National Bank of Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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Governor

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EXECUTIVE SUMMARY

After a slowdown in real GDP growth (2.5%) in the second half of 2012, the world economy has shown signs of rebound in the first quarter of 2013 growing by 2.8% on annual basis. However, this performance was less than the April 2013 IMF forecast due to lower than expected growth in some emerging economies, recession in the euro area and fiscal contraction in the USA. IMF estimates in July 2013 revised down the global economic growth to 3.1% in 2013, the same level as in 2012. Economy in 2013 is expected to grow by 5.0% in emerging and developing countries and by 1.2% in developed economies.

In Sub-Saharan Africa, economic activity remained dynamic, projected to grow by 5.1% in 2013 from 4.9% in 2012, however, lower than 5.6% indicated in April 2013 forecasts as a result of lower commodity prices, resurging political tensions in the Middle East and Africa and weaker external demand.

Despite these challenges, the Rwandan economy continued to perform well, in line with the annual real GDP projections. The real economic growth was 5.9% in the first quarter 2013 on annual basis, and non-agriculture activities continued to perform well in the second quarter 2013. The National Bank of Rwanda Composite Index of Economic Activities (CIEA) increased by 12.25% on annual basis in June 2013 and total turnovers in industry and services sectors increased by 10.9% in the second quarter 2013 compared to the first quarter of 2013.

The export sector also continued to record good performance. In the first half of 2013, exports value amounted to USD 289.92 million, which is a growth of 46.3%, against 8.5% for imports. The imports cover by exports improved to 25.5% in the first half of 2013 from 18.9% in the corresponding period of 2012. Including informal cross border trade, exports covered 30.2% of imports from 23.6% in the first half of last year.

In response to persistent uncertainties in international and regional environment, the Central Bank maintained a prudent monetary policy stance in order to anchor inflation expectations by keeping the policy rate at 7.5% before revising it down to 7% in June in order to stimulate further economic financing in the second half of 2013.

As a result of prudent monetary policy, coordination of economic policies and good economic performance, the inflation rate has been maintained at low levels in the first half of 2013. Annual headline inflation fell to 3.7% in June 2013 from 5.9% and 3.9% recorded in June and December 2012 respectively.

With regard to exchange rate policy, the BNR continues to maintain a flexible exchange rate regime intervening on domestic foreign exchange market by selling foreign exchange to banks to smoothen FRW exchange rate volatility. After a depreciation of 4.5% in 2012 due to uncertainties around *donors' support, FRW has regained its stability in the first half of 2013 depreciating only by 1.8% as a result of improved external capital inflows.*

For the remaining of the year 2013, the National Bank of Rwanda will continue to implement a prudent monetary and exchange rate policy to ensure that the liquidity in the banking sector is within the desired level consistent with the financial needs of the economy and limiting monetary inflationary pressures.

The Rwandan financial sector continued to be sound and stable throughout the first half of 2013. The banking sector, which dominates the Rwandan financial sector, grew by 10.7% in assets. The banking industry has been profitable, liquid and well capitalized to sustain growth but also resilient to external shocks as a result of strengthened legal, regulatory and supervisory framework. For instance, the Capital Adequacy Ratio (CAR) stood at 23.1%; well above the minimum required Capital Adequacy ratio of 15%, and the non-performing loans (NPL) ratio stood at 6.9% end June 2013.

The microfinance sector recorded a positive performance with 20.8% asset growth from end December 2012 to end June 2013. By end June 2013, the sector registered an increase in deposits (26.6%) and gross loans (7.9%) from FRW 54.5 billion to FRW 68.9 billion and from FRW 59.2 billion to FRW 63.9 billion, in the same period respectively. Additionally, the SACCOs continued to play a significant role in expanding financial access.

The insurance sector recorded good performance as well, with total assets for the sector as of end June 2013 increasing by 26%, from FRW 176 billion end June 2012 to FRW 222 billion. The gross premiums increased by 18% from FRW 33 billion end June 2012 to FRW 39 billion end June 2013. This performance was achieved as a result of two new licensed insurance companies. The liquidity position of the insurers was strong with the current ratio of 350% from 267% as of end June 2012 and this reflects the insurers' ability to pay claims and other current obligations as and when they fall due.

