exports' receipts and an increase in imports bill by 3.3 percent in the corresponding period of 2016.

New authorized loans by the banking sector declined by 2.4 percent in the first half of 2017 from 18.3 percent in the same period of 2016. This contraction is mainly explained, on one hand, by the reduction in new loans to Commerce restaurants and hotels by 21.6 percent. On the other hand, it was due to a decline in loans to manufacturing activities, by 20.6 percent, consistent with the deceleration in the sector's activities.

Table 19: New authorized loans by activity branch (FRW billion, unless otherwise indicated)

Activity branch	2012H1	2013H1	2014H1	2015H1	2016H1	2017H1	2016H1/ 2015H1	2017H1/ 2016H1
Non classified activities	43.5	26.3	33.8	30.6	37.8	44.5	**23.4**	**17.9**
Agricultural, fisheries& livestock	5.0	4.1	3.4	6.7	6.3	4.9	**-7.0**	**-21.6**
Mining activities	0.000	0.001	0.010	0.324	1.722	0.602	**431.4**	**-65.0**
Manufacturing activities	12.0	14.9	44.6	12.3	35.8	28.4	**191.3**	**-20.6**
Water & energy activities	0.2	0.4	16.1	1.3	8.0	8.8	**537.6**	**10.1**
Public works and building	60.4	43.5	68.7	119.6	89.9	105.2	**-24.8**	**17.0**
Commerce restaurants & hotels	108.2	107.5	132.0	144.3	216.1	169.3	**49.8**	**-21.6**
Transport & warehousing & communication	15.5	14.9	15.5	24.3	18.7	38.2	**-23.0**	**103.9**
OFI & Insurances and other non-financial services	1.4	4.7	1.2	12.5	3.5	6.5	**-71.7**	**83.5**
Services provided to the community	5.6	4.2	10.4	8.9	8.9	10.2	**-0.4**	**14.3**
Total	**251.7**	**220.4**	**325.7**	**360.8**	**426.7**	**416.7**	**18.3**	**-2.4**

Source: BNR, Financial Stability Directorate

Commerce, restaurant and hotels continue to dominate other sectors, representing 40.6 percent of the total authorized loans in the first half of 2017, followed by public works and buildings (25.2 percent) and non-classified activities (10.7 percent) especially personal loans.

Table 20: New cash loans distribution by economic sector (percent share)

Activity branch	**2012H1**	**2013H1**	**2014H1**	**2015H1**	**2016H1**	**2017H1**
Non classified activities	17.3	11.9	10.4	8.5	**8.9**	**10.7**
Agricultural, fisheries& livestock	2.0	1.8	1.0	1.9	**1.5**	**1.2**
Mining activities	0.0	0.0	0.0	0.1	**0.4**	**0.1**
Manufacturing activities	4.8	6.8	13.7	3.4	**8.4**	**6.8**
Water & energy activities	0.1	0.2	4.9	0.3	**1.9**	**2.1**
Public works and building	24.0	19.8	21.1	33.2	**21.1**	**25.2**
Commerce restaurant and hotels	43.0	48.8	40.5	40.0	**50.6**	**40.6**
Transport & warehousing & communication	6.2	6.7	4.8	6.7	**4.4**	**9.2**
OFI &Insurances and other non-financial services	0.6	2.1	0.4	3.5	**0.8**	**1.6**
Services provided to the community	2.2	1.9	3.2	2.5	**2.1**	**2.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BNR, Financial Stability Directorate

New authorized loans to corporates continued to have a big share in total loans with 59.8 percent (FRW 249.2 billion) in the first half of 2017 from 61.2 percent and 46.8 percent in 2016 and 2012 respectively.

Loans to individuals represented 40.2 percent (FRW 167.5 billion) of total loans with 19.0 percent authorized to women and 81.0 percent to men in the first half of 2017. The number of women financed by banks continued to be low, representing on average 58,573 between 2012 and 2016 compared to an average of 115,178 men during the same period. In the first half of 2017, the number of financed women reached 34,214 while the number of financed men stood at 98,170.

Table 21: Distribution of loans by gender

	2012	2013	2014	2015	2016	17-H1
Women (share of loans in percent)	22	22	25	23	21	**19**
Men (share of loans in percent)	78	78	75	77	79	**81**
Number women financed	19,190	14,376	90,796	87,337	81,165	**34,214**
Number men financed	45,825	37,273	133,505	170,378	188,907	**98,170**

Source: BNR, Financial Stability Directorate

Concerning the distribution of new authorized loans by Provinces, Kigali City stayed with a highest share of 79.6 percent in the first half of 2017 followed by the Northern Province (5.7 percent), Southern Province (5.5 percent), Eastern Province (5.1 percent) and lastly the Western Province (4.1 percent).

Table 22: Distribution of new authorized loans by Province (FRW billion)

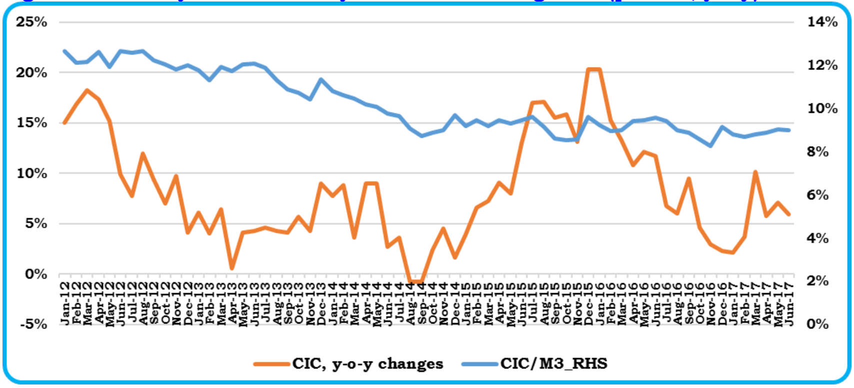
	2012	2013	2014	2015	2016	2016H1	2017H1
KIGALI CITY	355	358.7	464	571	583.4	325.6	331.5
WEST	47.4	29.9	67.8	39	49.1	24.2	17.1
EAST	33.4	36.7	52.8	52.6	58.2	28.3	21.3
SOUTH	38.3	23.9	41.1	45	57.2	24.1	22.9
NORTH	24.9	23.3	27.2	34.5	40.6	24.4	23.8
TOTAL	**498.9**	**472.5**	**653**	**742.1**	**788.5**	**426.7**	**416.7**

Source: BNR, Financial Stability Directorate

3.3.2 Money Demand

Currency in circulation (CIC) expanded by 9.5 percent between December 2016 and June 2017 against 5.7 percent in the corresponding period of 2016. The currency to broad money ratio continued to decrease in the recent past, averaging at 9 percent in the first half of 2017 from 12 percent in in the same period of 2012. The extension in the banking sector network, microfinance institutions and payments systems modernization remain the main cause of this trend.

Figure 3: Currency to broad money M3 ratio and CIC growth (percent, y-o-y)

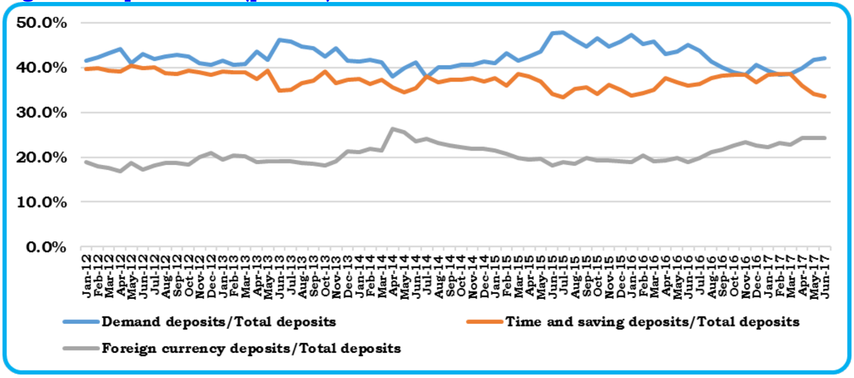


Source: BNR, Monetary Policy and Research Department

The total bank deposits grew by 11.3 percent between December 2016 and June 2017 against 6.1 percent in the same period of 2016. This growth came from the increase in demand deposits by 15.7 percent from 4.1 percent and foreign currency deposits by 18.7 percent from 5.2 percent. The high increase in foreign currency deposits mainly resulted from the good external sector performance.

Demand deposits continued to dominate with an average of 40.0 percent in the first half of 2017, followed by term deposits (36.5 percent) and foreign currency deposits (23.5 percent).

Figure 4: Deposit ratios (percent)



Source: BNR, Statistics Department

With regards to deposits by category of depositors, Households and Non-Profit Institutions Serving Households (NPISHs) dominate in demand and time deposits, while foreign currency deposits are mostly held by non-financial corporations.

Table 23: Deposits by category of depositors (percent share)

	Demand deposits					Time deposits					Foreign currency deposits				
	2013	2014	2015	2016	Jun-17	2013	2014	2015	2016	Jun-17	2013	2014	2015	2016	Jun-17
Other financial institutions	2.4	2.4	3.4	2.3	2.5	4.6	3.8	5.8	3.9	5.3	0.2	0.1	0.3	0.1	0.4
Social security funds	1.7	1.2	3.7	1.6	3.9	13.3	14	12	13.0	11.8	0.1	0.1	0.3	0.2	0.8
Public enterprises	1.6	2.4	0.8	1.7	0.9	0.3	0.2	0.4	1.7	0.1	0.5	0.4	0.7	0.4	0.2
Other nonfinancial corporations	11.3	11.8	14	11.9	11.9	4	4.6	3.1	3.7	2.5	12.1	13.4	9.5	10.8	12.6
Households and NPISH	24.5	23.5	22.5	22.2	23.0	15.1	14.3	14.6	15.3	13.7	8.4	8	8.9	11.2	11.1
Total (percent)	**41.5**	**41.3**	**44.4**	**39.7**	**42.2**	**37.3**	**36.9**	**35.9**	**37.6**	**33.4**	**21.3**	**22**	**19.6**	**22.7**	**25.0**

Source: BNR, Statistics Department

The share of RSSB and Microfinance institutions in total term deposits in the banking system represented 52.2 percent in June 2017. RSSB owns a share of 35.2 percent while MFIs represent 17.0 percent in total term deposits. On average in the last five years, RSSB has a big share of 33.7 percent, and MFIs with 12.5 percent.

