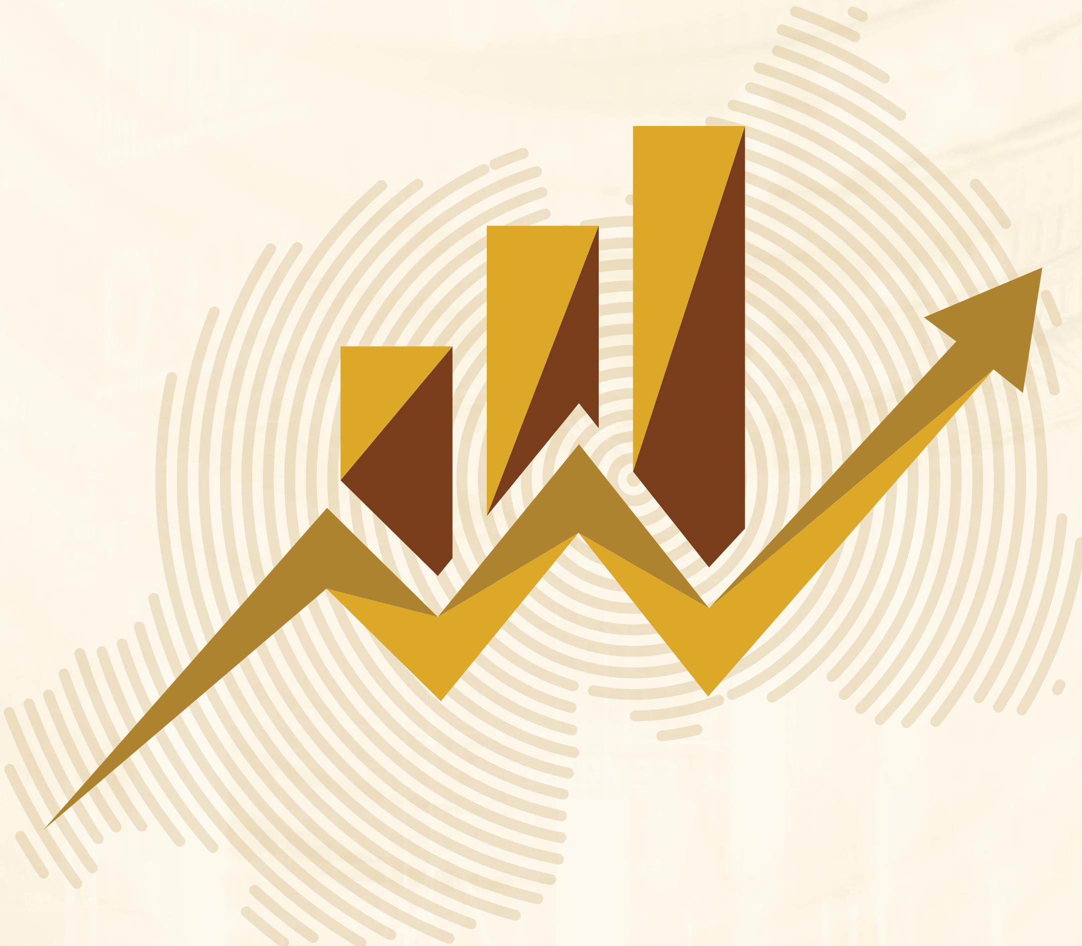
NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT



MARCH 2022

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

March 2022

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LIST OF ACRONYMS AND ABBREVIATIONS

ACH : Automated Clearing House

AFR : Access to Finance Rwanda

AML/CFT : Anti Money Laundering and Combating the Financing of Terrorism

ATM : Automated Teller Machine

BCM : Business continuity management

BIF : Burundian Franc

BOP : Balance of Payments

CAD : Current Account Deficit

CAF : Caisse des Affaires Financieres

CAR : Capital Adequacy Ratio

CBR : Central Bank Rate

CI : Cash-In

CIC : Currency in Circulation

CIEA : Composite Index of Economic Activities

CO : Cash-In

COPS : Complementary Occupational Pension Schemes

CPS : Credit to the Private Sector

CPE : Credit to Public Enterprises

CPI : Consumer Price Index

CSD : Central Securities Depository

DAP : Di-ammonium Phosphate

DC : Defined Contribution

DD : Demand Deposits

DGF : Deposit Guarantee Fund

DSIBs : Domestic Systemically Important Banks

DVP : Delivery Versus Payment

EAC : East African Community

ECB : European Central Bank

ECL : Expected Credit Losses

ELFB	: Extended Lending Facility for Banks
EMDE	: Emerging Market and Developing Economies
ERF	: Economic Recovery Fund
EST	: Estimation
EUR	: Euro
FCD	: Foreign Currency Deposits
FDI	: Foreign Direct Invesment
FOB	: Freight on Board (or Free on Board)
FOMC	: Financial Open Market Committee
FOREX	: Foreign Exchange
FRW	: Franc Rwandais
FSC	: Financial Stability Committee
FSCC	: Financial Sector Coordination Committee
FSIs	: Financial Soundness Indicators
FX	: Foreign Exchange
GBP	: Great British Pound
GDP	: Gross Domestic Product
GWP	: Gross Written Premium
G7	: Group of Seven
H1	: Half 1
H2	: Half 2
IBNR	: Incured But Not Reported
ICBT	: Informal Cross Border Trade
IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
KG	: Kilogram
LCR	: Liquidity Coverage Ratio
LTV	: Loan to Value
M3	: Broad money
MFIs	: Microfinance Institutions

MMI	: Military Medical Insurance
MNOs	: Mobile Network Operators
MPC	: Monetary Policy Committee
MPFSS	: Monetary Policy and Financial Stability Statement
MSMEs	: Micro, Medium and Small Enterprises
NALs	: New Authorized Loans
NBR	: National Bank of Rwanda
NBFI	: Non-Bank Financial Institutions
NCG	: Net Credit to Government
NDA	: Net Domestic Assets
NDFIs	: Non-Deposit Taking Lending Financial Institutions
NEER	: Nominal Effective Exchange Rate
NFA	: Net Foreign Assets
NFS	: Near Field Communication
NII	: Net Interest Income
NISR	: National Institute of Statistics of Rwanda
NPLs	: Non-Performing Loans
NPISH	: Non-profit institutions serving households
NSFR	: Net Stable Funding Ratio
OIN	: Other Item Net
P.A	: Per Annum
PCA	: Prompt Corrective Actions
Proj.	: Projections
PSPs	: Payment Service Providers
OPEC	: Organization of the Petroleum Exporting Countries
PLCs	: Public Limited Companies
POS	: Point of Sale
PPS	: Personal Pension Scheme
Q1	: Quarter one
Q2	: Quarter two
Q3	: Quarter three

Q4 : Quarter four
REER : Real Effective Exchange Rate
REPO : Repurchase Agreement
RIPPS : Rwanda Integrated Payment Processing System
ROA : Return on Assets
RNPS : Rwanda National Payments System
ROE : Return on Equity
RTGS : Real Time Gross Settlement
RSSB : Rwanda Social Security Board
RWA : Rwanda
SMEs : Small and Medium Enterprises
SSA : Sub-Saharan Africa
SU : Seasonal unadjusted
T- Bills : Treasury Bills
TA : Total Assets
TL : Total Liabilities
TSD : Time and Saving Deposits
TZS : Tanzanian Shilling
UGS : Ugandan Shilling
UK : United Kingdom
US : United States
U-SACCOs : Umurenge SACCOs
USD : United States Dollar
WEO : World Economic Outlook
WCPI : Weighted Consumer Price Index
Y-o-Y : Year-on-Year

EXECUTIVE SUMMARY

The objective of this March 2022 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic and financial developments of the year 2021 and give an outlook for the year 2022 and beyond. This statement first presents the global economic developments to contextualize the domestic economic and financial performance and stability before concluding with the outlook.x

The global growth perspectives for the second half of the year 2021 have been affected by the resurgence of a new COVID-19 variant 'OMICRON' which prompted countries to reimpose mobility restrictions. In addition, rising commodity prices and persistent supply disruptions as well as emerging geopolitical tensions continued to exert pressures on consumer prices, resulting in higher than anticipated inflation across the globe, hindering the economic recovery for the fourth quarter of 2021 and beyond.

According to the IMF's January 2022 WEO update, the world economic growth is projected to moderate to 4.4 percent in 2022 from 5.9 percent in 2021, reflecting forecast downgrades for the advanced economies, emerging market and developing economies. In advanced economies, growth is projected at 3.9 percent in 2022 after 5.0 percent in 2021, mainly due to growth downgrades for the United States, Eurozone, and United Kingdom. In emerging market and developing economies, economic growth is projected to moderate to 4.8 percent in 2022, after 6.5 percent in 2021, largely attributed to downgrades across almost all regions. In Sub-Saharan Africa, growth is projected at 3.7 percent in 2022, compared to 4.0 percent in 2021, reflecting a downward revision of growth forecast for South Africa.

In 2021, global commodity prices increased, reflecting a rebound in global demand. Energy prices rose by 82.0 percent from a drop of 31.7 percent in 2020, attributed mainly to the rise in crude oil prices and natural gas. Non-

energy commodity prices increased by 32.3 percent in 2021, from 3.0 percent in 2020, owing largely to higher prices for metals and fertilizers.

Due to anticipated persistent supply chain disruptions and rising energy prices, world annual average inflation is projected to increase to around 4.8 percent in 2022 from 4.3 percent in 2021, leading to the upward revision of inflation forecasts in many advanced and emerging market and developing economies.

Rwanda's economy has significantly recovered from the severe effect of the COVID-19 pandemic. Throughout the year 2021, economic recovery continued despite the successive waves of COVID-19 that prompted the tightening of virus containment measures, including partial lockdowns.

Rwanda's economy grew by 10.9 percent in 2021 after a contraction of 3.4 percent in 2020, helped by sizable fiscal and monetary policy support, easing COVID-19 containment measures, improving global and regional economies as well as good weather conditions. In 2022, the economy is expected to continue to recover, with a projected growth rate of 7.2 percent.

Rwanda's merchandise exports recovered significantly from the pandemic-induced drop, rising by 53.4 percent to USD 1,167.8 million, up from USD 761.3 million a year earlier. This positive performance was driven by improving external demand and good performance of domestic manufacturing sector. On the other hand, merchandise imports value grew by 16.5 percent, to USD 3,201.0 million in 2021, on the account of the rising domestic demand for capital and intermediate goods. The growth in imports is also attributable to higher imports of consumer and energy goods owing to increased international food and oil prices. As a result, Rwanda's total trade deficit rose by 3.7 percent to USD 2,038.3 million in 2021, up from USD 1,966.0 million a year earlier. However, the current account defict improved by 1.4 percent to stand at 10.9 percent of GDP in 2021, driven by higher remittances and Government budgetary grant inflows. NBR ended the year 2021 with international reserves covering 5.3 months of imports compared to the benchmark of 4.

In 2021, headline inflation decelerated to 0.8 percent on average, from 7.7 percent recorded in 2020. The slowdown in headline inflation was reflected in its main components, generally as a result of good agricultural supply, coupled with base effects in transport services, food and solid fuels inflation components. However, in February 2022, headline inflation was projected to increase. Given this outlook, the Monetary Policy Committee (MPC) decided to raise the Central Bank Rate (CBR) by 50 basis points from 4.5 percent to 5.0 percent so as to anchor inflation expectations and to ensure that inflation is contained at an adequate level while continuing to support economic recovery.

The monetary policy stance remained accommodative in 2021. In the wake of the COVID-19 pandemic, the Monetary Policy Committee decided to cut the Central Bank Rate (CBR) from 5.0 percent to 4.5 percent in April 2020 and this rate remained unchanged throughout the year 2021. This decision, along with other implemented policy measures, aimed at supporting commercial banks to continue financing the economy and to mitigate the COVID-19 shock on the Rwandan financial sector. These measures contributed to improved liquidity conditions and more uptake of long-term loans, which are priced at lower rates, thus inducing a decline in the average lending rate by 17 basis points to 16.18 percent in 2021 from 16.35 percent in 2020.

Broad money (M3) grew by 17.8 percent in 2021 compared to 18.0 percent recorded in 2020. Credit to the Private Sector (CPS) was the main contributor to the growth in M3. The expansion in outstanding CPS (+14.7 percent) was essentially driven by increased new authorized loans by 15.4 percent to FRW 1 230.2 billion in 2021 from FRW 1 065.8 billion in 2020.

Relative to USD, the Rwandan franc depreciated by 3.8 percent end December 2021, lower than a depreciation of 5.4 percent recorded in December 2020. This slow depreciation reflected a steady economic recovery and a significant improvement in foreign currency inflows despite the persistent higher import bill to cater for industrial production needs and substantial Covid-19 related foreign spending.

The notable economic recovery continued to support the performance and stability of the financial sector. Total assets of the financial sector expanded by 19.0 percent to FRW 7,531 billion in December 2021, higher than the 14.3 percent average growth registered over the 5 years prior to the pandemic. Total assets of the banking sector expanded by 17.5 percent to FRW 5,064 billion, while assets of Microfinance Institutions (MFIs) grew by 18.3 percent to FRW 421.4 billion, from FRW 356.0 billion in December 2020. The growth of assets of banks and MFIs was mainly driven by deposit mobilization, borrowings from other financial institutions and expansion of capital base. In insurance sector, total assets of the insurers increased by 18 percent to FRW 701 billion, higher than the 15 percent growth recorded in December 2020, reflecting higher returns on investments income and retention of their profits made in the prior year. During the same period, the total assets of the pension sector (public and private) increased by 25.5 percent to FRW 1,313 billion from FRW 1,046 billion on account of increased contributions and investment income.

The rebound of economic activities has induced more demand for financial services and products. In banking sector, loan applications in value increased by 14.5 percent to FRW 1,528 billion in 2021 from FRW 1,334 billion 2020, against a contraction of 10.5 percent in 2020. During the same period, the number of loan applications increased by 18.2 percent to 546,286 from 461,943, higher than the growth of 4.3 percent registered during the previous year. In reflection of increased demand of insurance products, premiums written in insurance sector grew at a higher rate compared to the previous periods. Premiums increased by 22 percent in December 2021 (from FRW 169.4 billion to FRW 205.9 billion), compared to the growth of 10 percent registered as at December 2020.

The financial sector remains adequately capitalised and liquid. On one hand, the banking sector aggregate Tier 1 Capital Adequacy Ratio (CAR) and total CAR stood at 20.5 percent and 21.5 percent respectively, higher than 12.5 percent and 15 percent minimum prudential requirements. In MFIs, the aggregate CAR stood at 35.8 percent against the 15 percent minimum *regulatory requirement. Private insurer's solvency ratio stood at 142 percent as at end December 2021 compared to 114 percent in December 2020 and well above the regulatory minimum of 100 percent. On the other hand, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the key liquidity indicators of banks, stood at 269 percent and 147 percent respectively against the 100 percent minimum requirements. Similarly, the industrywide liquidity ratio of MFIs stood at 112.3 percent, against 30 percent minimum prudential requirement.*

Credit risk remains the main risk facing the financial sector. As at end December 2021, the outstanding Non-Performing Loans (NPLs) increased by 19 percent Y-o-Y to FRW 158 billion from FRW 133 billion in December 2020. The non-performing loans ratio stood at 4.6 percent in December 2021 comparable to 4.5 percent recorded in December 2020 and reflecting the higher growth of gross loans relative to the growth of NPLs as well as the significant write off of overdue loans. With increased credit risk outlook, banks remain prudent and continued to increase provisions for bad debts in anticipation of increased future losses. In MFIs, asset quality improved owing to the rebound of economic activities. The NPLs in MFIs dropped by FRW 2.3 billion to FRW 11.3 billion as at end December 2021 from FRW 13.6 billion as at end December 2020. Subsequently, the NPL ratio reduced to 4.8 percent as at end December 2021 from 6.7 percent as at end December 2020. The reduction of NPL ratio also mirrors the improved growth of outstanding loans.

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

INTRODUCTION

The objective of this March 2022 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic and financial developments of the year 2021 and give an outlook for the year 2022 and beyond. This statement first presents the global economic developments to contextualize the domestic economic and financial performance before concluding with the outlook.

I. GLOBAL ECONOMIC ENVIRONMENT

The following information is mainly taken from the International Monetary Fund's (IMF) World Economic Outlook (WEO) update published in January 2022. Information covers actual developments until 2021 and projections that however do not reflect the economic consequences of the Russia-Ukraine war, which started on February 24th, 2022, on the world economy.

1.1 ECONOMIC GROWTH AND OUTLOOK

According to the IMF's WEO of January 2022, world economic growth is projected to moderate to 4.4 percent in 2022 from 5.9 percent in 2021. Growth projections for 2022 were revised down by 0.5 percentage points relative to October 2021 WEO projections, reflecting forecast downgrades for the advanced economies, emerging market and developing economies.

The global economy entered 2022 in a weaker position than previously expected, undermined by the Omicron COVID-19 variant. Rising energy prices and supply disruptions have resulted into higher and more broad-based inflation than anticipated, notably in the United States and many Emerging market and developing economies. The ongoing retrenchment of China's real estate sector and slower-than-gexpected recovery in private consumption have also negatively influenced the growth prospects.

Table 1: Global GDP Growth (percent, Y-o-Y)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 est	2022 proj
World	**3.4**	**3.5**	**3.4**	**3.3**	**3.8**	**3.6**	**2.8**	**-3.1**	**5.9**	**4.4**
Advanced economies	**1.4**	**2.0**	**2.3**	**1.8**	**2.5**	**2.3**	**1.7**	**-4.5**	**5.0**	**3.9**
United States	1.8	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	5.6	4.0
Euro area	-0.2	1.4	2.0	1.9	2.6	1.9	1.5	-6.4	5.2	3.9
Germany	0.4	2.2	1.5	2.2	2.7	1.1	1.1	-4.6	2.7	3.8
France	0.6	1.0	1.0	1.0	2.4	1.8	1.8	-8.0	6.7	3.5
Italy	-1.8	0.0	0.8	1.3	1.7	0.9	0.3	-8.9	6.2	4.2
Spain	-1.4	1.4	3.8	3.0	3.0	2.3	2.1	-10.8	4.9	5.8
Japan	2.0	0.3	1.6	0.8	1.7	0.6	0.0	-4.5	1.6	3.3
United Kingdom	2.2	2.9	2.4	1.7	1.7	1.3	1.4	-9.4	7.2	4.7
Emerging & developing economies	**5.0**	**4.7**	**4.3**	**4.5**	**4.8**	**4.6**	**3.7**	**-2.0**	**6.5**	**4.8**
China	7.8	7.4	7.0	6.9	6.9	6.8	6.0	2.3	8.1	4.8
India	6.4	7.4	8.0	8.3	6.8	6.5	4.0	-7.3	9.0	9.0
Sub-Saharan Africa	**4.9**	**5.0**	**3.2**	**1.5**	**3.0**	**3.3**	**3.1**	**-1.7**	**4.0**	**3.7**

Source: IMF, WEO, January 2022

Economic growth in advanced economies is projected at 3.9 percent in 2022 after 5.0 percent in 2021, revised down by 0.6 percentage points relative to October 2021 WEO projections, largely reflecting downgrades for the United States, Eurozone and United Kingdom.

Relative to October 2021 WEO projections, the US economic growth projections are revised down by 1.2 percentage points to 4.0 percent in 2022 after 5.6 percent in 2021. The downward revision for growth projections in 2022 was largely due to earlier withdrawal of monetary accommodation, continued supply shortages as well as a revised fiscal policy package.

The Eurozone economy is projected to moderate to 3.9 percent in 2022 from 5.2 percent in 2021. Growth projections are revised downwards by 0.4 percentage points in 2022 relative to October 2021 projections largely due to mobility restrictions imposed towards the end of 2021 as well as prolonged supply constraints and COVID disruptions. The markdown in growth projections was particularly pronounced for German (0.8 percentage points) due to the economy's exposure to supply chain shocks.

The United Kingdom's economic growth is projected to slow down to 4.7 percent in 2022 from 7.2 percent in 2021, 0.3 percentage points lower than what was projected in October. The downward revision reflects disruptions related to Omicron and supply constraints, particularly in labor and energy markets. However, the UK's economy will still be the fastest growing economy of all the G7 countries.

Growth in emerging market and developing economies is projected to moderate to 4.8 percent in 2022, after 6.5 percent in 2021. The forecast for the group is cut by 0.3 percentage points relative to October 2021 WEO projections, largely attributed to downgrades across almost all regions, despite growth upgrades for Middle East and central Asian economies.

In China, growth is projected to moderate to 4.8 percent in 2022, from 8.1 percent in 2021, as growth projections were revised down by 0.8 percentage points, relative to October projections. The downgrade revision was largely due to pandemic-induced disruptions related to the zero-tolerance COVID-19 policy leading to recurrent mobility restrictions, protracted financial stress among property developers, and likely lower than anticipated private consumption.

India's economy is projected to grow by 9.0 percent in 2022, the same as in 2021 and 0.5 percentage points higher than October projections. India's prospects are marked up on expected improvements to credit growth and, subsequently, investment and consumption, building on better-than-anticipated performance of the financial sector.

The Sub-Saharan African economy is projected to grow by 3.7 percent in 2022, 0.1 percentage points lower relative to October 2021 WEO projections, compared to 4.0 percent in 2021. Growth projections for 2022 are above the pre-pandemic level of 3.1 percent in 2019, and growth for 2021 was the highest growth since 2015. Growth projection's downgrade reflects markdown growth for South Africa while growth prospects for Nigeria remained unchanged. South Africa's growth forecasts were revised down by 0.3 percentage points relative to October projections, in light of a softer-than-expected second half of 2021 and a weaker outlook for investment as business sentiment remains subdued.

Table 2: Growth in Oil Exporting African Countries (percent, Y-o-Y)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 est	2022 proj
Sub-Saharan Africa	4.9	5.0	3.2	1.5	3.0	3.3	3.1	-1.7	4.0	3.7
Angola	5.0	4.8	0.9	-2.6	-0.2	-2.0	-0.5	-5.4	-0.7	2.4
Nigeria	5.4	6.3	2.7	-1.6	0.8	1.9	2.2	-1.8	3.0	2.7
South Africa	2.5	1.4	1.3	0.7	1.2	1.5	0.1	-6.4	4.6	1.9
South Sudan	29.3	2.9	-0.2	-13.5	-5.8	-1.9	0.9	-6.6	5.3	6.5
Egypt	3.3	2.9	4.4	4.3	4.1	5.3	5.6	3.6	3.3	5.2
Libya	-36.8	-53.0	-13.0	-7.4	64.0	17.9	13.2	-59.7	13.2	5.3

Source: IMF, WEO, January 2022 & October 2021

The economic performance in the East African Community (EAC-5)[1] countries is projected to moderate to 5.6 percent in 2022, after an estimated growth of 6.5 percent in 2021 (average growth for the first three quarters of 2021), partly reflecting a base effect.

In the first three quarters of 2021, all EAC-5 countries recovered after a contraction in 2020 due to the impact of COVID-19 and subsequent lockdowns. Rwanda's real GDP increased by 11.4 percent, on average in the first three quarters of 2021, while Kenya, Uganda and Tanzania grew by 6.9 percent, 6.6 percent, and 4.9 percent, respectively[2] .

Table 3: Real GDP Growth in EAC (percent, Y-o-Y)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 proj	2022 proj
EAC	**6.1**	**5.9**	**6.1**	**5.4**	**5.7**	**6.1**	**6.3**	**1.0**	**6.5***	**5.6**
Burundi	4.9	4.2	-3.9	-0.6	0.5	1.6	1.8	-1.0	1.6	4.2
Kenya	3.8	5.0	5.0	4.2	3.8	5.6	5.0	-0.3	6.9	6.0
Rwanda	4.7	6.2	8.9	6.0	4.0	8.6	9.5	-3.4	10.2**	7.2**
Tanzania	6.8	6.7	6.2	6.9	6.8	7.0	7.0	4.8	4.9	5.1
Uganda	3.9	5.7	8.0	0.2	6.8	5.6	7.7	-0.8	6.6	5.1
South Sudan	29.3	2.9	-0.2	-13.5	-5.8	-1.9	0.9	-6.6	5.3	6.5

Source: IMF, Regional Economic Outlook October 2021

**Rwanda-IMF country report January 2022
*Average growth for EAC-5 countries in the first three quarters of 2021

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is projected to increase to around 4.8 percent in 2022 from 4.3 percent in 2021, leading to upgraded forecasts in many advanced and emerging market and developing economies. In advanced economies, consumer price inflation is expected to increase to 3.9 percent in 2022 from 3.1 percent in 2021, reflecting persistent supply chain disruptions and rising energy prices. In the emerging market and developing economies,

[1] EAC-5 refers to the only five East African countries of Burundi, Kenya, Rwanda, Tanzania and Uganda.
[2] Note that quarterly data for Burundi and South Sudan are not available.

inflation is projected to increase to 5.9 percent in 2022, from 5.7 percent in 2021.

Table 4: Annual Average Inflation Developments (percent, Y-o-Y)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 est	2022 proj
World	3.6	3.2	2.7	2.7	3.2	3.6	3.5	3.2	4.3	4.8**
Advanced economies	1.4	1.4	0.3	0.7	1.7	2.0	1.4	0.7	3.1	3.9
United States	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.2	4.7*	3.5
Euro area	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6*	1.7
Japan	0.3	2.8	0.8	-0.1	0.5	1.0	0.5	0.0	-0.3*	0.5
United Kingdom	2.6	1.5	0.0	0.7	2.7	2.5	1.8	0.9	2.6*	2.6
Emerging and dev. economies	5.4	4.7	4.7	4.3	4.4	4.9	5.1	5.1	5.7	5.9
China	2.6	2.0	1.4	2.0	1.6	2.1	2.9	2.4	0.9*	1.8
India	9.4	5.8	4.9	4.5	3.6	3.4	4.8	6.2	5.1*	4.9
Sub-Saharan Africa	6.5	6.4	6.7	10.3	10.6	8.3	8.2	10.3	10.7	8.6

Source: IMF WEO, January 2022, October 2021 & Official numbers from countries

**Annual average estimates for advanced economies and EMDE

*Annual average estimates for the twelve months of 2021

In Sub-Saharan Africa (SSA), annual headline inflation is projected to ease to 8.6 percent in 2022, from 10.7 percent in 2021, following the projected fall in inflation rates for Zimbabwe, Angola, Nigeria and Zambia. In some Sub-Saharan African countries, food prices have increased significantly, amid local shortages and the rise in global food prices. Exchange rate depreciations have also contributed to higher prices of imported goods in many Sub-Saharan African countries.

However, assuming medium-term inflation expectations remain well anchored and the pandemic eases its grip, higher inflation should fade as supply chain disruptions ease, and monetary policy tightens. The rapid increase in fuel prices is also expected to moderate during 2022–2023, which will help contain headline inflation. Similarly, food prices are expected to increase at a more moderate pace of about 4.5 percent in 2022 and to decline even further in 2023.

In the East African Community (EAC-5), annual headline inflation is projected to increase to 6.5 percent in 2022, from an estimated 4.2 percent in 2021. The annual average inflation in Kenya increased to 6.1 percent in 2021 from 5.2 percent in 2020, mainly due to rising transport prices. Rwanda's annual average inflation eased to 0.8 percent in 2021 from 7.7 percent in 2020.

The annual headline inflation in Tanzania increased to 3.7 percent in 2021, from 3.3 percent in 2020, amid rising prices for food & non-alcoholic beverages, transport, housing & utilities as well as restaurants & hotels. Uganda's annual average inflation eased to 2.2 percent in 2021 from 3.6 percent in 2020, while annual average inflation for Burundi increased to 8.3 percent in 2021 from 7.3 percent in 2020.

