NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

SEPTEMBER 2023

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

September 2023

CONTENTS

LIST OF ACRONYMS AND ABBREVIATIONS

ACH : Automated Clearing House
ATM : Automated Teller Machine
BIF : Burundian Franc
BOP : Balance of Payments
CAD : Current Account Deficit
CAR : Capital Adequacy Ratio
CBR : Central Bank Rate
COPS : Complementary Occupational Pension Schemes
CPI : Consumer Price Index
DAP : Di-ammonium Phosphate
DC : Defined Contribution
DGF : Deposit Guarantee Fund
EAC : East African Community
ECB : European Central Bank
ECL : Expected Credit Losses
ERF : Economic Recovery Fund
EUR : Euro
FCD : Foreign Currency Deposits
FDI : Foreign Direct Investment
FOB : Freight on Board (or Free on Board)
FOREX : Foreign Exchange
FRW : Franc Rwandais
FSC : Financial Stability Committee
FSCC : Financial Sector Coordination Committee
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

ICBT	: Informal Cross Border Trade
IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
KG	: Kilogram
LCR	: Liquidity Coverage Ratio
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
NISR	: National Institute of Statistics of Rwanda
NPLs	: Non-Performing Loans
NSFR	: Net Stable Funding Ratio
P.A	: Per Annum
PCA	: Prompt Corrective Actions
Proj.	: Projections
PSPs	: Payment Service Providers
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
REPO : Repurchase Agreement
RIPPS : Rwanda Integrated Payment Processing System
ROA : Return on Assets
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
TL : Total Liabilities
TZS : Tanzanian Shilling
UGS : Ugandan Shilling
UK : United Kingdom
U-SACCOs: Umurenge SACCOs
USD : United States Dollar
WEO : World Economic Outlook
Y-o-Y : Year-on-Year

EXECUTIVE SUMMARY

The September 2023 Monetary Policy and Financial Stability Statement (MPFSS) assesses economic and financial sector developments of the first half of the year 2023 as well as the outlook. This statement first presents the global economic developments to contextualize the domestic economic and financial performance and stability before concluding with the outlook.

The world economy continues to recover from recent shocks, including the Covid-19 pandemic and the war in Ukraine. However, the growth pace is expected to decrease from 3.5 percent recorded in 2022 to 3.0 percent this year, reflecting tighter financial conditions and persistent geopolitical tensions as well as tight fiscal space in emerging and developing economies.

Consistently, global commodity prices decreased in the first half of 2023, due to a decline in global demand. Both energy and non-energy commodity prices have dropped and are projected to continue decreasing for the rest of the year and beyond.

Global inflation is easing with a remarkable reduction in advanced economies, reflecting declining international commodity prices as well as expected cooling effects of monetary tightening on economic activity, but remained above central bank targets. Subsequently, central banks across the world continued tightening monetary conditions to help inflation return to the desired levels. In 2023, World annual average inflation is projected to ease to 6.8 percent from 8.7 percent in 2022.

On the domestic front, despite global economic challenges and adverse weather conditions, Rwanda's economy remained resilient. The positive economic trend observed in 2022 is still evident in 2023, with a 7.7 percent increase in real GDP during the first half of the year. This growth was driven largely by non-agriculture sectors, particularly the services sector. Despite the negative effects of weather, real GDP growth is projected at 6.2 percent in 2023. This growth is robust in the *regional and global context, although the pace is slower than in the previous two years.*

In the first half of 2023, Rwanda's international trade saw a positive trend in its recovery. Merchandise exports increased by 11.2 percent, thanks to the strong performance of domestic manufacturing exports and higher quantities of exported traditional commodities , which compensated for the decrease in their prices. On the other hand, merchandise import value increased by 18.5 percent, driven by higher demand for food, capital, and intermediate goods. This reflects the lower performance of the agriculture sector and the continued domestic economic recovery. As a result, Rwanda's total trade deficit increased by 23.3 percent.

Relative to US dollar, the Rwandan franc depreciated by 8.8 percent in 2023H1. This fast depreciation was linked to a wider current account deficit in line with the widening trade deficit as well as subdued external financing.

Headline inflation is on a declining trend although still high, reaching 12.3 percent in August (y-o-y) from 21.7 percent in November 2022, explained by a decrease in the core, fresh food, and energy inflation. The decrease in core and energy inflation is consistent with the alleviated pressures in global commodity prices, while the decline in fresh food inflation is mostly reflected in vegetable inflation. However, fresh food inflation increased on average in 2023H1 compared to 2022H2, following unfavorable weather conditions.

In 2022, the National Bank of Rwanda started a cycle of tightening the monetary policy to curb inflationary pressures. In February 2023, the CBR was increased further to reach 7.0 percent from 6.5 percent, resulting in a 12-month cumulative increase of 250 basis points. In response to the central bank rate hikes, the interbank rate increased by 215 basis points to 7.55 percent on average in 2023H1 from 5.40 percent in 2022H1. The deposit rate saw a significant increase of 207 basis points to an average of 9.55 percent in 2023H1, up from 7.48 percent in 2022H1. In contrast, the average lending rate decreased *by 16 basis points to 16.26 percent in 2023H1. It is important to note that the CBR was further increased to reach 7.5 percent in August 2023.*

The financial sector continues to expand amid challenging economic environment. As of end June 2023, total assets in the financial sector increased by 18.3 percent, to FRW 9,635 billion compared to FRW 8,145 billion in June 2022. This growth was observed across all sub-sectors.

In the banking industry, the largest sub-sector, total assets grew by 18.1 percent, primarily driven by the growth of deposits and capital. The pension sector, the second-largest sub-sector, assets expanded by 16.2 percent due to increased contributions and investment income. In the insurance sub-sector, total assets increased by 17.2 percent, driven by growth in premiums, equity, and investment income. Microfinance institutions experienced the most significant growth, with their assets increasing by 26.5 percent, attributed to higher deposits and equity capital.

Lending institutions- banks and microfinances, have been actively supporting economic recovery by increasing lending to the private sector. In the banking sector, total outstanding loans rose by 17.3 percent to FRW 3,716 billion in June 2023, compared to FRW 3,167 billion in June 2022. This improved growth was mainly due to new loans, with new loans approved by banks increasing by 40.4 percent in the first half of 2023 compared to a decline of 7.2 percent in the same period in 2022. Microfinances also saw outstanding credit grow by 48.9 percent to FRW 386.5 billion in June 2023, from FRW 259.6 billion, higher than the growth of 20.7 percent recorded in the previous year. This growth is largely linked to new lending and was observed across all categories of microfinances, especially Non-UMURENGE SACCOs.

The financial sector remains adequately capitalised. Banks, microfinances, and insurance companies maintained their capital above the NBR regulatory capital requirements. In the banking sector, the core Capital Adequacy Ratio (CAR) and total CAR ratio were above the minimum required ratios of 12.5 percent and 15 percent, standing at 20.2 percent and 21.1 percent as of end June 2023. The *aggregate CAR for Microfinance Institutions (MFIs) stood at 31.6 percent in June 2023, higher than 15 percent minimum regulatory requirement. During the same period, solvency position of private insurers improved to 256 percent in June 2023 from 180 percent in June 2022, higher than the minimum required solvency ratio of 100 percent.*

The liquidity risk in financial sector remains minimal. In banking sector for example, the two main liquidity indicators, notably the High-Quality Liquid Assets (HQLA) and Net stable funding ratio (NSFR) remained above the minimum regulatory requirement of 100 percent standing at 274.1 percent and 129.8 percent respectively in June 2023. During the same period, he consolidated liquidity ratio of MFIs stood at 90.2 percent higher than the 30 percent minimum prudential requirement, while the aggregate liquidity of private insurance companies improved to 112.7 percent in June 2023 from 99 percent in June 2022.

Assets quality of financial institutions generally improved despite the global economic challenges and domestic inflationary pressures, mainly on account of write offs and recoveries. As result, the NPL ratio declined to 3.6 percent in June 2023, from 4.3 percent in June 2022. During the same period, the consolidated NPL ratio of the microfinance sector dropped to 3.7 percent, down from 4.7 percent in June 2022, due to improved growth in outstanding loans. However, credit risk in insurance sector increased. As of end June 2023, premium receivables in private insurers increased to FRW 22.7 billion (7 percent of private insurers' assets) from FRW 15.3 billion (5 percent of private insurer's assets) June 2022.

In the payment landscape, the payment systems continued to operate smoothly with both wholesale and retail payment systems operating smoothly without any significant disruptions. Mobile technology continues to play a paramount role in driving the usage and adoption of electronic payments and creating an inclusive cashless society.

GLOBAL ECONOMIC ENVIRONMENT

1.1 ECONOMIC GROWTH AND OUTLOOK

In July 2023, the International Monetary Fund (IMF) released an update to their World Economic Outlook (WEO), which projected a slowdown in global economic growth. Specifically, the report forecasted a decrease from 3.5 percent in 2022 to 3.0 percent in 2023. This rate is significantly below the annual average of 3.8 percent observed from 2000 to 2019. The causes for this slowdown include tighter financial conditions, geopolitical tensions, and constrained fiscal space.

Table 1: Global GDP Growth (p.a)

	2022				2023		IMF WEO			
	Q1	Q2	Q3	Q4	Q1	Q2	2021	2022	2023 proj	2024 proj
World	-	-	-	-	-	-	6.3	3.5	3.0	3.0
Advanced economies	-	-	-	-	-	-	5.4	2.7	1.5	1.4
United States (y-o-y)	3.7	1.8	1.9	0.9	1.8	2.6	5.9	2.1	1.8	1.0
Euro area	5.4	4.2	2.4	1.8	1.1	0.6	5.3	3.5	0.9	1.5
Japan	0.7	1.4	1.5	0.4	1.9	2.1	2.2	1.1	1.4	1.0
United Kingdom	10.6	3.8	2.0	0.6	0.2	0.4	7.6	4.1	0.4	1.0
Emerging market & developing economies	-	-	-	-	-	-	6.8	4.0	4.0	4.1
China	4.8	0.4	3.9	2.9	4.5	7.3	8.4	3.0	5.2	4.5
India	4.2	14.0	5.7	4.5	6.1	7.6	9.1	7.2	6.1	6.3
Sub-Saharan Africa	-	-	-	-	-	-	4.7	3.9	3.5	4.1

Source: IMF, July 2023 WEO update, Country Bureau of Statistics, and OECD Aug. 2023

Economic growth in advanced economies is projected to decelerate from 2.7 percent in 2022 to 1.5 percent in 2023, with weaker manufacturing offsetting stronger services activity. About 93 percent of advanced economies are projected to have lower growth in 2023.

In comparison to the projections made in April 2023, the US economic growth was revised up by 0.2 percentage points to 1.8 percent in 2023 after 2.1 percent in 2022, on account of resilient consumption growth in the first quarter.

For the Eurozone, the economy is projected to grow by 0.9 percent in 2023 from 3.5 percent in 2022, which is an upward revision of 0.1 percentage points from the April 2023 projections. This growth is attributed to the strong services and tourism sectors in Italy and Spain.

As for the United Kingdom, the economic growth is projected to slow down to 0.4 percent in 2023 from 4.1 percent in 2022, which is an upward revision of 0.7 percentage points relative to April projections. The upward revision is mostly due to stronger than expected consumption and investment resulting from lower energy prices, reduced post-Brexit uncertainty, and resilient financial sector as the March global banking stress disappears.

Japan's economy is projected to grow by 1.4 percent in 2023, with a modest upward revision of 0.1 percentage point higher than in April forecast, from 1.1 percent in 2022, supported by pent-up demand and accommodative policies.

Emerging market and developing economies are projected to remain broadly stable, with economic growth projected at 4.0 percent in 2023 and 4.1 percent in 2024. Overall, economic prospects are stronger for these economies compared to advanced economies, but there is significant variation in growth rates across sub-regions. Sixty-one percent of emerging market and developing economies are expected to grow at a faster rate, while the remaining countries, including low-income ones, will grow more slowly.

China's economy is projected to grow by 5.2 percent in 2023, forecast unchanged relative to April projections. Stronger-than-expected net exports have offset some of the investment weakness, although their contribution is declining as the global economy slows.

India's economy is projected to grow by 6.1 percent in 2023, from 7.2 percent in 2022. The growth projections for 2023 were revised up by 0.2 percentage points relative to April projections, due to the positive momentum generated by better-than-expected growth in the fourth quarter of 2022 resulting from stronger domestic investment.

The Sub-Saharan African economy is projected to slow from 3.9 percent in 2022 to 3.5 percent in 2023, revised downward by a 0.1 percentage point relative to April 2023 projections, amid growth declines of the two major economies of Nigeria and South Africa. Growth in Nigeria is projected to decline gradually reflecting security issues in the oil sector, while South Africa's growth decline is attributed to power shortages. The weaker output also reflects lower trading partner growth, tighter financial and monetary conditions, and a negative shift in the commodity terms of trade. Sub-Saharan Africa's economy is expected to rebound to 4.1 percent in 2024.

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023 proj	2024 proj
Sub-Saharan Africa	3.2	1.5	3.0	3.3	3.1	-1.6	4.7	3.9	3.5	4.1
Angola	0.9	-2.6	-0.2	-2.0	-0.7	-5.6	0.7	3.0	3.3	3.3
Nigeria	2.7	-1.6	0.8	1.9	2.2	-1.8	3.6	3.3	3.2	3.0
South Africa	1.3	0.7	1.2	1.5	0.1	-6.3	4.7	1.9	0.3	1.7
South Sudan	-0.2	-13.5	-5.8	-1.9	0.9	-6.6	5.3	6.5	5.6	5.6
Egypt	4.4	4.3	4.1	5.3	5.6	3.6	3.3	5.9	5.0	5.0
Libya	-13.0	-7.4	64.0	17.9	13.2	-59.7	177.3	3.5	4.4	4.4

Source: IMF, April projections and July 2023 update

The economic performance in the East African Community (EAC-5[1]) is projected at 5.4 percent in 2023, from 5.1 percent in 2022, following projected upgrades for the majority of member countries compared to the previous year. In line with these projections, EAC economies recorded strong performance in 2023Q1; 9.2 percent in Rwanda, 5.7 percent in Tanzania, 4.9 percent in Uganda and a moderate growth of 1.1 percent in Kenya.

[1] EAC-5 members are Burundi, Kenya, Rwanda, Tanzania and Uganda

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

	2022				2023	Annual average			
	Q1	Q2	Q3	Q4	Q1	2021	2022	2023 proj	20224 proj
EAC	-	-	-	-	-	6.6	5.1	5.4	5.8
Burundi	-	-	-	-	-	3.1	1.8	3.3	6.0
Kenya	6.8	5.2	4.7	2.1	1.1	7.5	5.4	5.3	5.4
Rwanda	7.9	7.5	10.0	7.3	9.2	10.9	8.2	6.2	6.9
Tanzania	5.5	4.8	5.2	5.5	5.7	4.9	4.7	5.2	6.2
Uganda	5.1	5.9	9.4	5.1	4.9	6.0	4.9	5.7	5.7

Source: IMF, Regional Economic Outlook April 2023 & Country Bureau of statistics

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is projected to ease to 6.8 percent in 2023 and 5.2 percent in 2024 from 8.7 percent in 2022, but above pre-pandemic levels of about 3.5 percent (2017-19). About three-quarters of the world economies are expected to have lower annual average headline inflation in 2023. The projected disinflation in 2023 reflects essentially declining international commodity prices as well as the expected cooling effects of monetary tightening on economic activity. Globally inflation is easing with a remarkable reduction in advanced economies but remained above central bank targets.

In advanced economies, consumer price inflation is expected to ease to 4.7 percent in 2023 and ease further to 2.8 percent in 2024 from 7.3 percent in 2022, reflecting falling energy and easing food prices.

For emerging markets and developing economies, the predicted annual headline inflation is expected to decrease slightly to 8.3 percent in 2023 and continue to ease to 6.8 percent in 2024. This is a significant drop from the nearly double-digit rate of 9.8 percent in 2022. These changes are due to lower energy costs and declining food prices. In Sub-Saharan Africa, annual headline inflation is projected to remain in double digits, with a slight improvement from 14.5 percent in 2022 to 14.0 percent in 2023.

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

	2022 (Y-o-Y)				2023 (Y-o-Y)			Annual Average			
	Mar	Jun	Sep	Dec	Mar	May	Jun	2021	2022	2023 proj	2024 proj
World	-	-	-	-	-	-	-	4.7	8.7	6.8	5.2
Advanced economies	-	-	-	-	-	-	-	3.1	7.3	4.7	2.8
United States	8.5	9.1	8.2	6.5	5.0	4.0	3.0	4.7	8.0	4.5	2.3
Euro area	7.4	8.6	9.9	9.2	6.9	6.1	5.5	2.6	8.4	5.3	2.9
Japan	1.2	2.3	3.0	4.0	3.3	3.2	3.3	-0.2	2.5	2.7	2.2
United Kingdom	7.0	9.4	10.1	10.5	10.1	8.7	7.9	2.6	9.1	6.8	3.0
Emerging and dev. economies	-	-	-	-	-	-	-	5.9	9.8	8.3	6.8
China	1.5	2.5	2.8	1.8	0.7	0.2	0.0	0.9	1.9	2.0	2.2
India	7.0	7.0	7.4	5.7	5.7	4.3	4.8	5.5	6.7	4.9	4.4
Sub-Saharan Africa	-	-	-	-	-	-	-	11.0	14.5	14.0	10.5

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

With regard to price developments in the EAC-5 countries, annual average inflation is projected to remain unchanged at 7.0 percent in 2023 and ease to 5.4 percent in 2024, following projected easing across all EAC-5 countries.

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

	2022 (Y-oY)				2023 (Y-o-Y)				Annual Average			
	Mar	Jun	Sep	Dec	Jan	Mar	May	Jun	2021	2022	2023 proj	2024 proj
EAC -5	-	-	-	-	-	-	-	-	4.4	7.0	7.0	5.4
Burundi	12.8	17.6	20.9	26.6	28.6	32.6	28.9	27.1	8.3	18.9	16.0	13.0
Kenya	5.6	6.6	9.2	9.1	9.0	9.2	8.0	7.9	6.1	7.6	7.8	5.6
Rwanda	7.5	13.7	17.6	21.6	20.7	19.3	14.1	13.7	0.8	13.9	13.7(*)	4.7(*)
Tanzania	3.6	4.4	4.8	4.8	4.9	4.7	4.0	3.6	3.7	4.4	4.9	4.3
Uganda	3.7	6.8	10.0	10.2	10.4	9.0	6.2	4.9	2.2	6.8	7.6	6.4

Source: IMF, April 2023 WEO projections & Official numbers from countries
(*) Source: National Bank of Rwanda

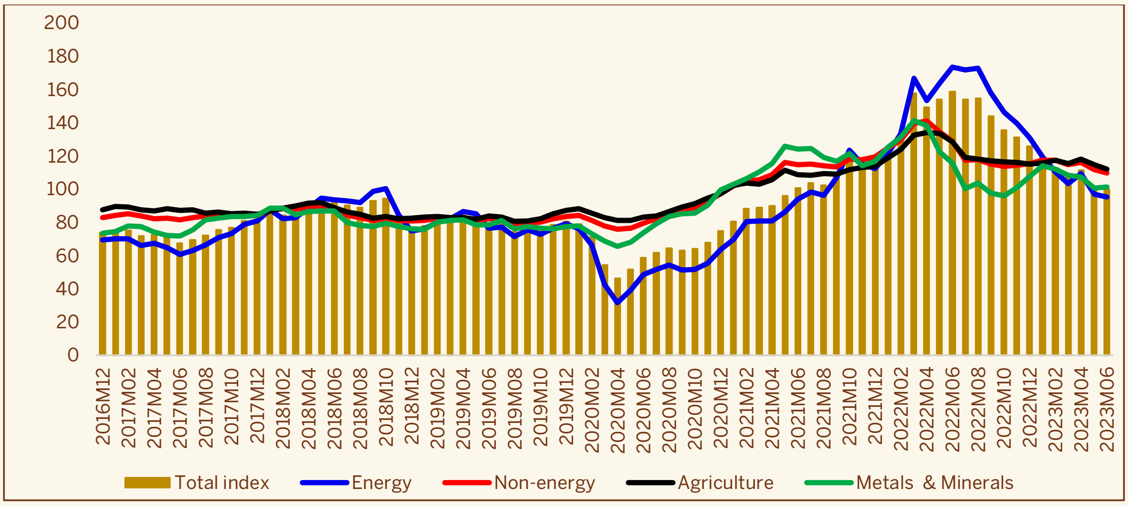
1.2.2 Commodity Prices

In the first half of 2023, global commodity prices have decreased in line with the predicted slowdown in global economic growth. Specifically, the global commodity index has dropped by 25.5 percent, from a significant increase to

60.5 percent recorded in the first half of 2022. This drop is mainly attributed to decreasing energy and non-energy commodity prices.

Energy commodity prices have experienced a significant decrease of 30.4 percent in the first half of 2023, which is a stark contrast to the 85.3 percent increase seen in the same period in 2022. This decrease can be attributed to the falling prices of crude oil and natural gas. Additionally, it is expected that energy commodity prices will continue to drop by 25.8 percent in 2023, after the 60.0 percent increase seen in 2022. This is due to the predicted slowing of global demand.

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

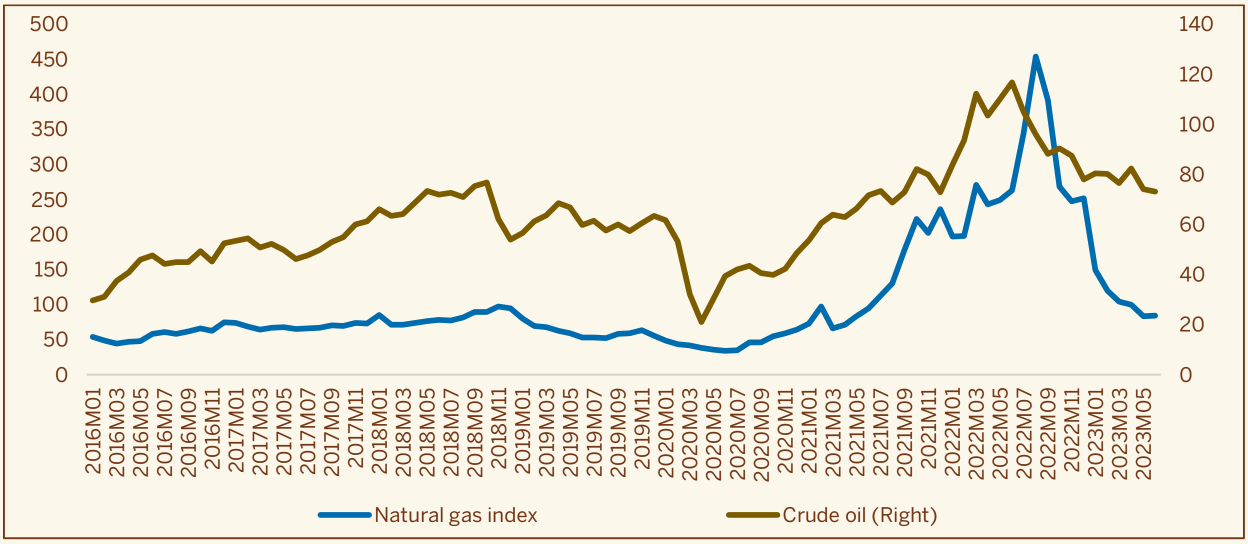


Source: World Bank, July 2023

In 2023H1, crude oil prices dropped by 24.7 percent on average compared to an increase of 63.6 percent in 2022H1, amid slowing global growth. In July 2023, IMF projects oil prices to drop by 20.7 percent in 2023, from USD 97.10/barrel in 2022 to USD 77.68/barrel in 2023, and drop further by 6.2 percent in 2024.

Natural gas prices dropped by 54.8 percent in 2023H1 compared to a surge of 192.6 percent in 2022H1, following a mild winter in Europe which kept energy prices down. World Bank projects natural gas average prices to drop by 39.2 percent in 2023, after surging by 115.5 percent in 2022.

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



Source: World Bank commodity prices, July 2023

Non-energy commodity prices dropped by 14.0 percent in 2023H1, compared to an increase of 22.6 percent in 2022H1, owing largely to declining prices of all non-energy commodity prices. World Bank projects non- energy commodity prices to drop by 9.6 percent in 2023 after increasing by 10.6 percent in 2022 and drop further by 2.7 percent in 2024. The downward trend reflects the projected falling prices of all non-energy commodities.