Table 24: Share of RSSB, Insurance and MFIs in term deposits (percent)

	2012	2013	2014	2015	2016	Jun-17
RSSB	25.0	35.7	38.1	33.7	35.7	35.2
MFIs	9.8	11.1	13.0	15.9	12.7	17.0
Total	**34.8**	**46.8**	**51.1**	**49.6**	**48.4**	**52.2**

Source: BNR, Financial Stability Directorate

3.4 Liquidity Conditions of the Banking System

Liquidity conditions of the Banking system improved in the first half of 2017 compared to the same period of 2016. Compared to December of last year, commercial banks' most liquid assets increased by 17.2 percent in June 2017 from an increase of 2.9 percent recorded in the corresponding period of 2016. The increase of banks' liquidity is due to reduced forex interventions, good performance in formal export receipts and fiscal injection observed in May and June 2017 (end of fiscal year).

In 2017H1, total sales to banks amounted to USD 135.6 million equivalent to FRW 112.0 billion, against USD 157.0 million equivalent to FRW 120.8 billion in the corresponding period of 2016 that is a reduction of 7.3 percent.

Table 25: Most liquid assets of commercial banks (FRW billion, unless otherwise indicated)

	2012	2013	2014	2015	Jun-16	2016	Jun-17	June-16/ Dec-15 (percent)	June-17/ Dec-16 (percent)
T-bills	62.5	171.6	172.3	225.1	214.0	177.7	207.8	**-4.9**	**16.9**
Repo	52.5	63.0	47.5	26.5	34.0	30.5	60.4	**28.3**	**98.0**
Excess Reserves (FRW)	9.5	9.9	17.2	17.1	31.7	24.5	9.9	**85.4**	**-59.8**
Cash in Vault	22.3	24.3	35.4	34.2	32.0	30.8	30.9	**-6.3**	**0.3**
Total	**146.8**	**268.8**	**272.4**	**302.9**	**311.7**	**263.6**	**309.0**	**2.9**	**17.2**

Source: BNR, Monetary Policy and Research Department

3.5 Interest rate developments

In 2017H1, money market interest rates have been decreasing in line with liquidity conditions and BNR monetary policy stance implemented in the period under review. Repo and interbank interest rates decreased respectively to 4.85 percent, 6.37 percent on average in June 2017, from 5.02 percent and 6.61 percent on average in December 2016. T-bills rate increased in 2017Q1 to 9.5 percent on average but reduced in 2017Q2 to reach 9.0 percent on average.

Table 26: Interest rates developments (percent)

	2015	2016				2017					
	Dec	Mar	Jun	Sept	Dec	Jan	Feb	Mar	Apr	May	Jun
Key Repo rate	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.00
Discount Rate	10.50	10.50	10.50	10.50	10.25	10.25	10.25	10.25	10.25	10.25	10.00
Repo Rate	2.36	3.10	3.60	4.73	5.02	5.50	5.18	4.99	4.75	4.24	4.42
T-bills rate	6.76	6.40	7.30	8.22	9.02	9.38	9.58	9.42	9.14	9.01	8.78
Interbank rate	3.73	5.20	5.90	6.67	6.61	6.82	6.33	6.10	6.22	6.34	6.40
Deposit rate	7.59	7.30	7.90	8.28	8.01	7.39	7.22	7.84	7.85	8.57	7.92
Lending rate	17.03	17.10	17.00	17.36	17.21	17.45	16.78	16.89	17.33	17.24	16.76
Spread	9.44	9.80	9.10	9.08	9.20	10.06	9.57	9.05	9.48	8.67	8.84

Source: BNR, Statistics Department

With regard to commercial banks' interest rates, both deposit and lending interest rates slightly declined to 7.80 percent and 17.08 percent, on average in the first half of 2017, from 8.01 percent and 17.21 percent in December 2016 respectively. The decline in lending rate was driven by the drop in the rate charged to individual borrowers from 18.07 percent in December 2016 to 17.40 percent on average in 2017H1.

Table 27: Interest rates by type of borrowers (annual average in percent)

Type of Borrower	2013	2014	2015	2016	2017					
					Jan	Feb	Mar	Apr	May	Jun
Corporates	16.86	16.52	16.61	16.67	17.1	16.37	16.63	17.05	16.78	16.03
Individuals	17.73	18.48	18.13	18.07	17.79	16.72	17.02	17.62	17.78	17.40

Source: BNR, Financial Stability Directorate

3.6 Capital Market Development

Capital market development and macroeconomic policies are mutually reinforcing. The capital market is an enabler of economic growth and provides long-term financing for the real sector. Since 2014, the government of Rwanda, through the National Bank of Rwanda, has been issuing Treasury Bonds on quarterly basis to avail the products on the market and drive the development of the capital market.

3.6.1 Primary Government Bond Market

In 2017H1, BNR and its partners continued the program of issuing Government bonds on quarterly basis. During this period, BNR issued two bonds: a 5-year bond worth FRW 10.0 billion issued in February, and, a 7-year bond worth FRW 10.0 billion issued in May 2017. Meanwhile, a 3-year bond worth FRW 12.5 billion that had been issued in February 2014 matured in February 2017. As result, the outstanding T-Bond was FRW 160.0 billion as of June 2017, from FRW 152.5 billion in December 2016.

Table 28: T-Bonds Outstanding 2013-June 2017 (FRW billion, unless otherwise indicated)

YEAR	BANKS	IN PERCENT	INSTITUTIONAL INVESTORS	IN PERCENT	RETAIL INVESTORS	IN PERCENT	TOTAL
2013	6.9	81.2	1.6	18.8	0.0	0.1	8.5
2014	24.3	50.1	23.4	48.3	0.8	1.6	48.5
2015	46.2	46.2	51.5	51.5	2.3	2.3	100.0
2016	60.9	39.9	86.5	56.7	5.1	3.3	152.5
Jun-17	59.0	37.0	94.3	58.9	6.8	4.2	160.0

Source: BNR, Financial Market Department

In all these issuances, increased participation of institutional and retail investors has been noticed. The share of institutional investors increased from 18.8 percent by December 2013 to 58.9 percent end

June 2017 and the share of retail investors increased to 4.2 percent end June 2017 from 0.1 percent in December 2013. On other hand, the share of banks' investments in government bonds declined from 81.2 percent end December 2013 to 37.0 percent end June 2017. This shows the increase in saving opportunities offered by the capital markets and the growing awareness of the T-Bonds market in particular and capital markets in general.

3.6.2 Secondary Market

3.6.2.1 Market turnovers

In 2017H1, the stock exchange performed well compared to the same period of 2016. The value of deals transacted on RSE increased by 581 percent, from FRW 521 million in first six months of 2016 to FRW 3.5 billion during the first six months of 2017. This increase was mainly attributed to the increased trade in government bonds on the secondary market, which rose by 637 percent during the first half of 2017 compared to the same period of 2016.

Turnovers and number of deals also increased by 75 percent and 18 percent respectively, following the high performance recorded by the bonds desk, as a result of the continuous T-bonds issuance program and awareness campaigns.

On the equity market, the increase was mainly due to the government's sale of its stake in I&M Bank to the public. The Government of Rwanda sold 99,030,400 ordinary shares, representing approximately 19.81 percent shareholding of I&M Bank Rwanda Ltd to the public in March 2017. The objective of the offer was to allow the Government to withdraw from I&M Bank Rwanda ltd and to develop the Capital Market in Rwanda by continuously giving investors an opportunity to participate in the success of the leading corporates in Rwanda.

Table 29: Trading activities on the RSE (FRW million unless otherwise indicated)

		2013	2014	2015	2016	Jan-Jun-16	Jan-Jun-17	Percent change
Volume traded		**108.4**	**2,375.1**	**1,021.1**	**1,729.0**	**520.6**	**3,546.5**	**581**
	Bonds	-	1,055.4	884.9	1,633.5	470.7	3,467.1	**637**
	Equities	108.4	1,319.6	136.2	95.5	49.9	79.4	**59**
Turnovers		**53,982.1**	**46,312.6**	**38,547.7**	**17,115.3**	**9,000.4**	**15,770.6**	**75**
	Bonds	-	1,089.7	913.5	1,710.5	514.5	3,551.5	**590**
	Equities	53,982.1	45,222.9	37,634.2	15,404.8	8,485.9	12,219.1	**44**
Number of deals		**1,738.0**	**1,542.0**	**968.0**	**991.0**	**438.0**	**518.0**	**18**
	Bonds	-	13.0	30.0	99.0	33.0	88.0	**167**
	Equities	1,738.0	1,529.0	938.0	892.0	405.0	430.0	**6**
Market cap		**1,372.7**	**1,339.5**	**2,820.4**	**2,748.0**	**2,808.4**	**2,745.9**	**-2**

Source: BNR, Financial Market Department

IV. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

This chapter shows recent exchange rate developments, taking note of the fact that in the first half of 2017 pressures on exchange rate continued easing due to continued recovery in commodity prices at the international market leading to significant increase in exports earnings and decline in import bills. As result, relative to December 2016, the FRW depreciated by 1.3 percent against the USD by end June 2017 compared to a depreciation of 4.8 percent and 9.7 percent registered end June and December 2016 respectively.

4.1 Exchange Rate Developments

In the first half of 2017, pressures on the Rwandan Franc against the USD continued easing, thanks to the improvement in Rwanda's export receipts in line with continued recovery in commodity prices at international market. Conversely, the import bill and demand for dollars are reducing due to increased domestic production of goods such as cement that previously required a lot of forex to import and the phasing out of some major construction projects. The FRW depreciated against the USD by 1.3 percent end June and 1.64 percent by 13th August 2017 compared to 4.8 percent by end June 2016.