Table 5: Annual Average Inflation in EAC Countries (percent, Y-o-Y)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 est	2022 proj
EAC	6.3	5.5	5.7	5.7	6.7	3.6	3.9	4.3	4.2**	6.5
Burundi	7.9	4.4	5.6	5.5	1.6	-4.0	-0.7	7.3	8.3	4.6
Kenya	5.7	6.9	6.6	6.3	8.0	4.7	5.2	5.2	6.1	5.0
Rwanda	4.2	1.8	2.5	5.7	4.8	1.4	2.4	7.7	0.8	6.2*
Tanzania	7.9	6.1	5.6	5.2	5.3	3.5	3.4	3.3	3.7	3.4
Uganda	5.5	4.3	3.7	5.2	5.6	2.6	2.3	3.6	2.2	5.0

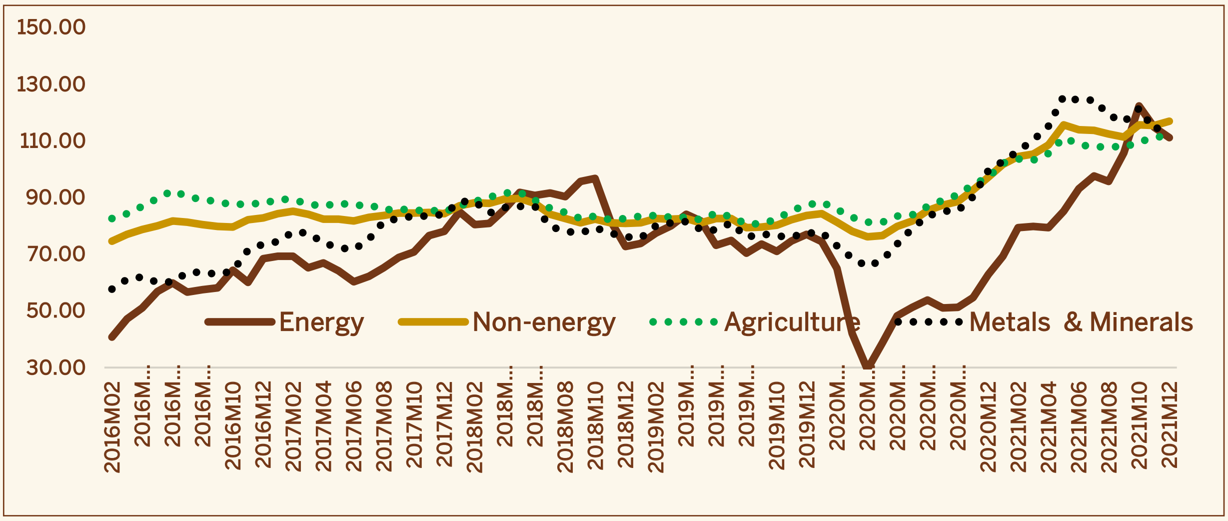
Source: IMF, October 2021 & Official numbers from countries

**Annual average estimates for all EAC countries
*BNR staff projections

1.2.2 Commodity Prices

In 2021, global commodity prices increased, reflecting a rebound in global demand. Energy prices rose significantly by 82.0 percent from a drop of 31.7 percent in 2020, attributed mainly to the rise in prices of crude oil and natural gas. Non-energy commodity prices increased by 32.3 percent in 2021, from 3.0 percent in 2020, owing largely to higher prices for metals and fertilizers.

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



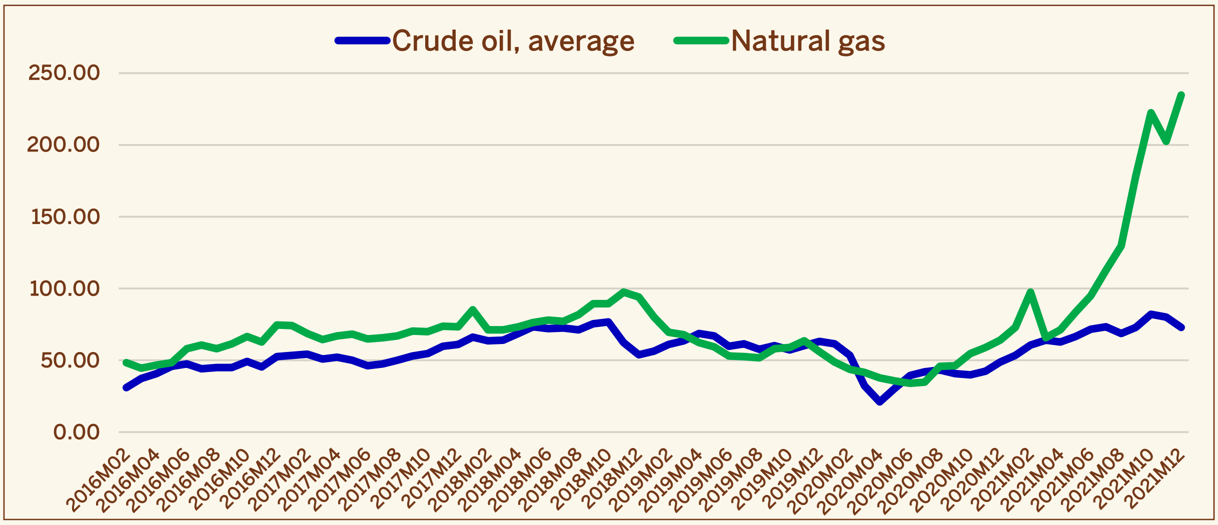
Source: World Bank Commodity prices, January 2022

Global energy prices are projected to increase by 2.2 percent in 2022 attributed mainly to the projected rise in crude oil prices and natural gas. Non-energy prices are projected to increase by 3.1 percent, following the projected increase in prices for food and fertilizers.

In 2021, crude oil prices increased by 67.4 percent on average compared to a decline of 32.8 percent in 2020, following production constraints and supply disruptions. In January 2022, IMF projected oil prices to increase by 11.9 percent to USD 77.31/barrel in 2022 from USD 69.07/barrel in 2021, and later drop by 7.8 percent in 2023.

Natural gas prices increased highly by 186.7 percent in 2021 from a decline of 25.6 percent in 2020, reflecting a sharp increase in demand, especially from China and constrained supply exacerbated by some disruptions, with adverse weather events playing a key role. Hotter-than-normal weather boosted demand for electricity for cooling in major economies including China and United States. IMF projects natural gas prices to increase by 58 percent in 2022.

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



Source: World Bank commodity prices, January 2022

In 2021, average prices for agricultural commodities increased by 23.5 percent from 4.6 percent in 2020, driven by supply shortfalls, strong demand for animal feed commodities in China, and input cost increases, especially fertilizers and natural gas.

Food prices increased by 29.8 percent in 2021 compared to 6.3 percent in 2020, of which oils & meals (41.6 percent), cereals (26.0 percent), and other foods (18.5 percent). Local food prices have surged in response to the ongoing spike in energy and fertilizers prices as well as Covid-19 induced supply-chain constraints. Food prices are projected to increase by 4.5 percent in 2022.

Prices for beverages increased by 16.3 percent in 2021 from 5.6 percent in 2020 mainly led by coffee prices (both Arabica and Robusta) due to production shortfalls in Brazil following a frost that affected the country's coffee production. Tea prices (at Mombasa Auction) increased by 5.2 percent in 2021 after dropping by 9.2 percent in 2020, following weather-related production shortfalls in East Africa, especially in Kenya, the world's third largest tea exporter in 2021.

Metals & mineral prices went up by 47.1 percent in 2021, after 1.0 percent in 2020, reflecting the impact of rising demand that favored industrial production activities. Metal prices continued to climb in early 2021, driven by strong demand in China, the ongoing global economic recovery, and supply disruptions. Tin prices increased highly by 89.1 percent in 2021 from a drop of 8.2 percent in 2020, as growth in electronics and photovoltaic installations significantly increased the demand for tin.

Prices for precious metals increased by 5.0 percent in 2021, slower than 26.6 percent increase in 2020, reflecting declining investor sentiment stemming from higher real interest rates, a stronger US dollar and the reduction of gold purchases by central banks. Specifically, gold prices increased by 1.7 percent in 2021 after rising by 27.1 percent in 2020.

Prices for fertilizers increased highly by 80.5 percent in 2021 from a drop of 10.1 percent in 2020 due to the strong demand in US and Brazil. The high increase resulted from production restrictions and trade policies, of which China's recent suspension of phosphate exports until June 2022, putting more pressure on DAP fertilizers. In October 2021, the World Bank projected prices for fertilizers to increase by 6.5 percent in 2022 and to drop by 19.2 percent in 2023.

Table 6: Commodity Prices (percent, Y-o-Y)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 proj.
Energy	-0.1	-7.1	-45.2	-15.0	23.7	27.8	-12.7	-31.7	82.0	2.2*
Crude oil, average	-0.9	-7.5	-47.3	-15.6	23.3	29.4	-10.2	-32.8	67.4	11.9**
Natural gas	13.0	-0.3	-35.9	-20.4	21.1	19.0	-25.5	-25.6	186.7	58.0**
Non energy	-7.5	-4.8	-15.4	-2.8	5.5	1.8	-4.2	3.0	32.3	-3.1**
Agricultural comm.	-7.5	-3.6	-13.8	-0.5	-0.6	-0.3	-3.9	4.6	23.5	-1.4*
Beverages	-10.1	22.2	-7.7	-2.8	-9.0	-4.8	-3.7	5.6	16.3	-0.3*
Coffee, Arabica	-25.2	43.8	-20.3	2.4	-8.0	-12.0	-1.6	15.4	35.8	-2.3*
Coffee, Robusta	-8.4	6.8	-12.4	0.6	13.9	-16.0	-13.2	-6.5	30.7	2.6*
Tea Mombasa	-16.7	-14.7	45.0	-18.3	22.7	-13.1	-14.3	-9.2	5.2	-1.9*
Food	-7.7	-7.5	-16.6	1.3	0.6	0.3	-3.8	6.3	29.8	4.5**
Cereals	-9.3	-18.8	-16.4	-7.3	-0.2	10.2	0.2	4.6	26.0	-8.3*
Oils & meals	-8.8	-7.0	-20.7	4.6	-0.8	-2.9	-8.9	15.9	41.6	0.3*
Metals & Minerals	-5.5	-6.6	-21.1	-5.9	24.2	5.5	-5.0	1.0	47.1	-4.9*
Tin	5.5	-1.7	-26.6	11.6	11.9	0.4	-7.4	-8.2	89.1	-0.8*
Precious metals	-16.9	-12.1	-10.4	7.5	0.4	-0.7	8.5	26.6	5.0	-2.6*
Gold	-15.5	-10.3	-8.3	7.6	0.7	0.9	9.7	27.1	1.7	-2.5*
Fertilizers	-18.9	-11.3	-3.0	-21.0	-4.4	11.1	-1.4	-10.1	80.5	6.5*

Source: World Bank, January 2022, & October 2021 forecasts

**IMF, January 2022 projections

*World Bank, October 2021 projections

1.3 MONETARY POLICY AND FINANCIAL MARKETS

Global financial conditions have remained broadly accommodative since October 2021, despite some recent tightening driven by rising interest rates and spread of Omicron variant. Emerging market assets have remained under pressure due to concerns about inflation, the policy outlook and expected Fed policy tightening.

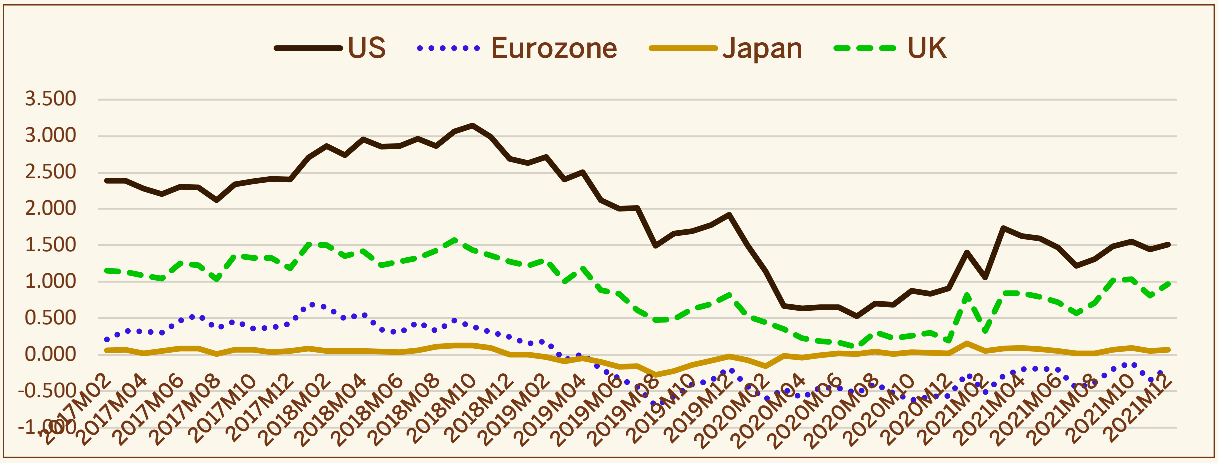
The Bank of England increased the Bank rate by 25 basis points, to 0.50 percent, in a meeting held on 2nd February 2022. However, the MPC members in the minority had preferred to increase the Bank rate by 50 basis points to 0.75 percent.

The US Federal Reserve decided to keep the target range for the federal funds rate at 0 to 0.25 percent, as announced in the FOMC statement issued on 26th January 2022. With inflation well above 2 percent and a strong labor market, the economy no longer needs sustainable high levels of monetary policy support, and the committee expects that it will soon be appropriate to raise the target range for the federal funds rate.

At its monetary policy meeting held on 3rd February 2022, the ECB Governing Council confirmed the decisions taken at its monetary policy meeting of 15thDecember 2021. The Council decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility should remain unchanged at 0.00 percent, 0.25 percent and -0.50 percent, respectively.

In December 2021, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.515 percent and -0.045 percent, respectively, affecting banks' deposits in the Central Bank and encouraging economic financing. In the US, deposit rates decreased to 0.220 percent from 0.340 percent in December 2020, while increasing for UK to 0.315 percent from 0.101 percent in December 2020.

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



Source: Bloomberg database, January 2022

The 10-year Government bond rate increased in the United States, Japan, UK, and EU to 1.5101 percent, 0.065 percent, 0.971 percent and -0.177 percent, respectively, from 0.913 percent, 0.017 percent, 0.197 percent and -0.207 percent in December 2020. In the United States, this increase reflected a sustained economic recovery, higher than expected inflation as well as a strong labor market.

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

Table 7: Units Currency per 1 US Dollar (percent, Y-o-Y)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
USD/GBP	-1.2	4.6	6.1	19.4	-8.6	5.9	-3.8	-3.0	1.0
USD/EUR	-4.3	11.3	13.4	3.2	-12.4	4.7	2.3	-8.2	7.4
USD/JPY	22.7	16.4	0.6	-2.7	-3.7	-2.7	-1.0	-4.9	11.5

Source: Bloomberg database, January 2022

By end December 2021, the US dollar appreciated on annual basis by 11.5 percent against the Japanese Yen, by 7.4 percent against the Euro, and by 1.0 percent against the British pound, reflecting optimism about the US growth outlook, but weakened by 2.7 percent against the Chinese Yuan.

II. NATIONAL ECONOMIC PERFORMANCE

This section presents the developments in the national economy, focusing on the drivers of economic growth in 2021 and the outlook for 2022. Available economic indicators show that the Rwandan economy has significantly recovered from the severe effect of the COVID-19 pandemic. Throughout the year 2021, economic recovery continued despite the successive waves of COVID-19 that prompted the tightening of virus containment measures, including partial lockdowns.

Rwanda's economy grew by 10.9 percent in 2021 after a contraction of 3.4 percent in 2020 and 0.7 percentage points higher than projected, supported by the Government's economic recovery plan, sizable support from fiscal and monetary policies, the easing of containment measures and the increased vaccine rollout.

2.1 ECONOMIC GROWTH

In 2021, Rwanda's economy achieved a broad based recovery from the adverse effects of the COVID-19 pandemic. The real GDP grew by 10.9 percent following a 3.4 percent contraction in 2020. This strong economic rebound was underpinned by easing COVID related restrictions, thanks to an effective vaccination campaign, Government economic policy support, growing external demand and the prevalence of good weather conditions.

Good weather conditions together with increased use of fertilizers and improved seeds supported increased yields of food crops for agricultural season A and B. Thus, food production increased by 6.7 percent in 2021 after a near zero growth in 2020 when weather conditions were not favorable for some crops. The strong rebound in food production contributed largely to the overall agricultural output growth (+6.4 percent). The positive agriculture output was driven also by the good performance of livestock and livestock products (8.1 percent) and forest products (5.4 percent) as well as fisheries

(24.0 percent). The recovery of the fishing sector was partly driven by the recovery of regional and international trade following the easing of COVID-19 restrictions.

Economic recovery plan combined with gradual easing of covid-19 containment measures have supported the strong recovery of the industry and services sectors. The industry sector, particularly, has benefited from the public and private sector infrastructure projects. The later generated strong demand for construction activities as well as domestically manufactured related materials. Consistently, the construction and manufacturing sectors grew by 15.2 percent and 10.6 percent respectively in 2021 from a decrease of 5.7 percent and a moderate growth of 2.0 percent in 2020. Manufacturing of building materials, specifically cement and bricks (+11.8 percent from -0.8 percent), Chemicals, rubber & plastic products that include paints and vanishes (+22.7 percent from +1.3 percent) to name a few, expanded at a faster pace.

Growth in the manufacturing industry is also associated with the good performance of wood, paper and printing (+18.7 percent from -9.1 percent), textiles (+15.6 percent from -4.1 percent), beverages (+6.1 percent from +1.1 percent) and stable growth in food processing industries (+7.0 percent).

The industry sector's improved performance has also been supported by the global economic recovery, mainly the increased demand for minerals which led to the increase in their prices on the international market. Consequently, the mining and quarrying subsector grew by 26.7 percent in 2021 from a contraction of 31.2 percent in 2020, in line with the increase in metal and minerals prices (+47.1 percent from +1.0 percent) over the same period.

Table 8: Rwanda Real GDP growth (percent, Y-o-Y)

	2017	2018	2019	2020	2021					2022
					Q1	Q2	Q3	Q4	Annual	Proj.
GDP	4.0	8.6	9.5	-3.4	3.5	20.6	10.1	10.3	10.9	7.2
Agriculture	4.7	6.1	5.0	0.9	6.8	7.3	6.3	5.2	6.4	5.8
Food crops	5.0	5.9	4.0	0.3	7.0	7.0	6.4	6.6	6.7	5.1
Export crops	1.6	6.9	4.5	-9.4	7.0	-2.2	2.3	-6.7	-0.5	10.9
Livestock & livestock products	8.9	10.7	11.2	8.2	8.9	8.6	8.2	6.2	8.1	8.0
Forestry	3.2	4.3	5.6	3.7	5.2	6.0	5.3	4.5	5.4	5.1
Fishing	5.2	5.4	3.7	-15.5	1.1	102.7	30.1	3.0	24.0	5.4
Industry	1.5	8.7	16.6	-4.2	9.7	29.9	11.6	5.3	13.4	10.8
Mining & quarrying	20.0	3.1	-0.3	-31.2	3.3	87.4	29.5	5.7	26.7	14.9
Manufacturing	6.5	13.6	11.3	2.0	8.3	22.7	6.9	6.3	10.6	8.2
Electricity	7.9	9.8	7.2	1.9	2.1	23.0	11.7	11.1	11.7	8.9
Water & waste management	1.8	2.1	2.1	2.4	3.1	4.4	5.1	6.0	4.6	5.6
Construction	-9.8	4.8	32.8	-5.7	14.4	32.8	14.5	4.0	15.2	13.8
Services	5.6	9.7	8.3	-5.5	-0.4	23.9	11.3	14.5	11.9	6.0
Trade & transport	6.7	18.3	14.2	-10.6	-3.9	40.6	8.6	15.9	13.5	6.3
Maintenance and repair of motors	5.8	6.6	6.9	-3.1	28.6	132.1	16.3	14.3	35.3	3.4
Wholesale & retail trade	2.3	18.2	15.7	-3.3	-0.5	33.7	3.8	14.7	11.7	6.4
Transport services	15.2	19.7	12.4	-23.7	-13.9	48.3	19.2	18.6	14.6	6.3
Other services	5.2	6.6	5.9	-3.3	1.1	18.3	12.5	13.8	11.2	5.8
Hotels & restaurants	7.4	7.3	9.7	-40.2	-34.4	33.6	62.2	70.8	20.4	21.2
Information & communication	10.5	14.2	9.1	29.2	18.2	27.8	14.1	16.1	18.8	11.1
Financial services	6.7	10.0	8.4	-2.4	10.4	18.8	10.6	30.2	18.0	7.0
Real estate activities	7.0	4.8	3.9	0.3	3.0	6.4	4.5	2.5	4.1	2.8
Professional, scientific and technical activities	7.9	9.5	9.8	-0.8	10.1	20.3	11.2	11.5	13.2	8.4
Administrative and support services	4.2	4.1	4.7	-6.8	-3.6	10.3	7.5	10.0	5.8	2.6
Public administration and defense	2.1	7.1	4.6	2.9	-1.7	8.0	1.1	3.1	2.6	5.0
Education	2.3	3.6	2.2	-37.5	5.3	168.0	140.5	34.0	58.6	5.0
Human health and social work activities	5.1	-0.2	3.4	15.9	-12.1	22.4	4.9	20.8	8.5	5.0
Cultural, domestic & other services	4.8	9.3	8.2	-1.2	6.4	12.6	6.2	12.7	9.5	6.2
Taxes less subsidies on products	-2.2	9.4	15.1	-1.7	3.1	26.4	11.0	13.4	13.5	9.4

Source: MINECOFIN & NISR (2021)

The recovery in services sector, slower at the beginning of 2021, strengthened since the second quarter. After contracting by 5.5 percent in 2020, the sector rebounded by 11.9 percent in 2021 despite the second and third waves of COVID-19 in January and July 2021 respectively. The remarkable services sector's recovery was driven by the rebound of some services, including tourism related services and education that were severely hit by the COVID-19 shock in 2020. In this regard, with the gradual reopening of the global economy and Rwanda's tourism recovery measures, hotels and restaurants grew by 20.4 percent in 2021 after contracting by 40.2 percent in 2020 while transport services recorded a growth of 14.6 percent from a decline of 23.7 percent.

After dropping by 37.5 percent in 2020, the education sector rebounded by 58.6 percent in 2021, following the reopening of schools. The good performance of services sector is linked also to the uptick in trade services (+11.7 percent from -3.3 percent) and financial services (+18.0 percent from -2.4 percent) as well as outstanding performance of information and communication (+18.8 percent from +29.2 percent).

The economic recovery is expected to continue in 2022, supported by ongoing Government programs such as the Manufacture and Build to Recover, the continuous vaccine campaign and reopening of the economy.

2.2 EXTERNAL TRADE PERFORMANCE

Rwanda's merchandise exports receipts rose by 53.4 percent in 2021, amounting to USD 1,167.8 million, up from USD 761.3 million a year earlier, owing to the recovery from the global pandemic of Covid-19, rising commodity prices and improvement of trade in the region.

Similarly, in 2021, merchandise imports went up by 16.5 percent, y-o-y, amounting to USD 3,201.0 million from USD 2,746.7 million in 2020. The rise in imports is a reflection of improved domestic economic activities leading to increased imports of industrial production materials and the rise of international commodity prices.

As a result, Rwanda's trade deficit widened by 3.7 percent, y-o-y, in 2021, amounting to USD 2,038.3 million from USD 1,966.0 million in 2020. With informal cross border trade, the coverage of imports by exports increased to 42.9 percent in 2021 from 41.7 percent in 2020.

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

		2016	2017	2018	2019	2020	2021	% Change 21/20
Total Exports	Value	731.4	1,127.7	1,121.8	1,240.3	1,407.5	1,531.0	8.8
	Volume	466.0	623.7	715.4	807.3	756.9	1,026.0	35.6
Merchandise Exports	Value	731.4	1,037.1	1,048.2	964.0	761.3	1,167.8	53.4
	Volume	466.0	623.7	715.4	807.3	756.9	1,026.0	35.6
Total Imports	Value	2,253.9	2,348.5	2,636.3	3,094.1	3,373.5	3,569.3	5.8
	Volume	1,965.2	2,678.5	2,992.3	3,094.2	3,260.8	3,247.7	-0.4
Merchandise Imports	Value	2,253.9	2,348.5	2,636.3	2,854.8	2,746.7	3,201.0	16.5
	Volume	1,965.2	2,678.5	2,992.3	3,094.2	3,260.8	3,247.7	-0.4
Trade balance	Value	-1,522.5	-1,220.8	-1,514.5	-1,853.8	-1,966.0	-2,038.3	3.7
Exports/Imports	%	32.5	48.0	42.6	40.1	41.7	42.9	

Source: NBR, Statistics Department

2.2.1 Exports Developments

The aforementioned increase in exports value is attributable to the improvement of global demand and international commodity prices. As a result, all merchandise export categories recorded positive growth, such as, traditional exports (+41.1 percent), non-traditional exports (+56.7 percent) and re-exports (+49.2 percent), as well as the informal cross border trade exports (+152.7 percent).

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

	2016	2017	2018	2019	2020	2021	%change
Coffee							
- Value	58.5	64.1	69.6	69.8	53.9	78.3	45.2
- Volume	18.6	18.7	21.3	23.4	16.0	17.5	9.0
- Price USD/KG	3.1	3.4	3.3	3.0	3.4	4.5	33.1
Tea							
- Value	63.4	84.3	90.5	86.9	90.3	96.9	7.3
- Volume	24.4	26.2	30.9	31.2	32.7	35.4	8.1
- Price USD/KG	2.6	3.2	2.9	2.8	2.8	2.7	-0.8
Minerals							
- Value	86.4	123.7	143.0	100.3	83.1	149.5	79.7
- Volume	6.5	8.0	8.4	7.1	5.7	7.0	23.9
Cassiterite							
- Value	34.8	50.2	49.9	37.9	31.4	56.8	81.0
- Volume	3.5	4.8	4.8	3.8	2.8	3.1	11.2
- Price USD/KG	9.8	10.5	10.4	9.9	11.1	18.1	62.8
Coltan							
- Value	39.7	60.9	71.6	45.6	34.0	42.1	23.7
- Volume	1.3	1.7	1.6	1.4	1.0	1.0	1.7
- Price USD/KG	31.3	35.9	43.6	33.7	33.1	40.2	21.6
Wolfram							
- Value	11.9	12.6	21.5	16.8	17.8	50.6	184.7
- Volume	1.7	1.5	2.0	1.9	1.8	2.8	56.2
- Price USD/KG	6.9	8.3	10.9	8.9	9.8	17.9	82.3
Hides and Skin							
- Value	7.4	7.5	3.1	2.5	1.5	1.8	19.0
- Volume	6.2	7.0	5.5	3.9	2.8	3.2	14.0
- Price USD/KG	1.2	1.1	0.6	0.6	0.5	0.6	4.4
Pyrethrum							
- Value	3.4	3.2	4.7	6.2	5.0	3.6	-28.7
- Volume	0.0	0.1	0.1	0.1	0.0	0.2	463.5
- Price USD/KG	188.3	48.1	54.5	64.4	149.3	18.9	-87.3
I. Traditional exports							
- Value	219.1	282.8	310.9	265.7	233.9	330.0	41.1
- Volume	55.7	60.0	66.2	65.7	57.2	63.2	10.5
II. Re-exports							
- Value	224.3	267.3	313.4	351.9	314.8	469.5	49.2
- Volume	230.4	299.5	350.8	412.2	395.8	508.8	28.5
III. Non-traditional exports							
- Value	155.3	388.6	298.6	237.5	176.0	275.8	56.7
- Volume	179.9	264.2	298.4	329.4	303.8	454.0	49.4
IV. Non-monetary gold							
- Value		90.6	73.6	276.3	646.2	363.2	-43.8
- Volume		0.0	0.0	0.0	0.0	0.0	-44.5
V. Informal cross-border trade							
- Value	132.7	98.4	125.3	108.9	36.6	92.5	152.7
Merchandise Exports							
- Value	**731.4**	**1037.1**	**1048.2**	**964.0**	**761.3**	**1167.8**	53.4
- Volume	**466.0**	**623.7**	**715.4**	**807.3**	**756.9**	**1026.0**	35.6
TOTAL EXPORTS							
- Value	**731.4**	**1127.7**	**1121.8**	**1240.3**	**1407.5**	**1531.0**	8.8
- Volume	**466.0**	**623.7**	**715.4**	**807.3**	**756.9**	**1026.0**	35.6

Source: NBR, Statistics Department

Traditional exports increased by 41.1 percent, amounting to USD 330.0 million in 2021, on the account of growth in mineral exports (+79.7 percent), coffee exports (+45.2 percent) and tea exports (+7.3 percent).

The growth of receipts from minerals as detailed in- table 12 was mainly driven by the increase in exports receipts from cassiterite (+81.0 percent), coltan (+23.7) and wolfram (+184.7 percent). Following the unit price increase especially for cassiterite (+62.8 percent), coltan (+21.6 percent) and wolfram (+82.3 percent) and associated increase in the individual volume exports. The good performance of coffee exports explained in table 12 above is as a result of both volume and price effect, where by unit price rose to 4.5 USD/KG in 2021 from 3.4 USD/KG of 2020, while exported volume increased by 9.0 percent. The rise in tea exports is mainly attributed to increased exported volumes (+8.1 percent). Tea export volumes rose to 35.4 thousand tons in 2021, 8.1 percent higher than 32.7 thousand tons recorded in 2020, outweighing the declin of -0.8 percent of prices.

In addition, receipts from hides and skins rose by 19.0 percent y-o-y, to USD 1.8 million in 2021, much higher than USD 1.5 million registered in 2020, mainly owing to higher production. Lastly, export earnings from pyrethrum fell by 27.8 percent to USD 3.6 million in 2021 from USD 5.0 million in 2020, mainly due to the decline in exports prices (-87.3 percent), outweighing the increase in the volume exports (+463.5 percent).

Non-traditional exports (other ordinary exports) comprising other minerals, flowers, fruits and vegetables, agro-processing, and locally manufactured products, increased by 56.7 percent, amounting to USD 275.8 million in 2021, up from USD 176.0 million in 2020. The upward trend for non-traditional exports registered over the last few years, is a reflection of impact from the "Made in Rwanda" program, which records an improvement from the supply chain disruptions caused by the Covid-19 pandemic.

