National Bank of Rwanda
Banki Nkuru y'u Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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27th August 2015

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EXECUTIVE SUMMARY

The world economy continued to increase at moderate pace with differences across countries and regions. In 2015Q1, global real GDP growth was 1.4% lower than 2.2% previously estimated due to weak economic activity in the United States, Russia and a slowdown in China. Consistently, the July 2015 IMF projections revised the world economic growth to 3.3% in 2015 lower than 3.5% projected in April 2015 against 3.4% achieved in 2014 and 2013. In advanced economies, growth was revised to 2.1% compared to 2.4% previously forecasted against 1.8% recorded in 2014.

Inflation remained subdued and well below Central Banks targets in advanced economies owing to weak economic activity and falling commodity prices especially energy prices.

On commodity markets, prices continued to decline reflecting abundant supply, increased harvest, weak global demand and strong US dollar. For the 2015Q2, oil prices fell year-on-year by 43.1% after a decline of 50.2% in 2015Q1 as oil markets remained oversupplied.

For non-energy commodities, prices fell on annual basis by 14.5% in 2015Q2 against a decline of 12.5% in 2015Q1 as markets remained well supplied and global demand weakened.

On the foreign exchange markets, the dollar remained strong supported by the strength of US economy. Compared to end December 2014, the dollar gained 10.1% and 8.6% respectively in July and June against the euro. The dollar remained strong versus the Yen against which it appreciated by 3.4% and by 2.3% respectively in July and June 2015.

The Rwandan economy continued to perform well in 2015 as the real GDP grew by 7.6% in 2015Q1 from 6.5% in 2014Q4 and 7.5% in

2014Q1. The good performance of the economy continued in 2015Q2, as evidenced by the leading indicators of economic activities. The Composite Index of Economic Activities (CIEA) in nominal terms increased by 15.0% end June 2015 compared to 14.4% end June 2014 while the real CIEA rose by 12.8% end June 2015 against 10.7% recorded in the same period of 2014. Total turnovers for industry and services sectors increased by 6.0% in 2015Q2 against 20.1% recorded in the same period of 2014.

Good economic performance has been supported by BNR accommodative monetary policy as inflation pressures were limited (inflation remains low at 1.5% in the first half of 2015 on average compared to 2.6% in the same period in 2014) and expansion in credit to the private sector thanks to comfortable levels of liquidity in the banking sector.

As a result, new authorized loans to the private sector increased by 10.8% in the first half of 2015, amounting to FRW 360.8 billion from FRW 325.7 billion in the first half of 2014, while the outstanding credit to the private sector increased by 15.1% between December 2014 and June 2015 against 7.9% recorded in the corresponding period of 2014.

Considering the external sector, Rwandan trade deficit improved by 4.7% from USD 901.43 million to USD 858.83 million as a result of decline in formal imports by 5.1% in value compared to a decrease in formal exports value by 6.2%. However, the formal imports coverage by exports slightly reduced to 24.3% from 24.6% in the same period of 2014.

In addition to the persistent wide trade deficit, the strengthening of the US dollar against most currencies around the world, is putting pressures on FRW exchange rate.

Relative to December 2014, the FRW depreciated against the USD reaching 3.6% by end June 2015 and 4.2% by end July 2015. However, *looking at a basket of currencies for Rwanda's main trading partners, the FRW continued to appreciate in nominal terms. It appreciated by 5.8% versus EURO and by 7.1%, 14.4% and 15.3% against the Kenyan, Tanzanian and Ugandan shillings respectively, but depreciated by 4.5% versus the Burundian franc.*

The banking sub-sector continues to dominate the system with 66.9% of the total financial sector assets. The pension, which accounts for 63.9% of the total assets for Non-Bank Financial Institutions (NBFIs), holds 17.1% of the total financial sector assets whereas Insurances and Microfinance Institutions hold 9.7% and 6.3% respectively.

The banking sector's balance sheet has remained strong as total assets have increased by 13.1% between June 2014 and June 2015. As at end June 2015, total assets (amounting to FRW 2.0 trillion) were dominated by loans to private sector and investments in financial securities which accounted for 57.5% and 13.5% of the total assets respectively.

The Microfinance sector's assets have grown by 17.7% from FRW 159.3 billion in December 2014 to FRW 187.5 as of June 2015 largely driven by loans and liquid assets which rose by 8% and 37.4% respectively.

The insurance sector is well capitalized as reflected by an average combined solvency margin ratio of 941% that is well above the required solvency margin of 100%. The sector's ability to pay its short term obligations when they fall due is also satisfactory as the liquidity ratio stood at 312% which is far above the prudential requirements of 150%.

The pension sector assets, excluding private pension schemes, increased by 13% from FRW 455.1 billion recorded end June 2014 to FRW 512.1 billion reported end June 2015.

Regarding the development of financial market, BNR has been improving its liquidity management framework to promote the interbank market development. As a result, the transactions on interbank market have substantially increased by 54% in 2014 compared to 2013. During the first six months of 2015, the interbank transactions stood at FRW 117.9 billion in 88 deals. On the capital market, a 3 and 10 years Treasury bond with a face value of FRW 15 billion and FRW 10 billion respectively were issued in February and May, 2015.

As way forward, BNR will maintain its prudent monetary policy stance during 2015 in a bid to anchor inflationary expectations while supporting growth and containing pressures on the currency.

In order to maintain the robustness and stability of the Rwanda's financial sector, BNR will continue to conduct prudent surveillance of all the financial institutions through carrying out regular onsite inspection and offsite analysis.

I. OVERVIEW OF ECONOMIC ENVIRONMENT

1.1 Global Economy

1.1.1 Economic Growth and Outlook

The world economy has continued to increase though at a moderate pace, with differences across countries and regions. Growth has been supported by improving economic activity in advanced economies following the decline in energy prices, accommodative monetary policy and a recovery in domestic demand. In 2015Q1, global real GDP grew by 1.4%, lower than 2.2% previously estimated, due to the poor economic performance in the United States and Russia, and slowdown in China.

Table 1: Economic growth developments (in %)[1]

	Quarterly						Annual			
	2014				2015		2013	2014	2015 Jul Proj.	2015 Apr Proj.
	Q1	Q2	Q3	Q4	Q1	Q2				
World (YOY)	1.9	2.4	2.8	2.3	1.4	**2.7**	3.4	3.4	**3.3**	3.5
USA (QoQ)	-2.1	4.6	5.0	2.2	0.6	2.3	2.2	2.4	**2.5**	3.1
Euro area	1.1	0.8	0.8	0.9	1.0	**1.4**	-0.4	0.8	**1.5**	1.5
Japan (QoQ)	4.9	-6.8	-2.0	1.2	3.9	**0.8**	1.6	-0.1	**0.8**	1.0
UK (YoY)	2.7	3.0	3.0	3.4	2.9	**2.6**	1.7	2.9	**2.4**	2.7
China (YoY)	7.4	7.5	7.3	7.3	7.0	**7.0**	7.7	7.4	**6.8**	6.8
India (YoY)	4.6	5.7	5.3	7.5	7.5	**7.5**	6.9	7.3	**7.5**	7.5

Source: BLOOMBERG & IMF, World economic Outlook, April 2015 & July 2015 WECO

Consequently, in July 2015, the IMF revised downwards projections for the world economic growth to 3.3% in 2015 from 3.5% projected in April 2015, against 3.4% achieved in 2014 and 2013. In advanced economies, growth was also revised downwards to 2.1% compared to 2.4% previously forecasted and 1.8% recorded in 2014.

The weak economic growth in USA (2015Q1) was due to reported harsh weather and port closures; energy related investment cuts and a stronger USD which is impacting the export sector. Factors behind this

[1] Quarterly data are from BLOOMBERG and annual data from IMF, World Economic Outlook, April 2015

contraction are short lived and the American economy is expected to remain strong. By the end of 2015, GDP growth forecast for USA is revised down to 2.5% from 3.1% previously expected against 2.4% in 2014.

In the Euro zone, the economy is gradually improving, thanks to the easing monetary policy by ECB, weakening of the euro currency, improving confidence among businesses and consumers as well as the continued fall of oil prices. Nevertheless, the Eurozone is still facing downside risks related to the Greek impasse, fragilities in the banking system and high unemployment rate.

Supported by housing investment and private consumption, the Japanese economy grew by 3.9% in 2015Q1 after 1.2% in 2014Q4 and projected to grow by 0.8% in 2015 from a contraction of 0.1% in 2014.

While decelerating, growth in emerging and developing economies remained sustained. Due to weakening activities in oil exporting countries, tighter financial conditions, political conflicts in different regions, weak global demand and tightening financial market conditions, real GDP is projected to decelerate to 4.2% in 2015 against the initial forecast of 4.3% and 4.6% achieved in 2014.

In Asia, the economy remained robust with growth expected to stand at 6.6% by the end of 2015 after 6.8% in 2014, driven by India and China despite the slowdown in the latter.

In Sub-Saharan Africa, the economy is expected to slow to 4.4% in 2015 from 5% in 2014 due to falling commodity prices, waning terms of trade, conflicts and epidemic diseases. Growth in oil exporting countries has been revised downward while it was almost unchanged in oil importers where favorable oil effect is offset by lower prices of commodity exports.

1.1.2 Inflation and Commodity Prices

Inflation remained subdued and well below Central Banks targets in advanced economies owing to weak economic activity and falling commodity prices especially energy prices. By the end of 2015, inflation in developed countries is expected at 0.0% against 1.4% in 2014 and 2013.

Table 2: Inflation in major economies (% p. a)

	2014		2015						2014	2015
	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun		
USA	1.7	0.8	-0.1	0.0	-0.1	-0.2	0.0	0.1	1.6	0.1
Euro	0.3	-0.2	-0.6	-0.3	-0.1	0.0	0.4	0.2	0.4	0.1
Japan	3.2	2.4	2.4	2.2	2.3	0.6	0.5	0.4	2.7	1.0
China	1.8	1.5	0.8	1.4	1.4	1.5	1.2	1.4	2.0	1.2

Source: National statistics offices& IMF Web

In Sub-Saharan Africa, inflation is expected at 6.6% by end 2015 from 6.3% in 2014. In EAC, inflation has been increasing during the second half of 2015 due to high depreciation of regional currencies against the US dollar.

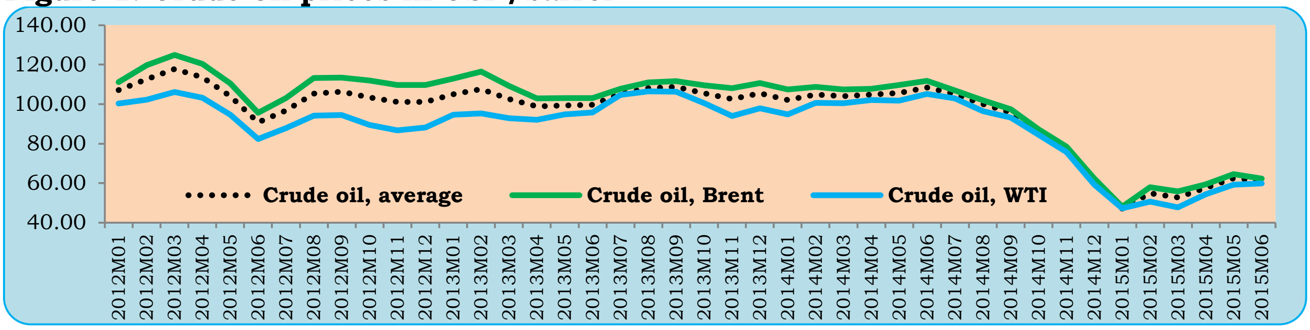
Table 3: Inflation in EAC countries (% p.a)

	2013	2014			2015					
	Dec	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
Uganda	6.7	4.9	1.4	1.8	1.3	1.6	1.9	3.6	4.9	4.9
Kenya	7.2	7.4	6.6	6.0	5.5	5.6	6.3	7.1	6.9	7.0
Tanzania	5.6	6.4	6.6	4.8	4.0	4.2	4.3	4.5	5.3	6.1
Burundi	9.0	3.3	5.5	3.8	3.5	1.2	4.7	7.5	7.2	7.7
Rwanda	3.7	1.4	0.2	2.1	1.4	0.7	0.8	0.9	2.2	2.8

Source: Country Bureaus of Statistics

Commodity prices continued to decline reflecting abundant supply, increased harvest, weak global demand and strong US dollar. In 2015Q2, oil prices fell year-on-year by 43.1% after a decline of 50.2% in 2015Q1 due to ample supply. Brent price dropped by 43.4% standing at USD 62.10/barrel on average in 2015Q2 from USD 109.78/barrel in 2014Q2. On quarterly basis, after a drop of 30.9% in 2015Q1 oil prices rose by 17.2% in 2015Q2 due to improved global demand, expectations that oil production growth in USA will slow faster than initially projected and geopolitical tensions in oil producing countries.