The pension sector performed well during the period under review increasing by 20% in assets, 29% in contributions received from members, and 18% in benefits paid. The sector stands the chance of developing further after the enactment of the pension draft law that is currently in Parliament.

Much progress has been achieved in payment system area. There has been remarkable improvement in the use of Rwanda Integrated Payments Processing System (RIPPS) which allows automatic gross settlements in real time. Retail payment system has also improved. The Automated Teller Machines (ATMs) availability and interoperability were 91% and 86% respectively at the end of June 2013. Japanese Credit Bureau and American Express cards have been introduced on market. The number of ATMs and Points of Sales devices has increased from 292 and 666 to 313 and 797 respectively from December 2012 to June 2013, and debit & credit cards have increased from 389,269 and 418 to 440,875 and 1,179 respectively.

I. OVERVIEW OF ECONOMIC ENVIRONMENT

I.1. Global economy

The world economy has shown signs of recovery in the first quarter of 2013 led by good performance in external sector in developing countries and industrial production in developed economies. However, the developed economies continue to face serious challenges due to weaker domestic demand and financial market volatility which impact the rest of the world.

Economic growth and outlook

After a slowdown in real GDP growth (2.5%) in the second half of 2012, the world economy has shown signs of rebound in the first quarter of 2013 growing by 2.8% on annual basis, but less than the April 2013 IMF forecast. This underperformance compared to initial projection was due to lower than expected growth in some emerging economies; recession in the euro area and the fiscal contraction in the US. IMF estimates in July 2013 revised down the global economic growth to 3.1% in 2013, the same level as in 2012. In emerging and developing countries, economic activity is forecasted to grow by 5.0% in 2013, while in developed economies, real GDP is expected to grow by 1.2% in 2013, the same rate as in 2012.

In USA, real GDP growth is expected to slow down to 1.7% in 2013 after 2.2% in 2012 mainly due to effects of fiscal contraction and weak global environment. In the second quarter 2013, real GDP increased by 1.7% from 1.1% in the previous quarter.

In the Euro area, the economy is still constrained by continuing debt crisis together with weak domestic and external demand as well as weak credit market. The economic activity is projected to contract again by 0.6% in 2013, the same level as in 2012 and should recover gradually late in 2014. Real GDP contracted by 1.1% and 0.9% in the first and second quarters 2013 respectively.

In Japan, economic activity is projected to increase by 2.0% in 2013 against 1.9% in 2012 supported by high private consumption and net exports resulting from accommodative monetary policy, fiscal stimulus and by structural reforms. On quarterly basis, real GDP grew by 4.1% and 2.9% in the first and second quarter 2013 respectively.

In emerging and developing countries, the economy continues to recover supported by developing Asian countries whose economy is expected to grow by 6.9% in 2013 from 6.5% in 2012 driven by good performance in China and India. China economic growth in the first and second quarters 2013 was 7.7% and 7.6% respectively while in India, the real GDP is estimated to grow by 5.1% in the second quarter 2013 from 4.8% in the first quarter 2013. According to IMF forecasts in July 2013, economic growth in 2013 is expected to be 5.6% and 7.8% in India and China respectively.

In Sub-Saharan Africa, backed by improved economic policies and strong investment, economic activity remained quite dynamic, projected to grow by 5.1% in 2013 from 4.9% in 2012, supported by large scale infrastructure and the development in services and industries. This expected growth is slightly lower than 5.6% indicated in April 2013 forecasts as a result of lower commodity prices, resurging political tensions in the Middle East and Africa and weaker external demand.

In EAC, Rwanda and Tanzania are expected to have the highest economic growth, 7.5% and 6.8% respectively in 2013, from 8.0% and 6.9% achieved in 2012, followed by Uganda (6.2%), Kenya (4.9%) and Burundi (4.3%).