Finally, re-exports mainly composed of petroleum products, foodstuffs, vehicles, machinery, and electronics, rose by 49.2 percent to USD 469.5 million in 2021, from USD 314.8 million the previous year, mainly due to increase in global oil prices and improvement of regional demand.

2.2.2 Imports Developments

The merchandise imports bill increased by 16.5 percent, y-o-y, to stand at USD 3,201.0 million, mainly owing to the rise in domestic economic activities that increased industrial production input such as import of capital goods and rise of international commodity prices.

The table 11 below shows that the imports value (volume) of capital goods rose by 11.6 percent (21.5 percent) on one hand. On the other hand, the imports bills of intermediary, consumer and energy goods rose by 15.7 percent, 14.1 percent and 13.9 percent, respectively, outweighing declines in volume of -5.6 percent, -2.3 percent and -1.7 percent, respectivelly, mainly due to increase in import prices.

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

		2016	2017	2018	2019	2020	2021	%change
Total imports	**Value**	**2,253.9**	**2,348.5**	**2,636.3**	**3,094.1**	**3,373.5**	**3,569.3**	5.8
	Volume	**1,965.2**	**2,678.5**	**2,992.3**	**3,094.2**	**3,260.8**	**3,247.7**	-0.4
Merchandise Imports	**Value**	**2,253.9**	**2,348.5**	**2,636.3**	**2,854.8**	**2,746.7**	**3,201.0**	16.5
	Volume	**1,965.2**	**2,678.5**	**2,992.3**	**3,094.2**	**3,260.8**	**3,247.7**	-0.4
Consumer goods	Value	723.0	656.9	690.0	714.6	771.0	880.0	14.1
	Volume	763.2	793.9	843.6	715.2	821.3	802.1	-2.3
Capital goods	Value	707.9	504.1	583.7	692.5	660.0	736.6	11.6
	Volume	69.1	60.2	67.9	88.0	84.2	102.4	21.5
Intermediary goods	Value	566.0	563.6	628.5	730.6	761.9	881.1	15.7
	Volume	821.9	914.3	1,023.9	1,175.1	1,428.0	1,347.9	-5.6
Energy and lubricants	Value	226.4	487.1	562.3	521.5	348.7	397.3	13.9
	Volume	311.0	782.4	881.8	902.3	691.4	679.4	-1.7
Non-monetary gold	Value				239.3	626.8	368.3	-41.2
	Volume				0.0	0.01	0.01	-45.8
Imports of nonfuel re-exports	Value		113.5	151.5	183.8	202.5	301.8	49.0
	Volume		127.7	175.1	213.6	235.8	315.9	33.9
Informal cross-border trade	Value	30.6	23.3	20.3	11.8	2.5	4.1	64.0

Source: NBR, Statistics Department

The above-mentioned increase in imported consumer goods was due to increase in food products, beverages and tobacco, articles of clothing and health care materials (including vaccines) that rose by 15.7 percent, 13.8 percent, 43.9 percent and 10.2 percent, respectively, reflecting the high demand for critical medical supplies to mitigate the effects of the Covid-19 pandemic, as well as to support affected households with food.

Imports of intermediary goods, categorized into industrial products, construction materials, and fertilizers, increased by 15.7 percent in value, amounting at to USD 881.1 million in 2021, owing to increased demand for industrial products and construction materials other than cements imports, reflecting recovering economic activities owing to eased coronavirus containment measures. Imports of industrial products also rebounded with an increase of 19.5 percent in value, partly reflecting a recovery of the manufacturing sector.

The imports of construction materials other than cement increased by 22.2 percent, while the imports of cement declined by 6.4 percent. This reduction in cement imports can be explained by the high increase in domestic production of cement that rose by 24.4 percent, which also contributed to high growth in cement exports that increased by 104.2 percent. Reduction in overall domestic demand for cement by 9.1 percent, also contributed to the reduced imports, as summarized in the table below.

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

	2016	2017	2018	2019	2020	2021	% change
Domestic production	293,091	322,391	364,864	415,371	506,778	630,439	24.4
Imports of cement	268,353	225,905	318,854	377,897	575,116	427,306	-25.7
Exports of cement	29,793	71,725	43,263	48,120	66,005	134,802	104.2
Domestic demand	531,651	476,571	640,455	745,148	1,015,889	922,943	-9.1

Source: BNR, Statistics Department

Imports of capital goods increased by 11.6 percent in value, to USD 736.6 million in 2021, owing to the rising imports of industrial machinery (+15.0 percent), transport equipment (+4.0 percent) as well as other capital goods (+23.5 percent).

Imports of energy and lubricants, dominated by petroleum products (representing around 95 percent of the total energy category value), rose by 13.9 percent to stand at USD 397.3 million in 2021. This uptick was mainly due to the increase in global oil prices linked to the increased global demand that outweighed the 1.7 percent contraction in volume of energy imports.

2.2.3 FORMAL TRADE WITH OTHER EAC COUNTRIES

Rwanda's exports to EAC member countries, representing 4.7 percent of the total exports in 2021, rose by 32.9 percent in value, standing at USD 72.3 million, mainly owing to increasing domestic supply and improvement in external trade in contrast to the coronavirus pandemic period. On the other hand, imports from EAC went up by 6.4 percent, reflecting the high demand for food products, domestic articles and construction materials. As a result, Rwanda's trade deficit with EAC widened to USD 449.2 million in 2021 from USD 435.6 million a year earlier.

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

		2016	2017	2018	2019	2020	2021
Exports to EAC	Value in USD millions	77.5	90.3	80.3	116.2	54.4	72.3
	percent change	*45.2*	16.4	-11.1	44.8	-53.2	32.9
	Share to total exports	10.6	8.7	7.2	9.4	3.9	4.7
Imports from EAC	Value in USD millions	470.0	429.3	522.2	472.6	490.0	521.5
	percent change	*-9.4*	-8.7	21.6	-9.5	3.7	6.4
	Share to total imports	20.9	18.3	19.8	15.3	14.3	14.6
TRADE BALANCE		**-392.5**	**-339.0**	**-441.9**	**-356.4**	**-435.6**	**-449.2**

Source: NBR, Statistics Department

2.2.4 INFORMAL CROSS BORDER TRADE

Rwanda remains a net exporter in informal cross border trade (ICBT), recording a surplus of USD 88.4 million in 2021, 159.2 percent higher than USD 34.1 million recorded in 2020. During the period under review, ICBT exports and imports accounted for a 6.0 percent and 0.1 percent share of total exports and imports, respectively.

In the year 2021, ICBT exports and imports increased by 152.7 percent and 64.0 percent, respectively, reflecting the ease in COVID-19 containment measures that improved cross-border movements, since the end of November 2020 when some cross border points reopened.

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

		2016	2017	2018	2019	2020	2021
Exports	Value in USD millions	132.7	98.4	125.3	108.9	36.6	92.5
	Percent change	*22.5*	*-25.8*	*27.3*	-13.1	-66.4	152.7
	Share of total exports	18.1	8.7	11.2	8.8	2.6	6.0
Imports	Value in USD millions	30.6	23.3	20.3	11.8	2.5	4.1
	Percent change	*40.6*	*-23.9*	*-12.8*	-41.7	-79.2	64.0
	Share of total imports	1.4	1.0	0.8	0.4	0.1	0.1
Trade balance		102.1	75.1	105.0	97.1	34.1	88.4

Source: NBR, Statistics Department

2.2.5 BALANCE OF PAYMENTS

Rwanda's balance of payments (BOP) recorded a surplus of USD 154.4 million in 2021, owing to increased inflows from diaspora remittances and Government inflows in terms of borrowing, grants and IMF SDR allocation. The Current Account Defict (CAD) improved by 1.4 percent to stand at USD 1,209.9 million, up from USD 1,227.5 million recorded in 2020, equivalent to 10.9 percent of GDP in 2021. This is driven by increasing surplus in secondary income, thanks to higher remittance and Government budgetary grant inflows, which offset the recorded higher trade deficit as detailed above.

Table 15: Rwanda Balance of payments (USD million)

	2016	2017	2018	2019	2020	2021	% Change
Current Account Deficit (CAD)	-1330.8	-875.4	-974.8	-1230.9	-1227.5	-1,209.9	-1.4
CAD % GDP	*-15.3*	*-9.5*	*-10.1*	*-11.9*	*-11.9*	*-10.9*	
Goods and Services	-1540	-1166.7	-1298.1	-1482.5	-1648.6	-1,745.8	5.9
Services	-245	-192.8	-143.6	-17.6	1.7	-87.3	-5268.9
Credit	790	863.4	913.6	1015.0	521.4	579.0	11.0
Debit	1035	1056.2	1057.2	1032.5	519.8	666.3	28.2
Primary Income	-315	-291.1	-344.2	-329.8	-199.6	-219.6	10.0
Secondary Income	524	582.5	667.5	581.4	620.7	756.4	21.9
Remittances Credit	167	207.6	253.4	252.0	274.3	378.6	38.0
Capital Account	190.0	189.7	244.5	260.2	312.5	380.0	21.6
Financial Account	-812.9	-529.6	-715.1	-813.9	-786.7	-586.6	-25.4
Direct Investment	-232.0	-258.3	-348.2	-257.7	-152.6	-211.9	38.8
Portfolio Investment	-4.9	74.1	14.8	30.4	-26.5	-200.0	654.7
Other Investment	-655.2	-502.7	-477.2	-698.4	-935.5	-329.1	-64.8
Reserve Assets	79.2	157.3	95.5	111.8	327.9	154.4	

Source: BNR, Statistics Department

The exports of services recorded an increase of 11.0 percent, up to USD 579.0 million, mainly due to increase of air transport for passengers, and improvement in tourism recorded in 2021, mainly due to the ease of Covid-19 restrictions. The imports of services recorded also an increase of 28.2 percent, mainly related to the services transport costs related to imports of goods. As a result, the trade in services deficit increased to USD 87.3 million from a surplus of USD 1.7 million recorded in 2020.

In 2021, the Secondary Income Surplus registered an increase of 21.9 percent, standing at USD 756.4 million, from USD 620.7 million registered in 2020, mainly due to the increase in household remittances and in Government budgetary grants by 38.0 percent and 30.3 percent, respectively.

The financial account surplus decreased by 25.4 percent, y-o-y, to USD 586.6 million in 2021, partly due to a base effect emanating from higher borrowings recorded in 2020 to support the economy from the pandemic effect.

In 2021, capital inflows were relatively sufficient to finance the current account deficit, resulting into the build-up of international reserves assets by USD 154.4 million. The stock of foreign exchange reserves as of end December 2021 covered 5.3 months of imports of goods and services.

In the medium-term, Rwanda's external vulnerability will remain marginal, buoyed by increased build-up of foreign reserves. The coverage of foreign reserves of future imports of goods and services is estimated to remain relatively adequate, remaining above the 4.0 months in the medium term.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

In the year 2021, the NBR maintained the accommodative monetary policy stance and took various measures to support the financial sector amid global and domestic economic challenges caused by the COVID-19 pandemic.

In the wake of the pandemic, the Monetary Policy Committee decided to cut the Central Bank Rate (CBR) from 5.0 percent to 4.5 percent in April 2020 and this rate remained unchanged throughout the year 2021. Besides, the Government of Rwanda has put in place an Economic Recovery Fund (ERF) to cushion businesses affected by the COVID-19 pandemic to resume operation and safeguard employment. These actions, along with other implemented policy measures, aimed at supporting commercial banks to continue financing the economy and to mitigate the COVID-19 shock on the Rwandan financial sector.

However, given the growing inflationary pressures in 2022, the Monetary Policy Committee (MPC) decided to raise the Central Bank Rate (CBR) in February 2022 by 50 basis points, from 4.5 percent to 5.0 percent to ensure that inflation is contained while continuing to support economic recovery.

3.1 INFLATION DEVELOPMENTS

3.1.1 Introduction

In 2021, headline inflation decelerated to 0.8 percent on average from 7.7 percent recorded in 2020. The deceleration in headline inflation was reflected in all its main components. Food inflation dropped to -1.0 percent from 12.1 percent, core inflation slowed down to 2.1 percent from 5.6 percent, while energy inflation eased 1.8 percent from 7.8 percent.

Table-16: Inflation developments for key items (annual average, percent Y-o-Y)

	2019		2020		2021		Annual average		
	H1	H2	H1	H2	H1	H2	2019	2020	2021
Headline	0.7	4.2	8.5	7.0	1.4	0.3	2.4	7.7	0.8
Domestic:	0.1	4.1	9.1	7.3	0.1	-1.6	2.1	8.2	-0.8
-Food	-3.1	8.5	15.5	8.8	0.1	-2.1	2.7	12.1	-1.0
-Vegetables	-7.9	10.9	27.4	15.6	-7.0	-14.2	1.5	21.5	-10.6
-Meat	10.4	16.3	19.7	13.0	4.4	5.2	13.4	16.4	4.8
-Fruits	-11.4	8.4	11.3	5.4	6.0	-0.9	-1.5	8.4	2.6
-Bread & Cereal	0.5	7.0	11.8	4.5	-2.9	-1.4	3.7	8.2	-2.1
Housing	0.6	0.9	4.6	4.9	1.9	1.6	0.8	4.7	1.8
Transport	5.5	1.6	9.7	14.2	-1.9	-5.5	3.5	11.9	-3.7
Imported	2.6	4.5	6.3	6.1	5.	6.3	3.5	6.2	6.1
Core	1.6	3.0	5.5	5.7	2.2	1.9	2.3	5.6	2.1
Energy	-1.0	-0.6	10.2	5.5	-0.1	3.7	-0.8	7.8	1.8

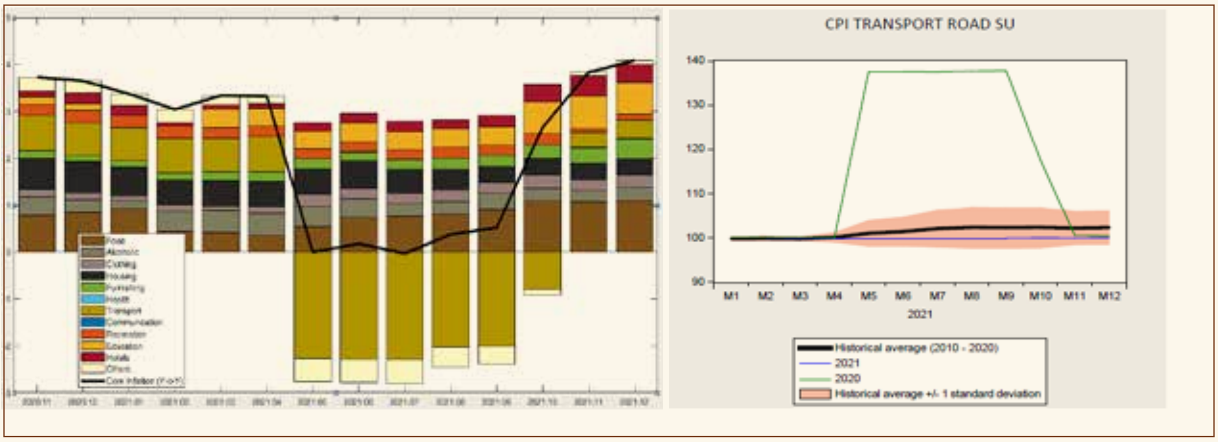
Source: NBR, Statistics Department

3.1.2 Contributors to headline inflation

a. Core inflation

In 2021, the deceleration observed in core inflation were mainly due to the ease in inflation for transport services and in purchase of vehicles. Transport services inflation reduced to -12.4 percent in 2021 from 17.5 percent recorded in 2020 while purchase of vehicles inflation dropped to 5.5 percent from 11.8 percent over the same period. The deflation recorded in transport services in 2021 is on the back of the fading away of the transitory shock in transport services following the social distancing measures that put limits on carriage capacity of buses and thus the increase of transport fare per passenger.

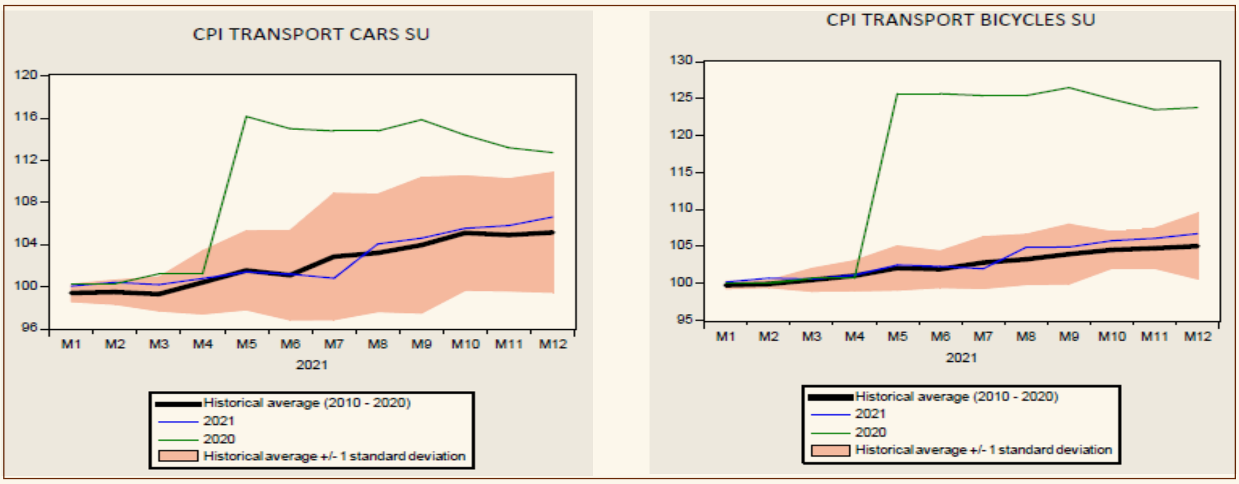
Figure 4: Developments in core inflation (percent, Y-o-Y) and consumer price indices of transport by road



Source: NBR, Monetary Policy and Research Directorate

Similarly, the decline in purchases of vehicles inflation in 2021 resulted from the price spike in the purchase of imported cars and bicycles in 2020 following the supply chain constraints caused by Covid-19.

Figure 5: Developments in consumer price indices of purchase of vehicles



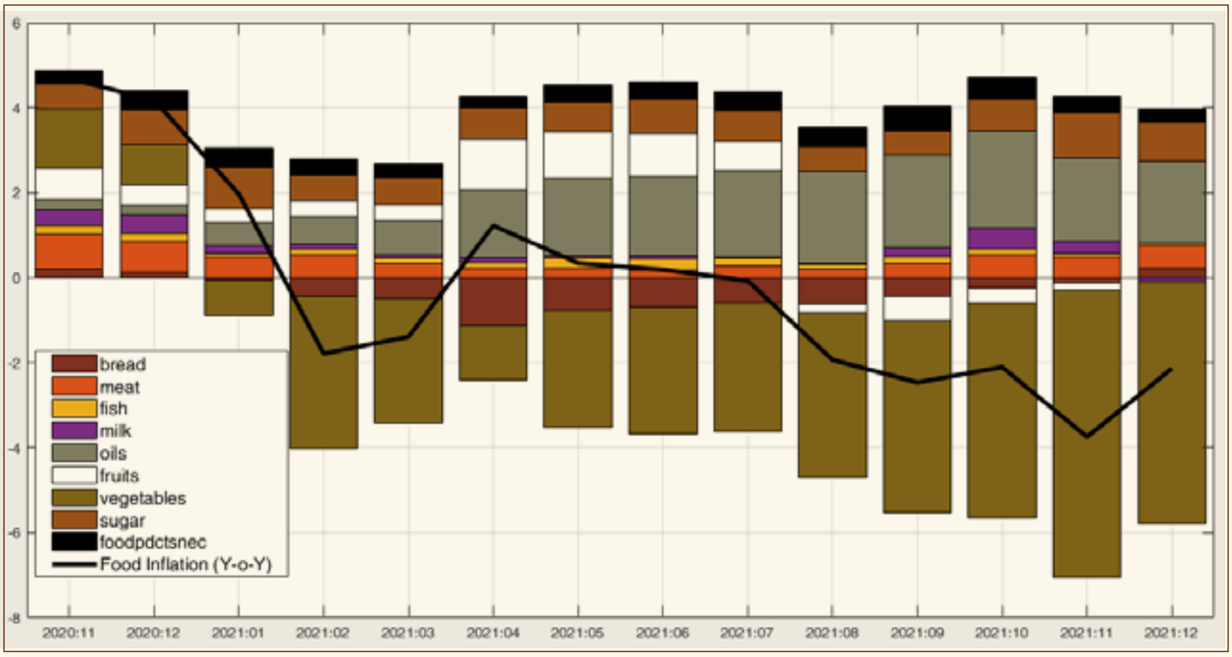
Source: NBR, Monetary Policy and Research Directorate

Other downward pressures on core inflation came from core food inflation (from 7.5 percent to 4.6 percent) and core alcoholic and beverages inflation (from 14.2 percent to 7.1 percent). Despite the increases in core food prices noted in 2021 especially for cooking oils, core food inflation on average eased following the higher prices recorded between February and May 2020 as a result of the supply chain constraints and high food consumption. Overall, the decreases in core inflation followed the base effect caused by high prices for alcoholic beverages and tobacco recorded in 2020.

b. Food inflation

The drop recorded in food inflation was mostly reflected in vegetables inflation that eased to -10.6 percent in 2021 from 21.5 percent in 2020.

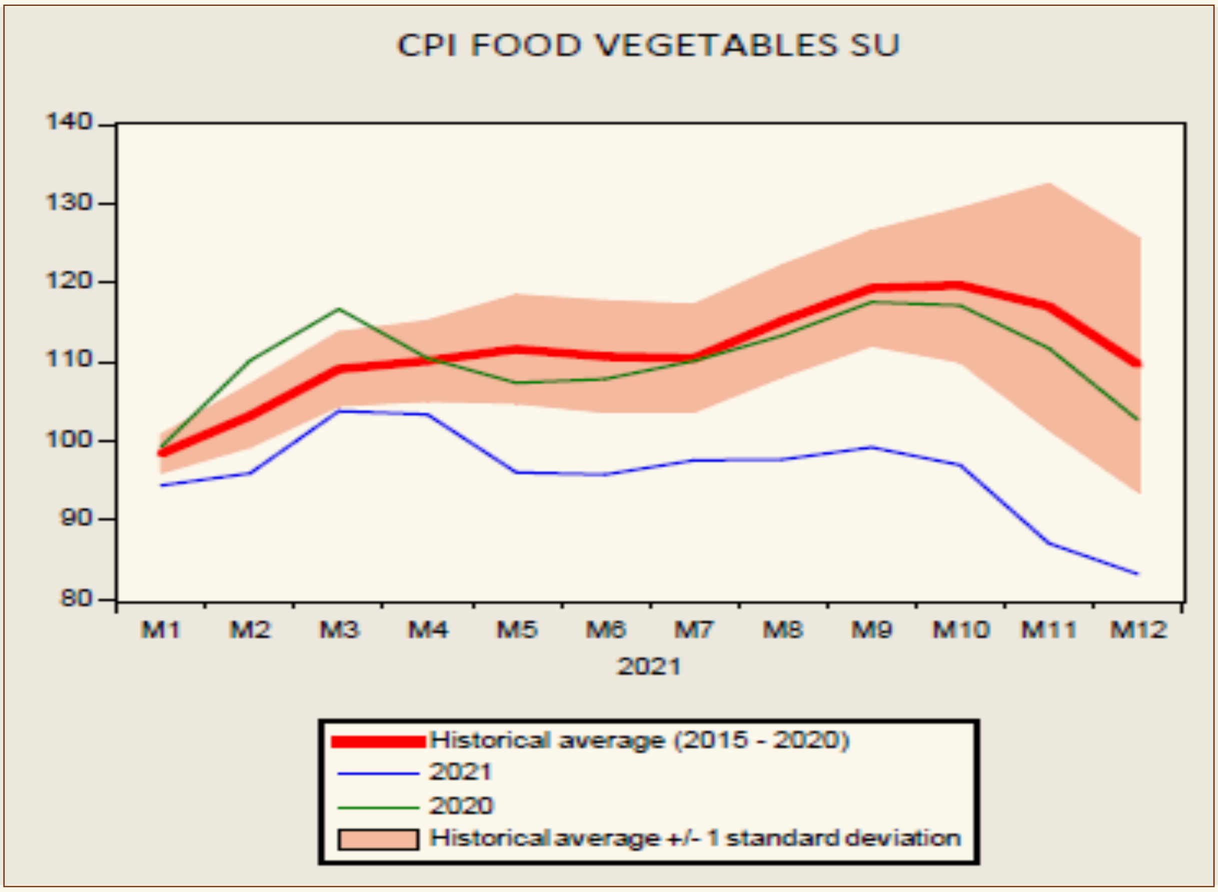
Figure 6: Development of food inflation (percent, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

Vegetables' prices in 2021 evolved below the 2020 price levels and even below the typical patterns of the historical prices (2015-2020). The decelerations observed in vegetables inflation in 2021 were mostly on the back of the good performance of agricultural production, coupled with the base effect.

Figure 7: Development of vegetables consumer price index

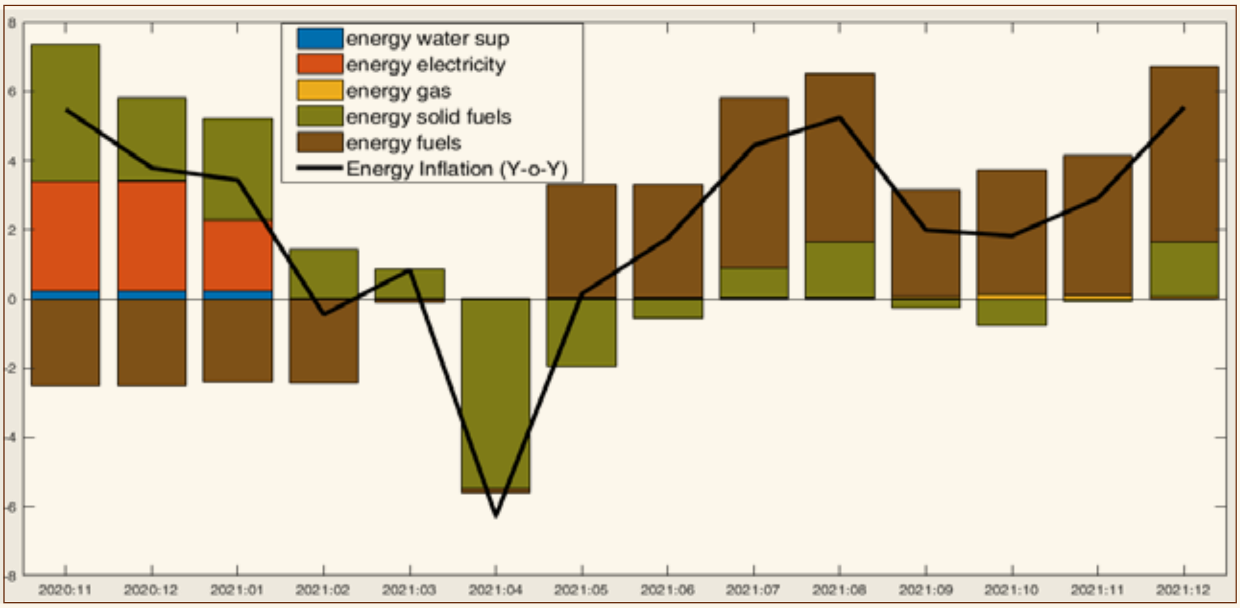


Source: NBR, Monetary Policy and Research Directorate

c. Energy inflation

The decline in energy inflation was mostly reflected in solid fuels inflation. Solid fuels inflation slowed down to 0.0 percent in 2021 from 10.6 percent recorded in 2020. Despite the uptick observed in international oil prices in 2021, energy inflation on average eased following the higher prices recorded last year mainly in solid fuels inflation. Other declines in energy inflation were attributed to the base effect of higher prices recorded last year in energy electricity.