Table 30: Appreciation/Depreciation rate of FRW against selected currencies

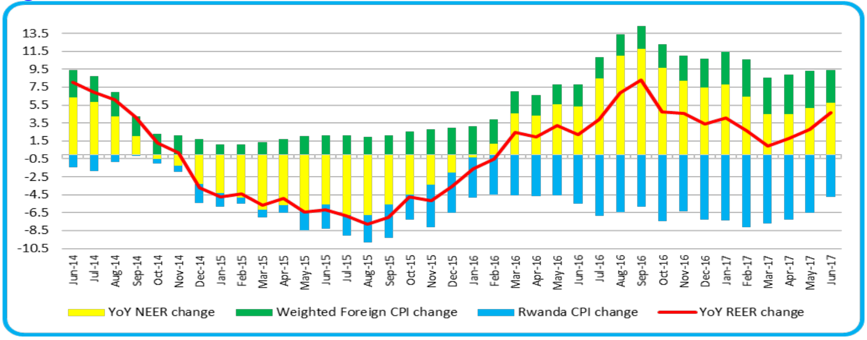
	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
Dec-2011	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-2012	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-2013	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-2014	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Dec-2015	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Jun-2016	4.8	-5.0	6.6	22.8	6.1	3.3	3.7	-3.7
Dec-2016	9.7	-9.2	5.3	13.4	9.6	8.6	2.3	-0.2
Jun-2017	1.3	7.5	10.4	5.4	0.0	-1.4	2.0	-1.0

Source: BNR, Monetary Policy and Research Department

Compared to the British pound, Euro and Japanese yen, the FRW depreciated by 7.5 percent, 10.4 percent and 5.4 percent respectively while compared to regional currencies, it remained stable against the Kenya shilling, appreciating by 1.4 percent and 1.0 percent against the Tanzanian shilling and the Burundian franc respectively while it depreciated by 2.0 percent against the Ugandan shilling.

In real term, the FRW depreciated by 4.7 percent (y-o-y) by end June 2017 against 3.4 percent registered by end December 2016 mainly attributed to the depreciation of the nominal value of the FRW against currencies of some of the major trading partners and the increase in the inflation differential.

Figure 5: Drivers of REER movement

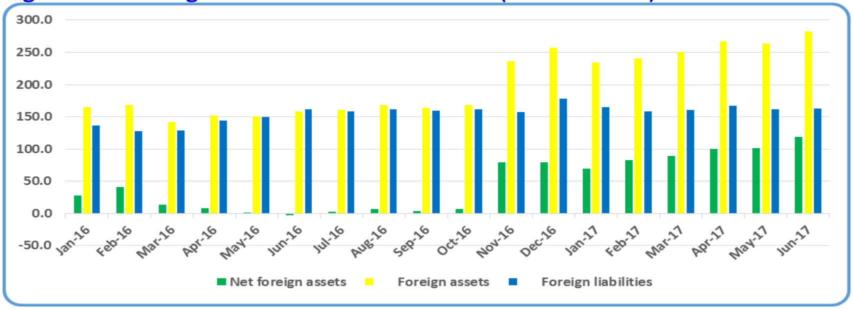


Source: BNR, Monetary Policy and Research Department

4.2 Foreign exchange market developments

By end June 2017, net foreign assets of commercial banks increased to FRW 119.3 billion from FRW 79.6 billion end December 2016. Indeed, foreign assets increased from FRW 257.2 billion end December 2016 to FRW 282.1 billion end June 2017 while foreign liabilities decreased from FRW 177.6 billion end December 2016 to FRW 162.8 billion end June 2017. This increase in foreign resources led to easing pressures on the foreign exchange market.

Figure 6: Net foreign assets in commercial banks (in FRW billion)



Source: BNR, Monetary Policy and Research Department

Due to the reduced pressure on the foreign exchange market, BNR reduced its sales of US dollars to commercial banks by 13.7 percent, from USD 157.0 million in the first six months of 2016 to USD 135.5 million in the corresponding months of 2017.

The foreign exchange market conditions are expected to continue improving following the ongoing recovery in international commodity prices coupled with reducing imports bill and demand for dollars as the made in Rwanda initiative is likely to pay off. The FRW depreciation against the USD is expected at around 3.0 percent end December 2017.

V. FINANCIAL SECTOR STABILITY

The Rwandan financial sector consists of a wide and growing range of institutions as well as market and financial infrastructure. These include: banks, microfinance institutions, insurance companies, pensions, the payment system and the credit registry infrastructures which are all regulated and supervised by BNR. The capital market, regulated by the Capital Market Authority (CMA), is also an integral component of the Rwandan financial system. The banking sector is the largest sector of the financial system, although overtime its share has gradually declined, a sign of diversification in the financial sector. The banks' share of the total financial sector's assets declined from 71.4 percent in June 2010 to 66.9 percent in June 2017. The main contribution to this recorded diversification came from the increased shares of the pension and the MFIs/SACCOs. The share of the pension sub sector increased from 13.8 percent in June 2010 to 17.2 percent in June 2017. MFIs and SACCOs combined share of financial sector's assets stood at 6.3 percent in June 2017, up from 3.7 percent in June 2010, whereas the share of the insurance sector stood at 9.7 percent in June 2017 from 11.1 percent in June 2010.

The Rwandan financial sector continued to deepen, indicating its growing role in the economic performance. The size of the financial sector, as measured by total assets relative to GDP stood at 54.3 percent in June 2017 up from 33.8 percent in June 2010 and the total combined banks and MFIs' lending to the economy rose from 13 percent of the GDP in June 2010 to 24.3 percent of the GDP in June 2017. In EDPRS-2, the government targets to achieve 30 percent credit to GDP by 2020.

Table 31: The Structure of the Financial Sector (Number and Assets)

Financial Sector	Jun-10		Jun-17		Assets/GDP	
	Number	% Share of TA	Number	% Share of TA	Jun-10	Jun-17
Banking	14	71.5	17	66.9	21.6	36.3
Insurance	8	11.1	16	9.7	3.2	5.2
Pension	1	13.8	1	17.1	6.4	9.3
MFIs	524	3.6	473	6.3	2.6	3.5
Total	**547**	**100**	**507**	**100**	**33.8**	**54.3**

Source: Financial Stability Directorate, (TA=Total Assets)

5.1.1 Financial Sector Performance Indicators

5.1.1.1 Banking Sub Sector Structure and Performance

The banking sub sector remains the largest component of Rwanda's financial sector. As at end June 2017, this sub sector comprised of eleven commercial banks, four microfinance banks, one development bank and one cooperative bank. The merger of Banque Populaire du Rwanda (BPR) and Banque Rwandaise de Developpement (BRD) Commercial in 2016 led to a decrease in the number of commercial banks from twelve as at June 2016 while the licensing of Commercial Bank of Africa (CBA) increased the number of microfinance banks from three to four. In-terms of banks' branches and agents' network, the banking sector had 265 bank branches country-wide, 75 sub-branches, and 213 outlets and operated 3,547 banking agents as at June 2017.

Total assets of the banking sector stood at FRW 2,572 billion as at end June 2017, indicating a year-on-year growth of 12.9 percent. Growth of banks assets moderated compared to 14 percent growth registered in the same period in 2016. The moderate growth of bank assets during the review period was to a large extent caused by weak credit demand linked to the slowdown of economic activities in the first half of 2017. Between January 2017 and June 2017, new loan applications grew by 1 percent against 7 percent growth registered between January 2016 and June 2016. Similarly, the value of loan applications grew by 3 percent between January 2017 and June 2017 compared to 7 percent recorded in the corresponding period of 2016. The increase of credit risk (NPLs) in this period also caused some banks to tighten their credit stance — the NPLs ratio increased from 7 percent in June 2016 to 8.2 percent in June 2017. Consequently, banks tightened their credit underwriting standards. For example, in the first half of 2017, the loan rejection rate[2] by banks increased from 12 percent to 17 percent, 5 percentage points higher than the corresponding period of 2016.

The composition of banks' credit portfolio by economic institutions showed that the largest proportion of banks' loans went to private sector, with a share of 96 percent by end-June 2017. Loans to government corporations accounted for 4 percent of total loans.

The mortgage, trade and hotel sectors had the largest share of outstanding credit balances, accounting for a combined share of 66.7 percent as at end June 2017, from 67.4 in June 2016. The share of loans to mortgage reduced from 36.6 percent to 35.1 percent in the period under review. The share of hotels increased from 7.9 percent to 9.0 percent, while that of trade slightly decreased from 22.9 to 22.4 percent. The share of loans in transport and warehouse sector increased to 8.1 percent in June 2017 from 6.7 percent in June 2016. This increase reflected the increased banks financing of big projects in transport and warehouse sector.

Banks' lending is also concentrated to corporates. As at June 2017, loans to corporates stood at 67 percent of the total banks' loan portfolio, whereas loans to individuals counted for 33 percent of total loans.

[2] By loan rejection rate we compare the number of loan applications received by banks and number of loan approvals by banks.

Table 32: Share of loans by activity sector (percent)

Activity Sector	% of total loans			Percent change Jun-17/ Jun-16
	Jun-15	Jun-16	Jun-17	
Non-classified activities	9.8	7.7	7.1	9.6
Agricultural, fisheries& livestock	2.3	2.1	1.6	-7.0
Mining activities	0.0	0.1	0.1	37.7
Manufacturing activities	9.4	9.1	9.0	16.9
Water & energy activities	2.3	2.2	2.8	53.8
Mortgage industries	33.9	36.6	35.1	14.2
Trade	25.7	22.9	22.4	17.3
Hotels	7.2	7.9	9.0	36.6
Transport & warehousing	6.1	6.7	8.1	43.3
OFI &Insurance	1.7	1.5	1.6	22.6
Service sector	3.1	3.2	3.1	14.5

Source: BNR, Financial Stability Directorate

Amongst the other components of banks' assets, bank balances held abroad increased by 104 percent to FRW 234 billion. This high increase is attributable to the increased deposits in corresponding banks abroad (nostro accounts), to facilitate international trade and foreign exchange operations. The stock of government securities held by banks decreased by 1 percent to 228 billion, down from a growth rate of 6 percent recorded between June 2015 and June 2016. The reduction of the growth rate of government securities is attributed to a reduction in excess liquidity for investment and increased competition from other non-bank investors. Non-bank investors increased appetite for government securities in search for the higher yields and risk free returns.

