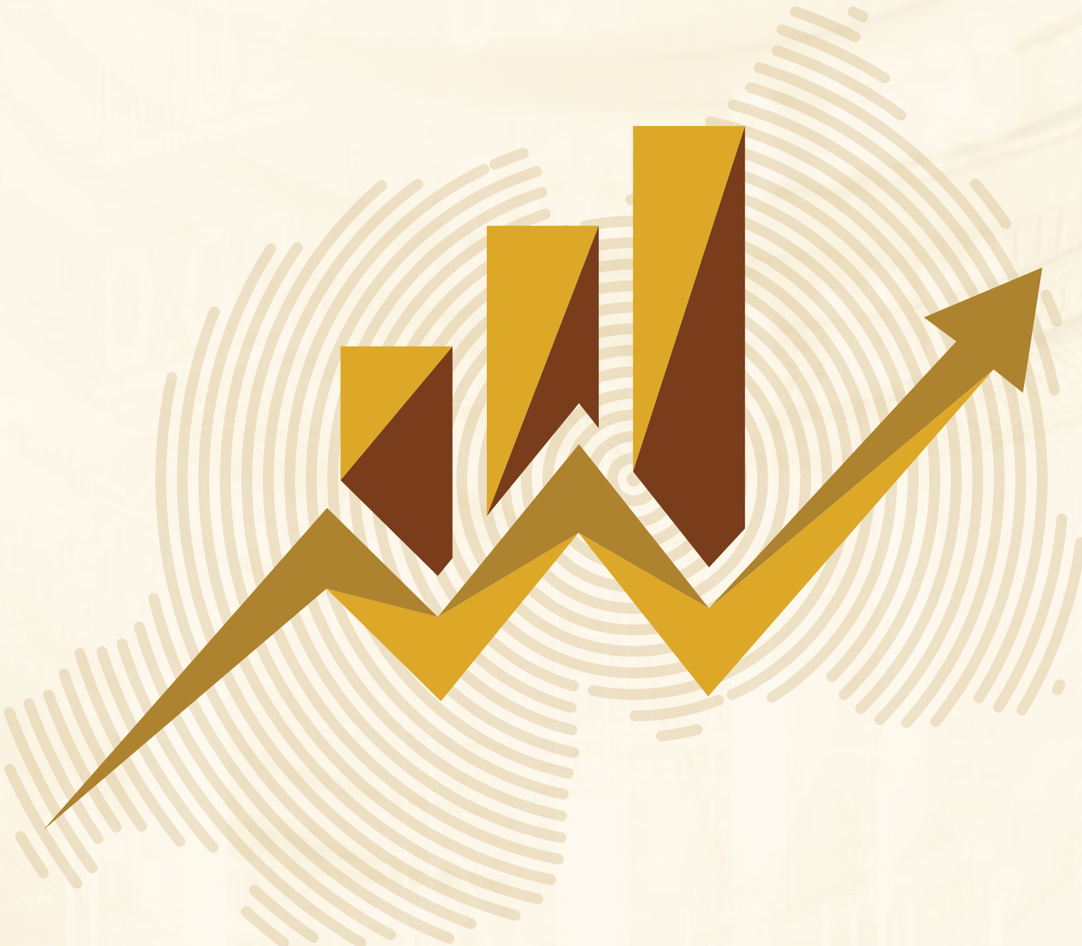
NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT



SEPTEMBER 2022

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LIST OF ACRONYMS AND ABBREVIATIONS

ACH	: Automated Clearing House
ATM	: Automated Teller Machine
BCM	: Business continuity management
BIF	: Burundian Franc
BOP	: Balance of Payments
CAD	: Current Account Deficit
CAR	: Capital Adequacy Ratio
CBR	: Central Bank Rate
CI	: Cash-In
CIC	: Currency in Circulation
CO	: Cash-Out
COPS	: Complementary Occupational Pension Schemes
CPS	: Credit to the Private Sector
CPE	: Credit to Public Enterprises
CPI	: Consumer Price Index
CSD	: Central Securities Depository
DC	: Defined Contribution
DD	: Demand Deposits
DGF	: Deposit Guarantee Fund
DSIBs	: Domestic Systemically Important Banks
DVP	: Delivery Versus Payment
EAC	: East African Community
ECB	: European Central Bank
ECL	: Expected Credit Losses
ELFB	: Extended Lending Facility for Banks
EMDE	: Emerging Market and Developing Economies
ERF	: Economic Recovery Fund
EST	: Estimation
EUR	: Euro
FCD	: Foreign Currency Deposits
FDI	: Foreign Direct Invesment
FOB	: Freight on Board (or Free on Board)
FOMC	: Financial Open Market Committee
FOREX	: Foreign Exchange

FRW	: Franc Rwandais
FSC	: Financial Stability Committee
FSCC	: Financial Sector Coordination Committee
FSIs	: Financial Soundness Indicators
FX	: Foreign Exchange
GBP	: Great British Pound
GDP	: Gross Domestic Product
GWP	: Gross Written Premium
G7	: Group of Seven
H1	: Half 1
H2	: Half 2
IBNR	: Incured But Not Reported
ICBT	: Informal Cross Border Trade
IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
KG	: Kilogram
LCR	: Liquidity Coverage Ratio
LTV	: Loan to Value
M3	: Broad money
MFIs	: Microfinance Institutions
MMI	: Military Medical Insurance
MNOs	: Mobile Network Operators
MPC	: Monetary Policy Committee
MPFSS	: Monetary Policy and Financial Stability Statement
MSMEs	: Micro, Medium and Small Enterprises
NALs	: New Authorized Loans
NBR	: National Bank of Rwanda
NBFI	: Non-Bank Financial Institutions
NCG	: Net Credit to Government
NDA	: Net Domestic Assets
NDFIs	: Non-Deposit Taking Lending Financial Institutions
NEER	: Nominal Effective Exchange Rate
NFA	: Net Foreign Assets
NFS	: Near Field Communication

NII	: Net Interest Income
NISR	: National Institute of Statistics of Rwanda
NPLs	: Non-Performing Loans
NPISH	: Non-profit institutions serving households
NSFR	: Net Stable Funding Ratio
OIN	: Other Item Net
P.A	: Per Annum
PCA	: Prompt Corrective Actions
Proj.	: Projections
PSPs	: Payment Service Providers
OPEC	: Organization of the Petroleum Exporting Countries
PLCs	: Public Limited Companies
POS	: Point of Sale
PPS	: Personal Pension Scheme
Q1	: Quarter one
Q2	: Quarter two
Q3	: Quarter three
Q4	: Quarter four
REER	: Real Effective Exchange Rate
RIPPS	: Rwanda Integrated Payment Processing System
ROA	: Return on Assets
RNPS	: Rwanda National Payments System
ROE	: Return on Equity
RTGS	: Real Time Gross Settlement
RSSB	: Rwanda Social Security Board
RWA	: Rwanda
SMEs	: Small and Medium Enterprises
SSA	: Sub-Saharan Africa
SU	: Seasonal unadjusted
T- Bills	: Treasury Bills
TA	: Total Assets
TL	: Total Liabilities
TSD	: Time and Saving Deposits
TZS	: Tanzanian Shilling
UGS	: Ugandan Shilling

UK	: United Kingdom
US	: United States
U-SACCOs	: Umurenge SACCOs
USD	: United States Dollar
WEO	: World Economic Outlook
WCPI	: Weighted Consumer Price Index
Y-o-Y	: Year-on-Year

EXECUTIVE SUMMARY

The objective of this September 2022 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic and financial developments of the first half of 2022 and give an outlook for the second half of 2022 and beyond. This statement first presents the global economic developments to contextualize the domestic economic and financial performance and stability before concluding with the outlook.

The global economy is entering a weaker growth momentum in 2022 mainly threatened by persistent effects from COVID-19 and the current Russia-Ukraine crisis that worsened global economic hardships. According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) update published in July 2022, the world economic growth is projected to moderate to 3.2 percent in 2022 from 6.1 percent in 2021, reflecting forecast downgrades in advanced economies as well as emerging market and developing economies.

In advanced economies, growth is projected at 2.5 percent in 2022 after 5.2 percent in 2021, largely reflecting downgrades for the United States, Eurozone, United Kingdom and Japan. In emerging market and developing economies, economic growth is projected to slow to 3.6 percent in 2022 after 6.8 percent registered in 2021. Growth for 2022 and 2023 was revised down reflecting mainly the sharp slowdown of China's economy and the moderation in India's economic growth.

In Sub-Saharan Africa, growth is projected at 3.8 percent in 2022, unchanged from April 2022 projections, compared to the growth of 4.6 percent in 2021. Growth projections reflect the increase in oil prices that have maintained growth prospects for the region's oil exporters.

World annual average inflation is projected to increase to 8.3 percent in 2022 from 4.7 percent in 2021, due to increasing food and energy prices as well as persistent supply-demand imbalances. In advanced economies, inflation is projected to increase to 6.6 percent in 2022, from 3.1 percent in 2021, driven *by significant higher inflation in major economies such as the United Kingdom, the United States and Euro area.*

In emerging markets and developing economies, inflation is projected to surge to 9.5 percent in 2022, from 5.9 percent in 2021. In Sub-Saharan Africa, annual headline inflation is projected to rise to a double digit of 12.2 percent in 2022, from 11.0 percent in 2021.

On global commodity markets, prices increased in the first half of 2022 (2022H1) on year-on-year basis (y-o-y), reflecting a rebound in global demand coupled with lower supply. Global energy prices rose by 83.1 percent compared to 61.6 percent in 2021H1, attributed mainly to the rise in crude oil prices and natural gas. Crude oil prices increased by 63.6 percent on average compared to an increase of 59.2 percent in 2021H1 and projected to increase by 50.4 percent for the entire year 2022, dropping by 12.3 percent in 2023. Natural gas prices surged by 194.3 percent in 2022H1 compared to an increase of 101.0 percent in 2021H1, following the outbreak of the war in Ukraine, which disrupted Russia's natural gas exports.

On the domestic front, the Rwandan economy continued its recovery path from the disruptive impact of the Covid-19 pandemic during the first half of 2022, growing by 7.7 percent on average against 11.6 percent recorded in the corresponding period of 2021. This growth was mainly driven by the strong performance of industry and services sectors. However, the agriculture sector underperformed due to unfavorable weather conditions coupled with less use of inputs like fertilizers as a consequence of higher prices linked to global supply-chain disruptions. Economic growth is projected to remain strong at 6 percent for the entire year 2022, although this represents a slow down compared with 10.9 percent registered in 2021. .

Rwanda's merchandise export receipts increased by 37.2 percent in 2022H1 to USD 708.3 million, up from USD 516.2 million a year earlier, mainly owing to; the rising global commodity prices and value addition in minerals, but also the good performance in export of manufactured goods. On the other hand, merchandise imports went up by 22.5 percent, to USD 1,817.7 million from USD 1.483.8 million due to higher international commodity prices (mainly oil) and the recovery of domestic economic activities, increasing the demand for imports. As a result, Rwanda's trade deficit widened by 13.7 percent to USD

1,112.9 million from USD 978.7 million. Despite the widening of the trade deficit, however, the coverage of imports by exports increased to 47.0 percent from 40.3 percent, including the informal cross border trade.

In 2022H1, headline inflation increased to 9.0 percent on average, compared to 1.4 percent and 0.3 percent recorded in 2021H1 and 2021H2, respectively. The increase observed in headline inflation was recorded in all the three CPI components that are fresh food products, energy and core. The rise in fresh food products inflation reflects an increase in vegetables, and fruits inflation owing to the poor performance of domestic agricultural production, while the surge in core and energy components is mainly associated with the increases in international commodity prices. Overall, average headline inflation is projected to evolve above the ceiling of 8.0 percent, reaching 12.1 percent on average in 2022, before falling back to the benchmark band of 2.0 to 8.0 percent in the second half of 2023, following Central Bank's monetary policy actions, expected lower commodity prices and slowdown in global economic recovery.

In line with the rising inflation, the MPC decided to raise the central bank rate by 50 basis points, from 4.5 percent to 5.0 percent in February 2022 with the aim to curb inflationary pressures as prices were already expected to increase. In May 2022, the CBR was maintained at 5 percent, as the rise of February continued its transmission to money market rates, with the average interbank rate rising by 21 basis points to 5.40 percent in 2022H1 compared to the corresponding period of the previous year.

More recently, in August 2022, the MPC decided to again raise the central bank rate by 100 basis points, from 5.0 percent to 6.0 percent as supply driven inflationary pressures were higher than it had originally been projected in the 1st half.In 2022H1, broad money M3 picked up by 12.1 percent higher than a growth of 9.8 percent recorded in the corresponding period of 2021. Net foreign assets (+8.0 percent) was the main contributor to the growth in M3, followed by the outstanding credit to the private sector (+6.8 percent).

Compared to the US dollar, the Rwandan franc depreciated by 3.8 percent year-on-year in the first half of 2022 , slower than 5.3 percent recorded in the corresponding period of 2021. This lower depreciation reflected improved export earnings and tourism revenue, the reopening of informal cross border *trade, as well as higher remittance inflows, despite higher demand for foreign exchange from importers in different sectors.*

Despite the challenging global economic conditions, the financial sector continued to grow and remained sound and stable. During the period under review, total assets of financial sector grew by 17.5 percent to FRW 8,145 billion in June 2022 from FRW 6,933 billion in June 2021. The banking sector grew by 18.8 percent on account of the growth of deposits and capital. The assets of the pension sector (both public and private) increased by 8.3 percent, mainly driven by the growth in pension contributions and investment income form placements in banks and Government securities. The assets of insurance sector grew by 17.2 mainly supported by the growth of premiums and investment income, while the assets of microfinance sector expanded by 22.6 percent on back of the increase of deposits and capital.

The financial sector remains adequately capitalised. The capital position of the banking sector remained above regulatory requirements. As at end June 2022, the aggregate Capital Adequacy Ratio (CAR) of banks stood at 23.1 percent, higher than the minimum regulatory requirement of 15 percent. In microfinance sector, the consolidated CAR of Microfinance Institutions (MFIs) stood at 33.9 percent, higher than the 15 percent minimum regulatory requirement and all categories of MFIs comply with the capital adequacy requirements. The insurance sector also remained solvent during the period under review. In particular, the solvency of private insurance improved to 180 percent in June 2022 from 147 percent in June 2021.

The liquidity risk in the financial sector also remains low. Banks continue to hold adequate liquidity buffers both in short- and long-term perspective. For example, as at end June 2022, the Liquidity Coverage Ratio (LCR) that measures the ability of banks to fund cash outflows for 30 days stood at 224.7 percent, well above the minimum requirement of 100 percent. During the same period, the Net Stable Funding Ratio (NSFR) that gauges whether banks hold enough stable funding to cover the duration of their long-term assets stood at 130.9 percent, higher than 100 percent minimum regulatory requirement. The liquidity position of MFIs also remains healthy. The aggregate liquidity ratio of MFIs stood at 105.2 percent, against 30 percent minimum prudential requirement and all categories of MFIs comply with this regulatory requirement. The liquidity position of private insurers improved *during the period under review. The liquidity ratio of private insurers improved to 100 percent in June 2022 from 94 percent in June 2021.*

Despite the improvement in bank loan book indicators as shown below, credit risk remains the major risk facing the banking industry. The stock of Non-Performing Loans (NPLs) in banks reduced by FRW 12 billion (Y-o-Y) to FRW 166 billion in June 2022 from FRW 178 billion in June 2021 mainly on account of write off of long overdue loans. Between June 2021 and June 2022, write offs amounted FRW 68 billion out of which FRW 16 billion were written off during the second quarter of 2022. Consequently, NPL ratio dropped to 4.3 percent in June 2022 from 5.7 percent in June 2021. The decline of NPL ratio is also linked to the growth of outstanding loans during the period under review.

Sector wise, the asset quality deteriorated in commercial real estate, manufacturing, water and energy and agriculture. The increase of NPLs in commercial real estate is associated with insufficient rental income due to low occupancy rate in commercial buildings. In agriculture and manufacturing, the increase of NPLs reflects the challenges in global supply chain and increased commodity prices, especially for metal and fertilizers, that are affecting productivity and earnings of borrowers in these two sectors. The rising inflationary pressures are expected to moderately increase credit risk in banks in the case of continued surge of energy prices that indirectly impacts on the performance of other businesses.

The payment systems continued to operate smoothly with both wholesale and retail payment systems operating without significant disruptions. Mobile technology continues to play a paramount role in driving usage and adoption of electronic payments and creating inclusive cashless society. The mobile financial services continued to grow when compared to other modes of payment due to its simplicity and low cost compared to other money transfers agencies. The removal of fees on mobile payment for transfers service between banks accounts and mobile wallets has boosted mobile payment channels. The value of electronic payment to GDP increased by 15 percent to 111.4 percent during the period under review. The usage of digital channels remains dominated by mobile payment which alone accounted for 67.1 percent of GDP, followed by internet banking services which accounted for 34.9 percent of the GDP.

I. GLOBAL ECONOMIC ENVIRONMENT

1.1 ECONOMIC GROWTH AND OUTLOOK

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) update published in July 2022, the world economic growth is projected to moderate to 3.2 percent in 2022 from 6.1 percent in 2021.

Growth projections for 2022 were revised down by 0.4 percentage points compared to April 2022 projections, reflecting forecast downgrades in advanced economies, emerging markets, and developing economies, as risks have materialized.

Table 1: Global GDP Growth (year-on-year %)

	2021				2022		IMF WEO			
	Q1	Q2	Q3	Q4	Q1	Q2	2020	2021	2022 proj	2023 proj
World	-	-	-	-	-	-	-3.1	6.1	3.2	2.9
Advanced economies	-	-	-	-	-	-	-4.5	5.2	2.5	1.4
United States	0.5	12.2	4.9	5.5	3.5	1.7	-3.4	5.7	2.3	1.0
Euro area	-0.9	14.6	3.9	4.8	5.4	3.9	-6.3	5.4	2.6	1.2
Japan	-1.7	7.3	1.2	0.5	0.9	1.0	-4.5	1.7	1.7	1.7
United Kingdom	-5.0	24.5	6.9	6.6	8.7	2.9	-9.3	7.4	3.2	0.5
Emerging market & developing economies	-	-	-	-	-	-	-2.0	6.8	3.6	3.9
China	18.3	7.9	4.9	4.0	4.8	0.4	2.2	8.1	3.3	4.6
India	4.1	20.1	-23.9	0.6	4.1	-	-6.6	8.7	7.4	6.1
Sub-Saharan Africa	-	-	-	-	-	-	-1.6	4.6	3.8	4.0

Source: IMF, July 2022 WEO update and OECD

Economic growth in advanced economies is projected at 2.5 percent in 2022 after 5.2 percent in 2021, revised down by 0.8 percentage points compared to April 2022 projections, reflecting downgrades in the United States, Eurozone, United Kingdom, and Japan.

Compared to April 2022 WEO projections, the US economic growth projection is revised down by 1.4 percentage points to 2.3 percent in 2022 after 5.7 percent in 2021. This downward revision reflects weaker-than-expected growth in the first two quarters of 2022 and less momentum in private consumption, from the erosion of household purchasing power and the expected impact of a steeper tightening of monetary policy.

The Eurozone's economy is projected to grow by 2.6 percent in 2022 from 5.4 percent in 2021, revised down by 0.2 percentage points compared to April 2022 projections. This reflects spillovers from the war in Ukraine as well as the assumption of tighter financial conditions, with the European Central Bank ending net asset purchase and raising rates in July 2022 for the first time since 2011. Economic growth in emerging markets and developing economies is projected to slow down to 3.6 percent in 2022 after 6.8 percent in 2021, revised down by 0.2 percentage points compared to April 2022 projections. Growth for 2023 was also revised down by 0.5 percentage points to 3.9 percent. The negative revisions for 2022-23 reflect mainly the sharp slowdown of China's economy and the moderation in India's economic growth.

The Sub-Saharan African economy is projected to grow by 3.8 percent in 2022, unchanged from April 2022 projections, compared to the growth of 4.6 percent in 2021. Growth projections reflect the increase in oil prices that have maintained growth prospects for the region's oil exporters.

Table 2: Growth in Oil Exporting African Countries (p.a)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 proj	2023 proj
Sub-Saharan Africa	5.0	3.2	1.5	3.0	3.3	3.1	-1.6	4.6	3.8	4.0
Angola	4.8	0.9	-2.6	-0.2	-2.0	-0.7	-5.6	0.7	3.0	3.3
Nigeria	6.3	2.7	-1.6	0.8	1.9	2.2	-1.8	3.6	3.4	3.2
South Africa	1.8	1.3	0.7	1.2	1.5	0.1	-6.3	4.9	2.3	1.4
South Sudan	2.9	-0.2	-13.5	-5.8	-1.9	0.9	-6.6	5.3	6.5	5.6
Egypt	2.9	4.4	4.3	4.1	5.3	5.6	3.6	3.3	5.9	5.0
Libya	-53.0	-13.0	-7.4	64.0	17.9	13.2	-59.7	177.3	3.5	4.4

Source: IMF, April projections and July 2022 WEO update

The economic performance in the East African Community (EAC-5) countries is projected to slow down to 5.3 percent in 2022 from 6.2 percent recorded in 2021, following a projected growth slowdown for most of the member countries compared to the previous year. The projected deceleration in growth is mainly due to the rising commodity prices which have prompted the tightening of monetary conditions.

Table 3: Real GDP Growth in EAC (p.a)

	2021				2022	Annual average			
	Q1	Q2	Q3	Q4	Q1	2020	2021	2022 proj	20223 proj
EAC	-	-	-	-	-	0.9	6.2	5.3	5.6
Burundi	-	-	-	-	-	0.3	2.4	3.6	4.6
Kenya	2.7	11.0	9.3	7.4	6.8	-0.3	7.2	5.7	5.3
Rwanda	3.5	20.6	10.1	10.3	7.9	-3.4	10.9	6.0	6.7
Tanzania	5.0	3.8	5.5	5.5	5.4	4.8	4.9	4.8	5.2
Uganda	-0.7	-5.5	-0.3	7.6	5.9	-1.4	5.1	4.9	6.5

Source: IMF, Regional Economic Outlook April 2022 & Country Bureau of statistics

High uncertainty however surrounds global economic prospects, and risks to the outlook dominate. The war in Ukraine could lead to a sudden stop of European gas imports from Russia. Furthermore, inflation could be harder to bring down than expected, either if labor markets are tighter than expected or inflation expectations unanchored. Tighter global financial conditions could induce debt distress in emerging markets and developing economies. In addition, more COVID-19 outbreaks and lockdowns and a further escalation of the property sector crisis might further suppress China's growth. Finally, geopolitical fragmentation could impede global trade and cooperation.

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is projected to increase to 8.3 percent in 2022, from 4.7 percent in 2021. Global inflation has been revised up due to food and energy prices as well as persistent supply-demand imbalances.

In advanced economies, consumer price inflation is projected to increase to 6.6 percent in 2022, from 3.1 percent in 2021, driven by significant increases in headline inflation among major economies, such as the United Kingdom (+10.5 percent in 2022), and the Euro area (+7.3 percent in 2022).

Table 4: Annual Average Inflation Developments (p.a)

	2021 (Y-o-Y)				2022 (Y-o-Y)			Annual Average			
	Mar	Jun	Sep	Dec	Mar	May	Jun	2020	2021	2022 proj	2023 proj
World	-	-	-	-	-	-	-	3.2	4.7	8.3	4.8
Advanced economies	-	-	-	-	-	-	-	0.7	3.1	6.6	3.3
United States	2.6	5.4	5.4	7.0	8.5	8.6	9.1	1.2	4.7	7.7	2.9
Euro area	1.3	1.9	3.4	5.0	7.4	8.1	8.6	0.3	2.6	7.3	2.3
Japan	-0.4	-0.4	0.2	0.8	1.2	2.5	2.4	0.0	-0.3	1.0	0.8
United Kingdom	0.7	2.5	3.1	5.4	7.0	9.1	9.4	0.9	2.6	10.5	5.3
Emerging and dev. economies	-	-	-	-	-	-	-	5.2	5.9	9.5	7.3
China	0.3	1.2	0.7	1.5	1.5	2.1	2.5	2.4	0.9	2.1	1.8
India	5.5	6.3	4.4	5.7	6.9	7.0	7.0	6.2	5.5	6.1	4.8
Sub-Saharan Africa	-	-	-	-	-	-	-	10.2	11.0	12.2	9.6

Source: IMF, April projections & July WEO update and official numbers from countries.

In Sub-Saharan Africa, annual headline inflation is projected to rise to 12.2 percent in 2022 from 11.0 percent in 2021, following the projected higher inflation rates in Ethiopia, Ghana, Mali, and South Sudan. In some Sub-Saharan African countries, food prices have increased significantly, amid local shortages and the rise in global food prices.

Regarding inflation in the EAC-5 countries, annual average inflation is projected to increase to 6.2 percent in 2022 from 4.4 percent in 2021, following a projected increase across all EAC-5 countries. Upward pressures come mostly from prices of food and energy as well as from higher import costs.