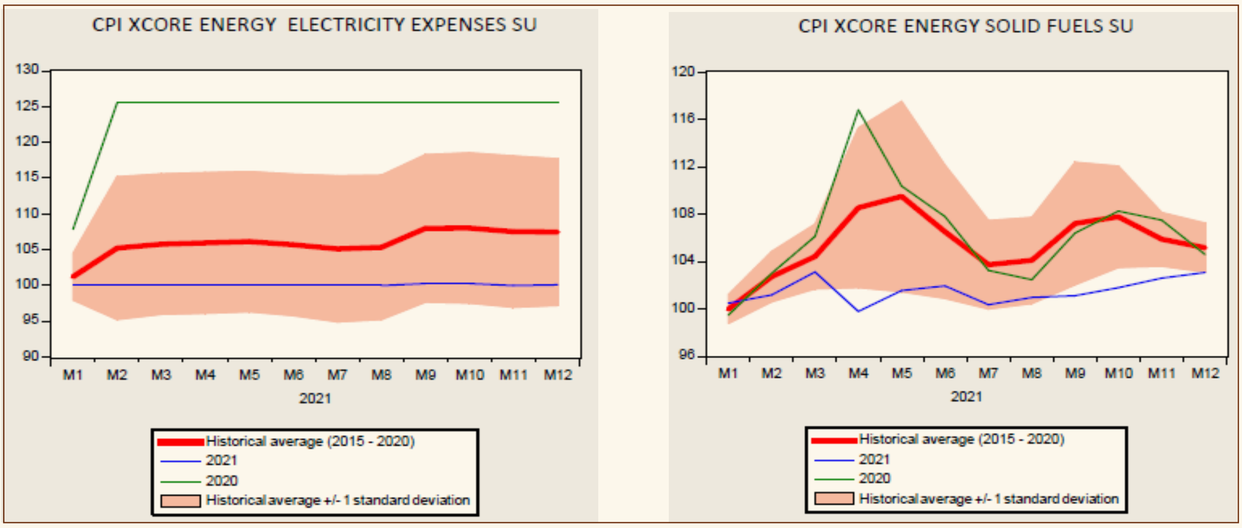
Figure 8: Energy inflation (percent, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

Solid fuels prices in 2021 evolved below the 2020 prices and even below the historical patterns for 2015-2020, reflecting the increase in its supply on the market. The drop observed in energy electricity inflation in 2021 is mainly associated with an upward revision of electricity tariffs effective February 2020.

Figure 9: Developments in electricity and solid fuels consumer price indices



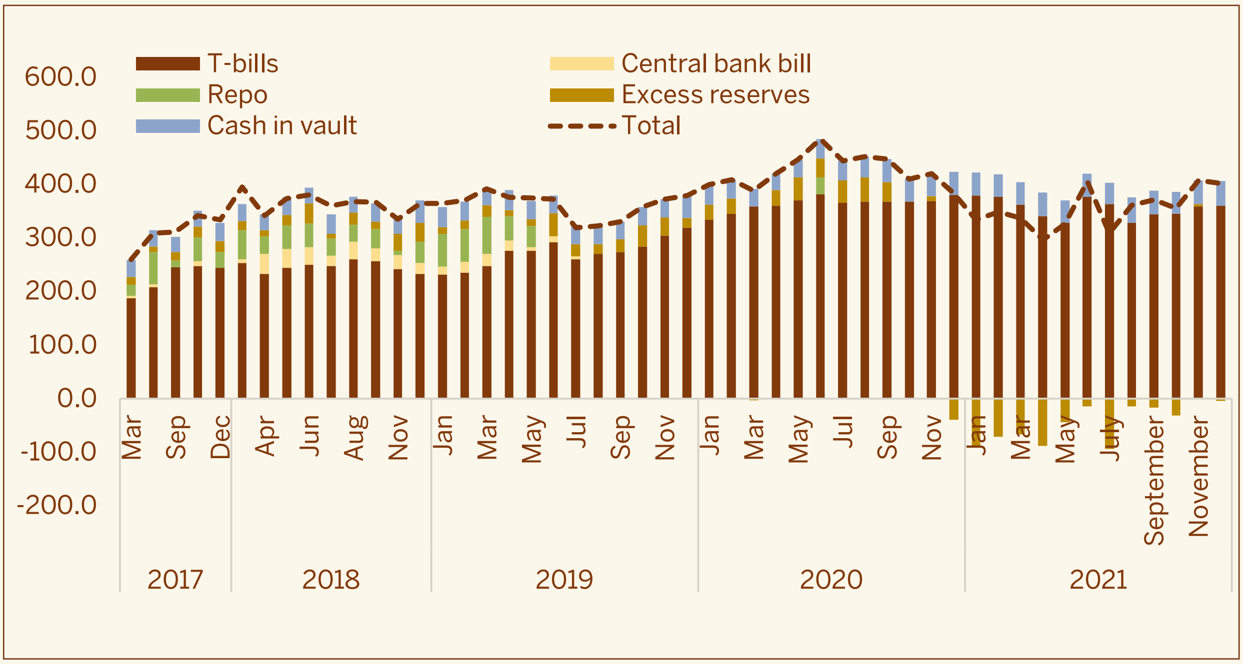
Source: NBR, Monetary Policy and Research Directorate

3.2 MONETARY SECTOR DEVELOPMENTS

3.2.1 Banking System Liquidity Conditions

In 2021, the banking system liquidity grew by 4.9 percent, to FRW 402.1 billion from FRW 383.4 billion in 2020, compared to a growth of 1.3 percent recorded in 2020. This growth is mostly attributed to the rebound in excess reserves on the back of increased Government spending recorded in 2021.

Figure 10: Most liquid assets of commercial banks (FRW Billion)



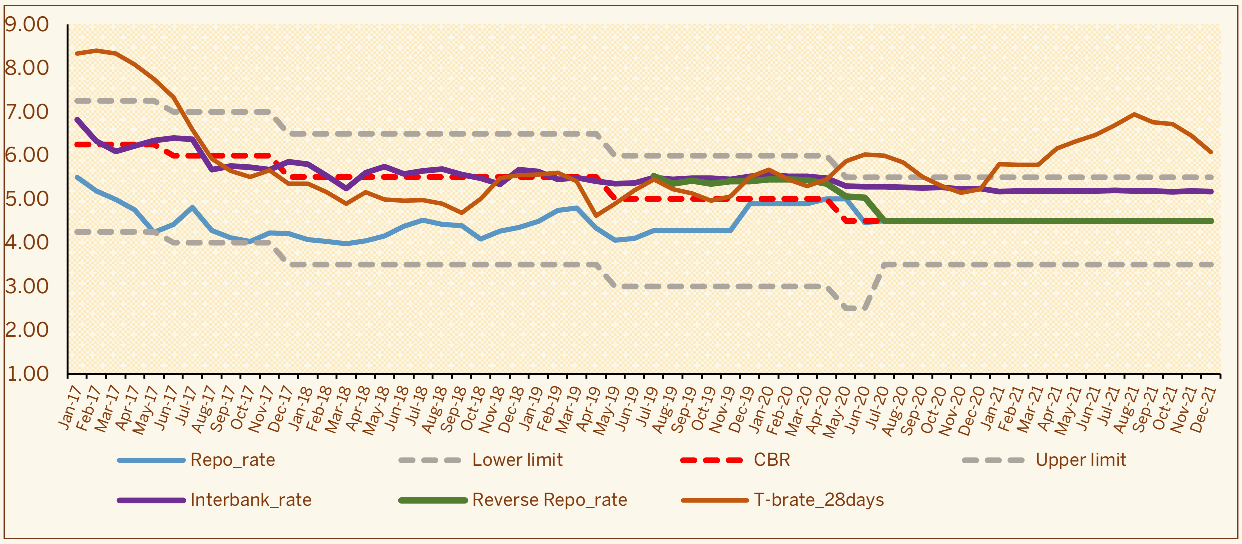
Source: NBR, Monetary Policy and Research Directorate

3.2.2 Monetary Policy and Interest Rates

The Monetary Policy Committee (MPC) maintained an accommodative monetary policy stance throughout 2021 by keeping the central bank rate (CBR) at 4.5 percent to support economic recovery.

Money market rates were steered around the central bank rate as a result of effective monetary policy implementation. The interbank rate dropped by 17 basis points to 5.18 percent in 2021 from 5.35 percent in 2020. The repo and reverse repo rates were steered at the CBR since July 2020, in a bid to enhance the monetary policy transmission mechanism.

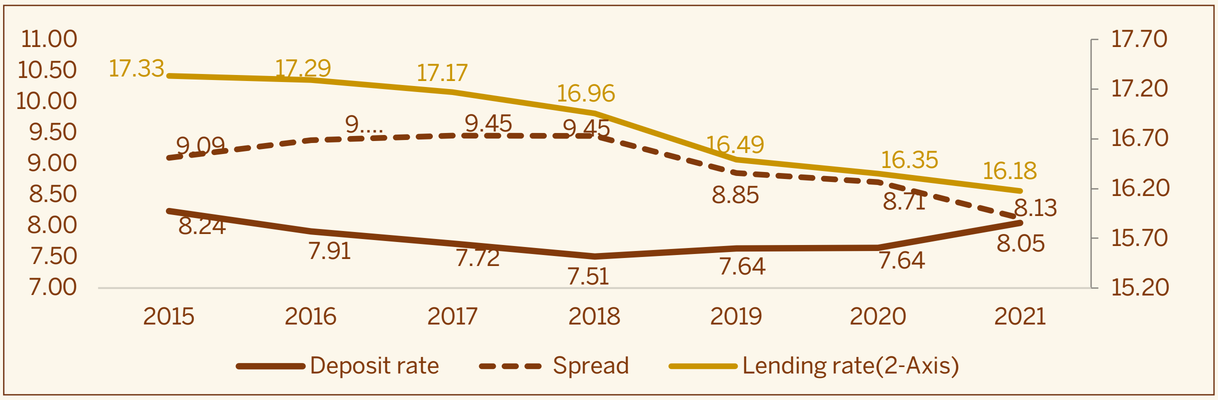
Figure 11: Money market rates developments (p.a)



Source: NBR, Monetary Policy and Research Directorate

Regarding market rates, the lending rate declined by 17 basis points, to 16.18 percent in 2021 from 16.35 percent in 2020, partially linked to the increase in low-priced long-term loans. During the same period, the deposit rate increased by 41 basis points, to 8.05 percent from 7.64 percent in 2020, mostly attributed to the rise in deposits by corporates. As a result, the spread between the lending rate and the deposit rate lessened by 58 basis points, to 8.13 percent in 2021 from 8.71 percent in 2020, which is beneficial for the clients of banks.

Figure 12: Market interest rates (p.a, average)



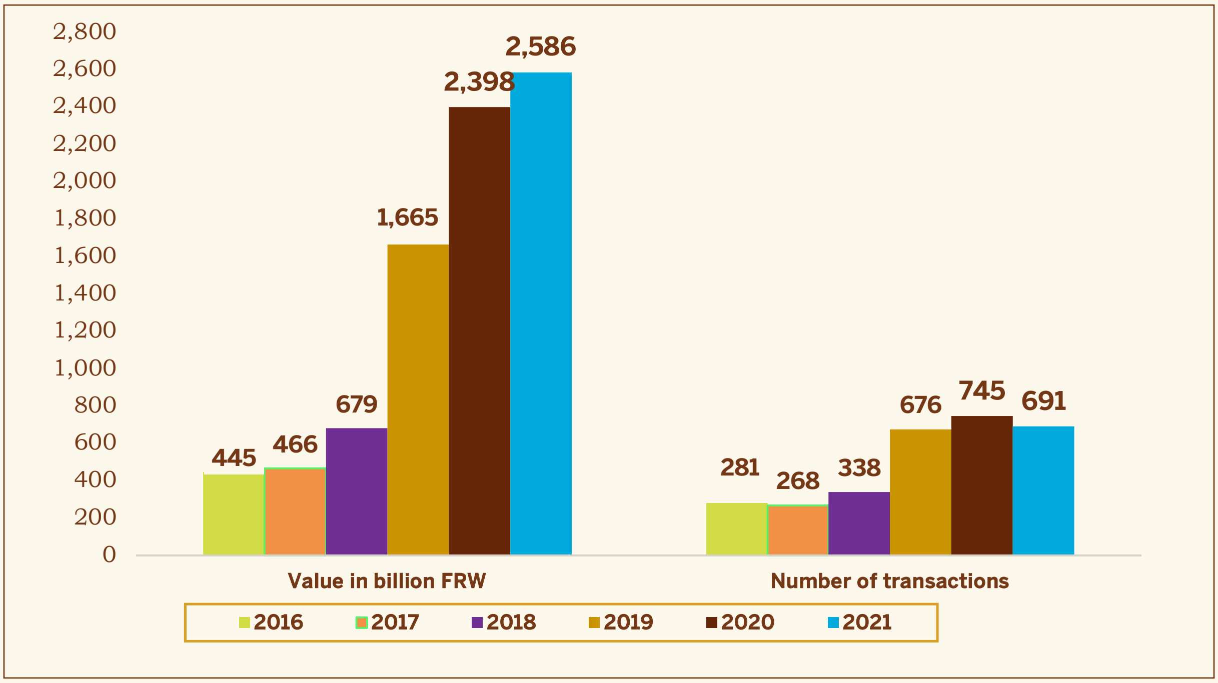
Source: NBR, Monetary Policy and Research Directorate

3.2.3 Interbank market development

The interbank market, which is an avenue where banks borrow from and lend to each other, enables banks to manage and redistribute their funds and risks, and thus perform financial intermediation more efficiently. Therefore, the interbank market plays a critical role in the domestic financial system by providing a liquidity price-discovery mechanism in the money market and being a channel of the monetary policy transmission.

The development of interbank market in 2021 compared to the previous year, was mixed but remained stable with upward trend in the amount exchanged. The number of transactions slightly decreased by 7.2 percent, to 691 from 745 transactions in 2020, but the amount exchanged increased by 7.8 percent, to FRW 2,586 Billion from FRW 2,398 Billion in 2020.

Figure 13: Development of interbank market (2016- 2021)



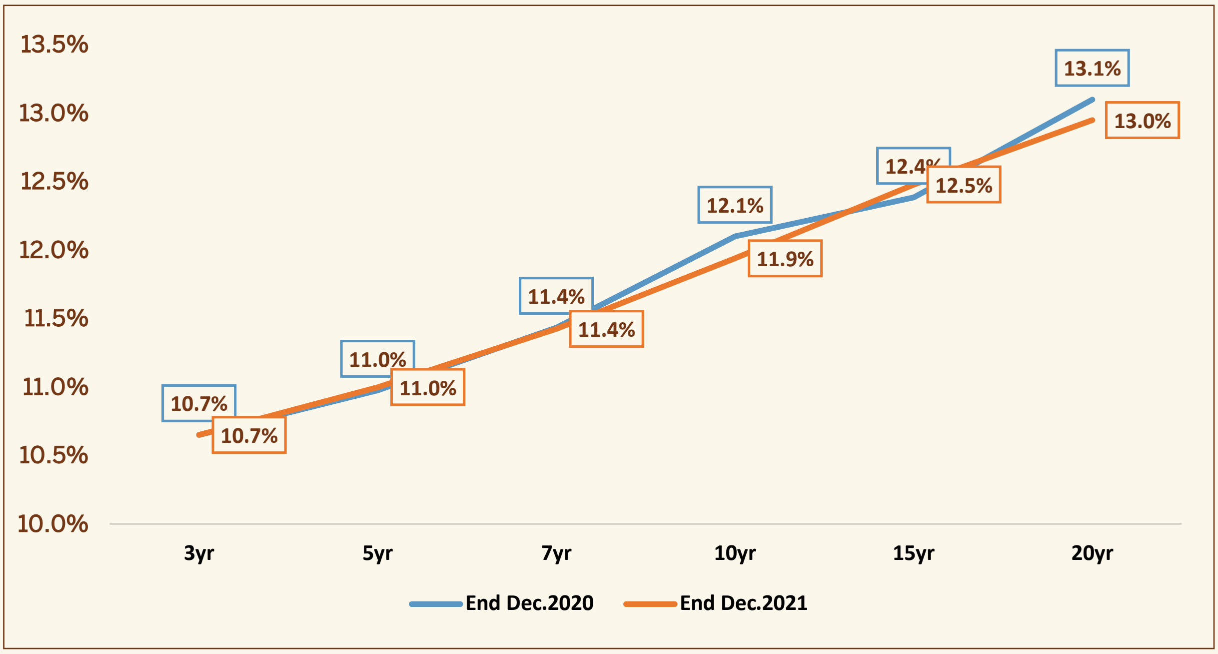
Source: NBR, Financial Markets Department

3.2.4 Bond primary market development

In 2021, the Government of Rwanda through the National Bank of Rwanda, successfully issued six new bonds and reopened eight bonds with an average subscription of 117.8 percent, from an average subscription of 155.0 percent in 2020. The relatively low appetite towards investments in Government bonds reflected alternative investment opportunities arising from the recovery in economic activities.

On bond yields, the trend has been stable with a marginal decrease at the long end of the yield curve.

Figure 14: Yields of Treasury Bonds (p.a)

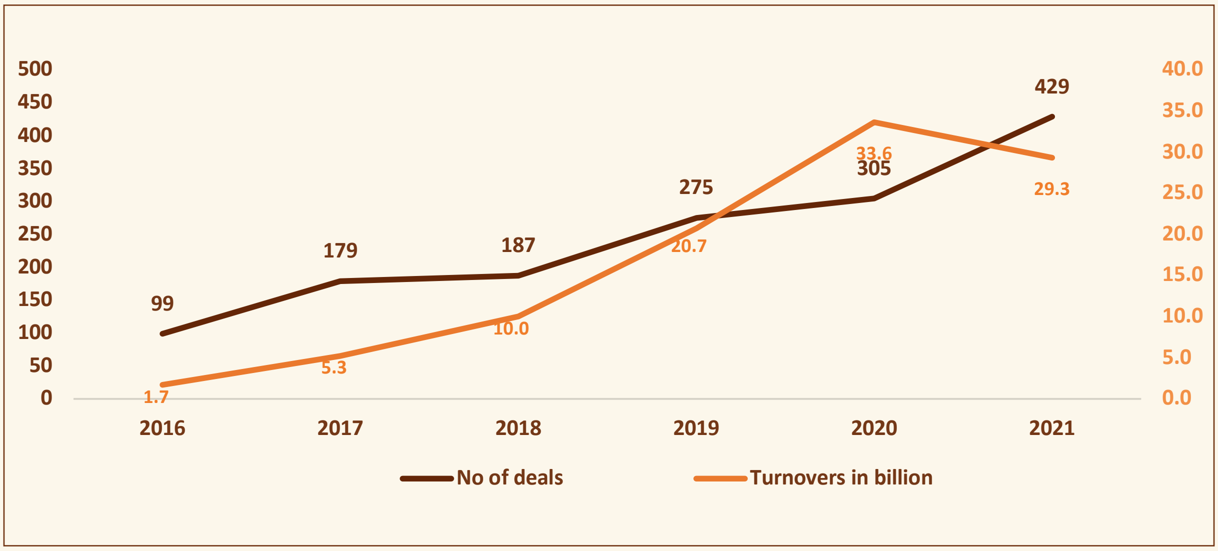


Source: NBR, Financial Markets Department

3.2.5 Bond secondary market development

On the secondary bond market, the number of deals increased by 18.4 percent, to 429 in 2021 compared to the year 2020. However, Treasury bond turnovers reduced by 12.8 percent, to FRW 29.3 billion in the same period. This decline of bond turnovers on the secondary market resulted from a slowdown in investments in Government bonds due to improving economic activities that availed alternative investment opportunities to investors.

Figure 15: Bond trading on the Rwanda Stock Exchange 2016 – 2021



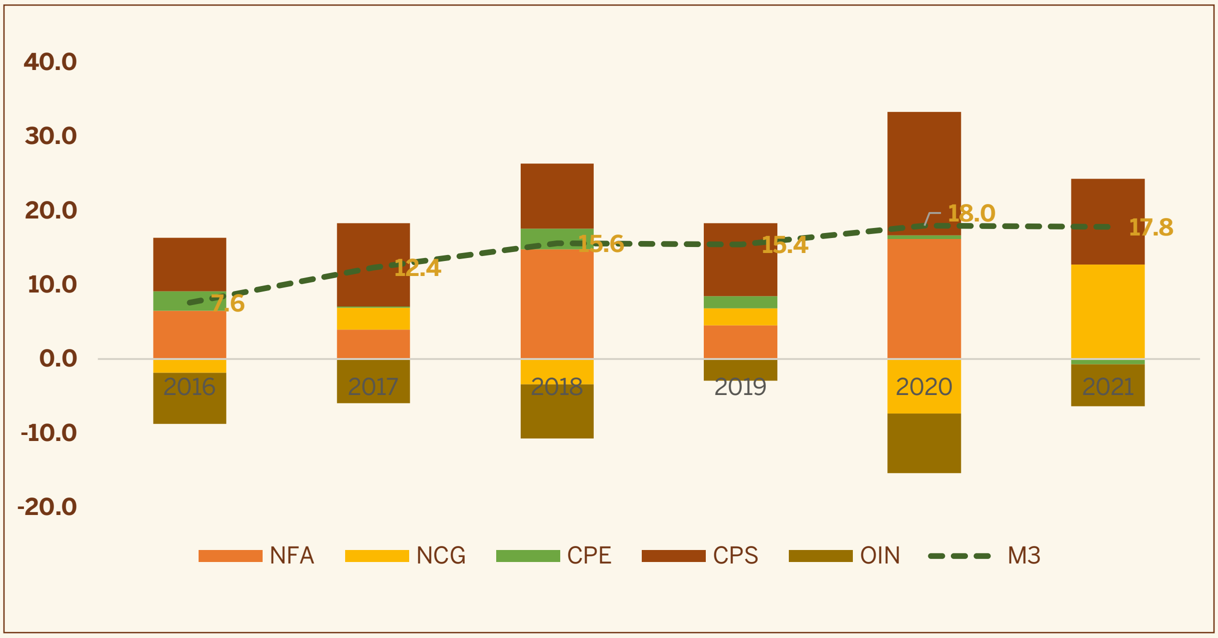
Source: Rwanda Stock Exchange

3.2.6 Money supply

In 2021, Broad money (M3) grew by 17.8 percent compared to 18.0 percent recorded the year before. Net Credit to Government (NCG) was the main contributor [+717.5 percent] to that growth in M3, followed by Credit to the Private Sector (CPS) [+14.7 percent]. By contrast, Net Foreign Assets (NFA), Credit to Public Enterprises (CPE) and Other Items Net (OIN) recorded negative contributions.

The expansion in outstanding credit to the private sector was essentially driven by new authorized credit distributed in 2021.

Figure 16: Contributors to M3 growth on the asset side (percent, Y-o-Y)



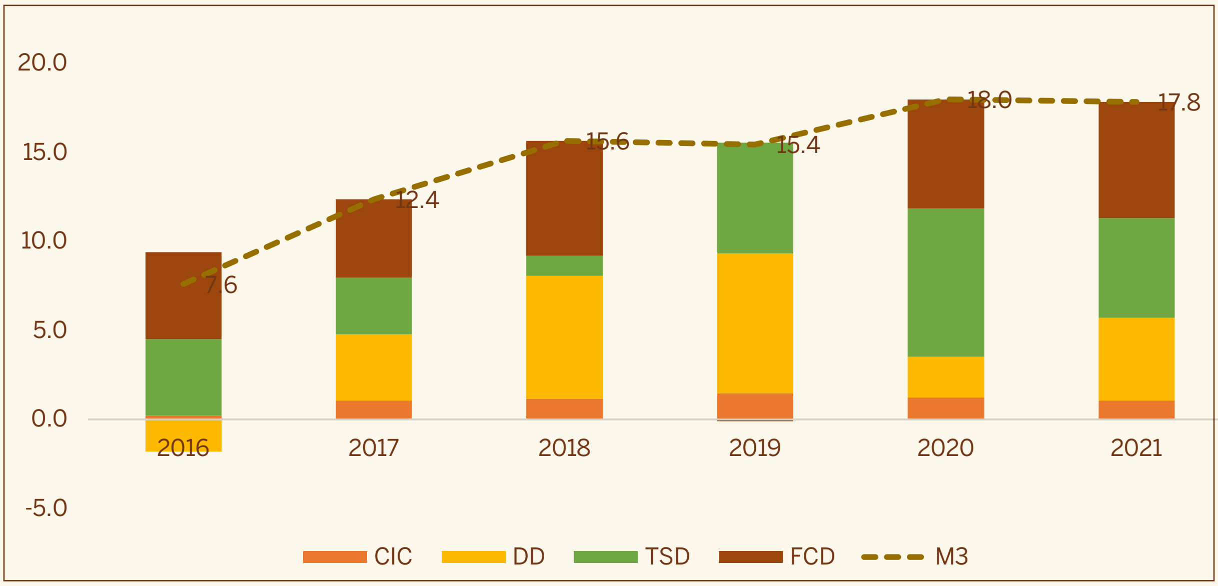
Source: NBR, Monetary Policy and Research Department

From the liability side, foreign currency deposits have been the main contributors to M3 growth with a contribution of 6.5 percent in 2021, followed by time & saving deposits with 5.6 percent, demand deposits with 4.7 percent, and Currency in Circulation (CIC) with 1.1 percent.

A low contribution of currency in circulation is observed over the period under review, owing to the expansion of the banking industry across the country and the development of Microfinance institutions. Besides, the improved technology in the operations of banks and MFIs (pull and push operations using mobile phones between economic agents and their banks or MFIs) is another channel through which cashless transactions are increasing in the economy.

The increased use of digital payments since the outbreak of COVID-19 also explains the low contribution of currency in circulation in the year 2020.

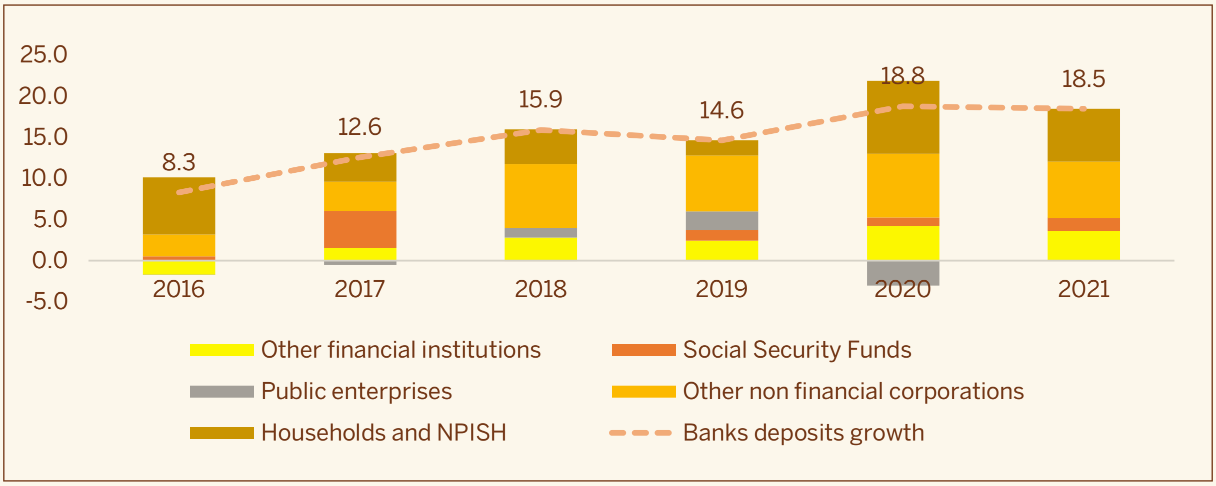
Figure 17: Contributors to M3 growth on liability side (percent, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

Banks' deposits constitute the main component of M3. They picked up by 18.5 percent in 2021, from 18.8 percent in the previous year. The major contribution to that growth was from other non-financial corporations which contributed 6.9 percent from 7.8 percent of the previous year, followed by households and non-profit institutions serving households with 6.4 percent from 8.8 percent, other financial institutions with a contribution of 3.6 percent versus 4.2 percent, and social security fund with 1.5 percent versus 1.0 percent.

Figure 18: Contributions of depositors in the growth of deposits (percent, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

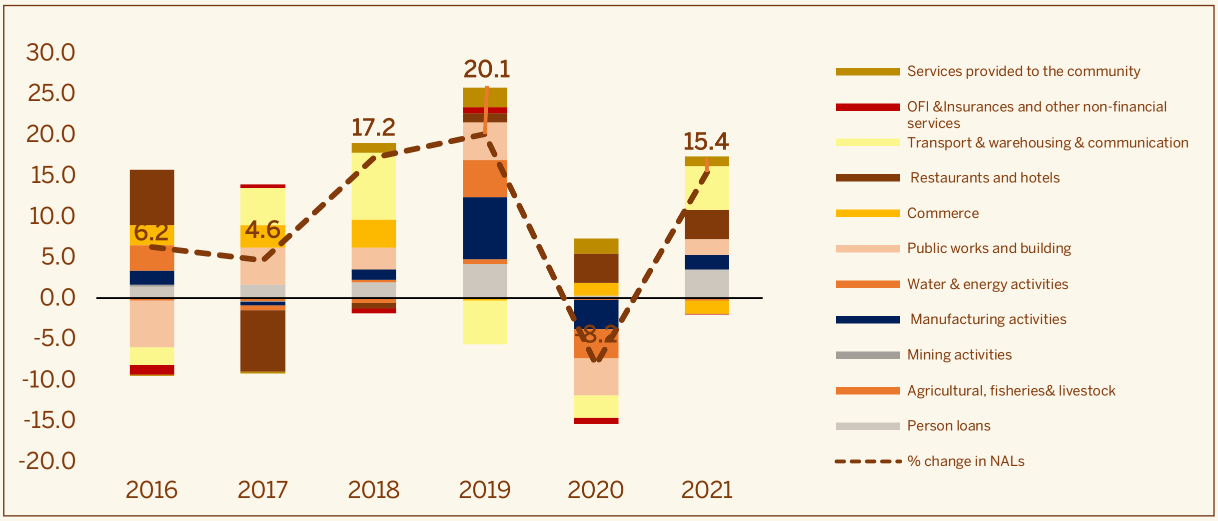
3.2.7 Credit

The outstanding credit to the private sector increased by 14.7 percent in 2021 compared to 21.8 percent growth in 2020, driven by the rise in new disbursed loans.