Inflation and Commodity Prices

In the first half of 2013, inflationary pressures remained low in most of developed countries while volatile in emerging and developing countries. In June 2013, US inflation was at 1.8% from 1.5% and 1.7% respectively in March 2013 and December 2012. In Euro zone, inflation reduced to 1.6% in June 2013 from 1.7% in March 2013 and 2.2% in December 2012 while in UK, it was up to 2.9% in June 2013, from 2.7% in December 2012 and 2.8% in March 2013. In Japan, deflationary pressures eased to -0.3% in May on annual basis, from -0.9% in March 2013 and -0.1% in December 2012.

In Sub-Saharan Africa, inflation slowed down in most of countries as result of more stable global commodity prices, favourable weather conditions and tight monetary policy. With regard to EAC countries, inflation pressures kept on declining trend, due to better economic performances and efficient monetary and fiscal policies.

In June 2013, due mainly to rising food prices, inflation rose in Kenya to 4.9% from 4.1% in March 2013 and 3.2% December 2012, in Burundi to 11.4% from 5.9% and 11.8% recorded in March 2013 and December 2012 respectively and, moderately in Rwanda to 3.7% from 3.3% in March 2013 and 3.9% in December 2012. Inversely, inflation declined in Uganda to 3.4% in June 2013 from 4.0% in March 2013 and 5.3% in December 2012 and in Tanzania to 7.6% from 9.8% in March 2013 and 12.1% in December 2012 driven by slowing food prices.

Table 1: Annual headline inflation in EAC countries, in %

	2012			2013			
	Dec	Jan	Feb	Mar	Apr	May	June
Uganda	5.3	4.9	3.4	4.0	3.4	3.6	3.4
Kenya	3.2	3.7	4.5	4.1	4.1	4.1	4.9
Tanzania	12.1	10.9	10.4	9.8	9.4	8.3	7.6
Burundi	11.8	7.6	9.4	5.9	3.0	8.2	11.4
Rwanda	3.9	5.7	4.8	3.3	4.4	3.0	3.7

Source: EAC Central Banks websites

On the commodity markets, prices were declining during the first half of the 2013 on weak economic prospects. Compared to December 2012, energy prices fell by 1.5% in June 2013 while non-energy prices declined by 6.9% led by declining agriculture prices (-4.2%), fertilizers (-10.0%), metals (-12.5%) and by precious metals (-23.0%). The slowdown in agriculture prices was driven by declining beverages prices (-7.6%) of which tea prices in Mombasa Auction (-25.0%), Arabica coffee (-9.5%) and Robusta coffee prices (-6.0%) and by price in agriculture raw materials (-4.4%). Similarly, crude oil prices dropped by 1.4% in June 2013 compared to December 2012 while brent crude prices were down by 6.0% to USD 103.11/barrel compared to USD 109.68/barrel recorded in December 2012.

Chart 1: Developments in Brent prices (USD/barrel)

For the near future, oil prices are expected to reduce with future contracts for December 2014 trading at USD 98 per barrel due to expectations that global oil demand will decline in the second half of 2013. However, following fears of Middle East supply disruptions and expectations of improving US demand, oil prices went up again to around USD 107.7 in July 2013.

Financial Markets

Central Banks in major developed countries kept accommodative monetary policies to support the economic activity, by maintaining their rates at very low levels; 0.25% in the USA, 0.5% in the Euro Area and UK and 0.1% in Japan.

Consistent with moderate economic recovery in the USA and following easing financial stresses in the Euro Area, 10-year government interest rates increased to 2.49% from 2.13% in the USA, 1.73% from 1.51% in Euro Area, 2.44% from 2.00% in the UK while slightly declining to 0.85% from 0.86% in Japan respectively in June and May 2013.

On the foreign exchange market, the USD appreciated against other hard currencies on positive economic performance in the USA. It appreciated by 4.1% versus the GBP and by 11.6% against the Yen in the first quarter 2013, while it slightly depreciated by 0.8% versus the Euro. In the second quarter, the dollar appreciated by 7.1% versus the Yen and by 0.9% versus the Euro and the GBP.

I.2. National economic performance

The Rwandan economy remains resilient, continuing to grow at a sustained path while recording moderate inflation and relatively stable FRW exchange rate regardless of global uncertainties. The external sector continues to perform well, with exports increasing significantly despite the decline in some international commodity prices.