Table 5: Annual Average Inflation in EAC Countries (p.a)

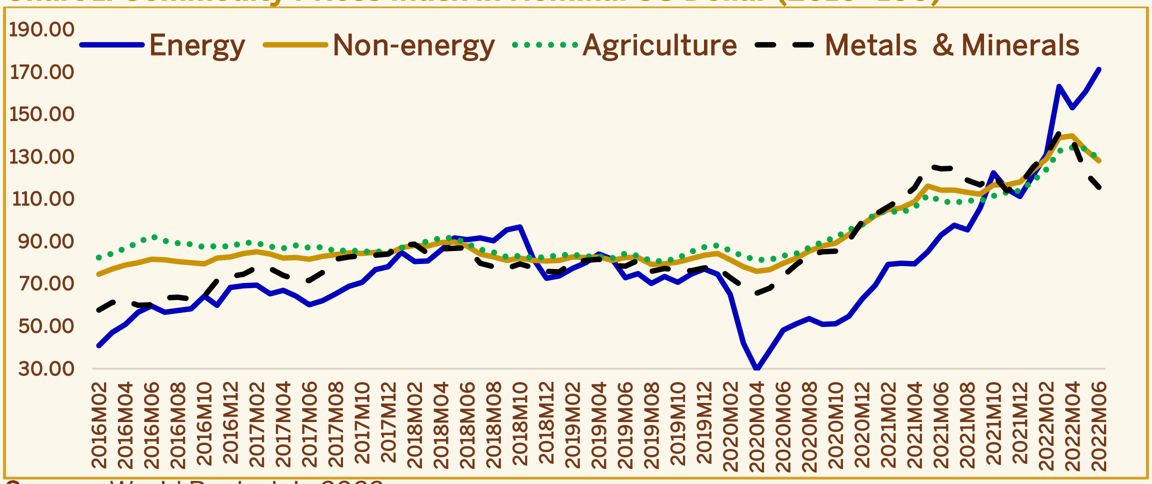
	2021 (Y-oY)				2022 (Y-o-Y)				Annual Average		
	Mar	Jun	Sep	Dec	Jan	Mar	May	Jun	2020	2021	2022 proj
EAC -5	-	-	-	-	-	-	-	-	4.4	4.4	6.2
Burundi	7.1	8.5	10.5	10.1	12.3	12.8	18.6	17.6	7.3	8.3	9.2
Kenya	5.5	4.6	6.9	5.7	5.4	5.6	7.1	7.9	5.3	6.1	7.2
Rwanda	2.0	-0.2	-0.9	1.9	4.3	7.5	12.6	13.7	7.7	0.8	12.1
Tanzania	3.4	2.9	4.0	4.2	4.0	3.6	4.0	4.4	3.3	3.7	4.4
Uganda	3.0	4.1	2.2	2.9	2.7	3.7	6.3	6.8	2.8	2.2	6.1

Source: IMF, April 2022 WEO projections & Official numbers from countries

1.2.2 Commodity Prices

In 2022H1 (y-o-y), global commodity prices increased, reflecting a rebound in global demand together with supply disruptions linked to the Russia-Ukraine standoff. Global energy prices rose by 83.1 percent compared to 61.6 percent in 2021H1, attributed to the rise in crude oil prices and natural gas

Chart 1: Commodity Prices Index in Nominal US Dollar (2010=100)

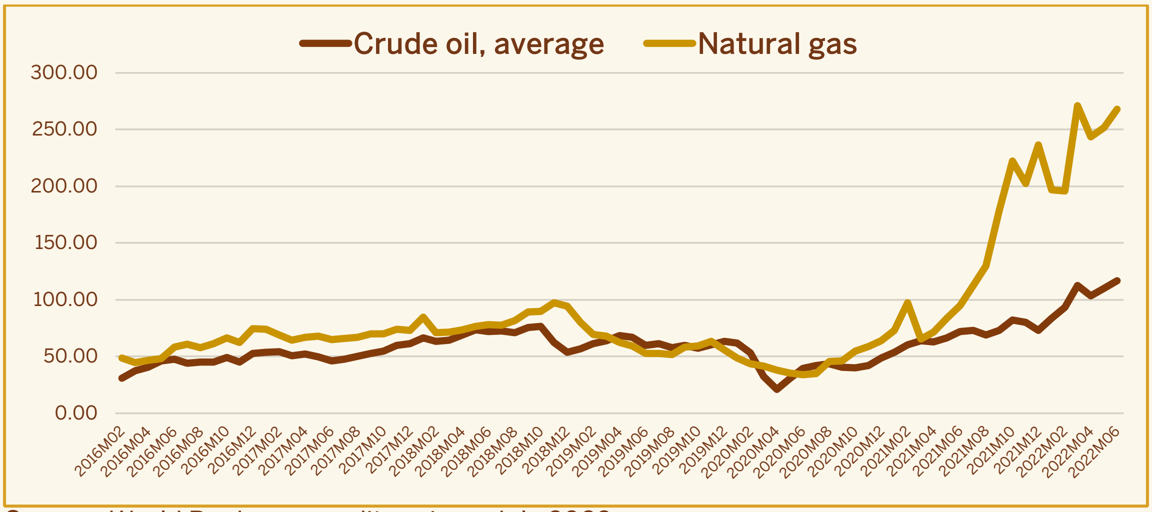


Source: World Bank, July 2022

In 2022H1, crude oil prices increased by 63.6 percent on average compared to an increase of 59.2 percent in 2021H1, following supply disruptions due to the war in Ukraine. IMF (July 2022) projects oil prices to increase by 50.4 percent in 2022, from USD 69.1/barrel in 2021 to USD 103.9/barrel in 2022, and later drop by 12.3 percent in 2023.

Natural gas prices surged by 194.3 percent in 2022H1 compared to an increase of 101.0 percent in 2021H1, following the outbreak of the war in Ukraine, which disrupted Russia's natural gas exports. World Bank projects natural gas prices to increase by 88.3 percent in 2022, which reflects disruptions to energy supplies as a consequence of the war in Ukraine and related sanctions and policies.

Chart 2: Crude Oil Price Developments (USD/barrel)



Source: World Bank commodity prices, July 2022

In 2022H1, average prices for agricultural commodities increased by 21.0 percent after 26.9 percent in 2021H1. This increase is due to trade and production disruptions for some commodities, this was the case for wheat due to the war in Ukraine and for soybean due to adverse weather in South America, a surge in input costs especially energy and fertilizers, and strong demand for animal feed commodities in China. Agricultural commodities prices are projected to increase by 17.7 percent in 2022 from 24.2 percent in 2021.

Metals & minerals prices went up by 13.0 percent in 2022H1, after 60.5 percent in 2021H1. Metal prices continued to hike in 2022, driven by strong demand in China, the ongoing global economic recovery, and supply disruptions. The war in Ukraine has been a key driving force behind aluminum and nickel price movements, while high-energy prices have affected most metals, especially aluminum and zinc.

Tin prices increased by 42.6 percent in 2022H1 compared to 75.4 percent in 2021H1, supported by a strong demand from the electronics sector. World Bank projected Metal prices to increase by 15.8 percent in 2022, of which tin prices are projected to increase by 26.6 percent in 2022 before dropping by 14.6 percent in 2023.

Table 6: Commodity prices (in percent change)

			2021			2022			Forecast, % changes	
	2020	2021	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	2022	2023
Energy	**-30.6**	**81.0**	**24.9**	**118.6**	**61.6**	**79.9**	**86.0**	**83.1**	**50.5**	**-12.4**
Crude oil, average	-32.7	67.2	20.9	121.3	59.2	62.9	64.2	63.6	**50.4***	**-12.3***
Natural gas, index	-24.6	128.9	76.2	131.9	101.0	181.3	206.0	194.3	**88.3**	**-24.7**
Non-energy	**3.3**	**32.7**	**28.4**	**46.0**	**37.0**	**25.1**	**18.3**	**21.5**	**19.2**	**8.8**
Agriculture cdities	5.0	24.2	21.1	33.1	26.9	20.6	21.3	21.0	**17.7**	**1.0**
Beverages	5.7	16.3	5.6	13.1	9.3	30.9	23.5	27.1	**10.7**	**-3.7**
Arabica coffee	15.3	35.8	16.0	22.8	19.5	63.8	46.0	54.5	**22.0**	**-4.5**
Robusta coffee	-6.2	30.3	5.8	23.7	14.5	48.3	30.1	38.8	**16.2**	**-13.0**
Tea, Mombasa	5.1	5.4	-5.7	-4.8	-5.3	31.4	24.0	27.8	**2.0**	**2.0**
Food	7.0	30.8	27.4	43.0	35.0	24.7	26.6	25.6	**22.9**	**-10.4**
Cereals	7.1	29.9	30.4	41.8	36.1	18.8	27.6	23.3	**20.4**	**-10.3**
Oils and Meals	15.9	41.5	46.6	64.9	55.4	27.0	27.2	27.1	**29.7**	**-13.9**
Metals & Minerals	0.9	47.2	45.6	76.3	60.5	24.5	3.0	13.0	**15.8**	**-10.5**
Tin	-8.2	89.1	54.3	97.2	75.4	72.3	18.5	42.6	**26.6**	**-14.6**
Precious metals	26.7	5.0	19.4	13.7	16.5	1.7	-0.4	0.7	**3.0**	**-8.9**
Gold	27.2	1.7	13.6	6.1	9.7	4.2	3.3	3.7	**4.4**	**-9.6**
Fertilizers	-10.1	80.6	33.5	57.4	45.2	119.4	113.6	116.3	**69.2**	**-11.4**

Source: World Bank commodity prices, July 2022
*IMF July projections

The prices of precious metals increased slightly by 0.7 percent in 2022H1 reflecting rising interest rates and the strengthening of the US dollar. They had increased by 16.5 percent in 2021H1 following higher demand for safe-haven with the outbreak of the war in Ukraine. Precious metals are projected to increase slightly by 3.0 percent in 2022 on prospects of tighter monetary policy and further economic weakening before falling by 8.9 percent in 2023.

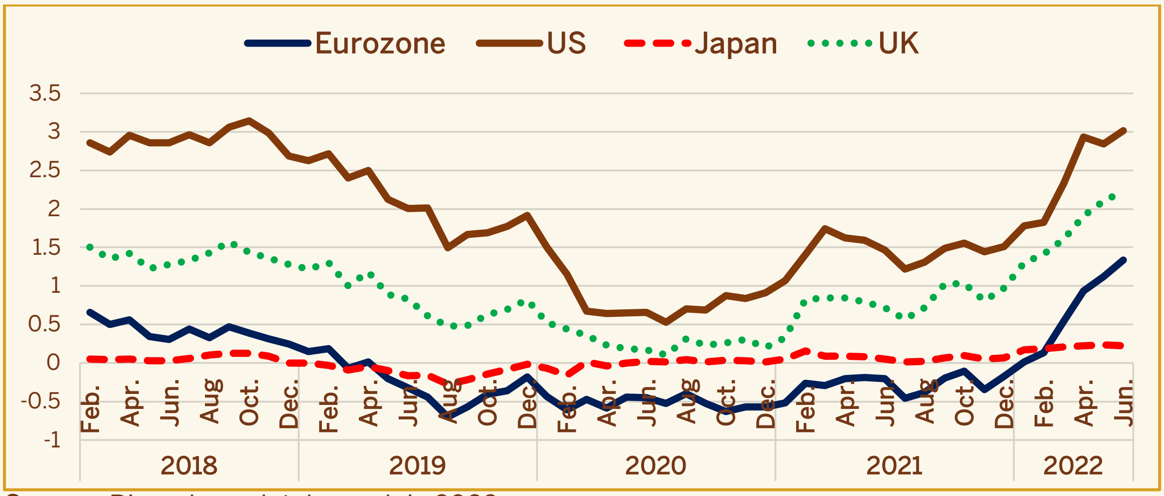
Prices for fertilizers increased by 116.3 percent in 2022H1 from 45.2 percent in 2021H1. The increase follows last year's surge due to supply disruptions, soaring energy costs, and trade restrictions in China and Russia. Ukraine war threatens further disruptions, as Russia and Belarus are major producers and exporters of fertilizers and their main input, natural gas. The World Bank projects fertilizers prices to rise by 69.2 percent in 2022.

1.3 MONETARY POLICY AND FINANCIAL MARKETS

At the beginning of 2022, most advanced economies as well as some emerging market and developing economies started monetary policy tightening to help inflation return to central bank targets.

In the United States, the Federal Reserve has increased its bank rate four times in 2022 and has increased its policy rates by 2.25 percent this year from the range of 0 – 0.25 percent to 2.25 – 2.50 percent, tightening global financial conditions and tempting investors. The BoE has increased its bank rate five times in 2022 to reach 1.75 percent in August from 0.25 percent in December 2021. At its monetary policy meeting held on 21st July 2022, the ECB decided to raise the three key interest rates by 50 basis points. The ECB announced that further normalization of interest rates will be appropriate in the upcoming meetings of the Governing Council.

Chart 3: 10-Year Government Bond Yield (p.a)



Source: Bloomberg database, July 2022

The 10-year government bond rate increased in the United States, United Kingdom, Eurozone and Japan to 3.013 percent, 2.229 percent, 0.225 percent and 1.336 percent, respectively, from 1.510 percent, 0.971 percent, -0.177 percent and 0.065 percent in December 2021.

On the foreign exchange market, the US dollar is appreciating against all major currencies, notably the Japanese Yen, the British Pound, the Euro, and the Chinese Yuan.

Table 7: Units Currency per 1 US Dollar (p.a)

	2021					2022		
	Jan	Mar	Jun	Sept	Dec	Jan	Mar	Jun
USD/GBP	0.7297	0.7255	0.7229	0.7421	0.7392	0.7437	**0.761**	**0.821**
USD/EUR	0.8239	0.8525	0.8434	0.8638	0.8793	0.8902	**0.904**	**0.954**
USD/JPY	104.68	110.72	111.11	111.29	115.08	115.11	**121.70**	**135.72**
USD/CNY	6.429	6.553	6.457	6.445	6.356	6.361	**6.340**	**6.699**

Source: Bloomberg, July 2022

By end of June 2022 (y-o-y), the US dollar appreciated by 17.94 percent against the Japanese Yen, by 11.08 percent against the British pound, by 8.48 percent against the Euro, and by 5.40 percent against the Chinese Yuan. As the world's most tradeable currency, the dollar often rises in times of turmoil, in part because investors consider it relatively safe and stable.

Factors roiling the global economy partly explain why the dollar has suddenly become so much stronger. As central bankers around the world try to tame inflation by raising interest rates, the Federal Reserve is moving more quickly and more aggressively than most central banks, and it is estimated that more than half the rise in the dollar this year could be explained by the Fed's comparatively aggressive monetary tightening. In addition, the dollar was rising because high-energy prices were hitting the economies of importers, including most Europe, harder than the US, which is less reliant on buying oil and gas from abroad.

II. NATIONAL ECONOMIC PERFORMANCE

This section discusses Rwanda's economic performance during the first half of 2022 and the outlook for the whole year 2022. The latest available information shows that Rwanda's economy remains on the course of recovery from the disruptive impact of the Covid-19 pandemic. However, rising inflation and lingering effect of the pandemic as well as the current shock from the war in Ukraine are expected to limit the pace of the recovery in the second half of this year.

2.1. ECONOMIC GROWTH

The real GDP growth was 7.7 percent in 2022H1, pointing to a continuous strong economic recovery from the adverse effects of COVID-19, backed by sizeable economic policy support measures. On average in 2022, the economy is projected to remain strong, growing by 6.0 percent, though slower than the 10.9 percent registered in 2021.

2.1.1 GDP Growth in 2022H1

The real GDP increased by 7.9 percent and 7.5 percent in the first and second quarters of 2022 respectively. On average, the economy grew by 7.7 percent in the first half of 2022 against 11.6 percent recorded in the corresponding period of 2021. This growth was mainly driven by the strong performance of industry and services sectors.

Table 8: Rwanda Real GDP growth (percent)

	2019	2020	2021	2021				2022	
				Q1	Q2	Q3	Q4	Q1	Q2
GDP	9.5	-3.4	10.9	3.5	20.6	10.1	10.3	7.9	7.5
Agriculture	5.0	0.9	6.4	6.8	7.3	6.4	5.1	0.6	1.9
Food crops	4.0	0.3	6.7	7.0	7.0	6.4	6.4	-1.2	**-1.2**
Export crops	4.5	-9.4	-0.5	7.0	-2.2	2.3	-7.0	-13.9	**16.6**
Livestock & livestock products	11.2	8.2	8.1	8.9	8.6	8.2	7.0	9.6	**10.1**
Forestry	5.6	3.7	5.4	5.2	6.0	5.3	4.9	5.3	**4.8**
Fishing	3.7	-15.5	24.0	1.1	102.7	30.1	2.7	2.6	**2.7**
Industry	16.6	-4.2	13.4	9.7	29.9	11.8	5.4	10.0	6.2
Mining & quarrying	-0.3	-31.2	26.7	3.3	87.5	29.6	6.4	16.4	**8.8**
Manufacturing	11.3	2.0	10.6	8.3	22.7	6.9	6.1	11.1	**9.8**
Electricity	7.2	1.9	11.7	2.1	23.0	11.7	10.7	21.2	**12.2**
Water & waste management	2.1	2.4	4.6	3.1	4.4	5.1	5.7	4.8	**4.8**
Construction	32.8	-5.7	15.2	14.4	32.9	14.9	3.6	6.2	**0.1**
Services	8.3	-5.5	11.9	-0.4	23.9	11.4	14.5	10.8	12.0
Trade & transport	14.2	-10.6	13.5	-3.9	40.6	8.6	16.0	10.7	**19.5**
Maintenance and repair of motors	6.9	-3.1	35.3	28.6	132.1	16.3	13.2	8.8	**5.1**
Wholesale & retail trade	15.7	-3.3	11.7	-0.5	33.7	3.8	14.7	6.9	**16.9**
Transport services	12.4	-23.7	14.6	-13.9	48.3	19.2	18.9	19.4	**27.3**
Other services	5.9	-3.3	11.2	1.1	18.3	12.5	13.9	10.8	**8.9**
Hotels & restaurants	9.7	-40.2	20.4	-34.4	33.6	62.2	68.9	80.0	**193.5**
Information & communication	9.1	29.2	18.8	18.2	27.8	14.1	15.6	16.5	**7.8**
Financial services	8.4	-2.4	18.0	10.4	18.8	10.6	30.4	13.2	**10.5**
Real estate activities	3.9	0.3	4.1	3.0	6.4	4.5	2.5	4.5	**2.2**
Professional, scientific & technical activities	9.8	-0.8	13.2	10.1	20.3	11.2	11.6	5.4	**1.5**
Administrative & support service activities	4.7	-6.8	5.8	-3.6	10.3	7.5	9.5	6.2	**-1.4**
Public administration & defense; compulsory social security	4.6	2.9	2.6	-1.7	8.0	1.1	3.5	6.8	**-0.5**
Education	2.2	-37.5	58.6	5.3	168.0	140.5	33.1	2.4	**14.5**
Human health & social work activities	3.4	15.9	8.5	-12.1	22.4	5.6	20.6	21.9	**4.5**
Cultural, domestic & other services	8.2	-1.2	9.5	6.4	12.6	6.2	12.9	9.4	**6.7**
Taxes less subsidies on products	15.1	-1.7	13.5	3.1	26.6	11.1	13.6	10.1	2.9

Source: Rwanda National Institute of Statistics (NISR)

The industry sector output grew by 8.1 percent in 2022H1 following 19.2 percent in 2021H1, driven by a broad-based resilience across most of its sub-sectors.

In mining and quarrying, activity continued to improve, growing by 12.1 percent over the first half of 2022, year-on-year, mainly supported by increasing mineral prices on international markets. The price index for metals and minerals increased by 13.0 percent year-on-year in 2022H1. The manufacturing subsector grew by 10.4 percent in 2022H1. As aggregate demand continued the recovery path, the demand for locally manufactured products followed suits, notably food processing (+7.2 percent), beverages (+13.1 percent), textiles (+19.8 percent), cement (+57.1 percent), and chemicals (+12.4 percent) of which paints & varnishes (+11.4 percent). During the same period, the construction subsector recorded a moderate performance, growing by 3.2 percent, due to base effect from last year's government construction projects to support the economic recovery.

The services sector grew by 11.4 percent in 2022H1 from 10.8 percent in 2021H1, mainly boosted by tourism-related services. Due to relaxed Covid-19 restriction measures, international tourist arrivals increased in 2022H1 compared to the corresponding period of last year with positive spillovers to transport services (+23.5 percent from +9.8 percent) and hotels and restaurants (+129.1 percent from -15.9 percent) subsectors.

The good performance of services sector was also associated with good progress in trade services (+12.0 percent), health (+12.0 percent), financial services (+11.8 percent), information and communication (+11.7 percent), professional, scientific & technical services (+3.4 percent) and real estate (+3.4 percent).

On contrary, the agriculture sector recorded poor performance, growing by 1.3 percent during the first half of 2022, mainly due to global supply chain disruptions that are affecting agriculture inputs, coupled with unfavorable weather conditions. This led to the bad harvest for 2022 agricultural season A. Food crop production, representing 63.6 percent of the agriculture sector, declined by 1.2 percent in 2022H1 from a growth of 7.0 percent in 2021H1.

2.2. EXTERNAL TRADE PERFORMANCE

Rwanda's merchandise export[1] receipts increased by 37.2 percent in 2022H1 amounting to USD 708.3 million, up from USD 516.2 USD a year ago, owing to the rising global commodity prices and value addition in minerals, as well as the good performance of domestic manufacturing for exports. Similarly, in 2022H1, merchandise imports went up by 22.5 percent, amounting to USD 1,817.7 million from USD 1,483.8 million in 2021H1. The rise in imports is due to the higher international commodity prices, mainly oil prices, and the recovery of domestic economic activities, that increased demand for imports.

[1] Merchandise exports refer to total exports excluding gold.

As a result, Rwanda's trade deficit widened by 13.7 percent, in 2022H1, amounting to USD 1,112.9 million from USD 978.7 million in 2021H1. Despite the widen trade deficit, the coverage of imports by exports increased to 47.0 percent in 2022H1 from 40.3 percent in 2021H1, including the informal cross border trade.

Table 9: Developments in Trade Balance (Value in millions of USD, Volume in 000' tons)

		2017	2018	2019	2020	2021	2021H1	2022H1	% Change
Total exports	Value	1,037.1	1,121.8	1,240.1	1,408.9	1,531.0	660.2	985.0	**49.2**
	Volume	799.5	973.9	1,127.5	859.4	1,026.0	471.6	571.9	**21.3**
Of which merchandise exports	Value	946.5	1,048.2	963.9	761.3	1,167.8	516.2	708.3	**37.2**
	Volume	799.5	973.9	1,127.5	859.4	1,026.0	471.6	571.9	**21.3**
Total imports	Value	2,348.6	2,636.2	3,094.1	3,421.5	3,569.3	1,638.9	2,097.9	**28.0**
	Volume	2,716.6	3,026.8	3,117.9	3,264.6	3,247.7	1,502.9	1,659.3	**10.4**
Of which merchandise imports	Value	2,348.6	2,636.2	2,854.9	2,746.7	3,201.0	1,483.8	1,817.7	**22.5**
	Volume	2,716.6	3,026.8	3,112.7	3,264.6	3,247.7	1,502.9	1,659.3	**10.4**
Trade balance	Value	-1,311.6	-1,514.3	-1,854.0	-2,012.6	-2,038.3	-978.7	-1,112.9	**13.7**
Exports/Imports	%	44.2	42.6	40.1	41.2	42.9	40.3	47.0	**6.7**

Source: NBR, Statistics Department

2.2.1 Exports Developments

The aforementioned increase in exports value is attributable to the rising global commodity prices and increasing manufacturing for exports. As a result, all export categories recorded positive growth, notably traditional exports (+39.4 percent), non-traditional exports (+25.2 percent), re-exports (+40.7 percent).