In 2023H1, average prices for agricultural commodities dropped by 10.0 percent compared to an increase of 13.3 percent in 2022H1, attributed mainly to the falling food prices. Food prices dropped by 10.5 percent in 2023H1 compared to an increase of 25.6 percent in 2022H1, of which, oils & meals (-23.1 percent), and cereals (-8.5 percent). Global food prices are projected to drop by 7.9 percent in 2023 after increasing by 17.9 percent in 2022.

Metals & minerals prices went down by 16.8 percent in 2023H1, compared to an increase of 13.0 percent in 2022H1, reflecting slowing global demand. Tin prices dropped by 34.4 percent in 2023H1 compared to a rise of 42.6 percent in 2022H1, reflecting a reduced demand from the electronics sector. World Bank projects tin average prices to drop by 23.4 percent in 2023 after decreasing slightly by 3.2 percent in 2022.

Precious metals increased by 2.7 percent in 2023H1, compared to a slight increase of 0.7 percent in 2022H1, attributed mainly to the rising gold prices. Gold prices increased by 3.2 percent in 2023H1 after increasing by 3.7 percent in 2022H1, following a growing number of countries that were bringing their physical gold reserves back home.

Prices for fertilizers dropped by 37.9 percent in 2023H1 compared to a surge of 128.4 percent in 2022H1, following easing supply disruptions. The World Bank projected fertilizers to drop by 36.9 percent in 2023 after increasing by 54.8 percent in 2022.

Table 6: Commodity prices (in percent change)

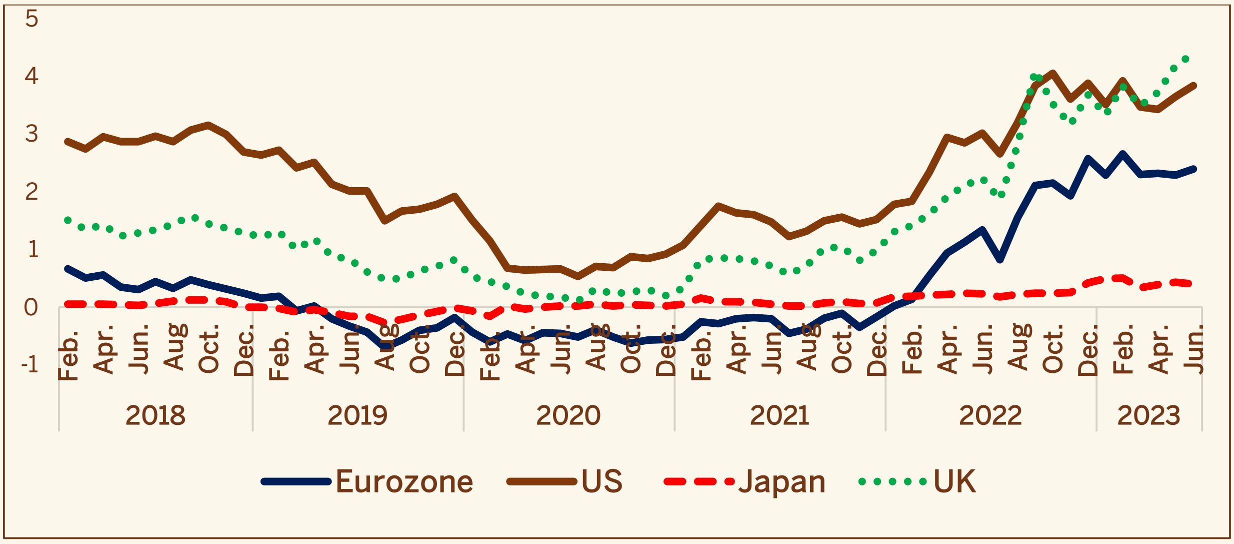
			2022			2023			Forecast, % changes	
	2021	2022	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	2023	2024
Global commodity	60.2	41.8	60.0	79.2	60.5	-17.9	-32.2	-25.5	-21.2	-0.7
Energy	81.0	60.0	82.4	112.2	85.3	-20.9	-38.5	-30.4	-25.8	0.1
Crude oil, average	67.4	40.6	62.9	64.2	63.6	-18.2	-30.4	-24.7	-20.7*	-6.2*
Natural gas, index	187.2	115.5	181.9	202.8	192.6	-43.8	-64.5	-54.8	-39.2	-7.6
Non-energy	33.7	10.6	26.3	29.6	22.6	-11.3	-16.6	-14.0	-9.6	-2.7
Agriculture commodities	24.4	13.3	21.3	28.2	21.5	-7.0	-12.9	-10.0	-7.2	-2.0
Beverages	16.3	13.7	30.9	30.2	27.1	-7.3	-0.5	-3.9	-5.0	-3.4
Arabica coffee	35.8	24.8	63.8	46.0	54.5	-18.6	-17.8	-18.2	-14.7	-4.2
Robusta coffee	30.7	15.3	48.3	30.1	38.8	-5.2	19.2	6.7	0.4	-2.2
Tea, Mombasa	5.2	15.9	31.4	24.0	27.8	-11.7	-4.9	-8.5	-11.5	1.9
Food	30.8	17.9	24.7	35.3	25.6	-5.6	-15.0	-10.5	-7.9	-2.8
Cereals	29.9	21.4	18.8	35.6	23.3	-0.1	-15.8	-8.5	-9.7	-7.7
Oils and Meals	41.6	14.2	27.0	32.4	27.1	-17.8	-28.1	-23.1	-14.1	-1.8
Metals & Minerals	47.1	-1.2	24.5	17.8	13.0	-15.9	-17.8	-16.8	-8.4	-3.3
Tin	89.1	-3.2	72.3	18.5	42.6	-39.1	-28.8	-34.4	-23.4	2.1
Precious metals	5.0	-2.4	1.7	0.7	0.7	-0.4	5.8	2.7	5.5	-7.1
Gold	1.7	0.1	4.2	3.3	3.7	0.8	5.6	3.2	5.5	-7.9
Fertilizers	104.1	54.8	135.4	166.3	128.4	-30.3	-44.6	-37.9	-36.9	-7.1

Source: World Bank April 2023 projections
*IMF July 2023 projections

1.3 MONETARY POLICY AND FINANCIAL MARKETS

Central banks in advanced economies are still tightening monetary policy to combat persistently high inflationary pressures and bring inflation back to target levels. The Federal Reserve has raised its bank rate by 100 basis points in five consecutive meetings since January 2023, reaching 5.25 - 5.5 percent by July 2023. Similarly, the Bank of England has increased its benchmark rate by a total of 175 basis points to 5.25 percent during the same period. The ECB has also raised its benchmark rate by 175 basis points since January 2023, bringing the interest rate on the main refinancing operations, marginal lending facility, and deposit facility to 4.25 percent, 4.50 percent, and 3.75 percent respectively.

Chart 3: 10-Year Government Bond Yield (pea)



Source: National Bank of Rwanda

The 10 Year government bond rate decreased in the US, Eurozone, and Japan to 3.837 percent, 2.392 percent, and 0.394 percent, respectively, from 3.875 percent, 2.571 percent, and 0.413 percent in December 2022.

On the foreign exchange market, the US dollar is depreciating against some major currencies, partly reflecting the cooling monetary policy tightening by the Federal Reserve.

Table 7: Units Currency per 1 US Dollar

	2022						2023	
	Jan	Mar	Jun	Sept	Dec	Jan	Mar	Jun
USD/GBP	0.7437	0.761	0.821	0.895	0.839	0.812	0.811	0.787
USD/EUR	0.8902	0.904	0.954	1.020	0.950	0.921	0.923	0.917
USD/JPY	115.11	121.70	135.72	144.74	133.41	130.09	132.86	144.31
USD/CNY	6.361	6.340	6.699	7.120	6.880	6.755	6.870	7.254

Source: National Bank of Rwanda

Between June 2022 and June 2023, the US dollar decreased in value by 6.29 percent compared to the British pound and by 3.51 percent compared to the Euro. However, it gained value against the Japanese Yen by 8.17 percent and against the Chinese Yuan by 5.43 percent.

II. NATIONAL ECONOMIC PERFORMANCE

This section analyzes Rwanda's economic performance in the first half of 2023, as well as the outlook for the entire year. Despite unfavorable weather, high prices, and declining global growth, available economic data point to a good economic performance.

2.1. ECONOMIC GROWTH

The positive economic trend observed in 2022 is still evident in 2023, with a 7.7 percent increase in real GDP during the first half of the year. This growth is expected to persist throughout the latter part of the year. Despite the negative effects of weather and the base effect in the services sector, real GDP growth is forecasted to remain robust in 2023, although at a slower pace than previously experienced.

2.1.1 GDP Growth in 2023H1

In the first half of 2023, Rwanda's economy showed strong growth with a real GDP increase of 7.7 percent. This growth was driven largely by non-agrarian sectors, particularly the services sector. The tourism industry experienced a robust recovery, and trade, information, and communication services also improved, contributing to the sector's strong momentum.

The tourism industry is making a solid comeback, as evidenced by the positive performance of transportation services, hotels, and restaurants. This recovery is in line with the global trend of tourism bouncing back, which is expected to reach pre-pandemic levels by early 2024. Additionally, an increase in private consumption, bank financing, and ongoing support from the Economic Recovery Fund (ERF) has contributed to the growth in trade services, information and communication services, financial services, and the education sector.

Table 8: Rwanda Real GDP growth (percent)

	2020	2021	2022	2022						2023		
				Q1	Q2	H1	Q3	Q4	H2	Q1	Q2	H1
GDP	**-3.4**	**10.9**	**8.2**	**7.9**	**7.5**	**7.7**	**10.0**	**7.3**	**8.6**	**9.2**	**6.3**	**7.7**
Agriculture	**0.9**	**6.4**	**1.6**	**0.6**	**1.9**	**1.3**	**1.4**	**2.3**	**1.8**	**0.8**	**-0.1**	**0.3**
Food crops	0.3	6.7	-0.9	-1.2	-1.2	-1.2	-0.6	-0.6	-0.6	-3.2	-3.2	-3.2
Export crops	-9.4	-0.5	3.5	-13.9	16.6	0.1	-0.6	12.1	5.6	24.7	2.1	12.6
Livestock & livestock products	8.2	8.1	8.7	9.6	10.1	9.8	8.3	6.8	7.6	6.5	5.5	6.0
Forestry	3.7	5.4	4.8	5.3	4.8	5.0	4.1	5.0	4.6	5.2	5.8	5.5
Fishing	-15.5	24.0	3.3	2.6	2.7	2.6	3.9	3.9	3.9	3.8	3.8	3.8
Industry	**-4.2**	**13.4**	**5.0**	**10.0**	**6.2**	**8.1**	**-1.2**	**5.3**	**2.1**	**8.8**	**6.1**	**7.5**
Mining & quarrying	-31.2	26.7	14.1	16.4	8.8	12.1	4.9	27.7	15.9	14.7	7.1	10.5
Manufacturing	2.0	10.6	11.0	11.1	9.8	10.4	9.4	13.7	11.6	15.7	7.6	11.5
Electricity	1.9	11.7	14.0	21.2	12.2	16.4	12.6	11.0	11.8	1.9	6.7	4.3
Water & waste management	2.4	4.6	3.6	4.8	4.8	4.8	2.9	2.1	2.5	2.6	2.0	2.3
Construction	-5.7	15.2	-5.7	6.2	0.1	3.2	-17.4	-10.3	-13.9	0.7	3.9	2.2
Services	**-5.5**	**11.9**	**12.2**	**10.7**	**11.9**	**11.3**	**16.6**	**9.5**	**12.9**	**12.9**	**9.9**	**11.3**
Trade & transport	-10.6	13.5	15.9	10.7	19.5	15.2	21.0	12.5	16.5	17.3	6.7	11.6
Maintenance and repair of motors	-3.1	35.3	5.1	8.8	5.1	6.9	3.5	3.1	3.3	3.4	3.2	3.3
Wholesale & retail trade	-3.3	11.7	13.9	6.8	16.9	12.0	19.8	11.8	15.6	17.2	6.3	11.3
Transport services	-23.7	14.6	21.7	19.3	27.3	23.5	26.2	15.1	20.3	19.4	7.9	13.3
Other services	-3.3	11.2	10.6	10.7	8.8	9.7	14.8	8.2	11.4	11.1	11.4	11.2
Hotels & restaurants	-40.2	20.4	86.9	80.0	193.5	129.1	90.2	37.1	60.1	42.4	7.4	23.0
Information & communication	29.2	18.8	19.7	16.5	7.8	11.7	34.5	20.1	27.3	42.8	36.7	39.5
Financial services	-2.4	18.0	10.3	13.2	10.5	11.8	7.6	10.0	9.0	11.9	5.0	8.4
Real estate activities	0.3	4.1	1.5	4.5	2.2	3.4	0.2	-0.7	-0.3	9.4	1.7	5.5
Professional, scientific & technical activities	-0.8	13.2	1.0	5.4	1.5	3.4	-0.5	-2.2	-1.4	-5.6	0.5	-2.5
Administrative & support service activities	-6.8	5.8	1.4	6.2	-1.4	2.3	2.9	-2.0	0.4	-0.2	0.0	-0.1
Public administration & defense; compulsory social security	2.8	2.4	9.6	6.4	-1.3	2.5	21.3	11.0	16.4	6.5	21.1	13.6
Education	-37.5	58.6	17.4	2.4	14.5	8.0	26.2	26.2	26.2	13.2	27.9	20.5
Human health & social work activities	15.9	8.9	8.1	21.9	4.5	12.0	13.3	-3.2	4.0	-3.1	7.3	2.4
Cultural, domestic & other services	-1.2	9.5	8.2	9.4	6.7	8.0	9.2	7.5	8.3	9.0	9.5	9.3
Taxes less subsidies on products	**-1.7**	**13.4**	**11.8**	**9.9**	**3.0**	**6.2**	**23.4**	**12.3**	**17.6**	**13.0**	**3.6**	**8.1**

Source: National Institute of Statistics of Rwanda

The industry sector expanded by 7.5 percent in the first half of 2023. This was due to the success of the mining and quarrying sub-sector as well as manufacturing industries. Mining and quarrying performed well thanks to strong demand conditions, despite a decrease in mineral prices on the international market. Although metal and mineral prices dropped by 16.8 percent in 2023H1, they still remained 36.9 percent higher than pre-pandemic levels. During the first half of 2023, manufacturing activities experienced significant growth partly driven by foreign demand, resulting in an increase in non-traditional exports (up by 29.5 percent), particularly in processed foods and construction materials.

However, the agricultural sector did not perform well, it grew by only 0.3 percent in the period under review, due to unfavorable weather conditions and crop diseases during season A 2023. This resulted in a 3.2 percent decrease in food crop production. While other agricultural subsectors, including export crops, livestock, forest, and fishery, grew by 6.4 percent collectively, their growth was not sufficient to compensate for the poor performance of food crops.

Based on strong economic performance in the first half of 2023, the economy is anticipated to remain strong in the latter half of the year, despite challenges from unfavorable weather conditions. The overall economic growth is expected to reach 6.2 percent in 2023, which is slower than the 8.2 percent growth recorded in 2022 due to poor performance in the agricultural sector during both season A and B. Particularly, during agricultural season B, floods and land slides devastated Rwanda, causing loss of lives and destruction of infrastructure, livestock, and crops in some food-producing regions.

2.2 EXTERNAL TRADE PERFORMANCE

Rwanda's merchandise[2] exports receipts increased by 11.2 percent in 2023H1 amounting to USD 784.4 million, up from USD 705.5 million a year earlier, owing to good performance of domestic manufacturing exports combined with higher exports quantities of traditional commodities which outweigh the decline in their prices.

Similarly, in 2023H1, merchandise imports[3] went up by 18.5 percent, amounting to USD 2,098.1 million from USD 1,770.9 million in 2022H1, reflecting a strong recovery in domestic economic activities.

[2] Merchandise exports/imports refer to total exports/imports excluding gold.
[3] Imports are valued at c.i.f basis

As a result, Rwanda's merchandise trade deficit widened by 23.3 percent, in 2023H1, amounting to USD 1,3137 million from USD 1,065.4 million in 2022H1. Including gold, exports increased by 30.1 percent while imports rose by 22.1 percent, resulting into an increase of trade deficit by 14.9 percent. The coverage of total imports by total exports increased to 51.0 percent in 2023H1 from 47.9 percent in 2022H1[4].

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

		2019	2020	2021	2022	Jan-Jun. 22	Jan-Jun. 23	% Change
Total exports	Value	1,240.1	1,408.9	1,530.9	2,111.7	982.2	1,277.4	**30.1**
	Volume	1,127.5	859.4	1,026.0	1,237.7	573.5	688.4	**20.0**
Merchandise exports	Value	963.9	761.3	1,167.8	1,555.9	705.5	784.4	**11.2**
	Volume	1,127.5	859.4	1,026.0	1,237.7	573.5	688.4	**20.0**
Total imports	Value	3,094.1	3,421.5	3,569.3	4,570.8	2,051.2	2,505.5	**22.1**
	Volume	3,117.9	3,264.6	3,247.7	3,806.5	1,658.1	2,098.5	**26.6**
Merchandise imports	Value	2,854.9	2,746.7	3,201.0	4,060.8	1,770.9	2,098.1	**18.5**
	Volume	3,112.7	3,264.6	3,247.7	3,806.5	1,658.1	2,098.5	**26.6**
Trade balance	Total trade	**-1,854.0**	**-2,012.6**	**-2,038.4**	**-2,459.1**	**-1,069.0**	**-1,228.1**	**14.9**
	Merchandise trade	**-1,891.0**	**-1,985.3**	**-2,033.2**	**-2,504.9**	**-1,065.4**	**-1,313.7**	**23.3**
Exports/Imports	%	**40.1**	**41.2**	**42.9**	**46.2**	**47.9**	**51.0**	**6.5**

Source: National Bank of Rwanda

2.2.1 Merchandise Exports Developments

Merchandise exports increased in all categories. Non-traditional exports[5] rose by 29.5 percent, traditional exports[6] grew by 4.7 percent, re-exports increased by 2.7 percent, and informal cross-border trade had a 29 percent surge.

[4] This includes the informal cross border trade and gold
[5] Non-traditional exports refers to domestically produced goods other than those in traditional exports.
[6] Traditional exports refers to historically exported commodities notably coffee, tea, minerals (cassiterite, coltan and wolfram), hides and skins and pyrethrum.

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

	2019	2020	2021	2022	Jan-Jun. 22	Jan-Jun. 23	% change
Coffee							
- Value	69.8	53.9	78.3	105.0	14.4	25.3	75.4
- Volume	23.4	16.0	17.5	17.8	2.7	4.9	81.8
- Price USD/KG	3.0	3.4	4.5	5.9	5.3	5.1	-3.5
Tea							
- Value	86.9	90.3	96.8	106.7	57.4	58.0	1.1
- Volume	31.2	32.7	35.4	36.5	19.4	21.6	11.6
- Price USD/KG	2.8	2.8	2.7	2.9	3.0	2.7	-9.4
Minerals							
- Value	100.3	83.1	149.5	203.8	107.7	104.1	-3.3
- Volume	7.1	5.7	7.0	8.7	4.0	4.4	9.2
Cassiterite							
- Value	37.9	31.4	56.8	85.6	52.4	35.6	-32.2
- Volume	3.8	2.8	3.1	4.5	2.2	2.1	-0.4
- Price USD/KG	9.9	11.1	18.1	19.2	24.4	16.6	-31.9
Coltan							
- Value	45.6	34.0	42.1	63.7	34.2	52.1	52.4
- Volume	1.4	1.0	1.0	1.3	0.7	1.1	55.0
- Price USD/KG	33.7	33.1	40.2	48.8	49.9	49.0	-1.6
Wolfram							
- Value	16.8	17.8	50.6	54.5	21.0	16.4	-21.8
- Volume	1.9	1.8	2.8	2.9	1.2	1.2	0.3
- Price USD/KG	8.9	9.8	17.9	18.5	17.5	13.6	-22.0
Hides and Skin							
- Value	2.5	1.5	1.8	1.5	1.0	0.3	-75.5
- Volume	3.9	2.8	3.2	3.7	1.9	1.7	-11.4
- Price USD/KG	0.6	0.5	0.6	0.4	0.5	0.2	-72.4
Pyrethrum							
- Value	6.2	5.0	3.4	4.0	2.1	3.6	68.9
- Volume	0.1	0.0	0.0	0.0	0.0	0.0	60.0
- Price USD/KG	64.4	149.3	201.7	211.0	210.8	222.5	5.6
I. Traditional exports							
- Value	265.6	233.9	329.7	421.0	182.6	191.2	4.7
- Volume	65.7	57.2	63.1	66.7	28.0	32.6	16.4
II. Re-exports							
- Value	351.9	314.8	469.53	654.23	312.08	320.46	2.7
- Volume	412.2	395.8	508.80	557.23	261.10	320.63	22.8
III. Non-traditional exports							
- Value	237.5	176.0	275.98	350.04	151.88	196.74	29.5
- Volume	329.4	303.8	454.19	613.76	284.32	335.14	17.9
IV. Non-monetary gold							
- Value	276.3	647.6	363.18	555.74	276.68	492.98	78.2
- Volume	0.01	0.01	0.01	0.01	0.00	0.01	71.4

	2019	2020	2021	2022	Jan-Jun. 22	Jan-Jun. 23	% change
V. Informal cross-border trade							
- Value	108.9	36.6	92.53	130.65	58.91	75.97	29.0
Merchandise exports							
- Value	963.9	761.3	1167.8	1555.9	705.5	784.4	11.2
- Volume	1127.5	859.4	1026.0	1237.7	573.5	688.4	20.0
TOTAL EXPORTS							
- Value	1,240.1	1,408.9	1,530.9	2,111.7	982.2	1,277.4	30.1
- Volume	1,127.5	859.4	1,026.0	1,237.7	573.5	688.4	20.0

Source: National Bank of Rwanda

In the first half of 2023, revenues from traditional exports increased by 4.7 percent to reach $USD 191.2 million compared to $USD 182.6 million in the same period of the previous year. This growth was mainly due to higher receipts from coffee and coltan exports, which were attributed to an increase in the exported quantities that outweighed the decrease in international prices.

Specifically, the receipts from coffee exports witnessed a significant surge of 75.4 percent, because of a substantial rise in the volume of exported coffee (+81.8 percent). In addition, receipts from tea exports slightly increased by 1.1 percent, primarily driven by the increase in the volume of exports (+11.6 percent), despite a decrease in the per unit value (-9.4 percent).

The export revenues from Rwanda's traditional minerals decreased by 3.3 percent, reaching USD 104.1 million in 2023H1 from USD 107.7 million in 2022H1. This decline was reflective of the global decrease in mineral prices, except for coltan. Specifically, export earnings from cassiterite and wolfram decreased by 32.2 percent and 21.8 percent respectively, driven by the fall in prices and exported volumes. The prices of cassiterite and wolfram decreased by 31.9 percent and 22.0 percent respectively, while their respective exported quantities decreased by 0.4 percent, and 0.3 percent. However, exports revenues from coltan increased significantly, with the value rising by 52.4 percent and the volume by 55.0 percent.

Moreover, receipts from hides and skins decreased by 75.5 percent, mainly due to the fall in prices (-72.4 percent) and volume (-11.4 percent). Lastly, exports earnings from pyrethrum increased by 68.9 percent due to the rise in unit price (+5.6 percent) as well as exports volume (+60.0 percent).

Non-traditional exports (other exports) that are dominated by locally manufactured products, agro-processing, and horticulture products (i.e. flowers, fruits and vegetables), have emerged as the primary drivers of the overall growth in merchandise exports with an increase of 29.5 percent, amounting to USD 196.7 million in 2023H1 from USD 151.9 million in 2022H1. The increase in non-traditional exports is attributable to high quantities quantities of agro-processed products (such as milling products, diary, and vegetable oil) and contruction materials (such as cement and metal products), reflecting the continued good performance of domestic manufacturing activities.

Re-exports - primarily consisting of petroleum products, foodstuffs, vehicles, machinery, and electronics - increased by 2.7% to USD 320.5 million. This marks an improvement from the previous year's USD 312.1 million, and can be attributed to higher global fuel prices and increased trade with the region.