Figure 1: Crude oil prices in USD/barrel



Source: World Bank Website

According to IMF forecasts, oil prices are projected to fall by 38.8% on average in 2015 after a decline of 7.5% in 2014. For non-energy commodities, prices fell on annual basis by 14.5% in 2015Q2 against a decline of 12.5% in 2015Q1. Prices sank by 14.8% for metals and minerals and by 15.2% for agricultural commodities and by 0.2% for fertilizers.

On average in 2015, metal prices are projected to fall by 21.0% because of slowing demand in China together with increased supply for most metals. Coffee prices will drop by 25.3% (for Arabica) and by 15.2% (for Robusta) mainly reflecting improved supply conditions for Arabica coffee in Brazil while tea prices are expected to increase by 34.8% on average by end 2015 due to dry weather conditions in Kenya, the third global tea producing country over the period 1993-2013.

1.1.3 Monetary Policy and Financial Markets

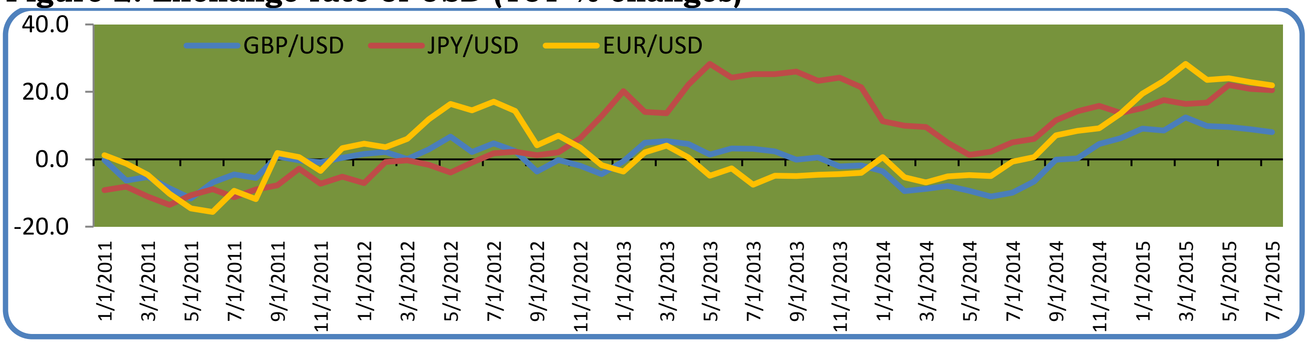
Monetary policy in developed countries remained accommodative to boost economic activities. Central bank rates remained extremely low compared to the pre-crisis levels: 0.05% in Euro area against 4.0% in 2007, 0.25% in US after 4.25% in 2007, 0.5% in UK and 0.10% in Japan against 5.5% and 0.75% respectively in 2007.

However, the US Federal Reserve Bank is expected to increase interest rates later this year. In its meeting on 16th -17th June 2015, the Federal Open Market Committee (FOMC) confirmed its view that the current level of the federal funds rate remains appropriate in order to ensure continued progress towards a maximum employment and 2% inflation target.

In 2015Q1, the 10-year government bond yields have declined in advanced economies due to geopolitical tensions as well as uncertainties about global economic growth. Since April 2015, they rose as traders around the world have been selling off government bonds bringing down bond prices and, in turn, driving up the 10-year bond yield. They are expected to rise further, as the Eurozone economy is recovering and the US economy improving after 2015Q1 economic slowdown.

On the foreign exchange markets, the dollar remained strong supported by the strength of US economy, higher US 10-year government bond yield which made US government securities more attractive for foreign investors.

Figure 2: Exchange rate of USD (YoY % changes)



Source: BLOOMBERG

Compared to end December 2014, the dollar gained 10.1% and 8.6% respectively in July and June 2015 against the euro. It depreciated by 0.3% and by 0.8% against the GBP during the same period. The dollar remained strong versus the Yen against which it appreciated by 3.4% and by 2.3% respectively in July and June 2015.

1.2 National Economic Performance

1.2.1 Economic Growth

The Rwandan economy continues to perform well in 2015 as the real GDP grew by 7.6% in 2015Q1 from 6.5% in 2014Q4 and 7.5% in 2014Q1. Growth was driven by the good performance of the service sector (+8.0%) followed by the industry sector (+7.0%) and the agriculture sector (+4.0%).

Table 4: Rwanda Real GDP growth, in %

	2010	2011	2012	2013	2014					2015
					Q1	Q2	Q3	Q4	Annual	Q1
GDP	**7.3**	**7.8**	**8.8**	**4.7**	**7.5**	**6.1**	**8.0**	**6.5**	**7.0**	**7.6**
AGRICULTURE, FORESTRY & FISHING	**5.0**	**5.0**	**6.0**	**3.0**	**5.0**	**5.0**	**6.0**	**5.0**	**5.0**	**4.0**
Food crops	5.0	5.0	7.0	4.0	6.0	6.0	7.0	7.0	6.0	4.0
Export crops	14.0	3.0	9.0	-5.0	11.0	-6.0	0.0	-8.0	-2.0	0.0
Livestock & livestock products	5.0	3.0	6.0	7.0	7.0	8.0	9.0	9.0	8.0	10.0
Forestry	3.0	3.0	4.0	3.0	3.0	2.0	2.0	3.0	2.0	3.0
Fishing	3.0	3.0	-2.0	5.0	4.0	4.0	3.0	3.0	3.0	3.0
INDUSTRY	**8.0**	**18.0**	**8.0**	**9.0**	**9.0**	**5.0**	**4.0**	**5.0**	**6.0**	**7.0**
Mining & quarrying	-11.0	50.0	-7.0	20.0	20.0	4.0	22.0	1.0	11.0	-12.0
Manufacturing	9.0	8.0	6.0	5.0	7.0	5.0	-5.0	-2.0	1.0	8.0
Electricity	15.0	15.0	17.0	8.0	9.0	9.0	8.0	9.0	9.0	8.0
Water & waste management	15.0	15.0	8.0	5.0	4.0	5.0	2.0	2.0	3.0	2.0
Construction	9.0	24.0	15.0	11.0	8.0	5.0	7.0	12.0	8.0	11.0
SERVICES	**9.0**	**8.0**	**12.0**	**5.0**	**9.0**	**9.0**	**11.0**	**8.0**	**9.0**	**8.0**
Trade &Transport	9.0	7.0	15.0	6.0	11.0	11.0	7.0	9.0	9.0	6.0
Maintenance and repair of motor vehicles	9.0	8.0	8.0	6.0	3.0	3.0	3.0	4.0	3.0	6.0
Wholesale & retail trade	9.0	8.0	14.0	6.0	12.0	10.0	7.0	10.0	9.0	7.0
Transport services	9.0	4.0	19.0	7.0	7.0	14.0	7.0	6.0	8.0	3.0
Other services	9.0	9.0	10.0	5.0	7.0	7.0	13.0	8.0	9.0	10.0
Hotels & restaurants	8.0	4.0	6.0	3.0	4.0	3.0	6.0	1.0	4.0	3.0
Information & communication	9.0	4.0	33.0	0.0	4.0	19.0	25.0	18.0	17.0	35.0
Financial services	24.0	20.0	13.0	10.0	4.0	3.0	10.0	4.0	5.0	10.0
Real estate activities	1.0	0.0	0.0	1.0	9.0	3.0	14.0	8.0	8.0	5.0
Professional, scientific and technical activities	1.0	0.0	6.0	4.0	5.0	2.0	3.0	1.0	3.0	8.0
Administrative and support service activities	1.0	0.0	6.0	4.0	4.0	8.0	7.0	3.0	6.0	7.0
Public administration	14.0	15.0	22.0	9.0	6.0	7.0	14.0	0.0	7.0	11.0
Education	9.0	18.0	7.0	4.0	8.0	8.0	8.0	8.0	8.0	6.0
Human health and social work activities	16.0	2.0	23.0	6.0	2.0	4.0	12.0	17.0	9.0	10.0
Cultural, domestic & other services	7.0	-1.0	11.0	12.0	18.0	16.0	22.0	21.0	19.0	11.0
Taxes less subsidies on products	**5.0**	**2.0**	**2.0**	**-3.0**	**6.0**	**-3.0**	**7.0**	**2.0**	**3.0**	**22.0**

Source: Rwanda National Institute of Statistics (NISR)

The good performance of the economy continued in 2015Q2, as evidenced by the leading indicators of economic activities. The Composite Index of Economic Activities (CIEA) increased by 15.0% in nominal terms in June 2015 from 14.4% in June 2014 while the real CIEA rose by 12.8% compared to 10.7% recorded during the same period.

Table 5: CIEA (% change, YoY)

	Nominal		Real	
	2014	**2015**	**2014**	**2015**
Q1	11.6	17.2	7.7	15.5
Q2	17.1	12.9	13.5	10.3
Jan - June	14.4	15.0	10.7	12.8

Source: Monetary policy and research department

Total turnovers for industry and service sectors increased by 6.0% in 2015Q2 against 20.1% recorded in the same period of 2014; pulled down by the service sector that slow paced to 1.1% in 2015Q2 compared to 22.4% in 2014Q2 outweighing the high increase in the industry sector turnovers of 18.3% in 2015Q2 against 14.6% registered in the same period of 2014. The increase in industry sector was mainly due to the good performance in construction (+52.3%), manufacturing (+23.1%) and energy (+7.5%) sectors.

Table 6: Turnovers for the industry and services sectors

	% Annual changes							
	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2014H1	20151H1
INDUSTRIES	**13.0**	**14.6**	**9.3**	**16.3**	**16.9**	**18.3**	**13.9**	**17.7**
Manufacturing	18.8	13.1	8.4	26.5	16.9	23.1	15.8	20.1
Energy	-1.0	9.1	15.4	5.8	17.1	7.5	4.2	12.0
Mining	0.1	3.1	-5.9	22.2	-24.2	-48.5	1.9	-38.5
Construction	15.8	27.2	22.8	1.6	39.8	52.3	22.2	47.1
SERVICES	**12.5**	**22.4**	**17.3**	**11.2**	**11.6**	**1.1**	**17.6**	**5.9**
Trade Services	17.6	20.6	27.2	19.2	18.3	16.1	19.2	17.1
Banks & Insurance companies	14.2	11.8	7.3	9.6	14.8	11.3	12.9	13.0
Transport and Storage	21.6	50.1	17.2	-2.9	-10.1	-12.9	34.8	-11.5
Garage Services	-0.2	19.4	68.5	18.3	34.2	-38.4	10.3	-8.1
Petroleum Companies	0.4	3.3	4.2	-6.7	-1.6	-10.9	1.9	-6.4
Posts & Telecommunications	12.4	101.1	14.4	-0.5	13.3	-43.5	59.7	-24.9
Other Services	5.1	3.6	19.5	52.6	14.0	14.3	4.4	14.1
TOTAL TURNOVERS	**12.6**	**20.1**	**14.9**	**12.7**	**13.0**	**6.0**	**16.5**	**9.2**

Source: BNR, Statistics Department, H1: first half of the year

Despite the high increase in turnovers for trade services (+16.1%) and for banks and insurance companies (+11.3%), turnovers in the services sector in 2015Q2 recorded low performance mainly due to the fall in international oil prices as well as from the high sales recorded in 2014Q2 by posts and telecommunications sector. Indeed, following the downward revisions of local pump prices resulting from the fall in international oil prices, total sales of petroleum companies declined by 10.9% in 2015Q2 compared to an increase of 3.3% recorded in 2014Q2 while total sales of posts and communications sector declined by 43.5% compared to an increase of 101.1% recorded in 2014Q2. In 2014Q2, MTN RWANDACELL Ltd, the leading telecommunication company with a share of 49.3% in posts and communications sector, sold its towers to IHS Holdings which led to an increase of 158% of its total sales.