Table 10: Major Exports Developments (Value FOB in USD millions, Volume 000' tons)

	2017	2018	2019	2020	2021	2021H1	2022H1	Percent change
Coffee								
- Value	64.1	69.6	69.8	53.9	78.3	17.2	14.4	-15.9
- Volume	18.7	21.3	23.4	16.0	17.5	5.0	2.7	-45.9
- Price USD/KG	3.4	3.3	3.0	3.4	4.5	3.4	5.3	55.3
Tea								
- Value	84.3	90.5	86.9	90.3	96.9	50.9	57.4	12.9
- Volume	26.2	30.9	31.2	32.7	35.4	19.4	19.4	-0.2
- Price USD/KG	3.2	2.9	2.8	2.8	2.7	2.6	3.0	13.1
Mining								
- Value	123.7	143.0	100.3	83.1	149.5	60.8	107.7	77.0
- Volume	8.0	8.4	7.1	5.7	7.0	3.3	4.0	21.9
Cassiterite								
- Value	50.2	49.9	37.9	31.4	56.8	26.0	52.4	101.5
- Volume	4.8	4.8	3.8	2.8	3.1	1.7	2.2	30.2
- Price USD/KG	10.5	10.4	9.9	11.1	18.1	15.7	24.4	54.8
Coltan								
- Value	60.9	71.6	45.6	34.0	42.1	22.2	34.2	54.1
- Volume	1.7	1.6	1.4	1.0	1.0	0.6	0.7	11.3
- Price USD/KG	35.9	43.6	33.7	33.1	40.2	36.0	49.9	38.4
Wolfram								
- Value	12.6	21.5	16.8	17.8	50.6	12.6	21.0	66.5
- Volume	1.5	2.0	1.9	1.8	2.8	1.0	1.2	15.1
- Price USD/KG	8.3	10.9	8.9	9.8	17.9	12.1	17.5	44.6
Hides and Skin								
- Value	7.5	3.1	2.5	1.5	1.8	0.8	1.0	29.5
- Volume	7.0	5.5	3.9	2.8	3.2	1.4	1.9	37.9
- Price USD/KG	1.1	0.6	0.6	0.5	0.6	0.6	0.5	-6.1
Pyrethrum								
- Value	3.2	4.7	6.2	5.0	3.6	1.5	2.3	52.2
- Volume	0.07	0.1	0.1	0.0	0.2	0.0	0.0	50.2
- Price USD/KG	48.1	54.5	64.4	149.3	18.9	207.1	209.8	1.3
I. Traditional exports								
- Value	282.7	310.9	265.6	233.9	330.0	131.2	182.9	39.4
- Volume	59.9	66.2	65.7	57.2	63.2	29.1	28.1	-3.7
II. Re-exports								
- Value	267.3	313.4	351.9	314.8	469.53	223.58	314.58	40.7
- Volume	299.5	350.8	412.2	395.8	508.80	248.43	261.13	5.1
III. Non-traditional exports								
- Value	298.0	298.6	237.5	176.0	275.79	121.38	151.96	25.2
- Volume	264.2	298.4	329.4	303.8	454.02	194.06	282.72	45.7
IV. Non-monetary gold								
- Value	90.6	73.6	276.3	647.6	363.18	143.93	276.68	92.2
- Volume	0.002	0.002	0.01	0.01	0.01	0.00	0.00	77.0
V. Informal cross-border trade								
- Value	98.4	125.3	108.9	36.6	92.53	40.10	58.91	46.9
Merchandise exports								
- Value	946.5	1048.2	963.9	761.3	1167.8	516.2	708.3	37.2
- Volume	799.5	973.9	1127.5	859.4	1026.0	471.6	571.9	21.3
TOTAL EXPORTS								
- Value	1,037.1	1,121.8	1,240.1	1,408.9	1531.03	660.18	985.02	49.2
- Volume	799.5	973.9	1,127.5	859.4	1026.03	471.64	571.93	21.3

Source: NBR, Statistics Department

Revenues from traditional exports in 2022H1 amounted to USD 182.9 million in 2022H1, up from USD 131.2 million in 2021H1, representing an increase of 39.4 percent on the account of receipts from tea exports (+12.9 percent) and minerals (+77.0 percent), partly reflecting improvement of international commodity prices and value addition in minerals.

Export earnings from cassiterite, coltan and wolfram increased by 101.5 percent, 54.1 percent and 66.5 percent respectively, following the rise in prices by 54.8 percent, 38.4 percent and 44.6 percent, respectively. While export volumes increased by 30.2 percent, 11.3 percent and 15.1 percent for cassiterite, coltan and wolfram respectively, in line with improved external demand and ease of covid-19 restriction measures.

The good performance of tea exports is due to the rise in prices (+13.1 percent), which offset the slight reduction in export volume by 0.2 percent. On the other hand, coffee exports revenues dropped by 15.9 percent as volume shrinked by 45.9 percent offseting the increase in prices. This decrease in coffee exports volume is explained by a lower production as well as a base effect from high exported quantities of coffee in the same period in 2021 due to carryover stock from 2020 during the pandemic.

In addition, receipts from hides and skins increased by 29.5 percent, mainly due to the rise in volume (+37.9 percent), despite the decrease in unit price (-6.1 percent). Lastly, exports earnings from pyrethrum increased by 52.2 percent due to the rise in unit price (+1.3 percent) as well as volume (+50.0 percent).

Non-traditional exports (other exports), that are dominated by locally manufactured products, agro-processing, and horticulture products (i.e. flowers, fruits and vegetables), rose by 25.2 percent, amounting to USD 152.0 million in 2022H1, from USD 121.4 million recorded during the same period of last year. This increase is attributable to the continuing recovery of agro-processed and manufactured products, reflecting the continued recovery from the Covid-19 pandemic.

Finally, re-exports mainly composed of petroleum products, foodstuffs, vehicles, machinery, and electronics, rose by 40.7 percent to USD 469.5

million in 2022H1, from USD 314.8 million the previous year, mainly due to improvement of trade in the region and rising prices.

2.2.2 Imports Developments

The merchandise import bill rose by 22.5 percent, to stand at USD 1,817.7 million, mainly owing to the rise of international commodity prices and recovery of domestic economic activities which needed more imports of industrial production inputs classifed as intermediate goods.

The table below shows that import in value (volume) of consumer goods increased by 19.2 percent (+5.5 percent), while intermediate goods and energy increased by 28.9 percent (+11.7 percent) and 99.2 percent (+28.9 percent) respectively. On the other hand, import of capital goods decreased both in value and volume by 13.3 percent and 42.4 percent, respectively. The decrease in capital goods import is on higher imports of electrical and electronic equipments as well as transport materials in the same period of last year. In terms of share to total imports value, in 2022H1, intermediate goods tops with 24.1 percent, followed by consumer goods (23.9 percent) and capital goods (23.5 percent).

Table 11: Imports developments (Value in millions of USD, Volume in thousands of tons)

		2017	2018	2019	2020	2021	2021H1	2022H1	% Change
Total imports	**Value**	**2,348.5**	**2,636.3**	**3,094.1**	**3,373.5**	**3,569.3**	**1,638.9**	**2,097.9**	**28.0**
	Volume	**2,678.5**	**2,992.3**	**3,094.2**	**3,260.8**	**3,247.7**	**1,502.9**	**1,659.3**	**10.4**
Of which merchandise Imports	**Value**	**2,348.5**	**2,636.3**	**2,854.8**	**2,746.7**	**3,201.0**	**1,483.8**	**1,817.7**	**22.5**
	Volume	**2,678.5**	**2,992.3**	**3,094.2**	**3,260.8**	**3,247.7**	**1,502.9**	**1,659.3**	**10.4**
Consumer goods	Value	656.9	690.0	714.6	771.0	880.0	391.2	466.3	**19.2**
	Volume	793.9	843.6	715.2	821.3	802.1	362.7	382.8	**5.5**
Capital goods	Value	504.1	583.7	692.5	660.0	736.6	385.5	334.3	**-13.3**
	Volume	60.2	67.9	88.0	84.2	102.4	66.5	38.3	**-42.4**
Intermediate goods	Value	563.6	628.5	730.6	761.9	881.1	395.8	510.3	**28.9**
	Volume	914.3	1,023.9	1,175.1	1,428.0	1,347.9	602.8	673.3	**11.7**
Energy and lubricants	Value	487.1	562.3	521.5	348.7	397.3	162.7	324.0	**99.2**
	Volume	782.4	881.8	902.3	691.4	679.4	316.5	407.6	**28.8**
Non-monetary gold	Value	-	-	239.3	626.8	368.3	155.2	280.3	**80.7**
	Volume	-	-	0.0	0.01	0.01	0.0	0.0	**75.4**
Imports of nonfuel re-exports	Value	113.5	151.5	183.8	202.5	301.8	146.7	179.5	**22.3**
	Volume	127.7	175.1	213.6	235.8	315.9	154.4	157.2	**1.8**
Informal cross-border trade	Value	23.3	20.3	11.8	2.5	4.1	**1.8**	**3.3**	**85.1**

Source: NBR, Statistics Department

The above-mentioned increase in imported consumer goods reflects the rise in imports of food products such as cooking oils (+53.6 percent), milk products (+29.0 percent), cereals, flours (+41.1 percent), various food preparations (+31.5 percent) and sugar & sweet (4.4 percent). Likewise, imports of beverages and tobacco and domestic articles rose by 63.4 percent and 58.8 percent respectively, reflecting the increasing demand of these products as the economy reopened following the ease of Covid-19 restriction measures. In contrary, import of article of clothing products decreased by 7.4 percent as import of clothes decreased by 48.0 percent, while health and care products decreased by 4.5 percent due to the decreased import of cosmetics products (-12.5 percent).

Imports of intermediate goods, categorized into industrial products, construction materials and fertilizers, increased by 11.7 percent in volume and 28.9 percent in value amounting to USD 510.2 million in the period under review from USD 395.8 million in the same period of the previous year. The increase was driven by higher imports of fertilizers (+59.5 percent), construction materials (+21.1 percent), such as imports of cement and other similar products (+31.2 percent), metallic construction materials (+18.9 percent) and industrial products (+ 29.3 percent). Import of cement remained high in 2022H1 on increasing demand of cement despite a significant rise in cement production domestically.

Table 12: Domestic production and trade of cement (in tons)

	2017	2018	2019	2020	2021	2021H1	2022H1	% Change
Domestic production	322,391	364,864	415,371	506,778	630,439	269,662	350,261	29.9
Imports of cement	225,905	318,854	377,897	575,116	427,306	160,732	201,974	25.7
Exports of cement	71,725	43,263	48,120	66,005	134,802	50,475	99,191	96.5
Domestic demand	476,571	640,455	745,148	1,015,889	922,943	379,919	453,044	19.2

Source: NBR, Statistics Department

Import of energy and lubricants, dominated by petroleum products, rose by 99.2 percent in value following the rising global oil prices, while in volume terms, it increased by 28.8 percent.

2.2.3 Formal Trade with Other EAC Countries

Rwanda's exports to EAC member countries, representing 9.8 percent of the total exports in 2022H1, rose by 44.3 percent in value, standing at USD 96.8

million, mainly owing to increasing domestic supply and improvement in external trade after the ease of the Covid-19 containment measures. On the other hand, imports from EAC went up by 60.2 percent, reflecting the high demand for food products, domestic articles and construction materials. As a result, Rwanda's trade deficit with EAC widened to USD 433.7 million in 2022H1, from USD 264.1 million in 2021H1.

Table 13: Trade flows with EAC-6[2] (in USD million)

		2017	2018	2019	2020	2021	2021H1	2022H1
Exports to EAC	Value in USD millions	90.3	80.3	116.2	54.4	72.3	67.1	96.8
	percent change	16.4	-11.1	44.8	-53.2	32.9	21.6	44.3
	Share to total exports	8.7	7.2	9.4	3.9	4.7	10.2	9.8
Imports from EAC	Value in USD millions	429.3	522.2	472.6	490.0	521.5	331.2	530.5
	percent change	-8.7	21.6	-9.5	3.7	6.4	21.6	60.2
	Share to total imports	18.3	19.8	15.3	14.3	14.6	20.2	25.3
TRADE BALANCE		-339.0	-441.9	-356.4	-435.6	-449.2	-264.1	-433.7

Source: NBR, Statistics Department

2.2.4 Informal Cross-Border Trade

Rwanda remains a net exporter in informal cross border trade (ICBT), recording a surplus of USD 55.6 million in 2022H1, 45.1 percent higher than USD 38.3 million recorded in 2021H1. During the period under review, ICBT exports and imports accounted for a 6.0 percent and 0.2 percent share of total exports and imports, respectively.

In 2022H1, ICBT exports and imports increased by 46.9 percent and 85.1 percent, respectively, reflecting the ease of COVID-19 containment measures that improved cross-border movements.

Table 14: Rwanda informal cross border trade (USD million)

		2017	2018	2019	2020	2021	2021H1	2022H1
Exports	Value in USD millions	98.4	125.3	108.9	36.6	92.5	40.1	58.9
	Percent change	*-25.8*	*27.3*	-13.1	-66.4	152.7	53.8	46.9
	Share of total exports	8.7	11.2	8.8	2.6	6.0	6.1	6.0
Imports	Value in USD millions	23.3	20.3	11.8	2.5	4.1	1.8	3.3
	Percent change	*-23.9*	*-12.8*	-41.7	-79.2	64.0	-16.2	85.1
	Share of total imports	1.0	0.8	0.4	0.1	0.1	0.1	0.2
Trade balance		75.1	105.0	97.1	34.1	88.4	38.3	55.6

Source: NBR, Statistics Department

[2] This excludes DRC, a new member of the EAC.

2.2.5 Balance of Payments

The Rwanda's balance of payments (BOP) deficit improved to USD 18.5 million in 2022H1, up from USD 191.0 Million in 2021H1 on increased current transfers (remittances and government grants), FDI and government borrowings.

Table 15: Rwanda Balance of payments (USD million)

	2017	2018	2019	2020	2021	2021H1	2022H1
Current account balance	**-875.36**	**-974.79**	**-1230.9**	**-1227.5**	**-1209**	**-574.2**	**-535.6**
Goods and services, net	-1166.7	-1298.1	-1482.5	-1648.6	-1745.8	-844.3	-1002.1
Exports	1903.9	2043.3	2254.7	1929.0	2110.0	926.3	1362.7
Imports	3070.6	3341.4	3737.2	3577.5	3855.8	1770.5	2364.8
Primary income, net	-291.1	-344.2	-329.8	-199.6	-219.6	-107.2	-127.8
Dividends, debit	21.7	18.7	15.7	11.5	19.8	12.6	5.9
Interest, debit	140.4	178.9	191.0	149.7	108.4	61.0	62.6
Secondary income, net	582.5	667.5	581.4	620.7	756.4	377.3	594.2
General government	361.7	356.5	268.0	288.8	343.1	183.7	361.7
Remittances, inflows	207.6	253.4	252.0	274.3	378.6	177.1	217.3
Capital account	189.7	244.5	260.2	312.5	380.0	180.9	192.2
Financial account excl. reserves, net	**-686.9**	**-810.6**	**-925.7**	**-1114.6**	**-959.0**	**-185.0**	**-494.6**
FDI, net	-258.3	-348.2	-257.7	-152.6	-211.9	-94.5	-154.6
Portfolio investment	74.1	14.8	30.4	-26.5	-200.0	0.7	12.6
Other investment	-502.7	-477.2	-698.4	-935.5	-547.1	-91.2	-352.5
Reserve assets (- decrease)	**157.3**	**95.5**	**111.8**	**327.9**	**154.4**	**-191.0**	**-18.5**
Net errors and omission	156.1	15.2	156.7	128.3	24.5	17.3	-169.6

Source: BNR, Statistics Department

The current account defict (CAD) improved by 6.7 percent to USD 535.6 million in 2022H1, down from USD 574.2 million recorded in 2021H1, driven by increasing surplus in secondary income thanks to higher diaspora remittance and government budgetary grant inflows, which offset the expansion in trade deficit. The deficit in goods expanded by 13.7 percent in 2022H1 on increased imports bill amid rising international oil and food prices, offsseting the increase in exports. On the other hand, the recovery of exports of services continue, increasing by 43 percent thanks to the ease of Covid-19 restrictions combined with the rising number of international meetings hosted in Rwanda.

The financial account surplus expanded to USD 494.6 million, up from USD 185.0 million, thanks to rising FDI and government inflows. The increase in

FDI inflows reflects the improvement in economic activities. As a result, in 2022H1 , capital inflows were relatively sufficient to finance the current account deficit, resulting into a small decrease in international reserve assets by USD 18.5 million. The stock of foreign exchange reserves as of end June 2022 remain adequate, covering 4.8 months of future imports of goods and services.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

In February 2022, headline inflation was projected to increase to 7.5 percent in 2022, and therefore, the Monetary Policy Committee (MPC) decided to raise the Central Bank Rate (CBR) by 50 basis points from 4.5 percent to 5.0 percent to anchor inflation expectations. The analysis indicated that inflationary pressures were going to be driven by high global demand after the relaxation of COVID-19 related restrictions amid supply challenges. The war between Russia and Ukraine exacerbated this trend, adding more uncertainties, which in May 2022, resulted in an upward revision of the annual average inflation for 2022 to 9.2 percent. In line with high international commodity prices, Rwanda's headline inflation attained 9.0 percent in the first half of 2022, and it is projected to remain high in 2022H2. Particularly, pressures on food and energy inflation are expected to continue in the coming quarters. Consistently, in August 2022, projection of annual average inflation for 2022 was revised up to 12.1 percent.

Basing on these prospects, in August 2022, the MPC decided to raise the central bank rate by 100 basis points, from 5.0 percent to 6.0 percent with the aim to curb the spillover of supply driven inflationary pressures to general price setting (second round effect). Inflationary pressures are expected to stabilize and inflation is expected to reduce towards the 5 percent benchmark in the second half of 2023, as a result of the NBR's monetary policy tightening and other economic policy measures.

However, risks that may affect the headline inflation projection path include the performance of domestic agriculture, international commodity prices and the speed in global and domestic economic recovery.

3.1 INFLATION DEVELOPMENTS

3.1.1. Introduction

In 2022H1, headline inflation increased to 9.0 percent on average compared to 1.4 percent and 0.3 percent recorded in 2021H1 and 2021H2, respectively. This surge in headline inflation was reflected in its main components. Fresh food inflation rose to 10.2 percent in 2022H1 from -1.1 percent in 2021H1, while energy inflation increased to 14.8 percent in 2022H1, from -0.1 percent recorded in 2021H1. Core inflation surged to 8.1 percent in 2022H1 from 2.2 percent recorded during the same period last year. More recently. in August 2022, headline inflation picked to 15.9 percent.

Table 16. Inflation developments for key items (annual average, percent)

	2019		2020		2021		2022	Annual average		
	H1	H2	H1	H2	H1	H2	H1	2019	2020	2021
Headline	0.7	4.2	8.5	7.0	1.4	0.3	9.0	2.4	7.7	0.8
Domestic	0.1	4.1	9.1	7.3	0.1	-1.6	7.8	2.1	8.4	-0.8
Food:	-3.1	8.5	15.5	8.8	0.1	-2.1	14.6	2.7	12.1	-1.0
-Vegetables	-7.9	10.9	27.4	15.6	-7.0	-14.2	10.6	1.5	21.5	-10.6
-Meat	10.4	16.3	19.7	13.0	4.4	5.2	9.7	13.4	16.4	4.8
-Fruits	-11.4	8.4	11.3	5.4	6.0	-0.9	13.1	-1.5	8.4	2.6
-Bread & Cereal	0.5	7.0	11.8	4.5	-2.9	-1.4	12.0	3.7	8.2	-2.1
Housing	0.6	0.9	4.6	4.9	1.9	1.6	6.7	0.8	4.7	1.8
Transport	5.5	1.6	9.7	14.2	-1.9	-5.5	6.6	3.5	11.9	-3.7
Imported	2.6	4.5	6.3	6.1	5.8	6.3	12.8	3.5	6.2	6.1
Core	1.6	3.0	5.5	5.7	2.2	1.9	8.1	2.3	5.6	2.1
Energy	-1.0	-0.6	10.2	5.5	-0.1	3.7	14.8	-0.8	7.8	1.8

Source: NBR, Statistics Department

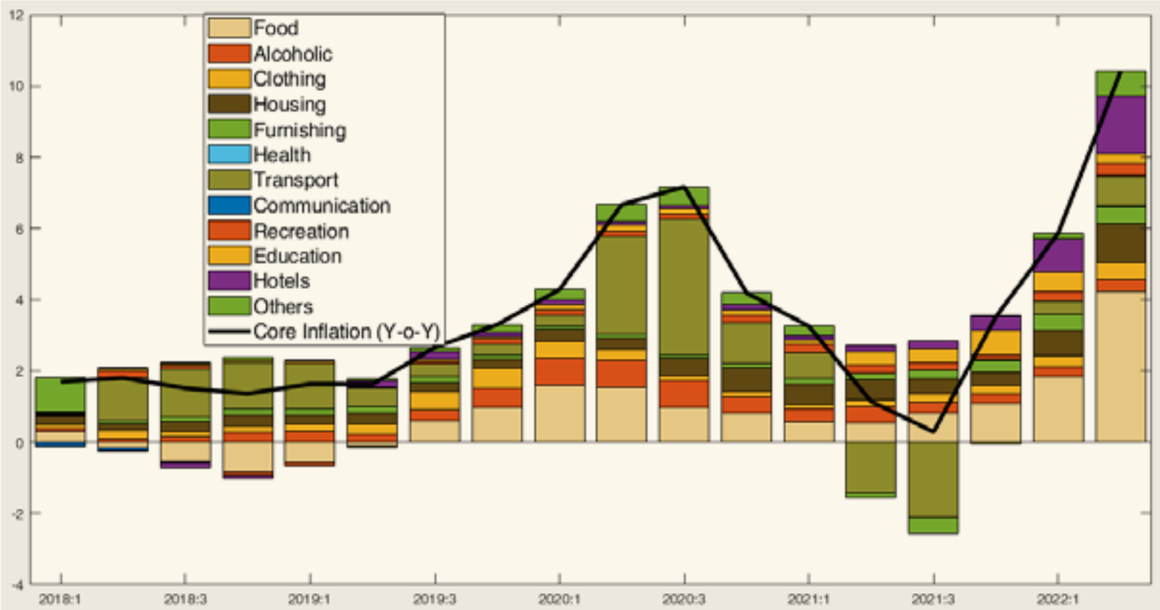
3.1.2 Contributors to headline inflation

a. Core inflation

The surge observed in core inflation during 2022H1, is attributed to a rise in its components mainly: core food, core housing, core transport as well as restaurants & hotels inflation.

In 2022H1, core food inflation increased to 18.4 percent from 3.4 percent recorded in 2021 the same period, reflecting a rise in prices of some international food prices. Other upward pressures on core inflation in 2022H1 were observed in core transport which increased to 4.3 percent from -2.0 percent recorded in 2021 the same period, following the increase in the price of vehicles. Hotels inflation surged to 11.4 percent in 2022H1 from 1.3 percent recorded in 2021H1, reflecting an increase in menu prices, while core housing prices picked up to 4.4 percent in 2022H1 from 2.8 percent observed in 2021H1. The increasing trend in core housing originated from the rise in prices of building repairs (supplies) as well as an increase in labor costs.

Chart 4 : Core inflation (Percent, Y-o-Y)

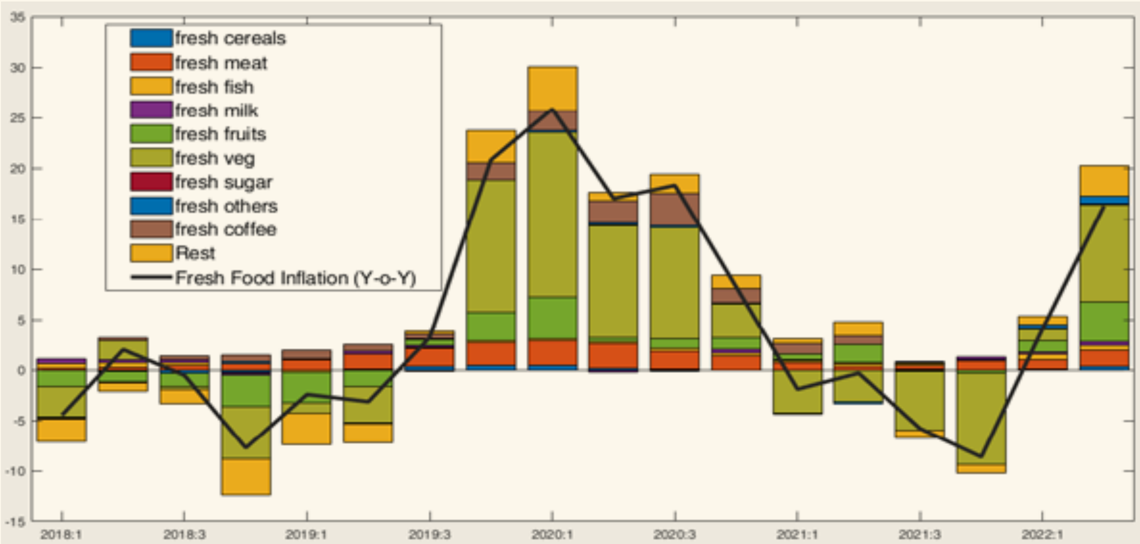


Source: NBR, Monetary Policy and Research Directorate

b. Fresh food inflation

In 2022H1, fresh food inflation rose reflecting an increase in vegetables and fruits inflation in line with the poor performance of domestic agricultural production during this period.