Economic growth

After 8.0% in 2012, the real economic growth stood at 5.9% in the first quarter 2013 on annual basis, in line with the 2013 projection of 7.5% for the whole year.

Table 2: Rwanda Real GDP growth (quarterly on annual basis, in %)

	2011					2012					2013	
	Q1	Q2	Q3	Q4	Ann	Q1	Q2	Q3	Q4	Ann	Q1	Ann
GDP	**6.5**	**6.1**	**11.9**	**8.4**	**8.2**	**7.0**	**9.4**	**6.9**	**8.8**	**8.0**	**5.9**	**7.5**
Agriculture	**0.7**	**0.4**	**8.5**	**8.7**	**4.7**	**3.4**	**3.8**	**1.8**	**3.2**	**3.0**	**5.5**	**6.7**
Food Crops	0.4	0.4	9.4	9.4	5.0	4.1	4.1	2.5	2.5	3.2	5.4	7.0
Industry	**14.9**	**14.3**	**22.4**	**18.6**	**17.6**	**1.2**	**9.2**	**7.3**	**10.9**	**7.2**	**14.3**	**9.1**
Manufacturing	-2.3	9.7	18.5	5.9	8.1	3.6	-0.1	-10.8	-2.4	-3.0	0.0	4.6
Construction	24.3	18.6	24.4	26.5	23.6	-0.7	16.8	25.1	21.8	15.4	23.5	12.0
Mining and quarrying	109.4	9.0	45.9	58.5	49.7	1.1	-0.4	-15.6	-19.5	-9.8	5.6	9.4
Electricity, gas, & water	8.4	12.9	19.5	19.4	15.2	23.0	16.2	15.5	13.9	16.9	7.8	17.8
Services	**7.9**	**9.8**	**12.1**	**5.9**	**8.9**	**12.7**	**13.4**	**11.0**	**12.1**	**12.2**	**4.0**	**7.0**
Wholesale and Retail	4.7	10.9	17.2	7.8	10.2	14.9	11.1	14.2	9.1	12.2	3.6	6.0
Hotels and Restaurants	10.2	-3.6	5.0	4.3	3.9	13.3	13.3	4.4	0.1	7.5	-7.6	8.4
Finance and Insurance	28.5	33.6	40.3	-11.0	20.3	8.6	16.4	3.9	46.5	17.5	7.0	9.9
Public administration	10.1	18.2	18.7	11.7	14.7	10.2	22.2	1.6	16.0	12.1	18.5	5.6
Education	18.0	18.0	18.0	18.0	18.0	6.3	6.3	6.3	6.3	6.3	7.2	7.7
Health	-4.3	20.1	-8.4	2.6	2.1	10.7	6.0	9.4	14.2	10.1	3.4	5.9

Source: National Institute of Statistics of Rwanda (NISR)

The first quarter 2013 growth was mainly driven by good performance in industry (+14.3%) and agriculture (+5.5%) sectors, while services recorded a moderate growth of 4.0%. High growth in industry sector is attributed mainly to construction (+23.5%), while good performance in agriculture production was on account of food crops (+5.4%) and export crops (+27.8%). Indeed, the harvest in the season 2013A has increased by 7.8% compared to 4.4% recorded in the same period of 2012.

Non-agriculture economic activities also continued to perform well in the second quarter of this year as evidenced by the National Bank of Rwanda Composite Index of Economic Activities (CIEA) which increased by 12.25% on annual basis in June 2013 from 18.7% in March 2013. Furthermore, total turnovers in Industry and Services sectors increased by 10.9% in the second quarter 2013 compared to the first quarter of 2013. Compared to June 2012, turnovers in Industry rose by 19.0% against 15.1% in Services in June 2013, however less than 20.2% and 32.9% recorded in the same period of 2012. Improved economic activity in the second quarter 2013 were supported by the banking system which granted more loans amounting FRW 122.9 billion from FRW 97.6 billion in the first quarter, as the liquidity in the banking system increased following higher Government spending.