2.2.2 Merchandise Imports Developments

In the first half of 2023, Rwanda's bill for imported goods increased by 18.5 percent, reaching USD 2,098.1 million from USD 1,770.9 million. This rise was driven by an increased demand for food imports, as well as capital and intermediate goods. These trends reflect the lower performance of the agriculture sector, as well as the ongoing economic recovery in Rwanda.

The table below shows that the imports value of consumer goods, capital goods, intermediary goods and energy increased by 24.1 percent, 35.9 percent, 3.5 percent and 13.7 percent respectively. In terms of volume, the increase was 51.0 percent, 41.5 percent, 20.6 percent and 4.9 percent respectively.

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

		2019	2020	2021	2022	Jan-Jun. 22	Jan-Jun. 23	% change
Total imports	**Value**	**3,094.1**	**3,421.5**	**3,569.3**	**4,570.8**	**2,051.2**	**2,505.5**	**22.1**
	Volume	**3,094.2**	**3,264.6**	**3,247.7**	**3,806.5**	**1,658.1**	**2,098.5**	**26.6**
Merchandise Imports	**Value**	**2,854.8**	**2,746.7**	**3,201.0**	**4,060.8**	**1,770.9**	**2,098.1**	**18.5**
	Volume	**3,094.2**	**3,264.6**	**3,247.7**	**3,806.5**	**1,658.1**	**2,098.5**	**26.6**
Consumer goods	Value	714.6	771.0	880.0	1,070.5	456.8	566.8	24.1
	Volume	715.2	821.3	802.1	955.0	383.0	578.4	51.0
Capital goods	Value	692.5	660.0	736.6	735.0	332.4	451.6	35.9
	Volume	88.0	84.2	102.4	92.4	38.3	54.2	41.5
Intermediary goods	Value	730.6	761.9	881.1	1,083.4	488.6	505.8	3.5
	Volume	1,175.1	1,428.0	1,347.9	1,539.1	672.0	810.6	20.6
Energy and lubricants	Value	521.5	348.7	397.3	763.1	309.3	351.5	13.7
	Volume	902.3	691.4	679.4	865.3	407.6	427.7	4.9
Non-monetary gold	Value	239.3	674.9	368.3	510.0	280.3	407.3	45.3
	Volume	0.0	0.0	0.0	0.0	0.0	0.0	39.0
Imports of non-fuel re-exports	Value	183.8	202.5	301.8	402.2	180.6	214.8	19.0
	Volume	213.6	235.8	315.9	354.6	157.2	227.6	44.8
Informal cross-border trade	Value	11.8	2.5	4.1	6.6	3.3	7.6	130.6

Source: National Bank of Rwanda

In terms of the share to total imports value in 2023H1, consumer goods tops with 22.6 percent from 22.3 percent in 2022H1, followed by intermediate goods (20.2 percent from 23.8 percent), capital goods (18.0 percent from 16.2 percent), non-monetary gold (16.3 percent from 13.7 percent), energy and lubricants (14.0 percent from 15.1 percent), imports for re-exports (8.6 percent from 8.8 percent), and ICBT (0.3 percent from 0.2 percent).

The increase in imported consumer goods was due to an increase in food products by 46.2 percent of which vegetables, fruits and spice (+244.9 percent), cereals and flours (+56.5 percent), meat and fish (+71.8 percent), and sugar (+20.8 percent), as well as imports of non-food products that rose by 7.2 percent (of which beverages & tobacco and health & care products). The higher demand for food products was partly attributed to the poor performance of the agricultural sector due to adverse weather patterns.

Imports of capital goods increased by 41.5 percent in volume and by 35.9 percent in value to USD 451.7 million in 2023H1 from USD 332.4 million in

2022H1, reflecting an increased imports of transport materials (+58.2 percent), imports of industrial machinery (+24.5 percent) as well as imports of other capital goods (+48.7 percent).

Imports of intermediate goods, increased by 20.6 percent in volume and 3.5 percent in value to USD 505.8 million in 2023H1 from USD 488.6 million in 2022H1. The increase is owed to surged demand for construction materials and fertilizers, reflecting strong improvement of domestic manufacturing activities.

The value and volume of construction material imports increased by 33.8 percent and 29.4 percent respectively. This was mainly due to the import of cement, which saw a 42.2 percent increase in volume, despite increased domestic production by 11.0 percent, reflecting the increase in exports and domestic demand of cement.

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

	2019	2020	2021	2022	Jan-Jun. 22	Jan-Jun. 23	% change
Domestic production	415,371	506,778	630,439	715,229	350,261	388,734	11.0
Imports of cement	377,897	575,116	427,306	525,091	201,974	287,141	42.2
Exports of cement	48,120	66,005	134,802	229,081	99,191	134,891	36.0
Domestic demand	745,148	1,015,889	922,943	1,011,239	453,044	540,984	19.4

Source: National Bank of Rwanda

Lastly, imports of energy and lubricants dominated by petroleum products rose by 4.9 percent in volume and by 13.7 percent in value, reflecting the continued higher global oil prices and raising domestic demand of fuel linked improving economic activities.

2.2.3 FORMAL TRADE WITH OTHER EAC COUNTRIES

Rwanda's exports to EAC member countries, which represents 10.2 percent of the total exports in 2023H1, rose by 35.0 percent in value, standing at USD 130.6 million from USD 96.7 million in 2022H1. On the other hand, imports from EAC, which represent 26.7 percent of total imports, went up by 33.3

percent. As a result, Rwanda's trade deficit with EAC widened by 32.9 percent to USD 538.3 million in 2023H1, from USD 405.1 million in 2022H1.

Table 13: Trade flows with EAC (in USD million)

		2019	2020	2021	2022	Jan-Jun. 22	Jan-Jun. 23
Exports to EAC	**Value in USD millions**	116.2	46.9	60.2	210.7	96.7	130.6
	percent change	44.8	*-59.7*	*28.3*	*250.3*	44.1	35.0
	Share to total exports	9.4	3.3	3.9	10.0	9.8	10.2
Imports from EAC	**Value in USD millions**	472.6	490.0	521.5	1064.3	501.8	668.8
	percent change	-9.5	*3.7*	*6.4*	*104.1*	51.5	33.3
	Share to total imports	15.3	14.3	14.6	23.3	24.5	26.7
TRADE BALANCE		-356.4	-443.1	**-461.4**	**-853.6**	-405.1	**-538.3**

Source: National Bank of Rwanda

2.2.4 INFORMAL CROSS BORDER TRADE

In 2023H1, informal cross border trade (ICBT) exports and imports accounted for 5.9 percent and 0.3 percent share of total exports and imports, respectively. Rwanda remains a net exporter in ICBT, recording a surplus of USD 68.4 million in 2023H1, higher than USD 55.6 million recorded in 2022H1. During the same period ew, ICBT exports and imports increased by 29.0 percent and 130.6 percent, respectively.

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

		2019	2020	2021	2022	Jan.-Jun. 22	Jan-Jun. 23
Exports	Value in USD millions	108.9	36.6	92.5	130.7	58.9	76.0
	Percent change	-13.1	-66.4	152.7	41.2	-54.9	29.0
	Share of total exports	8.8	2.6	6.0	6.2	6.0	5.9
Imports	Value in USD millions	11.8	2.5	4.1	6.6	3.3	7.6
	Percent change	-41.7	-79.2	67.9	60.9	-50.6	130.6
	Share of total imports	0.4	0.1	0.1	0.1	0.2	0.3
Trade balance		97.1	34.2	88.4	124.0	55.6	68.4

Source: National Bank of Rwanda

2.2.5 BALANCE OF PAYMENTS

The current account deficit (CAD) widened to USD 784 million, up from USD 451 million, representing an increase of 73.9 percent. The increase in the CAD was primalry driven by deteriorations in trade in goods and secondary income account. The deficit in trade of goods widened driven by higher import bill that outpaced exports receipts. The increase in imports bill resulted from continued elevated global oil and food prices as well as higher imports volume of capital and intermediate goods, reflecting strong domestic economic activities. Besides, the secondary income surplus dropped by 14.6 percent driven by decreased inflows from government budgetary grants (-34.4 percent) that outpaced the good perfomance of remittances (13.2 percent).

In contrast, the trade deficit in services reduced by 30.3 percent to USD 37 million in 2023H1 from USD 28 million in 2022H1 driven by increased receipts from travel (+44.2 percent), reflecting a strong recovery of tourism sector from the Covid-19 pandemic. In addition, inflows from secondary income rose by 26 percent on account of higher government current transfers and diaspora remittances by 35 percent and 22 percent respectively.

Table 15: Balance of payments (USD million)

	2017	2018	2019	2020	2021	2022	2022H1	2023H1
Current account balance	**-875**	**-975**	**-1231**	**-1228**	**-1243**	**-1306**	**-451**	**-784**
Goods and services, balance	**-1167**	**-1298**	**-1482**	**-1649**	**-1780**	**-1985**	**-908**	**-1162**
Goods, Balance	**-974**	**-1155**	**-1465**	**-1650**	**-1659**	**-1990**	**-880**	**-1125**
Credit	1040	1130	1240	1408	1531	2111	982	1276
Debit	2014	2284	2705	3058	3190	4102	1862	2400
Services,	**-193**	**-144**	**-18**	**2**	**-122**	**5**	**-28**	**-37**
Credit	863	914	1015	521	579	883	384	456
o/w Transport	141	184	213	107	146	235	108	104
Travel	381	392	458	120	150	400	158	228
Debit	1056	1057	1033	520	701	878	412	493
ow/ Freight	350	393	344	233	287	397	181	204
Travel	371	345	336	104	189	272	124	158
Primary income, balance	**-291**	**-344**	**-330**	**-200**	**-219**	**-302**	**-137**	**-130**
Credit	22	19	16	12	21	20	13	18
Debit	313	363	345	211	240	322	151	148
o/w dividends and reinvested earnings	136	148	124	41	96	-126	-57	-68

	2017	2018	2019	2020	2021	2022	2022H1	2023H1
interest	140	179	191	150	108	151	73	59
Secondary income, balance	**582**	**668**	**581**	**621**	**756**	**981**	**594**	**508**
Credit	681	752	658	683	840	1061	638	538
o/w remittances	208	253	252	274	379	461	217	246
Debit	99	85	76	63	83	80	44	30
Capital account and Financial account								
Capital account	**190**	**245**	**260**	**313**	**422**	**322**	**150**	**198**
Financial account	**687**	**811**	**926**	**1115**	**1112**	**784**	**370**	**556**
FDI	258	348	258	153	233	399	155	175
PI	-74	-15	-30	26	273	-61	-13	-60
OI	503	477	698	936	605	446	227	441
Reserves (+ deficit)	-157	-96	-112	-328	-154	129	18	-6
NEO	**156**	**15**	**157**	**128**	**-136**	**72**	**-87**	**36**

Source: NBR, Statistics Department

The financial account surplus amounted to USD 556 million in 2023H1, up from USD 370 million in 2022H1, representing an increase of 50.4 percent supported by significant disbursements from government budget and project loans as well as private capital flows notably foreign direct investment (FDI). In the period under review, FDI net inflows were estimated at USD 175 million, up from USD 155 million registered in 2022H1, an increase of 13.1 percent. The continued uptick in FDI reflects the ongoing supportive economic policies such as the "Manufacture and Build to Recover Program (MBRP)" and continued investment in the energy sector. Consequently, in the period under review the balance of payments recorded a surplus of USD 5.7 million compared to a deficit of USD 18.5 million recorded in the same period of last year. The international gross official reserves remain adequate covering 4.4 months of prospective imports of goods and services as of end June 2023.

Rwanda external sector outlook is projected to deteriorate in 2023 and to improve thereafter. The adverse spillovers from continuing geo-political tensions, high borrowing costs, elevated financial vulnerabilities, subdued global growth and the global commodity price dynamics will continue to weigh on Rwanda external sector in the short-term. The CAD is projected to widen in 2023 on deteriorating trade deficit before gradually narrowing starting in 2024. The deterioration of trade deficit will continue to be the major driver of this CAD as imports are expected to remain high to support the growing investment, although they will be partially offset by projected increase in exports revenues boosted by government policies to increase and diversify Rwanda exports base as well as increase of intra-African trade (AfCFTA). Besides, increases in exports of services buoyed by strong recovery in travel and transport services as well as persistent inflows from diaspora remittances will contribute further to the improvement in the CAD. This CAD is projected to be financed by private inflows notably FDI which will offset the decline of public sector borrowing amid fiscal consolidation. The country's international reserves are projected to remain adequate, covering more than 4 months of prospective imports of goods and services.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

3.1 INFLATION DEVELOPMENTS

On average, in the first half of 2023, the year-on-year headline inflation decreased slightly to 17.7 percent from the 18.7 percent recorded in the second half of 2022. This was due to a decline in core inflation and energy inflation, which offset the increase in fresh foods inflation. As of August 2023, the headline inflation stood at 12.3 percent.

Table 16: Inflation developments for key items (annual average, % change)

	2020		2021		2022		2023	Annual average		
	H1	H2	H1	H2	H1	H2	H1	2020	2021	2022
Headline	8.5	7.0	1.4	0.3	9.0	18.7	17.7	7.7	0.8	13.9
Domestic	9.1	7.3	0.1	-1.6	7.8	18.5	19.2	8.4	-0.8	13.2
Food:	15.5	8.8	0.1	-2.1	14.6	36.7	35.5	12.1	-1.0	25.7
-Vegetables	27.4	15.6	-7.0	-14.2	10.6	55.9	69.5	21.5	-10.6	33.3
-Meat	19.7	13.0	4.4	5.2	9.7	16.7	15.5	16.4	4.8	13.2
-Fruits	11.3	5.4	6.0	-0.9	13.1	30.3	30.4	8.4	2.6	21.7
-Bread & Cereal	11.8	4.5	-2.9	-1.4	12.0	36.0	28.2	8.2	-2.1	24.0
Housing	4.6	4.9	1.9	1.6	6.7	8.3	4.8	4.7	1.8	7.5
Transport	9.7	14.2	-1.9	-5.5	6.6	13.3	9.6	11.9	-3.7	9.9
Imported	6.3	6.1	5.8	6.3	12.8	19.4	13.4	6.2	6.1	16.1
Core	5.5	5.7	2.2	1.9	8.1	13.9	11.8	5.6	2.1	11.0
Energy	10.2	5.5	-0.1	3.7	14.8	20.1	9.4	7.8	1.8	17.4

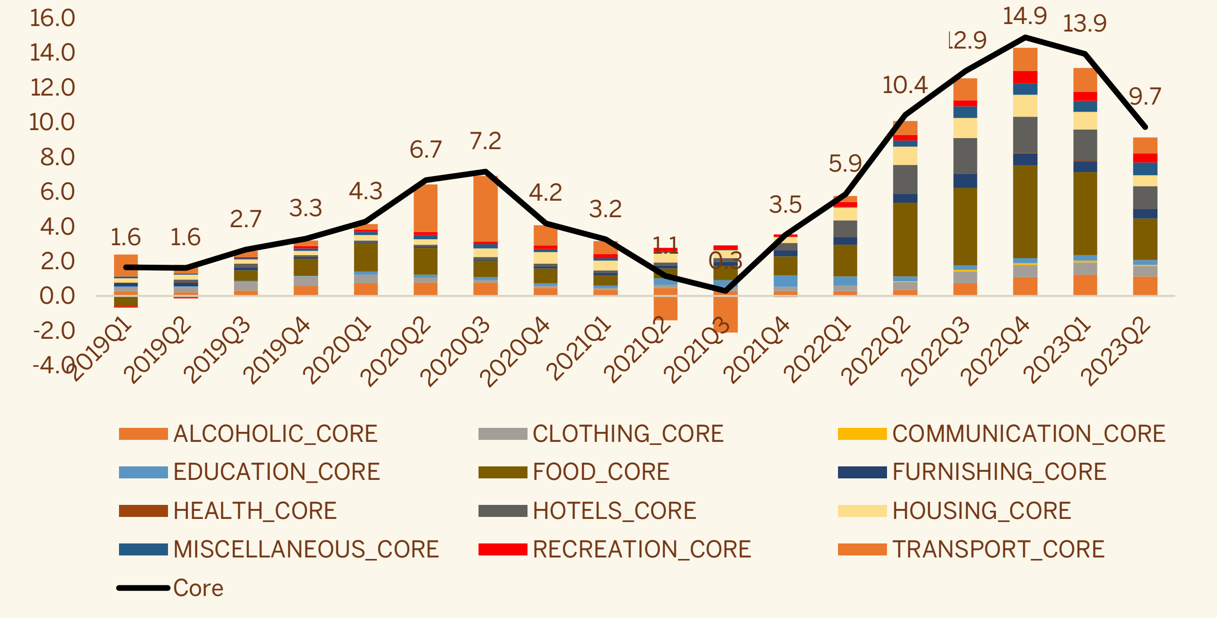
Source: National Bank of Rwanda

1.1.2 Contributors to headline inflation

a. Core inflation

In the first half of 2023, core inflation decelerated to 11.8 percent from 13.9 percent in the second half of 2022. The slowdown in core inflation is due to a decrease in core food, core housing, and core transport inflation. Specifically, core food inflation decreased from 29.6 percent in 2022H2 to 21.9 percent in 2023H1, as a result of lower international food prices and government regulations that affected the prices of maize and rice. Core housing inflation also decreased from 5.9 percent in 2022H2 to 4.1 percent in 2023H1, reflecting the decline in prices of housing materials and maintenance services. Finally, core transport inflation decreased from 9.4 percent in 2022H2 to 8.3 percent in 2023H1, as inflation pressures for vehicle purchases decreased.

Chart 4: Developments in Core inflation (% change, Y-o-Y)

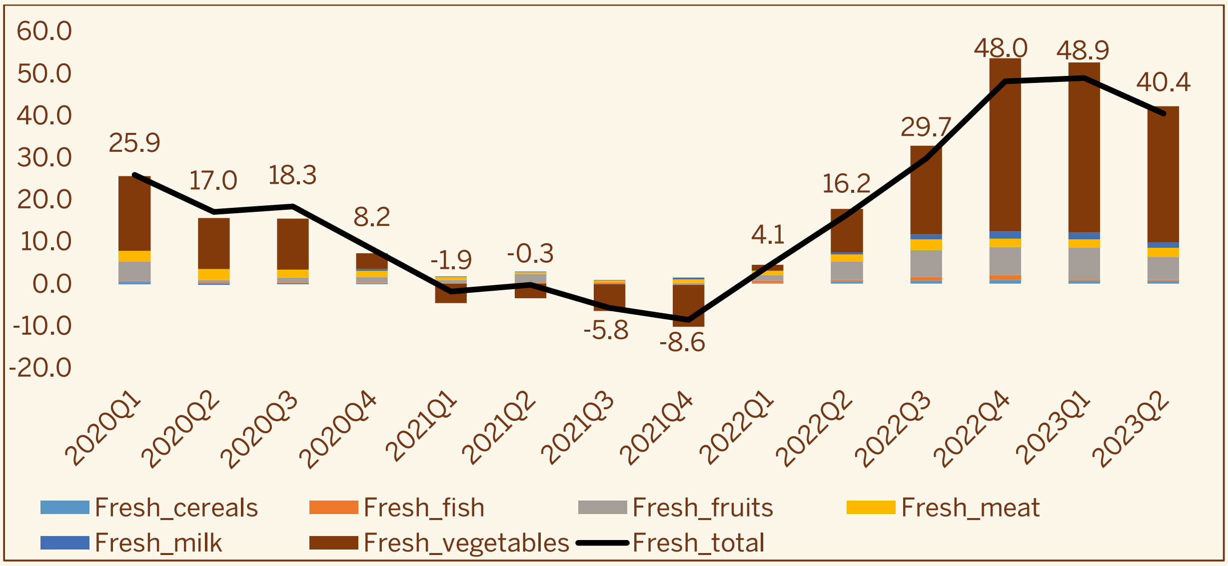


Source: National Bank of Rwanda

b. Fresh food inflation

During the first half of 2023, inflation for fresh food increased to 44.7 percent from 38.9 percent in 2022H2, mainly due to a rise in vegetable inflation. The increase in vegetable inflation went up to 69.5 percent in 2023H1 from 55.9 percent in 2022H2, caused by unfavorable weather conditions that negatively affected domestic agricultural production.

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

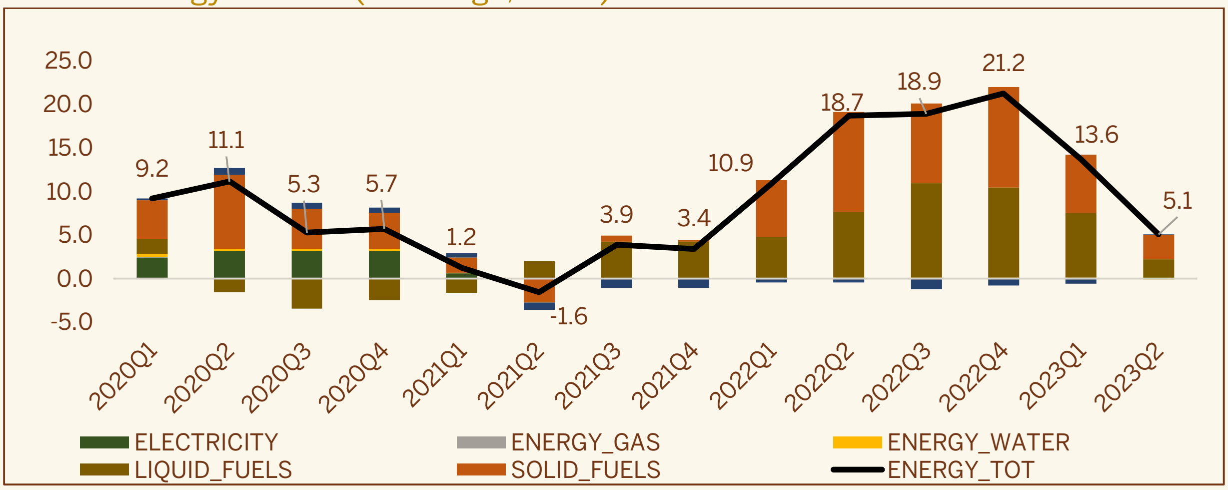


Source: National Bank of Rwanda

c. Energy inflation

During the first half of 2023, energy inflation decreased to 9.4 percent from 20.1 percent recorded in 2022H2, as reflected by lower inflation rates for both solid and liquid fuels. Solid fuels inflation dropped from 20.1 percent to 9.2 percent, reflecting a decrease in cooking firewood and charcoal inflation mainly due to the base effect. In the same period, liquid fuels inflation also decreased from 41.7 percent to 19.0 percent because of lower local pump prices that were consistent with the decrease in international oil prices.

Chart 6: Energy inflation (% change, Y-o-Y)



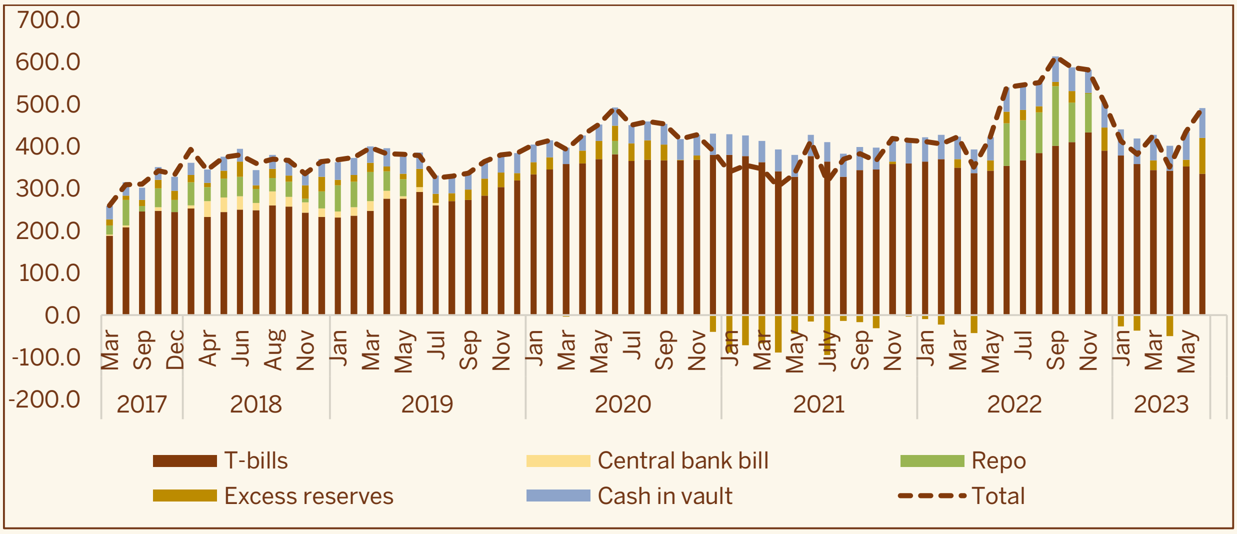
Source: National Bank of Rwanda

3.2 MONETARY SECTOR DEVELOPMENTS

3.2.1 Banking System Liquidity Conditions

In June 2023, the bank's most liquid assets declined by 2.6 percent to FRW 490.6 billion, from FRW 503.9 billion recorded in December 2022, compared to a growth of 31.7 percent recorded in the corresponding period of the previous year. This decline resulted from fiscal absorption recorded in 2023 Q2, which led to reserves shortage and T-bills investment contraction.