The observed economic recovery has been supported by expansion in credit to the private sector, thanks to the BNR accommodative monetary policy implemented since June 2013. New authorized loans to the private sector increased by 10.8% in the first half of 2015, amounting to FRW 360.8 billion from FRW 325.7 billion in the same months of 2014. The outstanding credit to the private sector increased by 15.1% between December 2014 and June 2015 against 7.9% recorded in the corresponding period of 2014.

1.2.2 Formal External Trade Performance

Compared to the same period of 2014, Rwanda's trade deficit improved by 4.7% in the first half of 2015 from USD 901.43 million to USD 858.83 million as a result of the 5.1% and 6.2% decline in formal imports and exports respectively. Formal imports coverage by exports slightly reduced to 24.3% from 24.6% in the same period of 2014.

1.2.2.1 Formal Exports Developments

Traditional exports composed of tea, coffee, pyrethrum, minerals as well as hides and skins accounted for 46.2% of the total export earnings in the first half of 2015 compared to 49.2% in the first half of 2014, followed by re-exports (+30.8%) and non- traditional exports (+23.0%). The change observed in exports structure was mainly due to the poor performance recorded in the mining sector which decreased in both value and volume following the fall in international prices.

Table 7: Evolution of % share of exports: Jan-June 2013 – Jan-June 2015

	Jan-June 2013	Jan-June 2014	Jan-June 2015
TOTAL EXPORTS	**100.0**	**100.0**	**100.0**
Coffee	7.0	4.4	6.2
Tea	10.9	9.7	14.0
Cassiterite	10.8	13.2	7.3
Coltan	23.8	13.9	12.0
Wolfram	5.0	4.7	4.0
Hides and Skins	2.5	2.8	2.3
Pyrethrum	1.3	0.5	0.4
MAIN EXPORTS	**61.3**	**49.2**	**46.2**
Re-exports	23.4	34.1	30.8
Other exports	15.3	16.7	23.0

Source: BNR, Statistics Department

In the first half of 2015, exports decreased by 6.2% in value to USD 275.28 million from USD 293.61 million in the first half of 2014, as result of poor performance recorded by the mining sector (-31.3%) and re-exports (-15.2%), despite the increase in volume by 25.8% which is mainly attributed to re-exports (+31.3%), other exports (+30.9%), tea exports (+17.3%) and coffee exports (+11.7%).

Table 8: Major exports developments (Value FOB in USD millions, Volume in thousands of tons)

	Jan – June 2014	Jan –June 2015	% Change
Coffee			
- Value	12.79	17.15	**34.0**
- Volume	4.77	5.32	**11.7**
- Price	2.68	3.22	**20.0**
Tea			
- Value	28.56	38.48	**34.7**
- Volume	12.24	14.36	**17.3**
- Price	2.33	2.68	**14.8**
Mining			
- Value	93.45	64.24	**-31.3**
- Volume	5.22	3.79	**-27.4**
Cassiterite			
- Value	38.79	20.19	**-48.0**
- Volume	3.11	2.03	**-34.7**
- Price	12.47	9.94	**-20.3**
Coltan			
- Value	40.85	33.16	**-18.8**
- Volume	0.98	0.76	**-22.1**
- Price	41.63	43.38	**4.2**
Wolfram			
- Value	13.82	10.89	**-21.2**
- Volume	1.13	0.99	**-12.0**
- Price	12.22	10.95	**-10.4**
Hides and Skin			
- Value	8.32	6.24	**-25.0**
- Volume	5.25	4.59	**-12.6**
- Price	1.58	1.36	**-14.2**
Pyrethrum			
- Value	1.45	1.17	**-19.5**
- Volume	0.01	0.01	**-21.4**
- Price	169.93	173.90	**2.3**
Re-exports			
- Value	99.99	84.78	**-15.2**
- Volume	53.00	69.60	**31.3**
Other Exports			
- Value	49.04	63.23	**28.9**
- Volume	70.49	92.28	**30.9**
Total General			
- Value	**293.61**	**275.28**	-6.2
- Volume	**150.98**	**189.96**	25.8

Source: BNR, Statistics Department

Coffee exports significantly increased by 34.0% in value and by 11.7% in volume due to the rise in unit price by 20.0% from USD 2.68/Kg in the first half of 2014 to USD 3.22/Kg in the first half of 2015. In the period under review, tea exports also increased in both value and volume respectively by 34.7% and 17.3%. The increase in value is due to the rise of unit price (+14.8%) from USD 2.33/kg to USD 2.68/Kg.

The mining sector recorded poor performance in the first half of 2015, declining by 31.3% in value and by 27.4% in volume mainly due to falling international prices. Cassiterite and wolfram declined respectively by 48.0% and 21.2% in value as a result of the fall in their prices by 20.3% and 10.4% respectively. Despite the rise of its unit price by 4.2%, coltan also decreased by 18.8% in value and 22.1% in volume. Export value and volume for pyrethrum and hides & skins also decreased.

Other exports which are dominated by milling industries especially food and beverages, edible vegetables, roots & tubers and live animals exported to DRC increased by 28.9% in value and by 30.9% in volume. The good performance is mainly attributed to the significant increase in the exports of milling industries (+22.5% in value and 18.7% in volume) which represent 24.8% of total other exports, as well as the good performance in edible vegetables, root and tubers with a share of 7.7% of total other exports.

Re-exports which are dominated by petroleum products, vehicles as well as machines and engines that are re-exported to DRC and Burundi decreased by 15.2% in value but increased by 31.3% in volume. The increase in volume was mostly due to the petroleum products which rose by 47.9% in volume but only by 16.45% in value.

On the other hand, the decrease of total re-exports value emanated from machines and engines which decreased by 76.8% in value.

1.2.2.2 Formal Imports Developments

In the first half of 2015, formal imports recorded an increase in volume by 18.9% but decreased by 5.1% in value amounting to USD 1,134.10 million from USD 1,195.04 million. The increase in volume was driven by consumer goods (+24.7%), capital goods (+7.7%), intermediary goods (+17.8%) as well as energy and lubricants (+13.3%). The decline in total imports' CIF value is attributed to the decrease in imports of energy and lubricants (-26.4%), intermediary goods (-7.8%) and capital goods (-5.2%).

Table 9: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

	Jan-June 2014		Jan-June 2015		% change	
	Volume	Value	Volume	Value	Volume	Value
CONSUMER GOODS	266.67	321.81	332.56	351.01	24.7	9.1
CAPITAL GOODS	29.85	316.00	32.16	299.52	7.7	-5.2
INTERMEDIARY GOODS	407.60	373.81	480.34	344.64	17.8	-7.8
Energy and lubricants	133.60	183.43	151.33	138.93	13.3	-24.3
Petroleum products	129.06	175.52	136.00	129.24	5.4	-26.4
TOTAL IMPORTS	837.72	1195.04	996.39	1134.10	18.9	-5.1
TRADE BALANCE (exports less imports)		-901.43		-858.83		4.7
Cover rate of imports by exports, %		24.6		24.3		-1.2

Source: BNR, Statistics Department

Imports of consumer goods increased by 24.7% in volume and by 9.1% in value and were dominated by food products, representing 75.3% and 38.3% of total volume and value of consumer goods imports respectively. Imports of food products were dominated by meat and fish, milk and milk products, fats and oil of animals, vegetables, fruits and spices, cereals, flours and seeds, various food preparations, salt and sugar.

The increase in imports of sugar (+71.8% in volume and +56.5% in value) which represent 26.9% of total imports volume of consumer goods and 35.8% of total food products has contributed to the rise in the import of consumer goods. The country has recorded high increase of sugar imports due to low domestic production, in the first half of 2015, as KABUYE SUGAR WORKS was closed during the second quarter for maintenance of machinery.

Capital goods dominated by machines, devices & tools, and transport materials with a share of 64.8% and 17.0% respectively, decreased in value (-5.2%) but increased in volume (+7.7%). The decline in value was mainly due to the imports of machines and devices which declined by 7.6% and tools by 26.3%. The increase in volume was due to the rise in transport materials especially trucks (+74.1%) and buses (+15.5%).

Intermediary goods, which represented 30.4% of total imports during the first half of 2015, and mainly composed of construction materials, industrial products, fertilizers and other intermediary goods, decreased in value by 7.8% but increased in volume by 17.8%. The decline in value was due mainly to the imports of industrial products especially foods, textiles, chemicals and wood industries which declined by 21.9%, 19.2%, 16.3% and 6.8% respectively. The rise in volume was mainly due to the increase of cement and other similar products (+24.7%), which represent 74% of imports of construction materials, as a result of the increase in economic activities in the construction sector whose turnovers increased by 52.3%.

Imports of energy and lubricants decreased in value by 24.3% while increasing by 13.3% in volume mainly due to the fall in the price of imports of petroleum products by 26.4% in value whereas increasing by 17.3% in volume.

Table 10: Imports energy and lubricants (Value in USD million, Volume in thousands of tons)

	Jan-Jun 2014		Jan-Jun 2015		% change	
	Volume	Value	Volume	Value	Volume	Value
ENERGY AND LUBRICANTS	**133.60**	**183.43**	**151.33**	**138.93**	**13.3**	**-24.3**
Piles and Electrics accumulators	2.86	4.78	3.07	5.60	7.2	17.1
PETROLEUM PRODUCTS	**129.06**	**175.52**	**136.00**	**129.24**	**5.4**	**-26.4**
Motor spirit (Essence)	37.29	51.94	43.74	43.41	17.3	-16.4
Gas oils	68.51	98.38	68.57	68.39	0.1	-30.5
Other carburant	23.26	25.20	23.69	17.44	1.9	-30.8
Lubricating oils	1.69	3.13	2.01	3.02	19.5	-3.4

Source: BNR, Statistics Department

1.2.2.3 Formal Trade With Other EAC Countries

Rwandan exports to other East African Community (EAC) member countries represented 23.0% of total exports in the first half of 2015 against 29.1% in the same period of 2014. In value, total Rwandan exports to EAC decreased by 26.8% to USD 62.57 million from USD 85.51 million recorded in the first half of 2014. This decrease was mainly due to the fall in exports of beer from malt (-18.3%), raw hides and skins (-48.9%) and electrical apparatuses for line telephones (-77.6%), despite the increase in exports of tea (+12.5%).

Imports from EAC countries, which represent 22.2% of total imports, increased by 1.4% from USD 247.97 million recorded in the first half of 2014 to USD 251.38 million in the first half of 2015. As a result, the trade deficit widened by 16.2% to USD 188.85 million in the first half of 2015 from USD 162.46 million in the same period of 2014.

Table 11: Trade flow of Rwanda within EAC bloc (USD million)

		2013	2014	Jan-Jun 2014	Jan-Jun 2015
Exports to EAC	Value in USD millions	122.94	131.56	85.51	62.57
	% change	6.4	7.0	21.2	-26.8
	Share of total formal exports	21.5	21.9	29.1	23.0
Imports from EAC	Value in USD millions	516.39	546.80	247.97	251.38
	% change	-3.0	5.9	3.7	1.4
	Share of total formal exports	23.0	22.8	20.7	22.2
Trade balance		**-393.45**	**-415.24**	**-162.46**	**-188.81**

Source: BNR, Statistics Department

Rwanda's main exports to other EAC member countries remain tea sold at the Mombasa commodity exchange, coffee, raw hides and skins of bovine, leguminous vegetables and beer. With regard to imports, the main products are cement, refined and non-refined palm oil and other cooking oils, sugar, vegetable fats, animals and clothing.