External Sector

In the first half of 2013, formal exports and imports increased both in value and volume. Exports value amounted to USD 289.92 million, which is a growth of 46.3% compared to the first half of 2012, while its volume increased by 27.1%. Imports CIF value amounted to USD 1,135.3 million from USD 1,046.8 million in the same period of 2012, resulting in a slightly improved trade deficit of USD 845.4 million from USD 848.3 million recorded in the same period of 2012. Imports cover by exports has increased to 25.5% in the first half of 2013 from 18.9% in the corresponding period of 2012. Including informal cross border trade, exports covered 30.2% of imports CIF from 23.6% in the first half of 2012.

By end June 2013, gross official reserves of National Bank of Rwanda translated into 3.7 months of imports of goods and services from 3.3 end December 2012.

1. Exports

Rwandan exports remain dominated by few traditional agriculture export products such as tea, coffee and pyrethrum as well as some minerals which represented 58.8% of total value of exports in the first half of 2013. This concentration of exports makes the Rwanda export sector vulnerable due to different factors including weather conditions and fluctuations in international prices.

Table 3: Major exports developments (Value FOB in millions of USD, Volume in thousands of tons)

	2011	2012	Jan–June 2012	Jan–June 2013	% change
Coffee					
- Value	74.60	60.89	12.01	20.21	68.29
- Volume	15.60	16.99	3.39	6.93	104.23
- Price, USD/KG	4.78	3.58	3.54	2.92	-17.6
Tea					
- Value	63.90	65.72	33.53	31.7	-5.45
- Volume	23.73	22.45	11.91	11.52	-3.28
- Price, USD/KG	2.69	2.93	2.82	2.75	-2.24
Mining					
- Value	151.43	136.07	64.64	114.87	77.72
- Volume	8.85	7.53	3.69	4.57	23.86
Cassiterite					
- Value	96.82	52.90	27.2	31.43	15.53
- Volume	6.95	4.64	2.32	2.36	1.5
- Price, USD/KG	13.93	11.41	11.72	13.34	13.82
Coltan					
- Value	38.58	56.91	23.73	69.04	190.95
- Volume	0.89	1.14	0.54	1.15	111.57
- Price, USD/KG	43.35	49.72	43.55	59.89	37.52
Wolfram					
- Value	16.03	26.26	13.71	14.41	5.12
- Volume	1.01	1.75	0.83	1.06	28.84
- Price, USD/KG	15.93	15.00	16.61	13.55	-18.41
Hides and Skin					
- Value	7.62	14.37	4.95	7.25	46.56
- Volume	6.22	10.03	3.67	4.56	24.21
- Price, USD/KG	1.22	1.43	1.35	1.59	17.99
Pyrethrum					
- Value	4.51	9.71	4.53	3.82	-15.7
- Volume	0.02	0.04	0.02	0.02	-10.1
- Price, USD/KG	240.37	257.86	259.14	242.99	-6.23
I. Sub Total Main Exports					
- Value	302.06	286.76	119.65	177.85	48.64
- Volume	54.42	57.04	22.68	27.59	21.66
II. Other Exports					
- Value	48.35	88.00	36.53	44.23	21.08
- Volume	93.06	174.59	74.14	80.71	8.86
III. Re-exports					
- Value	36.50	107.99	42	67.85	61.54
- Volume	19.38	57.05	24	45.24	88.5
Total General					
- Value	**386.91**	**482.75**	**198.2**	**289.9**	**46.3**
- Volume	**166.85**	**288.67**	**120.8**	**153.5**	**27.1**

Source: BNR, Statistics Department

In the first half of 2013, despite a decline of 5.5% in tea value exports, traditional exports (coffee, tea and minerals) value increased by 51.4% amounting to USD 166.8 million from USD 110.2 million in the first half of 2012. Coffee exports recorded good performance increasing highly in value and volume respectively by 68.3% and 104.2%, despite a decrease of 17.6% in coffee unit price.

Regarding the mining sector, total value exports increased by 77.7% attributed mainly to coltan exports (+191.0%). Wolfram exports increased by 28.8% in volume and 5.1% in value as its price declined by 18.4 while cassiterite exports increased by 15.5% in value and 1.5% in volume as its price increased by 13.8% in unit price.