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

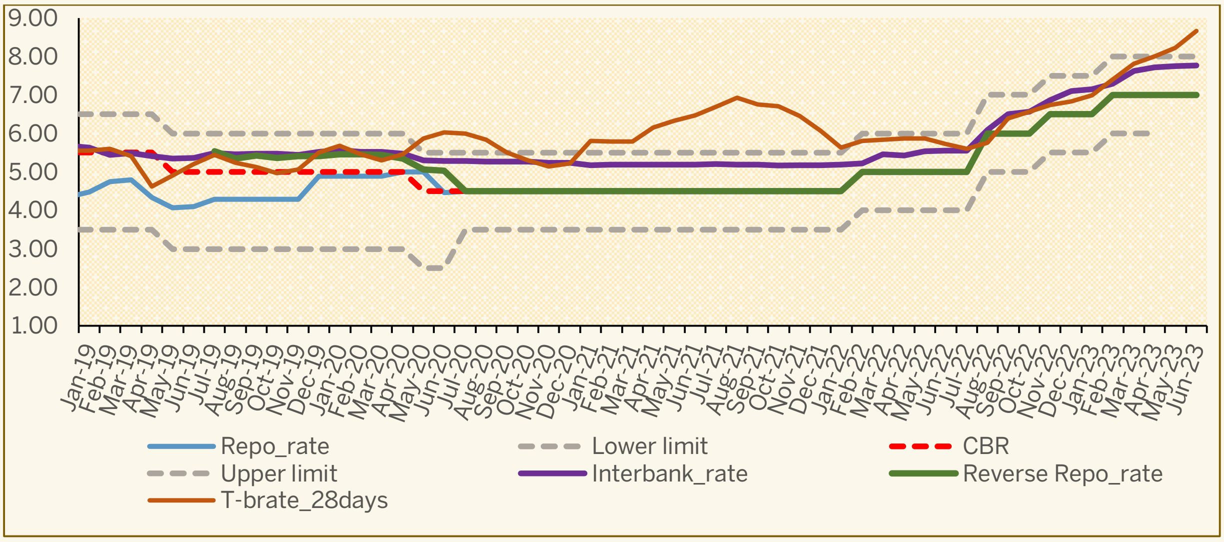


Source: National Bank of Rwanda

3.2.2 Monetary Policy and Interest Rates

In February 2023, the Monetary Policy Committee (MPC) decided to raise the Central Bank Rate (CBR) from 6.5 to 7 percent. This decision remained unchanged during the May 2023 MPC meeting, but the CBR was increased to 7.5 percent in August 2023. This increase accumulated to 300 basis points from February 2022 to August 2023. The aim of this increase was to curb inflationary pressures that were affecting consumers' purchasing power. As a result, the interbank rate rose by 215 basis points to an average of 7.55 percent in 2023H1, up from 5.40 percent in 2022H1.

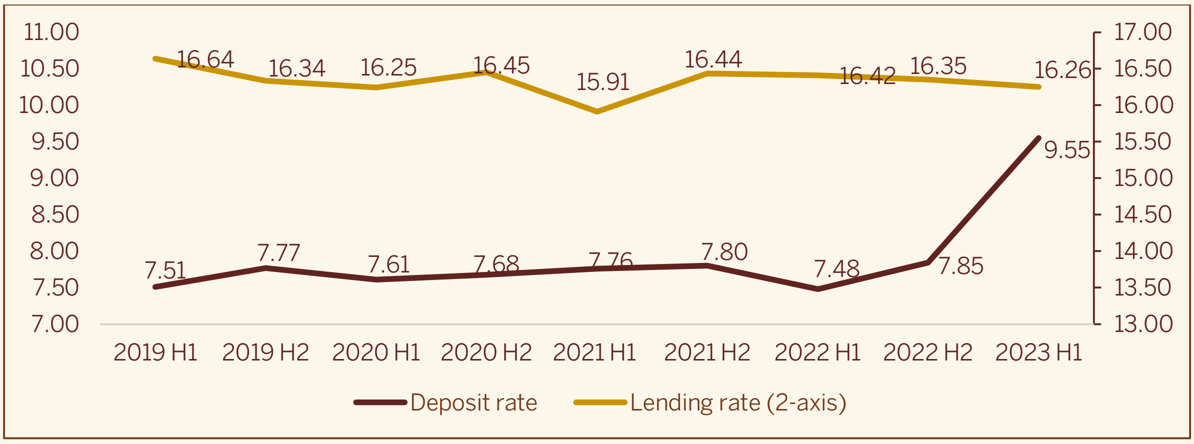
Chart 8: Money market rates developments (p.a)



Source: National Bank of Rwanda

In the first half of 2023, the average lending rate decreased by 16 basis points to 16.26 percent compared to 16.42 percent in 2022H1. This was due to an increase in the percentage of large loans with short-term maturity, which were offered at lower rates. However, looking at quarterly interest rates, it's important to note that the rate for the second quarter of 2023 was 23 basis points higher than the rate for the same period last year.

Chart 9: Market interest rates (p.a, average)

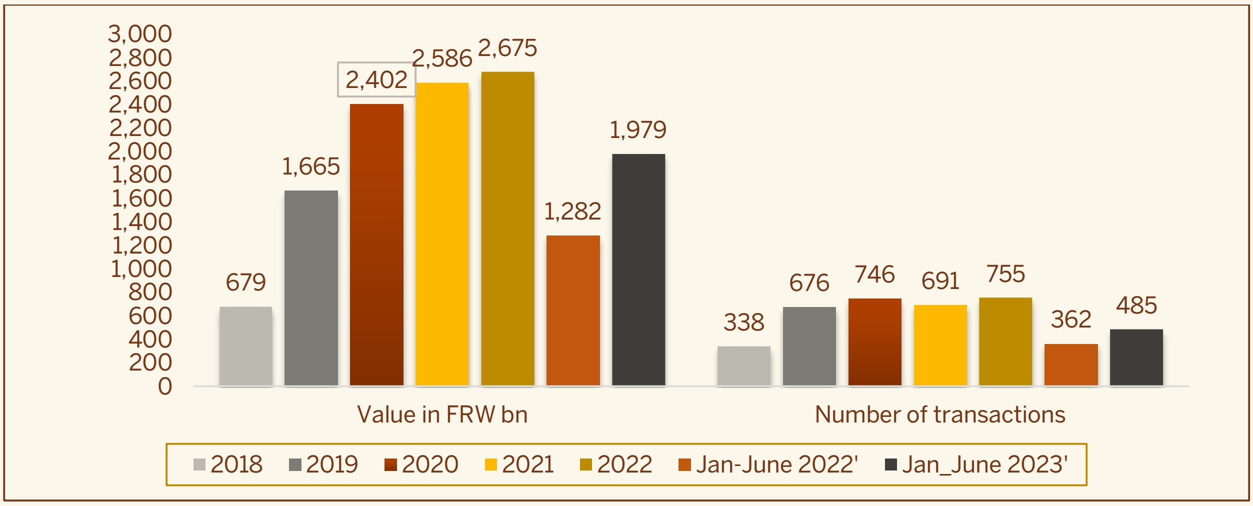


Source: National Bank of Rwanda

3.2.3 Interbank Market Development

In 2023H1, there was significant activity in the interbank market compared to the same period last year, with an increase in both the number of transactions and the volume exchanged. The number of transactions rose by 34.0 percent, reaching 485 transactions, while the amount exchanged increased by 54.3 percent, totaling FRW 1,979 billion during the same period. The growth in the interbank market is largely attributed to the increased trust between banks and the improvement in their liquidity management skills. Furthermore, the National Bank of Rwanda's sound monetary policy ensured that banks maintained adequate liquidity, which was crucial for the interbank market to operate smoothly.

Chart 10: Interbank activity: 2023H1 vs 2022H1

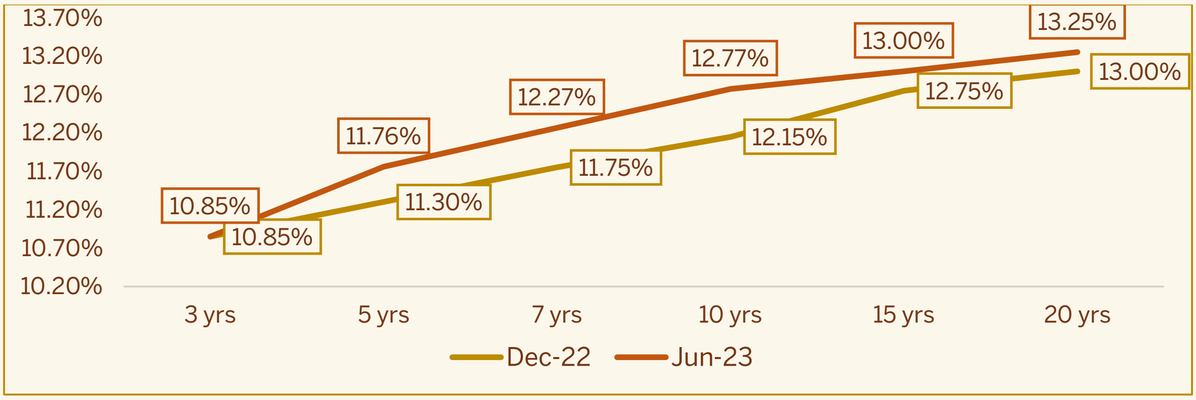


Source: National Bank of Rwanda

3.2.4 Bond primary market development

During the first half of 2023, NBR successfully issued three new bonds and reopened four existing ones. The average subscription rate was 117.1 percent, up from 109.4 percent in the corresponding period year. This increase is due to the ongoing recovery of the domestic economy post-COVID-19, as well as the rising awareness of the benefits of investing in government securities among economic agents. However, bond yields have increased for most maturities during this period, mainly due to monetary policy tightening and high inflation levels.

Chart 11: Bond Yield Curves December 2022 vs June 2023

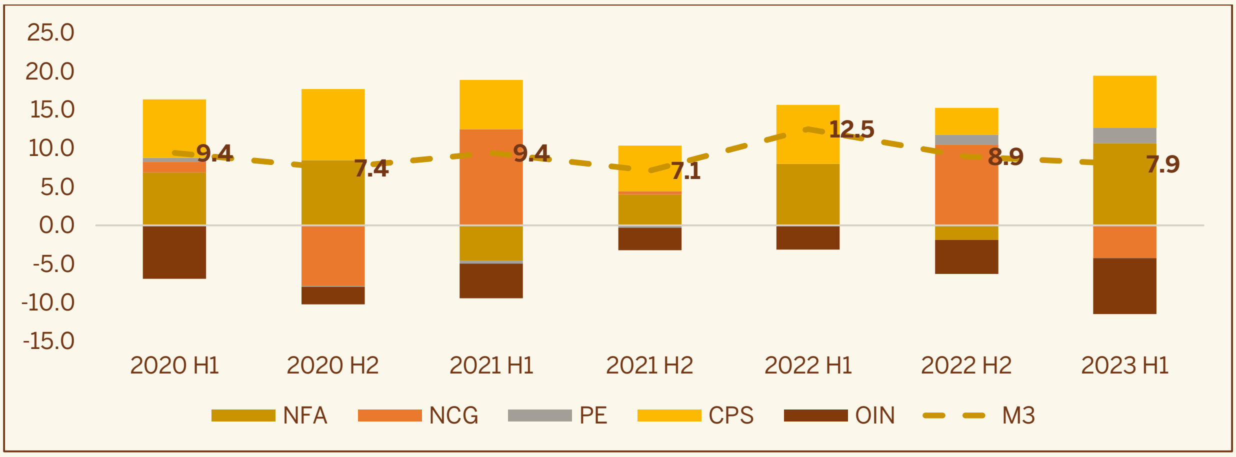


Source: National Bank of Rwanda

3.2.5 Money supply

From January to June 2023, there was a slowdown in the growth of broad money M3, which increased by 7.9 percent compared to the 12.5 percent growth recorded in the same period in 2022. The main factor contributing to this deceleration was the other items net (OIN) and the net credit to government (NCG). Nevertheless, the growth of broad money M3 was supported by the net foreign assets (NFA) and credit to public enterprises (CPE).

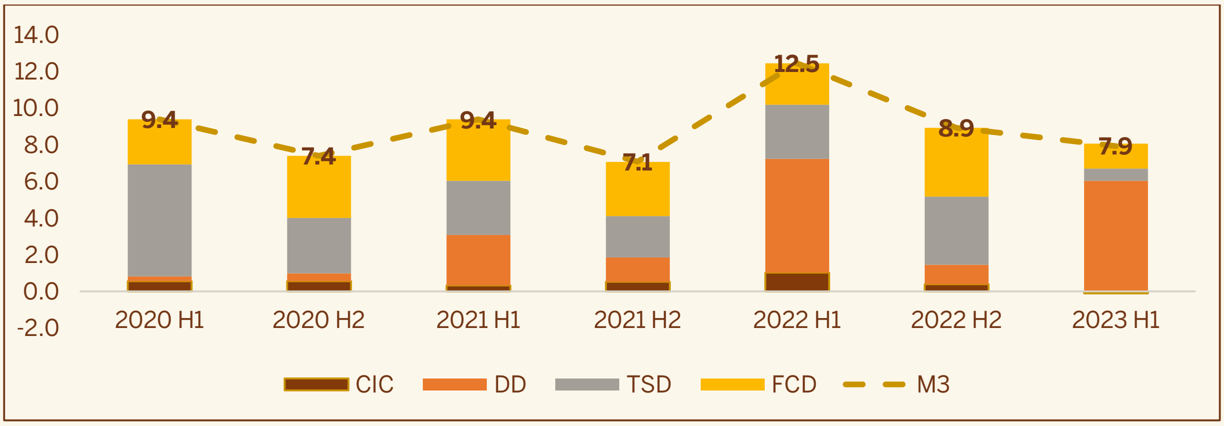
Chart 12: Contributors to M3 growth on the asset side (% change)



Source: National Bank of Rwanda

On the liabilities side, the decrease in the growth of broad money M3 can be attributed to all of its components. Specifically, in the first half of 2023, the contribution of demand deposits (DD), time and saving deposits (TSD), and foreign currency deposits (FCD) decreased to 6.1 percent, 0.6 percent, and 1.4 percent, respectively, from 6.2 percent, 2.9 percent, and 2.3 percent in the first half of 2022. Additionally, currency in circulation (CIC) had a negative impact on the growth of broad money M3 (-0.1 percent) compared to a positive contribution (1.0 percent) in the first half of 2022.

Chart 13: Contributors to M3 growth on liability side (% change)

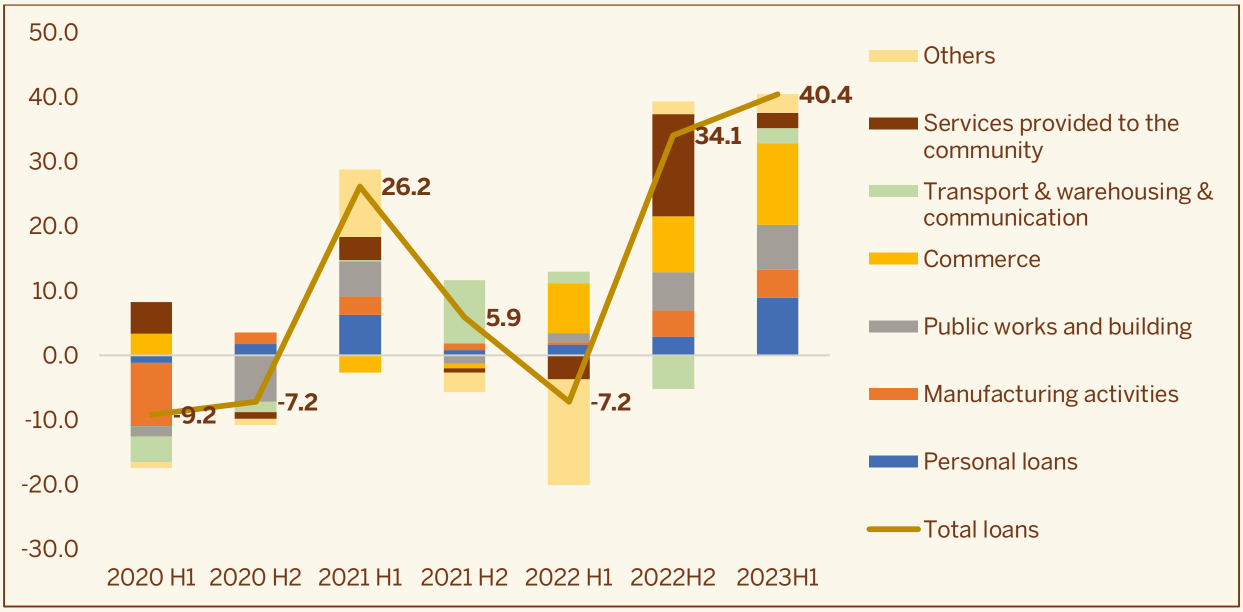


Source: National Bank of Rwanda

3.2.6 Credit

In the first half of 2023, new authorized loans (NALs) increased by 40.4 percent, after contracting by 7.2 percent in the corresponding period of last year. This growth was observed across all sectors, as depicted in the graph below, and was driven by the growing demand for loans due to the gradual recovery of economic activities from the COVID-19 pandemic. The four sectors that received the most financing were commerce, public works & building, personal loans, and manufacturing activities. Loans in commerce accounted for 32.9 percent of the total NALs, followed by public works & building (21.7 percent), personal loans (18.6 percent), and manufacturing (9.7 percent), which together represented 82.9 percent of all NALs granted during that period.

Chart 14: Contributions of Sectors to the Change in New Authorized Loans (%, Y-o-Y)



Source: National Bank of Rwanda

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

In this section, we will examine the exchange rate trends during the first half of 2023. The franc experienced a decrease in value compared to the same period in the previous year. This was caused by a larger current account deficit, limited external financing, and more aggressive tightening measures by the Federal Reserve that resulted in a stronger dollar.

4.1 EXCHANGE RATE DEVELOPMENTS

In the first half of 2023, the Rwandan franc (FRW) depreciated faster compared to the same period of the previous year. This was due to a wider current account deficit and high commodity prices that increased import costs. Compared to December 2022, the FRW had depreciated by 8.8 percent against the US dollar as of end June 2023. The FRW also lost value against other major currencies, including a decline of 13.9 percent against the pound, 10.7 percent against the euro, and a lower appreciation of 0.4 percent against the yen, after respective appreciation a year before.

Relative to regional currencies, the FRW continued to gain against the KES and BIF. Insufficient dollar supply has dragged the value of the Kenya shilling, adding to pressures from significantly large current account deficit and rising dollar demand especially from energy sector. According to the International Monetary Fund, Kenya is expected to face foreign exchange pressures until the year 2026. The BIF depreciated quickly, affected by the latest decision by the Central Bank to adjust the official rate to the market rate. In contrast, the Rwandan franc remained weak versus the Tanzanian and the Ugandan shillings. The UGS was boosted by increased dollar inflows from remittances, offshore portfolio investments, inflows from non-government organizations, as well as foreign direct investments, especially in oil and gas.

Table 17: FRW Exchange rate (in percent change compared to Dec. previous year)

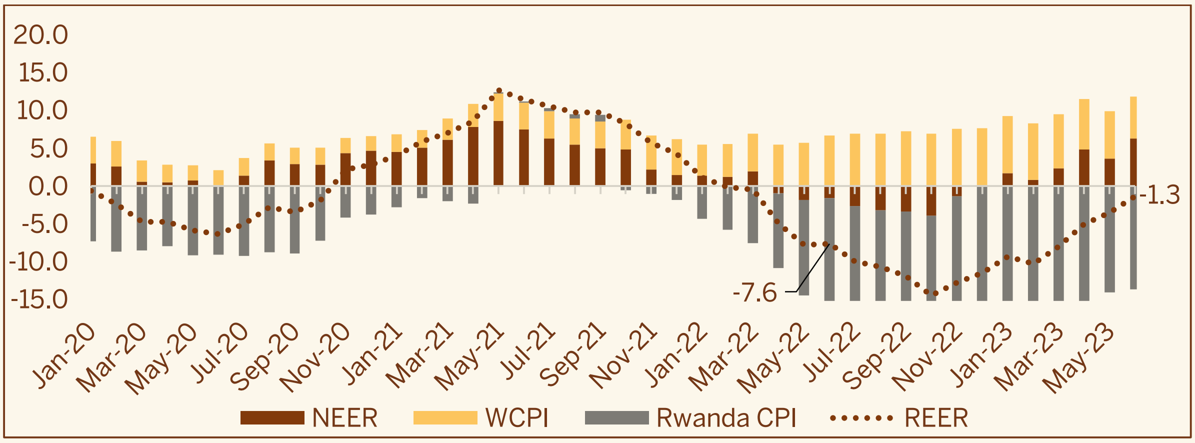
	USD	GBP	EUR	JPY	KES	TZS	UGS	BIF
Dec-15	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Dec-16	9.7	-9.2	5.3	13.4	9.6	8.6	2.3	-0.2
Dec-17	3.1	13.2	16.9	6.6	2.3	0.4	2.7	-1.0
Dec-18	4.0	-2.0	-0.1	6.2	5.5	1.2	1.8	1.9
Dec-19	4.9	8.5	2.8	6.3	4.5	3.7	5.1	-0.2
Dec-20	5.4	9.4	15.7	11.4	-1.3	5.7	7.2	2.5
Dec-21	3.8	2.9	-4.4	-7.0	0.2	4.8	6.8	1.0
Jun-22	1.5	-8.8	-6.3	-14.5	-2.5	0.1	-4.6	-1.7
Jun-23	8.8	13.9	10.7	-0.4	-4.5	5.1	10.0	-20.2

Source: National Bank of Rwanda

In 2023H1, the Rwandan Franc appreciated by 4.5 percent against the KES and by 20.2 percent against the BIF but weakened by 5.1 and 10.0 percent against the TZS and UGS, respectively.

In the same time frame, the FRW lost value when compared to the combined currencies of trading partners in nominal effective terms, resulting in a 6.3 percent depreciation. However, in real terms, the franc actually gained 1.3 percent value due to high domestic inflation outpacing the combined effect of weighted foreign inflation and nominal effective depreciation. It's worth noting that this franc appreciation was slower than the 7.6 percent appreciation recorded at the end of June 2022.