1.2.3 Informal Cross Border Trade

Rwandan informal cross-border exports with neighboring countries, which accounted for about 19% of formal exports, increased by 9.9% in volume on the back of good agricultural production but slightly decreased in value to USD 51.61 million in the first half of 2015 from USD 52.45 million in the same period of 2014 thus contracting by -1.6%. The increased supply, especially of food products, led to a decrease in prices, thus negatively affecting the value of exports.

In terms of share, exports to the Democratic Republic of Congo (DRC) represent 80.7% of the total informal cross border exports, followed by Uganda (+11.4%), Burundi (+7.9%) and Tanzania (+0.05%).

Table 12: Rwanda informal cross border trade (USD million)

		2013	2014	Jan-June 2014	Jan-June 2015
Exports	Value in USD millions	109.3	107.5	52.45	51.61
	% change	7.4	-1.7	-6.6	-1.6
	Share of total formal exports	19.1	17.9	17.9	19.0
Imports	Value in USD millions	17.6	19.2	8.90	10.60
	% change	-22.2	9.2	-4.3	19.1
	Share of total formal imports	0.8	0.8	0.7	0.9
Trade balance		91.7	88.3	43.6	41.0

Source: BNR, Statistics Department

Informal imports increased by 19.1% to USD 10.60 million from USD 8.90 million in the period under review, leading to a decrease of 5.8% in Rwanda's informal trade balance with neighboring countries, from USD 43.6 million to USD 41.0 million.

Among other factors that led to the increase in informal imports was the appreciation of the FRW against regional currencies which has made some regional goods like dried beans, sorghum, maize flour, whiskies, and husked rice relatively cheaper. The main trading partners are Uganda, Burundi and DRC which represent a share of 52.3%, 31.0% and 14.4% respectively.

II. MONETARY SECTOR AND INFLATION DEVELOPMENTS

2.1 Monetary Policy Stance in 2015

During the first half of 2015, the National Bank of Rwanda has maintained an accommodative monetary policy stance to continue supporting the financing of the economy. Based on economic developments especially inflation, the policy rate was kept at 6.5% since June 2014.

As a result, the outstanding credit to the private sector increased by 15.1% between December 2014 and June 2015 against 7.9% recorded in the corresponding period of 2014. Broad money (M3) also expanded by 16.7% against 19.0% in June 2014 and new authorized loans increased by 10.8% amounting to FRW 360.8 billion in the first half of 2015 from FRW 325.7 billion in the corresponding period of 2014.

2.2 Inflation

In 2015, inflation has remained moderate, with headline inflation averaging at 1.5% in the first half of 2015 compared to 2.6% in the same period in 2014, on the back of good agricultural production and falling international oil prices.

On average, imported inflation eased to 0.5% in the first six months of 2015 compared to 1.4% of the same period in 2014. During the same period, domestic inflation dropped to 1.8% in 2015 from 2.9% in 2014.

Though it eased from 2.5% in the first six months of 2014 to 2% in the same period of 2014, core inflation remained above headline inflation, reflecting improving aggregate demand as a result of the continued BNR accommodative monetary policy adopted since June 2013.

Looking at the last two quarters of 2015, headline inflation increased on average from 1% in 2015Q1 to 2% in 2015Q2 mainly driven by the uptick in food and transport prices. On average, imported inflation increased from -0.1% in 2015Q1 to 1.2% in 2015Q2 following the slight increase in international oil prices and gradually growing inflationary pressures in the EAC countries.

Domestic inflation also increased on average from 1.4% in 2015Q1 to 2.3% in 2015Q2, due to a slight increase in domestic food prices.

Table 13: Inflation developments for key items (annual % change)

	2014							2015					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Headline	1.4	1.8	0.9	0.2	0.5	0.7	2.1	1.4	0.7	0.8	0.9	2.2	**2.8**
Domestic	2.1	2.3	1.0	-0.2	-0.2	0.5	2.2	1.8	1.06	1.2	1.5	2.8	**2.6**
Imported	-0.4	0.8	1.1	2.1	3.2	1.3	1.6	0.0	-0.3	-0.1	-0.3	0.6	**3.3**
Food	1.9	2.4	-0.2	-3.1	-3.3	-2.7	0.7	1.2	-0.3	0.8	2.5	3.8	**2.9**
Vegetables	-4.7	-3.2	-7.9	-13.3	-13.8	-10.8	-4.2	-2.0	-4..3	-2.3	2.7	6.2	**4.6**
Housing	0.8	1.2	0.9	1.0	2.3	2.9	3.7	3.7	3.6	3.8	2.9	4.5	**4.5**
Transport	-3.4	-2.9	-2.1	-0.5	0.6	-1.8	-2.0	-3.9	-4.3	-3.9	-3.8	-2.5	**1.5**
Core	2.0	2.2	2.4	3.0	3.5	2.9	2.9	1.8	1.7	1.8	1.6	2.0	**3.0**

Source: BNR, Statistics Department

2.3 Monetary Developments

2.3.1 Money Supply

Between December 2014 and June 2015, money supply (M3) grew by 16.7% compared to 19.0% recorded in the corresponding period of 2014. On an annual basis, M3 rose by 27.5% in June 2015 against 14.1% in June last year.

The growth of M3 was on account of expansion in Net Domestic Assets (NDA) of the banking system offsetting the decline in Net Foreign Assets (NFA). The NFA for the banking system declined by 14.7% following the decrease in both BNR net foreign assets (-3.9%) and commercial banks NFA (-38.3%). The Net domestic assets grew by 58.9% in June 2015 due to high increase in net credit to government and the increase in the outstanding private sector credit which rose by 15.1% compared to 7.9% recorded in the first half of 2014.

Table 14: Monetary aggregates developments (end period, FRW billion)

	2012	2013	2014			2015		% change		
	Dec	Dec	Jun	Sep	Dec	Mar	Jun	Jun-13/ Dec-12	Jun-14/ Dec-13	Jun-15/ Dec-14
Net foreign assets	555.8	744.0	733.0	659.0	702.5	688.0	599.5	15.6	-1.5	-14.7
Net domestic assets	334.3	284.7	490.9	549.7	521.3	586.9	828.3	-4.5	72.4	58.9
Domestic credit	544.4	567.1	801.8	913.8	885.9	998.3	1173.3	1.2	41.4	32.4
Central government net	-136.9	-187.3	-13.3	54.0	-26.2	-3.4	125.3	19.7	92.9	578.4
Public enterprises	1.0	1.3	2.0	5.8	5.8	6.2	5.0	-2.5	53.8	-13.6
Private sector	682.5	758.0	817.8	858.7	906.3	995.5	1043.0	5.0	7.9	15.1
Other items net (Assets: +)	-210.1	-282.5	-310.8	-364.0	-364.6	-411.4	-345.0	10.4	10.0	5.4
Broad money M3	890.2	1028.7	1224.0	1208.7	1223.9	1274.9	1427.8	8.1	19.0	16.7
Currency in circulation	107.0	116.6	119.4	105.6	118.5	117.4	134.9	8.7	2.4	13.9
Deposits	783.1	912.1	1104.5	1103.1	1105.3	1157.5	1292.9	8.0	21.1	17.0
Transferable deposits	318.4	378.7	453.9	442.7	456.2	480.7	616.2	22.4	19.9	35.1
Other deposits	300.1	339.2	391.2	410.5	407.3	446.7	441.1	-1.6	15.3	8.3
Foreign currency deposits	164.6	194.2	259.5	249.8	241.8	230.2	235.6	-2.4	33.6	-2.6

Source: BNR, Statistics Department

Concerning the distribution of the new loans by sectors of economic activity, 40% of total loans went to commerce, restaurant and hotels, followed by public works and buildings (33.1%) and non-classified activities (8.5%). The share of manufacturing activities declined to 3.4% from 13.7% which was mostly due to more loans given to some big companies in 2014.

Table 15: New authorized loans (FRW billion, unless otherwise indicated)

	2013		2014		2015			% Change	
	Tot	Jan-Jun	Tot	Jan-Jun	Q1	Q2	Jan-Jun	H1-14/ H1-13	H1-15/ H1-14
Non classified activities	56.5	26.3	62.5	33.8	14.8	15.8	30.6	28.5	-9.4
Agricultural, fisheries& livestock	8.8	4.1	8.8	3.4	3.8	3.0	6.7	-16.9	99.7
Mining activities	0.2	0.0	0.2	0.0	0.2	0.2	0.3	900.0	3200.0
Manufacturing activities	43.9	14.9	71.8	44.6	7.9	4.4	12.3	198.7	-72.4
Water & energy activities	5.6	0.4	25.5	16.1	0.1	1.2	1.3	3881.0	-92.2
Mortgage industries	93.2	43.5	138.5	68.7	64.5	54.9	119.4	57.8	73.7
Commercial restaurant and hotels	216.2	107.5	273.3	132.0	74.7	69.6	144.2	22.9	9.2
Transport & warehousing	29.5	14.9	41.8	15.5	6.9	17.6	24.6	4.1	58.8
OFI &Insurances and other non-financial services	6.1	4.7	4.7	1.2	0.6	1.9	2.5	-74.8	110.0
Services provided to the community	12.5	4.2	25.9	10.4	4.7	14.2	18.9	149.3	81.5
Total	**472.5**	**220.4**	**653.1**	**325.7**	**178.1**	**182.8**	**360.8**	**47.8**	**10.8**

Source: BNR, Financial Stability Directorate

2.3.2 Money Demand

On the money demand side, total bank deposits increased by 17% between December 2014 and June 2015 less than 21.1% increase realized in the same period of 2014. Compared to December 2014, demand deposits and term deposits increased by 35.1% and 8.3% in June 2015 respectively compared to 19.9% and 15.3% recorded in the same period of 2014. Foreign currency deposits reduced by 2.6% in June 2015 against an increase of 33.6% in June 2014.

Currency in circulation grew by 13.9% between December 2014 and June 2015, much higher than 2.4% recorded in the same period of 2014 due to continued economic performance recorded after the slowdown in 2013. On average, the currency to money supply (M3) ratio dropped to 9.4% in the first half of 2015 from 13.5%, 12.4%, 11.8% and 10.3% recorded in the corresponding period of 2011, 2012, 2013 and 2014 repectively. This decreasing trend reflects the expansion of the banking sector network and microfinance institutions particularly in the rural areas.

Considering the deposits by category of depositors, Households and Non Public Institutions Serving Households (NPISHs) continued to dominate term deposits with 50.4% on average in the last 5 years followed by other non-financial corporations (26.4%), Social security fund (13.0%) and other financial institutions and Public enterprises (7.4%).

Table 16: Deposits by category of depositors (% share)

	Jan-June/11	Jan-June/12	Jan-June/13	Jan-June/14	Jan-June/15
Other financial institutions	5.7	9.0	8.8	6.7	6.6
Social Security Funds	9.1	11.2	12.4	15.7	16.6
Public enterprises	4.1	3.5	3.0	2.5	1.0
Other non-financial corporations	24.1	23.6	24.6	29.1	30.5
Households and NPISH	57.0	52.7	51.2	46.0	45.2

Source: BNR, Statistics Department

2.4. Banking System Liquidity Conditions

In the first half of 2015, the banking system liquidity conditions continued to improve and remained comfortable as result of accommodative monetary policy implemented in a more flexible framework of liquidity management as well as liquidity injection from fiscal operations, especially towards the end of the fiscal year 2014/2015.

The banks most liquid assets increased by 25.2%, standing at FRW 354.3 billion in June 2015 from FRW 282.9 billion end December 2014 as stock of T-bills increased by 19.8%, outstanding repo operations by 65.3% and excess reserves by 38.6%.