The main source of asset funding for the banking sector during the review period was customer deposits, accounting for 65 percent of total assets. Deposits amounted to FRW 1,674 billion as at end June 2017, indicating an annual growth rate of 11 percent compared with a growth rate of 28 percent a year ago. Generally, growth of banks' deposits moderated in the last 3 years on account of increased search for high return offered by government securities. For example, as at June 2017, individuals and other non-bank institutions reduced their demand deposits in banks and increased their investments in Government Securities (T-bills and T-bonds). The total investment by individuals in government securities increased by 62 percent from FRW 4 billion as at end June 2016 to FRW 7 billion in June 2017. In the same period, total investments by institutional investors (RSSB, RNIT, Insurance, MFIs) in Government Securities increased by 69 percent (year-on-year) to FRW 170 billion. These institutions drew on their demand deposits in banks to invest in risk free government securities. Due to this investment substitution, the outstanding amount of demand deposits of these institutional investors in banks declined from FRW 116 billion in June 2016 to FRW 97 billion in June 2017. Demand deposits of MFIs in banks declined from FRW 72 billion to FRW 59 billion.

Banks are still constrained by short term funding structure. As at June 2017, short term deposits (with maturity of up to 12 months) constituted around 85 percent of deposits of banks, while long-term deposits (with maturity above 12 months) account for 15 percent. This deposit structure remains a challenge to banks, as banks lack enough long-term funds to finance the long-term investment needs. Efforts underway to address this include financial literacy to enhance the saving culture as well as the development of the capital market as a source of long term funds for banks.

Table 33: Key Banking Financial Highlights (FRW billion)

Indicators	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Total Assets (net)	1,208	1,381	1,767	2,000	2,278	2,572
Loans & Overdrafts (Net)	669	788	904	1,109	1,323	1,513
Deposits	735	810	1,061	1,181	1,507	1,674
Total Liabilities	958	1,093	1,476	1,640	1,859	2,118
Total Shareholders' Funds	250	288	291	360	419	454

Source: BNR, Financial Stability Directorate

On the pricing of loans perspective, it is worth noting the progressive decline of the lending rates. As at June 2017, the average lending rate was 16.76 percent, down from 17.00 percent and 17.26 percent in June 2016 and June 2015 respectively. The decline of the lending rate mainly reflects a gradual increase of competition among banks.

In order to enhance the protection of consumers as far as loan pricing is concerned, BNR enacted the regulation on Key Facts Statements on credit contracts that aims at disclosing of all charges and terms for loans to the borrower with effect from July 2016. This should enable customers to take informed decisions with regard to loans.

5.1.1.2 Financial Soundness Indicators of Banks

The indicators of asset quality as at the end June 2017 pointed to a deterioration in the quality of the loan book of banks relative to the same period last year. The stock of NPLs increased from FRW 112 billion in June 2016 to FRW 149 billion in June 2017. Consequently, the NPL ratio (the ratio of non-performing loans to gross loans) for the banking industry increased from 7 percent in June 2016 to 8.2 percent in June 2017. The increase of the NPLs ratio was mainly caused by 3 factors: (1) weak project assessment by banks; (2) inadequate credit monitoring, and to a lesser extent, (3) by subdued economic performance in the first half of 2017. The slowdown in growth of loans in the first half of 2017 also compounded the growth of the NPLs ratio.

High loan delinquencies were mostly observed in the agriculture sector. As at June 2017, the ratio of NPLs in the agriculture sector stood at 18.4 percent, up from 16.9 percent in June 2016. The level of NPLs also increased in the service sector from 4.5 percent in June 2016 to 10.7 percent in June 2017 mainly due to weak domestic demand which affected the debt servicing capacity of some businesses. NPLs in mortgage increased from 5.1 percent in June 2016 to 5.8 percent in June 2017, while that of trade increased from 6.9 percent to 8.8 percent. NPLs in hotels industry increased from 8.5 percent to 9.5 percent in June 2016 and June 2017 respectively. To deal with this issue, BNR has intensified its supervision efforts to ensure appropriate loan classification and adequate provisioning by the Banks, and plans to engage banks on their project appraisal process and monitoring of financed projects. The BNR targets reducing the NPLs ratio to 5 percent in the medium-term.

Table 34: NPLs by Economic Sector (percent)

Activity Sectors	NPLs per total loans of the sector (percent)					Percent share in Total NPLs
	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	
Non-classified activities	3	6.3	7.2	6.4	7.8	7.6
Agricultural, fisheries & livestock	8.7	17.3	14.9	16.9	18.2	4.1
Mining activities	0.0	0.0	2.8	0.9	0.0	0.0
Manufacturing	3.1	2.3	1.1	6	8.8	10.9
Water & energy	0.4	0.2	2.6	0.2	0.1	0.0
Mortgage industries	5.3	5.4	4.5	5.1	5.8	28.0
Trade	15	6.3	7.1	6.9	8.8	30
Hotel	6	5.3	6.1	9.0	9.8	11
Transport & warehousing	6.1	4.5	4	3.1	3.0	3.4
OFI &Insurance	0.4	0.8	4.2	4.2	0.4	0.1
Service sector	4	6.6	6.5	4.5	10.7	4.6

Source: BNR, Financial Stability Directorate

Despite the uptick in NPLs, banks remained adequately capitalized and resilient. As at June 2017, the capital adequacy ratio of banks stood at 21 percent, 6 percentage points higher than the minimum regulatory ratio of 15 percent. The level of excess capital held by banks stood at FRW 104 billion, implying that banks have enough capital buffers to withstand adverse shocks. Capital buffers represent an extra measure of safety in the event of unexpected loss.

The Rwandan banking sector remained liquid. As at June 2017, the liquidity ratio of banks (on a consolidated basis) stood at 39 percent, above the minimum regulatory requirement of 20 percent. On a solo basis, all banks met the liquidity requirements with the most liquid bank posting a liquidity ratio of 63.9 percent and a bank with the lowest liquidity ratio having 34.1 percent.

The banking industry's net income after tax registered an annual growth of 11 percent for the period ending June 2017 (from FRW 19.4 billion to 21.5 billion), up from a decrease of 18 percent registered in the corresponding period of last year. This increase of net profit of banks is attributed to a reduced growth of operating expenses and high increase of non-interest income. As at June 2017, total income of banks increased by 9 percent to FWR 174 billion, up from FRW 159.6 billion in June 2016. Income of banks were mainly boosted by high revenues from fees and commissions that increased by 35 percent mainly due to higher revenues from government on-line services.

On the other hand, the growth rate of expenses of banks reduced from 15 percent in June 2016 to 8 percent in June 2017 as growth of both interest expenses and staff costs moderated. Growth of interest expenses reduced from 32 percent in June 2016 to 6 percent in June 2017 while growth of staff costs reduced from 14 percent to 9 percent. The slowdown of the growth of interest expenses reflected the deceleration of remunerated deposits in Banks. Term and saving deposits grew by 5 percent (y-o-y) as at June 2017 compared to a growth rate of 17 percent registered in the corresponding period in 2016. Consequently, the profitability of banks as measured by the return on equity (ROE) slightly increased by 1 percentage point, from 9 percent in June 2016 to 10 percent in June 2017. The other measure of profitability (return on assets) remained unchanged at 1.7 percent.

Foreign exchange exposure remained within the prudential limits during the period under review. The net open position ratio (foreign exposure to core capital) stood at -4.4 percent as at June 2017, and it remained within the regulatory limits of +/- 20 percent. Between June 2016 and June 2017, foreign currency deposits and foreign currency loans increased by 48 percent and 20 percent respectively. A higher increase in foreign currency deposits than foreign currency loans induced the ratio of foreign currency loans to foreign currency deposits to reduce from 55.7 percent in June 2016 to 45.4 percent in June 2017.

Table 35: Key Soundness Indicators (percent)

Indicator	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Solvency ratio (total capital) (min 15%)	25	23	24	24	23	21
NPLs / Gross Loans	5.9	6.9	6.6	5.9	7	8.2
NPLS net/Gross loans	4.2	3.2	5.5	4.9	5.9	6.4
Provisions / NPLs	50.1	54.8	50.4	51.5	42.7	44.9
Return on Average Assets	2.2	2.1	2.1	2.4	1.7	1.7
Return on Average Equity	11	10	12	13	9	10
Liquid assets/total deposits (min 20%)	53	54	63	57	43	39
FX exposure/core capital (min/max 20%)	6	-1	-13	-5	-7	-4

Source: BNR, Financial Stability Directorate

5.2 Microfinance Sub Sector

The Microfinance sub-sector continues to play an important role in the country's financial development agenda. The sector plays a critical role in driving financial inclusion (connecting the rural population and lower income groups to financial services). This sub-sector is comprised of MFIs with Limited Liability status and SACCOs. SACCOs are made of UMURENGE SACCOs and Other SACCOs. Despite the challenging economic environment in 2016, and in H1 2017, the sector remained solvent, liquid and continued to finance the economy.

5.2.1 Structure of the Microfinance Sector

Microfinance institutions are widely spread across Rwanda and continue to play a significant role in accelerating financial inclusion. As at June 2017, out of 473 microfinance institutions operating in Rwanda, 18 are Limited Liability microfinance institutions and 455 are Savings and Credits Cooperatives (SACCOs) consisting of 416 U-SACCOs and 39 non U-SACCOs. Key changes in the composition of institutions in this sub-sector included the restructuring of 14 SACCOs into two Limited Liability Companies, the liquidation of 10 SACCOs effected in December 2016. AXON TUNGA Microfinance Limited entered the market in January 2017 but is yet to commence its operations.

The microfinance sub-sector is greatly linked to the banking sector, and less to the capital market. As at June 2017, the total placements of MFIs within the banking system stood at 36 percent of their total assets from 37 percent in June 2016. The U-SACCOs deposits within the banking system account for 55 percent of their total assets. Conversely, MFIs placement in securities is still very low. As at June 2017, MFIs investments in government securities stood at 0.6 percent of their total assets, up from 0.4 percent in June 2016.