New Authorized loans (NALs) picked up in 2021 due to improving economic outlook compared to the previous year and continuous economic recovery measures. In 2021, NALs grew by 15.4 percent compared with a contraction of 8.2 percent registered in 2020. The top four sectors that were financed in 2021 are commerce, which was granted 25.7 percent of the total NALs, public works & buildings (21.6 percent), personal loans (15.2 percent), and Manufacturing activities (9.8 percent). These four sectors remain the most financed for the last five years.

The increase in NALs was in line with the rise in loan demand in both value and volume, induced by the relaxation in the Covid-19 related restrictions and improving economic outlook that followed the successful vaccination program. According to the latest credit survey, loan demand in 2021 increased by 14.5 percent in value compared with 10.5 percent contraction recorded in 2020, whereas it rose by 18.2 percent in terms of number of applications, against 4.3 percent increase recorded in 2020

Figure 19: Contributions of Sectors to the Change in New Authorized Loans (%, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

The 15.4 percent increase of NALs in 2021 was as well a result of big loans granted to large Corporates especially in two sectors namely, Restaurants & hotels and Transport, warehousing & communication.

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section describes foreign exchange rate and exchange market developments for the year 2021. Compared to the previous year, Rwanda's Franc continued depreciating against the USD but at a slightly lower pace of 3.8 percent in 2021 from 5.4 percent in 2020, reflecting a smoother recovery in domestic economy and increasing foreign currency inflows.

4.1 EXCHANGE RATE DEVELOPMENTS

In tandem with the country's recovery path, the Rwandan franc's depreciation in 2021 was lower than that of the year 2020. In 2021, the Rwandan franc depreciated by 3.8 percent against the USD, compared to a depreciation of 5.4 percent in 2020. This slowdown resulted from the improved export sector caused by the resumption of informal cross border trade, higher remittance inflows, as well as rising international prices for traditional exports among others, despite persistently higher imports of capital and intermediate goods and still high Covid-19 related spending.

The franc also depreciated against the British Pound by 2.9 percent end December 2021 slower than 9.4 percent depreciation recorded end December 2020. It however appreciated against the Euro and Japanese Yen by 4.4 percent and 7.0 percent compared to previous depreciation of 15.7 and 11.4 percent respectively.

Regarding regional currencies, the Rwandan franc depreciated at a slower rate in 2021 compared to 2020. In 2021, it fell by 0.2 percent, 4.8 percent, 6.9 percent and 1.0 percent against the Kenyan Shilling, Tanzanian Shilling, Ugandan Shilling and Burundian Franc respectively.

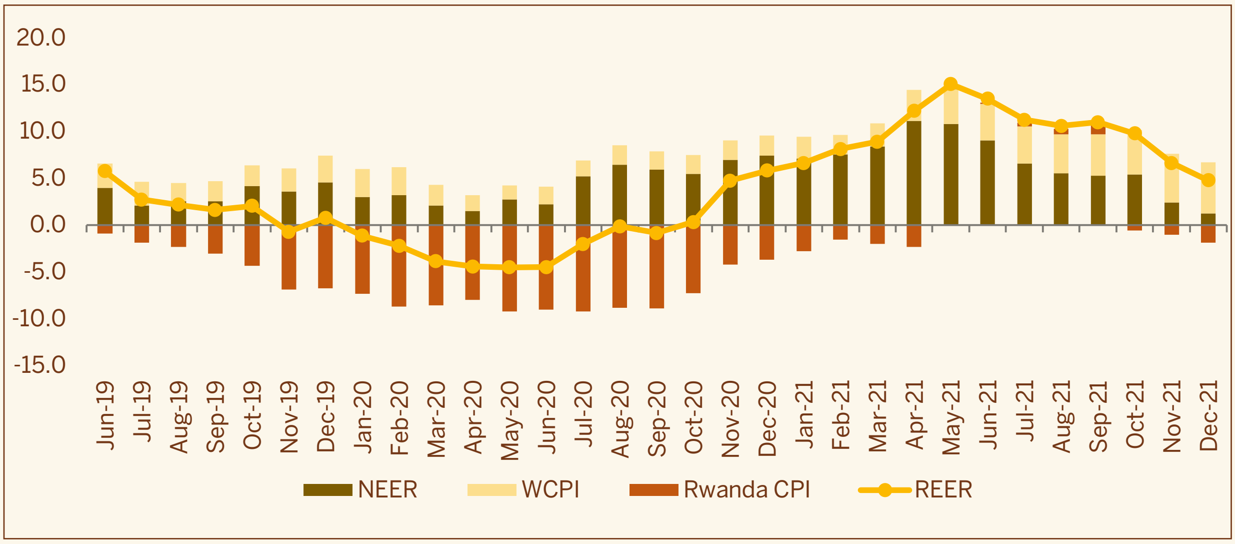
Table 17: FRW Exchange rate (in percent change compared to Dec. previous year)

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

Source: NBR, Monetary Policy Department

Compared to a basket of its main trading partners' currencies, Rwanda's REER depreciated by 4.8 percent in December 2021, slower than a depreciation of 5.8 percent recorded in December 2020. The main contributors to this slowdown were, the subdued domestic inflation (1.9 percent compared to 3.7 percent) and a slower NEER depreciation of the franc (1.3 percent down from 7.4 percent) amid higher weighted foreign inflation (+5.4 percent compared to 2.2 percent)[3].

Figure 20: Drivers of REER movement



Source: BNR, Monetary Policy Department

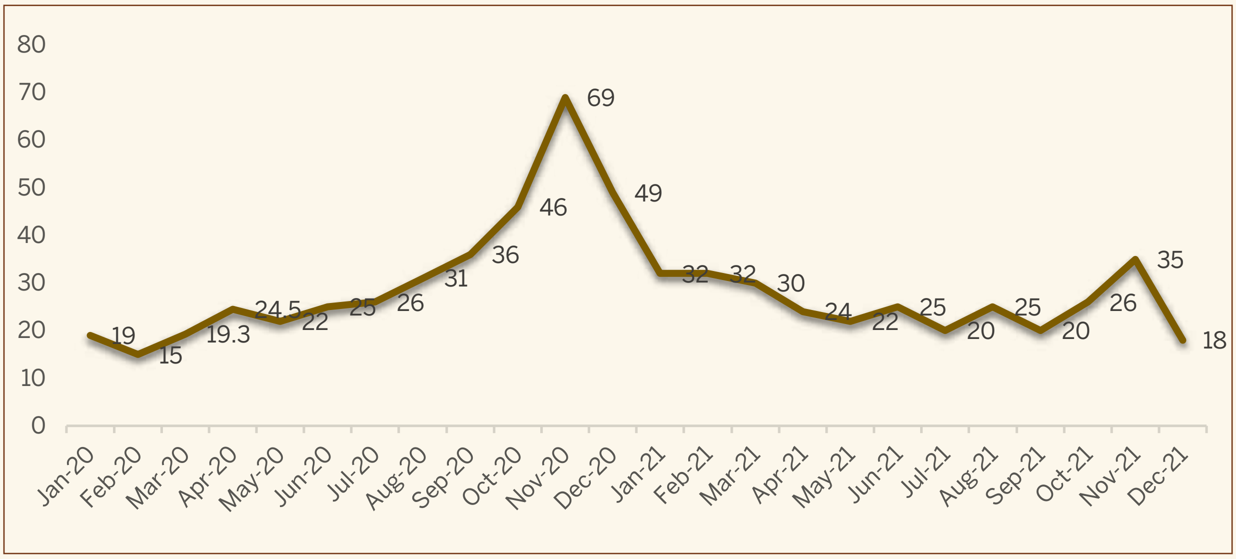
[3] End of period inflation numbers

4.2 FOREIGN EXCHANGE MARKET DEVELOPMENTS

As at end December 2021, commercial banks' net foreign assets stood at FRW 47.3 Billion, a decline of 51.3 percent compared to December 2020. This slowdown reflected increased external loan repayments and maturing foreign deposits that were not renewed amid a subdued growth in foreign assets. Overall, foreign liabilities increased by 22.9 percent to, FRW 295.2 billion while foreign assets rose by 1.5 percent, to FRW 342.5 billion.

In line with a smoother recovery of the economic activities and of export sector earnings, the NBR's forex sales to banks in 2021 declined by 19.1 percent to, USD 309 million. In 2020, NBR sales to banks had increased by 35.2 percent due to the resumption of economic activities after a series of lockdowns and high demand for foreign exchange.

Figure 21: NBR forex sales to banks (in million USD)



Source: NBR, Monetary Policy Department

V. STABILITY OF THE FINANCIAL SYSTEM

5.1 INTRODUCTION

The financial sector continued to grow in 2021 on the back of strong economic recovery. Gross domestic product (GDP) increased by 10.9 percent in 2021 from a contraction of 3.4 percent in 2020. This growth was supported by the accommodative monetary policy with the Central Bank maintaining a Central Bank Rate (CBR) of 4.5 percent since April 2020. Government fiscal spending on COVID-19 related issues as well as to support the economy also contributed to this recovery. Growth in the financial sector is expected to continue in 2022 and beyond, in line with continuous economic recovery.

Total assets of the financial sector expanded by 19.0 percent to FRW 7,531 billion in December 2021, higher than the 14.3 percent average growth registered over the 5 year prior to the pandemic. Financial sector assets now stand at 68.8 percent of Gross Domestic Product (GDP).

As the economic recovery is on track, the risks to financial stability from repayment difficulties of borrowers have generally eased. Clients who benefitted from credit relief measures have resumed repayments. As at end December 2021, outstanding loans in moratorium accounted 2.8 percent of total loans down from 5.3 percent in September 2021, 7.9 percent in June 2021, 11.8 percent in March 2021 and 23.5 percent in December 2020. However, vulnerabilities remain as financial stress persists for some borrowers, particularly those whose incomes have not recovered to pre-pandemic levels and as a result struggle to make loan repayments.

Despite the apparent vulnerabilities, the financial sector remains stable and resilient to the pandemic. Regulated financial institutions continue to hold enough capital to absorb any losses and their liquidity position remains healthy. In reflection of sound financial sector, the financial institutions continue to play their role without any major interruptions and remain catalyst in containing the negative impact of the COVID-19 pandemic on the overall economic recovery. The sections that follow underscore the performance and stability of the financial sector in 2021, highlights the regulatory instruments gazetted to further strengthen the stability of the financial sector and provides the outlook of the financial sector stability in medium term.

5.2 STRUCTURE OF THE FINANCIAL SECTOR

The National Bank of Rwanda is a consolidated financial sector regulator – regulating and supervising Banks, Insurers, Microfinance Institutions, Pension Funds, Forex Bureaus, Payment systems and related Payment Service Providers, Credit Information Systems, Non Deposit Taking Credit Only Financial institutions and any other companies that provide financial services to the public but are not regulated by any other entity. Regulation and supervision of the sector aims at mitigating and containing risks that may disrupt the performance of the financial system and ultimately, the real economy.

The sector is currently composed of 611 institutions regulated by the NBR, including 16 banks (of which 11 are commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank); 15 insurance companies (of which 11 non-life insurers, 3 life insurers and 1 micro insurance company); 457 microfinance institutions (of which 416 are Umurenge SACCOs; 19 public limited companies and; 22 other SACCOs); 13 pension schemes (of which 1 is the public pension fund and 12 private pension schemes), 14 registered non deposit lending-only institutions and 1 credit reference bureau.

The NBR is also mandated to regulate forex dealers and the entire payment systems including the payment service providers. As at December 2021, the licensed forex dealers were 80 including 3 remittance companies that offer forex services, while the payment services providers were 15. Payment services providers include 6 remittance companies (of which 3 provide both forex and money transfer services), 4 payment initiation services providers, 4 e-money issuers and 1 payment systems operator.

The financial sector remains highly concentrated as Banks account for about 67.2 percent of total financial sector assets while Non-Bank Financial Institutions (NBFIs) constitute 32.8 percent of total assets of the financial sector. The pension sector accounted for about 17.4 percent of total assets of the financial sector, Insurance 9.3 percent and Microfinance Institutions (MFIs) 5.6 percent. Other NBFIs that include Forex bureaus, payment services providers and non-deposit taking lending only institutions remain relatively small and accounted for about 0.5 percent of the total assets of the financial sector.

Table 18: Structure of the Financial Sector

Regulated Financial Institutions	December 2020			December 2021		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Banks	**16**	**4,311**	**68.0%**	**16**	**5,064**	**67.2%**
Commercial Banks	11	3,545	55.9%	11	4,176	55.5%
Microfinance Banks	3	69	1.1%	3	70	0.9%
Development Banks	1	286	4.5%	1	315	4.2%
Cooperative Banks	1	411	6.5%	1	503	6.7%
Pension Schemes	**13**	**1,046**	**16.5%**	**13**	**1,313**	**17.4%**
Public	1	986	15.6%	1	1,237	16.4%
Private	12	60	0.9%	12	76	1.0%
Insurers	**15**	**593**	**9.3%**	**15**	**701**	**9.3%**
Life	3	59	0.9%	3	67	0.9%
Non-Life	11	533	8.4%	11	632	8.4%
Micro insurer	1	1	0.0%	1	2	0.0%
Microfinances	**457**	**357**	**5.6%**	**457**	**421**	**5.6%**
U-SACCOs	416	144	**2.3%**	416	163	**2.2%**
Other SACCOs	22	106	**1.7%**	22	134	**1.8%**
Limited Companies	19	107	**1.7%**	19	125	**1.7%**
Foreign Currency Dealers	**80**	**8**	**0.1%**	**80**	**8**	**0.1%**
Forex Bureau	80	8	**0.1%**	80	8	**0.1%**
Payment Services Providers (PSPs)	**15**	**-**	**-**	**15**	**-**	**-**
Money Transfer & Remittance Companies	7	-	-	6	-	-
Payment Initiation Services Providers	3	-	-	4	-	-
E-Money Issuers	4	-	-	4	-	-
Payment Systems Operators	1	-	-	1	-	-
Lending only Institutions	**7**	**23**	**0.4%**	**14**	**24**	**0.4%**
Credit Reference Bureaus	**1**	**-**	**-**	**1**	**-**	**-**
Grand Total	604	6,337	100.0%	611	7,531	100.0%

Source: NBR, Financial Stability Directorate

5.3. BANKING SECTOR

5.3.1. Structure of the Banking Sector

The structure of the banking sector has remained unchanged during the period under review. The sector is comprised of 16 banks (of which 11 are commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank). Foreign owned banks that are subsidiaries of mainly pan-African banking groups, held 46.7 percent of total banking sector assets. As at December 2021, the largest 3 banks accounted for 49.9 percent of total assets of the banking sector compared to 49.0 percent as at end December 2020.

The banking sector remains the largest component of the financial sector accounting for about 67.2 percent of total financial sector assets. Because of its size and interconnectedness with the other subsectors, the health of the banking sector underpins the overall soundness of the financial sector.

5.3.2. Performance of the Banking Sector

The banking sector continued to grow during the period under review. Total assets expanded by 17.5 percent to FRW 5,064 billion, albeit lower than the growth of 24.0 percent registered in December 2020. The growth of assets of banks was mainly driven by deposit mobilization and expansion of capital base. Deposits increased by 16.6 percent to FRW 3,087 as at end December 2021 against the growth of 21.2 percent as at end December 2020. During the same period, shareholders' funds increased by 18.9 percent to FRW 849 billion from FRW 714 billion, higher than the growth of 15.2 percent growth registered during the previous year. The growth of shareholders' funds is associated with capital injections and increased retained earnings consistent with the growth of profits.

Financial intermediation remains the main business of banks. During the year to ended December 2021, net loans accounted for 53.6 percent of total assets of banks (against 55.3 percent in December 2020). Government securities are other key earning assets of banks accounting about 18.8 percent (against 18.1 percent in December 2020).

Table 19: Balance Sheet of the Banking sector

Assets (FRW Billion)	Dec-2019	Dec-2020	Dec-2021	% Change 19/20	% Change 20/21
Cash and Bank Balances	697.8	885.2	1,077.9	26.9	21.8
Government Securities	542.9	779.1	954.3	43.5	22.5
Net Loans	1,995.2	2,383.4	2,714.0	19.5	13.9
Fixed Assets	166.7	173.3	173.1	3.9	-0.1
Other Assets	73.7	89.3	144.6	21.1	62.0
Total Assets	**3,476.3**	**4,310.3**	**5,063.9**	**24.0**	**17.5**
Liabilities (FRW Billion)	**Dec-2019**	**Dec-2020**	**Dec-2021**	**% Change 19/20**	**% Change 20/21**
Due to Other Domestic FIs	445.4	729.3	792.4	63.7	8.7
Due to FIs Abroad	68.5	26.7	62.3	-61.0	132.9
Customer Deposits	2,184.2	2,647.3	3,087.3	21.2	16.6
Other Liabilities	158.3	192.9	272.8	21.9	41.4
Capital (FRW Billion)	**Dec-2019**	**Dec-2020**	**Dec-2021**	**% Change 19/20**	**% Change 20/21**
Total Shareholders Fund	619.9	714.1	849.2	15.2	18.9
Paid up Capital	312.6	364.1	402.6	16.5	10.6
Reserves	90.5	121.1	145.0	33.9	19.7
Total Liabilities and Equity	**3,476.3**	**4,310.3**	**5,063.9**	**24.0**	**17.5**

Source: NBR, Financial Stability Directorate.

The growth of outstanding loans moderated despite the pick up of new loans. As at end December 2021, the outstanding loans in banks increased by 15 percent to FRW 2,903 billion from FRW 2,525 in December 2020, lower than the growth of 21.2 percent registered in December 2020. The moderation of the growth of loans is largely linked to loans written off by banks that increased to FRW 75 billion in 2021 from FRW 22 billion[4] in 2020. The regulation on credit classification and provisioning requires banks to write off loans that are overdue for more than two years in order to ensure adequate provisioning and assurance that the bank holds sufficient capital vis a vis its low quality assets. In 2020, the NBR provided a 12 months' waiver for write off of long outstanding NPLs considering the difficulties in collateral realisation process in the midst of a pandemic. This waiver expired in June 2021.

New lending has however bounced back owing to rebound of economic activities that created investment opportunities and prompted more credit demand, especially in the corporate sector. In 2021, new loans grew by 15.4 percent to FRW 1,230 billion, against a decline of 8.2 percent in 2020. Loan applications in value increased by 14.5 percent to FRW 1,528 billion in 2021 from FRW 1,334 billion 2020, against a contraction of 10.5 percent in 2020. During the same period, loan applications in volume (the number of loan applications) increased by 18.2 percent to 546,286 from 461,943, higher than the growth of 4.3 percent registered during the previous year.

Credit exposures to pandemic sensitive sectors is amongst the risks facing the banking sector. Combined credit to trade, commercial real estate, hotels and the transport sectors accounted for 46.2 percent of total loan portfolio of the banking sector as at end December 2021, up from 42.7 percent in December 2020. Global supply chain disruptions and travel-phobia continue to pose risks to this portfolio. Turnaround of economic activities, especially economic prospects for these top financed sectors remains critical for the stability of the banking sector. The recent economic performance witnessed during the course of 2021 offers optimism in this regard. In 2021, real output in transport, trade, and hotel sectors grew by 14.6 percent, 11.7 percent, 20.4 percent respectively against a contraction of 23.7 percent, 3.3 percent and

[4] This amount was adjusted after audited financial statement of banks from the FRW 0.6 billion reported for December 2020 in the February 2021 MPFSS.

40.6 percent in 2020. In real estate sector, output grew by 4.1 percent in 2021 compared to the growth of 0.3 percent in 2020. This trend is expected to continue in 2022 owing to accommodative macroeconomic policies, increased vaccine roll out and accompanying opening up and recovery of the economic activities that will boost income and payment ability of clients of banks.

Table 20: Banks' Outstanding Loans by Sector

Activity Sector	Loans (FRW Billion)			Annual Change	
	Dec-19	Dec-20	Dec-21	% change 19/20	% change 20/21
Consumer Loans	258.5	302.1	244.0	16.9	-19.2
Agricultural & Livestock	24.1	24.4	29.6	1.2	21.2
Mining	2.7	3.8	0.6	40.7	-83.8
Manufacturing	223.5	293.8	307.5	31.5	4.6
Water & Energy	83.3	109.6	118.6	31.6	8.2
Mortgage	694.4	820.8	958.6	18.2	16.8
Public Works	*129.3*	*203.1*	*225.2*	*57.1*	*10.9*
Residential Properties	*312.2*	*375.7*	*472.4*	*20.3*	*25.7*
Commercial Properties	*252.9*	*242.0*	*260.9*	*-4.3*	*7.8*
Trade	319.4	366.8	431.8	14.8	17.7
Hotels	143.3	211.1	318.0	47.3	50.7
Transport & Communication	255.5	257.8	323.2	0.9	25.4
Financial Services	22.6	32.0	9.1	41.6	-71.6
Other Services	56.7	102.5	161.9	80.8	58.0

Source: NBR, Financial Stability Directorate

5.3.3. Soundness of the Banking Sector

Banks continue to hold sufficient capital to absorb losses and support intermediation activities. Banks are required to operate with a minimum Tier 1 ratio of 10 percent and a total capital ratio of 12.5 percent at all times. In addition, banks are expected to hold a capital conservation buffer of 2.5 percent to ensure they maintain additional high quality capital to absorb losses during a period of stress. As at end December 2021, the banking sector aggregate Tier 1 Capital Adequacy Ratio (CAR) and total CAR stood at 20.5 percent and 21.5 percent respectively, higher than 12.5 percent and 15 percent minimum prudential requirements and all banks continue to maintain capital buffers in excess of these minimum requirements. Maintenance of capital buffers above the regulatory minimum increases bank resilience to potential losses. Furthermore, the paid up capital increased by FRW 38.5 billion to FRW 402.6 billion in December 2021 from FRW 354.1 billion in December 2020, therefore enabling banks to expand their businesses.

Risks related to excessive leverage remain low as banks continue to comply with the leverage requirement. Leverage ratio is a regulatory tool which is used to check the capital sufficiency of banks independently of risk-weighted assets. It compliments minimum capital adequacy requirements and places limits on banks from taking excessive balance sheet leverage. Despite having capital adequacy ratios above the regulatory requirements, banks can build up excessive balance sheet leverage that increase vulnerabilities to episodes of market panic, amplify the transmission of risks from the financial sector to the real economy and cause damage to the financial sector and economy in general. To cushion this risk, banks are required to maintain at least a minimum leverage of 6 percent. As at end December 2021, the industry wide leverage ratio stood at 13.8 percent in December 2021 and all banks comply with the leverage ratio requirement.

The liquidity conditions remained stable supported by the implemented policy measures, increased investment in high quality liquid assets and improving economic conditions that enabled borrowers whose loans were restructured to resume payments. The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the key liquidity indicators of banks, stood at 269 percent and 147 percent respectively against the 100 percent minimum requirements.

Banks remain less connected to global financial markets and are not vulnerable to changing financial market conditions. Banking sector activities are predominantly financed by domestic funding sources and therefore less vulnerable to perceived changes in global financial markets conditions. For example, as at end December 2021, customer deposits represented 61 percent of banking sector total assets of which deposits of residents constituted about 99.1 percent of total deposits. In addition, borrowings from other financial institutions in Rwanda represented about 16.9 percent of banking sector total assets. Such a funding profile insulates the banking sector from liquidity stress arising from disruptions in the global financial markets.

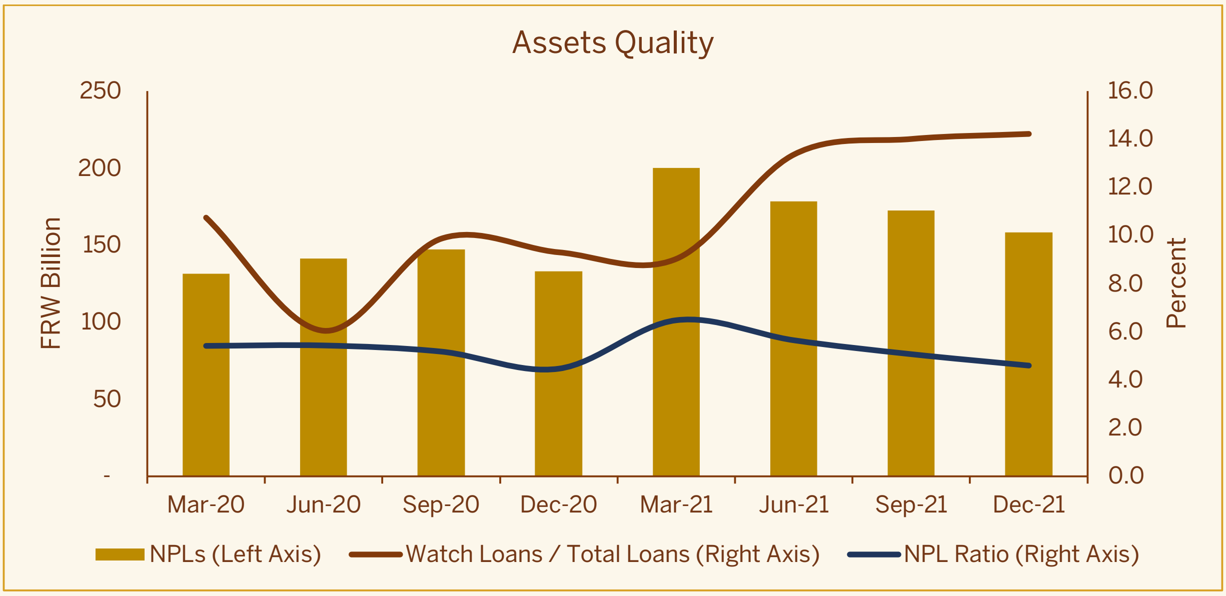
The liquidity risks posed by borrower repayment difficulties have eased. Borrowers who obtained credit repayment relief measures have resumed payments as the economy continues to pick up. As at end December 2021, outstanding loans in moratorium accounted for only 2.8 percent of total loans down from 5.3 percent in September 2021, 7.9 percent in June 2021, 11.8 percent in March 2021 and 23.5 percent in December 2020.

However, vulnerabilities remain as financial stress persists for some borrowers, particularly those whose earnings have not recovered to pre-pandemic levels. As at end December 2021, the outstanding Non-Performing Loans (NPLs) amount increased by 19 percent Y-o-Y to FRW 158 billion from FRW 133 billion in December 2020. The non-performing loans ratio stood at 4.6 percent in December 2021 comparable to the 4.5 percent recorded in December 2020 and reflecting the higher growth of gross loans relative to the growth of NPLs as well as the significant write off of overdue loans. In 2021, banks wrote off loans amounting to FRW 75 billion compared to FRW 22 billion in 2020. Asset quality deteriorated in sectors that were hardest hit by the pandemic, notably commercial real estate, trade, hotels and transport (Table 21). The assets quality also deteriorated in agriculture, public works and for consumer loans, but this deterioration was not broad based as it linked to large borrowers who defaulted, therefore affecting the overall performance of the sector.

Furthermore, loans in watch category (loans whose repayment is late by 30 to 90 days) increased by 77 percent to FRW 489 billion in December 2021 (14.2 percent of total loans) from FRW 277 billion in December 2020 (9.3 percent of total loans). The increase of loans in watch category mirrors the NBR directive instructing banks to classify loans in moratorium under watch category.

With increased credit risk outlook, banks remain prudent and continued to increase provisions for bad debts in anticipation of increased future losses. During the period under review, provisions increased by 34 percent to FRW 189.5 billion in December 2021 from FRW 141.3 billion in December 2020. Subsequently, the provisioning coverage ratio increased to 119.8 percent in December 2021 from 106.3 percent in December 2020.

Figure 22: Asset Quality of Banks



Source: NBR, Financial Stability Directorate

The credit relief measures, which had been in place for eighteen months from April 2020, expired in September 2021. The phasing out of the credit payment moratorium was made on the basis of economic recovery and aimed at preventing the forbearance to be in place for too long and causing moral hazard risks. The phasing out of the general payment moratorium is not causing a drastic surge in the non-performing loan portfolio and banks will continue to transition the customers who benefitted from credit relief back to regular loan payments. In fact, loans worth FRW 662.1 billion (88.9 percent) of loans that were restructured due to COVID-19 had resumed repayment as at end December 2021.