Chart 15: Drivers of REER movement



Source: National Bank of Rwanda

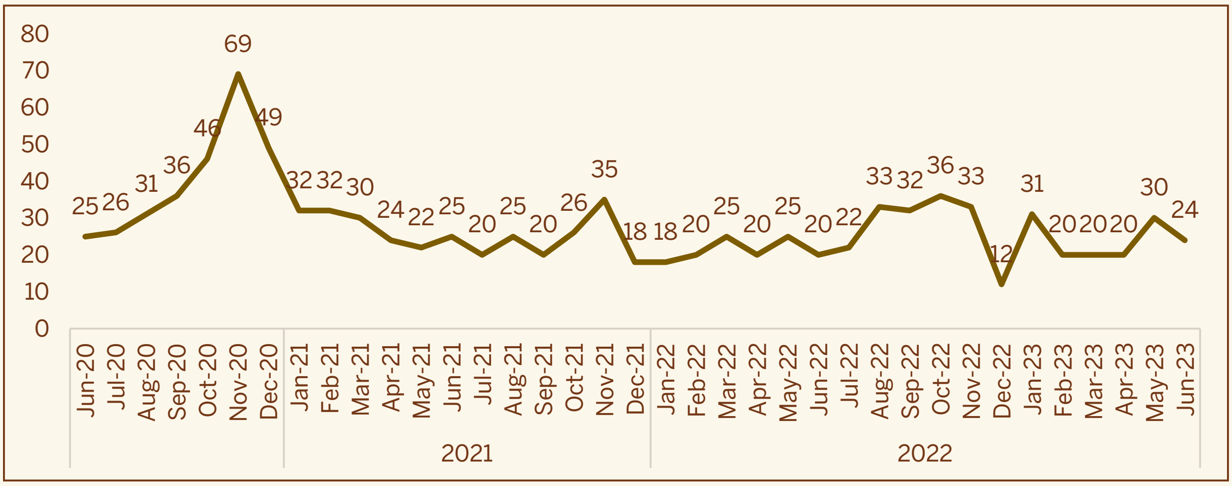
With an appreciation of the real effective exchange rate, domestic products remain less competitive compared to foreign goods.

4.2. Foreign Exchange Market Developments

By the end of June 2023, the net foreign assets of commercial banks had risen significantly to FRW 294.42 billion from FRW 126.69 billion in June 2022. This increase was due to a faster increase in assets (33.57 percent) than foreign liabilities, which decreased by 5.3 percent during the same period. Nevertheless, the mismatch between the supply and demand for dollars increased due to fast-growing import bills compared to export earnings.

To mitigate high volatility and speculation, the NBR took action by intervening in foreign exchange markets. Between January and June of 2023, sales of foreign exchange to banks amounted to $145 million, an increase from the $128 million recorded during the same period the previous year.

Chart 16: NBR FX interventions



Source: National Bank of Rwanda

By the end of June 2023, the international reserves had reached a level equal to 4.4 months of expected imports of goods and services, which is higher than the NBR benchmark.

V. FINANCIAL SECTOR STABILITY

5.1 INTRODUCTION

Despite the contractionary monetary policy undertaken to mitigate the inflationary pressures arising from external factors like Russia's conflict with Ukraine, volatile weather patterns, and the strengthening of the US dollar, the financial sector has displayed resilience and stability.

As of June 2023, the total assets within the financial sector had increased by 18.3 percent, from FRW 8,145 billion in June 2022 to FRW 9,635 billion. Measuring the size of financial sector assets relative to Gross Domestic Product (GDP), the depth of the financial sector reached 63.0 percent in June 2023, surpassing the five-year average of 61.4 percent. This emphasizes the significant and expanding role the financial sector continues to play in financing the economy.

In the face of challenges affecting the global economy, the financial sector has demonstrated resilience against various potential adverse shocks. This is attributed to its strong capitalization, as regulated institutions consistently maintain capital and liquidity levels above the regulatory requirements. This robust capitalization has enabled these institutions to withstand external shocks effectively, reinforcing their capacity to absorb potential losses and maintain their provision of financial services to the real economy.

The stability in the capitalization of lending institutions has been achieved through a combination of factors. These include Banks and Microfinance Institutions (MFIs) increasing their capital base through retained earnings and capital injections, alongside improvements in asset quality. Furthermore, solvency in the insurance sector increased to 256 percent in June 2023 from 180 percent in June 2022, demonstrating the sector is well capitalized and able to absorb risks.

In the medium term, the financial sector is expected to remain stable and Sound. This will be supported by adequate capital and liquidity reserves, enhanced risk management practices, and ongoing economic recovery alongside reduced inflationary pressures. To ensure the financial sector is safeguarded from different cascading shocks and rising risks, the NBR will continue monitoring potential risks arising from macroeconomic conditions, climate-related factors, and global supply chain disruptions and take suitable measures to contain risks that may arise from uncertain macro financial conditions. This will ensure that financial institutions maintain sufficient capital to weather adverse economic conditions, maintain adequate liquidity to fulfill financial obligations, and uphold secure payment systems that guarantee the stability, integrity, and efficiency of the financial system.

The following sections detail the performance and stability of the financial sector as of June 2023. They also emphasize on the regulatory instruments that have been enacted to enhance the overall stability of the financial sector and provide insights into the projected outlook of the stability of the sector in the medium term.

5.2: Structure of the Financial System

The financial system continued to grow in number and size supported by a conducive regulatory and economic environment. The sector comprises of diverse institutions and infrastructures that play pivotal roles in promoting financial inclusion, fostering investments, generating employment, and enhancing overall well-being. As of June 2023, the number of regulated financial institutions grew to 646 from 623 in June 2022, driven primarily by new licensed Non-Deposit Taking Financial Institutions (NDFIs) and entrants in the payment industry (Table 18). The growth in the financial system is aligned with the NBR's objectives of modernizing and expanding its regulatory boundaries, in order to improve access to finance and promote effectiveness and efficiency of the financial system.

Despite challenging global economic conditions, the financial sector continued to expand in terms of size. The total assets of the financial sector increased 18.3 percent to FRW 9,635 billion from FRW 8,145 billion in June 2022, supported by post COVID-19 recovery of economic activities. The growth of assets was observed across all sub-sectors. In the banking industry, the largest sub-sector, total assets grew by 18.1 percent underpinned by the growth of deposits and capital. The assets of the pension sector, second largest sub-sector expanded by 16.2 percent on account of the growth of contributions and investment income. In insurance sub-sector, total assets expanded by 17.2 percent owing to the growth of premiums, equity and investment income. The assets of microfinance institutions grew by 26.5 percent due to improved deposits and equity capital. Despite this expansion, the financial sector remains characterized by high concentration and dominance by banks, constituting around 67.3 percent of total financial sector assets.

Table 18: Structure of the Financial System

Regulated Financial Institutions	June 2022			June 2023		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Banks	**15**	**5,492**	**67.4**	**15**	**6,485**	**67.3**
Commercial Banks	10	4,445	54.5	10	5,153	53.5
Microfinance Banks	3	73	1.0	3	85	0.9
Development Banks	1	408	5.0	1	543	5.6
Cooperative Banks	1	566	6.9	1	704	7.3
Pension Schemes	**13**	**1,356**	**16.7**	**11**	**1,576**	**16.4**
Public	1	1,275	15.7	1	1,495	15.5
Private	12	81	1.0	10	81	0.9
Insurers	**15**	**748**	**9.2**	**17**	**877**	**9.1**
Life	3	77	1.0	3	92.4	0.9
Non-Life	11	668	8.2	11	772.1	8.0
Micro insurers	1	3	0.0	1	6.2	0.1
Captive Insurers				1	5.6	0.1
HMO				1	0.5	0.0
Microfinances	**457**	**473**	**5.8**	**458**	**598**	**6.2**
U-SACCOs	416	191	**2.4**	416	221	2.3
Other SACCOs	22	141	**1.7**	23	199	2.1
Limited Companies	19	141	**1.7**	19	178	1.8

Regulated Financial Institutions	June 2022			June 2023		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Foreign Currency Dealers	**78**	**9**	**0.1**	**78**	**9.4**	**0.1**
Forex Bureau	78	9	0.1	78	9.4	0.1
Payment Services Providers (PSPs)	**18**	**-**	**-**	**29**	**-**	**-**
Money Transfer & Remittance Companies	6	-	-	8	-	-
Payment Initiation Services Providers	6	-	-	13	-	-
E-Money Issuers	5	-	-	7	-	-
Payment Systems Operators	1	-	-	1	-	-
Non-Deposits Taking Financial Institutions	**26**	**67**	**0.8**	**37**	**89**	**0.9**
Lending only	8	20	0.2	13	25.8	0.3
Factoring	2	0.0	0.0	8	0.1	0.0
Guarantees	1	47	0.6	1	63	0.6
Debt Collection	15	0.0	0.0	15	0.1	0.0
Credit Reference Bureaus	**1**	**-**	**-**	**1**	**-**	**-**
Grand Total	**623**	**8,145**	**100 %**	**646**	**9,635**	**100%**

5.3 Banking Sector

5.3.1 Structure of the Banking Sector

As of end June 2023, the banking sector comprised of 15 banks (of which 10 are commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank). Due to its size, the banking sector plays a dominant role within the financial system and remains the primary source of financing for the private sector. Credit is primarily channelled through banks, and they are also providers of other essential financial services including; payment services, and trade and exchange related services. This sector remains stable and continues to perform its functions, ensuring an uninterrupted provision of essential services.

5.3.2 Banking Sector Performance

The banking sector's balance sheet growth remained stable during the period under review (Table 19). The total assets of banks expanded by 18.1 percent to FRW 6,485 billion in June 2023 from FRW 5,492 billion in June 2022, although lower than the growth of 18.8 percent that was registered in the previous year. The growth in bank's assets was mainly attributed to the growth of customers' deposits (+ 14.8 percent) and equity (+ 12.8 percent). Consistent with banks' business models, earning assets constitute the bigger proportion of assets of banks (79.8 percent), and continue to contribute to the growth of banks' earnings. Earning assets are mainly comprised of loans (54.2 percent of total assets), Government Securities (18.3 percent of total assets), placements in domestic banks (6.3 percent) and placements in banks abroad (6.0 percent of total assets).

The balance sheet of banks is primarily funded by customer deposits that constitute around 71.1 percent of total liabilities of banks, and borrowing from domestic financial institutions that share 21.3 percent of total liabilities of banks, out of which 19.9 percent are bank loans. Banks' reliance on cross-border funding – comprising mainly borrowings – is very low, only 0.7 percent of total banking sector liabilities as of end June 2023.

Furthermore, the likelihood of government securities to induce losses to banks due to interest rate hikes is minimal, as most government securities are held to maturity. Therefore, they are less sensitive to changes in interest rates, especially in the current environment of tight monetary conditions aimed at curbing inflation.

Banks demonstrated an increased willingness to lend, resulting in a more favorable pace of lending to the private sector. The total outstanding loans increased by 17.3 percent to FRW 3,716 billion in June 2023 form FRW 3,167 billion in June 2022, compared to the growth of 16.1 percent recorded during the previous year. This improved growth of outstanding loans is largely linked to the growth of new lending. During the first half of 2023 (2023 H1), new loans approved by banks amounted FRW 823 billion higher than FRW 586 billion that were approved during the first half of 2022 (2022 H1). This represents an increase of 40.4 percent compared to the decline of 7.2 registered in the corresponding period of 2022.

The recent floods in the Northern and Western provinces have had minimal effects on the banking sector so far. The affected clients had a total credit of FRW 441 million, and even in a severe scenario of default, the asset quality and capitalization of banks would not be substantially compromised. The National Bank of Rwanda remains vigilant about climate-related risks and is working to integrate them into macro-prudential surveillance and supervisory processes to maintain the banking sector's stability and resilience.

Table 19: Banks' Outstanding Loans by Sector

Activity Sector	Loans (FRW Billion)			Annual Change	
	Jun-21	Jun-22	Jun-23	% change 21/22	% change 22/23
Consumer Loans	361	406	627	12.5	54.5
Agricultural & Livestock	30	24	34	-20.2	39.8
Mining	1	1	0	-26.3	-31.0
Manufacturing	304	366	411	20.3	12.3
Water & Energy	116	119	178	2.7	49.7
Public Works	195	209	257	7.2	23.0
Residential Properties	386	490	527	26.7	7.7
Commercial Properties	258	272	269	5.6	-1.4
Trade	383	440	548	14.9	24.5
Hotels	268	314	259	17.0	-17.5
Transport & Communication	276	341	366	23.6	7.5
Financial Services	7	9	29	20.7	227.7
Other Services	144	178	211	23.5	18.9

Source: National Bank of Rwanda

5.3.3 Soundness of the Banking Sector

The capital position of the banking sector remains robust, to provide banks with a strong buffer against plausible shocks. As of June 2023, the core Capital Adequacy Ratio (CAR) and total CAR ratio were above the minimum required ratios of 12.5 percent and 15 percent, standing at 20.2 percent and 21.1 percent, a slight decline from the ratios of 22.1 percent and 23.1 percent observed in June 2022, respectively. The slight decrease in CAR ratios was primarily attributed to a higher increase in the aggregate credit risk weights in line with increase in credit exposures. Nonetheless, banks still hold a surplus of capital amounting to FRW 271 billion (6.1 percent points of the total capital ratio). This capital surplus ensures that banks can continue to support credit availability to the economy and preserve their capacity to absorb unexpected losses.

Looking ahead, banks are expected to remain adequately capitalized. The improvements in profitability of banks along with capital conservation strategies being maintained by most banks will further reinforce the capacity of banks to support intermediation and absorb unexpected losses. The main risk to the capitalization of banks is the potential market risks associated with local currency depreciation, but the depreciation is anticipated to have moderate impact on capital adequacy of banks. The NBR will continue to monitor how market risks unfold and stand ready to make all necessary supervisory interventions to preserve banks' capital buffers.

The banking sector's liquidity buffers have improved, reinforcing resilience to liquidity risk. The effective liquidity risk management is important to ensure that banks have the capacity to fulfil their cash flow obligations at all times, as any shortage of liquidity could lead to system-wide implications. As financial intermediation is the core function of banks, their assets tend to have longer maturities compared to their liabilities. Therefore, banks are required to keep adequate liquid assets to mitigate liquidity risk.

During the period under review, banks continued to hold liquid assets, that exceeded the mandated minimum requirement for liquid assets. The aggregate High Quality Liquid Assets (HQLA) of banks increased by 15.4 percent to FRW 1,587 billion (25.0 percent of total assets) in June 2023 against FRW 1,375 billion (24.5 percent of total assets) in June 2022. This growth is attributed to the expansion of investment in liquid assets, especially government securities, and cash reserves. As a result, the industry wide Liquidity Coverage Ratio (LCR), a short term liquid indicator that measures the ability of banks to withstand a 30- day liquidity stress period, increased to

274.1 percent in June 2023 from 224.7 percent in June 2022, well above the 100 percent minimum regulatory requirement. From long-term perspective, the Net Stable Funding Ratio (NSFR) that measures the proportion of funds available to finance banks' activity over a one-year horizon remained stable around 130 percent compared to the 100 percent benchmark.

The systemic resilience to liquidity shocks is being enhanced by the balance-sheet structure of the banks. Banks have consistently been able to maintain adequate liquidity position, largely attributed to a stable domestic funding base, a high share of liquid assets, and a surplus of customers' deposits compared to loans. The healthy domestic funding position has not only supported lending to private sector, but also and limited banks' reliance on offshore funding, which is currently costly with the increased volatility and risk premium in global financial markets.

Going forward, liquidity risks are expected to remain minimal. Banks will continue to maintain stable cash flows amid improved asset quality and have liquid assets that they can access and pledge to secure additional liquidity. The NBR will also ensure that banks maintain their contingency funding plans to meet funding mismatches and stressed liquidity situations.

Over the year leading up to end June 2023, the Non-Performing Loans (NPLs) marginally dropped to FRW 164 billion in June 2023 from FRW 166 billion in June 2022, mainly on account of write offs and banks and recoveries. While credit risk has eased, it still remains the major challenge facing the banking sector.
Subsequently, the NPL ratio, measured by the ratio between the gross NPL and gross loans declined to 3.6 percent in June 2023, from 4.3 percent in June 2022. The reduction in the NPL ratio is also explained by the higher growth of outstanding loans during the period under review.

Sector wise, with exception to manufacturing, the assets quality remains generally healthy, reflecting the growth of outstanding loans, write offs and recoveries (Table 20). Gross NPLs in the manufacturing sector increased by FRW 21 billion to FRW 32.2 billion in June 2023 from FRW 11.3 billion in June 2022. During the same period, the NPL ratio in the manufacturing sector increased to 7.8 percent from 3.1 percent. Recent credit impairments in the manufacturing sector are not broad based but are rather associated with a few large companies that are going through financial distress. The NBR will continue to ensure that banks timely recognize and adequately provide for credit impairments, safeguarding them against potential losses and allowing them to effectively manage credit risk.

Table 20: NPLs Ratio by Economic Sector (Percent)

Activity Sectors	NPLs Ratio (Percent)			% share in total NPLs
	Jun-21	Jun-22	Jun-23	
Personal Loans	5.9	5.5	5.4	11.9
Agricultural & Livestock	2.6	7.8	3.3	0.7
Mining	0.1	0.3	0.7	0.0
Manufacturing	0.8	3.1	7.8	20.8
Water & Energy	0.0	24.0	0.0	0.0
Public works	5.9	1.4	3.9	6.5
Residential Properties	3.7	3.4	4.1	13.8
Commercial Properties	16.0	16.7	6.7	11.7
Trade	8.1	6.3	5.7	20.2
Hotels	9.0	5.0	3.5	5.8
Transport & Communication	1.5	1.4	2.1	5.0
Financial Services	2.4	2.6	2.2	2.7
Other Services	4.3	0.8	0.6	0.9

Source: National Bank of Rwanda

Despite elevated inflationary pressures, the majority of the loans that had benefited from the credit moratorium continue to perform aided by the recovery of economic activities. The NBR had previously instructed banks to classify these loans under "watch category," and after the expiration of the moratorium, they transitioned back to their regular payment schedules. The debt serviceability, of the majority of these loans has been stable since the resumption of payments. As a result, the proportion of loans in watch category declined to 7.8 percent from 10.6 percent in June 2022 and 13.4 percent in June 2021.

The currency risk is increasing as banks face heightened depreciation. Exchange rate fluctuations affect banks directly, affecting the value of foreign-currency-denominated assets and liabilities. It can also have indirect effects, influencing operating returns. For domestic banks, the direct effect is more relevant and depends on the gap between foreign assets and liabilities. As of June 2023, this gap improved to 92.2 percent from 86.7 percent in June 2022, supported by increased placement and earnings from foreign placements and interest on swap operations. This narrowing gap, along with foreign currency swap facilities, reduced the impact of local currency depreciation on banks' Net Open Position (NOP) and capitalization.

Table 21: Key Financial Soundness Indicators for Banks (Percent)

Indicators	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Total CAR (min 15 %)	23.3	23.6	22.5	23.1	21.1
Core CAR (min 12.5%)	21.8	22.3	21.4	22.1	20.2
NPLs Ratio	5.6	5.5	5.7	4.3	3.6
Provisions to NPLs	80.2	82.6	99.0	114.4	120.9
LCR (min 100%)	180.5	253	226.2	224.7	274.1
NSFR (min 100%)	164.3	164.3	157.4	130.9	129.8
FX Exposure/Core Capital (± 20%)	-8.6	-6.6	-4.7	-4.4	-5.5

Source: National Bank of Rwanda

Despite the rising cost of funds, the profitability of the banking sector continues to improve. The positive trajectory is supported by the recovery of economic activities. In particular, the consolidated net profits of banks grew by 30.2 percent to FRW 96.9 in 2023 H1 from FRW 74.4 billion in 2022 H1. This improved financial performance has translated into better metrics for the industry. The Return on Assets (ROA) and Return on Equity (ROE) improved to 4.3 percent and 19.0 percent in 2023 H1 from 4.0 percent and 16.5 percent in 2022 H1, respectively.

5.4. THE MICROFINANCE SECTOR

5.4.1. Structure of the Microfinance Sector

As of end June 2023, the Microfinance sector had 458 institutions of which 416 are Umurenge SACCOs (U-SACCOs), 23 non-Umurenge SACCOs and 19 Public Limited Companies (PLCs). Despite the relatively small size of Microfinance Institutions (MFIs) compared to other financial intermediaries, their significance in promoting financial inclusion is noteworthy. Their widespread presence across the country facilitates access to financial services for individuals who are traditionally underserved, particularly rural households. As of the end June 2023, the microfinance sector's contribution to the total assets of the financial sector grew to 6.2 percent from 5.8 percent in June 2022. This expansion in market share reflects the sector's importance in enhancing financial access for a broader population. For example, the number of account holders in MFIs increased from 4,978,448 in June 2022 to 5,716,029 in June 2023 with the majority (around 66 percent) in UMURENGE SACCOs (U-SACCOs), which are present in all 416 sectors of the country. The microfinance sector remains adequately capitalized, liquid, and its profitability has improved in line with the current good credit risk profile. The sections that follow underline the performance of the microfinance sector during the end of June 2023, and highlights the main factors driving the stability of microfinance institutions.

5.4.2. Performance of the Microfinance Sector

As of the end of June 2023, the balance sheet of the microfinance sector continued to grow. The total assets of the microfinance sector increased by 26.5 percent in June 2023 to FRW 598 billion, from FRW 473 billion in June 2022.The expansion of the sector’s assets is largely linked to the growth of deposits and equity. On one hand, customer’s deposits account grew by 19.5 percent (to FRW 315 billion in June 2023 from FRW 265 billion in June 2022), lower than the growth of 24.5 percent, recorded during the corresponding period of 2022. The improved growth in deposits of microfinances is largely explained by emergence of new Saccos, developments in the education sector. On the other hand, the nominal capital of the microfinance sector increased by 17.6 percent (to FRW 188.9 billion as of end June 2023, form FRW 160.2 billion as of end June 2022). This growth in capital was mainly driven by; originated increase of retained earnings (+25.6 percent), capital injections (+11.6 percent), the profits of the current period (+31.5 percent) and the other equity largely made of subsidies (17.1 percent). In summary, the microfinance sector's balance sheet expansion is a result of robust growth in both deposits and equity. The sector's ability to attract deposits and raise capital through various means has contributed to its increasing presence and impact in the financial landscape.

Financial intermediation remains the main activity of MFIs and it showed a significant growth during the period under review. During the year to end June 2023, net loans accounted for 63 percent of total assets from 54 percent recorded in June 2022. This improved intermediation will expand the profitability of microfinances, particularly considering that their main source of income comes from interest earnings. Moreover, the quality of loans remained healthy in the period under review. The second major component of assets of MFIs is the placements in banks, which accounted for 26 percent of total assets as of June 2023, down from 36 percent recorded in June 2022. The reduction in placements in banks can be attributed to MFIs prioritizing lending activities, following increased resources and improvement in asset quality. The other categories of MFI assets are relatively small and include; cash in vault (3 percent), Government securities (1 percent), and other assets comprised of fixed assets (7 percent). This evolution in the asset structure of MFIs reflects their focus on financial intermediation and lending as their core operations, which has positively impacted their profitability and overall performance.

Lending activities within the microfinance sector increased during the period under review. The outstanding credit significantly increased by 48.9 percent to FRW 386.5 billion in June 2023, from FRW 259.6 billion, higher than the growth of 20.7 percent recorded in the previous year. This growth of credit was observed across all categories of microfinances. In particular, U-SACCOs' outstanding credit increased by 40.3 percent, surpassing the growth of 25.8 percent seen in June 2022. Public Limited Companies (PLCs) also experienced a notable expansion of 33.6 percent in outstanding credit in June 2023, compared to the growth of 22.8 percent in June 2022. Other SACCOs witnessed a remarkable 69.5 percent growth in outstanding credit in June 2023, up from the growth of 15.3 percent in June 2022.This improved growth of loans in the microfinance sector largely reflects increased resources (deposits), improved assets quality, that induced lending appetite among microfinances and the recovery of economic activities that contributed to higher credit demand, further driving the growth of loans within the sector.

5.4.3. Soundness of the Microfinance Sector

The capitalization of the microfinance sector remains stable. As of end June 2023, the aggregate CAR of MFIs stood at 31.6 percent, higher than the 15 percent minimum regulatory requirement. This indicates that the sector as a whole holds strong capital buffers to absorb potential losses.

All categories of MFIs hold adequate capital buffers. The CAR of U-SACCOs stood at 32.7 percent as of end June 2023. During the same period, the CAR of PLCs stood at 23.7 percent, while the CAR of other SACCOs stood at 37.4 percent. This stable capitalization of MFIs has been underpinned by the growth of equity. During the period under review, total equity of MFIs expanded by 17.9 percent to FRW 188.9 billion as of end June 2023, from FRW 160.2 billion as of end June 2022. The equity of MFIs is comprised of paid-up capital of FRW 64.4 billion (11.6 percent), subsidies FRW 66.3 billion (17 percent), retained earnings FRW 44.2 billion (26 percent) and profit of the previous period FRW 13.9 billion (32 percent). The strong capital position of

MFIs provides confidence that MFIs can withstand unexpected losses from various shocks.