5.2.2 Performance of the Microfinance Sector[3]

Total assets of the microfinance sector stood at FRW 248 billion as at the end of June 2017, indicating a year-on-year growth of 7.6 percent, compared to 22.8 percent growth registered in the corresponding period of last year. The slowdown of growth of microfinance assets during this period under review was mainly caused by (1) reduced growth of funds (deposits) and (2) an increase of credit risk (NPLs).

[3] This analysis covers all MFIs (i.e Limited Liability MFIs +SACCOs+ U-SACCOs)

As at end June 2017, growth of MFIs deposits moderated to 5.9 percent (year-on-year), from 20.1 percent registered in the corresponding period of 2016. MFI businesses are mainly financed by customers' deposits, and hence, this slowdown of deposits growth affected their capacity to invest and is mainly attributable to a weak agriculture performance in the course of last year which constrained the depositing capacity of rural households who are the main clients of MFIs. The increase of NPLs in the MFI sector during the first half of 2017 also affected the growth of MFI assets. Amidst increasing NPLs, MFIs had to increase their provisions to preserve resiliency of their institutions, a move that weighed down their retained earnings and ultimately affected their asset growth.

Lending remains the main business of MFIs, although the pace of lending in the first half of 2017 reduced. The share of outstanding loans in total assets of the MFIs sector slightly decreased to 51 percent in June 2017 from 52 percent in June 2016 as MFIs reduced their rate of lending in the first half of 2017. Between June 2016 and June 2017, the total outstanding loans by MFIs increased by 6.7 percent (y-o-y), compared to 27.6 percent registered in June 2016. The reduced pace of lending in MFIs was due to increased prudent lending behavior adopted by MFIs in face of increased credit risk. The weak performance of agriculture sector during the period under review also offered limited lending opportunities to MFIs, especially U-SACCOs with a high loan portfolio in Agriculture (28 percent as at end June 2017).

Other components of MFIs assets continued to increase in the first half of 2017. The stock of investment in government securities increased by 86 percent (year-on-year) to FRW 1.5 billion in June

2017. In the same period, MFI assets in form of cash and deposits in Banks also increased by 5 percent to FRW 94 billion.

On the liability side, deposits of MFIs increased by 5.9 percent (y-o-y) in June 2017 from FRW 126 billion to FRW 133 billion. This growth is lower than the growth of 20 percent register between June 2016 and June 2017. The main factors behind this reduction was the slowdown of economic activities, especially agriculture that reduced the depositing capacity of farmers. U-SACCOs, which have deeper outreach in rural areas were significantly affected by the weak performance of the agriculture sector. Between June 2016 and June 2017, deposits of U-SACCOs grew by 2.6 percent against a growth rate of 17.6 percent registered in the corresponding period of 2016.

As observed in the banking sector, MFIs are also constrained by short term deposits. As at June 2017, short term deposits – of less than one year of maturity, accounted for 77 percent of total MFIs deposits. Of these short term deposits, 93.8 percent are demand deposits. In U-SACCOs, short term deposits constituted 92 percent of total deposits, of which 95.6 percent are demand deposits. MFIs need to create incentives for long term funding, although this is a structural challenge for all deposit taking institutions. On the regulatory side, BNR, in collaboration with other stakeholders are working on the strategy to boost the saving culture in Rwanda and increase the financial literacy awareness.

Despite the challenges highlighted above, the MFIs sub-sector remains solvent and liquid. The CAR[4] stood at 33.3 percent in June 2017, above the minimum regulatory requirement of 15 percent. Similarly, MFIs assets are highly liquid and liquidity risk is generally low on a consolidated basis. The liquidity ratio of MFIs stood at 99.1 percent at

[4] CAR for MFIs is defined as the percent relationship between the equity and the total assets.

end June 2017, significantly above the prudential limit of 30 percent. As stated, MFIs are required to keep higher liquid assets in the face of demand deposits, thus affecting on their ability to lend.

Asset quality of MFIs deteriorated with the overall ratio of non-performing loans to total loans at 12.3 percent as of June 2017, higher than the 7.5 percent registered in June 2016. To deal with this challenge, BNR intensified on-site inspections and requires MFIs to set aside required provisions, in addition to the tightened regulatory environment.

Profits of MFIs were weighed down by higher NPLs, especially in Limited Liability MFIs. As at June 2017, limited MFIs made losses of FRW 3.6 billion. This loss is attributable to one large MFI that faced high increase of NPLs due to poor performance of one large project it financed. Other MFIs continued to make profits. For example, SACCOs (U-SACCOs included) made profits of FRW 3.5 billion as at June 2017. Profits of SACCOs were maintained by increased income from recoveries of written off loans (from FRW 1.6 billion to FRW 2.0 billion). The increased income on placements in banks (from FRW 1.5 billion to FRW 1.7 billion) and the increased income on investment in government securities (from FRW 21 million to FRW 44 million) also contributed to MFIs profits as at June 2017. However, the effect of limited MFIs dampened the overall performance of the microfinance sub sector. As at June 2017, the consolidated position showed a loss of FRW 118 million. Consequently, the Return on Assets (ROA) and Return on Equity (ROE) of MFIs decreased respectively to -0.1 percent and -0.3 percent from 3.8 percent and 13.3 percent registered as at June 2016.

Table 36: MFIs Performance Indicators (U-SACCOs included)

Indicators	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Assets (FRW billion)	88.3	60.1	94.8	122.0	147.4	187.5	230.3	247.7
Loans (FRW billion)	58.4	30.3	39.1	60.9	78.0	93.6	119.5	127.4
Deposits (FRW billion)	56.4	36.2	56.6	69.0	82.2	104.9	126.0	133.4
Equity (FRW billion)	25.8	16.5	24.5	38.5	47.0	58.8	69.7	82.5
Net profit/Loss (FRW billion)	1.5	0.9	2.3	3.6	2.6	3.4	4.3	-0.1
Capital Adequacy Ratio (percent)	29.2	27.5	25.8	31.5	31.9	31.4	30.3	33.3
NPLs / Gross Loans (percent)	8.6	11.2	8.4	8.9	7.6	7.4	7.5	12.3
ROA (percent)	3.5	3.1	2.4	3.0	1.8	3.9	4.0	-0.1
ROE (percent)	11.9	11.3	9.4	9.4	5.6	12.6	13.3	-0.3
Liquidity ratio (percent)	89.7	93.0	85.0	89.3	86.2	95.4	95.1	99.1

Source: BNR, Financial Stability Directorate

5.2.3 Performance of Umurenge SACCOs (U-SACCOs)

Assets of the U-SACCOs slightly declined by 10 percent from FRW 110.4 billion to FRW 121.4 billion. Similar to banks and MFIs, the U-SACCO reduced their pace of lending during the period under review. The U-SACCO loans expanded by 8.9 percent between June 2016 and June 2017, down from 16.5 percent in the corresponding period of 2016. This slowdown reflected the cautious lending by U-SACCOs in the face of increasing NPLs, especially in agriculture. Given the high exposure of U-SACCOs to agriculture (28 percent of total U-SACCOs loans), the impact of reduced agriculture performance in 2016 and the beginning of 2017 negatively impacted this sector more than banks and other MFIs.

The U-SACCOs continued to hold sufficient capital and liquidity buffers as at end June 2017. The Capital Adequacy Ratio (CAR) of U-SACCOs stood at 31.4 percent, above the minimum regulatory requirement of 15 percent. In the same period, liquidity ratio of U-SACCOs stood at 112.8 percent which is above the minimum regulatory liquidity ratio of 30 percent. The higher liquidity ratio in U-SACCOs is explained by two factors: (1) as above mentioned, U-SACCOs are also constrained by the short term nature of their deposits, requiring them to hold sufficient liquid assets. (2) The major part of U-SACCOs assets are kept in terms of deposits in banks to anticipate for the conversion into cash when needed.

Similar to other sub-sectors of the financial sector, the asset quality of U-SACCOs deteriorated in June 2017. U-SACCOs' NPLs increased from 12.5 percent as at June 2016 to 13.1 percent as at June 2017 (Table 37). Apart from the economic performance which affected the loan servicing capability, the increase of NPLs in U-SACCOs can also be explained by improved reporting and loan classification by U-SACCOs following on-site inspections.

Table 37: U-SACCO Performance Indicators

Indicators	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Assets (FRW billion)	19.9	40.9	54.7	68.8	90.8	110.4	121.4
Loans (FRW billion FRW)	1.5	10.0	16.0	23.4	27.8	32.4	35.2
Deposits (FRW billion)	15.2	30.3	37.0	44.4	58.2	68.4	70.1
Equity (FRW billion)	3.4	8.2	14.8	20.6	26.7	32.1	38.1
Net profit/Loss (FRW billion)	0.2	1.9	3.0	2.1	2.3	2.6	2.0
Capital Adequacy Ratio (percent)	17.2	20.0	27.0	30.0	29.4	29.1	31.4
NPLs / Gross Loans (percent)	16.0	2.6	6.1	30.0	8.2	12.5	13.1
ROA (percent)	1.8	9.3	10.9	6.1	5.2	4.7	3.2
ROE (percent)	10.5	46.5	40.5	20.3	17.6	16.2	10.3
Liquidity ratio (percent)	127.3	98.7	90.5	88.6	99.2	107.1	112.8

Source: BNR, Financial Stability Directorate

5.3 Non-Bank Financial Institutions (NBFIs) sub- sector

The insurance and pension sub-sectors continued to show good growth in 2017. There are notable efforts made by several private insurance companies in terms of operational efficiency, stronger growth of net written premiums and improvement of solvency positions. The pension fund and public insurance companies are continuously growing in 2017 more than the preceding years. Details of the performance of the insurance and the pension sectors are discussed in sections below.

5.3.1 The Structure of Non-Bank Financial Institutions

Non-Bank Financial institutions (NBFIs) are mainly composed of insurance companies, insurance intermediaries and the pension sub sector. The number of insurance companies increased from fourteen in June 2016 to sixteen in June 2017. The new insurance companies licensed during the period were BK General Insurance Company Ltd and Mayfair Insurance Rwanda Ltd, which joined the market in July 2016 and May 2017 respectively.

Currently, the insurance industry consists of 16 insurers of which ten are private non-life insurers, four private life insurers, and two public medical insurers. The insurance sub-sector operates a network of 185 branches countrywide, 557 agents, 15 brokers and 13 loss adjusters.