Table 21: NPL Ratio by Economic Sector (Percent)

Activity Sectors	NPL Ratio (Percent)				% share in total NPLs
	Dec-18	Dec-19	Dec-20	Dec-21	
Personal Loans	6.3	6.9	5.9	8.0	8.8
Agricultural & Livestock	6.6	4.4	3.3	8.0	1.1
Mining	1.3	78.0	70.7	0.6	0.0
Manufacturing	11.7	0.8	0.9	0.9	1.4
Water & Energy	1.3	-	0.0	0.0	0.0
Mortgage	3.7	4.3	4.6	10.0	46.5
Public works	*5.3*	*1.0*	*4.0*	*12.6*	*13.8*
Residential properties	*5.0*	*5.0*	*3.0*	*3.7*	*8.6*
Commercial properties	*1.6*	*5.1*	*7.5*	*19.1*	*24.2*
Trade	10.1	9.5	8.1	13.5	28.3
Hotels	9.9	2.8	4.5	5.3	8.2
Transport & Communication	4.9	1.2	1.2	2.2	3.5
Financial Services	4.1	0.7	5.9	3.4	0.1
Other Services	10.2	5.3	6.7	2.4	1.9

Source: NBR, Financial Stability Directorate

The banking sector remains profitable and profitability improved during the period under review. The aggregate net profits of banks increased by 53.6 percent to FRW 125.5 billion in 2021 from FRW 81.7 billion in 2020, higher than the growth of 8.0 percent during the previous year. As result, the Return on Assets (ROA) and the Return on Equity (ROE) increased to 2.5 percent and

15.0 percent from 2.0 percent and 11.8 percent, respectively. From the stability perspective, improved profitability enhances the resilience of banks through internally generated capital to buffer against shocks.

The improved profitability of banks is associated with increased investment in earning assets that induced higher growth of income relative to expenses. In 2021, total revenues of banks increased by 23.3 percent to FRW 663.1 billion from FRW 537.8 billion in 2020, against the growth of 11.3 percent registered in 2020. Interest income that constitutes 74.9 percent of total income of banks increased by 19.1 percent to FRW 496.5 billion in 2021, higher than the growth of 17.4 percent in 2020. The growth of interest income is linked to increase of earning assets of banks notably loans and Government securities. Similarly, the growth of non-interest income also improved during the period under review. Non-interest income grew by 37.6 percent to FRW 166.6 billion in 2020 from FRW 121.0 billion in 2020, against a decline of 5.7 percent in 2020. The improved growth of non-interest income reflects the rebound of economic activities that resulted in increased demand of banking services and products and recoveries from bad loans. Non-interest revenues are made of fees and commissions (37.9 percent), foreign exchange income (28.3 percent) and other income that are mainly recoveries from bad loans (33.8 percent).

Table 22: Income and Expenses Structure of Banks

Interest Structure (FRW Billion)	Dec-2019	Dec-2020	Dec-2021	% Change 19/20	% Change 20/21
Interest Income	354.9	416.7	496.5	17.4	19.1
Fees & Commissions	53.8	49.3	63.2	-8.3	28.2
Foreign Ex Income	23.3	31.7	47.1	36.2	48.5
Other Income	51.4	40.0	56.3	-22.1	40.7
Total Income	**483.4**	**537.8**	**663.1**	**11.3**	**23.3**
Expenses Structure (FRW Billion)	Dec-2019	Dec-2020	Dec-2021	% Change 19/20	% Change 20/21
Interest Expenses	105.6	121.4	136.0	15.0	12.1
Provisions for Bad Debts	67.8	83.7	102.3	23.6	22.2
Staff Costs	88.6	89.2	97.3	0.6	9.1
Transport and Depreciation	33.7	31.4	33.6	-6.9	7.1
Other Expenses	76.9	92.0	112.7	19.7	22.5
Total Expenses	**372.5**	**417.7**	**482.0**	**12.1**	**15.4**
Profits (FRW Billion)	Dec-2019	Dec-2020	Dec-2021	% Change 19/20	% Change 20/21
Profits before Tax	110.8	120.2	181.2	8.4	50.8
Profits after Tax	75.6	81.7	125.5	8.0	53.6

Source: NBR, Financial Stability Directorate

With regards to the expenses' structure, banks expenses grew by 15.4 percent to FRW 481.9 billion in 2021 from FRW 417.6 billion in 2020, compared to the growth of 12.1 percent in 2020. This increase mainly mirrors the increase of provisions for bad debts in line with increased credit risk and investment in digital banking platforms and IT systems. Provisions for bad debts increased by 22.3 percent to FRW 102.3 billion in 2021 from FRW 83.7 billion in 2020, while other expenses that mainly comprise of IT expenses increased by 22.5 percent to FRW 112.7 billion in 2021 from FRW 91.9 billion in 2020. Interest expenses that account for 28.2 percent of total expenses of banks increased by 12.1 percent to FRW 136.0 billion in 2021 from FRW 121.3 billion in 2020, lower than the growth of 15.0 percent in 2020. The moderation of growth of interest expenses mirrors the moderation of deposits and borrowings during the period under review.

Table 23: Key Financial Soundness Indicators for Banks (Percent)

Indicators	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total CAR (min 15 %)	21.4	25.5	24.1	21.5	21.5
Core Capital Tier 1 (min 12.5%)	20	23.8	22.6	20.3	20.6
Leverage Ratio (min 6%)	-	13.5	14.4	12.6	13.8
NPLs Ratio	7.6	6.4	4.9	4.5	4.6
Provisions / NPLs	46.7	68.2	81.5	106.3	119.8
Return on Average Assets	1.1	1.9	2.2	2.0	2.5
Return on Average Equity	6.2	11.2	12.5	11.8	15.0
LCR (min 100%)	-	299	215	254.7	268.9
NSFR (min 100%)	-	222	111	161.4	147.1
FX Exposure/Core Capital (± 20%)	-7.8	-5.6	-4.8	-4.4	-3.7

Source: NBR, Financial Stability Directorate

5.4. THE MICROFINANCE SECTOR

5.4.1. Structure of the Microfinance Sector

The size of the microfinance sector has remained relatively small compared to other financial intermediaries like banks, insurers and pension funds/schemes. Microfinance institutions (MFIs) account for 5.6 percent of total assets of the financial sector as at end December 2021, the same level as at December 2020. Despite its relatively small size in terms of assets and deposits, the microfinance sector continues to be a catalyst of financial inclusion and poverty alleviation in Rwanda. During the period under review, the number of account holders in MFIs increased to 4,860,105 in December 2021 (about 62 percent of Rwanda's adult population) from 4,369,706 in December 2020. In terms of number, the microfinance sector comprised of 457 licensed institutions, of which 416 Umurenge SACCOs (USACCOs), 22 non-Umurenge SACCOs and 19 Public Limited Companies (PLCs).

5.4.2. Performance of the Microfinance Sector

The balance sheet of MFIs continued to grow during the period under review. During the year ended December 2021, total assets of MFIs grew by 18.3 percent to FRW 421.4 billion, from FRW 356.0 billion in December 2020.The expansion of assets of MFIs mainly mirrors the increase of deposits and capital base. Deposits constitute 81.3 percent of total liabilities and their growth highly influences the growth of assets of MFIs. As at end December 2021, deposits in MFIs increased by 14.6 percent to FRW 220.1 billion from FRW 192.1 billion in December 2020, higher than the growth of 12.9 percent registered during the previous year. The growth of deposits is linked to improved economic performance, especially the agriculture sector that employs the majority of MFIs customers. Similarly, the total capital of MFIs increased by 17.7 percent to FRW 150.7 billion in December 2021 from FRW 128.0 billion in December 2020, up from the growth of 11.9 percent registered during the previous year. The growth of MFIs equity reflects capital injection (+ FRW 7.9 billion) and increased profits (+ FRW 7.8 billion) during the period under review.

Lending remains the main business of MFIs and continues to improve in line with the rebound of economic activities and improved asset quality. Outstanding loans in MFIs increased by 16.2 percent to FRW 235.2 billion in December 2021 from FRW 202.4 billion in December 2020, up from the growth of 10.3 percent in December 2020. The growth of loans in microfinance sector was more apparent in UMURENGE SACCOs (U-SACCOs) and Public Limited Companies (PLCs). Outstanding loans in U-SACCOs increased by 22.5 percent as at end December 2021 higher than the growth of 5.9 percent in December 2020. Lending appetite for U-SACCOS has increased in line with improved asset quality and economic prospects. During the same period, outstanding loans in PLCs increased by 16.4 percent, higher than the growth of 9.5 percent as at December 2020. In Other SACCOs, outstanding loans increased by 11.6 percent lower than the growth of 14.2 percent as at end December 2020. The moderation of the growth of loans in other SACCOs is mainly associated with subdued credit demand in this category of MFIs. Lending is expected to continue growing in line with projected economic prospects, improved assets quality and strong liquidity buffers that MFIs hold.

5.4.3. Soundness of the Microfinance Sector

The microfinance sector continues to be adequately capitalized and liquid. As at end December 2021, the aggregate CAR of MFIs stood at 35.8 percent against the 15 percent minimum regulatory requirement. The CAR of U-SACCOs stood at 36.1 percent as at end December 2021, while the CAR for PLCs and other SACCOs stood at 26.6 percent and 43.9 percent respectively.

Similarly, the liquidity position of MFIs also remains healthy. The industrywide liquidity ratio of MFIs stood at 112.3 percent, against 30 percent minimum prudential requirement. The soundness of the microfinance sector generally reflects the growth of capital base in line with capital injection, increased earning and improved asset quality.

Asset quality of MFIs improved owing to the rebound of economic activities. The NPLs in MFIs dropped by FRW 2.3 billion to FRW 11.3 billion as at end December 2021 from FRW 13.6 billion as at end December 2020. Subsequently, the NPL ratio reduced to 4.8 percent as at end December 2021 from 6.7 percent as at end December 2020. The reduction of NPL ratio also mirrors the improved growth of outstanding loans. Asset quality improved in all categories of MFIs. In U-SACCOs, outstanding NPLs dropped to FRW 6.2 billion in December 2021 from FRW 6.8 billion in December 2020. During the same period, outstanding NPLs reduced to FRW 2.4 billion from FRW 2.8 billion in PLCs, and to FRW 2.6 billion from FRW 3.9 billion in other SACCOs. Accordingly, the NPL ratio in U-SACCOs dropped to 9.2 percent as at end December 2021 from 12.4 percent as at end December 2020. NPL ratio in PLCs dropped to 3.1 percent in December 2021 from 4.0 percent in December 2020, while it reduced to 2.9 percent in December 2021 from 5.0 percent in December 2020 in other SACCOs.

The microfinance sector remains profitable. During the period under review, net profit of MFIs increased by FRW 7.8 billion to FRW 18.1 billion in 2021 from FRW 10.3 billion in 2020. The profitability of MFIs also improved with ROA and ROE increasing to 4.4 percent and 12.4 percent in 2021 from 3.0 percent and 8.2 percent respectively. The improved profitability of MFIs is largely associated with higher growth of income and reduction of provisions for bad debts. Total income of MFIs grew by 11.6 percent to FRW 64.2 billion in 2021 from FRW 57.6 billion in 2020, higher than the growth of 7.2 percent recorded in 2020. The improved growth of MFIs revenues is reflective of increased lending and improved assets quality. Provisions expenses reduced by FRW 4.6 billion in 2021 against the increase of FRW 3.8 billion in 2020. The reduction of provisions for bad debts mirrors the improved assets quality amidst the rebound of economic activities.

Table 24: Performance Indicators of Microfinance Sector

Microfinance Sector	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Assets (FRW billion)	244.3	279.5	320.7	356.1	421.4
Loans (FRW billion)	138.3	164.0	183.6	202.4	235.2
Deposits (FRW billion)	124.1	144.5	170.2	192.2	220.2
Equity (FRW billion)	87.5	98.1	114.4	128.0	150.7
Net profit/Loss (FRW billion)	2.4	7.3	12.0	10.3	18.1
Capital Adequacy Ratio (%)	35.8	35.1	35.7	36.0	35.8
NPLs Ratio (%)	8.2	6.5	5.7	6.7	4.8
Liquidity Ratio (%)	102.0	100.3	100.6	101.5	112.3
U-SACCOs	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Assets (FRW billion)	111.9	121.8	134.3	143.5	163.0
Loans (FRW billion)	41.0	47.9	51.9	55.0	67.3
Deposits (FRW billion)	56.4	60.7	73.6	80.8	88.5
Equity (FRW billion)	40.4	42.5	46.1	50.4	58.8
Net profit/Loss (FRW billion)	3.7	2.8	4.3	4.1	7.4
Capital Adequacy Ratio (%)	36.1	34.9	34.3	35.1	36.1
NPLs Ratio (%)	12.9	11.8	11.3	12.4	9.2
Liquidity Ratio (%)	117.1	113.2	105.1	105.8	104.3
Public Limited Companies	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Assets (FRW billion)	63.6	77.1	94.1	106.8	124.7
Loans (FRW billion)	43.5	51.0	62.4	68.3	79.5
Deposits (FRW billion)	38.0	48.1	56.7	63.6	72.9
Equity (FRW billion)	14.6	16.7	22.8	26.9	33.2
Net profit/Loss (FRW billion)	-3.9	0.1	2.4	1.1	2.8
Capital Adequacy Ratio (%)	23.0	21.7	24.2	25.2	26.6
NPLs Ratio (%)	8.0	4.9	3.6	4.0	3.1
Liquidity Ratio (%)	62.6	73.1	70.8	76.6	82.1
Other SACCOs	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Assets (FRW billion)	68.7	80.7	92.3	105.8	133.7
Loans (FRW billion)	53.8	65.1	69.3	79.1	88.3
Deposits (FRW billion)	29.7	35.6	39.9	47.8	58.8
Equity (FRW billion)	32.4	38.9	45.5	50.8	58.7
Net profit/Loss (FRW billion)	2.6	4.4	5.2	5.1	8.0
Capital Adequacy Ratio (%)	47.3	48.2	49.3	48.0	43.9
NPLs Ratio (%)	4.7	3.7	3.4	5.0	2.9
Liquidity Ratio (%)	122.5	110.4	160.0	143.0	210.4

Source: NBR, Financial Stability Directorate

5.5. INSURANCE SECTOR

5.5.1. Structure of the Insurance Sector

The structure of the insurance sector remained unchanged since the previous report. The sector is made up by private insurance and public insurance businesses. Private insurance is composed of 13 insurance companies of which 9 offer non-life insurance products, 3 offer life insurance and 1 micro insurance business. In addition to private insurers, the sector also consists of 2 public health insurers (RSSB Medical and MMI).

Public medical insurers remain dominant in size with a percentage share equivalent to 62.9 percent of the total assets of the insurance sub-sector as of December 2021 compared to 63.0 percent in December 2020. In terms of Gross written premiums (GWP), the two public medical insurers share 42 percent of total written premiums of the insurance industry.

In Rwanda, the insurance sector is a provider of funding for Banks and other corporates. As at December 2021, total placements of insurers in Banks amounted to FRW 295.8 billion constituting 42 percent of their total assets and 10 percent of total banking sector customer deposits. Insurers also held investments in equities amounting to FRW 239.7 billion equivalent to 31 percent of their total assets.

Table 25: Financial Performance Highlights of the Insurance Sector

Description (In FRW billion)	Private Insurers			Public Insurers			Insurance sector		
	Dec-19	Dec-20	Dec-21	Dec-19	Dec-20	Dec-21	Dec-19	Dec-20	Dec-21
Gross written premiums	87.6	97.2	119.5	65.8	72.1	86.4	153.4	169.4	205.9
Net premiums written	70.0	76.5	90.7	65.8	72.1	86.4	133.4	148.6	177.2
Net Premiums earned	67.5	70.5	82.1	65.8	72.1	86.3	133.4	142.7	168.6
Total Claims	41.9	45.3	55.4	33.8	37.5	45.8	75.8	82.9	101.1
Management expenses	24.7	24.3	26.4	7.9	9.7	12.3	32.5	33.9	38.6
Commission Expenses	4.3	5.3	4.1	-	-	-	4.3	5.3	4.1
Underwriting profit (loss)	(3.4)	(4.3)	(3.6)	24.1	24.9	28.3	20.7	20.6	24.7
Investment Income	10.5	11.8	15.0	14.5	14.8	21.8	25	26.7	36.9
Other Income	3.1	4.7	4.6	0.8	3.2	1.5	3.4	7.9	6.0
Net profit after taxes	7.1	9.4	11.9	39.5	42.9	51.6	46.6	52.4	63.6
Assets	187.4	218.9	260.2	322.4	373.2	441.2	509.7	592.3	701.4
Technical provisions	97.6	114.5	136.2	1.6	1.6	1.9	99.2	116.1	138.2
Liabilities	125.1	149.7	175.9	5.1	6.5	6.7	130.3	153.1	182.6
Capital and reserves	62.2	69.3	84.3	317.2	366.8	434.5	379.5	436.1	518.9

Source: Financial Stability Directorate

Private insurance is dominated by non-life insurance which is short term in nature. Non-life or general insurance represented around 80 percent of total premiums of private insurers and 46 percent of total insurance sector GWP. General insurance business largely consists of motor and medical insurance products with combined share of 63.8 percent of total gross premiums, and 30 percent of total insurance industry. On the other hand, life insurance a long-term category of insurance provides a financial compensation of amount assured at the maturity or in case of the death of policyholder. Life insurance business consists of ordinary life, traditional life, term and credit life products. Ordinary life and Credit protection dominated with 67 percent of gross premiums collected by Life insurance in December 2021.

Table 26: Product Break Down for Non-Life Insurance

Product Description (In FRW Million)	Dec-20			Dec-21		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Motor	33,218	29,709	59%	37,857	21,170	63%
Property	7,778	2,164	38%	12,486	727	19%
Medical	21,758	17,250	68%	22,947	13,989	76%
Liability	1,928	757	-10%	2,947	506	42%
Transportation	923	578	38%	1,235	106	18%
Accident & health	1,394	946	21%	2,139	1,069	74%
Engineering	4,819	795	84%	5,788	242	23%
Guarantee	3,659	1,919	50%	3,818	910	58%
Miscellaneous	3,277	533	67%	6,077	316	36%

Source: NBR, Financial Stability Directorate.

Table 27: Product Break-Down for Life Insurance

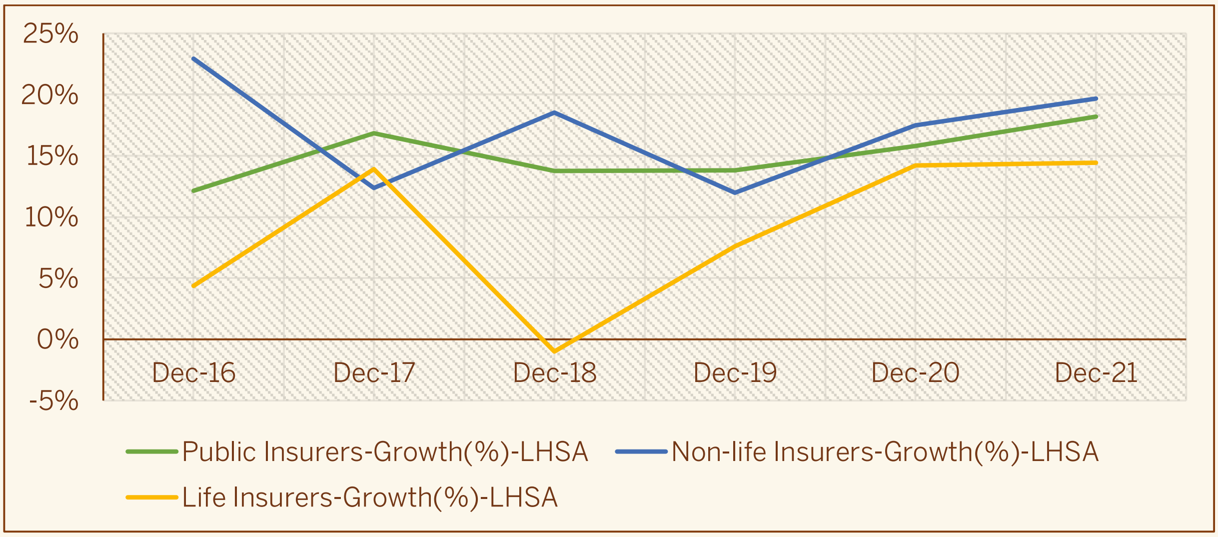
Product description (In FRW Million)	Dec-20			Dec-2021		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Ordinary life	9,528	7,025	77%	10,320	8,026	82%
Traditional life	2,072	2,104	107%	2,356	2,530	117%
Term life	601	190	50%	2,241	399	25%
Credit life	3,728	1,929	74%	4,904	3,006	93%
Funeral and others	2,435	1,704	96%	2,876	2,049	85%

Source: Financial Stability Directorate

5.5.2. Performance of the Insurance Sector

The growth momentum of the insurance sector continued. Total assets of the sub-sector increased by 18 percent to FRW 701 billion, higher than the 15 percent growth recorded in December 2020. All categories of Insurers recorded double-digit growth between December 2020 and December 2021 reflecting higher returns on investments income and retention of their profits made in the prior year (Figure 23).

Figure 23: Assets Growth per Category



Source: NBR, Financial Stability Directorate

The asset structure of Insurers varies depending on the line of business. From an industry-wide perspective, placements in banks continued to be the main asset category of insurers with around 42 percent of total insurers' assets as at December 2021, followed by Government securities (32 percent), equity investments (9 percent), receivables (8.6 percent), investment in property (7 percent), other assets (5 percent). However, private life insurers, with long-term liabilities, held the majority of their assets in longer-term assets – 45 percent in long-term Government securities and equities and 20 percent as investments in properties. On the other hand, private non-life insurers (short-term insurers) continued to hold most of their assets in short term investments in order to cater for their short-term liabilities – placements in banks with average one-year maturity represented 28 percent of total assets and Government securities—dominantly treasury bills (27 percent). Other investments are properties with a share of 12 percent, loans and receivables (14 percent), and others (1 percent).

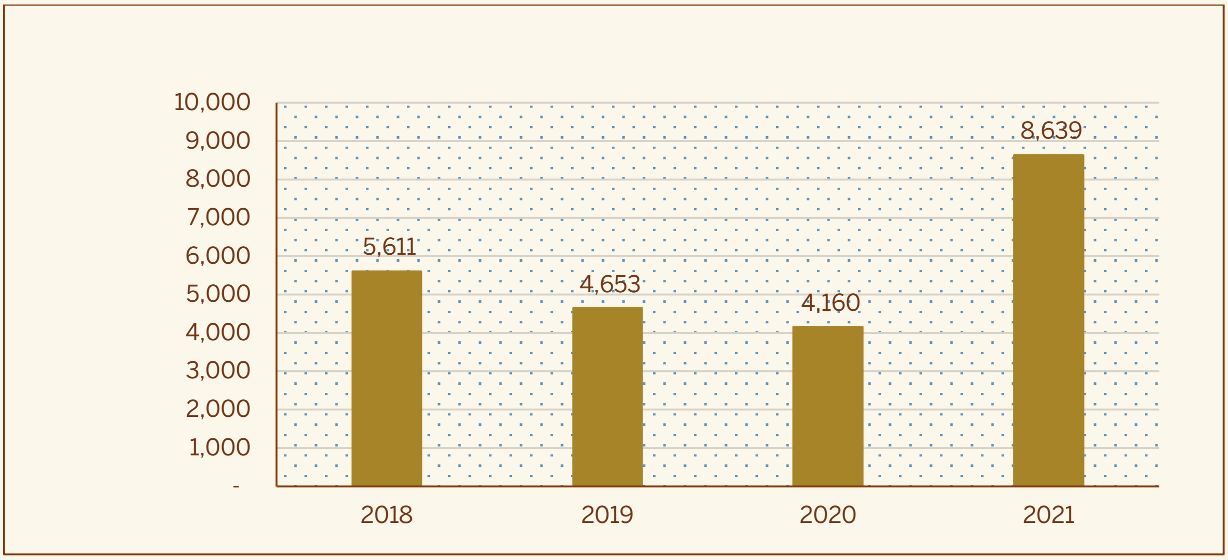
Reflecting the increased risks undertaking, technical provisions in private insurance edged up. Technical provisions mirror the insurance obligations or expected commitments to be settled by an insurance company arising over the lifetime of the insurer's portfolio of insurance contracts. As at December

2021, technical provisions in private insurance increased by 19 percent to FRW 136 billion, higher than the growth of 17.4 percent registered in 2020. An important portion of technical provisions (63 percent) were held by non-life insurers in form of unearned premiums (47 percent), claims reported outstanding (44 percent) and claims incurred but not reported (9 percent). Life insurers whose business is relatively long term, held 37 percent of the total technical provisions in form of actuarial provisions (90 percent), unexpired risks (8 percent) and unearned premiums (2 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 higher rate compared to the previous periods. Premiums increased by 22 percent in December 2021 (from FRW 169.4 billion to FRW 205.9 billion), compared to the growth of 10 percent registered as at December 2020. Growth of premiums was more noticeable in private insurers— (both life and non-life) compared to public medical insurers. In private insurance, gross premiums increased by 23 percent to FRW 119.5 billion, higher than 11 percent recorded in 2020 and the pre-COVID 19 three years' average growth of 15 percent. The growth of premiums in private non-life insurance was much driven by the rebound of the economy in general and upward revision of motorcycle and non- motor insurance prices.

Claims have also edged up during the period under review. As at December 2021, private insurers recorded higher claims, which grew by 22 percent to FRW 55 billion. Higher claims were noted in motor and medical insurance. The growth of claims in medical was partially associated with an increase of the price of drugs by (10-20) percent, effective from the third quarter of 2020. Further, the increase in claims in motor insurance was much associated with an increase prices of spare parts and increase in number of accidents. The number of accidents picked up in 2021 to 8,639 incidents from 4,160 in 2020 mainly due to the rush to beat curfew hours imposed to contain the spread of coronavirus. However, despite an increase in accidents, the number of fatal accident reduced, though property damage incidents were much higher between 2020 and 2021. In addition to the increased number of accidents, the number of vehicles involved was also higher. As at December 2021, the number of vehicles in accidents was 14,591 much higher than 6,351 recorded in 2020. The increase of spare parts price index followed coupled with the increase of vehicles involved in accidents contributed to the higher claims reported as at December 2021.

Figure 24: Number of accidents



Source: Rwanda National Police.

Figure 25: Spare parts price index

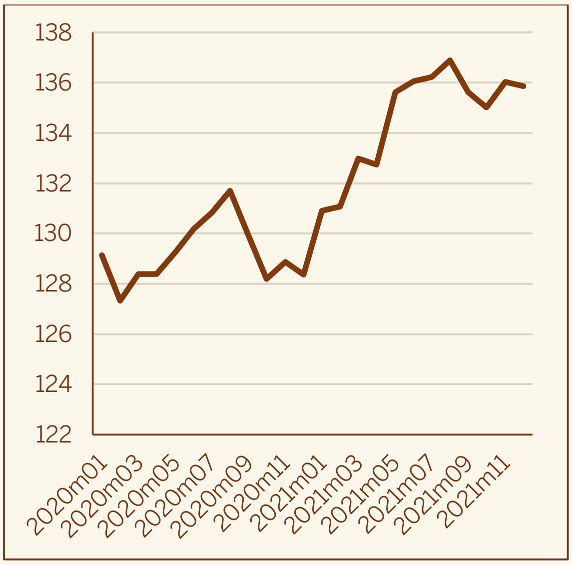
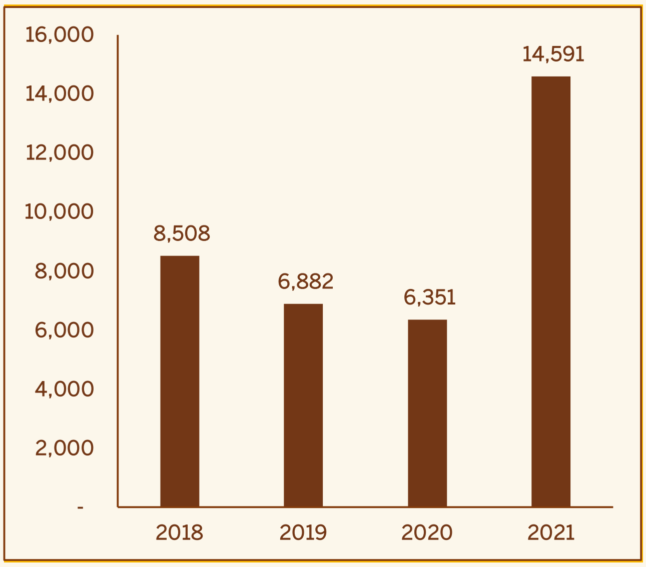


Figure 26: Number of vehicles involved in Accidents



Source: NBR, Financial Stability Directorate & Rwanda National Police

5.5.3. Soundness of the Insurance Sector

The insurance sector remained adequately capitalized during 2021. Insurance companies are required to maintain a solvency ratio of 100 percent to minimize bankruptcy risk. Solvency ratio helps identify whether the company has enough financial buffer to settle all claims in extreme situations. Hence, it is a good indicator of an insurance company's financial capacity to meet both its short-term and long-term liabilities. The solvency position remained above prudential requirements, Private insurer's solvency ratio stood at 142 percent as at end December 2021 compared to 114 percent in December 2020 and well above the regulatory minimum of 100 percent. Factors that supported the private insurer's solvency position in December 2021 include increase of assets from FRW 218.9 Billion in December 2020 to FRW 260.2 Billion in December 2021. Public Insurers have for a long-time maintained significantly high solvency position- it stood at 2,879 percent as at end December 2021. High solvency position in public Insurers reflects the stable and profitable business of public Insurers over long period.