Chart 5: Fresh food inflation (Percent, Y-o-Y)



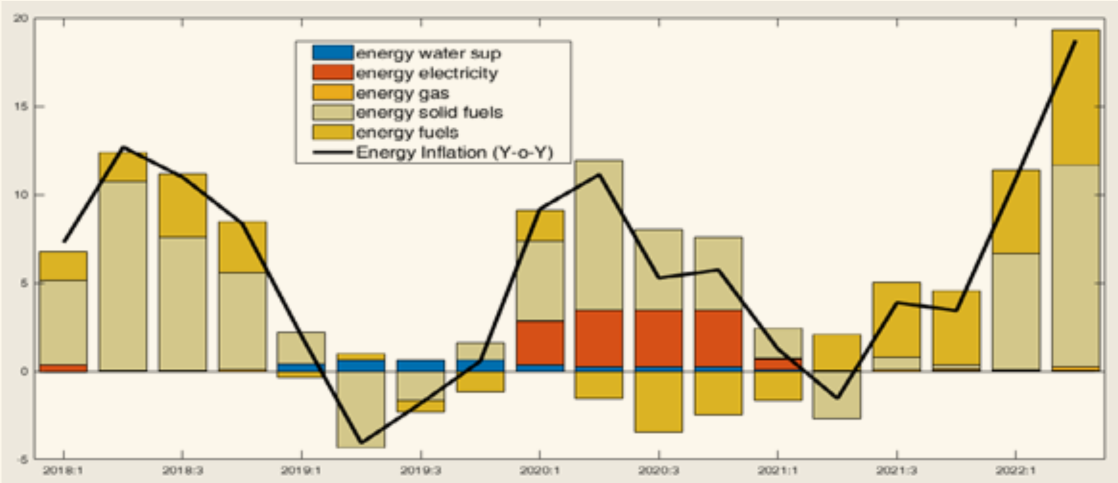
Source: NBR, Monetary Policy and Research Directorate

In 2022H1, vegetable and fruits prices evolved above the 2021 price levels and even above the typical patterns of the historical prices (2015-2021).

c. Energy inflation

The rising trend in energy inflation, reaching 14.8 percent in 2022H1 from -0.1 percent recorded in 2021H1, reflected an increase in solid and liquid fuels inflation. Solid fuels inflation (mainly charcoal) increased to 17.4 percent from -0.9 percent, resulting from the lower prices recorded last year in the corresponding period. In 2022H1, liquid fuels inflation increased to 24.3 percent from 0.9 recorded in 2021H1, reflecting upward revisions in local pump prices in line with high global oil prices. However, government subsidies in place helped to cushion the impact of higher international oil prices on the local pump prices.

Chart 6 : Energy inflation (Percent, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

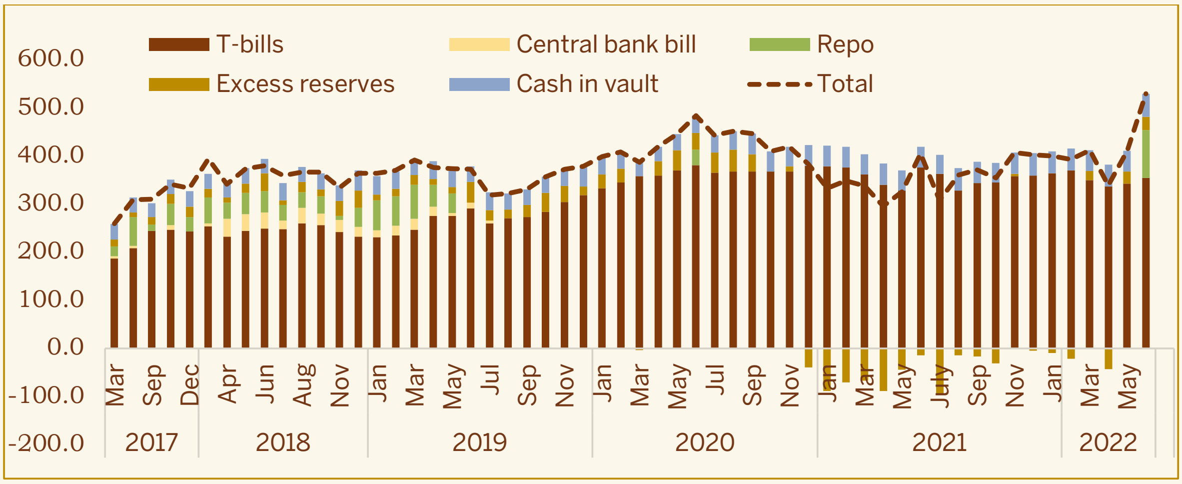
Solid fuels prices in 2022H1 also evolved above the 2021 prices and the historical patterns for 2015-2021.

3.2 MONETARY SECTOR DEVELOPMENTS

3.2.1 Banking System Liquidity Conditions

In June 2022, the bank's most liquid assets rose remarkably by 31.7 percent to FRW 529.6 billion, from FRW 402.1 billion recorded in December 2021, compared to a growth of 5.5 percent recorded in the corresponding period of the previous year. This growth is mostly attributed to the rebound in excess reserves from increased government spending in 2022Q2.

Chart 7: Most liquid assets of commercial banks (FRW billion)

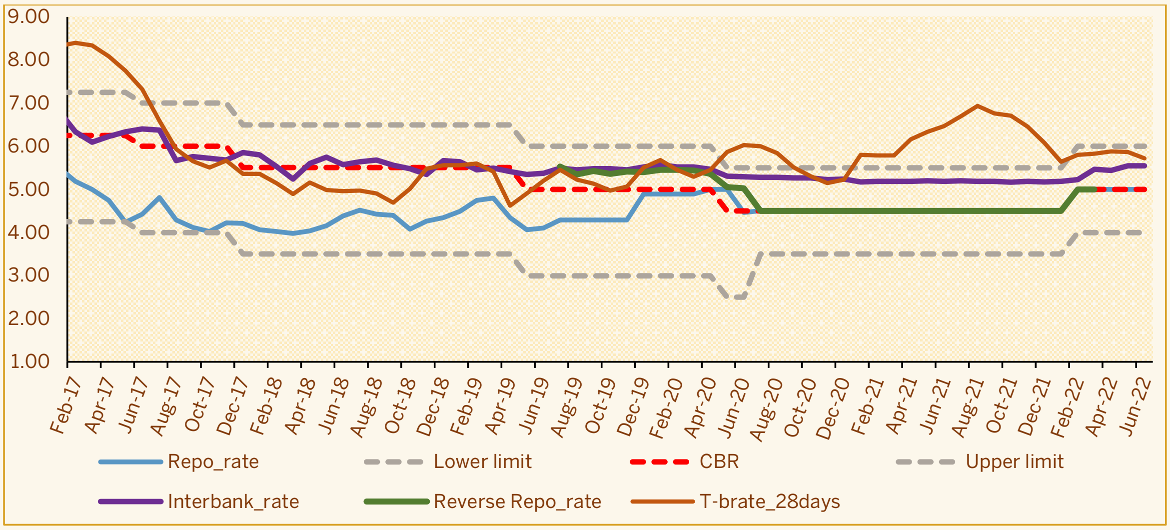


Source: NBR, Monetary Policy and Research Directorate

3.2.2 Monetary Policy and Interest Rates

The Monetary Policy Committee (MPC) meeting held on 17th February 2022 took decision of tightening monetary policy stance and raised the Central Bank Rate (CBR) by 50 basis points to 5 percent, with an anticipation that increasing global commodity prices were leading to rising inflationary pressures. In May 2022, the CBR was maintained at 5 percent, as the rise of February continued its transmission to money market rates, with the interbank rate rising by 21 basis points to 5.40 percent on average in 2022H1 from 5.19 percent in 2021H1.

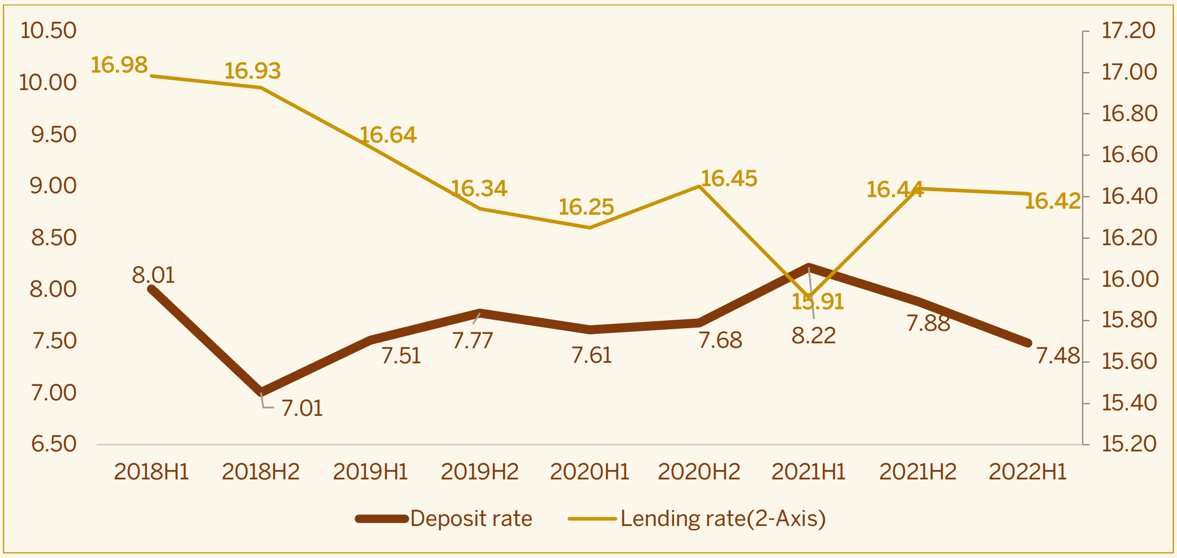
Chart 8: Interbank market rates developments



Source: NBR, Monetary Policy and Research Directorate

Regarding market rates, the lending rate increased by 51 basis points to 16.42 percent in 2022H1 from 15.91 percent in 2021H1, resulting from the increased share of short-term and medium-term loans, which were priced at higher rates compared to long-term loans. The deposit rate declined by 77 basis points to 7.48 percent on average in 2022H1 from 8.22 percent recorded in 2021H1, on the back of increasing share of short-term deposits of less than 1 year, attracting lower rates. As a result, the spread between lending rate and deposit rate increased by 125 basis points to reach 8.94 percent on average in 2022H1, from 7.69 percent in 2021H1.

Chart 9: Market interest rates (percent average)

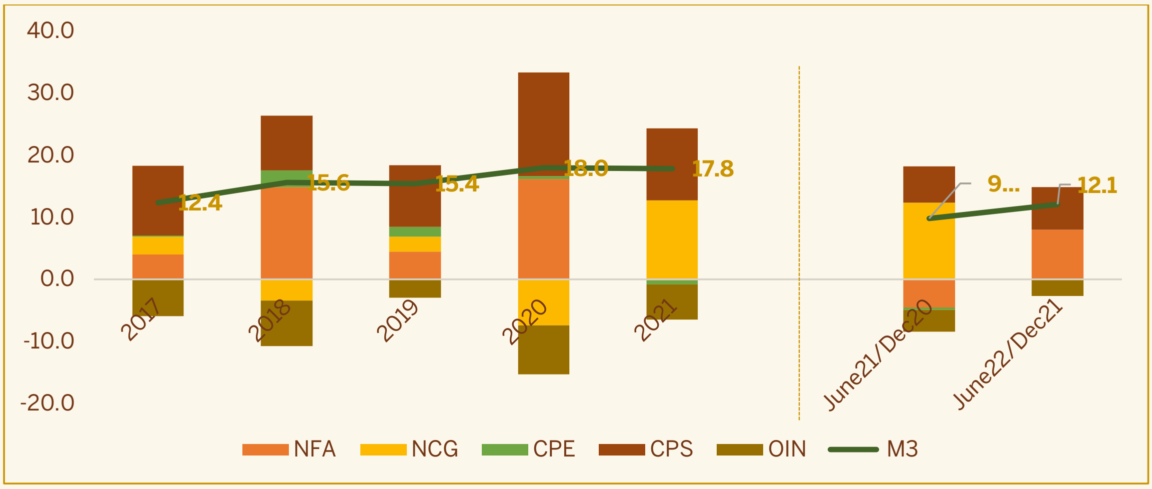


Source: NBR, Monetary Policy and Research Directorate

3.2.3 Money supply

In the first six months of 2022, broad money M3 picked up by 12.1 percent compared to 9.8 percent recorded in the corresponding period of 2021. The net foreign assets (NFA) were the main contributor (+8.0 percent) followed by the outstanding credit to the private sector (+6.8 percent). However, the net credit to government (NCG), the credit to the public enterprises (CPE) and other items net negatively contributed to the growth of broad money M3.

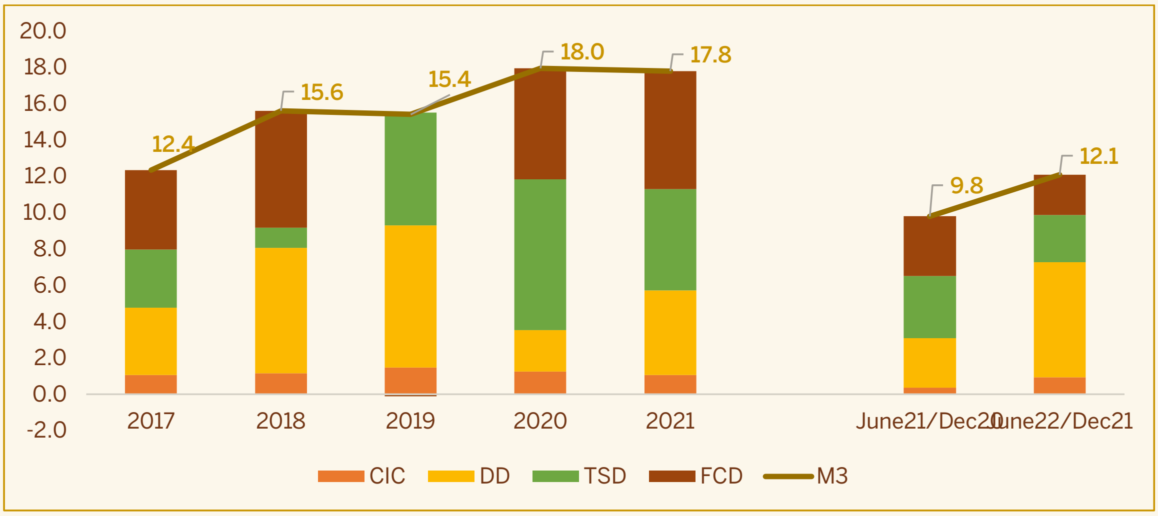
Chart 10: Contributors to M3 growth on assets side



Source: Monetary Policy and Research Directorate

From the liabilities side, broad money M3 growth was mainly attributed to the demand deposits (DD) with 6.3 percent, followed by the time and saving deposits (TSD) with 2.6 percent, the foreign currency deposits (FCD) with 2.2 percent and currency in circulation (CIC) with 0.9 percent.

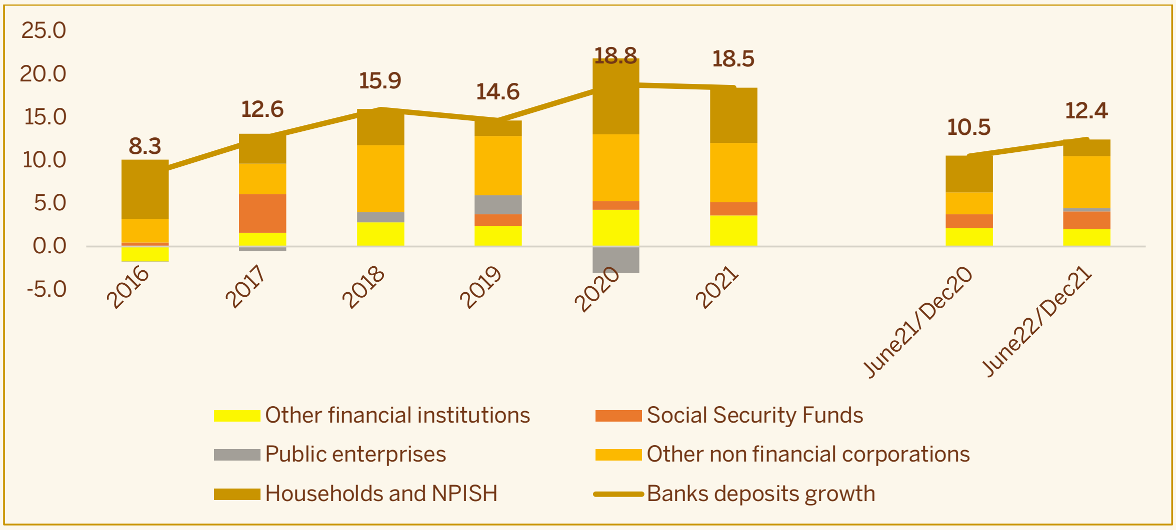
Chart 11: Contributors to M3 growth on liabilities side



Source: Monetary Policy and Research Directorate

Banks' deposits are the main component of M3. They rose by 12.4 percent in the first half of 2022, from 10.5 percent in the same period of the previous year. The major contribution to that growth was from other non-financial corporations with 6.0 percent from 2.5 percent, followed by other financial institutions, social security funds, as well as households and non-profit institutions serving households, with 2.0 percent, 1.6 percent and 4.3 percent respectively recorded in the corresponding period of the year before. Public enterprises contributed 0.4 percent.

Chart 12: Contributions of depositors to the growth of deposits

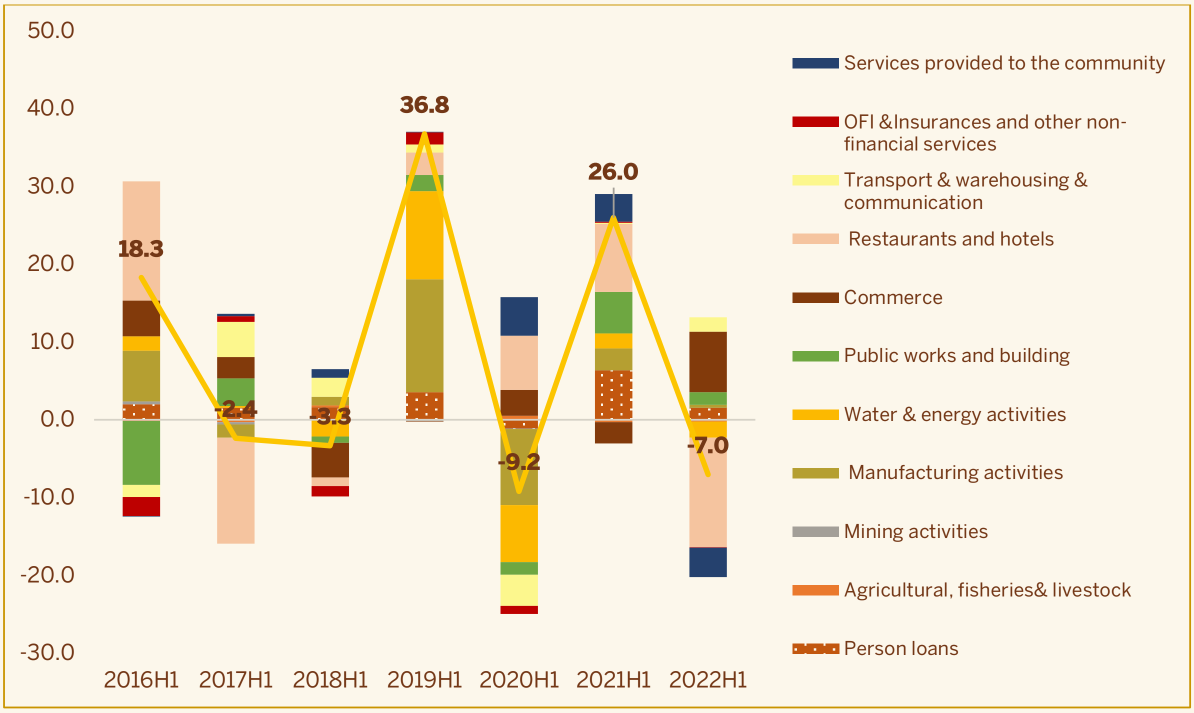


Source: Monetary Policy and Research Directorate

3.2.4 Credit

In the first half of 2022, new authorized loans (NALs) recorded a decline of 7 percent, from a sharp rise of 26 percent recorded in the same period of 2021. The drop is markedly observed in three sectors, namely restaurants and hotels (-14.0 percent), services provided to the community (-3.8 percent), and water & energy activities (-2.1 percent). This contraction of NALs is mainly a base effect resulting from a big loan granted to a large corporate in the restaurants and hotels sector in 2021.

Chart 13: Contributions of sectors of activity to the drop of new authorized loans in % changes



Source: NBR, Monetary Policy and Research Directorate

Concerning the distribution of the NALs across sectors of activity, commerce, public works & building, and personal loans are the most financed sectors, holding respectively 33.6, 23.6 and 17.3 percent of the total NALs in 2022H1.

Table 17. Distribution of NAL by sector % share

Economic sector	2016H1	2017H1	2018H1	2019H1	2020H1	2021H1	2022H2
Personal loans	8.9	10.7	12.8	11.9	11.9	14.5	17.3
Agricultural, fisheries & livestock	1.5	1.2	1.4	0.9	1.6	1.1	0.9
Mining activities	0.4	0.1	0.1	0.0	0.0	0.0	0.0
Manufacturing activities	8.4	6.8	8.2	16.6	7.5	8.2	9.2
Water & energy activities	1.9	2.1	0.0	8.3	1.0	2.3	0.2
Public works and building	21.1	25.2	25.3	20.0	20.3	20.3	23.6
Commerce	35.2	38.8	35.5	26.0	32.3	23.4	33.6
Restaurants and hotels	15.5	1.8	0.8	2.7	10.7	15.4	1.5
Transport, warehousing & communication	4.4	9.2	12.0	9.5	6.1	5.0	7.3
OFI &Insurances and other non-financial services	0.8	1.6	0.2	1.3	0.2	0.3	0.2
Services provided to the community	2.1	2.4	3.7	2.7	8.4	9.5	6.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: NBR, Financial stability Directorate

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section analyses developments in the exchange rate for the first half of the year 2022. Compared to the same period of last year, the depreciation of the FRW was relatively lower in 2022H1, owing to the improvement in foreign inflows, despite persistently higher demand for forex from oil, industrial, general trade as well as service sectors.

4.1 EXCHANGE RATE DEVELOPMENTS

In line with the recovering export earnings, together with rising foreign inflows in terms of budget grants and remittances from donors and partner countries, the local currency depreciated less versus the USD, erasing some of the previous year's losses.

As of end June 2022, the Rwandan franc depreciated by 3.8 percent year-on-year against the USD, from a depreciation of 5.3 percent in the first half of 2021. This lower depreciation resulted from improved export earnings backed by the resumption of economic activities and informal cross-border trade, higher remittance inflows, as well as rising international prices for traditional exports. On the demand side, the market recorded higher demand for foreign exchange from importers in oil, industrial and in general trade and service sectors.

The FRW attracted gains against other major currencies and appreciated by 9.1 percent, 8.8 percent and 16.0 percent versus the Pound, the Euro and the Japanese Yen in June 2022 year-on-year, after losing 18.6 percent, 11.6 and 2.7 percent in June 2021.

Relative to regional currencies, the FRW gained traction in twelve months ending June 2022. It appreciated against the Kenyan and Ugandan shillings as well as the Burundian franc, by 5.0 percent, 2.1 percent and 0.1 percent after respective depreciations of 4.1 percent, 10.9 and 1.7 percent in the corresponding period last year. The Rwandan franc weakened by 3.3 percent relative to the Tanzanian shilling, which is slower compared to 5.3 percent recorded in June 2021.

Table 18: FRW Exchange rate (in percent change compared to Dec. previous year)

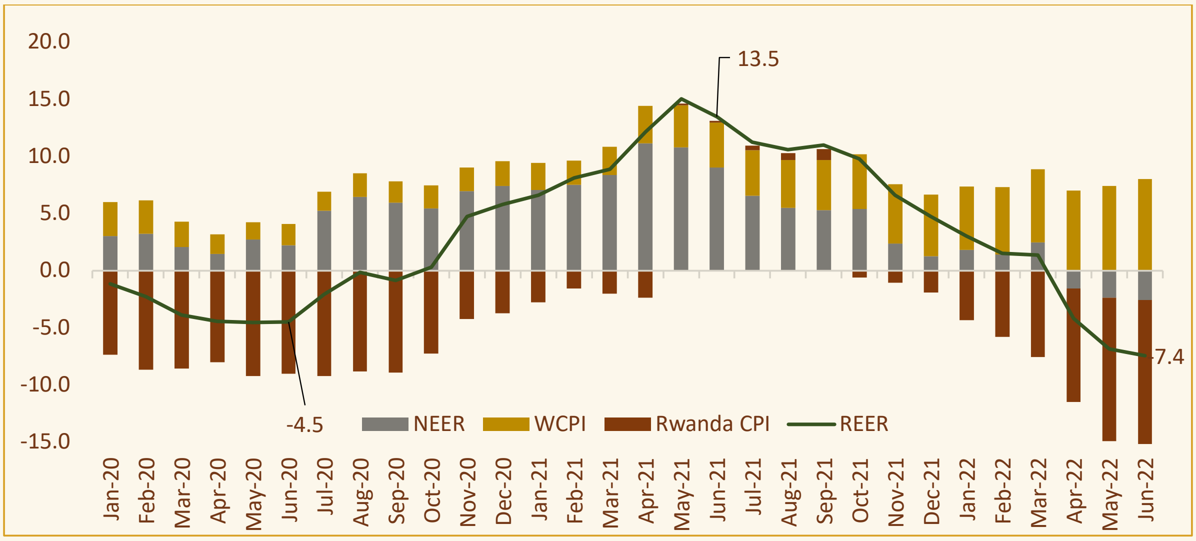
	USD	GBP	EUR	JPY	KES	TZS	UGS	BIF
Dec-11	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-12	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-13	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-14	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Dec-15	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Dec-16	9.7	-9.2	5.3	13.4	9.6	8.6	2.3	-0.2
Dec-17	3.1	13.2	16.9	6.6	2.3	0.4	2.7	-1.0
Dec-18	4.0	-2.0	-0.1	6.2	5.5	1.2	1.8	1.9
Dec-19	4.9	8.5	2.8	6.3	4.5	3.7	5.1	-0.2
Dec-20	5.4	9.4	15.7	11.4	-1.3	5.7	7.2	2.5
Dec-21	3.8	2.9	-4.4	-7.0	0.2	4.8	6.8	1.0
Jun-21	5.3	18.6	11.6	2.7	4.1	5.3	10.9	1.7
Jun-22	3.8	-9.1	-8.8	-16.0	-5.0	3.3	-2.1	-0.1

Source: NBR, Monetary Policy Department

More recently, in August 2022, the FRW depreciated by 4.2 percent y-o-y, against the USD, reflecting the rising dollar demand to cater for increased import bill, but relatively slower compared to 4.6 percent depreciation recorded in August 2021.