The microfinance sector remains liquid. The consolidated liquidity ratio of the microfinance sector stood at 90.2 percent higher than the 30 percent minimum prudential requirement. All categories of MFIs hold liquidity buffers above the regulatory requirement. The liquidity ratio of U-SACCOs stood at 92.9 percent as of end June 2023, while the liquidity ratio of PLCs and Other SACCOs stood at 78.3percent and 101.8 percent respectively. The stability of the liquidity conditions of MFIs has been underpinned by the growth of deposits, growth of capital, improved assets quality and profitability, consistent with the recovery of economic activities.

During the period under review, credit defaults remained moderate. As of end June 2023, the stock of NPLs in microfinances amounted FRW 14.3 billion, from FRW 12.2 billion in June 2022. Despite this increase in NPLs in terms of absolute value, the NPL ratio, which is the proportion of NPLs to total loans, decreased. As of June 2023, the NPL ratio in the microfinance sector dropped to 3.7 percent, down from 4.7 percent in June 2022 due to improved growth in outstanding loans. This reduction in the NPL ratio indicates an improvement in the overall quality of loans in the microfinance sector.

By category of MFIs, NPLs increased in U-SACCOs, PLCs and other SACCOs. In U-SACCOs, the outstanding NPLs increased to FRW 7.3 billion in June 2023 from FRW 5.7 billion in June 2022, while in other SACCOs, the outstanding NPLs increased to FRW 2.5 billion in June 2023 from FRW 2.3 billion in June 2022, and in PLCs they slightly increased to FRW 4.4 billion from FRW 4.1 billion. Despite the increase in the absolute value of NPLs across the categories of MFIs, their NPL ratios dropped. In U-SACCOs, the NPL ratio declined to 7.0 percent from 7.8 percent, while in other SACCOs, NPL ratio reduced to 1.6 percent from 2.4 percent, and declined to 3.6 percent from 4.7 in PLCs. This decline was associated with the improved growth of outstanding loans.

The microfinance sector remains profitable, and its profitability continues to improve, with an increase of 31.5 percent in the consolidated net profits of MFIs. As a result, the Return on Assets (ROA) increased to 4.8 percent in June 2023 from 4.6 percent in June 2022, while Return on Equity (ROE) increased to 15.1 percent in June 2023 from 13.5 percent in June 2022. The increase in the profit of MFIs is mainly associated with the growth of revenues, in line with increased lending and reduction of provisions for bad debts, consistent with muted credit impairments. The total revenues of MFIs significantly increased by 29 percent, higher than the growth of 21 percent registered during the previous year. The provision for bad debts reduced to FRW 0.81 billion in 2023 from FRW 1.69 billion in 2022.

Table 22: Performance Indicators of Microfinance Sector

Microfinance sector	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Assets (FRW billions)	313.1	330.2	385.8	472.9	598.3
Loans(FRW billions)	167.6	181.5	215.1	259.6	386.5
Deposits (FRW billions)	163.9	178.9	212.7	264.7	316.3
Equity (FRW billions)	106.0	113.8	136.7	160.2	188.9
Net profit (FRW billions)	6.6	1.1	9.0	10.6	13.9
Capital adequacy ratio	33.9%	34.5%	35.4%	33.9%	31.6%
NPL ratio	6.7%	12.8%	6.6%	4.7%	3.7%
Liquidity ratio	108.8%	110.1%	106.1%	105.8%	90.2%
U-SACCOs	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Assets (FRW billions)	138.3	139.3	161.1	190.5	221.5
Loans (FRW billions)	47.2	48.9	59.1	74.4	104.4
Deposits (FRW billions)	73.1	77.7	92.3	111.5	123.7
Equity (FRW billions)	44.1	44.1	54.1	62.7	72.4
Net profit (FRW billions)	2.9	0.2	3.9	4.7	5.9
Capital adequacy ratio	31.9%	32.8%	33.6%	32.9%	32.7%
NPL ratio	12.5%	21.8%	10.6%	7.8%	7.0%
Liquidity ratio	117.5%	113.2%	106.9%	101.6%	92.9%
Public limited companies	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Assets (FRW billions)	85.6	93.4	110.6	141.1	177.6
Loans (FRW billions)	55.0	59.7	72.1	88.6	118.4
Deposits (FRW billions)	53.4	56.9	67.8	83.0	99.9

Public limited companies	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Equity (FRW billions)	19.9	20.7	27.6	34.8	42.1
Net profit (FRW billions)	1	-1.1	0.7	1.5	1.8
Capital adequacy ratio	23.2%	22.2%	24.9%	24.7%	23.7%
NPL ratio	5.2%	12.4%	6.0%	4.6%	3.7%
Liquidity ratio	77.6%	82.1%	78.6%	88.0%	78.3%
Other SACCOs	**Jun-19**	**Jun-20**	**Jun-21**	**Jun-22**	**Jun-23**
Assets (FRW billions)	89.2	97.4	113.9	141.2	199.1
Loans (FRW billions)	65.3	72.8	83.7	96.5	163.6
Deposits (FRW billions)	40.6	44.1	52.5	70.2	92.6
Equity (FRW billions)	41.9	47.4	54.9	62.6	74.4
Net profit (FRW billions)	2.5	1.9	1.9	4.3	6.2
Capital adequacy ratio	47.0%	48.7%	48.2%	44.4%	37.4%
NPL ratio	3.7%	7.1%	4.3%	2.4%	1.6%
Liquidity ratio	152.1%	157.8%	165.7%	152.8%	101.8%

Source: National Bank of Rwanda

5.5 INSURANCE SECTOR

5.5.1 Structure of the Insurance Sector

Insurance plays a crucial role in various sectors of the economy, providing financial protection and risk mitigation for individuals, businesses, and other entities. Its primary function is to help manage and transfer risks by offering financial compensation in the event of specific unforeseen events. The business of insurance involves the transfer of risk from individuals or entities (insured) to insurance companies (insurers) in exchange for the payment of premiums. Insurance companies pool funds from many policyholders to cover the costs of potential future claims.

Insurance is classified into two broad Categories- Non-life insurance and Life business, and the sector has also three special categories: Micro insurance, Captive insurance and Health Maintenance Organization (HMO). The Private insurance is composed of 15 insurance companies, of which 9 offer non-life insurance products, 3 offer life insurance, 1 micro insurance business, 1 Captive Insurance, and 1 Health maintenance Organization. In addition to private insurers, the sector also consists of 2 public health insurers (RSSB Medical and MMI). In the field of intermediation, there are 14 active insurance brokers, 8 banc assurance, 1219 Insurance agents, and 32 loss adjusters as of June 2023.

General insurance (Non-life) business which is considered short term remained the highest contributor to private insurance premiums, with 79 percent of premiums of private insurers, and 46 percent of the sector's total gross written premiums (GWP) as of June 2023. General insurance business is largely dominated by motor and medical insurance classes of business with a combined share of 63 percent of total gross premiums, and 29 percent of total insurance industry's premiums. On the other hand, life insurance is a long-term category of insurance that provides financial compensation of the amount assured at maturity or in case of the death of a policyholder. Life insurance business consists of ordinary life, traditional life, term and credit life products. Ordinary life and Credit protection dominated with 71 percent of gross premiums collected by Life insurance as of June 2023 (Table 24).

Table 23: Product performance for Non-Life Insurance revise

Product Description (In FRW Million)	June -22			June-23		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Motor	19,453	11,411	62%	23,789	12,082	57%
Property	6,738	391	15%	8,447	764	24%
Liability	1,237	362	87%	1,426	319	44%
Transportation	1,007	193	35%	752	37	13%
Accident& Health	1,225	163	25%	1,693	271	32%
Engineering	2,941	237	33%	3,623	209	22%
Guarantee	2,244	23	3%	2,138	197	22%
Medical	14,694	7,246	69%	17,039	7,682	59%
Miscellaneous	3,877	193	27%	4,149	283	-256%

Source: National Bank of Rwanda

Table 24: Product performance for Life Insurance revise

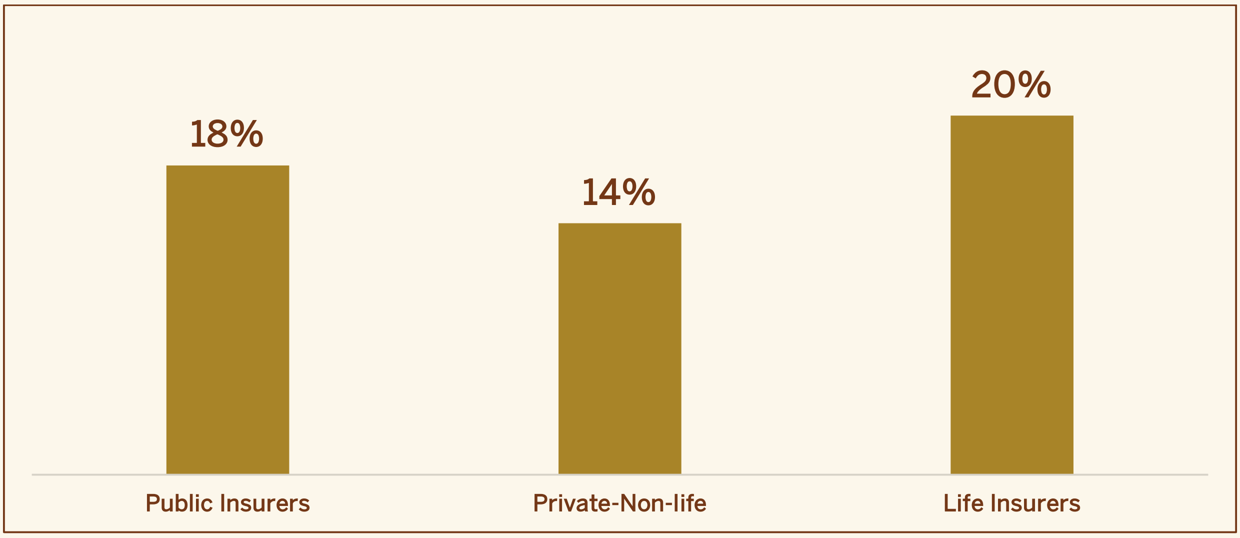
Product description (In FRW Million)	June-22			June-2023		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Ordinary life	5,856	4,455	83%	5,987	3,544	67%
Traditional life	1,362	1,349	165%	1,409	1,466	145%
Term life	331	448	415%	920	596	293%
Credit life	3,179	1,794	75%	4,202	1,636	62%
Funeral and others	1,634	1,050	88%	1,896	852	61%

Source: National Bank of Rwanda

5.5.2 Performance of the Insurance industry

The balance sheet of the insurance sector continued to grow in the period under review. Total assets of the sector increased by 17.3 percent to FRW 877 billion, from FRW 748 Billion (17.2 percent) growth recorded in June 2022. All categories of Insurers recorded double-digit growth between June 2022 and June 2023 reflecting higher returns on investments income and improvement in underwriting performance (chart 17).

Chart 17: Assets Growth per Category

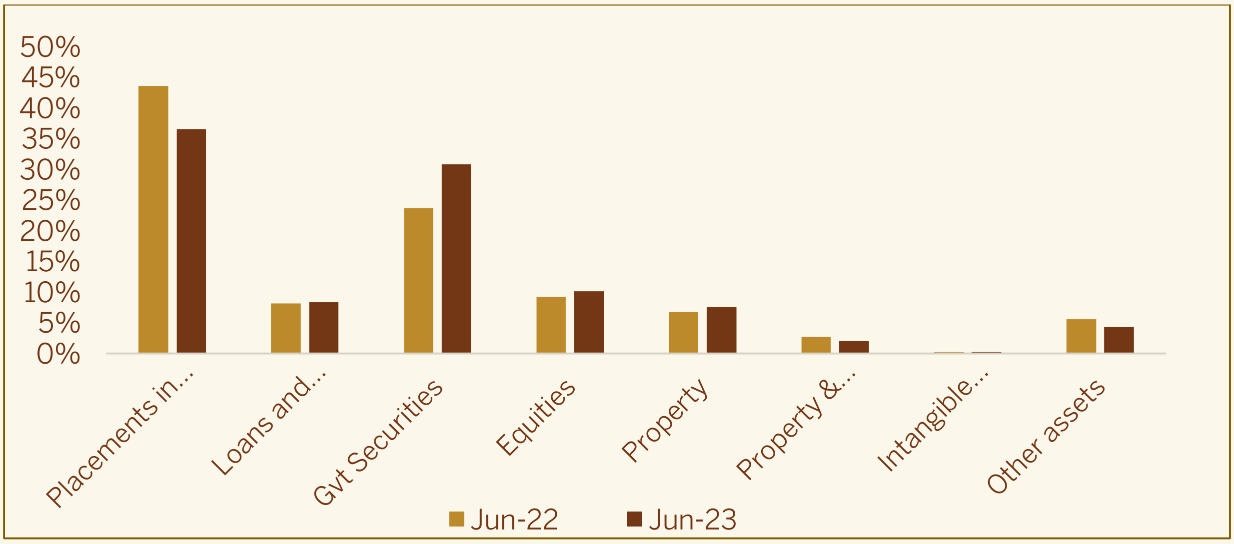


Source: National Bank of Rwanda

The asset mix for insurance companies is a critical aspect of their financial stability and ability to fulfil their obligations to policyholders. Insurance companies manage a diverse portfolio of assets to achieve a balance between generating investment income and ensuring sufficient liquidity to meet policyholder claims and other obligations. The asset mix can vary based on the type of insurance, regulatory requirements, risk tolerance, and market conditions.

From an industry-wide perspective, insurers are becoming more attracted to safe investments, mostly - placements in financial institutions (37 percent of total insurers' assets as of June 2023), followed by Government securities (31 percent), equity investments (10 percent), receivables (8 percent), investment in property (7.6 percent), and other assets (4 percent). This diversification of assets of the insurance sector minimizes concentration and contributes to achieving a balance between potential returns and the risk exposure (chart 18).

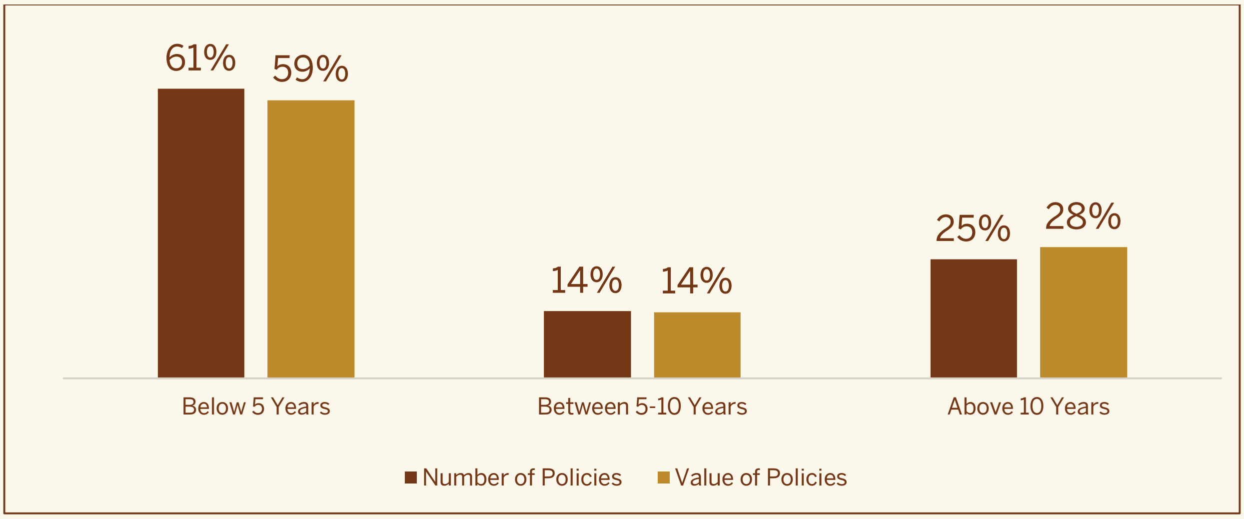
Chart 18: Asset mix for Insurance



Source: National Bank of Rwanda

Asset mix for a life insurance company is a crucial consideration that directly impacts its stability and ability to meet its long-term obligations to policyholders. Asset-liability matching is key, since life insurance companies have long-term policy liabilities that need to be matched with similarly long-term assets. The maturity of policies of life business is short-term in nature with 61 percent of all policies with a maturity below five years (chart 19).

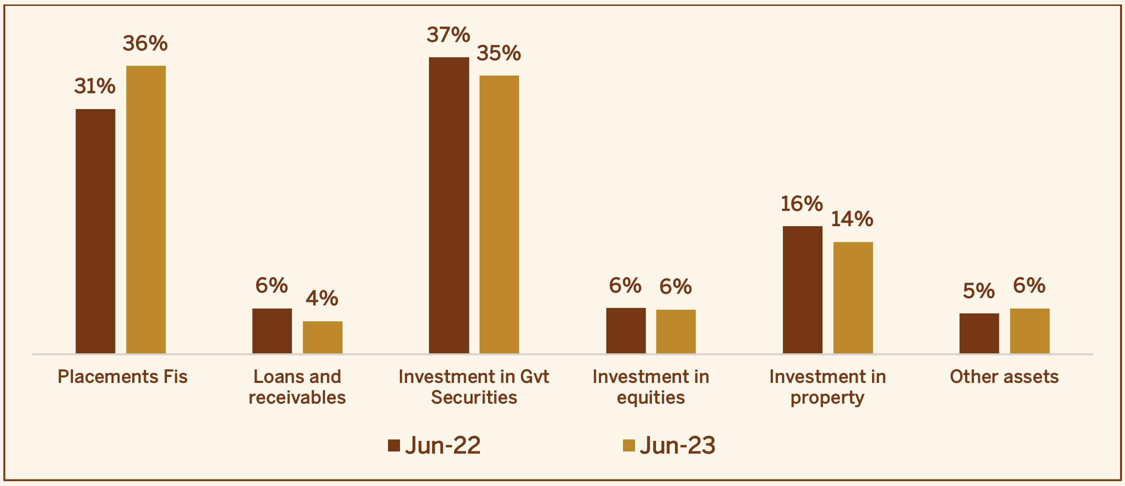
Chart 19: Policies by maturity for life Insurance



Source: National Bank of Rwanda

The chart below explains the asset mix of life insurance. Life insurers reduced their exposure in properties to match their liability with asset, and increased investments in Government securities and placements in Financial Institutions (chart 20).

Chart 20: Asset mix for Life Insurance



Source: National Bank of Rwanda

On the other hand, private non-life insurers (short-term insurers) continued to hold most of their assets in short term investments, to cater for their short-term liabilities – placements in banks with an average of one-year maturity representing 28 percent of total assets and Government securities— dominantly treasury bills (22 percent). Other investments are; properties with a share of 14 percent, loans and receivables (14 percent), and other assets (15 percent).

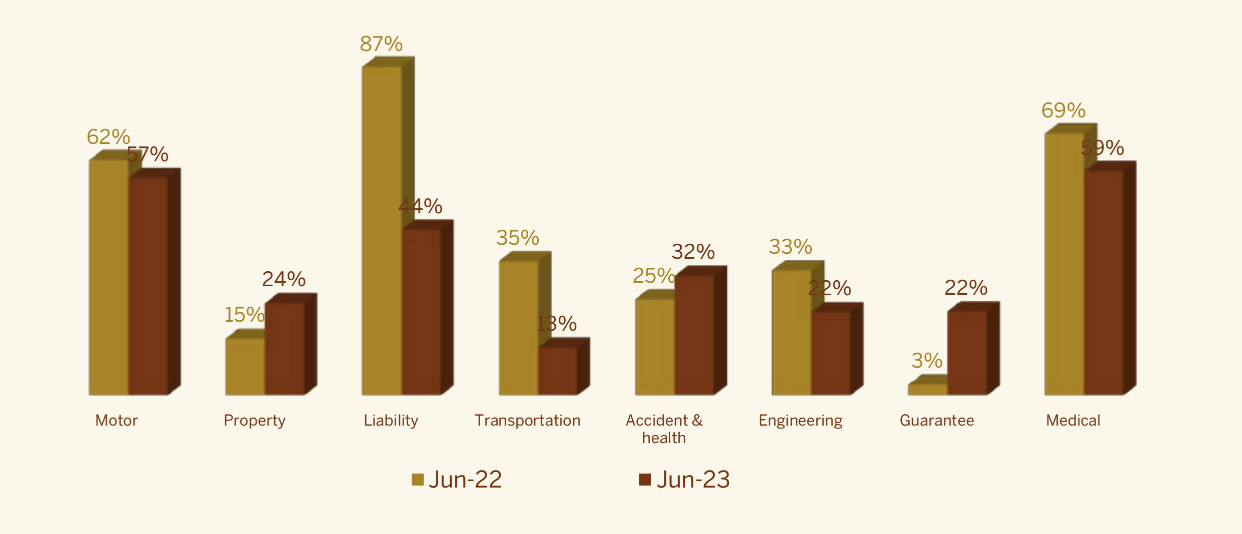
Regarding technical provisions-financial reserves that insurance companies set aside to cover their future insurance obligations, or the amount an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders over the lifetime of the insurer's portfolio of an insurance contract, increased reflecting increased risks undertaken.

As of June 2023, technical provisions in private insurance increased by 8 percent to FRW 157 billion, below the growth of 18 percent registered in June 2022. A big portion of technical provisions (61 percent) were held by non-life insurers in form of unearned premiums (36 percent), claims reported outstanding (24 percent) and claims incurred but not reported (7 percent). In Life insurers, actuarial provisions constituted the largest share accounting for 76 percent of total technical provisions for life, followed by unexpired risks (12 percent) and unearned premiums (4 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 high rate compared to the corresponding period. Premiums increased by 21 percent in June 2023 (from FRW 115 billion to FRW 140 billion), compared to the growth of 16 percent registered as of June 2022. Growth in premiums was more evident in non-life than life insurance business. In private Non-life insurance, gross premiums increased by 21 percent to FRW 6 billion, lower than 20 percent recorded in June 2022.

Claims in terms of value within the private insurance sector increased at a moderate rate during the period under review. The total value of claims increased by 3 percent to FRW 30.4 billion. Notably, the claims ratio, which is the ratio of claims incurred to net premium earned reduced from 64 percent to 57 percent in June 2023 within the private insurance sector. This reduction in the claims ratio is attributed to the good performance of categories like motor insurance and medical under the Non-life private insurance sector. The decrease of claims in motor was partially associated with a decline in road users involved in accidents, and recent increase in the motor insurance premiums.

Chart 21: Claims ratio per product.



Source: National Bank of Rwanda

Table 25: Financial Performance Highlights of the Insurance sector

Description (In FRW billion)	Public Insurers			Private Insurers			Insurance sector		
	June-21	June-22	June -23	June-21	June-22	June-23	June-21	June-22	June-23
Gross written premiums	42.6	48.1	58.3	56.9	67.1	81.5	99.5	115.2	139.8
Net premiums written	42.6	48.1	58.3	44.1	49.4	61.2	86.7	97.6	119.6
Net Premiums earned	42.6	48.1	58.3	39.6	45.8	53.4	82.3	94.0	111.7
Total Claims	20.7	23.5	31.2	25.5	29.5	30.4	46.2	53.0	61.6

Description (In FRW billion)	Public Insurers			Private Insurers			Insurance sector		
	June-21	June-22	June -23	June-21	June-22	June-23	June-21	June-22	June-23
Commission expenses	-	-	-	2.3	2.0	2.3	2.3	2.0	2.3
Management Expenses	9.9	9.5	14.4	12.1	14.7	18.7	22.1	24.2	33.1
Underwriting performance	11.9	15.2	12.8	-0.2	-0.4	1.9	11.7	14.8	14.7
Investment Income	12.7	14.1	22.3	6.9	8.8	9.6	19.6	23.8	31.9
Other Income	0.5	(0.5)	1.5	2.4	1.8	3.8	2.8	1.4	5.4
Net profit after taxes	25.0	29.8	36.6	7.1	7.4	12.1	32.2	37.2	48.7

Source: National Bank of Rwanda

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 the growth of insurance businesses, as well as withstanding adverse shocks. Hence, it is a good indicator for 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 256 percent as of end June 2023, compared to 180 percent in June 2022, driven by increased quality of assets due to changes in the investment mix of insurers.

On the 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 2023, the liquidity ratio of private insurers stood at 113 percent, above the prudential requirements of 100 percent and an improvement from 99 percent in June 2022, due to increased investments in more liquid assets and improvement in asset liquid composition.