Liquidity position of private insurers is improving. The liquidity ratio that indicates the proportion of Insurers' liquid assets to cover their current liabilities. Liquidity ratio of private insurers stood at 94 percent in December 2021 below prudential requirements of 100 percent but improved from 91 percent in December 2020. Generally, private insurers' investments in illiquid assets and increased premiums receivables explains these issues of liquidity. In normal circumstances, insurers are not allowed to sell insurance on credit, but due to COVID-19, NBR allowed insurance to sell insurance on credit (up to 90 days) to support the clients who were affected the pandemic. In November 2021, NBR revised its regulatory forbearance to reduce the tenure of insurance credit to 60 days. However, premium receivables continued to grow during the period under review and private corporates remained main debtors with large share of receivables. Premium receivables represented 10 percent of private insurers' assets as at end December 2021, compared to 6 percent in December 2020. A big proportion of these receivables, 63 percent were overdue for over 60 days. Corporates represented more than 50 percent of the total premium receivables. Selling insurance on credit raises credit and liquidity risks as policyholders may fail to honor their obligations.

Private insurers continued to reinsure a large portion of their undertakings. Premiums ceded to reinsurers continued to grow from FRW 19 billion in December 2020 to FRW 25 Billion in 2021.While reinsurance is risk mitigate for the domestic insurers, the NBR encourages local insurers to adopt coinsurance arrangements before reinsuring abroad.

Table 28: Financial Soundness of the Insurance Sector

Description (Ratios %)	Private Insurers			Public Insurers			Insurance sector		
	Dec-19	Dec-20	Dec-21	Dec-19	Dec-20	Dec-21	Dec-19	Dec-20	Dec-21
Solvency margin (Min. 100%)	170	114	142	2426	2496	2879	1266	1245	1477
Claims ratio (max.60%)	62	64	67	51	52	53	57	58	60
Expenses ratio (max. 30%)	43	42	37	12	13	14	28	28	25
Combined ratio (max.90%)	105	106	104	63	65	67	84	86	85
ROE (Min.16%)	11	14	14	12	12	12	12	12	12
ROA (Min.4%)	4	4	5	12	12	12	9	9	9
Current Ratio (min. 120%)	79	75	85	4252	3490	3837	218	238	244
Liquidity ratio (min. 100%)	97	91	94	4636	4116	4922	260	283	299

Source: NBR, Financial Stability Directorate

5.6. PENSION SECTOR

5.6.1. Structure of Pension Sector

The pension sector is the second largest sub-sector of the financial sector and held 17.4 percent of total assets of the financial sector. The sector is dominated by the mandatory pension scheme(RSSB) for all salaried workers and operates as a defined benefit scheme. Pension contributions are collected at 3 percent by the employee, 3 percent by the employer and another 2 percent by the employer to cover occupational hazards. The scheme guarantees pension benefits to retirees (60 years of age (early retirement) and 65 years for mandatory retirement) who have contributed for a minimum of 15 years. Retirees who contribute for less than 15 years receive a lump sum payment. The Fund also administers the Ejo-Heza long-term savings scheme that was developed to extend pension services to workers in the informal sector not covered by the mandatory pension scheme.

The mandatory scheme holds 94.2 percent of total pension sector assets and second largest in assets in financial sector. The 2015 Pension Law made way for the licensing of voluntary pension schemes and as at end December 2021, there were 12 registered schemes of which 7 were Complementary Occupational Pension Schemes (COPS) established by agreement between employers and their employees as well as 5 Personal Pension Schemes (PPS) operated by financial institutions that provide retirement savings accounts. Voluntary pension schemes held 5.8 percent of the sector's assets and are operated as Defined Contribution schemes (DC), which provide pension benefits based on the contributions collected and the performance of the investment of those contributions.

5.6.2. Performance of Public Pension Fund (RSSB).

Assets of the public pension fund continued to increase. Total assets increased by 23 percent with increase mainly noted in treasury bills, treasury bonds, cash and term deposits, investment in properties and equity investments. Assets of the Pension Fund grew by FRW 227.7 billion (from FRW 985.6 billion in December 2020 to FRW 1,213 billion in December 2021). Contributions increased by 17 percent during the period under review from FRW 50.7 billion to 59.7 billion.

Investment income of the public pension also continued to increase. Total investment income increased by 60 percent from FRW 17.3 billion in December 2020 to FRW 27.4 billion in December 2021 due to increase of interest income (on treasury bills and bonds, corporate papers as well as bank deposits) as well as dividend income which increase from FRW 966 million as at December 2020 to FRW 5.1 billion as at December 2021.

Benefits paid also continued to increase but at a slower rate than contributions. During the period under review, pension fund benefit payments increased by 13 percent to FRW 17.3 billion in 2021, reflecting the increased number of beneficiaries. Pensioners (retirees) represented 77 percent of total benefit payments in December 2021. Deceased members' beneficiaries represented 11 percent of benefit payments; occupational hazard beneficiaries 2 percent of payments and incapacitated members 1 percent for benefit payments.

On the Fund's investment allocation front, as at end December 2021, RSSB pension scheme's investment portfolio reached FRW 1,194 billion and were diversified in different investment classes. Investments in local unquoted equities worth FRW 246.1 billion representing 21 percent of the Fund's total portfolio. Government securities and investments in properties each represented 18 percent of the portfolio. Investments in local listed equities in the manufacturing, telecommunications and banking sectors represented 8.7 percent of the portfolio while offshore listed and unlisted equities represented 10 percent of the portfolio.

Table 29: RSSB Investment Mix

Investment Mix-Description (FRW Billion)	Dec-20	Dec-21	Portfolio Share
Treasury Bills	59	27	2%
Treasury Bonds	127	157	13%
Equity investments	418	469	39%
Investment in properties	140	219	18%
Term Deposits	122	144	12%
Cash (Current accounts)	56	107	9%
Commercial papers & Corporates bonds	44	71	6%
TOTAL	**966**	**1,194**	**100%**

Source: NBR, Financial stability Directorate

5.7. PERFORMANCE OF THE LONG-TERM SAVING SCHEME (LTSS) EJO-HEZA

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

Assets of the Ejo-Heza Fund continued to grow in 2021. Total assets increased by 139 percent from FRW 10.1 billion in December 2020 to FRW 24.1 billion in December 2021 due to increase in contributions received. Total contributors increased by 168 percent from 531,344 to 1,423,377 as LTSS embarked on an aggressive awareness campaign leading to an increase in contributions from FRW 9.7 billion in December 2020 to FRW 23.2 Billion in December 2021 – a 138 percent increase. Contributions increased across different geographical locations of the country, Eastern Province had the largest increase in share of savers (133 percent), followed by Northern Province (130 percent), Kigali city (121 percent), Western Province (109 percent) and Southern Province (102 percent).

Table 30: Key Financial Highlights of LTSS Ejo Heza

Description (In Million FRW)	Dec-20	Dec-21	% Change (20/21)
Assets	10,107	24,139	139%
Liabilities	10,107	24,139	139%
Technical Reserves	9,766	23,281	138%
Contributions received	977	23,281	2,284%
Investment income	628	845	35%
Other income (Govt subsidies)	620	836	35%
Expenses	287	284	-1%

Source: NBR, Financial Stability Directorate

5.8. VOLUNTARY PENSION SCHEMES

The assets of voluntary pension schemes continued to expand. As at end December 2021, the number of private pension schemes remained unchanged as 12, with an increase in assets by FRW 16.3 billion from FRW 60 billion in December 2020 to FRW 76.3 billion in December 2021.The asset growth for private pension was supported by increased contributions. Contributors increased from 51,275 to 66,482 and leading to an increase in contributions from FRW 9.3 billion to FRW 10.4 billion in period under review. Investments of private pension scheme is mainly in Government bonds and Treasury bills representing 59 percent of total investment portfolio. Investments in real estate held 25 percent of the sub-sector's portfolio as of December 2021.

Table 31: Key financial highlights of Voluntary Pension Scheme

Description (In Billion FRW)	Dec-20	Dec-21	% Change
Assets	60	76	27%
Liabilities	0.01	0.30	2460%
Technical Reserves	60	76	27%
Contributions received	9	10	11%
Benefits paid	5	7	45%
Investment income	4.2	3.5	-16%
Operating expenses	1	1	-40%
Number of contributors	51,275	66,482	30%
Number of people took pension benefits	6,172	5,436	-12%
Number of pension schemes	12	12	0%

Source: NBR, Financial Stability Directorate

5.9. NON-DEPOSIT TAKING LENDING FINANCIAL INSTITUTIONS (NDFIS)

Regulation No. 2100 /2018 - 00011[614] of 12/12/2018 expanded the NBR's supervisory role to include Non-deposit taking financial institutions (NDFIs). These institutions include: credit services only, mortgage finance services, credit guarantees, refinancing services, factoring services, debt collection services and other financial services that the Central Bank may qualify as posing systemic risk to the financial sector stability. From December 2020, the number of all authorized NDFIs increased from 7 to 14 in December 2021. Amongst the licensed companies, 6 are lending only institutions, 6 debt collection, 1 factoring company, and 1 Trust and Company Service Provider. The table below highlights their financial position as at end December 2019.

Table 32: Value of NDFIs Assets and Loans

Details (Billion FRW)	Dec-20	Dec-21	% change
Total Assets	22.5	23.9	7
Total loans (value)	18.3	16.2	-12

Source: NBR, Market Conduct and Consumer Protection Department

5.10. CREDIT REPORTING SYSTEM

Credit reporting systems consist of institutions, rules, procedures, standards and technologies that facilitate the sharing of credit and other relevant related information. Effective credit reporting systems are important in the evaluation of creditworthiness of borrowers to assist lenders in making accurate and faster decisions regarding giving out loans.

The National Bank of Rwanda is also mandated to regulate and supervise the credit reporting systems in Rwanda. Today, Rwanda has only one credit reference bureau (TransUnion Rwanda) that receives credit data from various sources such as Banks, Micro Finance Institutions, Insurance Companies, Utilities, etc. The bureau uses this data to build a credit history on individuals, then share to credit lending institutions and individual consumers. Lending institutions use the bureau information to assess risks of borrowers and inform lending decisions.

The credit information reported to the bureau has been increasing in response to different initiatives aimed at enhancing the credit information in Rwanda. As at December 2021, the coverage ratio, which measures the percentage of adult population reported to the bureau, increased to 33.1 percent from 29.9 percent in December 2020 and 24.9 percent in December 2019. This increase was due to digital customers that are accessing instant digital loans, the extension of reported information to public utility (WASAC) and student loans. The credit reference bureau continues to engage voluntary data providers to share credit information and to use CRB information for their business of selling on deferred payment.

On the other hand, the data from TransUnion Rwanda indicates that the usage of its information stood at 93 percent in December 2021 from 90.6 percent in December 2020 and 84.3 percent in December 2019. This means that, Banks are able to get information of 93 percent of total borrowers, and this highlights the increasing role of the bureau in lending decision.

The current developments for credit reporting system is the establishment of the Advisory Credit Reporting Council published in the Official Gazette through the Prime Minister Order No 015/03 governing the Advisory Credit Reporting Council. The aim of the Council is to ensure that the credit reporting system supports effectively the sound and fair extension of credit in Rwandan economy as the foundation for robust and competitive credit markets. The Credit Reporting Council is a coordinated program of activities of various stakeholders involved in credit reporting system; and ensuring the compliance with the credit reporting system best practices and facilitate easy management and access of credit information, among others. In this regard, the Council set out its one year action plan to improve the efficiency of credit reporting system and established a technical committee that will handle technical issues.

5.11. CRISIS MANAGEMENT AND RESOLUTION ARRANGEMENTS

In addition to its mandate of ensuring a sound financial sector, NBR is also entrusted with the crisis management and resolution responsibility. Over the years, NBR has made significant progress in putting in place a complete crisis management framework, which is made up by three pillars namely interagency coordination mechanisms, support mechanisms and resolution framework. In terms of interagency coordination mechanisms, a lot has been put in place including the establishment of the Financial Stability Coordination Committee. This committee was established by the Prime Minister's Instruction N°002/03 of 23/10/2017 with a mandate of coordinating measures to secure the public interest in maintaining financial stability in the case of financial crisis. In line with the second pillar, a number of support mechanisms were also put in place including liquidity support and depositors' protection arrangements. NBR is also developing a resolution framework, which will be constituted of features, practical steps to resolution, planning and financing the resolution process. In terms of the operationalization of the above hard ware elements, a number of key attributes are operational such as regulatory reforms (Regulations implementing Basel II and III standards); regulatory and supervisory approach of DSIBs; Prompt Corrective Actions (PCA) and recovery plans.

Liquidity support mechanisms have proved to be very important in times of crisis such as COVID 19 pandemic to help financial institutions navigate through the crisis. The six (6) months' extended lending facility established by the NBR in April 2020 was extended in order to provide standby liquidity support to any solvent bank that may require temporary liquidity support. Only 2 banks have so far used this facility to the tune of FRW 5 billion, indicating that the banking system does not have any liquidity concerns.

Depositor protection is another important element of financial sector safety net as it helps to foster the public's confidence in the system, reducing the risk of bank runs. In Rwanda, the Deposit Guarantee Fund (DGF) was established as part of NBR's strategy to ensure that the best interests of consumers of financial services are protected, thus promoting the stability of the financial sector. The DGF is administered by the NBR and is funded by Banks and MFIs covered by the Fund.

The key functions of the Fund are to collect premiums from contributing institutions, investment of collected revenues, and payout to eligible depositors in case any of the contributing entity 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 at December 2021, total collections amounted to FRW 10.9 billion from FRW 7.6 billion in December 2020, an increase of 43 percent. Amounts collected are invested in various investments – largely Government securities in order to earn returns and grow the fund and its ability to pay out insured depositors in the event of failure of a deposit taking financial institution.

The main objectives of the DGF is to cover insured deposits at each member bank and microfinance institution, including principal and any accrued interest, through the date of the contributing member's closing, up to the coverage limit. 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 December 2021, the insured deposits from banks amounted to FRW 178 billion equivalent to 5.1 percent of total deposits in banks and FRW 22.7 billion equivalent to 31 percent of total deposits in MFIs (PLCs).

5.12. NATIONAL PAYMENT SYSTEMS

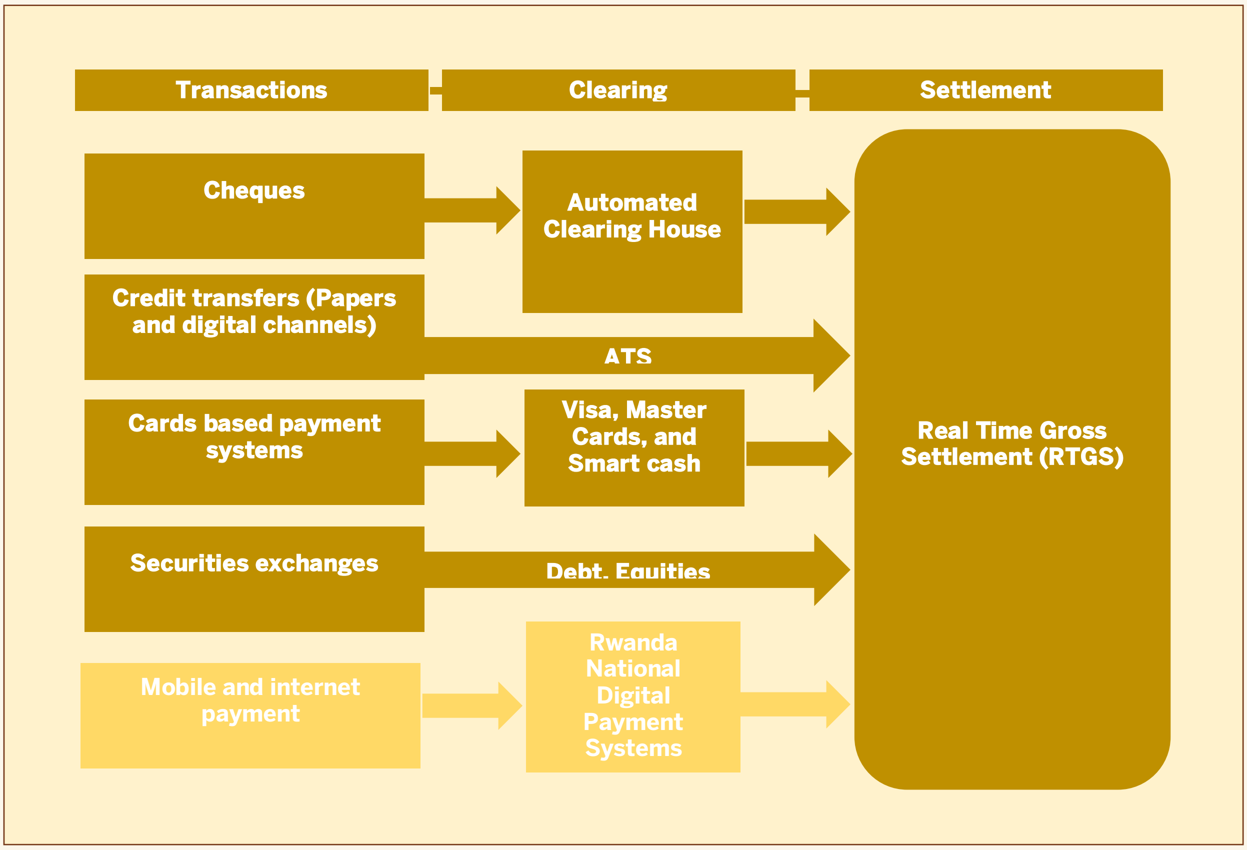
Payment systems facilitate the settlement of payment obligations occurring in the financial markets across the economy by providing channels for payments transfer between financial institutions. The Rwanda National Payments System consists of wholesale, retail payment systems, instruments, and Payment Service Providers (PSPs). During the period under review, and due to their simplicity, accessibility and low cost compared to other money transfers agencies.

5.12.1. Overview of the Rwanda Financial Market Infrastructure

The Rwanda Integrated Payment Processing System (RIPPS) is an Automated Transfer System (ATS), which is operated by NBR and composed by the Real Time Gross Settlement (RTGS) and Automated Clearing House

(ACH). RIPPS process and settles interbank payment transactions including credit transfers and cheques as well as various retail payments (Visa, Mastercards, Smartcash). The RTGS is also 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.

Figure 27: Rwanda Integrated Payment Processing System Infrastructure



Source: NBR, Financial Stability Directorate

5.12.2. Performance of the RIPPS

RIPPS continued to process financial transactions smoothly throughout the year 2021 without major disruption. Customer transfers dominate RIPPS activities with a share of 91 percent in terms of volume while interbank transactions led with a share of 62.5 percent in terms of value.

5.12.3. Central Securities Depository

The number of deals of the secondary market for both Bonds and Equities increased. In 2021, Bonds traded increased by 40 percent from 308 to 430 while Equities traded increased by 32 percent from 412 to 545. However, the values of trades reduced reflecting the decreased number of institutions participating in the market and the outbreak of COVID-19 that influenced individuals' decision to hold on to their secure investments. The value of Bonds traded decreased by 25 percent from FRW 39 billion to FRW 29 billion, while the value of Equities traded also decreased by 64 percent from FRW 16 billion to FRW 6 billion.

5.12.4. Retail Payment System

1. **Payment acceptance points**

Payment access points facilitate to pay for products and services by allowing money to enter and exit the payment ecosystem. In comparison to the year 2020, the number of card based POS increased from 4,335 to 4,339 while the number of Virtual POS also increased from 4,264 to 4,280, and the number of mobile POS increased by 15 percent to 45,739 in December 2021 from 39,743 in December 2020. However, the number of mobile payment agents decreased by 5 percent, from 131,173 to 124,373 agents due to the termination of inactive agents whereas agents providing banking services increased by 24 percent from 6,103 to 7,578 agents and the number of ATMs increased by 9 percent from 334 to 337 at end December 2021.

Table 33: Payment access points

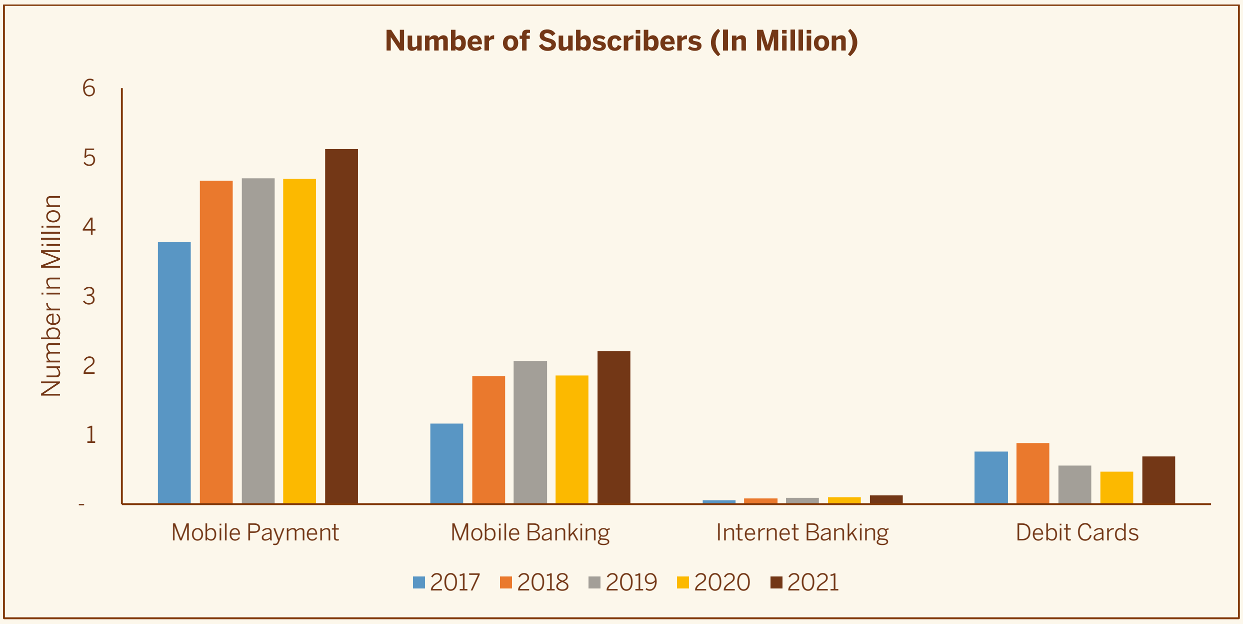
Access Points	Penetration rates of payment access Points	End December 2021	End December 2020
ATM	Number of devices	337	334
	Penetration rate of ATMs per 100,000 adult population	4.3	4.4
Traditional POS	Number of devices	4,339	4,335
	Penetration rate of Traditional POS per 100,000 adult population	55.3	57.1
Modern POS (Mobile and Virtual)	Number of devices	50,019	44,029
	Penetration rate of Modern POS per 100,000 adult population	637.3	579.5
Banking Agents	Number of bank agents	7,578	6,103
	Penetration rate of agents per 100,000 adult population	96.6	80.3
Mobile Agents	Number of Mobile agents	124,373	131,173
	Penetration rate of Bank agents per 100,000 adult population	1,584.8	1,726.4

Source: NBR, Financial Stability Directorate

2. Payment instruments issuance

On the issuance side, active mobile payment subscribers increased by 9 percent from 4,688,124 in December 2020 to 5,125,090 representing 33 percent of 15,360,011 total subscribers in December 2021, mobile banking subscribers increased by 19 percent from 1,854,424 to 2,208,683 and internet banking subscribers increased by 23 per cent from 99,810 to 123,242. On the other hand, payment cards increased by 45 percent from 471,898 in December 2020 to 686,309 in December 2021 as per below figure.

Figure 28: Payment Instrument Issuance



Source: NBR, Financial Stability Directorate

3. Transactions of the retail payment system

Cashless payment transactions

The removal of fees on mobile payment for transfers service between banks accounts and mobile wallets has boosted mobile payment channels usage.

Merchant transactions

Merchant payment transactions increased during the period under review. The number of merchant payment transactions through mobile POS increased by 115 percent from 45 million to 97 million transactions while the value of transactions increased by 86 percent from FRW 846 billion to FRW 1,570 billion. The card based merchant payments increased by 52 percent from 4 million to 6 million transactions while the value of transactions increased by 84 percent from FRW 120 billion to FRW 221 billion. However, a decrease on mobile POS transactions during the last quarter 2021 was recorded due to merchant fee reinstatement in the same period.

Figure 29: Volume of Merchant payments

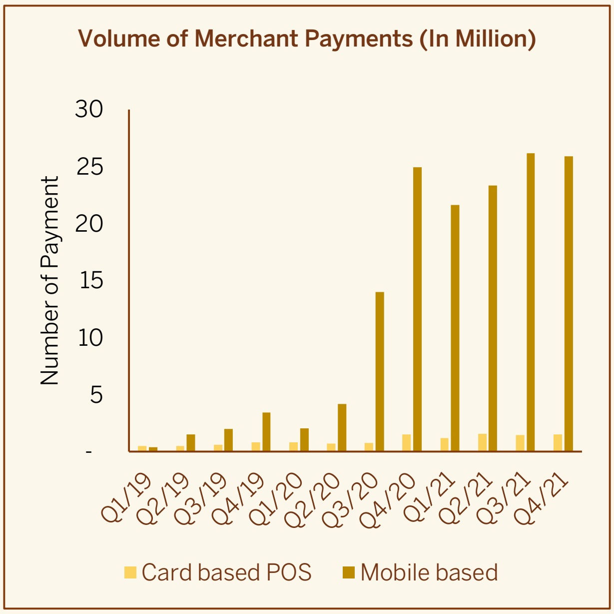
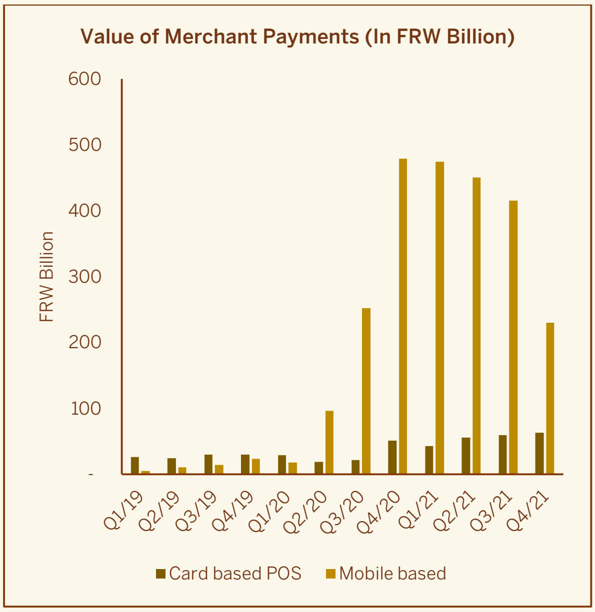


Figure 30: Value of Merchant Payments in B/FRW



Source: NBR, Financial Stability Directorate

5.12.5. Payment transfers

The number of funds transfers through mobile payments increased by 41 percent from 170 million to 239 million transfers and the value increased by 37 percent from FRW 3,800 billion to FRW 5,208 billion. Transfers through mobile banking increased by 17 percent from 6 Million to 7 Million transfers and the value of transactions increased by 87 percent from FRW 277 billion to 519 billion while transfers through internet banking transactions increased by 20 per cent from 1.4 Million to 1.7 Million transfers and the value of transactions by 46 per cent from FRW 2,362 billion to 3,446 Billion.