Table 17: Most liquid assets of commercial banks (FRW billion)

	2013	2014				2015						% change
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jun-15/ Dec-14
T-bills	156.2	158.5	160.2	171.6	172.3	173.3	173.4	173.4	177.0	183.0	206.5	19.8
Repo	29.5	28.0	86.0	63.0	47.5	51.5	34.5	46.0	52.0	36.5	78.5	65.3
Excess reserves	19.0	25.3	22.0	26.3	27.7	36.4	32.0	31.4	34.2	39.9	38.4	38.6
Cash in vault	24.3	23.9	25.6	31.9	35.4	34.4	28.5	32.2	29.2	30.5	30.9	-12.7
Total	229.0	235.7	293.8	292.8	282.9	295.6	268.4	283.0	292.4	289.9	354.3	25.2

Source: BNR, Monetary Policy & Research Department

2.5 Interest Rates Developments

In line with the high level of liquidity in the banking system, money market interest rates continued to decline in the first half of 2015. Compared to December 2014, repo, T-bills and interbank interest rates fell respectively to 2.01%, 4.05% and 4.03% in June 2015 from 2.8%, 4.9% and 4.7% in December 2014.

Table 18: Interest rates developments (in %)

	2013	2014				2015					
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
BNR Policy Rates											
Key Repo Rate	7.00	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Discount Rate	11.00	11.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Money Market Rates											
Repo rate	4.00	3.30	3.70	4.20	2.80	2.68	2.25	1.95	1.92	2.02	2.01
T-Bills Rate	5.60	6.00	5.60	5.50	4.90	4.57	4.57	4.33	4.14	3.96	4.05
Interbank Rate	5.60	5.80	5.70	5.60	4.70	4.20	4.12	3.79	3.51	2.82	4.03
Market Rates											
Deposit Rate	8.60	8.30	8.60	7.30	7.80	8.50	8.49	8.12	7.98	8.73	8.80
Lending Rate	16.90	16.80	17.50	17.10	17.70	17.45	17.49	17.37	17.85	17.35	17.26

Source: BNR, Statistics Department

In June 2015, commercial banks deposit rate increased to 8.80% compared to 8.60% in the same period of 2014 whereas the lending rate decreased to 17.26% in June 2015 compared to 17.50% in the corresponding period of 2014 leading to the narrowing of interest rate spread.

Despite this improvement, there is still rigidity in lending rate reflecting the structural problem of higher operating costs incurred by banks in Rwanda as well as the limited bargaining power of individual borrowers either due to lack of information on terms and conditions embedded in loan contracts, or to being liquidity constrained.

Deposit rates also do not move much owing to the fact that the deposit market is dominated by some few big depositors who possess considerable negotiating power.

III. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

Relative to December 2014, the FRW depreciation against the USD reached 3.6% by end June 2015 and 4.2% by end July 2015, trading between FRW 719.54 and FRW 723.24 per dollar against FRW 694.37 of end December 2014.

In addition to the persistent wide trade deficit, the recent pressure of the USD against the FRW has mostly been shaped by the strengthening of the US dollar against most currencies around the world. Moreover, the contagious effects of the depreciation of currencies of major trading partners in the EAC and associated exchange rate speculation effects have amplified pressures against FRW. However, in comparison to other currencies, the FRW has been more stable.

Table 19: Appreciation/depreciation rate of selected currencies against the USD

	FRW/ USD	EUR/ USD	GBP/ USD	JPY/ USD	KES/ USD	UGS/ USD	TZS/ USD	BIF/ USD
Dec-13	6.1	-2.9	2.3	5.4	0.3	-5.9	0.2	-0.3
Dec-14	3.6	12.3	1.9	31.2	5.0	9.7	9.6	0.7
Jan-15	0.9	7.2	3.4	-1.9	1.2	3.4	1.7	0.1
Feb-15	1.4	8.1	0.9	-0.1	0.9	4.2	2.7	0.1
Mar-15	2.0	12.8	4.9	0.1	1.9	6.9	3.6	0.2
Apr-15	2.3	8.6	1.6	0.4	4.4	7.3	6.0	0.2
May-15	2.8	10.1	1.9	3.6	9.0	10.1	15.7	0.4
Jun-15	3.6	8.5	-0.9	2.3	8.9	19.0	17.1	0.9
July-15	4.2	9.6	-0.3	3.4	12.5	22.7	20.4	1.3

Source: BNR, Monetary Policy and Research Department

Looking at a basket of currencies for Rwanda's main trading partners, the FRW is since October 2014 appreciating in nominal terms. The FRW appreciated by 5.8% versus the EURO but depreciated by 4.8% against GBP. It appreciated by 7.1%, 14.4% and 15.3% against the Kenyan, Tanzanian and Ugandan shillings respectively, but depreciated by 4.5% versus the Burundian franc.

The appreciation of FRW against the shillings was mainly due to the weakening of regional currencies against the USD and relatively higher inflation rates in those economies.

Table 20: Appreciation/Depreciation rate of selected currencies against the FRW

	FRW/ USD	FRW/ GBP	FRW/ EUR	FRW/ JPY	FRW/ KES	FRW/ TZS	FRW/ UGS	FRW/ BIF
Dec-13	**6.1**	**8.0**	**10.2**	**-13.4**	**5.3**	**6.2**	**11.7**	**4.9**
Dec-14	**3.6**	**-2.4**	**-8.5**	**-9.7**	**-2.8**	**-7.0**	**-6.7**	**1.0**
Jan-15	0.9	-2.0	-6.6	3.3	0.5	-3.9	-2.7	2.3
Feb-15	1.4	0.7	-6.6	2.4	0.5	-3.9	-2.7	2.3
Mar-15	2.0	-2.7	-9.1	2.5	0.3	-4.6	-4.7	2.4
Apr-15	2.3	1.9	-6.2	3.8	-1.9	-10.6	-4.9	3.1
May-15	2.8	1.5	-7.3	0.1	-4.6	-14.8	-6.7	3.5
Jun-15	3.6	5.1	-4.2	2.0	-4.7	-9.0	-12.9	4.4
July-15	**4.2**	**4.8**	**-5.8**	**1.4**	**-7.1**	**-14.4**	**-15.3**	**4.5**

Source: BNR, Monetary Policy and Research Department

Comparing end June 2015 to December 2014, FRW nominal and real effective exchange rates have appreciated by 2.1% and 1.8% respectively.

Table 21: Appreciation/depreciation of Effective exchange rate (in % change compared to end Dec. of previous year)

Effective exchange rate	Dec-13	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
Nominal	7.3	-3.3	-1.3	-1.3	-2.4	-1.7	-2.7	-2.1
Real	6.8	-0.5	-0.9	-1.0	-1.9	-1.1	-2.4	-1.8

Source: BNR, Monetary Policy and Research Department

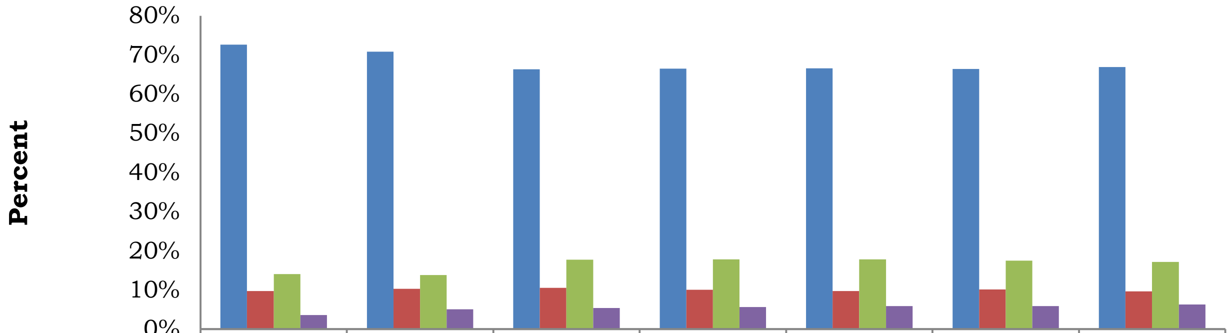
Following BNR interventions on the forex market, pressures on FRW exchange rate against the USD has eased. This, coupled with the appreciation of the FRW against a basket of currencies for major trading partners, has contributed to the progressive decline in imported inflation. Looking ahead, the FRW is expected to remain strong against most of the regional currencies and this will continue to dampen some inflationary pressures that may come from the depreciation of the FRW against the USD.

IV. FINANCIAL SECTOR STABILITY

The financial sector in Rwanda has kept its growing momentum in terms of size and structural composition of all sub-sectors. The banking sub-sector continues to dominate the system with 66.9%[2] of the total financial sector assets.

The pension, which accounts for 63.9% of the total assets for Non-Bank Financial Institutions (NBFIs), holds 17.1% of the total financial sector assets whereas Insurances and Microfinance Institutions hold 9.7% and 6.3% respectively.

Figure 3: Financial System Developments (in %)



	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Mar-15	Jun-15
Banking sector	72.6%	70.8%	66.3%	66.5%	66.6%	66.4%	66.9%
Insurance	9.7%	10.3%	10.6%	10.1%	9.8%	10.2%	9.7%
Pension	14.0%	13.8%	17.7%	17.8%	17.8%	17.5%	17.1%
MFIs	3.6%	5.1%	5.4%	5.7%	5.9%	5.9%	6.3%

Source: BNR, Financial Stability Directorate

The financial sector has remained resilient, stable and sound due to the strengthened supervision and regulatory framework by BNR, stable macroeconomic environment and modernization of payment systems.

The Financial Stability Committee (FSC) of the Bank continues to play an important role in assessing likely vulnerabilities in the sector with the objective of proactively taking corrective measures.

[2] Commercial Banks hold 81.8% of the banking sub-sector assets.

4.1 Financial Sector Performance Indicators

1. Banking Sector

For the Quarter ended June 2015, the banking sector was composed of eleven commercial banks; four microfinance banks; one development bank and one cooperative bank. In addition, the share of three biggest banks in loans, deposits and total assets also declined from 52%, 58% and 54% in 2010 to 42%, 48% and 45% in June 2015 respectively, showing an increase in the banking sector competition.

The banking sector's balance sheet has remained strong as total assets have increased by 13.1% between June 2014 and June 2015. As at end June 2015, total assets (amounting to FRW 2.0 trillion) were dominated by loans to private sector and investments in financial securities which accounted for 57.5% and 13.5% of the total assets respectively. On the other hand, total liabilities of banks were dominated by deposits which accounted for 83.8% of the total liabilities.

From the stability perspective, the sector is sound and resilient to shocks as it remains well capitalized, profitable and liquid. The capital adequacy ratio (CAR) stood at 24.3% compared to 23.6% recorded in June 2014 well above Basel committee benchmark of 10% and the BNR regulatory minimum requirement of 15%. This buffer means that the banking system assures confidence as regards to depositors' protection and system's stability.

The asset quality of the industry improved with non-performing loan ratio (NPLs ratio) declining to 5.9% as at end June 2015 compared to 6.6% recorded in June 2014.

The banking sector continued to register healthy profitability. The net profit after tax for the industry rose by 36.5% from FRW 17.29 billion end June 2014 to FRW 23.60 billion as at end June 2015. Compared to the same period in 2014, Return on assets (ROA) and return on equity (ROE) slightly increased to 2.4% and 13.1% respectively from 2.1% and 12.2% as at June 2014.

The liquidity ratio measured as liquid assets to total deposits ratio and used as an indicator of liquidity position of the banking sector stood at 49.5% in the period under review, well above the prudential limit of 20%.