In real effective terms, the FRW appreciated by 7.4 percent year-on-year in June 2022 while it had depreciated by 13.5 percent in June 2021. This appreciation reflected a combined effect of a larger negative inflation differential (higher domestic than foreign inflation) and the appreciation of the FRW in nominal effective terms. The FRW appreciated by 2.6 percent in June 2022 in nominal effective terms, compared to a depreciation of 9.0 percent in the corresponding period of 2021.

Chart 14: Drivers of REER movement (y-o-y, % change)



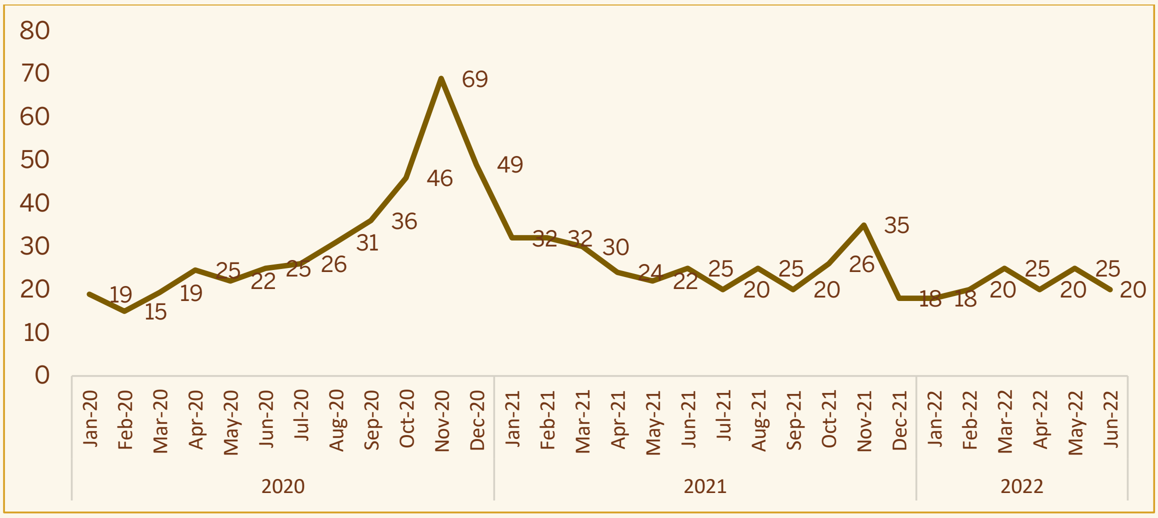
Source: NBR, Monetary Policy and Research Directorate

4.2. Foreign Exchange Market Developments

As at end June 2022, commercial banks' net foreign assets stood at FRW 140.48 billion, growing by 31.0 percent compared to end June 2021, reflecting faster growth in foreign assets (+29.2 percent to FRW 448.90 billion) than in foreign liabilities (+28.4 percent to FRW308.42 billion). The hike in NFA was backed by the increase in both bank clients' external financing and export receipts that boosted foreign assets, while additional external loans for banks drove foreign liabilities.

In line with a smoother recovery of the economic activities and improved foreign inflows, the NBR's foreign exchange sales to banks in the first half of 2022 decreased by 22.4 percent to USD 128 million from USD 165 million in 2021 H1.

Chart 15: NBR forex sales to banks (in million USD)



Source: NBR, Monetary Policy Department

In the coming months, the market is expected to remain stable backed by sustained FX inflows. Moreover, NBR has sufficient reserve buffers that can cover more than 4 months of imports of goods and services in case of external shocks.

V. STABILITY OF THE FINANCIAL SYSTEM

5.1. Introduction

The unfavorable global economic environment poses challenges on domestic macro financial conditions. The reintroduction of anti-pandemic measures in Asia, especially in China has led to a significant downward revision of economic growth and increased disruptions in global supply chains. Recently, the global trade disturbances have been exacerbated by the war in Ukraine and the trade sanctions imposed on Russia that induced global inflation pressures associated with significant increase of commodity prices. The outbreak of the war led to higher prices for a broad range of commodities owing to supply disruptions, in an environment of rising demand resulting in sharp price increases adding to general inflationary pressure.

The Rwandan economy is adversely affected by the slowdown in the global economy as well as supply-side shocks to inflation. For the financial sector, the deteriorating global economic conditions could derail the progress achieved in containing pandemic induced risks. While there are no direct exposures of the domestic financial sector to countries involved in the conflict, the indirect second round effect of high commodity prices represents an adverse shock for the domestic economy. This has led to significant increases in the cost of production, especially for energy intensive sectors, and inflation pressures that affect the real income of households and corporates, many of which are highly indebted and still recovering from COVID-19 pandemic.

Financial institutions face indirect exposure mainly through loans impairments and weak demand for financial services. For lending institutions in particular, the potential prolongation of the war in Ukraine could have a considerable impact on inflation, economic activity, a rise in interest rates, increasing the burden of debt repayment and making new borrowing more difficult. For Non-Bank Financial Institutions (NBFIs), the impact of higher inflation will also need to be taken into consideration by insurance companies. A similar risk exists for insurance companies in the sense that insurance policies can be bought back before maturity lapses. For life insurance policies with a guaranteed return, a sharp rise in inflation could lead to an increase in the surrender of existing contracts by policy-holders.

Notwithstanding significant challenges facing global economy, the financial sector is resilient to a range of potential adverse shocks. The size of capital and liquidity reserves that regulated financial institutions hold make the financial sector resistant to external shocks and strengthen their ability to absorb losses and maintain the provision of financial services to the real sector. In the medium term, the financial sector is expected to remain stable despite the increase in near term risks emanating from global economic outlook. Amidst unfavorable economic conditions form external environment, the NBR will continue to monitor and assess potential sources of vulnerabilities and reinforce risk-based surveillance of financial institutions in order to ensure the stability of the financial sector

5.2. Structure and Performance of the Financial Sector

The Rwandan financial system [3]is composed of range of diverse financial institutions, markets and infrastructure. As of end June 2022, the financial system comprises of 624 regulated financial institutions up from 605 institutions as at end June 2021. The change in number of regulated financial institutions mainly happened in Banking Sector, Forex Bureaus, Payment Services Providers (PSPs), Insurance Sector and for Non-Deposits Taking Financial Institutions (NDFIs). In the banking sector, the number of Banks reduced to 15 Banks from previously 16 following the merger between Banque Populaire du Rwanda Plc and Kenya Commercial Bank Rwanda Plc. In insurance sector, the number of institutions increased to 16 from 15 on the back of licensing 1 Captive insurance company. The number of Forex Bureaus declined to 78 from 82 following the revocation of the license of 4 companies due to non-compliance with the regulatory requirement. In contrast, the number of PSPs increased by 4 to 18 in June 2022 from 14 in June 2021 following the licensing of 3 new Payment Initiation Service Providers (PISPs) and 1 E-Money Issuer. Similarly, the number of NDFIs increased by 19 to 26 in June 2022 from 7 in June 2021 owing to the licensing of 4 new lending only institutions, 14 debt collection companies and 1 credit guarantee. These dynamics in the financial system are part of the NBR objective of modernizing

[3] This excludes capital market.

the financial system and extending its regulatory boundaries in order to improve access to finance as well as the effectiveness and efficiency of the financial system.

Despite challenging global economic conditions, the financial sector continued to grow. During the period under review, total assets of financial sector grew by 17.5 percent to FRW 8,145 billion in June 2022 from FRW 6,933 billion in June 2021 (Table 21). The banking sector grew by 18.8 percent on account of the growth of deposits and capital. The assets of the pension sector (both public and private) increased by 8.3 percent, mainly driven by the growth in pension contributions and investment income form placements in banks and Government securities. The assets of insurance sector grew by 17.2 mainly supported by the growth of premiums and investment income, while the assets of microfinance sector expanded by 22.6 percent on back of the increase of deposits and capital.

Table 19: Structure of the Financial System

Regulated Financial Institutions	June 2021			June 2022		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Banks	**16**	**4,624**	**66.7**	**15**	**5,492**	**67.4**
Commercial Banks	11	3,769	54.4	10	4,445	54.5
Microfinance Banks	3	70	1.0	3	73	1.0
Development Banks	1	301	4.3	1	408	5.0
Cooperative Banks	1	484	7.0	1	566	6.9
Pension Schemes	**13**	**1,252**	**18.1**	**13**	**1,356**	**16.7**
Public	1	1,188	17.1	1	1,275	15.7
Private	12	64	1.0	12	81	1.0
Insurers	**15**	**638**	**9.2**	**16**	**748**	**9.2**
Life	3	63	1.0	3	77	1.0
Non-Life	11	574	8.2	11	668	8.2
Micro insurer	1	1	0.0	1	3	0.0
Captive insurer	-	-	-	1	0	0.0
Microfinances	**457**	**386**	**5.6**	**457**	**473**	**5.8**
U-SACCOs	416	161	2.3	416	191	2.4
Other SACCOs	22	114	1.7	22	141	1.7
Limited Companies	19	111	1.6	19	141	1.7
Foreign Currency Dealers	**82**	**8**	**0.1**	**78**	**9**	**0.1**
Forex Bureau	82	8	0.1	78	9	0.1
Payment Services Providers (PSPs)	**14**	**-**	**-**	**18**	**-**	**-**
Money Transfer & Remittance Companies	6	-	-	6	-	-
Payment Initiation Services Providers	3	-	-	6	-	-
E-Money Issuers	4	-	-	5	-	-
Payment Systems Operators	1	-	-	1	-	-
Non-Deposits Taking Financial Institutions	**7**	**25**	**0.3**	**26**	**67**	**0.9**
Lending only	4	24	0.3	8	20	0.2
Factoring	2	1	0.0	2	0.0	0.0
Guarantees	-	0.0	0.0	1	47	0.6
Debt Collection	1	0.0	0.0	13	0.0	0.0
Trust Company Services Providers	-	-	-	2	0.0	0.0
Credit Reference Bureaus	**1**	**-**	**-**	**1**	**-**	**-**
Grand Total	**605**	**6,933**	**100%**	**624**	**8,145**	**100 %**

Source: NBR, Financial Stability Directorate

In term of size, the financial sector remains dominated by the banking sector which accounts for 67.4 percent of the total financial sector assets as at end June 2022, followed by the pension sector with 16.7 percent. The insurance and microfinance sectors account for 9.2 percent and 5.8 percent, while the rest of institutions including foreign currency dealers, PSPs, and NDFIs account for the remaining 0.9 percent (Table 19).

The financial sub-sectors are highly interconnected. For example, the insurance sector held 76.6 percent of its assets in the banking sector as at end June 2022. Similarly, the pension sector held 44.3 percent, while the microfinance sector held 35.5 percent of its total assets in banking sector as at end June 2022. Although the interconnectedness between financial institutions is an essential characteristic of developed financial system that promotes the financing of the economy, diversification and risk-sharing between agents, it can also contribute to propagating distress in the system. In view of this, the NBR regularly monitors the nature of these interconnections, tracks the build-up of systemic risk concentrations along which financial shocks can propagate so as to enhance the resilience of the financial sector.

5.3. Banking Sector

5.3.1. Structure and Performance of the Banking Sector

As at end June 2022, the Rwandan banking sector comprised of 15 banks of which 10 commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank. The banking sector remains the largest component of the financial sector accounting for about 67.4 percent of the total financial sector assets, with majority domestic-owned banks accounting for about 53.1 percent of total assets of banking sector.

The banking sector continues to grow during the period under review. As at end June 2022, the total assets of banks increased by 18.8 percent (Y-o-Y) to FRW 5,492 billion from FRW 4,624 billion, albeit lower than the growth of 20 percent registered as at end June 2021. The expansion of the assets of banks was mainly driven by deposit mobilization, retained earnings, and capital injection. Customers' deposits increased by 19 percent to FRW 3,375 billion in June 2022 from FRW 2,836 billion in June 2021, higher than the growth of 16.2 percent registered in June 2021. In similar fashion, retained earnings increased by 39.9 percent to FRW 198 billion in June 2022 from FRW 141 billion in June 2021, while paid up capital increased by 13.3 percent to FRW 421 billion in June 2022 from FRW 372 billion in June 2021.

Financial intermediation remains the core business of banks. As at end June 2022, net loans accounted 54.2 percent of total assets of banks, followed by Government securities with 19.4 percent. Loans and Government securities are the key earnings assets of banks and together contributed 71.8 percent of total income of banks (61.4 percent from loans and advances and 10.4 percent from Government securities). Other assets of banks include assets held in other financial institutions (12.6 percent of total assets), reserves at the NBR (5.8 percent), fixed assets (3.1 percent), cash in vaults (2.0 percent), and other assets 2.9 percent (Table 20). With this structure of assets, assets quality of banks determines the overall performance and soundness of the banking sector.

Table 20: Structure of Banks' Assets

Assets of Banks (FRW Billion)	Jun-20	Jun-21	Jun-22	% Share in total assets (Jun 20/21)	% Share in total assets (Jun 21/22)
Cash in Vaults	75	114	112	2.5	2.0
Reserves in NBR	199	244	320	5.3	5.8
Dues from Financial Institutions	436	557	689	12.0	12.5
Government Securities	704	857	1,064	18.5	19.4
Net Loans	2,183	2,553	2,977	55.2	54.2
Fixed Assets	162	171	168	3.7	3.1
Other Assets	93	128	161	2.8	2.9
Total Assets	3,854	4,624	5,492	100.0	100.0

Source: NBR, Financial Stability Directorate

Gross outstanding loans of Banks increased by FRW 438 billion from FRW 2,729 billion as at end June 2021 to FRW 3,167 billion as at end June 2022. Despite this growth in absolute amount, the annual growth rate of banking sector loans moderated to 16 percent in June 2021 from 18.6 percent in June 2021. The slowdown of the growth of outstanding loans is largely explained by weak lending during the first half of 2022. In total, new loans approved by banks in 2022H1 amounted FRW 586 billion, FRW 45 billion less than FRW 631 billion that were approved in 2021H1. The other aspect that contributed to the deceleration of the growth of outstanding loans related to the write offs performed by banks. Writing off bad debts is an international practice that banks use to clean up their long term bad debts as these may distort their balance sheet. Domestically, the regulation n°12/2017 of 23/11/2017 on credit classification and provisioning requires Banks to write off non-performing loans that exceeded 360 days in loss category[4]. Accordingly, banks wrote off loans worthy FRW 68 billion between June 2021 and June 2022 compared to loans worthy FRW 33 billion that were written off during the previous year.

From sectoral perspective, the lending improved in sectors including manufacturing, public works, residential real estate, transport and communication (Table 21). The growth of loans in these sectors is attributed to the increase of new authorized loans by Banks during the period under review, consistent with the resumption of the economic activities. In particular, in the residential real estate, which is the current most financed sector with 15.5 percent share in total outstanding loans, the growth of loans increased by 26.9 percent in June 2022 compared to the growth 10.9 percent in June 2021.

In contrast, lending continues to moderate in commercial real estate. As at end June 2022, the outstanding loans in commercial real estate increased by 5.4 percent, down from 15.2 percent in June 2021. The deceleration of the growth of loans in commercial real estate is mainly attributed to the moderation of new lending in line with elevated credit risks in this sector and write offs. In facts, commercial real estate has experienced higher deterioration of assets quality due to the poor performance of the sector associated with low occupancy rate and insufficient rental income.

Banks loans remain well diversified and this minimizes risks that may arise form credit concentration in event of adverse development in a particular sector. As at end June 2022, the top financed sectors by banks were residential real estate (15.5 percent), trade (13.9 percent), consumer loans (12.8 percent), manufacturing (11.6 percent) and transport and communication (10.8 percent).

[4] Loss category / class 5: The loan repayments overdue for more than 1 year.

Table 21: Outstanding Loans by Activity Sector

Activity Sector	Outstanding Loans (FRW Billion)			Annual Growth Rate	
	Jun-20	Jun-21	Jun-22	% Change 20/21	% Change 21/22
Personal Loan	250	361	405	44.4	12.2
Agricultural & Livestock	26	30	24	15.4	- 20.0
Mining	3	1	1	-66.7	0.0
Manufacturing	262	304	366	16.0	20.4
Water & Energy	106	116	119	9.4	2.6
Public Work	191	195	209	2.1	7.2
Residential Properties	348	386	490	10.9	26.9
Commercial Properties	224	258	272	15.2	5.4
Trade	333	383	440	15.0	14.9
Hotels	198	268	314	35.4	17.2
Transport &Communication	246	276	341	12.2	23.6
OFI	25	7	9	-72.0	28.6
Other Services	90	144	178	60.0	23.6

Source: NBR, Financial Stability Directorate.

As it was reported in the previous editions of the MPFSS, the government launched the first phase of ERF in April 2020 to support businesses most affected by the pandemic. The fund was initiated with USD 100 million and the latter enhanced market confidence, liquidity conditions of banks and supported the refinancing of credit in sectors most affected by the pandemic including public transport, education sector and hotels. Besides, the fund availed working capital to micro businesses, SMEs, large corporates and originated an SME guarantee scheme to de-risk SME lending.

On 18th May 2022, the Government launched the second phase of the Economic Recovery Fund (ERF2) with aim of increasing access to finance and continue to foster recovery and resilience of businesses mostly through investments. With the additional USD 250 million for the second phase, the ERF 2 will provide funding to key sectors that champion innovation, create employment opportunities and prioritize "Made in Rwanda". The fund is also expected to provide loans to businesses which demonstrate the negative impact of COVID-19 on their operations proven by at least 20 percent reduction in sales for the past 12 months. Additionally, it will allocate working capital for small businesses, guarantee scheme for special categories such as youth and women as well as a refinancing window for targeted sectors. The operationalization of the second phase of the Economic Recovery Fund (ERF 2) is expected to uplift lending in periods ahead, and curb the heightening of credit risks as Banks deal with post COVID 19 effects and other emerging risks.

With regard to operational resilience, Banks have embarked on improving their information technology and security capabilities to increase their competitiveness and enhance resiliency to cyber risks. Cyber risk is the potential for the disruption or destruction of information technology systems that results in the interruption of businesses and subsequently financial loss. In the case of banks, such incidents could lead to financial distress within an institution and have flow-on effects to its lending and deposit-taking businesses, with implications on the wider economy. The digital transformation initiatives currently underway aim at meeting consumers needs and ensure smooth delivery of critical business services. Such initiatives not only contribute to efficient and effective service delivery, but also play an important role in improving cost efficiency and enhance profitability in long term. Going forward, the NBR will continue to ensure banks have robust plans in place to cope with cyber threats and maintain business continuity.

5.3.2. The Soundness of the Banking Sector

The capital position of the banking sector remained stable with sufficient buffers above regulatory requirements. As at end June 2022, the aggregate total Capital Adequacy Ratio (CAR) of banks stood at 23.1 percent, higher than the minimum regulatory requirement of 15 percent (Table 22). Similarly, the aggregate core CAR deemed as high quality capital stood at 22.1 percent as at end June 2022, higher than the minimum regulatory requirement of 12.5 percent. From a solo perspective, all banks are solvent and maintained capital buffers above the minimum prudential requirements. The sufficient capital buffer held by banks indicates the resilience of the banking sector to shocks in sense that these buffers are reserves that banks can use to cover losses from their exposures and continue lending without breaching regulatory minimum requirements.

The capital ratios remained above the regulatory requirements predominantly as a result of capital injections, retained earnings and the moderation of the growth of risk weighted assets due to increased investments in liquid assets. Risk weighted assets of banks increased by 12.6

percent to FRW 3,607 against the growth of 27.1 percent in June 2021. The moderation of the growth of risks weighted assets mirrors the slowdown of lending and increased investment in liquid assets. Furthermore, paid up capital increased by 13.3 percent to FRW 421 billion in June 2022 higher than the growth of 11.2 percent registered in June 2021. During the same period, retained earnings grew by 39.9 percent to FRW 198 billion.

The adequate capitalization of banks is also reflected by the leverage ratio from a broader on and off balance sheet consideration. The leverage ratio is an important additional solvency indicator that measures capital resilience independently of risk-weighted assets and therefore removes possible distortions in the risk weight estimates. The leverage ratio for the banking sector averaged at 12.7 percent as at end June 2022, higher than 6 percent minimum regulatory requirement. These solvency buffers offer the first line of defense for the Banks to absorb losses to a certain extent and at the same time continue the provision of credit to the economy. In medium term, banks are expected to remain adequately capitalized, and thus to support households and businesses despite the unfavorable economic outlook.

Liquidity risk remains low. Banks are required to always hold a sufficient stock of liquid assets to be able to meet customer to meet customers' funding needs during a period of stress. Banks' Liquidity Coverage Ratio (LCR) – which measures holding of liquid assets relative to the potential outflows that could occur in a short-lived but severe stress scenario – have remained comfortably above regulatory requirements. As at end June 2022, banks' aggregate LCR stood at 224.7 percent, well above the minimum requirement of 100 percent. This an indication that banks hold sufficient High-Quality Liquid Assets (HQLA) to meet their short-term (30-day) liquidity obligation.

The long-term liquidity position of banks also remains stable. While the LCR provides information on banks' liquidity position from a short-term perspective, the Net Stable Funding Ratio (NSFR) takes a longer-term view and provides information on whether banks have sufficient long-term funding to finance their illiquid assets over a one-year horizon. As at end June 2022, the NSFR stood at 130.9 percent respectively, higher than 100 percent minimum regulatory requirement.

The robust liquidity conditions of banks are partly reflective of stable funding base. The customer deposits that accounted for 74 percent of total banking system liabilities expanded by 19 percent to FRW 3,375 billion in June 2022 from 2,836 billion in June 2021, higher than the growth of 16.2 percent registered in June 2021. Deposits are mainly from residents (97 percent of total deposits) and this minimizes risks associated with tight global financial conditions and volatility in global financial markets during the periods of crisis.

The liquidity risk facing banks relates to the reliance on short-term resources. As at end June 2022, around 65 percent of banks' deposits were demand deposits, funds that can be withdrawn any time. The term deposits held by banks represent 35 percent of total deposits out of which, 92 percent hold a maturity of less than 1-year. With this funding structure, banks are exposed to funding risk related to excessive maturity transformation. Short-term resources also limit banks' ability to provide credit in long term.

Credit risk remains the major risk facing the financial sector. The stock of Non-Performing Loans (NPLs) in banks reduced by FRW 12 billion (Y-o-Y) to FRW 166 billion in June 2022 from FRW 178 billion in June 2021 mainly on account of write off of overdue loans. Between June 2021 and June 2021, write offs amounted FRW 68 billion out of which FRW 16 billion were written of during the second quarter of 2022. Consequently, NPL ratio dropped to 4.3 percent in June 2022 from 5.7 percent in June 2021 (Table 22). The decline of NPL ratio is also linked to the growth of outstanding loans during the period under review.

Table 22: Key Financial Soundness Indicators for Banks (Percent)

Indicators (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Total CAR (min 15 %)	21.9	23.3	23.6	22.5	23.1
Tier 1 CAR (Core CAR)	20.1	21.8	22.3	21.4	22.1
NPLs Ratio	6.9	5.6	5.5	5.7	4.3
Provisions / NPLs	67.4	80.2	82.6	99.0	114.4
Return on Average Assets	1.6	1.6	1.8	2.5	2.8
Return on Average Equity	9.5	9.3	9.9	14.4	16.5
LCR (min 100%)	299.5	180.5	253	226.2	224.7
NSFR (min 100%)	224.7	164.3	164.3	157.4	130.9
FX Exposure/Core Capital (± 20%)	-6.1	-8.6	-6.6	-4.7	-4.4

Source: NBR, Financial Stability Directorate

From a sectoral perspective, NPL ratio reduced in key sectors like trade, hotels, transport, public works, residential properties, other services and for consumer loans (Table 23). The reduction of NPLs in these economic sectors mainly mirrors the growth of outstanding loans and write offs. However, NPL ratio increased in other sectors including commercial real estate, manufacturing, water and energy sector and agriculture. In agriculture and manufacturing, the increase of NPLs reflects the challenges in global supply chain and increased commodity prices, especially for metal and fertilizers that are affecting productivity and earnings of borrowers in these two sectors. The deterioration of assets quality in water and energy sector is largely linked to the poor performance of one big project that downgraded to NPLs, thus affecting the portfolio of the entire sector.