In the same period under review, the underwriting performance for private insurers improved, an indicator of a reduction in insurance risk. However, the upward trend in premium receivables poses a potential credit risk to the insurance industry. In normal circumstances, insurers are not allowed to sell insurance on credit, but due to COVID-19, NBR permitted insurers to sell insurance on credit up to 90 days, to support clients who were affected by the pandemic. In November 2021, NBR revised its regulatory forbearance to reduce the tenure of insurance credit to 60 days. As of June 2023, premium receivables represented 7 percent of private insurers' assets, an increase from 5 percent in June 2022.

Table 26: Financial Soundness of the Insurance Sector

Description (Ratios %)	Public Insurers			Private Insurers			Insurance sector		
	June-21	June-22	June-23	June-21	June-22	June-23	June-21	June-22	June-23
Solvency margin (Min. 100%)	2765%	2393%	1298%	147%	180%	256%	1374%	1327%	1450%
Claims ratio (max.60%)	49%	49%	53%	64%	64%	57%	56%	56%	55%
Expenses ratio (max. 30%)	23%	20%	25%	36%	36%	39%	30%	28%	32%
Combined ratio (max.90%)	72%	68%	78%	101%	101%	96%	86%	84%	87%
ROE (Min.16%)	25%	26%	30%	18%	15%	19%	14%	13%	15%
ROA (Min.4%)	25%	26%	27%	6%	5%	7%	10%	10%	11%
Current Ratio (min. 120%)	3489%	3630%	3328%	81%	90%	96%	239%	249%	236%
Liquidity ratio (min. 100%)	4413%	4796%	5456%	94%	99%	113%	294%	311%	344%

Source: National Bank of Rwanda

5.6 PENSION SECTOR

5.6.1 Structure of Pension Sector

The pension sector is the second largest sub-sector of the financial sector, with a share of 16.3 percent of total assets of the financial sector as of end June 2023. 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 one where pension benefits are calculated based on a formula specified in pension laws or contracts. This calculation takes into account factors such as the number of periods (salaries) received, the length of contributions, and the individual's age. This scheme guarantees pension benefits to retirees who have contributed for at least 15 years, with early retirement at 60 years and mandatory retirement at 65 years. Retirees with less than 15 years of contributions receive a lump sum payment. Additionally, the Fund oversees the Long-Term Savings Scheme (LTSS) Ejo-Heza, designed to expand pension coverage to informal sector workers not included in the compulsory pension scheme.

As of June 2023, the mandatory scheme held 92.0 percent of the total pension sector assets. The 2015 Pension Law paved the way for the licensing of voluntary pension schemes, which operate as Defined Contribution schemes (DC). DC schemes provide pension benefits based on the contributions collected, and the performance of the investment of those contributions. As of June 2023, there was 10 registered voluntary pension schemes, of which 6 were Complementary Occupational Pension Schemes (COPS), and 4 Personal Pension Schemes (PPS). COPS are established by an agreement between employers and their employees, while PPS are operated by financial institutions that provide retirement savings accounts for their clients.

5.6.2 Performance of Public Pension Fund (RSSB)

In the period under review, assets of the public pension grew by 16 percent from FRW 1243 billion in June 2022 to FRW 1448 billion in June 2023. This growth was driven by increased contributions and investment income. Contributions increased by 16 percent in June 2023, from FRW 127 billion to 147.8 billion. In addition, total investment income increased by 37 percent from 55 billion in June 2022 to FRW 76 billion in June 2023, due to an increase in interest income (on treasury bills and bonds, corporate papers, as well as bank deposits). In addition, dividend income also increased from FRW 8 billion as June 2022 to FRW 17.40 billion as of June 2023.

Regarding the allocation of the fund's investment, as of end June 2023, RSSB pension scheme's investment portfolio reached FRW 1,433 billion, and was diversified in different investment classes, with an increase in long-term investment classes, due to their high return (Table 27). Investments in local unquoted equities worth FRW 280 billion represented 20 percent of the Fund's total portfolio, Government securities and investments in properties each represented 24 percent and 17 percent respectively, while Investments in local listed equities represented 9.2 percent, and offshore listed and unlisted equities represented 10 percent of the portfolio.

Table 27: RSSB Investment Mix

Investment Mix-Description (FRW Billion)	June-22	June-23	Portfolio Share
Treasury Bills	21	9	1%
Treasury Bonds	192	330	23%
Equity investments	477	557	39%
Investment in properties	223	242	17%
Term Deposits	112	112.5	8%
Cash (Current accounts)	109	70	5%
Commercial papers & Corporates bonds	91	112	8%
TOTAL	1225	1433	100%

Source: National Bank of Rwanda

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 a Long-Term Savings Scheme (LTSS) Ejo Heza under the Law N° 29/2017 of 29th June 2017, with an aim of increasing pension penetration in the informal sector. LTSS-Ejo Heza operates as a voluntary Defined Contribution (DC) scheme, where participants open savings accounts with authorized financial institutions such as banks or mobile network operators. It was established to address the gap in pension and social security coverage, considering that less than 6 percent of Rwanda's workforce was covered by formal pension and social security systems.

Assets of the Ejo-Heza Fund continued to grow as of end June 2023. Total assets increased by 46 percent supported by increased contributions. Total contributors increased by 39 percent from 1,953,249 to 2,713,434. This substantial increase was driven by an intensive awareness campaign undertaken by LTSS, resulting in a substantial rise in contributions. Specifically, contributions increased from FRW 31 billion in June 2022 to FRW 46 billion in June 2023- 46 percent upturn.

Table 28: Key Financial Highlights of LTSS Ejo Heza

Description (In Million FRW)	June 2022	June 2023	% change
Assets	32.2	47.0	46%
Contributions received	31.0	46.0	46%
Investment income	4.3	6.1	44%
Expenses	1.14	1.0	-2%
Surplus	12.0	16.0	33%

Source: National Bank of Rwanda

5.6.4 Voluntary Pension Schemes

The assets of voluntary pension schemes slightly reduced, due to one of the Complementary Occupational Pension Schemes suspending its license to concentrate on its life insurance business. As of end June 2023, assets of voluntary pension scheme slightly declined by 0.4 percent to FRW 80.8 billion from FRW 81.1 billion recorded in June 2022. Within the investment portfolio of voluntary pension schemes, the majority of investments, constituting 81 percent, were in Government bonds and Treasury bills. Additionally, investments in real estate comprised 12 percent of the sub-sector's portfolio as of June 2023.

Table 29: Key financial highlights of Voluntary Pension Scheme

Description (In Billion FRW)	June 2022	June 2023	% Change
Assets	81	80.80	-0.4%
Contributions received	5	4.0	-21%
Benefits paid	4	2.4	-42%
Investment income	2.8	3.8	34%
Number of pension schemes	12	10	

Source: National Bank of Rwanda

5.7 NON-DEPOSIT TAKING FINANCIAL SERVICE PROVIDERS (NDFSPs)

The Non-Deposit Taking Financial Service Providers (NDFSPs) continue to play a crucial role in financing the economy. They are source of alternative financial services that provide a wide range of financing options. They have become another investment opportunity for entrepreneurs who wish to channel their investments in the financial sector.

5.7.1. The performance of Non-Deposit Taking institutions

As of end June 2023, there was a notable increase in the number of newly licensed Non-Deposit Taking Financial Service Providers (NDFSPs), rising from 26 to 37. This composition of NDFSPs is dominated by 15 debt collection companies, 15 lending-only institutions, 5 Trust and Company Service Providers (TCSPs), 1 credit guarantee scheme, and 1 leasing company.

During the same period, total assets held by NDFSPs increased by 32.2%. This growth can be attributed to the registration of 4 new reporting institutions in 2023, as well as substantial asset growth within existing institutions. Additionally, the total gross loans extended by these entities increased by 33.8%, this expansion was primarily driven by the entry of new NDFSPs into the market. Overall, NDFSPs reported a noteworthy increase in profits, rising from FRW 379 million to FRW 848 million by June 2023. This indicates positive trend in the financial performance of these entities.

Table 30: Key financial highlights of NDFSP

Names (FRW Billion)	Jun-22	Jun-23	Change (%)
Total Assets	67.5	89.2	32%
Gross loans	27.4	36.6	34%
Net profit /loss	0.4	0.8	124%

Source: National Bank of Rwanda

As of June 2023, the value of disbursed loans increased by 34% to FRW 36.6 Billion

Table 31: Disbursed loans (FRW Billion)

Denomination	Jun-22	Jun-23
Agriculture, Livestock, Fishing	0.9	2.1
Public Works (Construction), Buildings, Residences/Homes	4.3	5.9
Commerce, Restaurants, Hotels	12.0	18.1
Transport, Warehouses, Communications	0.2	0.7
Others	10.0	9.9
Total	**27.4**	**36.6**

Source: National Bank of Rwanda

5.9 CREDIT REPORTING SYSTEM

The Credit Reporting System consists of databases of information on debtors together with the institutions, technology, and legal framework supporting the efficient functioning of such databases.

Statistics from the credit bureau, specifically TransUnion Rwanda, highlight a consistent rise in the utilization of its data. In June 2023, the usage rate reached 96.3 percent, an increase from 92.9 percent in June 2022. This rise was primarily driven by the frequent issuance of digital loans by certain commercial banks.

In terms of coverage, which measures the proportion of the adult population reported to the credit bureau relative to the total adult population, it expanded to 38.0 percent in June 2023, up from 35.7 percent in June 2022. The NBR continues to engage new data providers to share credit information towards increasing the coverage.

The NBR in partnership with TransUnion Rwanda conducted an awareness campaign on the credit reporting system. This campaign was implemented through different channels such as workshops; Roadshows; TV and Radios shows, and it targeted all institutions involved in the system, as well as the general public.

5.10. DEPOSIT INSURANCE, CRISIS MANAGEMENT AND RESOLUTION ARRANGEMENTS

Depositor protection is a key element of crisis management. It helps foster public's confidence in the system, reducing the risk of bank runs. In Rwanda, the Deposit Guarantee Fund (DGF) was established by Law N° 31/2015 of 05/06/2015 to determine the organization and functions of a DGF for banks and microfinance institutions.

The key functions of this Fund are to collect premiums from contributing institutions, investment of collected revenues, and payout to eligible depositors, in case any of the contributing member is liquidated. The Fund collects premiums from deposit taking institutions (banks, limited liability MFIs and SACCOs) on a quarterly basis computed at 0.1 percent per annum on eligible deposits (i.e. 0.025 percent each quarter). Eligible deposits refer to a deposit taking institution's total deposits less deposits held by peer banks, microfinance institutions, insurance companies, pension funds, collective investment schemes, Government or public agency, and deposits held by persons holding shares of more than five percent (5 percent) of voting rights in a contributing bank or microfinance institution.

As of June 2023, total collections amounted to FRW 17.1 billion from FRW 12.5 billion in June 2022, an increase of 36 percent. Amounts collected are invested largely in Government securities to earn returns and grow the fund's ability to pay out insured depositors in the event of failure of a deposit taking financial institution.

Currently, the DGF protects eligible deposits up to the coverage limit of FRW 500,000 per depositor and per member bank and microfinance institution. As of end June 2023, the insured deposits from banks amounted to FRW 199 billion equivalent to 4.7 percent of total deposits in banks and FRW 31.5 billion insured deposits from MFIs equivalent to 32 percent of total deposits in MFIs (PLCs). The role of the Deposit Guarantee fund was more apparent when one of the MFIs was successfully liquidated. However, the fund is still at a nascent stage and the NBR will continue to grow this fund to ensure all depositors in all financial institutions are protected.

5.11. NATIONAL PAYMENT SYSTEMS

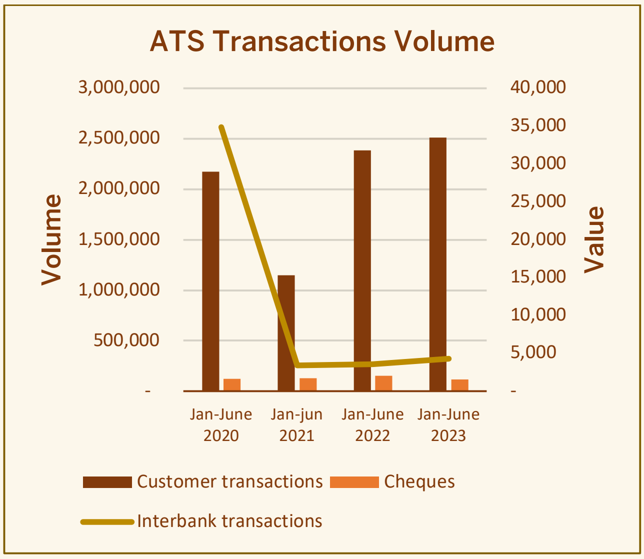
Payment systems facilitate the settlement of payment obligations that take place in the financial markets by channeling payments between concerned parties. The payment system infrastructure is made up by the Rwanda National Payments System which consists of; wholesale and retail payment systems, instruments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

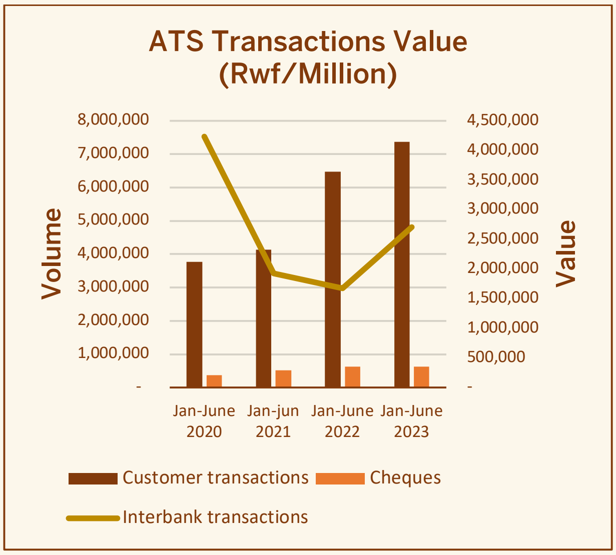
The wholesale systems, in particular, comprises of the Rwanda Integrated Payment Processing System (RIPPS), which is an Automated Transfer System (ATS) operated by the NBR and is composed by; the Real Time Gross Settlement (RTGS) and Automated Clearing House (ACH). RIPPS processes and settles interbank 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.

5.11.1 Performance of the RIPPS

RIPPS continued to process financial transactions smoothly during the period under review. In terms of transactions, customers' transfers increased by 5 percent in volume from 2.3 million in June 2022 to 2.5 million in June 2023, while the amount of transactions involved increased by 14 percent from FRW 6,474 billion in June 2022 to FRW 7,373 billion in June 2023. During the same period, cheque transfers decreased by 22 percent in volume (from 151,826 to 118,985) and in value by 2 percent (from FRW 631 billion to FRW 617 billion). Conversely, banks' transfers increased by 21 percent in volume from 3,560 to 4,301 and by 62 percent in value from FRW 1,673 billion to FRW 2,706 billion.

Chart 22: The RIPPS Transactions



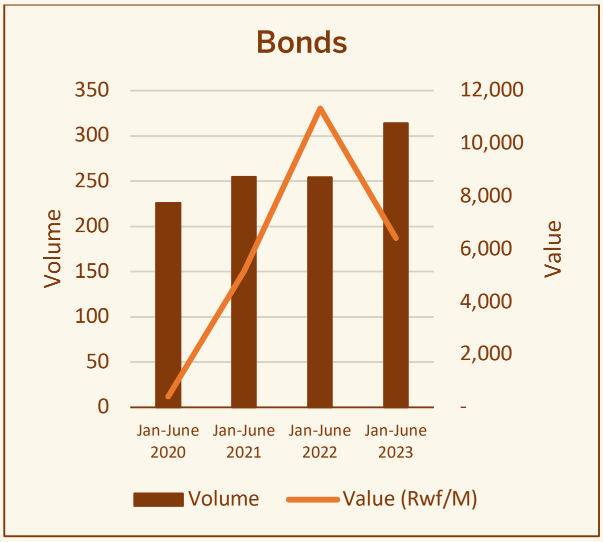


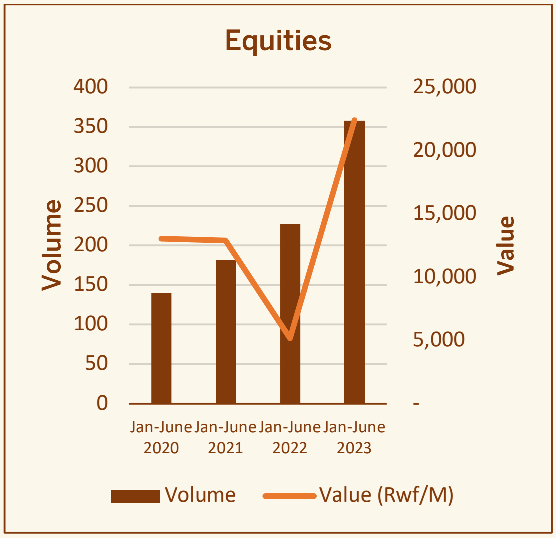
Source: National Bank of Rwanda

5.11.2 Performance of Central Securities Depository (CSD)

A Central Securities Depository (CSD) plays a crucial role in facilitating the trading and ownership of financial instruments, such as stocks, bonds, and other securities. Comparing the two periods under review, the volume of treasury bonds traded on secondary market increased by 58 percent from 227 to 358 trades in June 2023 and the value increased by 333 percent from Frw 5.1 to 22.4 billion in the period under review. For equities, the volume increased by 24 percent from 254 to 314 trades, while the value decreased by 43 percent from Frw 11.3 billion to 6.4 billion.

Chart 23: Volume and Value of Bonds and Equities





Source: National Bank of Rwanda

5.11.3. Retail Payment System

5.11.3.1. Payment Acceptance Points

Payment access points facilitate in the payment of products and services, by allowing money to enter and exit the payment ecosystem. During the period under review, the number of card based Point of sales (POS) machines increased by 7 percent from 5,263 in June 2022 to 5,641 in June 2023. During the same period, the number of modern POSs increased by 364 percent from 54,270 to 251,767. Modern POSs includes Virtual POSs (0.2 percent of total modern POSs) and Mobile POSs (99.8 percent). Similarly, the number of mobile payment agents increased by 19 percent, from 146,930 to 175,204, whereas the agents providing banking services increased by 11 percent from 8,546 to 9,501.

Table 32: Payment Access Points

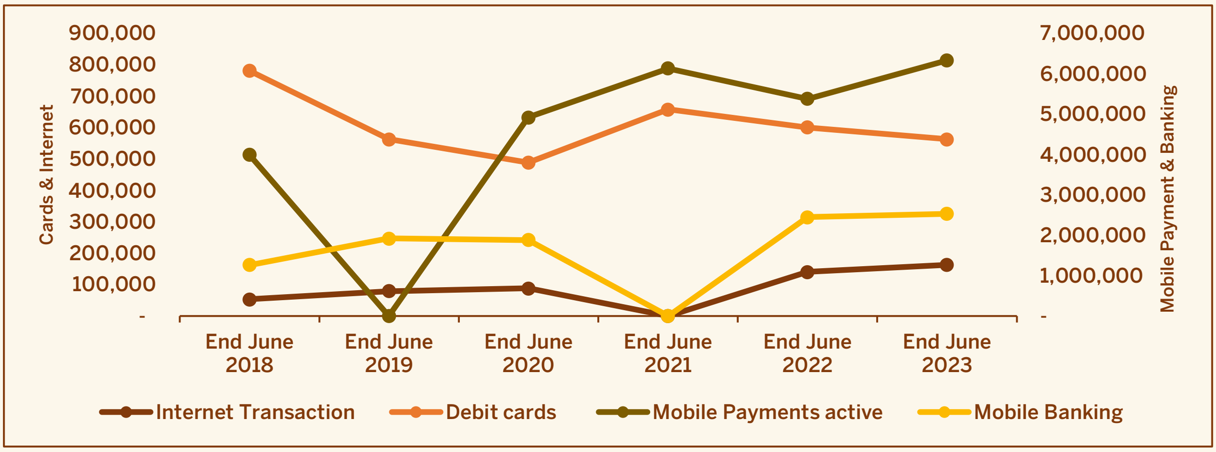
Access Points	Penetration rates of payment access Points	Jun-22	Jun-23
ATM	Number of devices	344	349
	Penetration rate of ATMs per 100,000 adult population	4.25	4.38
Traditional POS	Number of devices	5263	5641
	Penetration rate of Traditional POS per 100,000 adult population	64.96	70.72
Modern POS (Mobile and Virtual)	Number of devices	54,270	251,767
	Penetration rate of Modern POS per 100,000 adult population	669.84	3,156.50
Banking Agents	Number of bank agents	8,546	9,501
	Penetration rate of agents per 100,000 adult population	105.48	119
Mobile Agents	Number of Mobile agents	146,930	175,204
	Penetration rate of Bank agents per 100,000 adult population	1,813.51	2,197

Source: National Bank of Rwanda

5.11.3.2. Payment Instruments Issuance

With regards to the issuance of payment instruments, active mobile payment subscribers increased by 18 percent from 5,376,167 in June 2022 to 6,328,121 in June 2023, which represents 36 percent of total subscribers as of end June 2023. Similarly, mobile banking subscribers increased by 3 percent from 2,444,652 to 2,529,108, while internet banking subscribers grew by 16 percent from 140,662 to 162,789. However, the increased adoption of mobile payment has negatively affected usage of payment cards. Between June 2023 and June 2022, payment cards decreased by 6 percent to 566,815 from 600,563.

Chart 24: Subscribers

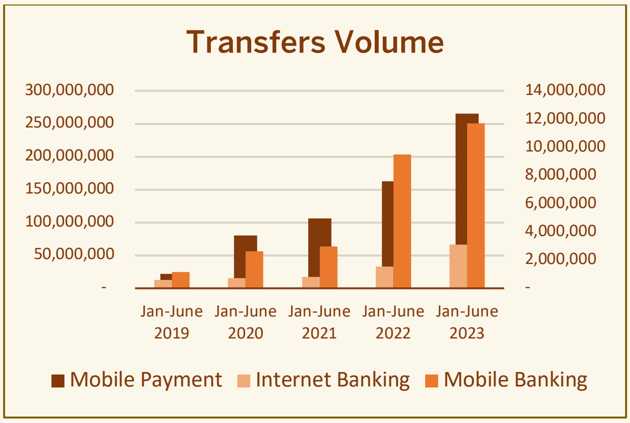


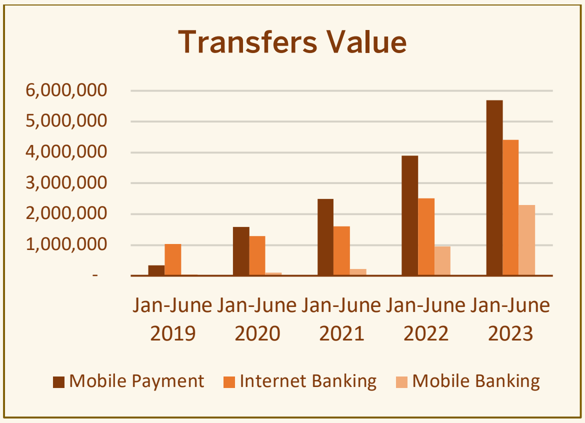
Source: National Bank of Rwanda

5.11.3.4. 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 25: Payment Transfers





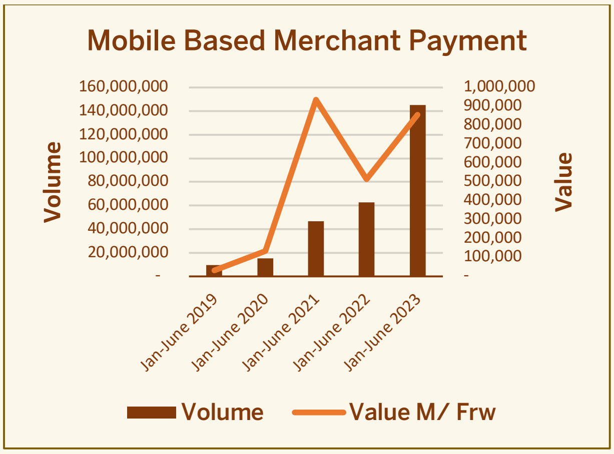
Source: National Bank of Rwanda

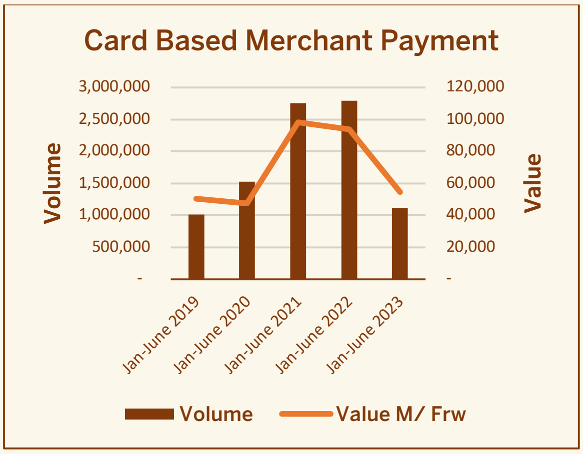
5.11.3.5. Impact of Policy Changes on Mobile Payments

The merchant payment transactions through mobile increased by 133 percent from 62 million to 145 million, and increased by 66 percent in value from FRW 515 billion to FRW 856 billion.