Non-traditional exports recorded a good performance as well, increasing by 8.9% in value from USD 74.1 million to USD 80.7 million in the first half of 2013, mainly attributable to milling products, beverages, cereals, cosmetic and textiles products. Companies like BRALIRWA, BAKHRESA, INYANGE and STEEL RWANDA contributed a lot to this performance. The major part of these non-traditional exports was exported to the DRC and Burundi showing Rwanda's potential in regional trade.

Table 4: Evolution of main non-traditional exports (Value FOB in millions of USD, Volume in thousands of tons)

	Jan-June 12		Jan-June 13		% Change	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**
Livestock	2.43	3.63	2.24	3.45	-8.2	-4.9
Edible Vegetables, roots and tubers	13.91	1.79	18.19	3.08	30.7	72.5
Cereals	0.70	0.12	4.32	1.32	515.2	1042.3
Products of the milling industry	21.91	10.53	26.17	14.18	19.4	34.7
Mineral Water and Beer		3.90		3.57		-8.4
Cement	13.09	1.30	9.22	1.34	-29.6	2.8
Cosmetic products	0.17	0.59	0.35	0.90	108.3	52.2
Textiles and textile articles	0.03	0.12	0.06	0.27	84.9	119.8
Footwear		0.68		0.09		-87.2
Handcrafts	0.01	0.17	0.01	0.09	-39.0	-49.5
Iron scraps	4.37	0.49	4.38	0.34	0.3	-29.8
Iron and steel	1.93	1.83	2.24	2.53	16.2	38.8

Source: *BNR, Statistics Department*

Re-exports, dominated by petroleum products, minerals, machines and engines and vehicles increased by 61.5% in value and 88.5% in volume.

2. Imports

In the first half of 2013, total imports CIF increased both in value and volume by 8.7% and 17.9% respectively. Imports of consumer goods which account 28.6% of total import in value, increased by 18.2% in volume and by 16.5% in value. They are composed of food products, beverages and tobacco, clothings, health and care, goods for domestic use and some other consumer goods. Food products which represent 36.9% of the value of consumer gods increased by 6.9% and 20.2% in value and in volume respectively.

Table 5: Formal imports developments (Value CIF in millions of USD, Volume in thousands of tons)

	Jan –Jun 2011		Jan – Jun 2012		Jan-June 2013		% change	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	**Value**
IMPORTS	**617.5**	**857.1**	**765.3**	**1046.5**	**902.1**	**1135.3**	**17.9**	**8.5**
CONSUMER GOODS	**201.6**	**262.6**	**247.9**	**278.7**	**293.1**	**324.8**	**18.2**	**16.5**
of which Food products	151.4	93.3	186.0	112.2	223.6	119.9	20.2	6.9
Health and care	14.7	69.3	16.2	54.7	19.0	92.6	17.5	69.3
Goods of domestic use	5.9	16.4	6.9	16.1	8.0	19.7	15.8	22.4
CAPITAL GOODS	**23.7**	**206.4**	**32.2**	**293.8**	**27.6**	**297.1**	**-14.2**	**1.1**
of which Transport Materials	4.7	39.2	9.0	62.0	7.6	50.2	-15.4	-19.0
Machines, devices and tools	9.1	104.4	13.1	173.7	12.4	177.5	-5.4	2.2
INTERMEDIARY GOODS	**285.2**	**240.5**	**363.5**	**299.1**	**442.0**	**312.2**	**21.6**	**4.4**
of which Construction materials	156.4	83.7	198.1	108.6	253.0	101.7	27.7	-6.3
Industrial products	98.5	115.0	134.7	135.7	152.2	156.9	**13.0**	**15.6**
Fertilizers	21.4	20.8	17.6	18.8	21.9	21.1	24.2	12.2
ENERGY AND LUBRICANTS	**107.0**	**147.6**	**121.7**	**174.9**	**139.5**	**201.2**	**14.6**	**15.0**
of which fuel	102.3	140.4	116.1	165.6	134.9	191.5	**16.2**	**15.6**
Trade balance		**-701.1**		**-851.3**		**-845.4**		**0.7**
Imports cover by exports, in %		**18.2**		**18.7**		**25.5**		**-**

Source: *BNR, Statistics Department*

Imports of health and care products representing 28.5% of the total CIF value of consumer goods increased by 17.2% in volume and 69.2% in value, as a result of the sharp increase in imports of pharmaceutical products.