The pension sub-sector, on the other hand, is composed of one mandatory public pension scheme i.e. Rwanda Social Security Board (RSSB) and about 38 unlicensed complementary occupational pension schemes currently managed by the insurance companies or in-house by employers. BNR is in the process of licensing private pension schemes in accordance with new pension law and it's implementing regulations.

5.3.2 Insurance Sub-Sector Performance

Total assets of the insurance sub-sector stood at FRW 366.5 billion as at the end of June 2017, indicating a year-on-year growth of 10 percent. This growth of assets is mainly attributable to (1) capital injection from some insurance companies and; (2) retained profits during the period under review. Between June 2016 and June 2017, new capital injected in the insurance sub-sector amounted to FRW 10.3 billion. Retained profits of the sub-sector amounted to FRW 17.9 billion.

Private insurers' assets increased by 9 percent to FRW 136.4 billion between June 2016 and June 2017 against 7 percent registered in the corresponding period of 2016 due to FRW 7.3 billion of the additional capital injected by private insurers during the year under review. Similarly, public insurers (RSSB and MMI) assets grew by 11 percent to FRW 230 billion in June 2017 from FRW 207.9 billion in June 2016. The increase is mainly due to the net profit of FRW 17.9 billion and FRW 3 billion of additional capital injection made by public insurers by the end of December 2016. As at June 2017, assets of the insurance sub-sector were distributed as follows: Term deposits in banks accounted for 47.7 percent of total assets compared to 45 percent in June 2016; investment in securities and equities share 25.7 percent of total assets against 24 percent in June 2016; investment in properties share 10.7 percent against 14 percent in the corresponding period of 2016; own properties and equipment share 5.8 percent while other assets accounted for 9.8 percent as at June 2017.

The consolidated profits after tax of the insurance sector witnessed robust annual growth of 86 percent, amounting to FRW 18.6 billion in June 2017 compared to FRW 10 billion in June 2016. This growth resulted from good performance of public insurers (MMI and RAMA) whose profit after tax increased from FRW 14.1 billion in June 2016 to FRW 17.9 billion in June 2017, thanks to increased growth of medical premiums. The performance of private insurers also made a significant improvement as their profits after taxes reached FRW 0.6 billion from a net loss of FRW 4.1 billion registered in June 2016.

The rebound in private insurers' profits in the first half of 2017 was underpinned mainly by improvement in the claims ratio, as claims grew less compared to net premiums earned as well as a reduction of management expenses. Between June 2016 and June 2017, total claims of private insurers declined by 0.4 percent to FRW 18.4 billion, while net premiums earned increased by 12 percent to FRW 26.5 billion. Management expenses of private insurers also declined by 7 percent to 12.3 billion which also contributed to the improved profits of these companies. Consequently, the net underwriting returns of private insures improved from a loss of FRW 8 billion registered in June 2016 to a loss of FRW 4.2 billion in June 2017. Investment income of private insurers increased by 27 percent from FRW 4.1 billion in June 2016 to FRW 5.2 billion in June 2017. These combined developments facilitated in turning around the business of private insurers from a net loss after tax of FRW 4.1 billion to a net profit after tax of FRW 0.6 billion (Table 38). The return on assets (ROA) of private insures improved to 1 percent in June 2017 versus -7 percent in June 2016. Also, the return on equity improved to 3 percent compared to -24 percent in the previous year (Table 39).

The solvency margin of the insurance sub-sector (both public and private) remains adequate and improved in the period under review. As at end June 2017, the solvency ratio of the sub-sector stood at 1034 percent against 991 percent in 2016, above the BNR regulatory minimum requirement of 100 percent. The solvency margins are particularly high among the 2 public insurers whose admitted assets are significantly higher than their liabilities. The solvency margin of private insurers significantly improved during the period under review from -53 percent in June 2016 to 61 percent in June 2017. The solvency conditions actually improved across several insurance companies in 2017. For instance, the number of private companies meeting the prudential solvency requirement of 100 percent increased from 5 in June 2016 to 11 in June 2017. The improvement resulted from the recapitalization of several private insurers.

The insurance sub-sector recorded a significant increase in the technical reserves which reflects improved resilience of the sub-sector. Technical reserves[5] increased by 9 percent between June 2016 and June 2017 to reach FRW 80.6 billion. These reserves represented 57 percent of the total liabilities, and 30 percent of shareholders' funds as at June 2017.

Table 38: Key Financial highlights for the insurance sector

Description (In FRW billion)	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Percent change Jun-17/16**
Insurance Industry						
Gross written premiums	39.4	44.9	47.5	52.9	59.7	**13%**
Net written premiums	35.8	38.2	41.1	46.1	52.3	**14%**
Total Claims	3.0	18.7	22.0	30.2	30.9	**2%**
Management expenses	6.4	13.2	13.6	17.2	15.2	**-12%**
Net underwriting profit (loss)	8.4	6.3	5.4	(1.4)	6.3	**540%**
Investment Income	9.0	8.9	9.8	11.6	12.7	**9%**
Net profit after taxes	16.5	14.6	14.7	10.0	18.6	**85%**
Assets	219.4	247.2	295.3	332.6	366.5	**10%**
Technical provisions	46.4	51.1	59.0	74.2	80.5	**9%**
Liabilities	15.4	15.6	18.0	20.3	19.8	**-2%**
Capital and reserves	157.6	180.5	218.4	238.1	266.0	**12%**
Private Insurers	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	
Gross written premiums	22.0	25.4	27.9	30.6	33.8	**11%**
Net premiums written	18.4	18.7	21.5	23.7	26.5	**12%**
Total Claims	9.4	12.0	13.6	18.5	18.4	**-0.4%**
Management expenses	9.0	10.4	11.0	13.2	12.3	**-7%**
Net underwriting profit (loss)	(0.0)	(3.7)	(3.1)	(8.0)	(4.2)	**48%**
Investment Income	5.2	4.3	4.0	4.1	5.2	**27%**
Net profit after taxes	4.3	0.1	0.3	(4.1)	0.6	**115%**
Assets	93.3	102.9	116.7	124.7	136.4	**9%**
Technical provisions	45.7	51.0	58.5	73.4	79.8	**9%**
Liabilities	11.8	11.8	15.9	17.5	17.3	**-1%**
Capital and reserves	35.8	40.0	42.2	33.8	39.2	**16%**
Public Insurers	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	
Gross written premiums	17.4	19.5	19.6	22.4	25.8	**16%**
Net premiums written	17.4	19.5	19.6	22.4	25.8	**16%**
Total Claims	6.4	6.7	8.4	11.8	12.5	**6%**
Management expenses	2.7	2.8	2.6	4.0	2.9	**-28%**
Net underwriting profit (loss)	8.4	10.0	8.6	6.6	10.5	**58%**
Investment Income	3.8	4.6	5.8	7.5	7.5	**-1%**
Net profit after taxes	12.2	14.5	14.4	14.1	17.9	**27%**
Assets	126.1	144.4	178.6	207.9	230.1	**11%**
Technical provisions	0.7	0.1	0.4	0.7	0.7	**1%**
Liabilities	3.6	3.8	2.0	2.8	2.5	**-10%**
Capital and reserves	121.8	140.4	176.2	204.3	226.8	**11%**

Source: BNR, Financial Sector Stability

[5] **Technical reserves:** represent the amount of provisions set aside to settle all expected claims and other uncertain expenses arising from the insurer's portfolio of insurance contracts.

Table 39: Key financial soundness indicators of the insurance sector

FSIs (percent) Insurance sector (Private + Public Insurers)	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Solvency margin (Min. 100%)	811	1722	1162	991	1034
Claims ratio (max.60%)	44	49	54	66	59
Expenses ratio (max. 30%)	33	35	32	35	28
Combined ratio (max.90%)	77	84	85	101	87
ROA (min. 4%)	8	11.8	9.9	6	10
ROE (min. 16%)	10	16.2	13	8	14
Liquidity ratio (min. 120%)	308	319	382	345	331
Private Insurers	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**
Solvency margin (Min. 100%)	157	131	131	-53	61
Claims ratio (max.60%)	51	64	63	78	70
Expenses ratio (max. 30%)	49	56	47	50	42
Combined ratio (max.90%)	100	120	110	128	112
ROA (min. 4%)	5	0.2	0.5	-7	1
ROE (min. 16%)	12	0.5	1.4	-24	3
Liquidity ratio (min. 120%)	125	121	128	106	109
Public Insurers	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**
Solvency margin (Min. 100%)	3,090	3,314	2,467	2,394	2,160
Claims ratio (max.60%)	37	34	43	53	48
Expenses ratio (max. 30%)	15	15	13	18	11
Combined ratio (max.90%)	52	49	56	70	59
Return on Assets (min. 4%)	10	20	16	14	16
Return on Equity (min. 16%)	10	21	16	14	16
Liquidity ratio (min. 120%)	1,871	2,551	5,899	3,215	4,699

Source: BNR, Financial Stability Directorate

5.3.3 Pension Sub-Sector performance

The pension sub-sector is dominated by the Rwanda Social Security Board (RSSB), the public pension fund. The RSSB provides defined pension benefits on a mandatory basis to all workers formally employed in the public and private sector. As at end June 2017, the pension scheme had around 446,409 contributors and pays pensions to around 17,378 retirees.

The pension sector continues to grow, and remains the second largest contributor to financial sector assets after the banking sector. Assets of the pension fund accounted for 17.1 percent of the financial sector assets in June 2017. Total pension sector assets increased to FRW 661.3 billion in June 2017 from FRW 584 billion in June 2016.

The pension fund's assets are allocated as follows: equity investments account for 36 percent of total assets; 20 percent fixed deposits; 18 percent immovable property; 15 percent government securities and 11 percent other assets. The vast majority of pension assets in Rwanda are managed (in-house) by the RSSB, within its investment policy and strategy.