In spite of the above mentioned challenges, most of the loans that had benefited from the credit moratorium resumed repayment supported by the recovery of economic activities. As result, the stock of loans that remained in moratorium reduced to FRW 50 billion in June 2022 (1.6 percent of total loans) from FRW 83 billion in December 2021 (2.8 percent of total loans) and FRW 215 billion in June 2021 (7.9 percent of total loans). The hotel sector that benefitted from the extended moratorium represents the biggest portion of loans still under moratorium (58 percent). As it was reported in the previous MPFSS of March 2020, the regulatory forbearance on loan restructuring was phased out by end September 2021 to avoid moral hazard-related risks and instill balance sheet transparence among the banks.

Looking ahead, the rising inflation originating from increased commodity prices and global supply chain hitches are expected to moderately increase credit risk to banks. New challenges could arise for households and businesses in the case of continued rising energy prices that indirectly impacts on the performance of other businesses. To preserve the stability of the banking sector amidst this increased risks, the NBR will focus on effective monitoring of credit risk in banks as well as ensure appropriate classification and provisioning.

Table 23: NPLs Ratio by Economic Sector (percent)

Activity Sectors	NPLs Ratio (Percent)				% share in total NPLs
	Jun-19	Jun-20	Jun-21	Jun-22	
Personal Loans	6.0	7.4	5.9	5.5	7.6
Agricultural & Livestock	5.0	4.8	2.6	7.8	1.1
Mining	88.4	80.4	0.1	0.3	0.0
Manufacturing	1.4	0.6	0.8	3.1	6.5
Water & Energy	0.0	0.0	0.0	24.0	16.3
Mortgage	3.8	5.5	8.0	6.7	37.4
Public works	*2.3*	*3.2*	5.9	1.4	1.7
Residential Properties	*4.9*	*4.3*	3.7	3.4	9.7
Commercial Properties	*3.6*	*9.3*	16.0	16.7	26.0
Trade	15.6	10.8	8.1	6.3	15.8
Hotels	8.8	3.8	9.0	5.0	8.9
Transport & Communication	2.3	1.4	1.5	1.4	2.7
Financial Services	1.7	1.1	2.4	2.6	2.9
Other Services	6.7	8.2	4.3	0.8	0.8

Source: NBR, Financial Stability Directorate

The banking sector remained profitable during the period under review. The aggregate net profits of banks increased by 33.1 percent to FRW 74.4 billion in the first half of 2022 from FRW 55.9 billion during the first half of 2021. As result, the Return on Assets (ROA) that gauges how efficient banks managements are in earning profits from the assets on their balance sheet, increased to 2.8 percent in first half of 2022 from 2.5 percent in first half of 2021. During the same period, the Return on Equity (ROE), that measures banks' ability to turn equity capital into profits, increased to 16.5 percent from 14.4 percent. The improved profitability of banks is associated with increased investments in earning assets, notably loans and Government securities, and improved efficiency. During the first half of 2020, banks' revenues increased by 19 percent to FRW 354 billion from FRW 298 billion during the first half of 2021, and exceeded the growth of expenses. The growth of banks' revenues was largely underpinned by the increase of interest income. Interest income represented 75.4 percent of total income of banks and increased by 12.7 percent to FRW 267 billion in 2021H1 from FRW 237 billion in 2020H1. The interest income mainly consists of interest income on loans and advances (82 percent), interest income on Government securities (14 percent) and interest income on banks' placements (3 percent). This structure of banks' revenues implies that credit demand and quality of loans are key factors determining the profitability of banks. The macroeconomic stability is therefore of paramount importance for future profitability and overall stability of banks.

Banks revenues were also beefed up by the growth of non-interest income. During 2022H1, non-interest income increased by 43.4 percent to FRW 87 billion from FRW 61 billion in 2021H1, higher than the growth of 14.9 percent recorded during the corresponding period in 2021. Non-interest income is largely made of commissions fees (45 percent), foreign exchange income (23 percent) and recoveries (31 percent). Commission fees increased by 37.7 percent to FRW 40 billion in 2022H1 from FRW 29 billion in 2020H1, against the growth of 26.2 percent recorded in 2021H1. Similarly, foreign exchange income increased by 59.2 percent to FRW 20 billion form FRW 13 billion, while the recoveries grew by 31 percent to FRW 27 billion from FRW 19 billion. Generally, the improved growth of non-interest income is linked to increased demand for financial services consistent with the recovery of economic activities.

Regarding the expenses structure, the growth of expenses increased during the period under review, but at lower pace compared to the growth of income. Total expenses of banks increased by 14.4 percent to FRW 246 billion in 2020H1 from FRW 216 billion in 2021H1, compared to the growth of 10.1 percent in 2021H1. The growth of banks' expenses happened in interest expenses on deposits which increased by 21.3 percent to FRW 56 billion in 2022H1 higher than the growth of 9.6 percent in 2021H1.The growth of interest expenses largely mirrors the expansion of deposits during the period under review.

Other interest expenses that comprise of interest expense on borrowings increased by 15 percent to FRW 22 billion in 2022H1, lower than the growth of 33.2 percent in 2021H1. The moderation of the growth of other interest expenses is linked to the slowdown of the pace of borrowing during the period under review. As at end June 2022, banks' borrowings increased by 24.3 percent down from 29 percent during the previous year. Furthermore, the growth of staff costs that accounted for 20 percent of total expenses of banks remained relatively stable at 9.3 percent in 2022H1 relative to 9.7 percent in 2021H1. The provisions for bad debts declined by 26 percent to FRW 35 billion in 2022H1 against the growth of 19.8 percent in 2021H1 mainly due to the write back of provisions on loans in moratorium.

In period ahead, the improving efficiency is expected to continue enriching the profitability of banks. The total cost to total income ratio used to measure the efficiency at which banks are being run dropped to 69.7 percent in June 2022 from 72.5 percent in June 2021, 79.5 percent in June 2020 and from a pick of 90.2 percent in June 2010.

5.4. The Microfinance Sector

5.4.1. Structure of the Microfinance Sector

The microfinance sector is comprised of 457 institutions of which 416 are Umurenge SACCOs (U-SACCOs), 22 non-Umurenge SACCOs and 19 Public Limited Companies (PLCs). The microfinance sector is relatively small in size as it accounts only for 6 percent of total assets of the financial sector. However, microfinance institutions are spread all over the country and their outreach make the services and products they offer essential to the wide population. Around 4,978,448 individuals (62.4 percent of adult population) and 408,846 group entities have access to microfinance services and they continue to play a paramount role in promoting access to finance and alleviating poverty, especially in rural areas.

5.4.2. Performance of the Microfinance Sector

The balance sheet of the Microfinance Institutions (MFIs) continued to grow during the period under review. Total assets of the microfinance sector expanded by 22.6 percent in June 2022 to FRW 473 billion from FRW 386 billion in June 2021, higher than the growth of 16.8 percent registered in June 2021. The improved growth of assets of MFIs is mainly reflective of growth of deposits and capital. Customers' deposits constituted 85 percent of total liabilities of MFIs and their growth highly influences the growth of assets. The total deposits in MFIs grew by 24.5 percent (from FRW 213 billion in June 2021 to FRW 265 billion in June 2022), up from 18.9 percent growth registered in June 2021. The growth of deposits in MFIs is associated with the recovery of small scale businesses and the ripple effect of the performance of the agriculture in 2021 that boosted the cash flow of farmers and their saving abilities. Furthermore, the total shareholders' funds of MFIs expanded by 17.2 percent to FRW 160 billion in June 2022 from FRW 137 billion in June 2021.

The growth of MFIs' equity was supported by capital injection (+ FRW 8.7 billion), retained earnings (+ FRW 6.0 billion), profits of the current period (+ FRW 1.6 billion) and other equity (+ FRW 7.0 billion) that mainly comprises of subsidies.

Asset mix of MFIs remained relatively unchanged. As at end June 2022, loans constituted 53.6 percent of total assets of MFIs against 53.8 percent in June 2021. Placements in banks accounted for 35.5 percent of total assets of MFIs as at end June 2022 up from 34.6 percent in June 2021. Other assets components of MFIs include cash in vault (2.1 percent in June 2022 from 2 percent in June 2021), Government securities (1.6 percent, the same level it was in June 2021) and other assets (7.2 percent in June 2022 down from 8.0 percent in June 2021).

Outstanding loans improved during the period under review. As at June 2022, loan portfolio of MFIs expanded by 20.7 percent to FRW 260 billion in June 2022 from FRW 215 billion in June 2021, higher than the growth of 18.5 percent registered in June 2021. Lending improved in all categories of MFIs. In U-SACCOs, outstanding loans increased by 25.8 percent in June 2022 from 20.9 percent in June 2021. During the same period, outstanding loans in Public Limited Companies (PLCs) grew by 22.8 percent from 20.9 percent in June 2021, while the outstanding loans in other SACCOs increased by 15.3 percent from 14.9 percent. The improved growth of lending in MFIs was mainly underpinned by the increased resources, improved assets quality and recovery of small scale businesses that in turn prompted the growth of credit demand. Looking ahead, lending is expected to continue growing, especially in other SACCOs following salary increments of teachers in public schools and the latter expanded their borrowing and payment abilities.

Generally, the microfinance sector remains on good footing and continues to hold capital and liquidity buffers above the regulatory minimum requirements owing to the buffers that were accumulated during years prior to the outbreak of the pandemic, improved profitability, capital injections and improved assets quality in line with the recovery of small scale businesses.

5.4.3. Soundness of the Microfinance Sector

The microfinance sector continues to be adequately capitalized. As at end June 2022, the aggregate CAR of MFIs stood at 33.9 percent, higher than the 15 percent minimum regulatory requirement (Table 24). All categories of MFIs comply with the capital adequacy requirements. The CAR of U-SACCOs stood at 32.9 percent as at end June 2022, while the CAR for Public limited companies and other SACCOs stood at 24.7 percent and 44.4 percent respectively. The robust capitalization of MFIs is also associated with the expansion of capital base and improved assets quality. On one hand, total equity of MFIs increased by FRW 23 billion to FRW 160 billion in June 2022 from FRW 137 billion in June 2021. On the other hand, the reduction of NPLs resulted to a decline of provisions for bad debts and increased profits of MFIs.

The liquidity position of MFIs also remains healthy (Table 24). The industrywide liquidity ratio of MFIs stood at 105.2 percent, against 30 percent minimum prudential requirement and all categories of MFIs comply with this regulatory requirement. For example, the liquidity ratio of U-SACCOs and PLCs stood at 101.6 percent and 86.3 percent as at end June 2022 respectfully, while the liquidity ratio of other SACCOs stood at 152.8 percent. The stable liquidity levels of MFIs is largely linked to the growth of deposits, capital and the growth of revenues in line with increased lending and improved assets quality.

Asset quality of MFIs have improved consistent with the rebound of the economy, and more specifically the recovery of small scale businesses. The stock of NPLs in MFIs declined by FRW 1.2 billion to FRW 12.9 billion in June 2022 from FRW 14.1 billion in June 2021. As result, NPL ratio in MFIs dropped to 5 percent in June 2022 from 6.6 percent in June 2021. The reduction of NPLs was most apparent in U-SACCOs and other SACCOs. In U-SACCOs, outstanding NPLs dropped to FRW 5.8 billion in June 2022 from FRW 6.2 billion in June 2021. During the same period, outstanding NPLs in other SACCOs reduced to FRW 2.3 billion from FRW 3.5 billion. Accordingly, the NPL ratio in U-SACCOs dropped to 7.8 percent as at end June 2022 from 10.6 percent as at end June 2021, while in other SACCOs, it dropped to 2.4 percent in June 2022 from 4.3 percent in June 2021. In PLCs, NPLs ratio declined to

5.4 percent in June 2022 from 6 percent in June 2022 mainly on account of the higher growth of outstanding loans relative to the growth of NPLs.

Sector wise, NPL ratio dropped in transport (to 7.8 percent from 8.5 percent), in trade (to 5.1 percent from 8.2 percent), construction (to 4.1 percent from 5 percent) and for consumer loans (to 3 percent from 6.4 percent). However, NPLs ratio increased in agriculture sector to 7.1 percent from 5.6 percent, on account of growth moderation of the agriculture output which is associated with bad whether condition. Looking ahead, the shortage and increased prices of fertilizers will continue to weigh on the agricultural output, thus affecting the financing of this sector.

Table 24: Performance Indicators of Microfinances

Microfinance Sector	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Assets (FRW billion)	279	313	330	386	473
Loans (FRW billion)	149	168	182	215	260
Deposits (FRW billion)	154	167	179	213	265
Equity (FRW billion)	91	106	114	137	160
Net profit/Loss (FRW billion)	3.3	6.6	1.1	9.0	10.6
Capital Adequacy Ratio (%)	32.5	33.9	34.5	35.4	33.9
NPLs Ratio (%)	7.9	6.7	12.8	6.6	5.0
Liquidity Ratio (%)	103.4	108.8	110.1	106.1	105.2
U-SACCOs	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	
Assets (FRW billion)	128	138	139	161	191
Loans (FRW billion)	42	47	49	59	74
Deposits (FRW billion)	68	73	78	92	112
Equity (FRW billion)	41	44	46	54	63
Net profit/Loss (FRW billion)	1.8	2.9	0.3	3.9	4.7
Capital Adequacy Ratio (%)	32.2	31.9	32.8	33.6	32.9
NPLs Ratio (%)	12.3	12.5	21.8	10.6	7.8
Liquidity Ratio (%)	117.7	117.5	113.2	106.9	101.6
Public Limited Companies	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	
Assets (FRW billion)	69	86	93	111	141
Loans (FRW billion)	46	55	60	72	89
Deposits (FRW billion)	45	53	57	68	83
Equity (FRW billion)	14	20	21	28	35
Net profit/Loss (FRW billion)	-0.6	1.1	-1.1	0.7	1.6
Capital Adequacy Ratio (%)	20.5	23.2	22.2	24.9	24.7
NPLs Ratio (%)	8.7	5.2	12.4	6.0	5.4
Liquidity Ratio (%)	72.6	77.6	82.1	78.6	86.3
Other SACCOs	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	
Assets (FRW billion)	82	89	97	114	141
Loans (FRW billion)	61	65	73	84	97
Deposits (FRW billion)	41	41	44	53	70
Equity (FRW billion)	35	42	48	55	63
Net profit/Loss (FRW billion)	2.1	2.5	1.9	4.4	4.3
Capital Adequacy Ratio (%)	43.1	47.0	48.7	48.2	44.4
NPLs Ratio (%)	4.2	3.7	7.1	4.3	2.4
Liquidity Ratio (%)	102.5	138.5	157.8	165.7	152.8

Source: NBR, Financial Stability Directorate

The microfinance sector remains profitable. During the period under review, net profits of MFIs increased by 18 percent to FRW 10.6 billion during the first half of 2022, up from the profit of FRW 9 billion recorded during the corresponding period in 2021. The increase of the profit of MFIs is mainly linked to the improved growth of revenues and reduction of provisions for bad debts. On one hand, the revenues of MFIs increased by 21 percent to FRW 36.6 billion during the first half of 2022 from FRW 30.3 billion during the first half of 2021, against a decline of 1.5 percent during the first half of 2021. The improved growth of income is mainly reflective of increased lending and improved asset quality. On the other, provisions for bad debts reduced to FRW 1.7 billion during the first half of 2022 from FRW 2.1 billion during the first half of 2021 on account of the reduction of NPLs.

5.5. The Insurance Sector

5.5.1. Structure of the Insurance Sector

The insurance sector is made of a range of institutions that offer risk management in the form of insurance contracts. Private insurance is composed of 13 insurance companies, of which 9 offer non-life insurance products, 3 offer life insurance and 1 micro insurance business. In addition to private insurers, the sector also consists of 2 public health insurers (RSSB Medical and MMI) and 1 Captive Insurance.

Public medical insurers remain dominant in size with a percentage share of 62.2 percent of the total assets of the insurance sub-sector as of June 2022 compared to 62.9 percent in June 2021. In terms of Gross Written Premiums (GWP), the two public medical insurers share 41.7 percent of total written premiums of the insurance industry.

The insurance sector in Rwanda continues to be the provider of liquidity for Banks. As at June 2022, the total placements of insurers in Banks increased by 27 percent from FRW 256.4 billion in June 2021 to FRW 325.8 billion constituting 43.5 percent of their total assets and 10 percent of total banking sector customer deposits. The increase in placement is largely due to increased interest rate and appetite of insurers to invest in safe investment channels. Insurers also held investments in local equities (FRW 67 billion) equivalent to 9 percent of their total asset and in Government securities amounting to FRW 178 billion equivalent to 24 percent of their total assets.

The general insurance (Non-life) business which is short term in nature remained the highest contributor to private insurance premium with 79.9 percent of premiums of private insurers and 46.4 percent of total insurance sector GWP as of June 2022. General insurance business largely consists of motor and medical insurance classes of business with combined share of 64 percent of total gross premiums and 29.6 percent of total insurance industry. On the other hand, life insurance, a long-term category of insurance provides a financial compensation of amount assured at the maturity or in case of the death of policyholder. Life insurance business consists of ordinary life, traditional life, term and credit life products. Ordinary life and Credit protection dominated with 73 percent of gross premiums collected by Life Insurance in June 2022 (Table 26).

Table 25: Product Break Down for Non-Life Insurance

Product Description (In FRW Million)	June-21			June-22		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Motor	17,034	9,757	62%	19,453	11,411	62%
Property	6,248	451	28%	6,738	391	15%
Liability	953	236	54%	1,237	362	87%
Transportation	555	36	10%	1,007	193	35%
Accident& Health	1,037	245	42%	1,225	163	25%
Engineering	2,232	219	33%	2,941	237	33%
Guarantee	2,368	633	77%	2,244	23	3%
Medical	10,918	6,989	80%	14,694	7,246	69%
Miscellaneous	3,287	71	18%	3,877	193	27%

Source: NBR, Financial Stability Directorate.

Table 26: Product Break-Down for Life Insurance

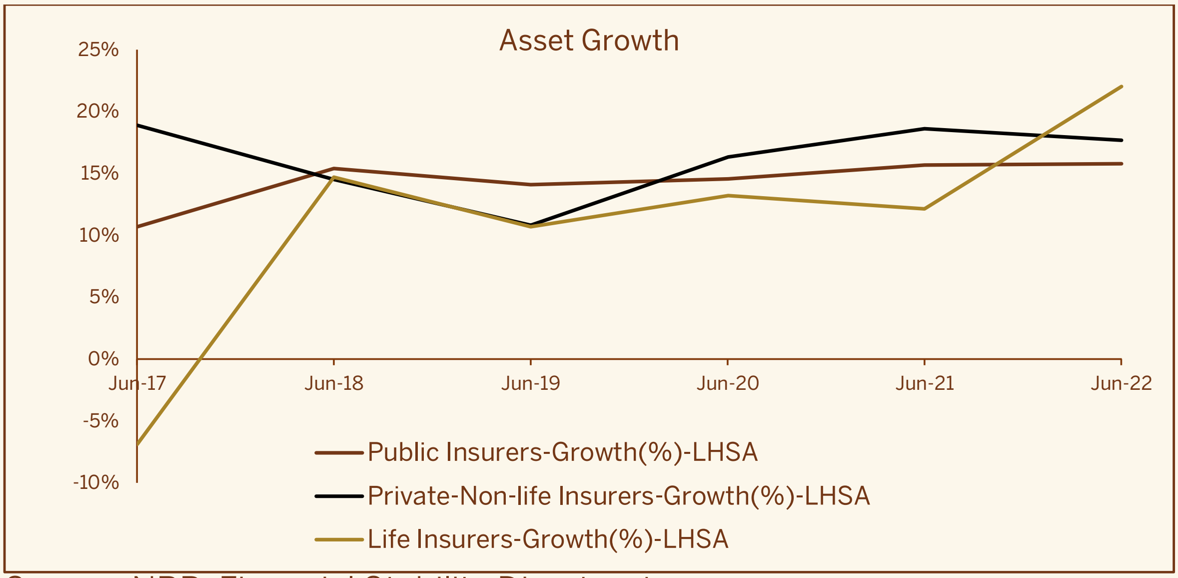
Product description (In FRW Million)	June-21			June-2022		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Ordinary life	5,176	3,033	62%	5,856	4,455	83%
Traditional life	1,126	1,728	160%	1,362	1,349	165%
Term life	1,851	337	20%	331	448	415%
Credit life	1,995	994	84%	3,179	1,794	75%
Funeral and others	1,426	734	63%	1,634	1,050	88%

Source: Financial Stability Directorate

5.5.2. Performance of the Insurance industry

The balance sheet of the insurance sector continued grow during the period under review. Total assets of the sector increased by 17 percent to FRW 748 billion higher than the growth of 6 percent recorded in June 2021. All categories of Insurers recorded double-digit growth between June 2021 and June 2022 reflecting higher returns on investment income (Chart 16).

Chart 16: Assets Growth per Category



Source: NBR, Financial Stability Directorate

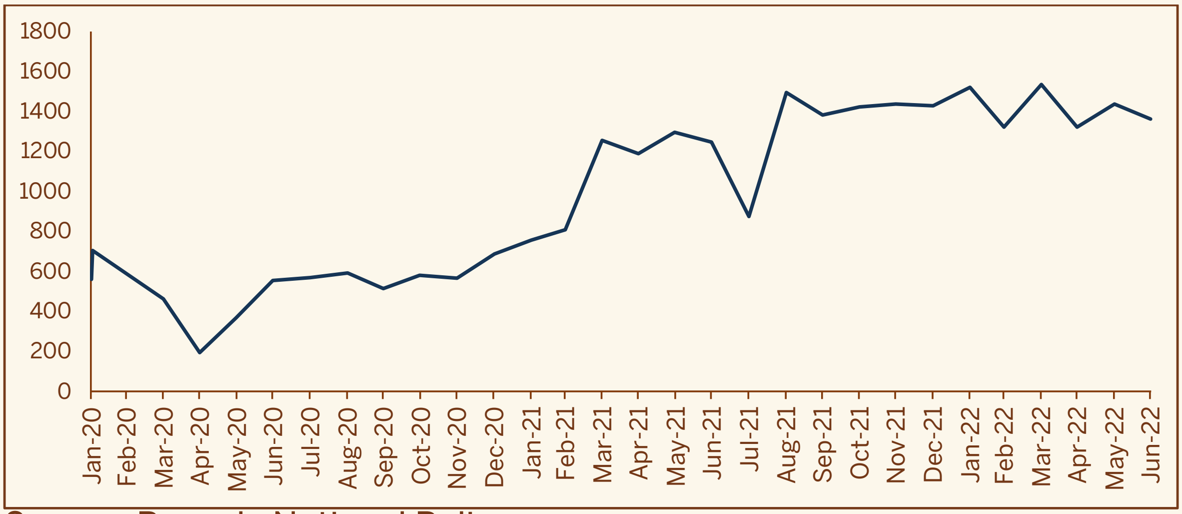
The asset structure of Insurers varies depending on the line of business. From an industry-wide perspective, the insurers are becoming more attracted to safe investment, mostly in placements in Bank (46 percent of total insurers' assets as at June 2022), followed by Government securities (24 percent), equity investments (9 percent), receivables (8 percent), investment in property (7 percent), other assets (6 percent). Life insurers reduced their exposure in properties in favor of less risky investments like Government securities and placements. On the other hand, private non-life insurers (short-term insurers) continued to hold most of their assets in short term investments in order to cater for their short-term liabilities – placements in banks with average one-year maturity represented 28.7 percent of total assets and Government securities—dominantly treasury bills (22 percent). Other investments are properties with a share of 11 percent, loans and receivables (12.6 percent) and others assets (19 percent).

In reflection of the increased risks undertaking, the technical provisions in private insurance increased during the period under review. The ttechnical provisions stand for the amount that an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders over the lifetime of the insurer's portfolio of insurance contract. As at June 2022, technical provisions in private insurance increased by 18 percent to FRW 147 billion, higher than the growth of 16.7 percent registered in June 2021. A big portion of technical provisions (60 percent) were held by non-life insurers in form of unearned premiums (49 percent), claims reported outstanding (41 percent) and claims incurred but not reported (10 percent). In Life insurers, actuarial provisions constituted the largest share accounting for 85.2 percent of total technical provisions, followed by unexpired risks (10.2 percent) and unearned premiums (4.6 percent). Actuarial provisions are based on scientific assumptions made by actuaries to determine the amount an Insurer must pay periodically to cover the expenses of policyholders.

Premiums written grew at a low rate compared to the corresponding period. Premiums increased by 16 percent in June 2022 (from FRW 99.5 billion to FRW 115.2 billion), compared to the growth of 26 percent registered as at June 2021 (Table 27). Growth of premiums was more noticeable in non-life than life insurance business. In private Non-life insurance, gross premiums increased by 20 percent to FRW 53.4 billion, lower than 26 percent recorded in June 2021.