Capital goods which are dominated by transport materials and machines, devices and tools, accounting for 26.2% of total imports increased in value by 1.2% while their volume declined by 14.1%. Transport materials fell in both value and volume by 19.0% and 15.2% respectively while import of machines, devices and tools which represent 59.7% of capital goods import value, decreased by 5.0% in volume and rose by 2.3% in value compared to their level in the first half of 2012.

The imports of intermediary goods in the period under review represented 27.5% of total imports value. They rose by 5.0% in value and by 21.6% in volume, driven by industrial products and construction materials. The imports of construction materials increased by 27.8% in volume and decreased by 5.0% in value, of which a big part is attributed to cement and other similar products.

Imports of industrial products in the first half of 2013 increased in both value and volume by 15.7% and 13.0% respectively, largely attributed to import of raw materials for woods industries (+43.5%), food industries (+30.2%) and chemical industries (+7.2%). Also, import of fertilizers increased both in value and volume by 12.4% and 24.1% respectively, in line with the Government policy to promote the use of fertilizers in agricultural sector to improve its productivity.

Domestic demand for energy and lubricants continued also to increase, leading to higher imports which rose in volume by 14.6% and by 15.0% in value, attributed to petroleum products accounting for about 95% of the total imports of energy and lubricants.

Trade with EAC countries

In the first half of 2013, Rwandan exports to EAC countries amounted to USD 70.57 million from USD 57.64 million in the first half of 2012, an increase of 22.4%. Imports from EAC countries declined by 2.0%, amounting to USD 260.79 million. These developments have narrowed the trade deficit to USD 190.22 million from USD 208.34 million in the first half of 2012.

Table 6: Trade flow of Rwanda within EAC bloc (USD million)

	2010	2011	2012	Jan-Jun.12	Jan.-Jun. 13	% Change
Exports to EAC	54.16	80.70	115.59	57.64	70.57	22.4
Imports from EAC	513.35	785.77	532.56	265.98	260.79	-2.0
Trade balance	**-459.19**	**-705.07**	**-416.96**	**-208.34**	**-190.22**	**8.7**

Source: BNR, Statistics Department

Rwanda's main exports to EAC countries in the first half of 2013 were tea (Mombasa auction), raw hides and skins of bovine, coffee, bars and rods of iron or non-alloy steel, leguminous vegetables, and beer made from Malt. On the other hand, major imports from EAC countries were cement, refined and non-refined palm oil, animals or vegetable fats and oils, mineral or chemical fertilizers, worn clothing and other worn articles, cane or beet sugar and chemically pure sucrose, among others.

Informal Cross-border trade

With regard to the informal cross-border trade, total exports increased by 10.2% and amounted to USD 56.26 million from USD 51.04 million in the first half of 2012 and represented about 19.4% of formal exports. Conversely, informal imports decreased by 10.5% from USD 10.48 to USD 9.39 million in the same period, leading to an increase of 15.6% in Rwanda's positive cross border trade balance (USD 48.88 million).

Table 7: Rwanda informal cross border trade (in USD millions)

	2010	2011	2012	Jan-Jun. 12	Jan-Jun. 13	% Change
Exports	48.85	71.51	101.77	51.04	56.26	10.2
Imports	35.17	23.51	22.63	10.48	9.39	-10.5
Trade balance	**13.68**	**48.00**	**79.13**	**40.56**	**46.88**	**15.6**

Source: BNR, Statistics Department

Informal cross border exports were dominated by transactions with the DRC accounting for 82% of total exports while imports were mainly from Uganda with a share of 56%. Globally, agriculture products and livestock are the major commodities traded in informal cross border exports. They include dried beans, bovine cattle, maize flour and beef. The main imported products from under cross border trade are coffee parches, Irish potatoes, whiskies, bananas for cooking, maize, husked rice and live poultry for 52% of total cross border imports.