Table 22: Key Soundness Indicators (in percent)

Indicator	2014			2015	
	June	September	December	March	June
Solvency ratio (total capital)	23.6	24.0	24.2	25.9	24.3
NPLs / Gross Loans	6.6	6.3	6.0	6.3	5.9
NPLS net/Gross loans	5.5	5.5	5.1	4.9	4.9
Provisions / NPLs	50.0	55.3	56.8	52.3	51.5
Earning Assets / Total Assets	80.7	83.0	93.1	79.3	81.8
Large Exposures / Gross Loans	15.9	14.8	17.7	19.3	22.5
Return on Average Assets	2.1	1.9	1.9	2.7	2.4
Return on Average Equity	12.2	10.9	10.8	14.1	13.1
Cost of deposits	3.3	3.2	3.4	3.1	3.1
Liquid assets/total deposits	54.2	54.0	51.7	46.0	49.5
FOREX exposure/core capital	-1.7	-4.8	2.2	-5.5	-7.1

Source: BNR, Bank Supervision Department

2. Microfinance Sector

The Microfinance sector's asset have grown by 17.7% from FRW 159.3 billion in December 2014 to FRW 187.5 as of June 2015 largely driven by loans and liquid assets which rose by 8% and 37.4% respectively.

The deposits have grown by 21.8% from FRW 86.1 billion in December 2014 to FRW 104.9 billion as at June 2015. The Capital Adequacy Ratio (CAR) stood at 31.4%, well above the minimum regulatory requirement of 15% and liquidity ratio stood at 95.4%.

However, the asset quality, measured by NPLs ratio slightly deteriorated from 7% end December 2014 to 7.4% as at end June

2015. To ensure that credit risk in microfinance institutions progressively reduces, BNR has planned to conduct onsite inspections in 435 MFIs, with special attention to 416 UMURENGE SACCOs, in order to coach them on quality management of their loan portfolio.

Table 23: MFIs performance indicators (UMURENGE SACCOs included, in billions of FRW, unless otherwise indicated)

Denomination	Dec-13	Jun-14	Dec-14	Jun-15	Var-Dec14/ Jun-15
Total Assets	**128.7**	**147.4**	**159.3**	**187.5**	**17.7%**
Liquid Assets	42.1	53.4	55.3	76	37.4%
Net loans	71.2	78.0	86.8	93.6	7.8%
Gross Loans	**73.5**	**81.2**	**90.0**	**97.2**	**8.0%**
NPLs	5.0	6.2	6.3	7.2	13.3%
Provisions	2.5	3.2	3.1	3.6	14.3%
Total Deposits	**69.5**	**82.2**	**86.1**	**104.9**	**21.8%**
Current Accounts	52.3	62.0	63.6	79.7	25.3%
Equity	**43.0**	**47.0**	**52.8**	**58.8**	**11.4%**
NPL Ratio (Max 5%)	**6.8%**	**7.6%**	**7.0%**	**7.4%**	
CAR (Min 15%)	**33.4%**	**31.9%**	**33.2%**	**31.4%**	
Quick-Liquidity Ratio (Min 30%)	**80.5%**	**86.2%**	**87.0%**	**95.4%**	

Source: BNR, Microfinance Supervision Department

UMURENGE SACCOs Performance

By end June 2015; 381 out of 416 U-SACCOs (91.6%) had reached their break-even points in terms of profitability. This means, attaining capacity to manage their own expenses without any external support.

U-SACCOs, which represent 48.4% and 55.5% of the total MFIs' assets and deposits respectively, recorded a growth of 25.5% in assets from RWF 72.3 billion end December 2014 to FRW 90.8 billion as of June 2015.

The loans granted increased by 4.4% to FRW 28.9 billion in June 2015 from FRW 27.7 billion as of December 2014 while deposits increased by 27.4% to FRW 58.2 billion by end June 2015 from FRW 45.7 billion end December 2014.

The asset quality of U-SACCOs has slightly deteriorated as the NPL ratio reached 8.2% end June 2015 compared to 7.1% registered in

December 2014, the capital adequacy ratio stood at 29.4% compared to 32.9 % in December 2014 and the liquidity ratio increased to 99.2% from 86.8% in December 2014, well above the BNR regulatory threshold of 15% and 30% respectively. The high liquidity ratio is mainly due to MFIs precaution against possible deterioration of loan portfolio.

Table 24: UMURENGE SACCO performance indicators (in billions of FRW unless otherwise indicated)

Denomination	Dec-13	Jun-2014	Dec-2014	Jun-2015	Var. Dec-14/ Jun-15
Total Assets	**57.37**	**68.80**	**72.34**	**90.82**	**25.5%**
Liquid Assets	**26.81**	**35.00**	**34.63**	**51.33**	**48.2%**
Net Loans	20.81	23.38	26.74	27.77	**3.9%**
Gross Loans	**21.54**	**24.25**	**27.73**	**28.95**	**4.4%**
NPLs	**1.57**	**1.69**	**1.97**	**2.38**	**20.5%**
Provisions	**0.73**	**0.87**	**0.99**	**1.17**	**18.8%**
Total Deposits	**36.90**	**44.44**	**45.69**	**58.20**	**27.4%**
Current Accounts	**32.70**	**39.50**	**39.88**	**51.75**	**29.8%**
Equity	**17.73**	**20.64**	**23.81**	**26.68**	**12.1%**
NPL Rate (Max 5%)	**7.3%**	**7.0%**	**7.1%**	**8.2%**	
Liquidity (Min 30%)	**82.0%**	**88.6%**	**86.8%**	**99.2%**	
CAR (Min 15%)	**30.9%**	**30.0%**	**32.9%**	**29.4%**	

Source: BNR, Microfinance Supervision Department

In terms of loan distribution granted by MFIs by sectors of economic activities, the largest share of 48.3% of the total outstanding credit was granted to commerce, restaurants & hotels followed by public works and construction (31.1%). Given its rural base, UMURENGE SACCO interestingly financed agriculture at a share of 24.5% above 14.4% for all MFIs.

Table 25: MFI's Outstanding (in billions Frw) Loans by Economic Sector

Economic Sector	UMURENGE SACCO		Other MFIs		Total	
	Jun-15	Share %	Jun-15	Share %	Jun-15	Share %
Agriculture, Livestock, Fishing	7.1	**24.5%**	6.9	**10.2%**	14.0	**14.4%**
Public Works (Construction), Buildings, Residences/Homes	3.5	**12.1%**	26.7	**39.2%**	30.2	**31.1%**
Commerce, Restaurants, Hotels	13.9	**48.3%**	20.8	**30.5%**	34.7	**35.8%**
Transport, Warehouses, Communications	1.6	**5.7%**	2.4	**3.5%**	4.0	**4.2%**
Others	2.7	**9.5%**	11.3	**16.6%**	14.1	**14.5%**
All Sectors	**28.9**		**68.2**		**97.2**	

Source: BNR, Microfinance Supervision Department

3. Non-Bank Financial Institutions (NBFIs)

The non-bank financial institutions are mainly comprised of insurance and pension institutions. The inclusion of NBFIs (contractual savings) supervision within the mandate of BNR (in 2007) was in recognition of the valuable role that these institutions play in the stability of the financial system and economic growth of the country.

Currently there are eight (8) non-life insurers, four (4) life insurers, two (2) public medical insurers, fourteen (14) insurance brokers, three hundred and twenty two (322) insurance agents, nine (9) loss adjusters, one (1) pension/social security fund and fifty three (53) private pension schemes but not yet regulated by BNR.

Insurance Sector Performance

The insurance sector continues to register considerable growth in terms of total assets, profitability and capitalization. The sector has also been characterized by a flow of new market entrants (from regional or international level) over the past six years.

As at end June 2015, the total assets increased by 19% reaching FRW 295 billion from FRW 247 billion, end June 2014 and FRW 272 billion (end December 2014); capital and reserves increased to FRW 218 billion from FRW 180 billion, end June 2014 or an increase by 21%. The increase in total assets and capital was mainly attributable to the capital restructuring of some insurers through injection of additional funds to align with/implement their business strategies.

The sector is well capitalized as reflected by an average combined solvency margin ratio of 941% that is well above the required solvency margin of 100%. The sector's ability to pay its short term obligations when they fall due is also satisfactory as the liquidity ratio stood at 312% which is far above the prudential requirements of 150%.

In comparison with the private insurers, the public (medical) insurers continue to outperform other insurers as they account for 60% of the sector's assets and 98% of the insurers' net profit. This is mainly due to the fact that public insurers are mandatory insurance schemes and they have been able to effectively control their management/operating expenses.

Table 26: Performance indicators for the insurance sector (FRW billion, unless otherwise indicated)

Key Performance Indicators	June-2014			June-2015		
	PRIVATE INSURERS	PUBLIC INSURERS	INDUSTRY	PRIVATE INSURERS	PUBLIC INSURERS	INDUSTRY
Total assets	103	144	247	117	179	296
Total capital	40	140	180	42	176	218
Total claims outstanding reserves	13	-	13	15	0.1	15
Total premiums written	25	20	45	28	20	47
Underwriting profit	(3.7)	10	6	(3)	9	6
Total net profit	0.091	14.5	14.6	0.30	14.4	14.7
Solvency margin ratio (%)	117%	2217%	243%	88%	2000%	941%
Claims ratio (%)	64%	34%	49%	63%	43%	54%
Expenses ratio (%)	49%	15%	32%	47%	13%	32%
Combined ratio (%)	113%	49%	81%	110%	56%	85%
Current ratio (%)	165%	74809%	471%	107%	4755%	312%
Return on equity ratio – ROE (%)	0.5%	21%	16%	1.4%	16%	13%
Return on assets ratio - ROA (%)	0.2%	20%	12%	0.5%	16%	10%
Insurance risk ratio - GP/CAP (%)	127%	28%	50%	132%	22%	43%

Source: BNR, Non-Bank Financial Institution Supervision Department

By end June 2015, the insurance gross premium written was FRW 47 billion compared to FRW 45 billion as at end June 2014, reflecting an increase of 6%. The increase in premium written was attributed to managed efforts by new insurance players to underwrite new business. It was also revealed that net profit for the sector slightly rose to FRW 14.7 billion from FRW 14.6 billion end June 2014.

However, the net profit in public insurers slightly declined from FRW 14.5 billion (end June 2014) to FRW 14.4 billion (end June 2015) due to the 26% increase in claims incurred (medical benefits).

Pension sector performance

The pension sector assets, excluding private pension schemes, increased by 13% from FRW 455.1 billion recorded end June 2014 to FRW 512.1 billion reported end June 2015. During the period under review, total contributions increased by 8% from FRW 55.5 billion to Rwf 60 billion, total benefits paid increased by 22% from FRW 12.1 billion to FRW 14.8 billion and investment income increased by 7% from FRW 22.1billion to FRW 23.4 billion as illustrated below.

Table 27: Public pension sector financial indicators (FRW billion, unless otherwise indicated)

Indicator	Jun-2014 Audited Financial Statements	Dec-2014	Jun-2015	% Change Jun-14/ Jun-15
Total assets	455.1	480.7	512.1	13%
Total Contributions Received	55.5	57.3	60.0	8%
Total benefits paid	12.1	13.2	14.8	22%
Total investment income	22.1	20.5	23.6	7%

Source: BNR, Non-Bank Financial Institutions Supervision Department

It is worth mentioning that pension law 05/2015 of 30/03/2015 governing the organization of pension schemes was published in the official gazette number 20 of 18th May 2015. This law establishes the organization and management of private pension schemes that include the occupational and personal saving account pension schemes that are voluntary in nature. It is envisaged that with the introduction of private pension schemes, informal sector and self-employed people are likely to join the pension system and consequently increase the pension coverage ratio.