Growth of the pension sector assets in the period under review was underpinned by increased contributions and investment returns. Between June 2016 and June 2017, total contribution to the pension fund increased by 4 percent from FRW 74.5 billion to FRW 77.5 billion. The increase in contributions is related to the number of contributing employees, which increased from 396,632 in June 2016 to 446,409 in June 2017. In the same period, the pension fund's investment income also increased by 14 percent from FRW 23.1 billion to FRW 26.3 billion mainly due to income earned from investments in fixed term deposits and government securities.

The RSSB remains the main source of long-term deposits in commercial banks and a source of financing for several development projects. As at June 2017, 8 percent of all deposits in the banking system came from the RSSB. Its deposits are distributed across different banks, enabling them access to long-term resources. As at end June 2017, RSSB held deposits in 10 banks out of the 17 banks operating in Rwanda.

In the period under review, the total benefits paid increased by 12 percent from FRW 15.8 billion to FRW 17.7 billion mainly due to the increased number of the pension beneficiaries[6] from 32,363 to 33,532. On the other hand, the total operating expenses reduced by 4 percent from FRW 4.7 billion to FRW 4.5 billion.

Table 40: Key financial highlights (FRW billion, unless otherwise indicated)

Description	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Percent change Jun-17/Jun-16
Total assets	383.6	455.9	512.1	584.5	661.3	13%
Total contributions	55.3	55.5	59.7	74.5	77.6	4%
Total benefits paid	10	11.9	14.9	15.8	17.7	12%
Total operating expenses	5.8	5.7	5.4	4.7	4.5	-4%
Total investment income	15.9	20.2	21	23.1	26.4	14%

Source: BNR, Financial Stability Directorate

5.4 Financial Sector Infrastructure Development

5.4.1 Payment System

5.4.1.1 Wholesale Payment System

BNR continue to play a pivotal role in facilitating e-payments by investing in an integrated payment processing system (RIPPS). RIPPS comprises of ATS (Automated Transfer System) and Central Depository Securities (CDS). ATS routes high value transactions through Real Time Gross Settlement (RTGS) and low value transactions through Automated Clearing House (ACH).

Comparing the first half of 2017 with the first half of 2016, customers' transactions increased by 11 percent in volume from 1,374,887 transactions to 1,538,408 transactions and increased in value by 7 percent from FRW 2,115 billion to FRW 2,274 billion. Cheque transactions remained almost the same with a slight change of 1 percent from 142,424 to 144,159 in volume while there was an increase of 14 percent from FRW 348 billion to FRW 405 billion in value.

[6] The number of pension beneficiaries includes retirees, incapacitated members, deceased members' beneficiaries, occupational hazard beneficiaries.

5.4.1.2 Retail payments

The retail electronic transactions continued to increase. Government payment through mobile channels proved to be the fastest growing payment method followed by payment card purchases with 94 percent in volume.

Payment cards

Electronic retail payments continued to develop fast. The number of transactions on ATMs and POSs increased between June 2016 and June 2017. ATM transactions increased by 21 percent from 3,821,313 to 4,611,166 in volume and by 28 percent from FRW 188 billion to FRW 241 billion in value while POS transactions increased by 94 percent from 270,084 to 523,473 in volume and 98 percent from FRW 16 billion to FRW 32 billion in value. In the same line, between June 2016 and June 2017, the number of ATMs increased by 6 percent from 398 to 405 while the number of POS devices increased by 19 percent from 1,707 to 2,030 due to increased demand from merchants like new hotels and petrol stations. The number of debit cards increased by 28 percent from 682,184 in June 2016 to 872,476 in June 2017.

Table 41: Evolution of Payment Access Points and Cards

	Jun-2010	Jun-2011	Jun-2012	Jun-2013	Jun-2014	Jun-2015	Jun-2016	Jun-17
Number of ATMs	84	167	232	323	343	361	398	**405**
Number POS terminals	99	298	385	797	1,057	1,339	1,707	**2,031**
Number of debit cards	41,377	208,767	320,565	440,875	532,157	654,349	682,184	**872,476**
Number of credit cards	172	526	542	1,179	1,561	3,675	3,201	**3,531**

Source: BNR, Financial Stability Directorate

Mobile Financial Services and Internet Banking

Mobile technology continues to play a significant role in enhancing electronic payments with the aim of creating an inclusive cashless society. Between June 2016 and June 2017, the number of active users of mobile financial services increased by 13 percent from 2,986,696 to 3,377,111 subscribers. With regard to access points, the penetration rate of mobile operators' agents increased by 60 percent, from 52,081 to 83,550 agents between June 2016 and June 2017.

Similarly, between June 2016 and June 2017, the registered mobile financial services accounts increased by 3 percent from 8.3 million to 8.6 million and the volume of transactions increased by 26 percent from 94 to 119 million while the value increased by 33 percent from FRW 469 billion to FRW 622 billion. The usage of mobile financial services was mainly related to the purchase of airtime (38 percent in volume) while the big values are transacted through "cash-out".

Furthermore, the registered mobile banking users increased by 20 percent to 1,041,430 whereas internet banking users decreased by 17 percent to 39,066. The reduction of the number of internet users is explained by two factors: (1) dormant users were deactivated, (2) One bank requested its clients to re-subscribe.

As at June 2017, cross border mobile money transfers, government services payment to grow fast. For example, Payments to Government (P2G) grew by 355 percent up from 71,655 in June 2016 to 326,210 transactions in June 2017 (in terms of volume) and by 315 percent (from FRW 492 million in June 2016 to FRW 2 billion in June 2017 (Table 42). Rwandans are able to pay government services in a cashless manner, thanks to the Rwanda Online Project.

Table 42: Cross Border and Payment to Government (Jan-June 2017)

Services	Volume of transaction (FRW in million)			Value of transaction (FRW in million)		
	Jan-Jun 2016	Jan-Jun 2017	Percent change (2017/2016)	Jan-Jun 2016	Jan-Jun 2017	Percent change (2017/2016)
Cross border	26,882	46,874	74	1,002	1,557	55
P2G	71,655	326,210	355	492	2,041	315

Source: BNR, Financial Stability Directorate

Through partnership with Financial Institutions, Mobile money Operators collected 2.2 billion of micro savings from 582,212 customers from January to July 2017. A total amount of 1.09 billion was lent to 178,237 customers during the same period.

Table 43: Microloans and micro-savings through Mobile Money Channel

Loans and savings		Jan-June 2016		Jan-June 2017	
		Volume	Value	Volume	Value
Savings	Savings collected	42,289	254,574,232	582,212	2,203,213,400
	Savings Withdrawals	47,891	292,121,874	459,758	2,154,504,616
	Balance as of End June		128,539,283		129,958,902
Loans					
	Loan Disbursement	-	-	178,232	1,092,961,773
	Loan Repayment	-	-	163,682	675,809,660

Source: BNR, Financial Stability Directorate

Geographical Distribution of Payment Access Points

Considering the distribution of payment access points, the largest number of payment access points (ATMs and POS terminals) remained concentrated in Kigali City while mobile financial services' agents were better distributed across the Country as at June 2017 (Table 44).

Table 44: Payment Access Points

Access Points	Province	Kigali City	North	East	South	West	TOTAL
ATMs	Number (Jun-17)	211	35	54	47	58	405
	% share	*52*	*9*	*13*	*12*	*14*	*100*
POS	Number (Jun-17)	1,747	76	46	57	105	2,031
	% share	*86*	*4*	*2*	*3*	*5*	*100*
Mobile money Agents	Number (Jun-17)	27,573	11,887	19,594	11,947	12,549	83,550
	% share	*33*	*14*	*23*	*14*	*15*	*100*

Source: BNR, Financial Stability Directorate

5.4.2 Credit Registry Development

The BNR is focused on improving the effectiveness and value of the Credit Reporting System which includes credit data providers, the credit bureau and credit consumers of credit information. An effective credit reporting system is expected to further facilitate the sharing of information among credit institutions and ultimately help to reduce serial defaults by bank customers as well as reduce the incidence of NPLs. The private credit bureau (TransUnion) collects information from mainly mandatory participants (Banks, Microfinance Institutions, SACCOs and Insurance companies) as well as voluntary ones which include the 3 telecom companies (MTN, Tigo & Airtel), WASAC and RRA.

In the period under review, the credit reference bureau coverage ratio increased from 21.1 percent in June 2016 to 24.4 percent in June 2017, thanks to additional data on student loans provided by BRD under its student financing scheme, and from RRA.

5.5 Access to finance

5.5.1 Recent trend in access points

From the financial access point of view the number of bank branches, sub branches and outlets increased from 547 to 553. In the same period, the number of branches in the microfinance sector decreased from 820 to 735. The decrease in the number of MFIs branches is explained by the restructuring that happened in the MFIs sector in the second half of 2016. On the contrary, during the period under review, the number of bank and MFI agents declined from 4,342 in June 2016 to 3,547 in June 2017 due to the closure of a number of agents who were not meeting agency standards. Five banks (Bank of Kigali, COGEBANQUE, Equity Bank, KCB Rwanda, and UOMB) operate agency banking.

Table 45: Number of Branches and Bank agents

Branches	**Jun-15**	**Jun-16**	**Jun-17**	**Change (Jun- 2017/16)**
Banking Sector	521	547	553	**1.1%**
Microfinance Sector	770	820	735	**-10.4%**
Total	**1,291**	**1,367**	**1,288**	**-5.9%**
Agents	**Jun-15**	**Jun-16**	**Jun-17**	**Change (Jun- 2017/16)**
Banking Sector	-	4,342	3,547	**-18.3%**
Microfinance Sector	-	487	487	**0.0%**
Total	-	**4,829**	**4,034**	**-16.5%**

Source: BNR, Financial Stability Directorate

With regard to geographic distribution of access points, Kigali City has the highest percentage share of bank branches (35 percent) followed by Western Province (20 percent) and Northern Province holds the least (12 percent). In microfinance sub-sector, southern province has the highest number of branches (23 percent), while Kigali City has the lowest (15 percent) as at June 2017.