With regards to card based merchant payments, the volume of transaction decreased by 60 percent from 2.8 million to 1.1 million, and decreased by 42 percent in value from FRW 93.8 to FRW 54.7 billion. This decrease is due to the shift in mobile payment usage while paying goods and services.

Chart 26: Merchant & Card Based Payments





Source: National Bank of Rwanda

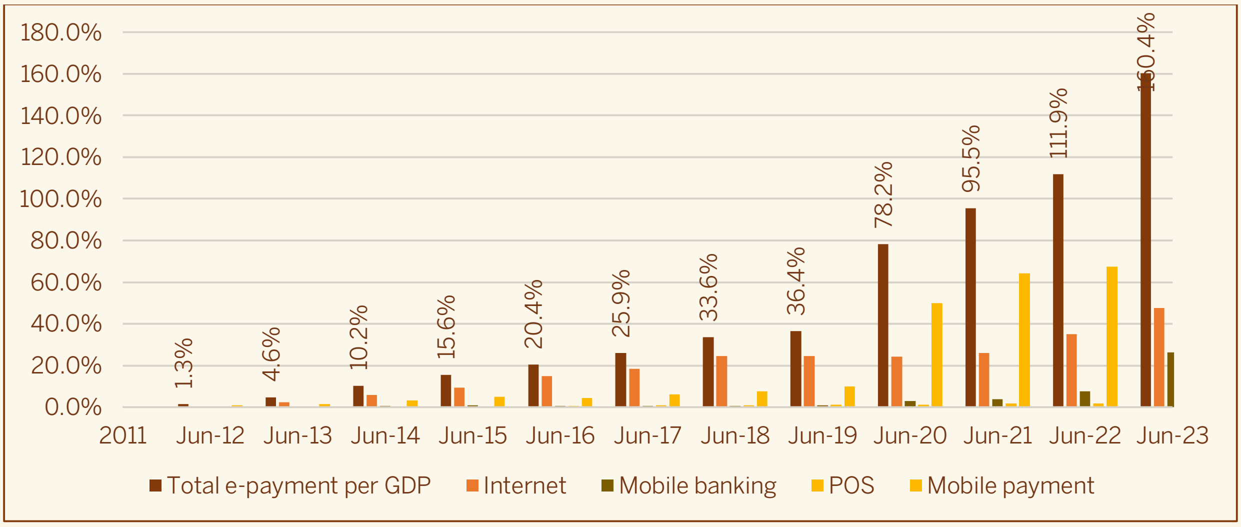
5.11.3.6 Overall Cashless Performance

The overall value of retail e-payments to GDP[7] increased by 43.3 percent during the period under review to 160.4 percent. The usage was dominated by mobile payment (transfer and acquiring services), internet banking service and Mobile banking services, which account for 85.6 percent, 47.4 percent and 26.4 percent of the GDP respectively. In terms of volume, transfers through mobile payment channels occupied the largest share of the total number of cashless transactions, with 98 percent, followed by transfers via mobile banking with 1.2 percent. In terms of value, transfers through

[7] Projected Annual GDP: 15,257

mobile payment represented 53 percent, followed by internet banking with 30 percent and mobile banking with 16 percent.

Chart 27: Value of retail e-payment to GDP



Source: National Bank of Rwanda

5.12 ACCESS TO FINANCE

Developing a financial sector that is stable, efficient, inclusive and capable of mobilizing financial resources for economic development is the broader supervisory objective of the NBR. The NBR works with government institutions, financial institutions, and development partners to identify and address challenges in financial markets and establish an enabling environment for the financial sector development. To develop the financial sector, the central bank mainly focuses on 3 areas: i) increasing access and usage of affordable financial services; ii) improving efficiency in the provision of financial services; and iii) promoting innovation in the financial sector. In monitoring financial sector development and inclusion, the NBR relies on two sets of data: (i) The FinScope demand-side survey done every 4 years (the next one will be conducted in 2024), as well as (ii) Supply-side data from Financial Service Providers. During the period under review, the NBR embarked on several interventions to develop the financial sector. These included financial literacy campaigns targeting teens in secondary schools and MSMEs, as well as, consumer protection awareness campaigns. In addition, a special report on the financial inclusion level of refugees in Rwanda was disseminated. The annual NBR Quiz Challenge for secondary schools with economic clubs, as well as financial literacy trainings for secondary school teachers are planned for this year. Furthermore, the NBR continues to promote financial innovation through the regulatory sandbox aimed at supporting FinTech innovators to test their products. The NBR is launching thematic sandbox cohorts in order to support particular policy objectives and will work closely with Entrepreneurs Support Organizations (ESOs) such as; incubators and accelerators to provide more guidance to applicants.

Sections below reveal insights on recent trends in access and usage of financial services, which continues to rise.

5.12.1 Financial Service Access Points

During the period under review, the total number of financial access points decreased. However, the number of bank's branches grew by 2 percent and the number of outlets reduced by 14 percent, while the number of sub-branches remained unchanged. The sustained trend in increased usage of branchless banking models adopted by banks continues, despite the slight increase in bank branches. Although digital access points have generally and overtime replaced physical access points like branches, physical access points remain critical for the rural population with less access to digital infrastructure.

Kigali City continues to account for more than a third of the banking sector access points (Table 33). The high concentration of access points in Kigali city reflect high economic activities and business opportunities for the banking sector. The lowest access points in Northern province partly reflects the population distribution - the Northern province held the second least population share 15.4 percent as per the recent population census (2022).

The national financial inclusion agenda is to ensure equitable access to finance for all citizens irrespective of location. Such geographical distribution of access points should continue guiding financial sector players and policy makers to place efforts where needed. In rural areas, limited bank access points are supplemented by U-SACCOs.

Regarding client accounts penetration, the number of client accounts in both banks and in microfinance institutions grew during the period under review. The number of bank accounts grew significantly by 21 percent from 5.88 million in June 2022 to 7.12 million in June 2023. During the same period, clients' accounts in the microfinance sector increased by 15 percent from 4.98 million to 5.72 million.

Table 33: Distribution Access Points per Province (June 2023)

Distribution	City of Kigali	Northern Province	Eastern Province	Western Province	Southern Province	Total
Number of Branches	132	41	57	55	40	316
Number of Sub-branches	10	-	-	2	-	12
Number of Outlets	37	20	32	33	40	162

Source: National Bank of Rwanda

5.12.2 Usage of formal financial services

5.12.2.1 Usage of Banks' and MFIs' financial services

During the period under review, access to credit improved in the banking sector and in non-deposit taking financial service providers (NDFSPs) but reduced in the microfinance sector. The number of borrowers in NDFSPs grew, with the amount of outstanding loans also increasing by 48%. The number of borrowers in banks grew by 39 percent as of June 2023, while in the microfinance sector, the number of borrowers fell by 15 percent in the same period. Generally, the level of borrowing from formal financial institutions remains low, despite the high account penetration mentioned below. The main lending challenge relates to MSME 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 is working on multiple interventions to address MSME borrowing constraints. These interventions include financial education targeting MSMEs, strengthening of the credit information system, as well as enhancing and establishing regulatory frameworks for leasing products, and other alternative lending products. Government interventions to support MSME lending include; the partial credit guarantee schemes (through BDF) and targeted MSME financing schemes under the Rwanda Development Bank (BRD).

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, NBR runs financial education campaigns through secondary schools and universities, which focus on the importance of personal financial management and existing channels of savings, as well as, the ongoing consumer protection awareness campaigns. For the financial sector to develop and contribute to economic growth and development, individuals and firms must save through formal financial institutions.

Table 34: Depositors and Borrowers in Bank and Microfinance Institutions

Banks	June-22	June-23
Number of Depositors in Banks	3,023,738	4,099,866
Amount of Bank deposits (FRW billion)	3,375	3,874
Number of borrowers in Banks	683,851	949,778
Amount of outstanding loans (FRW billion)	3,167	3,432
Microfinance Institutions	**June-22**	**June-23**
Number of Deposit accounts in MFIs and SACCOs	4,978,448	5,716,029
Number borrowers in MFIs and SACCOs	359,741	306,186
Amount of outstanding loans of MFIs and SACCOs (FRW billion)	259	387
NDFSPs	**June-22**	**June-23**
Number of borrowers in NDFSPs	2,049	7,271
Amount of outstanding loans (FRW billion)	25	37

Source: National Bank of Rwanda

5.12.2.2 Usage of insurance and pension services

The total number of insured people increased significantly during the period under review, by 42 percent. The number of life insurance policyholders also increased by 44 percent, reaching 616,420 at the end of June 2023 from 426,801 in June 2022. Similarly, the number of general insurance policyholders increased by 39 percent, reaching 299,808 at the end of June 2023 from 216,364 in June 2022.

Regarding pension schemes, the number of contributors to public pension grew by 8 percent to 635,716 in June 2023 from 587,479 in June 2022. In private pension, the number of contributors fell sharply by 67 percent to 21,770 in June 2022, from 66,482 in June 2023. Savings through the Ejo Heza Long-Term Saving Scheme (LTSS) continue to grow, as the total number of contributors increased by 39 percent during the period under review. Similarly, the number of beneficiaries of this scheme significantly grew by 152 percent in the same period.

Table 35: Access to Insurance and Pension

Insurance and Pension Category Description	June 2022	June 2023
General (non-life) and Life Insurance policies	854,215	916,228
Number of contributors to Public and Private pensions	728,582	763,383
Number of beneficiaries of Public and Private pensions	54,610	56,317
Number of Contributors to EJOHEZA (LTSS)	1,953,249	2,713,434
Number of Beneficiaries of EJOHEZA (LTSS)	1,607	4,042

Source: National Bank of Rwanda

5.13. FOREX BUREAUS

5.13.1 Foreign Exchange Bureaus

Forex Bureaus are regulated and supervised under the NBR's regulation n° 2310/2018 - 00015 of 27/12/2018 governing Foreign Exchange Bureaus (FX) to avoid FX market distortion and enhance professionalism in the sector. As of end June 2023, the sector is composed by 78 Forex Bureaus. Among them, 1 Forex Bureau is under suspension due to non-compliance with the regulatory framework.

During the period under review, the Bank continued to conduct supervision of the Forex Bureaus sector through off-site surveillance for all forex bureaus and 39 planned on-site inspections. Further, during the period under review 41 requests related to approvals were analyzed and feedbacks were shared with applicants.

The NBR continues also to provide support to the Rwanda Forex Bureaus Association (RFBA) through capacity building and financial assistance for software maintenance.

Table 36. The financial position of Forex Bureaus sector as of end June 2023 (in Billion Frw):

ASSETS	June 2022	June 2023
1. Cash	4.1	4.2
2. Balance at banks	3.8	4.9
3. Fixed assets	0.5	0.3
4. Other assets	0.3	0.3
TOTAL ASSETS	**8.7**	**9.7**
LIABILITIES	June 2022	June 2023
6. Borrowing (local)	0.4	0.3
7. Foreign liabilities	0.0	0.0
8. Other liabilities	0.9	0.9
TOTAL LIABILITIES	**1.3**	**1.3**
EQUITY		
9. Paid up capital	5.7	6.3
10. Reserves	1.5	1.7
11. Profit & loss account	0.2	0.3
TOTAL EQUITY	**7.4**	**8.4**
TOTAL LIABILITIES+EQUITY	**8.7**	**9.7**

Source: National Bank of Rwanda

Total assets held by the sector increased by 10.8 percent, from FRW 8.7 billion as of end June 2022 to FRW 9.7 billion as of end June 2023 with cash in hand and balance at banks accounting respectively for 43.3 percent and 50.6 percent of the total assets. The profitability of the sector increased by 121.9 percent from FRW151.45 million registered for the year ended June 2022 to FRW336.0 million for the year ended June 2023. The Increase in profit was mainly due to reduction of COVID-19 negative effects and the observed general economic recovery.

The Bank conducted awareness campaigns against illegal foreign exchange (FX) activities through different channels. These include sending sms to MTN subscribers, displaying messages on RTV and airing a spot on selected radios. During the period under review, the Rwanda National Police conducted operations to hunt for illegal FX practitioners mainly in RUSIZI and RUBAVU Districts due to the large number of illegal FX practitioners in both areas.

5.14. POLICY REFORMS IMPLEMENTED

The NBR embarked on several initiatives aimed at enhancing the stability and resilience of the financial sector. The NBR continued to strengthen the legal and regulatory framework through the issuance of various new and revised legal instruments. Specifically, during the FY 2022/2023, 20 Regulations were published, 6 Directives, and 2 Guidelines were signed, in relation to the financial sector under NBR Supervision.

5.14.1 REGULATIONS

During the FY 2022/23, the Law governing the organization of banking was revised to implement recommendations from the Financial Sector Assessment Program (FSAP) by the IMF and World Bank. The revised law also provides a favorable environment for investors and takes into consideration market developments.

In addition, 20 regulations were published. Below is a summary of these regulations.

In Insurance sector, six regulations were published to implement the Law N° 030/2021 of 30/06/2021 governing insurance business. These regulations intended to cater for licensing framework for special insurance businesses and intermediaries such as captive insurance, mutual insurance and risk surveyors and to organize the micro insurance business. In addition, they aim to promote the growth of domestic insurance businesses, prudent investment practices, and reduce capital flights. Furthermore, they introduce a detailed process of resolving and liquidating an insurer under stress situation or under insolvency.

In September 2022, the Regulation establishing operational requirements and other requirements for pension schemes and long term saving schemes was published. This regulation increased security in the invested fund through the setting of thresholds according to risks associated to the asset classes, strengthened corporate governance requirements. Ejo Heza Scheme will be also supervised according to established standards unlike prior to the review of the regulation.

Six regulations governing deposit taking microfinance institutions were also published this financial year, to ensure that the existing legal framework is aligned with the new Law no 072/2021 of 05/11/2021 governing deposit-taking microfinance institutions. The new regulations introduce crucial updates, including the corporate governance structure for both DTM companies and DTM cooperatives, Risk Management framework, reporting requirements for DTMFIs under Group, Mergers & Acquisitions, and prudential norms, that take into account International Standards and Best Practices.

To protect the rights and interests of financial service consumers and builds trust in the formal financial sector and thus encouraging financial inclusion;

two regulations implementing the Law No 017/2021 of 03/03/2021 relating to financial service consumer protection were published. These regulations require financial service providers among others to treat consumers fairly, to be transparent when delivering their services, to explain to consumers the key features of the contract, and to avoid conflict of interest. They also prohibit different malpractices and fees that are considered unfair. These regulations are expected to create a sound financial consumer protection framework, which is fundamental in increasing access and usage of financial services; as well as improving the quality of financial services.

Two regulations were also issued to implement the Law no 061/2021 of 14/10/2021 governing the payment system. These regulations are intended to safeguard and isolate e-money account holder's funds. The e-money issuer is required to diversify trust funds in financial institutions, to protect the trust fund from insolvency of the financial institution holding the trust fund, and the concentration risk.

In order to promote other alternative finance and attract investors, a regulation governing Non-Deposit Taking Financial Service Providers (NDFSPs) was issued. This regulation introduced different new products such as Buy Now and Pay Later products that charge interests, Money Lenders, Peer to Peer Lending, Pawnshops and others. In addition, the regulation requires Savings and Credit Schemes (Ibimina) that have mobilized a minimum of FRW 500,000,000 from members' contributions to be registered as legal entity and be regulated to ensure they cannot pose any systemic risk.

The Law N° 48/2017 of 23/09/2017 governing the National Bank of Rwanda, as amended to date, mandates NBR to regulate and supervise trusts and company service providers and a Regulation was put in place to govern them. These are professionals that assist investors to establish their businesses, act as directors, trustees, nominee shareholders and serve as head offices for investors in a bid to ease business in Rwanda.

Finally, in a bid to ensure the sanctions are proportionate, dissuasive, and preventive based on size and complexity of institutions but also on seriousness of the violation, the NBR reviewed the Regulation determining administrative sanctions applicable to regulated institutions for non-compliance with the prevention of ML, FT and financing of proliferation of weapons of mass destruction requirements.

The Bank will continue to strengthen the legal and regulatory framework, enhance the supervision of the financial sector, by ensuring that regulated entities comply with the required standards for a stable, secure, and efficient financial system.

5.14.2 DIRECTIVES

The directive no 4230/2022-00029[613] of 24/08/2022 determining the regulated institutions audited by Tier II Auditing firm and Tier III External Auditor, was signed to determine regulated institutions to be audited by Tier II audit firm and Tier III external Auditor. It also set criteria for the accreditation of Tier III external Auditor.

The NBR issued Directive no 4230/2022-030 of 4/11/2022 on Minimum Requirements of the Recovery Plan. This directive aims at cultivating the culture of crisis management in banks, detailing general rules for preparing recovery plans. It requires banks and financial holding companies to put in place appropriate contingency arrangements that enable their critical functions and critical shared services, to continue operating while recovery measures are being implemented. It also sets the minimum content of the recovery plan, the required governance structure, and resources to support the recovery planning process.

In February 2023, Directive no 050/2023-00041[613.1.4] of 22/02/2023 on transactions in foreign currencies by non-licensed persons was signed. This directive establishes required documents or information to be submitted by a non-licensed person requesting for authorization to transact in foreign currencies.

The NBR put in place Directive no 2600/2023-00034[613] of 05/06/2023 on compensation framework for banks to ensure that all Financial Stability Board (FSB) Principles for Sound Compensation are implemented. It also encourages prudent risk taking across the banking industry.

In May 2023, the NBR published Directive no 4230/2023-00031[613] of 15/05/2023 governing Digital Saving Facilitators. This directive was developed in a bid to protect the funds of Saving and Credit Group members or individual beneficiaries, against abuses of facilitators or fraud emanating from technology.

Directive no 2600/2023-00033[613] of 07/06/2023 on the treatment of shared services by Financial Institutions, aims to provide guidance and streamline the activities of banks and other financial institutions engaged in shared services. It covers aspects such as; initiation, evaluation, and other related matters. In addition, this Directive sets out operational standards for banks and other financial institutions to align with best practices.

5.14.3. GUIDELINES

Guidelines no 4230/2023-0034[616] of 05/06/2023, regarding the implementation and disclosure of IFRS 9 for financial instruments, are designed to facilitate a seamless transition to IFRS 9 within the banking sector. These guidelines will support the sector in furthering market discipline, transparency, and consistent application, while also promoting comparability across banks. They do so by providing clear supervisory expectations, particularly in areas where banks need to exercise significant judgment or choose to utilize simplifications and other practical expedients permitted under the standards.

Guidelines no 4230/2023-00032[616] of 07/07/2023 on Stress Testing for Banking Financial Institutions were put in place for –

- Enabling Banking Financial Institutions to conduct stress testing as part of risk management to evaluate the potential impact of a specific event and/or movement in a set of financial variables;

- Assisting in the assessment of the vulnerability of an individual bank or the banking system to shocks.

5.14.4 Reforms in sustainable finance

The Central Bank recently concluded a comprehensive diagnostic review aimed at assessing the readiness of various financial sectors to address the challenges posed by climate change. This review identifies opportunities for aligning business strategies with sustainable practices. Our goal is to create a resilient financial system that can effectively manage climate-related risks and capitalize on sustainable opportunities.

In response to the findings of the review, and as recommended thereof, a comprehensive guideline on climate-related risk management was developed with plans for imminent approval. This guideline aims to provide clear directions on incorporating ESG factors into financial decision-making processes. It is designed to equip financial institutions with the tools needed to assess, mitigate, and manage climate-related risks effectively. By adopting these practices, institutions will be better positioned to contribute to a greener and more sustainable financial system.

The Central Bank will also work on several other initiatives to address climate change, including:

- Collaborating with other central banks and regulators on climate change through the Network for Greening the Financial System (NGFS), of which NBR has been a member since October 2022.
- Collaborating with other stakeholders in the development of a national taxonomy.
- Climate data mapping.
- Developing climate stress testing for the financial system.
- Climate-related capacity building.

The Central Bank is committed to playing a leading role in mitigating challenges posed by climate change.

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 MONETARY POLICY OUTLOOK

Weaker growth momentum while global inflation is easing but remaining above central bank targets.

The World Economic Outlook update by the International Monetary Fund (IMF) in July 2023 predicts a decrease in global economic growth from 3.5 percent in 2022 to 3.0 percent in 2023. This is significantly lower than the average annual growth rate of 3.8 percent from 2000 to 2019, and is attributed to factors such as tighter financial conditions, geopolitical tensions and disruptions, and reduced external demand.

It is estimated that the global average inflation rate will decrease to 6.8 percent in 2023 from 8.7 percent in 2022, although it will still be higher than pre-pandemic levels. While there has been a significant drop in inflation rates in many economies, it still exceeds central bank targets.

Domestic economic is expected to remain resilient.

Despite challenging weather conditions and a weak global economic outlook, Rwanda's economy is expected to remain resilient thanks to the recovery of its tourism industry, construction activities, improvement in manufacturing activities, and trade services. The economy is predicted to grow at an annual rate of 6.2 percent in 2023.

Headline inflation is projected to drop and fall within the target band towards the end of 2023.

The inflation projections for August 2023 MPC indicate that headline inflation (y-o-y) is on a declining trend, although still evolving above the medium-term *inflation benchmark of 5 percent, following the continued global economic challenges and the effect of domestic agricultural production.*

Though headline inflation (y-o-y) remains high, it is expected to slow down and evolve into single digits towards the end of 2023Q4, reflecting the effect of NBR's monetary policy decisions, other policy measures, and the impact of the global economy, which is expected to be non-inflationary in the coming quarters. The projected decline in headline inflation (y-o-y) reflects the decelerations in all key components of headline inflation, namely core inflation, energy inflation, and food inflation in the near term.

However, the projections are exposed to risks. Some of the risks to the forecasts are divided into two folds: (1) Risks associated with international economic developments such as geopolitical tensions-end of grain deal that will have an impact on imported food prices and the possible impact on international oil prices from the cuts in oil supply by OPEC and Saudi Arabia. (2) Risks associated with weather conditions that might affect agricultural production going forward.

The MPC remains committed to its objective of price stability.

The NBR remains committed to bringing back inflation within the target band (2 to 8 percent) and will continue to monitor macroeconomic developments. Assuming no unexpected events arise in the coming months, the NBR might pause the tightening cycle.

6.2 THE FINANCIAL SECTOR STABILITY OUTLOOK

The stability of the financial sector will continue to be shaped by the overall economic performance. The economic growth is projected to remain stable in the medium term, providing more business opportunities for financial institutions to expand their operations and ultimately their earnings. The quality of assets of financial institutions especially banks and microfinances are expected to remain healthy. This is mainly due to favorable economic prospects, characterized by stable economic growth and easing inflationary pressures.

Going forward, the financial sector is expected to remain sound and stable. Financial institutions have built up capital and liquidity buffers, providing a safety net for them to withstand unexpected shocks. The NBR will continue its regular oversight of the sector, ensuring that financial institutions hold adequate capital relative to the risks they take and have enough liquidity to meet their financial obligations.

The payment systems are also expected to remain stable and operate smoothly without any major interruption. The enhancement of Rwanda Integrated Payments Processing System (RIPPS) will further minimize settlement risk in face of increasing number and value of transactions. Alongside financial institutions' investments in innovative technology and IT infrastructure, this will help maintain the operational resilience of the payment systems.

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