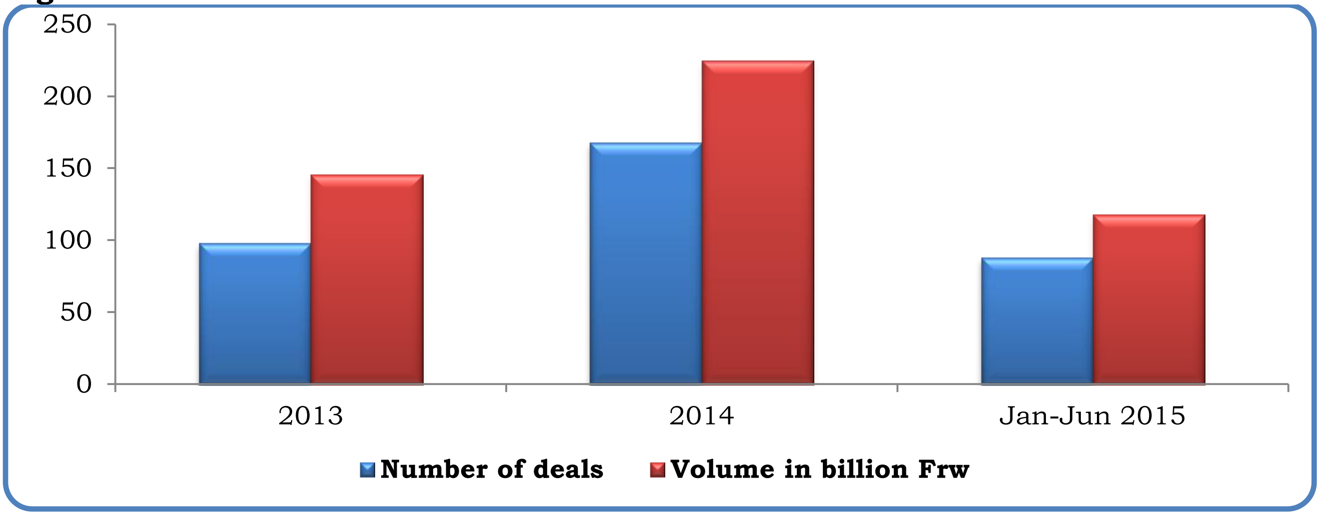
4.2 Financial Markets Development

4.2.1 Money Market Development

The interbank market is important for the monetary policy transmission, particulary the interst rate channel. That is why BNR has been improving its liquidity management framework to promote the interbank market development.

As a result, the transactions on interbank market have substantially increased by 54%; that was; from FRW 145.8 billion Jan-Dec 2013 in 98 deals to FRW 224.8 Billion in 168 deals during the same period in 2014. During the first six months of 2015, the interbank transactions stood at FRW 117.9 billion in 88 deals.

Figure 4: Interbank Transactions from 2013 to end June 2015



Source: BNR, Financial Markets Department

4.2.2 Capital Market Development

Bond Market

To capital holders, the long term debt security offers access to risk free investments with good returns and very liquid instruments while to the issuer, the Bond market eases access to affordable long term resources.

In a bid to develop the local Bond market, the Ministry of Finance and Economic Planning in collaboration with the Central Bank have taken a firm commitment to plan regular issuance and extend the yield curve to longer maturities.

Currently the investment opportunities on Government bond market are available for 3; 5; 7 and 10 years. During this financial year 2015/2016 the quarterly issuance program (August- November – February – May) will continue and a 15-year Government bond is expected to be issued in May 2016.

During the first semester of 2015, a 3 and 10 years Treasury bond with a face value of FRW 15 billion and FRW 10 billion respectively were issued in February and May, 2015. The 10 years Treasury bond attracted both foreigners and domestic investors with foreigners' participation of 30% of the issued amount.

Contrary to the previous years, the institutional investors (Pension funds, insurance companies, etc.) as main holders of long term resources have increased their participation from less than 10% to 59% whereas the banks participation declined from more than 90% to 39% during the financial year 2014-2015.

Table 28: Comparison of four bonds issued in 2014-15 financial year

Item	5-Year Bond (Aug, 2014)	7-Year Bond (Nov, 2014)	3-Year Bond (Feb, 2015)	10-Year Bond (May, 2015)
Amount (in FRW)	15 billion	15 billion	15 billion	10 billion
Subscription level	232 %	187%	106%	228%
Allocation per category:				
Banks	40 %	45.6%	48%	20.9%
Institutional Investors	57 %	53%	50%	76.7%
Retailers	3 %	1.4%	2%	2.4%
Coupon rate	11.875%	12.475%	11.55%	12.925%
Yield rate	12.00%	12.50%	11.70%	13.0%

Source: BNR, Financial Markets Department

Equity Market

On the Rwanda Stock Exchange (RSE), equities trading continued on an upward trend. The counters of BRALIRWA and Bank of Kigali still dominating in volumes, transactions and price changes. From January to June 2014, RSE equity market recorded a total turnover of FRW 30.1 billion from 72 million shares traded in 442 transactions while bonds worth FRW 50.9 million were traded in 6 transactions. The Rwanda Stock Exchange market capitalization doubled from USD 1.9 billion to USD 4.2 billion during the same period.

Legal and Regulatory Framework on Capital Market

In a bid to revitalize the capital markets industry and ensure the legal framework in place accommodates the actual status of the industry, CMA has started reviewing various regulations from the law regulating the collective investment schemes (CIS).

Among regulations to be reviewed are the regulation on the Real Estate Investment Trust (REIT's) which will be published in the 3rd quarter of the year 2015. Guidelines to support the implementation of regulations will also be developed.

In June 2015, the CMA received a final report on the International Organization of Securities Commissions (IOSCO) compliance assessment by the Rwandan CMA with the objectives and principles of securities regulation. CMA Rwanda, being an associate member of the IOSCO, is planning to implement the compliance assessment recommendations with the FY 2015/2016, towards achieving a full membership of IOSCO.

In order to promote the vibrancy of the securities markets in the region so as to promote regional integration, in its 42nd Consultative Committee meeting held in July 2015, the East African Securities Regulatory Authorities (EASRA) has agreed the fast-tracking of the adoption and implementation of risk based supervision among all regulators in the region.

4.3 Payment Systems Modernization

Specifically during the first half of 2015, a number of actions have been implemented over the year aiming at consolidating steps already made and undertaking new progress. Among others, there has been remarkable improvement in the use of Rwanda Integrated Payments Processing System (RIPPS) which allows automatic gross settlements in real time.

Retail payment system has also improved; the issuance of another international payment card namely MasterCard, has been introduced, while mobile financial services (MFS) and internet banking services registered tremendous development.

The following table shows an increasing trend of electronic payment infrastructures and accounts over the last three years.

Table 29: Trend of electronic payments

Infrastructure/accounts	*June 2013*	*June 2014*	*June 2015*
Total number ATMs	323	343	361
Total number POS terminals	797	1,057	1,339
Total number of debit cards	440,875	532,157	654,349
Total number of credit cards	1,179	1,561	3,675
Accounts for mobile payments service	2,048,260	3,826,997	6,763,467
Subscribers on mobile banking service	425,815	552,027	769,497
Subscribers on internet banking service	8,229	32,460	33,750

Source: BNR Payment System Departement

4.3.1 Rwanda Integrated Payments Processing System (RIPPS)

RIPPS is an integrated system comprising of Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH) and Central Securities Depository (CSD). The RIPPS continued to operate smoothly in the first half of 2015.

Comparing the first half of 2015 with the first half of 2014, customers' transactions through credit transfers have increased by 13% in volume from 1,089,206 transactions to 1,234,214 transactions and 23% in value from 1,484 billion FRW to 1,821 FRW. Interbank transfers decreased slightly by 1% from 6,315 transactions to 6,242 transactions in volume and increased by 7% in value from 987 billion FRW to 1,060 billion FRW.

4.3.2 Card-Based Payment System Development

Much progress has been achieved in card based payment system, comparing the first half of the year 2014 and the first half of the year 2015. The number of ATMs increased by 5% from 343 to 361 while the number of POS devices increased by 27% from 1,057 in June 2014 to 1,339 in June 2015. The number of debit cards increased by 23% from 532,157 to 654,349 while the number of credit cards increased by 135% from 1,561 to 3,675.

The number of transactions on ATMs and POSs has also recorded an increase during the first half of the year 2015. POS transactions at merchants level increased by 130% from 63,523 to 146,038 in terms of volume and 48% from 8 billion FRW to 12 billion FRW in terms of value, while cash withdrawal at agents using POS terminals increased by 101% from 195,520 transactions to 392,076 transactions in terms of volume and 158% from 4 billion FRW to 10 billion FRW in terms of value. With regard to ATMs, the transactions in terms of volume have decreased by 3% from 3,796,459 to 3,679,144 whereas the value has increased 15% from 150 billion FRW to 172 billion FRW.

Regarding the international card issuing and acquiring, it is worth noting that one bank introduced the issuance of MasterCard cards, while in the same period the acquiring of UPI cards was enabled on nine banks' ATMs. This achievement will promote competition in the market, facilitating local MasterCard cards holders to be able to pay even abroad and enabling more tourists holding UPI cards to pay at local payment terminals.

Despite the significant development registered in card based payment system in the last two years, the number of cards and POS machines is still low to boost the usage of electronic payments. In addition, existing payment terminals are still concentrated in urban areas with 49% of ATMs and 83 % of POS in Kigali.

Table 30: Payment Terminals

		Eastern Province	Kigali Province	Northern Province	Southern Province	Western Province	TOTAL
ATMs	**NUMBER**	47	177	42	45	50	361
	PERCENTAGE	13%	49%	12%	12%	14%	100%
POS	**NUMBER**	21	1111	81	51	75	1339
	PERCENTAGE	2%	83%	6%	4%	6%	100%

Source: BNR, Payment System Department

4.3.3 Mobile Financial Services and Internet banking

With regard to mobile financial services, it is important to highlight that mobile network operators (MNOs) have introduced innovative products that promote financial inclusion and increase the cashless payments.

Those products include mobile saving in partnership with banks, whereby within two months as end June 2015, 16,000 customers opened bank accounts using mobile payment channel and saved Frw 277 million. Other products include payments of water bills, tax, fuel at petrol stations, school fees, etc.

Table 31: Mobile financial services and internet banking developments

Period	Number of accounts	Number of transactions	Value in FRW million
	Mobile Payment		
Jan 14-June 14	3,826,997	43,482,135	260,702
Jan 15-June 15	6,763,467	76,489,474	572,051
Change	**77%**	**76%**	**119%**
	Mobile Banking		
Jan 14-June 14	552,027	2,064,932	20,834
Jan 15-June 15	769,497	2,560,978	30,904
Change	**39%**	**24%**	**48%**
	Internet banking		
Jan 14-June 14	32,460	147,095	152,997
Jan 15-June 15	33,750	656,309	638,948
Change	**4%**	**346%**	**318%**

Source: BNR, Payment System Department

Airtime purchase, cash in and cash out and transfers services (P2P, P2B, B2B, B2P) dominated mobile money transactions in terms of volume with 37.2%, 24%, 18.9% and 13.9% respectively where as in terms of value Cash in/Cash out and transfers were dominant with 37%, 32.5% and 26.7% respectively. The other services are not much utilized.

As overall usage is dominated by Cash in/Cash out which is still involving cash handling, much effort is needed to increase the number of value added services and access points to help boosting electronic payments hence reducing cash payments and the related cost.

Table 32: Mobile money usage distribution

Services	Total Jan-June 2015			
	Volume	Percentage	Value (million FRW)	Percentage
Cash in	18,381,784	24.0	211,790	37.0
Cash out	14,441,492	18.9	185,994	32.5
Airtime	28,467,617	37.2	6,889	1.2
Utility Bill payments	4,159,938	5.4	3,971	0.7
Merchant payments	277,281	0.4	537	0.1
Transfers (P2P, P2B, B2B,B2P)	10,648,079	13.9	152,998	26.7
Bank transfers	109,810	0.1	9,724	1.7
Cross border transfers	3,473	0.0	149	0.0
Total	**76,489,474**	**100**	**572,051**	**100**

Source: BNR, Payment System Department

4.3.4 Regional Integration Initiative

The Rwanda market joined the East Africa Payment System since December 2014. The usage of the system is still low. Only 132 transactions were settled on Rwanda side. In this respect, BNR, together with all stakeholders, is planning to carry out a sensitization campaign in September 2015 in order to promote the usage of electronic payments and EAPS system.