Table 46: Number of Branches and Bank agents by Province

Sector	Kigali	North	East	West	South	Total (Jun-17)	Total (Jun-16)
Banks' branches	196	68	96	109	84	**553**	**547**
MFI branches	113	143	172	139	168	**735**	**820**
Total	**300**	**235**	**283**	**291**	**240**	**1,288**	**1,367**
Banks' agents	1,075	805	626	481	560	**3,547**	**4,342**
MFIs agents	74	96	101	106	110	**487**	**487**
Total	**1,149**	**901**	**727**	**587**	**670**	**4,034**	**4,829**

Source: BNR, Financial Stability Directorate

5.5.2 Recent trends in financial usage indicators

Recent trends in number of deposit accounts suggest that savings increased in the year to end June 2017. For example, the number of deposit accounts in the banking sector increased from 1,736,203 in June 2016 to 1,871,858 in June 2017 (8 percent increase). One caveat to this number however is that one customer might have different accounts in different banks, causing a mismatch between growth of deposit accounts and inclusion. Nevertheless, the increase of deposit accounts remains a key indicator or proxy for trends in usage of formal financial services.

The number of borrowers in the banking sector decreased from 299,498 in June 2016 to 261,871 in 2016 (14 percent decrease) on account of weak demand for credit. This decline reflects the overall slowdown of economic sectors that triggered the reduction in both number of borrowers and amount borrowed in 2016 and in the first half of 2017.

Table 47: Number of Depositors and Borrowers in Banks by Province

Sector	Kigali	North	East	West	South	Total (Jun-16)	Total (Jun-17)
Number of deposit accounts	905,475	189,544	283,130	243,198	250,511	**1,736,203**	**1,871,858**
Number of[7] borrowers	150,171	23,762	37,372	22,736	27,830	**299,498**	**261,871**

Source: BNR, Financial Stability Directorate

5.6 Key Developments in the Financial Sector

- **Legal and regulatory :**

In a bid to ensure financial sector soundness and stability as well as compliance with international best practices, several regulations were reviewed and published during the period under review:

- Regulation N° 01/2017 of 22/02/2017 governing foreign exchange bureaus, published in Official Gazette nº 9 bis of 27/02/2017. This regulation mainly increased the minimum capital requirements for forex bureaus and set minimum operating standards to safeguard against money laundering and financing terrorism issues;
- Regulation N° 02/2017 of 22/02/2017 governing agents, published in Official Gazette nº 12 of 20/03/2017. This regulation establishes new licensing process for agents of banks and payment system providers in a bid to improve efficiency and expand access of financial services;
- Regulation N° 03/2016 of 24/06/2016 on publication by banks of financial statements and other disclosures published in the Official Gazette n° 30 bis of 25/07/2016. This regulation sets minimum disclosure requirements for banks;

[7] This includes the outstanding number of loan beneficiaries in banks

- Regulation N° 06/2017 of 19/05/2017 on capital requirements for banks published in the Official Gazette nº Special of 26/05/2017. The regulation sets new capital adequacy computation method in compliance with Basel II/III accords;
- Regulation N° 07/2017 of 19/05/ 2017 on liquidity requirements for banks published in the Official Gazette nº Special of 26/05/2017. This regulation sets new liquidity requirements for banks also in compliance with Basel III accords;
- Regulation N° 07/2016 of 01/12/2016 determining modalities for management of inactive and dormant accounts published in the Official Gazette nº 50 of 12/12/2016;
- Regulation N° 04/2017 of 02/03/2017 on the operations of the Central Securities Depository, published in Official Gazette nº 16 bis of 17/04/2017;
- Regulation Nº 05/2017 of 02/03/2017 on Administrative and pecuniary sanctions applicable to CSD participants, published in Official Gazette nº 16 bis of 17/04/2017;
- Regulation N° 08/2016 of 01/12/2016 governing the electronic money issuers published in the Official Gazette nº 50 of 12/12/2016;
- Regulation N° 03/2017 of 22/02/2017 on administrative and pecuniary sanctions applicable to insurers, published in Official Gazette nº 12 of 20/03/2017;
- Regulation Nº 04/2016 of 19/07/2016 on the registration of voluntary pension schemes and licensing of pension scheme service providers, published in Official Gazette nº 32 of 08/08/2016;

- Regulation N° 05/2016 of 26/09/2016 establishing operational and other requirements for pension schemes, published in Official Gazette n° 41 of 10/10/2016;
- Regulation N° 08/2017 of 19/05/2017 on pecuniary and administrative sanctions for pension schemes and service providers, published in the Official Gazette N° 22 of 29/05/2017;
- Directive N° 06/2016 of 28/08/2016 on conduct of insurance business;
- Regulation N° 02/2016 of 24/06/2016 determining Key Facts Statement and disclosure of Annual Percentage Rate for fixed term credit contracts between a financial service provider and a consumer, published in the Official Gazette N° 30 bis of 25/07/2016;
- Regulation N° 09/2017 du 19/05/2017 determining Key Facts Statements and disclosure for accounts published in the Official Gazette N° 16 bis of 17/04/2017;
- Regulation N° 10/2017 of 19/05/2017 determining Key Facts Statements and information disclosures for insurance, published in the Official Gazette N° 22 of 29/05/2017;

▪ Other laws and regulations reviewed during the period yet to be enacted include :
  - Draft law relating to financial consumer protection;
  - Draft law governing credit reporting systems;
  - Draft law governing deposit-taking microfinance institutions.

These draft laws have been submitted to MINECOFIN for further review prior to submission to Parliament.

Also pending enactments are:

- Draft regulation on accreditation requirements and other conditions for external auditors for financial institutions;
- Draft regulation on credit classification and provisioning;
- Draft regulation on transactions with bank related parties and management of credit concentration risk;
- Draft regulation on corporate governance for banks;
- Draft regulation on business continuity management;
- Draft regulation on cybersecurity;
- Draft regulation on outsourcing;
- Draft regulation on Remittance Service;
- Draft regulation on payment initiation services;
- Draft regulation governing payment services providers.

Review of the legal and regulatory framework will continue during the year 2017/2018 and is expected to cover the below areas:

- Licensing for banks;
- Licensing for insurers and reinsurers;
- Directive on risk-based supervisory framework of Insurance companies. This framework focuses on developing a more holistic understanding of an entity, risks in its activities, and quality of its risk management. This results in a deeper understanding of an institution and a better ability to identify and address causes of prudential issues on a more pro-active basis.

VI. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

6.1 Monetary Policy Outlook

According to the IMF's July 2017 forecasts, global economic growth is expected to recover from 3.2 percent in 2016 to 3.5 percent in 2017, as financial conditions remain globally supportive despite policy uncertainties in some areas. World trade continues to recover and commodity prices are expected to keep rising, supporting growth in commodity exporting countries.

The improvement in global demand is expected to lead to the increase in Rwanda's export revenues and help to ease inflation to around 5.0 percent and exchange rate depreciation to around 3.0 percent by end December 2017.

The inflation outlook is generally dominated by downside factors. First, the effect of the July 2016/17 increase in prices of soft drinks produced by BRALIRWA is expected to wear out. Second, in line with the new budget for 2017/18, the decrease in some tariffs is expected to exert downward pressures on inflation. Third, more downward pressures will come from the reduction in local pump prices from 1002 FRW/liter to 969 FRW/liter, effective in July 2017. Fourth, the ease in exchange rate pressures is expected to help moderate imported inflation. Fifth, food prices are easing but will remain weather-dependent and may thus pose some inflationary pressures if weather turns out to be bad.

In view of the easing inflationary and exchange rate pressures and developments in aggregate demand, the BNR will have more room to implement a more supportive monetary policy to encourage the financing of the economy by the banking sector. Going forward, the BNR will continue to monitor key macroeconomic developments such as food prices, oil prices and non-performing loans to decide on the appropriate monetary policy stance.

6.2 Financial Sector Stability Outlook

The performance of the financial sector in the year 2017 is expected to improve as economic performance improves. The rebound of economic growth and the eased pressures from inflation and exchange rate are expected to boost the debt servicing capacities of individuals and businesses. The pickup of the growth in some sectors of the economy like agriculture, manufacturing and services will also create investment opportunities of lending institutions (Banks and MFIs), and thus reduce credit risks.

Following the recent increase of NPLs, the BNR plans to continue engaging banks and MFIs on improving their loan appraisal standards and their monitoring of financed projects. Inadequate loan management was identified as the main cause of the increase in NPLs.

The profit of banks is also expected to increase further in the second half of 2017 due to increased interest income and reduced operating costs. Interest income of banks is expected to increase as banks target to increase their lending to private sector and intensify loan recovery efforts so as to tame the issue of NPLs. Similarly, operating expenses are expected to continue reducing due to a decline of overhead costs.

In the second half of 2017, the insurance sub-sector is expected to reflect a good performance, mainly driven by continued enhanced efficiencies in claims management and other operating expenses, as well as appropriate pricing for risks undertaken to improve the net written premiums.

On the consumer protection, BNR has done a lot to ensure financial consumer protection standards are obeyed. In addition to the draft law on Financial Consumer Protection and the regulation on Key Facts Statements for Credit, Accounts and Insurance, the BNR is also putting in place a single portal (price comparator) where consumers may compare bank charges prior to taking a bank related decision. All these actions combined with the eased monetary policy stance are expected to reduce the lending rates.

BNR is also strengthening the Anti-Money Laundering and Combating Financing Terrorism (AML/CFT) structure and instruments. As part of the recommendations of the Financial Intelligence Unit (FIU) Advisory Board, and in order to ensure that the FIU achieves its mission, the BNR Board of Directors approved the proposal for FIU to be included in BNR's structure.

With regard to the access to finance, BNR is working with Access to Finance Rwanda (AFR) to establish micro-insurance regulatory framework. This framework will provide a policy and regulatory environment that will facilitate the participation of private sector in providing risk protection for low-income sector. This initiative is expected to improve the level of insurance penetration. Further, a National Financial Inclusion Strategy has been developed and is also at the final validation stages. This strategy identifies key target areas and stakeholders to drive formal financial inclusion from the current level of 68 percent to 90 percent by the year 2020.

The BNR will continue to work closely with industry associations particularly RBA, AMIR and ASSAR to ensure achievement of their strategic plans and further drive development of the specific sub-sectors.

Considering the development in the payment system and the growth of e-money transactions, BNR has embarked on the strong monitoring and enforcement of E-money regulations, mainly to protect the public funds on E-money platform and to avoid the creation of E-money by the E-money operators.

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