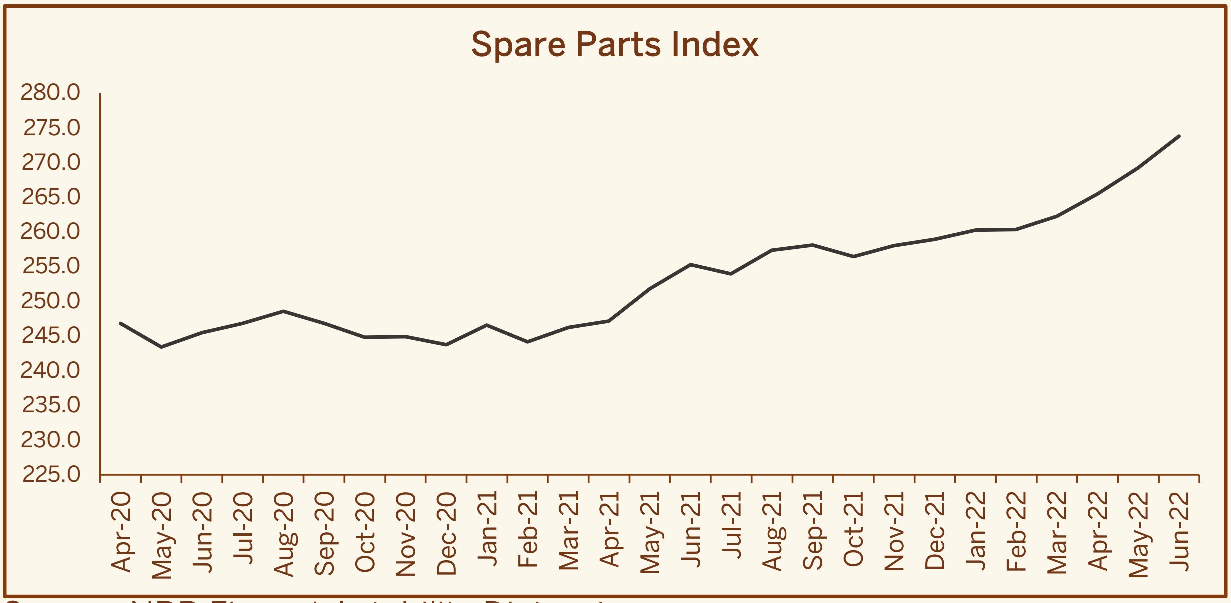
Claims have also increased during the period under review. As at June 2022, the value of claims have increased by 16 percent to FRW 30 billion. Higher claims were noted in motor insurance categorised in Non-life private insurance. The growth of claims in motor was partially associated with an increase in accidents, hike in spare parts prices and increased labor cost (Chart 17, 18, 19).

Chart 17: Number of Road Users Involved in Accidents



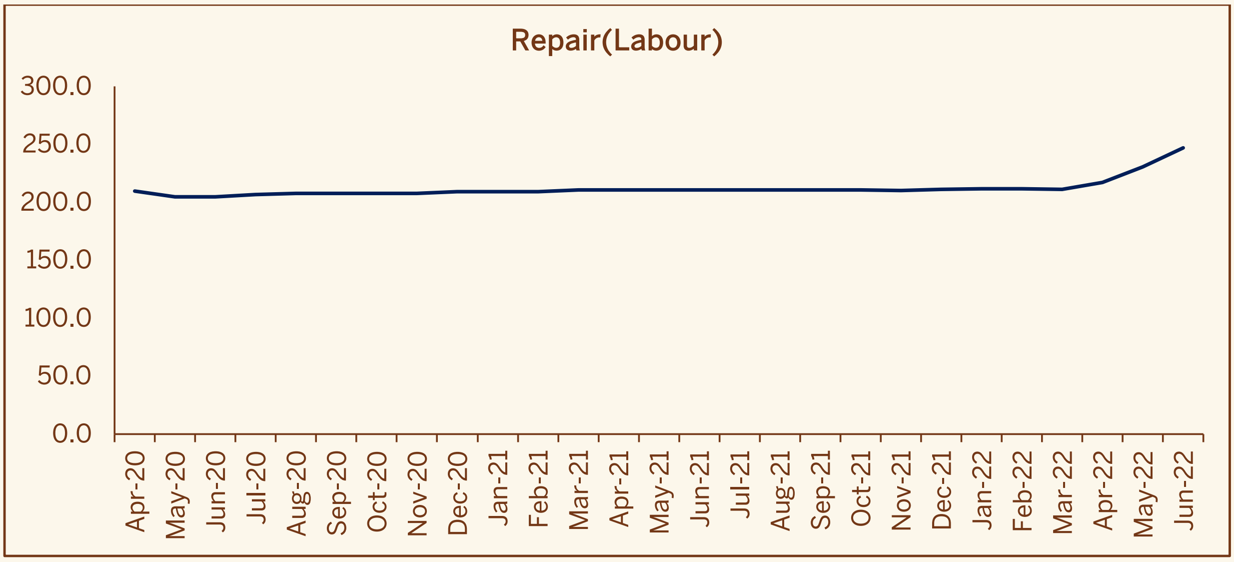
Source: Rwanda National Police.

Chart 18: Spare Parts Price Index



Source: NBR,Financial stability Dictorate

Chart 19: Repair (Labor) Price Index



Source: NBR, Financial Stability Directorate

Table 27: Financial Performance Highlights of the Insurance Sector

Description (In FRW billion)	Private Insurers			Public Insurers			Insurance sector		
	June-20	June-21	June-22	June-20	June-21	June-22	June-20	June-21	June-22
Gross written premiums	44.3	56.9	67	34.6	43	48.1	78.8	99.51	115.2
Net premiums written	35.1	44.08	49	34.6	43	48.1	69.6	86.7	97.6
Net Premiums earned	33.4	39.61	45.8	34.6	43	48.1	67.9	82.26	93.9
Total Claims	20.8	25.49	29.5	19.2	20.7	23.5	37.8	46.2	53
Management expenses	10.6	12.07	14.7	7.5		9.5	18.1	22.1	24.2
Commission Expenses	2.4	2.28	1.9	-	-	-	2.4	2.3	1.9
Underwriting profit (loss)	(0.5)	(0.24)	(0.41)	8	11.9	15.2	7.6	11.6	14.78
Investment Income	5.9	6.90	8.7	6.7	12.6	15.0	12.6	19.6	23.8
Other Income	2.1	2.37	1.8	0.3	0.4	0.17	2.4	2.8	1.4
Net profit after taxes	6.0	7.15	7.5	15	25	29.7	21.1	32.2	37.2
Assets	201.4	236.42	282.8	347	401.4	464.7	548.4	637.7	747.5
Technical provisions	104.8	122.34	144.7	1.4	1.6	2.1	106.3	124	146.8
Liabilities	136.01	158.3	186.7	7.3	6.5	7.5	143.3	164.8	194.2
Capital and reserves	65.4	78.13	96.1	339.7	394.8	457.17	405	472.	553.3

Source: Financial Stability Directorate

5.5.3. Financial Soundness of the Insurance Sector

The insurance sector remained solvent and liquid during the period under review. Generally, insurance companies are required to maintain a solvency ratio of 100 percent to minimize bankruptcy risk. This solvency position reflects sufficient capital buffers to support growth of insurance businesses as well as withstanding adverse shocks. Hence, it is a good indicator of an insurance company's financial capacity to meet both its short-term and long-term liabilities. During the period under review, the solvency position remained above prudential requirements. Private insurer's solvency ratio stood at 180 percent as at end June 2022 compared to 147 percent in June 2021 driven by increased quality of assets due to changes in investment mix of insurers.

On liquidity perspective, private insurers also maintained ample liquid assets. The liquidity ratio indicates the proportion of Insurers' liquid assets to cover their current liabilities. In June 2022, the liquidity ratio of private insurers stood at 100 percent, the same as the prudential requirements of 100 percent, improving from 94 percent in June 2021, due to increased investment in more liquid assets and the reduction of premium receivables between December 2021 and June 2022 (Table 28). In normal circumstances, insurers are not allowed to sell insurance on credit, but due to COVID-19, the NBR allowed insurance to sell insurance on credit (up to 90 days) to support the clients who were affected the pandemic. In November 2021, the NBR revised its regulatory forbearance to reduce the tenure of insurance credit to 60 days. As at June 2022, premium receivables represented 6 percent of private insurers' assets as at end June 2022, compared to 7 percent in June 2021.

Table 28: Financial Soundness of the Insurance Sector

Description (Ratios %)	Private Insurers			Public Insurers			Insurance sector		
	June 2020	June 2021	June 2022	June 2020	June 2021	June 2022	June 2020	June 2021	June 2022
Solvency margin (Min. 100%)	**136**	147	180	2463	2765	1087	1218	1374	410
Claims ratio (max.60%)	62	64	64	55	49	49	59	56	56
Expenses ratio (max. 30%)	39	36	36	22	23	20	30	30	28
Combined ratio (max.90%)	101	101	101	77	72	68	89	86	84
ROE (Min.16%)	18	18	16	9	13	13	10	14	13
ROA (Min.4%)	6	6	5	9	12	13	8	10	10
Current Ratio (min. 120%)	74	81	90	2998	3489	3630	243	239	250
Liquidity ratio (min. 100%)	90	94	100	3189	4413	4796	268	294	311

Source: NBR, Financial Stability Directorate

5.6. Pension Sector

5.6.1. Structure of Pension Sector

The pension sector is the second largest sub-sector of the financial sector and shared 16.7 percent of total assets of the financial sector as of end June 2022. The sector is dominated by the mandatory pension scheme (RSSB) for all salaried workers and operates as a defined benefit scheme. A defined benefit scheme is referred to a scheme where pension benefits are determined using a formula defined by pension legislations or contracts and on the basis of the number of periods (salaries) received by an insured, the period of contribution and his/her age. The scheme guarantees pension benefits to retirees (early retirement at 60 years and 65 years for mandatory retirement) who have contributed for a minimum of 15 years. Retirees who contribute for less than 15 years receive a lump sum payment. The Fund also administers the Long-Term Savings Scheme (LTSS) Ejo-Heza that was developed to increase pension penetration targeting workers in the informal sector not covered by the mandatory pension scheme.

The mandatory scheme held 91 percent of total pension sector assets in June 2022 compared to 94 percent in June 2021, and this indicates the continued growth of other pension schemes (private pension and LTSS). The 2015 Pension Law paved the way for the licensing of voluntary pension schemes which operate as Defined Contribution Schemes (DC). They provide pension benefits based on the contributions collected and the performance of the investment of those contributions. As at June 2022, the sector registered 12 schemes of which 7 were Complementary Occupational Pension Schemes (COPS) and 5 Personal Pension Schemes (PPS). COPS are established by agreement between employers and their employees while PPS are operated by financial institutions that provide retirement savings accounts of their clients.

5.6.2. Performance of Public Pension Fund (RSSB)

Assets of the public pension fund recorded moderate growth in period under review. Total assets increased by 6 percent from FRW 1,171 billion in June 2021 to FRW 1,243 billion in June 2022 on the back of increased contribution and investment income. Contributions increased by 17 percent during the period under review from FRW 108 billion to 127 billion. In addition, total investment income increased by 42 percent from 39 billion in June 2021 to FRW 55.3billion in June 2022 due to increase of interest income (on treasury bills and bonds, corporate papers and bank deposits) as well as dividend income which increase from FRW 1.2 billion as June 2021 to FRW 7.9 billion as at June 2022.

On the Fund's investment allocation front, RSSB pension scheme's investment portfolio reached FRW 1,224 billion as at end June 2022 and were diversified in different investment classes (Table 29). Investments in local unquoted equities worth FRW 266 billion represented 22 percent of the Fund's total portfolio, Government securities and investments in properties each represented 17 percent and 18 percent respectively of the portfolio, while Investments in local listed equities represented 9 percent of the portfolio. Offshore listed and unlisted equities represented 8 percent of the portfolio.

Table 29: RSSB Investment Mix

Investment Mix-Description (FRW Billion)	June-21	June-22	Portfolio Share
Treasury Bills	48	21	2%
Treasury Bonds	162	192	16%
Equity investments	464	476	39%
Investment in properties	219	223	18%
Term Deposits	133	112	9%
Cash (Current accounts)	91	109	9%
Commercial papers & Corporates bonds	36	91	7%
TOTAL	1,153	1,224	100%

Source: NBR, Financial stability Directorate

5.6.3. Performance of the Long-Term Saving Scheme (LTSS) Ejo-Heza

The Government of Rwanda through the Ministry of Finance and Economic Planning established Long Term Savings Scheme (LTSS) Ejo Heza under the Law N° 29/2017 of 29th June 2017 with aim of increasing pension penetration towards informal sector. The LTSS-Ejo Heza is a Defined Contribution (DC) scheme established on voluntary basis, whereby the subscriber opens a savings account with authorized financial intermediaries (Banks or Mobile Network Operators). The LTSS was established to solve the problem of huge pension and social security coverage gap where less than 6 percent of the Rwandan workforce was covered by formal pension and other social security arrangements. The LTSS-Ejo Heza was officially handed over to RSSB on 14th December 2018 under Prime Minister's Order No. 58/03 of 04/04/2018. The scheme started collecting savings from January 2019.

Assets of the Ejo-Heza Fund continued to grow as at end June 2022. Total assets increased by 95 percent from FRW 17 billion in June 2021 to FRW 32 billion in June 2022 owing to increased contributions. Total contributors increased by 72 percent from 1,135,044 to 1,953,249 as LTSS embarked on an aggressive awareness campaign leading to an increase in contributions from FRW 8 billion in June 2021 to FRW 9 Billion in June 2022 – a 9 percent increase (Table 30).

Table 30: Key Financial Highlights of LTSS Ejo Heza

Description (In Million FRW)	June 2021	June 2022	% change
Assets	17	32	95%
Liabilities	17	32	95%
Technical Reserves	7	20	206%
Contributions received	8	9	9%
Investment income	1	2	35%
Other income (Gov. Subsidies)	1.6	1.8	13%
Expenses	1.09	1.14	5%

Source: NBR, Financial Stability Directorate

5.6.4. Voluntary Pension Schemes

The assets of voluntary pension schemes continued to expand. As at end June 2022, total assets increased by FRW 17.4 billion from FRW 63.7 billion in June 2021 to FRW 81.1 billion in June 2022. The asset growth for private pension was supported by increased contributions and investment income (Table 31). Contributions increased from FRW 5.04 billion to FRW 5.23 billion in the period under review. Investments of private pension scheme is mainly in Government bonds and Treasury bills representing 82 percent of total investment portfolio. Investments in real estate held 7 percent of the sub-sector's portfolio as at June 2022.

Table 31: Key Financial Highlights of Voluntary Pension Schemes

Description (In Billion FRW)	June 2021	June 2022	% Change
Assets	63.7	81.2	27%
Number of contributors	63,053	36,996	-41%
Number of people took pension benefits	4,208	5,417	29%
Number of pension schemes	12	12	0%

Source: NBR, Financial Stability Directorate

5.7. The Payment Systems

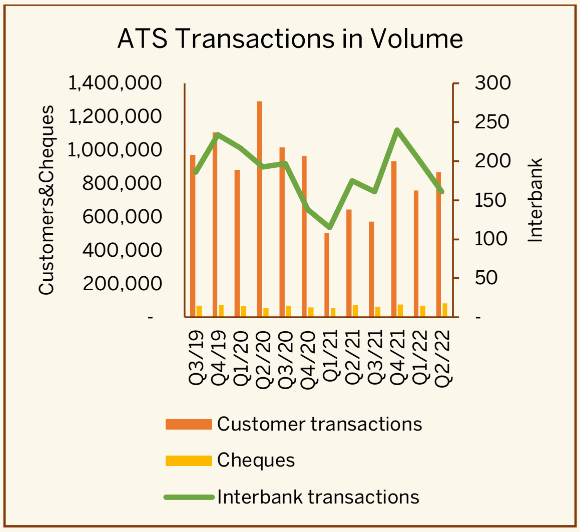
Payment systems facilitate the settlement of payment obligations that take place in the financial markets by channeling payments between concerned parties. The payment system infrastructure is made up by the Rwanda National Payments System which consists of wholesale and retail payment systems, instruments and Payment Service Providers (PSPs), all regulated and supervised by the National Bank of Rwanda (NBR).

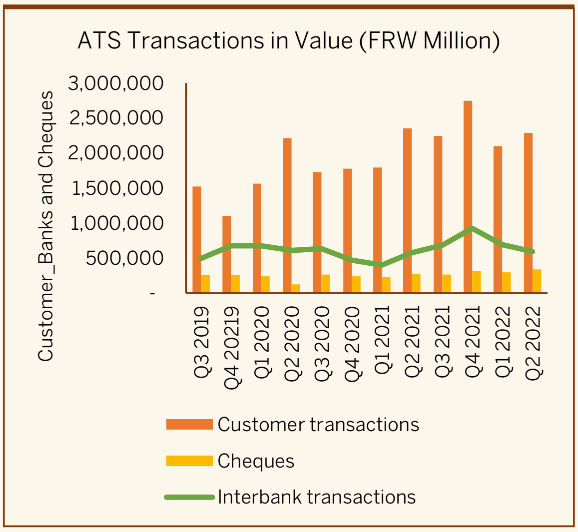
The wholesale systems, in particular, comprises of the Rwanda Integrated Payment Processing System (RIPPS), which is an Automated Transfer System (ATS) operated by the NBR and is composed by the Real Time Gross Settlement (RTGS) and Automated Clearing House (ACH). RIPPS processes and settles interbank payment transactions including credit transfers and cheques as well as various retail payments (Visa, Mastercards, Smartcash). The RTGS is linked to the Central Securities Depository (CSD) to provide securities settlement service in form of delivery vs payment (DVP) model for both public and private securities.

5.7.1 Performance of the RIPPS

RIPPS continued to process financial transactions smoothly during the period under review. In terms of transactions, customers' transfers increased by 42 percent in volume from 1.1 million in June 2021 to 1.6 million in June 2022, while the amount of transactions involved increased by 6 percent from FRW 4,143 billion in June 2021 to FRW 4,389 billion in June 2022. During the same period, cheque transfers increased by 18 percent in volume (from 128,129 to 151,826) and in value by 24 percent (from FRW 507 billion to FRW 631 billion). Conversely, banks' transfers increased by 25 percent in volume from 290 to 362 and by 31 percent in value from FRW 979 billion to FRW 1,282 billion. However, the growth of banks' transfers moderated due to excess liquidity in market that impacted the interbank activities.

Chart 20: The RIPPS Transactions





Source: NBR, Financial Stability Directorate

5.7.2. Retail Payment System

5.7.2.1. Payment Acceptance Points

Payment access points facilitate to pay for products and services by allowing money to enter and exit the payment ecosystem. During the period under review, the number of card based POS increased by 14 percent from 4,635 in June 2021 to 5,263 in June 2022. During the same period, the number of modern POSs increased by 21 percent from 59,805 to 72,136. Modern POSs includes Virtual POSs (7 percent of total modern POSs) and Mobile POSs (93 percent). Similarly, the number of mobile payment agents increased by 2 percent, from 144,250 to 146,930 whereas the agents providing banking services increased by 30 percent from 6,555 to 8,546.

Table 32: Payment Access Points

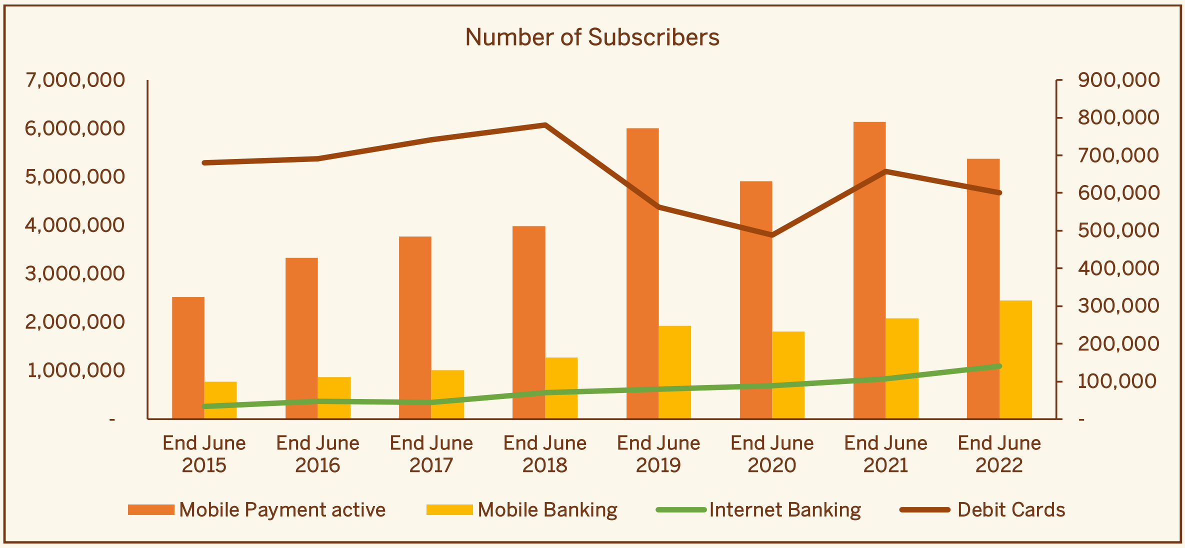
	Penetration rates of payment access Points	June 2021	June 2022
ATM	Number of devices	338	344
	Penetration rate of ATMs per 100,000 adult population.	4.3	4.2
Traditional POS	Number of devices	4,635	5,263
	Penetration rate of Traditional POS per 100,000 adult population.	59.1	65.0
Modern POS	Number of devices	49,907	66,873
	Penetration rate of Modern POS per 100,000 adult population.	635.9	825.4
Banking Agents	Number of Bank agent	6,555	8,546
	Penetration rate of agents per 100,000 adult population	83.5	105.5
Mobile Agents	Number of Mobile agent	144,250	146,930
	Penetration rate of Bank agents per 100,000 adult population	1,838.0	1,813.5

Source: NBR, Financial Stability Directorate

5.7.2.2. Payment Instruments Issuance

With regards to the issuance of payment instruments, active mobile payment subscribers increased by 9 percent from 5,079,232 in June 2021 to 5,528,109 in June 2022 and represented 32 percent of total subscribers as at end June 2022. Similarly, mobile banking subscribers increased by 18 percent from 2,080,549 to 2,444,652 while internet banking subscribers grew by 32 per cent from 106,312 to 140,572. However, the increased adoption of mobile payment has negatively affected usage of payment cards. Between June 2022 and June 2021, payment cards decreased by 9 percent to 600,563 from 657,477.

Chart 21: Subscribers to Payment Instruments

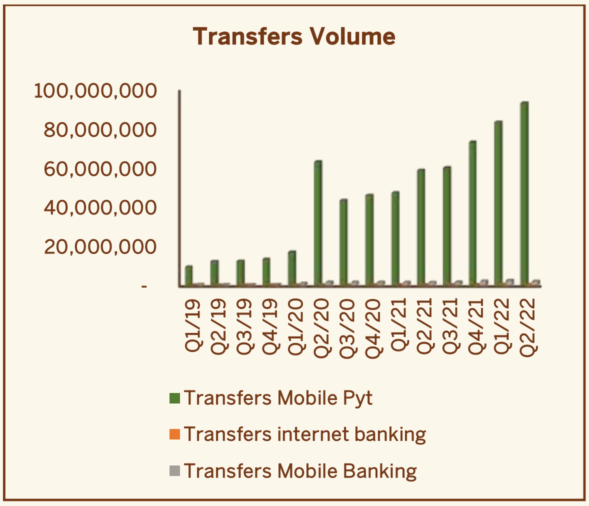


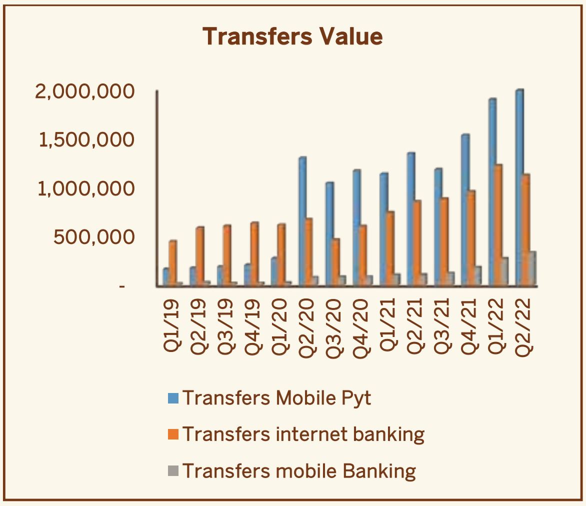
Source: NBR, Financial Stability Directorate

5.7.2.3. Retail Payment Transfers

Payment transfers continue to grow during the period under review. The number of funds transfers through mobile payments increased by 66 percent from 106 million to 176 million. In value, transfers through mobile payments increased by 57 percent from FRW 2,487 billion to FRW 3,894 billion. Transfers through mobile banking increased by 50 percent (from 2.9 million to 4.4 million) and by 189 percent in value (from FRW 209 to 606 billion). Similarly, transfers through internet banking increased by 58 percent in volume (from 819 million to 1.29 million) and by 47 percent in value (from FRW 1,605 billion to 2,359 billion).