Figure 31: Volume of Transfers

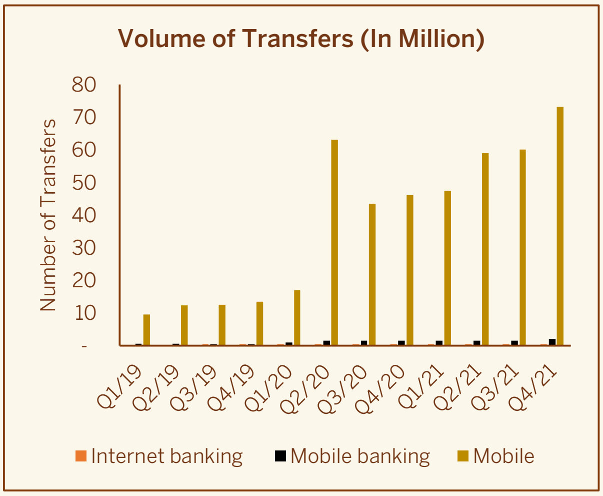
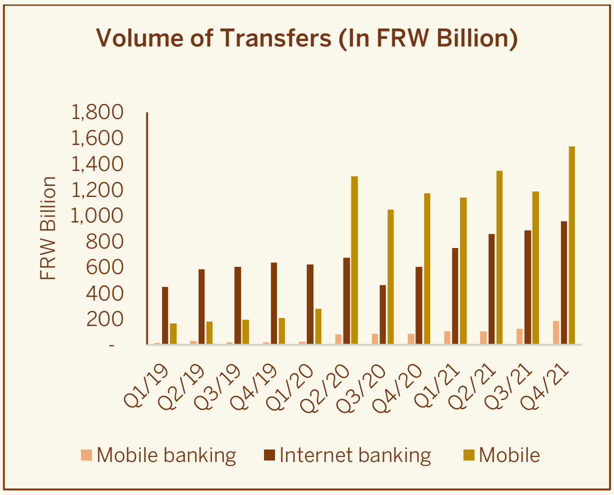


Figure 32: Value of Transfers in B/FRW

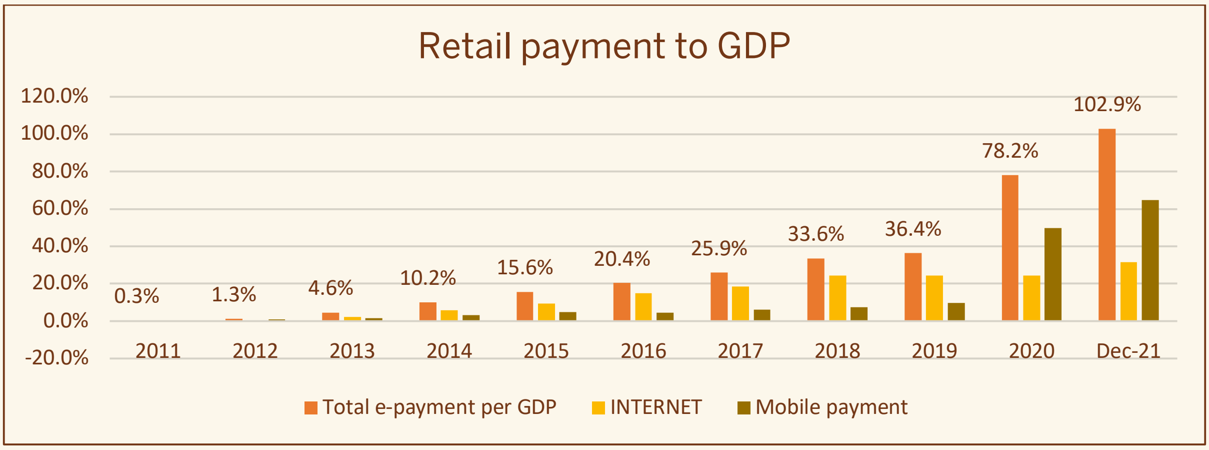


Source: NBR, Financial Stability Directorate

5.12.6. Overall cashless performance

The value of e-payment to GDP increased during the period under review to reach 102.9 percent due to the significant use of digital channels. The usage was dominated by mobile payment acquiring services and internet banking services, which account for 64.6 percent and 31.5 percent of the GDP respectively.

Figure 33: Value of retail e-payment to GDP



Source: NBR, Financial Stability Directorate

5.12.7. Cash withdrawals

Despite the use of digital channels for cashless payment, cash withdrawals remain high. In term of volume, more cash withdrawals happened on mobile agents while in terms of value, more cash are withdrawn from teller (Figure 34-35).

Figure 34: Volume cash withdrawals

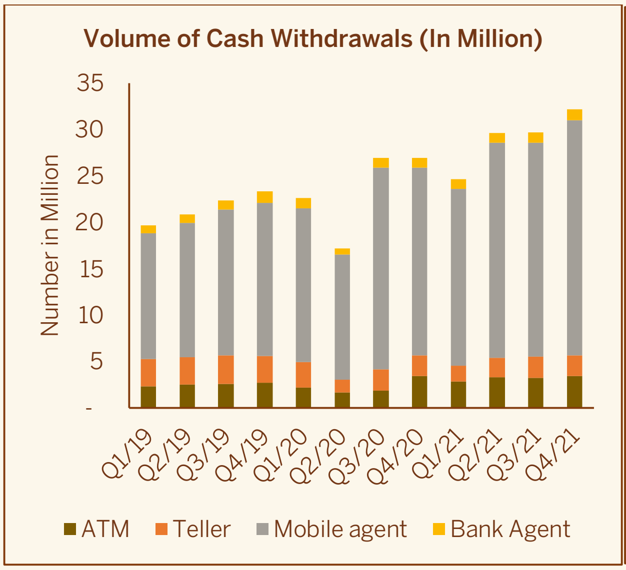
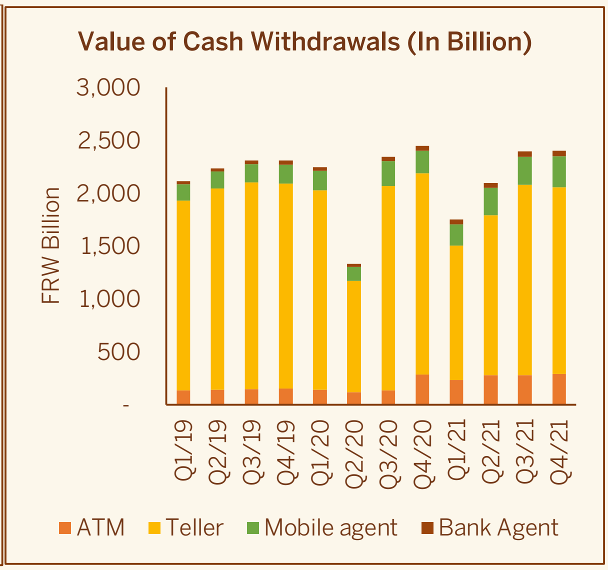


Figure 35: Value cash withdrawals (in Billion FRW)



Source: NBR, Financial Stability Directorate

5.12.8. Impact of policy changes on mobile payments

In the second half of the year 2021, the Central Bank issued a directive prohibiting the charges on transfers between e-money and deposits accounts and Mobile Money Rwanda reintroduced charge on MoMo Pay for merchants but the transactions below FRW 4,000 were exempt from charges. As a result, Cash-in (CI) transactions remained stable while Cash-out (CO) slightly increased from September 2021 but remained stable thereafter. The transactions of Bank to Wallet and Wallet to Bank increased from September 2021 due to the Central Bank decision prohibiting charges to these services.

Figure 36: Ci/Co Transactions

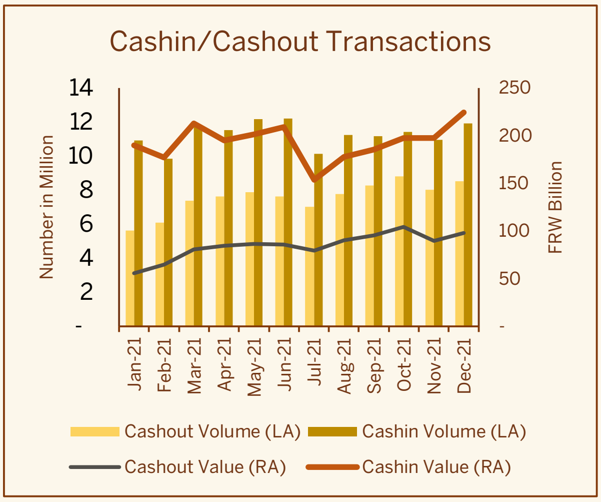
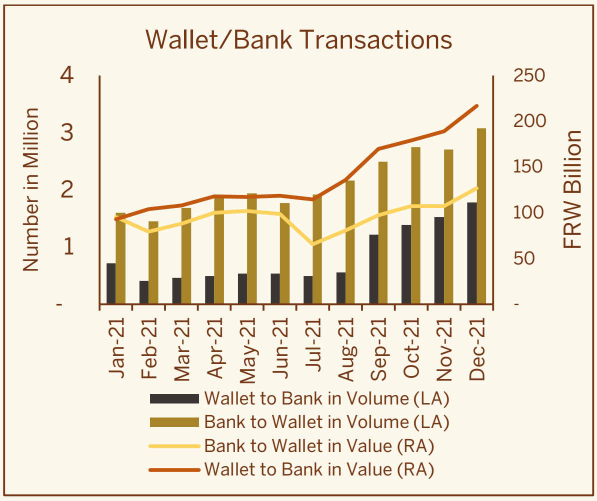


Figure 37: Wallet/Bank Transaction



Source: NBR, Financial Stability Directorate

Generally, mobile payments increased when compared with the year 2020. The volume of transactions increased by 30 percent from 701 million to 914 million, while the value of transactions also increased by 45 percent from FRW 7,176 billion to FRW 10,407 billion.

Figure 38: Transactions volume

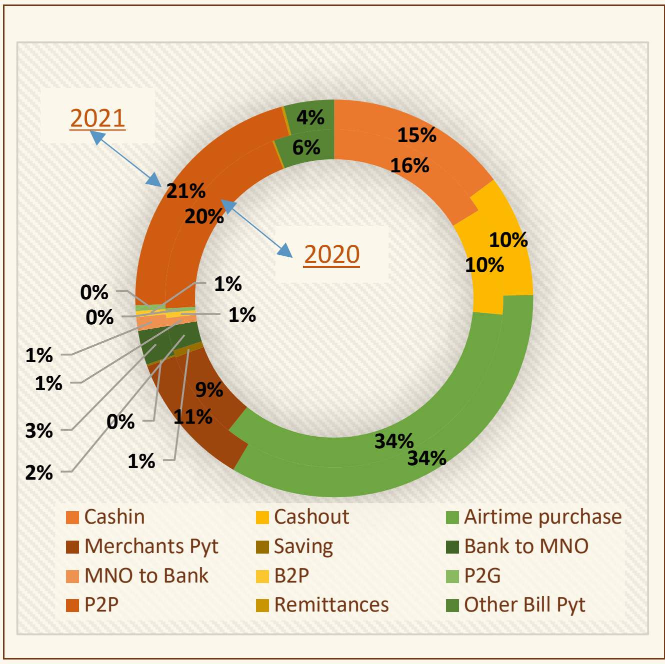
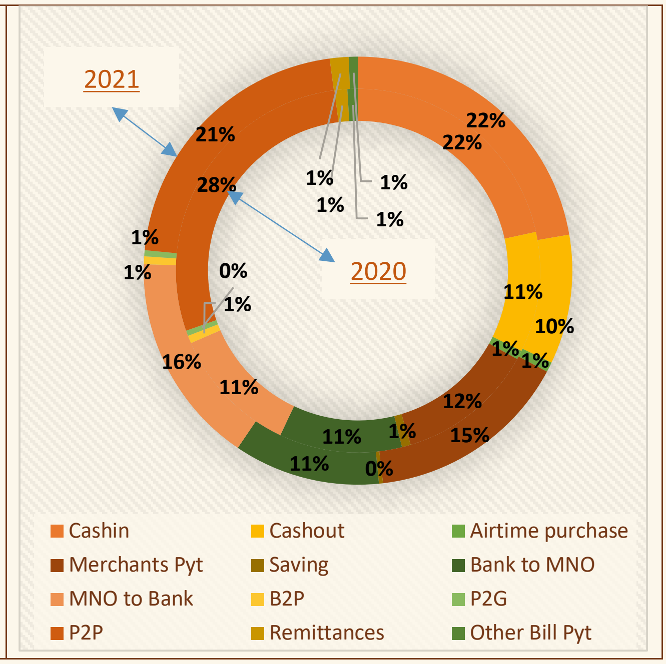


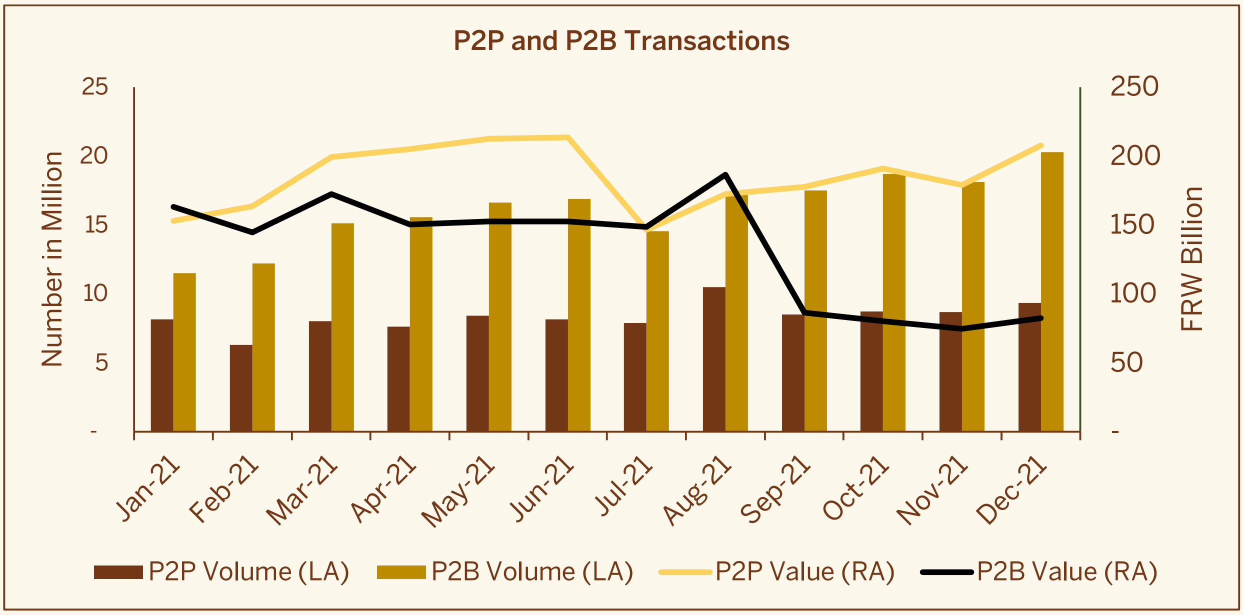
Figure 39: Transactions value



Source: NBR, Financial Stability Directorate

P2B volume remained stable but the value significantly decreased (the average value decreased from FRW 19, 700 to FRW 10,121. P2P volume increased but the average value decreased FRW 13,000 to FRW 10. 000 per transaction (Figure 40).

Figure 40: P2P and P2B transactions



Source: NBR, Financial Stability Directorate

5.13. ACCESS TO FINANCE

Developing the financial sector that is stable, efficient, inclusive and capable of mobilizing financial resources for economic development is the broader supervisory objective of the NBR. To support this, in March 2021, the NBR established a department in charge of financial sector development and inclusion. This new department is in charge of partnering with other Government agencies, Financial Service Providers (FSPs) and other stakeholders to establish an enabling environment for financial sector development. Among other tasks, the department monitors the performance of the financial sector, identifies financial sector development and inclusion challenges, designs and implements interventions to address those challenges. In monitoring financial sector development and inclusion, the NBR relies on two sets of data: (i) The FinScope survey done every 4 years (the last one was done is 2020) and (ii) supply side data from FSPs. Sections below brings out insights in financial sector development based on these two data sources.

5.13.1 Financial Service Access Points

During the year to end December 2021, the number of financial access points increased with bank branches; sub-branches; outlets; agents and ATMs all increasing. The increase of access points reduces the geographical financial access barrier that individuals and firms face in accessing financial services. 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 accounts for more than a third of banking sector access points (33.9 percent) followed by Western Province and Eastern province, each with 18.4 percent of total access points. Southern province hosts 16.7 percent of access points, while the Northern province holds the least share of total banking sector access points (12.6 percent). The high concentration of access points in Kigali city reflects the 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 least population share 16.4 percent in the last population census (2012). The national financial inclusion agenda is to ensure equitable access to finance for all citizens irrespective of locations. Such geographical distribution of access points should continue guiding financial sector players and policy makers to put efforts where it deserves.

In rural areas, with limited bank access points are supplemented by U-SACCOs. The establishment of U-SACCO in each of the 416 sectors of the country has provided access relief to Rwandans across the country. In fact, thanks to the establishment of U-SACCOs, the 2020 Finscope survey indicated the time to access financial services reduced from 46 minutes to 38 minutes.

Regarding the clients account penetration, the transaction account continued to increase during the period under review. Bank accounts increased by 21.1 percent to 5.45 million in December 2021 from 4.5 million in December 2020. During the same period, clients' accounts in microfinance sector increased by 11.3 percent to 4.9 million from 4.4 million. The higher growth of account penetration in banks is largely attributed to NCBA Mokash product whose account is available to all mobile money subscribers.

Table 34: Distribution Access Points per Province (December 2021).

Distribution	City of Kigali	Northern Province	Eastern Province	Western Province	Southern Province	Total
Number of Branches	114	40	55	53	40	**302**
Number of Sub Branches	10	0	0	2	0	**12**
Number of Outlets	38	20	33	33	40	**164**

Source: Financial Sector Development and Inclusion Department

5.13.2 Usage of formal financial services

Usage of banks and MFIs financial services

During the period under review, the access to credit improved in the banking sector but slightly dropped in the microfinance sector. The number of borrowers in banks increased by 10.4 percent to 573,580 in December 2021 from 519,687 in December 2020, while in the microfinance sector, the number of borrowers dropped to 399,592 in December 2021 from 675, 486 in December 2020, on account of low credit demand, especially in other SACCOs. Generally, the level of borrowing from formal financial institutions remains low, despite the high account penetration mentioned above. The main lending challenge relates to SME borrowing constraints such as lack of collateral, information opacity and limited financial literacy. To address these challenges, the NBR in collaboration with relevant Government agencies is working on multiple interventions to address SME borrowing constraints. These interventions include financial education targeting SMEs, strengthening of the credit information system, establishment of regulatory framework for leasing products and other alternative lending products. Government interventions to support SME lending include the partial credit guarantee schemes (through BDF) and targeted SME financing schemes under the Rwanda Development Bank (BRD).

With regards to savings, the number of depositors marginally increased by 1.8 percent to 2,707,045 in December 2021 from 2,658,966 in December 2020. During the same period, the number of deposit accounts in the microfinance sector increased by 13.8 percent, from 4,269,361 in December 2020 to 4,860,105 in December 2021. 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, the importance and existing channels of savings, as well as the newly enacted financial services consumer protection law. For the financial sector to develop and contribute to economic growth and development, individuals and firms have to save through formal financial institutions.

Table 35: Depositors and Borrowers in Bank and MFIs

Banks	Dec-20	Dec-21
Number of Depositors in Banks	2,658,966	2,707,045
Amount of Bank deposits (FRW Billion)	2,647	3,087
Number of borrowers in Banks	519,687	573,580
Amount of outstanding loans(FRW billion)	2,525	2,903
MFIs	Dec-20	Dec-21
Number of Deposit accounts in MFIs	4,369,706	4,860,105
Number borrowers in MFIs	675,486	399,592
Amount of outstanding loans (FRW billion)	202	235

Source: Financial Sector Development and Inclusion Department

Usage of insurance and pension services

The number of insured people continues to grow during the period under review. As at end December 2021, the number of life insurance policyholders significantly increased by 25.8 percent, reaching 432,556 from 343,608 in December 2020, against a decline of 17 percent registered a year before.

In regards to pension schemes, the number of contributors to public pension declined by 1.3 percent to 587,479 in December 2021 from 595,502 in December 2020. This was largely due to reduced contributions of temporary workers who had been employed during the construction of schools across the country in 2020. In private pension, the number of contributors increased by 29.7 percent to 66,482 in December 2021 from 51,275 in December 2020. In addition, the countrywide campaign launched to mobilize savings through EJOHEZA Long Term Saving Scheme (LTSS) has started to bear fruits. The number of contributors significantly grew by 167.9 percent to 1,423,377 in December 2021 from 531,344 in December 2020.

Table 36: Access to Insurance and Pension

Insurance and Pension Category Description	Dec 2019	Dec 2020	Dec 2021
Non-life insurance policies	220,102	240,549	590,668
Life insurance policies	414,473	343,608	432,556
Number of contributors to Public pension	500,607	595,502	587,479
Number of beneficiaries of Public pension	39,652	42,544	45,510
Number of contributors to Private pension	37,285	51,275	66,482
Number of beneficiaries of Private pension	11,846	6,172	5,436
Number of Contributors to EJOHEZA (LTSS)	127,768	531,344	1,423,377
Number of Beneficiaries of EJOHEZA (LTSS)	-	-	561

Source: Financial Sector Development and Inclusion Department

5.14. FOREX BUREAUS AND REMITTANCE SERVICES

The National Bank of Rwanda has continued its efforts regulate and supervise forex bureaus and money remittance companies. As at December 2021, the growth of total assets of forex bureaus moderated reflecting the closure of 2 bureaus in the subsector. However, the bureaus remained profitable and sufficiently capitalized despite the challenges of COVID 19 (Table 37).

Table 37: The financial position of forex bureaus

ASSETS	Dec-2019	Dec-2020	Dec-2021
1. Cash	4.1	3.6	4.1
2. Balance at banks	2.1	3.7	3.5
3. Fixed assets	0.5	0.5	0.5
4. Other assets	0.3	0.6	0.3
TOTAL ASSETS	**7.0**	**8.4**	**8.4**
LIABILITIES	Dec-2019	Dec-2020	Dec-2021
6. Borrowing (local)	0.4	0.2	0.6
7. Foreign liabilities	0.2	0.0	0.0
8. Other liabilities	1.0	1.3	0.5
TOTAL LIABILITIES	**1.5**	**1.5**	**1.1**
EQUITY	0.0	0.0	0.0
9. Paid up capital	5.6	5.6	5.7
10. Reserves	0.6	1.0	1.3
11. Profit & loss account	0.3	0.3	0.3
TOTAL EQUITY	**6.6**	**6.9**	**7.2**
TOTAL LIABILITIES+EQUITY	**7.0**	**8.4**	**8.4**

Source: NBR, Market Conduct and Consumer Protection Department

Money remittance companies are also involved in foreign exchange operations as they facilitate the transfer of foreign currencies. Today, 6 companies are licensed to operate as remittance companies including 3 that offers both forex and money remittance services. Additionally, other financial institutions such as banks and e-money issuers provide remittance services as agents of international money transfer companies (i.e, Western union, MoneyGram, etc.). As at December 2021, money remittance inflows increased significantly by 38.3 percent to USD 379 million from USD 274 million in 2020, while outflows increased by 2.7 percent from USD 36 million to USD 37 million over the same period. The increase of money remittance inflows reflected the rebound of the global economic performance and the shift from costly remittance channels to the cheapest such as mobile network operators.

5.15. POLICY REFORMS IMPLEMENTED

The NBR undertook a number of 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 new and revised instruments. 4 Laws were passed during the second half of 2021 in relation to the financial sector under NBR Supervision.

Law No 061/2021 of 14/10/2021 governing the payment system

The new Payment Systems - Law No 061/2021 of 14/10/2021 published in the Official Gazette nº 41 Bis of 01/11/2021 replaced the 2010 Law. The revision of the Law aims to keep up with the developments that have occurred in the Payments Systems space and introduces designation framework for payment systems, establishment of activity-based licensing regime, put in place a framework for licensing appropriate risk and address potential security risks in the payment chain among others. It further strengthens the Central Bank regulatory power over payment services and payment system to tackles issues related to consumer protections while promoting financial stability and inclusion.

Law No 060/2021 of 14/10/2021 governing negotiable instruments

The Law on negotiable instruments, which was enacted in 2009, was reviewed. The existing law, which put in place regulatory framework for negotiable instruments, operated in an unprecedented era of technological advancements, which called for re-alignment of the legal and regulatory framework with the dynamic financial market environment. Therefore, the new law No 060/2021 of 14/10/2021 governing negotiable instruments was published in the Official Gazette nº 41 Bis of 01/11/2021.

The new law defines new terminologies and put forward clear descriptions of negotiable instrument. In addition, the law empowers NBR to issue regulations on several aspects including the descriptions of a negotiable instrument, the arrangements under which presentation of a negotiable instrument is made, the description of persons by or to whom presentation of a negotiable instrument is made, the description of persons receiving payment or on whose behalf payment is received, truncations of cheque, administrative sanctions for the misuse of a negotiable instrument; and any other requirements related to the management of a negotiable instrument. Furthermore, the changes in the current law elucidated the negotiability of instruments not only physically but also electronically.

Law No 072/2021 of 05/11/2021 governing deposit-taking microfinance institutions

The Law establishing the organization of microfinance activities, which was enacted in 2008, was reviewed. This Law was reviewed with the aim of building a stable and sustainable microfinance sector able to resist to various shocks. The new Law is also responding to technological innovations especially digital financial services to deepen outreach and usage of financial services as well as promoting cashless economy and to align its provisions with international and regional regulatory initiatives. The new Law No 072/2021 of 05/11/2021 governing deposit-taking microfinance institutions was published in the Official Gazette nº 41 Bis of 01/11/2021. In line with the above objectives, key changes included revamping the structure, extending the scope of microfinance institutions in Rwanda, reinforcing of governance and risks management mechanisms as well as harmonization of the reporting requirements with the international standards.

Law N° 030/2021 of 30/06/2021 governing the organization of insurance business

The Law governing the organization of insurance business, which was enacted in 2009, was reviewed. The objective of this revision was to ensure effective governance, licensing, supervision, regulation, monitoring, control of the insurance and reinsurance business for financial soundness and stability of the insurance sector, fair treatment of insurance policyholders and developing the insurance industry.

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 MONETARY POLICY OUTLOOK

Weaker growth momentum and higher inflationary pressures globally.

IMF projections (before the Russia-Ukraine war) show that the global economic recovery continues though at a slowing pace due to the spread of Omicron variant early this year, and persistent supply-chain disruptions. The world real GDP growth is foreseen at 4.4 percent this year, 0.5 percent lower compared to October 2021 projections but uncertainty remains on downside.

Global inflation is projected to remain high due to persistent supply disruptions and mismatch between supply and demand as well as rising international energy prices. Financial conditions are expected to tighten and political tensions to keep fueling financial market volatilities, hence worsening emerging market and developing economies' financial vulnerabilities.

The outbreak of war between Russia and Ukraine and its consequences constitute a risk to the above mentioned projections as they are likely to lead to even lower global growth and higher global inflation. Already in February 2022, global energy price index increased by 63.4 percent compared to February 2021 as crude oil average price increased to 93.5 $/bbl from 60.5 $/bbl in February 2021. Similarly, non-energy and food indices rose by 22.7 and 21.0 percent respectively in February 2022 compared to February 2021.

Domestic economic recovery is expected to continue.

Rwanda's economy recorded a broad based recovery in 2021, with a real GDP growth at 10.9 percent in 2021 after a contraction of 3.4 percent in 2020. The economy is expected to remain on the path of recovery in 2022 driven by ongoing Government programs such as the Manufacture and Build to Recover, the continuous vaccine campaign and reopening of the economy.

In line with growing pressures on Rwanda's inflation resulting from both domestic and imported costs, the MPC decided to increase the CBR by 50 bps in February 2022.

In February 2022, projections already pointed out that Rwandan headline inflation would increase driven by rising prices in all components (core, food and energy) as pressures were expected to come from both domestic and imported costs. These projections were in line with the continued global and domestic economic recoveries as well as elevated projected global inflation resulting from pandemic induced supply-demand mismatch.

For this reason, the Monetary Policy Committee (MPC) decided to raise the Central Bank Rate (CBR) by 50 basis points in February 2022, from 4.5 percent to 5.0 percent, to ensure that inflation is contained in the medium-term.

The Russia-Ukraine war is bringing more uncertainty, posing an upside risk for Rwanda's inflation, as well as additional pressures on the external sector.

The Russia-Ukraine war is bringing more uncertainty with a risk of higher global inflation, posing an upside risk for Rwanda's inflation. The expected increase in headline inflation could most likely originate from the rise in imported costs of production mainly driven by higher international oil and food prices.

On the external sector, the war is likely to increase our import bill as commodity prices (especially energy) rise, putting pressure on the FRW depreciation. However, the NBR level of reserves (at 5.3 months of imports in December 2021) remains adequate to cushion the shock.

The Monetary Policy Committee will continue to monitor economic developments and take appropriate actions to keep inflation within the band in the medium-term.

NBR's objective is to achieve low and stable inflation, between 2 and 8 percent in the medium term with a benchmark of 5 percent. The MPC will continue to monitor domestic and global macroeconomic developments and is ready to take necessary actions to keep headline inflation within the band in the medium-term.

6.2 The Financial Sector Stability Outlook

The projected economic prospects are favorable for the growth and stability of the financial sector. In medium term, the financial sector is expected to remain sound and stable. The capital and liquidity buffers held by the financial sector indicate the resilience and capacity of the sector to withstand shocks. Along with recovering economic activities, the assets quality of lending institutions is expected to improve and further enhance the profitability, capitalization and liquidity of the financial sector.

The financial sector will remain catalyst of the economic recovery. The financial sector has provided support to households and businesses to weather the economic disruption from the COVID-19 pandemic, reflecting the resilience that has been built up and the effective policy responses. As the economy recovers, households and businesses need further support and the financial sector has sufficient resources to continue providing that support.

The payment systems are also expected to remain stable and will continue to operate smoothly without any major interruption. The ongoing RIPPS upgrade will further minimize settlement risk and expand operating hours to allow completion of transaction out of business among other things. Furthermore, the forthcoming interoperability in March 2022 will improve payments efficiency, lowers transaction costs and promote cashless economy.

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