The table below shows transactions which were made through EAPS since December 2014:

Table 33: EAPS Transactions: December 2014 - July 2015

Currency	Inward messages		Outward messages	
	Volume	Value	Volume	Value
FRW	12	181,601,612	20	274,524,012
UGX	16	391,849,474	34	322,630,372
KES	14	22,901,888.64	30	21,896,208
TZS	6	4,400,000	0	0

Source: BNR, Payment System Department

Further 3,473 cross border mobile transactions amounted at 149 million FRW were carried out between January and June 2015.

4.3.5 Payment Systems Interoperability

Interoperability is an important factor that contributes towards an inclusive cashlite society. In this regard, BNR and the payment systems stakeholders are working together to establish an efficient and comprehensive interoperability of payment systems in Rwanda, especially in relation to mobile financial services and Smartcash cards to be accepted on all POS terminals.

Today, Smartcash cardholders from five banks out of eight banks (57% of the market) can pay at merchants POS in the country. With regard to interoperability in mobile payment, three MNOs have partnered with some banks to enable bank account to e-money account transfers and vice versa.

With the aim to promote the usage of electronic payments, early this year BNR reminded business entities that surcharging practices are prohibited. As a result, the POS merchants and banks stopped the malpractice of surcharging the users of electronic payment infrastructures. This is in line with the interoperability policy objective which creates an inclusive cashless society in Rwanda.

4.4 Access to Finance

Embracing the targets of the Government of Rwanda to achieve formal financial inclusion at 80% of adult population by 2017 and 90% by 2020, several policies were put in place and others are being developed, aimed at addressing at least three aspects: access to financial services and products; usage of financial services and products and quality of financial services and products.

In addition to the establishment of Umurenge SACCOs in 2009 which fuelled the development of microfinance institutions, BNR also focused on supporting the extension of the bank network and branchless banking solutions, and the use of information technology, particularly mobile financial services as a tool of increasing the access to financial services.

For the period under review, the number of commercial banks' branches & sub-branch network slightly increased by 0.1% from 515 in December 201 to 521 in June 2015. The number of accounts was 2,278,867 end June 2015 from 2,233,000 end December 2014.

Table 34: Geographical banking financial services access end June 2015

DISTRIBUTION	CITY OF KIGALI	NORTHERN PROVINCE	EASTERN PROVINCE	WESTERN PROVINCE	SOUTHERN PROVINCE	TOTAL (JUN 15)	TOTAL (DEC 14)
NUMBER OF BRANCHES	61	19	25	28	28	***161***	***171***
NUMBER OF SUB BRANCHES	47	29	35	44	41	***196***	***182***
NUNBER OF COUNTERS/OUTLETS	56	21	35	20	32	***164***	***162***
TOTAL	**164**	**69**	**95**	**92**	**101**	***521***	***515***
NUMBER OF CLIENTS ACCOUNTS (In thousands)	**1,107**	**297**	**343**	**271**	**261**	***2,279***	***2,233***

Source: BNR, Bank Supervision Department

The banking network development has significantly contributed to increase access to financial services, particularly bank credit to different categories of economic agents such as women, youth and SMEs as well as different sectors of the economy.

From January to June 2015, 3.4% of the total number of applications (128,433) received by banks were rejected, representing 20% of the total FRW 450.9 billion applied for compared to 14.4% rejection rate recorded in 2014.

Furthermore, out of FRW 90.2 billion loans rejected; 70.1% (equivalent to FRW 63.1 billion) and 29.9% (FRW 26.9 billion) were for corporate and individual borrowers respectively. In terms of economic sectors, the largest share of the rejected loans was to mortgage industry (56.4%), commerce and hotel (16.8%) and non-classified activities (15.0%).

In terms of rejected by sector, the mining sector recorded 33.3% (i.e. 2 out of total 6 loan applications) followed by service at 26.2% (150 out of 572), manufacturing at 24.0% (43 out of 179), transport at 18.4% (121 out of 656) and agriculture at 6.5% (294 out of 4,520).

Table 35: Loan rejection by sector of activity (FRW Thousand, unless otherwise indicated)

	Loan applications received		Loan applications approved		Loan applications rejected		Rejection rate (by number)	Rejection rate (by amounts)
	Number	Amount	Number	Amount	Number	Amount		
Mining activities	6	2,149,515	4	324,000	2	1,825,515	33.3%	84.9%
Non classificied activities	31,408	44,168,941	30,002	30,618,632	1,406	13,550,309	4.5%	30.7%
Mortgage industries	31,884	170,490,288	31,277	119,644,806	607	50,845,482	1.9%	29.8%
Agricultural, fisheries & livestock	4,520	9,251,483	4,226	6,735,302	294	2,516,181	6.5%	27.2%
Manufactoring activites	179	14,525,933	136	12,286,214	43	2,239,719	24.0%	15.4%
Service sector	572	10,440,371	422	8,943,740	150	1,496,631	26.2%	14.3%
Commercial & hotel	59,019	159,338,432	57,227	144,236,456	1,792	15,101,976	3.0%	9.5%
Transport & warehousing	656	26,805,202	535	24,308,035	121	2,497,168	18.4%	9.3%
OFI & Insurance	176	12,556,282	172	12,475,782	4	80,500	2.3%	0.6%
Water & energy activities	13	1,256,370	13	1,256,370	-	-	0.0%	0.0%

Source: Bank Supervision Department

The main reasons for the loan rejections included: weak cash flows; inadequate collaterals; bad credit history; incomplete documentation; bad credit records for shareholders; unclear financing plan and lack of experience in the business plans.

The sector with high rejection rate was the mining sector (rejection of 33.3%), followed by the "non-classified activities" with 30.7% rejection rate.

In terms of distribution by province, the Northern Province recorded the highest growth of new credit (37.7%), followed by the Kigali City (27.1%) and Southern Province (1.7%).

While the overall increase was positive (10.8%) when compared to the same period in 2014, Western and Eastern province recorded a decrease of new loans growth (-46.4%) and (-36.9%) respectively due to the reduction of financing appetite in some economic sectors.

Table 36: Distribution of new loans by Province end June 2015 (in billions of FRW)

Province	Jan - June 2014	Dec 2014	Jan-June 2015	% growth Jan-June 2015/2014
Eastern	30.0	52.81	18.9	-36.9
Kigali City	220.4	463.99	280.0	27.1
Northern	13.8	27.24	19.0	37.7
Southern	20.6	41.14	21.0	1.7
Western	40.9	67.77	21.9	-46.4
TOTAL	325.7	652.9	360.8	10.8

Source: BNR, Financial Stability Directorate

The number of individuals who accessed loan from the banking sector increased significantly from 110,482 in June 2014 to 122,005 in June 2015, while the total new loans to individuals increased from FRW 128.69 billion in June 2014 to FRW 147.14 billion in June 2015.

However, in terms of access to loan by gender, the number of women who borrowed from the banking sector declined by 4.1% to 41,756 from 43,488 in June 2014 while for men, it increased by 16.5% from 66,994 to 80,249 in the period under review.

Table 37: Bank Credit by Gender

	Jan - June 2014		2014		Jan - June 2015	
	Volume	Value (FRW billion)	Volume	Value (FRW billion)	Volume	Value (FRW billion)
Women	43,488	31.69	90,796	66.64	41,756	33.81
Men	66,994	97.00	133,505	197.96	80,249	113.33
TOTAL	**110,482**	**128.69**	**224,301**	**264.60**	**122,005**	**147.14**

Source: BNR, Financial Stability Directorate

Considering distribution of loans by age, FRW 45.0 billion were distributed to youth (age below 35 years) in the first six months of 2015. Women share 27.9% of the total loans distributed to youth against 72.1% for men.

Considering the financing to SMEs, total loans distributed to this category of enterprises rose by 9% amounting to FRW 251.7 billion in the first six months of 2015 from FRW 231.1 billion when compared to the same period in 2014 while the number of loans increased by 25% from 48,689 end June 2014 to 60,633 in June 2015.

In the first six months of 2015, SMEs located in Kigali City accounted for 70.1% of the total loans distributed to SMEs, followed by Eastern province (10.4%), Southern province (7.2%), Northern Province (6.4%) and Western province (5.7%).

In terms of growth, the volume of loans to SMEs in Kigali City increased much (52%) followed by the Western Province (29%).

Table 38: SMEs financing levels by banks across all provinces

Provinces	June 2014		December 2014		June 2015		% annual change	
	Volume	Value (FRW billion)	Volume	Value (FRW billion)	Volume	Value (FRW billion)	Volume	Value
Eastern	14,388	27.1	14,086	25.0	17,175	26.4	19	-3
Kigali City	13,546	156.5	11,849	156.1	20,574	176.5	52	13
Northern	8,736	16.2	6,389	14.7	8,080	16.1	-8	-1
Southern	6,592	12.7	5,509	16.7	7,822	18.3	19	44
Western	5,427	18.7	10,317	17.4	6,983	14.4	29	-23
Total	48,689	231.2	48,150	229.9	60,633	251.8	25	9

Source: BNR, Bank Supervision Department

The Microfinance sector has also continued to increase access to finance. The number of accounts opened in Microfinance Institutions increased by 5.7% from 2.5 million by December, 2014 to 2.7 million as of June 2015, UMURENGE SACCO representing 75%.

Table 39: MFIs' number of accounts and outstanding loans

	31-Dec-14	31-Mar-15	30-Jun-15	Increase (%) Dec14/June15
Number of accounts	***2,572,124***	***2,627,887***	***2,718,892***	**5.7**
Females	987,421	1,010,560	1,045,993	**5.9**
Males	1,370,037	1,395,650	1,440,791	**5.2**
Groups/Entities	214,666	221,677	232,108	**8.1**
Number of outstanding loans	***163,153***	***170,688***	***167,089***	**2**
Females	48,618	51,948	49,256	**1**
Males	107,816	112,517	111,539	**3**
Groups/Entities	6,719	6,223	6,294	**-6**

Source: BNR, Microfinance Supervision Department

The number of outstanding loans increased by 2% from 163.1 thousand in December, 2015 to 167.1 thousand as of June 2015, UMURENGE SACCO representing 41%.

V. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

5.1 Monetary Policy Outlook

The Rwandan economy is expected to continue growing in line with initial projection of real GDP growth of 6.5%. In addition, inflation is expected to remain within the BNR projections of 3.5% in December 2015 and 5% in the medium term. However, pressures on FRW exchange rate due to the continued strengthening of the USD and increasing inflationary pressures from other EAC countries may lead to an increase of exchange rate pass through to domestic prices in the rest of the year 2015.

Going forward, BNR will implement a prudent monetary policy stance during 2015 in a bid to anchor inflationary expectations while supporting growth and containing pressures on the currency.

Monetary Policy Committee decisions will continue to be supported by analytical work to ensure that developments on international, regional and domestic markets are taken into consideration when deciding about the monetary policy stance.

To improve its communication strategy, the BNR has decided to have twice a year a research day to discuss findings of papers to be published in BNR Economic Review. In the changing economic environment and frequent global shocks, this will continue to strengthen interactions amongst relevant stakeholders for the Central Bank policy actions.

In addition, in a bid to promote capital market development and support the monetary transmission mechanism, BNR in collaboration with MINECOFIN, will continue issuing Treasury Bonds on quarterly basis and extending its maturities. BNR is also putting in place, necessary requirements for the development of the secondary market of Government securities.

5.2 Financial Sector Outlook

In order to maintain the robustness and stability of the Rwanda's financial sector, BNR will continue to conduct prudent surveillance of all the financial institutions through carrying out regular onsite inspection and offsite analysis.

The micro prudential assessment will be supplemented with the macro prudential analysis. On a quarterly basis, the Financial Stability Committee (FSC) will meet to assess the stability of the financial sector with the objective of taking policy actions for mitigation of plausible risks or vulnerabilities.

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