Chart 22: Payment Transfers





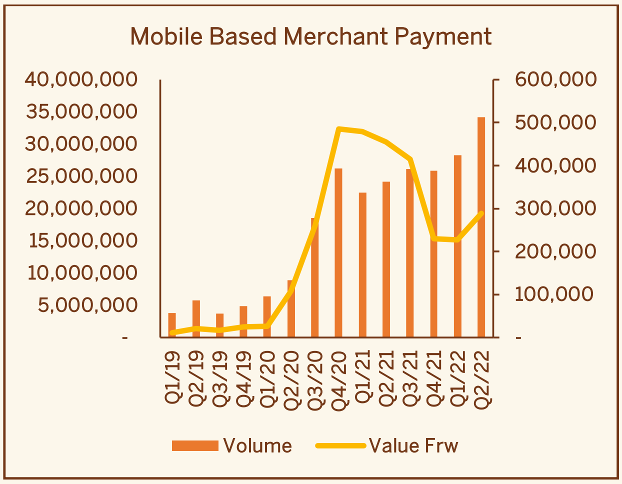
Source: NBR, Financial Stability Directorate

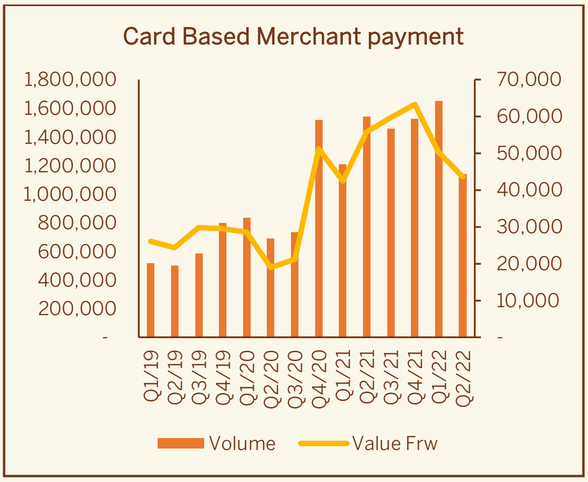
5.7.2.4. Impact of Policy Changes on Mobile Payments

During the second half of 2021, the NBR issued a directive prohibiting the charges on transfers between e-money and deposits accounts and Mobile Money Rwanda reintroduced fees on MoMo Pay for merchants for the transactions above FRW 4,000. As a result, Cash-in (CI) transactions remained stable while Cash-out (CO) slightly increased from September 2021 but remained stable thereafter. The transactions of Bank to Wallet and Wallet to Bank increased from September 2021 due to the Central Bank decision prohibiting charges to these services. The removal of fees on mobile payment for transfers' services between banks accounts and mobile wallets has boosted mobile payment channels, but the value of transactions reduced due to the reintroduction of fees on MoMo Pay for merchants for the transactions above FRW 4,000. For example, the merchant payment transactions through mobile increased by 34 percent from 46 million to 62 million while the value of transactions decreased by 45 percent from FRW 935 billion to FRW 512 billion.

With regard to card based merchant payments, the volume of transaction decreased by 9 percent from 3 million to 2.8 million while the value of transactions decreased by 31 percent from FRW 135.8 to FRW 93.8 billion. This decrease is due to shift in mobile payment usage while paying goods and services.

Chart 23: Merchant Payments

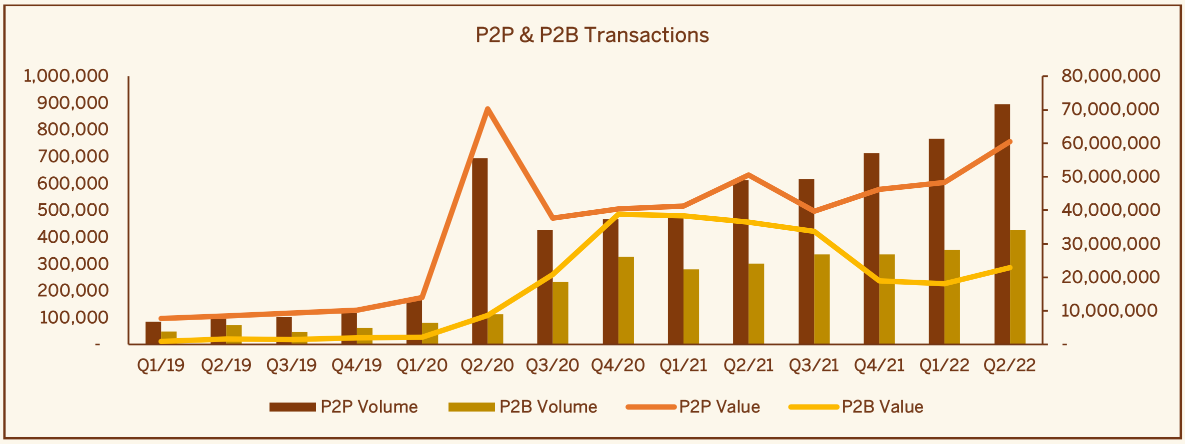




Source: NBR, Financial Stability Directorate

However, the reintroduction of fees has affected transactions related to P2B. As at June 2022, the value of P2B significantly decreased due to reasons stated above, while the volume of transactions remained relatively stable (Chart 24).

Chart 24: P2P and P2B Transactions

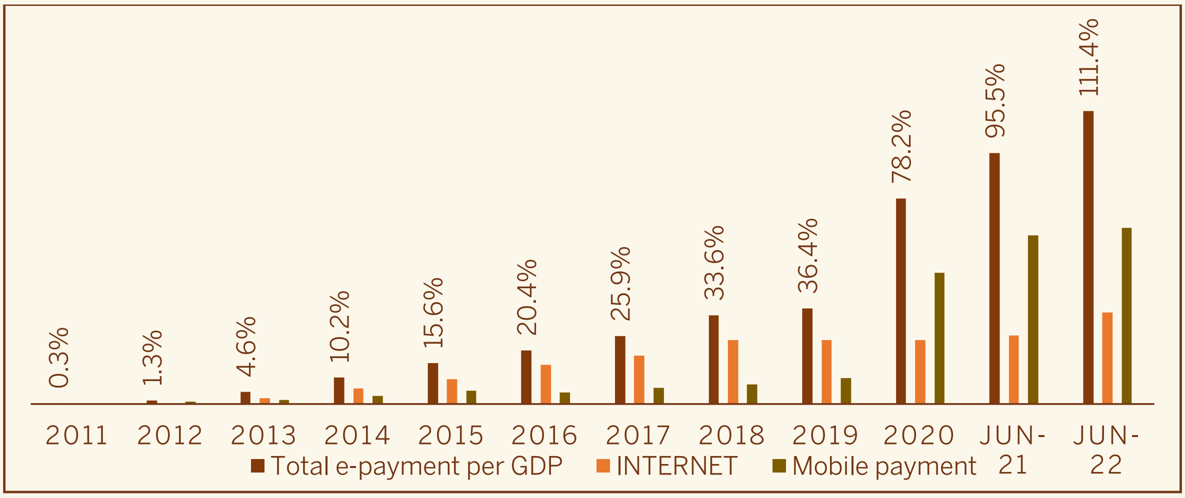


Source: NBR, Financial Stability Directorate

5.7.2.5. Overall Cashless Performance

The value of e-payment to GDP continued to increase during the period under review. As at June 2022, the ratio increased to 111.9 percent from 95.5 percent in June 2021. This increase is mainly associated with significant use of digital channels which are mainly dominated by mobile payment and internet banking services whose value shared 67.1 percent of GDP and 34.9 percent of GDP respectively as at June 2022, while the remainder is shared by the value of card based and mobile banking transactions.

Chart 25: Value of Retail E-Payment to GDP



Source: NBR, Financial Stability Directorate

5.8. Access to Finance

The NBR's supervisory approach extends beyond prudential supervision to supporting financial inclusion and financial sector development. The NBR works with other government institutions, financial institutions, and development partners to identify and address frictions in financial markets. To develop the financial sector, the central bank mainly focuses on 3 areas: i) improving financial inclusion; ii) improving efficiency in the provision of financial services; and iii) promoting innovation in the financial sector. The overarching objective is to address market failures in the financial market and position the financial sector to meaningfully contribute to the attainment of Rwanda's development program embodied in the National Strategy for Transformation (NST 1).

During the period under review, the NBR embarked on a number of interventions to develop the financial sector. These included financial literacy campaigns on saving, insurance and digital payments to empower consumers to make informed decisions. Specific financial education programs targeting children (in secondary schools and universities) were also implemented. To promote financial innovation, the NBR operationalized the regulatory sandbox aimed at supporting FinTech innovators to test their products. With a target of raising cashless transactions per capita, the NBR was also active in supporting ongoing efforts to transform Rwanda into a cashless economy. The NBR in partnership with the Ministry of ICT, MINALOC, MINICOM, and UNCDF conducted a national awareness campaign on digital payments in May 2022 to educate merchants, consumers and encourage adoption of Electronic-payments and Electronic-commerce.

The section below summarizes recent trends in access and usage of financial services. Overall, the emerging trends can be observed in payment instruments with consumers' preference for branchless, digital banking persisting as usage of cards, mobile, and internet banking continue to rise.

5.8.1 Access to Financial Services

Regarding the account penetration, the number of clients' accounts continued to increase during the period under review. Bank accounts increased by 8 percent between December 2021 and June 2022. During the same period, clients' accounts in the microfinance sector grew by 2 percent.

Between end of December 2021 to June 2022, the number of financial access points increased marginally for bank branches and outlets, by 3 percent and 15 percent respectively, while there was no change in the total number of sub-branches. The slow growth of bank branches is associated with increased cost effective agent banking. This is a good approach to reduce high overhead costs that have been the main driver of high interest rates in banks. Additionally, the total number of ATMs increased by 2 percent while the number of POS devices rose by 21 percent. The slower expansion of physical access points indicates a gradual shift to branchless banking models adopted by banks. Physical access points, however, remain critical for the rural population with less access to digital infrastructure.

With regards to the distribution of access points, they remain concentrated in Kigali city and this reflects the high economic activities and business opportunities for the banking sector. The lowest access points in the Northern province partly reflects the population distribution, considering that this province is among the least populated with a share of 16.4 percent as per the last population census of 2012. The national financial inclusion agenda is to ensure equitable access to finance for all citizens irrespective of the location. Banks are achieving this by enhancing their branchless banking mechanisms, namely by expanding their agent networks and improving their digital platforms which is more cost-efficient. In rural areas where bank access points are limited, U- SACCOs continue to play a complementary and instrumental role as the traveling distance to an access point is now less than 40 minutes as per the 2020 Finscope survey.

Table 33: Distribution of Access Points per Province as of June 2022

Distribution	City of Kigali	Northern Province	Eastern Province	Western Province	Southern Province	Total
Number of Branches	117	39	59	55	41	311
Number of Sub-Branches	10	0	0	2	0	12
Number of Outlets	48	22	43	39	36	188

Source: NBR, Financial Sector Development and Inclusion Department

5.8.2 Usage of Formal Financial Services

5.8.2.1 Banks & Microfinances

Between December 2021 and June 2022, access to credit improved in banks but slightly dropped in the microfinance sector. The number of borrowers in banks increased by 19 percent from December 2021 to June 2022, while in MFIs and SACCOs the number of borrowers decreased by 10 percent. Generally, the level of borrowing from formal financial institutions remains low despite rising account penetration. As of end of 2022, the domestic credit provided by lending institutions as a percentage of the GDP was reported at 28.6 percent. The main challenge relates to SME borrowing constraints such as lack of collateral, information opacity and limited financial literacy. To address these challenges, the NBR in collaboration with relevant government agencies are working towards financial education and capacity building targeting MSMEs as part of de-risking MSMEs, strengthening of the credit information system and awareness, as well as creating a more enabling environment for leasing products and other alternative lending products.

The number of depositors in the microfinance sector increased by 2 percent from December 2021 to June 2022, while the number of depositors in banks increased by 12 percent. Generally, the level of saving in formal financial institutions remains low and needs to improve considering that the 2020 Finscope survey indicates that 27 percent saved with formal financial institutions namely banks and MFIs, while around 51 percent saved using U-SACCOs products and through mobile money. The main reasons cited by adults who do not save at all (either through formal or informal channels) include not having extra income to save after meeting daily expenses and not having a job. One of NBR's financial sector development objectives is to increase the level of savings and instill the culture of saving from an early age. In this regard, the NBR continues to run financial education campaigns through secondary schools and universities, which focus on the importance of personal financial management, the existing channels of savings, as well as the newly enacted financial services consumer protection law.

Table 34: Depositors and Borrowers in Banks and Microfinances

Banks	December 2021	June 2022
Number of Depositors in Banks	2,707,045	3,023,738
Amount of Bank deposits in FRW billion	3,087	3,375
Number of Borrowers in Banks	573,580	683,851
Amount of outstanding loans in FRW billion	2,903	3,167
Microfinances	**December 2021**	**June 2022**
Number of Deposit accounts in MFIs and U-SACCOs	4,860,102	4,978,448
Number of Borrowers in MFIs and U-SACCOs	399,592	359,741
Amount of outstanding loans of MFIs and U-SACCOs in FRW billion	235	259

Source: NBR, Financial Sector Development and Inclusion Department

5.8.2.2 Usage of Insurance and Pension Services

Between June 2021 and June 2022, the total number of insurance policies (general and life insurance) grew by 10 percent. The types of existing insurance policies in Rwanda include non-life (general) and life insurance. Among general insurance products there is motor insurance (third party liability and comprehensive), medical or health insurance, personal and group accident liability, and travel insurance to mention a few. In the recent years, microinsurance products were introduced in the market to mainly target farmers and low-income earners. Microinsurance products include insurance for crops, livestock, credit life, funeral, as well as personal and group accident liability. In Rwanda, microinsurance is at its infancy as its regulation was signed in December 2018. Apart from CBHI (Mutuelle de Santé) that was established in 2004, other types of microinsurance products have been introduced in the Rwandan market since 2019. Moreover, The National Agriculture Insurance Scheme (NAIS) was launched in 2018 to promote agriculture insurance uptake and started with crop and livestock insurance.

In promoting the creation affordable insurance products, the government of Rwanda has yielded significant results through the Universal Health Coverage (UHC) or Community-Based Health Insurance (CBHI) known as Mutuelle de Santé. According to Rwanda Social Security Board (RSSB), 95 percent of the targeted population were reached by the UHC and current statistics for the year 2021/2022 indicate that the national coverage for the Community-Based Health Insurance stands at 86.6 percent.

Nevertheless, the insurance penetration remains low. According to FinScope 2020, the main reasons of low insurance penetration in Rwanda are high costs or insurance prices and lack of awareness The NBR’s priority is to not only ensure that the insurance industry is stable but also consistently growing. Through various initiatives, the NBR is encouraging the market to design innovative micro-insurance products that meet people's needs. To reduce the cost of insurance, digitization of the insurance business is imperative. Moreover, NBR in partnership with other stakeholder’s conducts awareness programs to educate the public about the importance of having insurance.

In pension sector, the total number of contributors to both public and private pensions fell by 4 percent between June 2021 and June 2022. This decrease in pension contributors is linked to the contracts lapse of casual laborers when the mass construction of schools was completed in 2021. During the same period, the total number of beneficiaries to public and private pension schemes increased by 10 percent. Savings through the Ejo Heza Long-Term Saving Scheme (LTSS) is growing, as the total number of contributors grew by 72 percdnt, between June 2021 and June 2022, largely attributed to awareness campaigns conducted during this period leading to an increase in the number of contributors.

Table 35: Access to Insurance and Pension

Insurance and Pension Category (Description)	June 2021	June 2022
General (non-life) and Life Insurance policies	638,863	705,790
Number of contributors to Public and Private pension	762,094	728,582
Number of beneficiaries of Public and Private pension	49,720	54,610
Number of contributors to EJOHEZA (LTSS)	1,135,148	1,953,249
Number of beneficiaries of EJOHEZA (LTSS)	104	1,607

Source: NBR, Financial Sector Development and Inclusion Department

5.9. Policy Reforms Implemented

The NBR continued with the journey to establish a robust legal and regulatory framework that promotes a developed, efficient, and stable financial system. This was done through the revision and enhancement of existing regulatory instruments and enactment of new ones. The section that follows underscores the regulatory instruments that were published since the publication of the previous MPFSS in March 2022.

Regulation Governing the Regulatory Sandbox

In April 2022, the NBR established the Regulation no 41/2022 governing the Regulatory Sandbox. This regulation aims at: i) enabling innovative financial product, services, and solutions to be deployed and tested in a live environment prior to launch into the marketplace within specified parameters and timeframes, ii) fostering responsible financial innovations that benefit financial consumers by improving the quality of access to and usage of the financial products and services, and iii) setting application eligibility requirements and appropriate safeguards to identify and manage potential risks.

This regulation is applicable to the financial institutions licensed and/or supervised by the NBR, the legal entity alone or in partnership with a financial institution or with any individuals with innovative financial product, service, and solution. According to this regulation, any applicant wishing to participate in the regulatory sandbox shall ensure that the purpose, scope and criteria specified in this regulation are fully satisfied before submitting their proposal.

Regulation governing Foreign Exchange Operations

Effective April 2022, the NBR enacted a new Regulation N° 42/2022 Governing Foreign Exchange Operations. This regulation reviewed and enhanced the regulation N° 05/2013 of 21/10/2013 governing Foreign Exchange Operations. It aims at liberalizing the capital account and the establishment of rules relating to the management of foreign exchange transactions by licensed banks, foreign exchange bureaus and any other licensed intermediaries.

This regulation prohibits licensed intermediaries in engaging in speculative transactions that tend to mislead other participants in the foreign exchange market and the misuse of any privileged information. It defines the conditions under which the resident financial institutions are authorized to grant loans in foreign currency to both residents and non-residents. To combat money laundering, this regulation also establishes the limits and conditions of transferring foreign currencies.

Regulation governing Business Continuity Management (BCM) and Operational Resilience for Regulated Institutions

Effective from June 2022, the established Regulation No. 43/2022 shall govern Business Continuity Management and Operational Resilience for Regulated Institutions. This regulation aims at promoting, enhancing, and ensuring operational resilience for a regulated institution to ensure that it is able to continue operations on a going concern while minimizing losses in the event of major operational disruptions. This regulation covers following essential elements:

1. Business continuity management framework, the obligation to have a business continuity management, a regulated institution shall have a strong business continuity management at all time.
2. Business continuity management as part of risk management, business continuity management shall form an integral part of the overall risk management of a regulated institution and shall be embedded in its operations.
3. Elements of a business continuity management, a business continuity management of a regulated institution shall, at a minimum, include, business continuity management policy, business impact analysis recovery objectives and strategies, business continuity plan and programs.

Regulation on Group-Wide Supervision for Insurers

The NBR established the new regulation N° 45/2022 of 02/06/2022 on Group-Wide Supervision for Insurers. This regulation reviewed regulation N° 38/2021 of 21/1/2021 on Group-Wide Supervision for Insurers. It applies to insurers and their related persons, insurance groups, financial conglomerates and mixed conglomerate. The purpose of this Regulation is to establish a group-wide supervision framework for effective management of risks arising from insurer's related persons, insurance groups, financial conglomerates or mixed conglomerates.

According to the provisions of this regulations, an insurer with subsidiaries or part of an insurance group, financial conglomerates or mixed conglomerate shall, on group-wide basis and/or solo basis comply with the following: i) Minimum capital and solvency required, ii) Investment requirements, iii) Liquidity requirements and iv) Any other prudential limits as the supervisory authority may prescribe.

The regulation specifies the consequences for non-compliance with prudential limits, where an insurer with subsidiaries or is part of an insurance group, a financial conglomerate or a mixed conglomerate does not comply with the prudential limits specified in this regulation, the supervisory authority may prescribe such higher capital adequacy requirements, to ensure compliance with such limits on a consolidated basis.

Regulation governing Change in Shareholding, Amalgamation and Transfer of Portfolio of Insurers and Reinsurers.

In June 2022, the NBR published the new regulation N° 46/2022 Governing Change in Shareholding, Amalgamation and Transfer of Portfolio of Insurers and Reinsurers having reviewed the Regulation N° 34/2020 of 08/06/2020 governing change in Shareholding, Amalgamation and Transfer of Portfolio of Insurers and Reinsurers. This regulation aims at establishing requirements under which the supervisory authority may authorize transactions related to shareholding, portfolio transfer, amalgamation and demutualization with a view of ensuring the orderly transfer of insurance business.

Regulation on Publication of Financial Statements and Other Disclosures by Insurers.

In June 2022, the NBR established a revised Regulation no. 47/2022 on Publication of Financial Statements and Other Disclosures by Insurers. The purpose of this regulation is to establish the requirements for publication of relevant, comprehensive and adequate financial statements and other disclosures on a timely and regular basis by insurers in order to give policyholders and potential policyholders and other insurance market participants a clear view of their business activities.

This Regulation applies to all insurers operating on the territory of the Republic of Rwanda and states the information to be published notably the quarterly unaudited financial statements, annual audited financial statements and the integrated report.

Regulation on Administrative and Pecuniary Sanctions Applicable to Insurers

Having reviewed the Regulation N° 03/2017 of 22/02/2017 on Administrative and Pecuniary Sanctions Applicable to Insurers, the NBR enacted enhanced Regulation N° 48/2022 on Administrative and Pecuniary Sanctions Applicable to Insurers in June 2022. This regulation aims at establishing administrative and pecuniary sanctions applicable to insurers for violations of the law governing the organization of insurance business, its implementing regulations, directives and decisions of the supervisory authority.

It defines disciplinary measures applicable to insurer failing to comply with the provisions of the Law governing insurance business, its implementing regulations, directives and decisions of the supervisory authority.

Regulation on Outsourcing

In June 2022, the NBR revised and enhanced the Regulation N° 03/2018 of 24/01/2018 on Outsourcing through the enactment of the Regulation N° 49/2022 on Outsourcing. This new regulation aims at establishing minimum prudent standards for regulated institutions that outsource their material activities to an external service provider.

According to this regulation, the regulated institution shall not outsource the activities of providing financial services for which it obtained the license from the supervisory authority. A regulated institution shall not outsource core management functions including corporate planning, organization, management and decision-making functions like determination of compliance with applicable laws. This regulation clearly states the pre-outsourcing conditions a regulated institution shall ensure that outsourcing does not jeopardize and assigns the responsibility of the outsourcing to the Board and senior management of institutions.

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 MONETARY POLICY OUTLOOK

Weaker growth momentum and higher inflationary pressures globally.

The global economy is threatened by persistent effects from COVID-19 and the Russia-Ukraine crisis that continues to worsen global economic hardships. IMF projections published in July 2022 indicate that the world economic growth is projected to moderate to 3.2 percent in 2022, reflecting forecast downgrades to advanced economies, and emerging market and developing economies.

World annual average inflation is projected at 8.3 percent in 2022, well above the historical average due to high food and energy prices as well as persistent supply-demand imbalances exacerbated by the war in Ukraine. Particulary, annual headline inflation is projected to rise to a double digit of 12.2 percent in Sub-Saharan Africa.

Commodity prices are expected to remain high, with crude oil prices projected to increase by 50.4 percent in 2022, and later drop by 12.3 percent in 2023 (IMF, July 2022). World Bank projects natural gas prices to increase by 88.3 percent in 2022, while fertilizers prices are projected to rise by 69.2 percent. Agricultural commodities prices are projected to increase by 17.7 percent in 2022 from 24.2 percent in 2021.

Domestic economic recovery is expected to continue at a slower pace.

Strong economic recovery continued during the first half of 2022 and is expected to continue over the second half of 2022. On average, real GDP is projected to moderate to 6.0 percent in 2022 from 10.9 percent recorded in 2021. The slightly lower growth can be explained by high inflation, disruptions in the supply of industrial inputs, and the base effect from a very strong growth of 10.9 percent recorded in 2021.

Rwanda's inflation is projected to remain high in the coming months, before falling back to the benchmark band in the second half of 2023.

In line with the global economic context, Rwanda's headline inflation is expected to remain high throughout the second half of 2022 following high imported costs exacerbated by the Ukraine-Russia war. Pressures on food and energy inflation are expected to continue mainly originating from international commodity prices. Overall, average headline inflation is projected to evolve above the ceiling of 8.0 percent, reaching 12.1 percent on average in 2022, before falling back to the benchmark band of 2.0 to 8.0 percent in the second half of 2023, following Central Bank's monetary policy actions, expected lower commodity prices and slowdown in global economic recovery. To anchor price expectations, the Monetary Policy Committee (MPC) has increased the central bank rate by 50 basis points in February, and by 100 basis points to 6 percent in August 2022.

The MPC remains committed to its objective of price stability.

NBR's objective is to achieve low and stable inflation, between 2 and 8 percent in the medium term with a benchmark of 5 percent. The MPC will continue to monitor domestic and global macroeconomic developments and outlook, engage with various stakeholders, and stands ready to tighten the monetary policy further if inflationary pressures remain high.

6.2 THE FINANCIAL SECTOR STABILITY OUTLOOK

The outlook of the financial sector will be shaped by the overall economic perfomance, which is expected to remain resilient. The medium term economic prospect offers optimism for a stable financial sector that will be sustained through the demand of financial services, increased investment income and loans repayments.

Though the rising inflationary pressures are expected to cause a moderate deteriortion of assets quality, lending institutions hold adequate capital and liquidity buffers that strengthens their ability to absorb losses while at the same time maintaining the sustainable provision of financial services.

Through its regular oversight of the sector, the NBR will continue ensuring that the regulated financial institutions properly assess and manage risks and hold enough capital relative to the risks they undertake as well as sufficient liquidity to meet financial obligations.

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