Informal cross border exports of industrial products have also recorded good performance in the first half of 2013. Products such as maize flour, wheat flour, domestic metals, plastic products, petroleum products, sugar were dominating, representing 23% of this category.

II. MONETARY SECTOR DEVELOPMENTS

During the first half of 2013, Rwanda has managed to achieve low and stable inflation and the FRW exchange rate stabilized compared with the situation in the second half of 2012. These positive achievements are a result of good coordination of monetary and fiscal policies and effective use of monetary policy instruments.

II.1 Monetary Policy Stance

In the first half of the year 2013, the Central Bank maintained a prudent monetary policy stance in order to anchor inflation expectations by keeping the policy rate at 7.5%. A mix of monetary policy instruments was used to ensure that liquidity level in the economy is within June 2013 targets. However, considering the developments in the economic fundamentals in the first half of 2013 marked by mitigated risk for monetary inflation, on June 18th 2013 the Central Bank monetary policy committee decided to cut the key repos rate from 7.5% to 7% in order to stimulate further economic financing in the second half of 2013.

II.2 Inflation

The inflation rate has been maintained at low levels since 2012 as a result of prudent and efficient monetary policy, good economic performance and well-coordinated economic policies to limit the impact of exogenous shocks, easing inflationary pressures in trading partners as well as stable international oil prices.

Annual headline inflation fell to 3.7% in June of 2013 from 5.9% and 3.9% recorded in June and December 2012 respectively. Core inflation (excluding seasonal and volatile prices of fresh food and energy) was 3.4% in June 2013 after 6.8% and 3.9% in June and December 2012 respectively.

Table 8: Headline annual inflation by origin and category, in %

	2011	2012	2013					
	Dec.	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**Jun.**
Overall inflation	**8.3**	**3.9**	**5.7**	**4.8**	**3.3**	**4.4**	**3.0**	**3.7**
Local Goods	8.3	4.1	6.3	5.0	3.2	4.5	2.9	4.1
Food and non-alcoholic beverages	11.2	7.9	8.3	4.7	1.9	4.1	2.6	4.4
Fresh food	8.3	10.0	10.7	1.8	-3.8	0.0	0.4	6.3
Vegetables	8.7	9.4	11.6	1.9	-3.5	2.5	1.4	10.8
Imported Goods	8.6	3.2	3.0	4.0	3.4	4.0	3.5	1.9
Energy	9.3	5.7	5.6	8.5	4.6	6.4	2.5	0.9
Underlying inflation	**8.3**	**3.9**	**4.7**	**5.1**	**4.8**	**5.2**	**3.5**	**3.4**

Source: *BNR, Statistics Department*

In terms of origin, moderate inflation rate was largely attributed to domestic inflation which stood at 4.1% in June 2013 from 6.8% and 4.1% in June and December 2012 respectively. Imported inflation significantly slowed down to 1.9% in June 2013 from 2.7% and 3.2% respectively in June and December 2012, partially offsetting the impact of domestic inflation.

II.3. Money Supply and Demand

Consistent with the monetary policy stance, broad money supply M3 exhibited lower growth (8.6%) between December 2012 and June 2013 compared to 12.7% recorded in the same period of last year. The moderate increase was largely explained by a decline in net credit to Government (-43.3%) following an accumulation of Government deposits boosted by the Eurobond proceeds and increased budget support inflows while the expansion in the credit to the private sector remained moderate, at 5.1% between December 2012 and June 2013 compared to 18.9% recorded in the same period of last year. On annual basis (between June 2012 and June 2013), the outstanding credit to private sector increased by 18.3%, compared to 35.6% recorded between June 2011 and June 2012.

Table 9: Monetary aggregates developments (in FRW billion)

				% Change			
	Dec-12	**Mar-13**	**Jun-13**	**June-12/ Dec-11**	**June-13/ Dec-12**	**June-12/ June-11**	**June-13/ June-12**
Net foreign assets	**555.8**	**475.6**	**676.7**	**-22.6**	**21.7**	**5.9**	**31.7**
Net domestic assets	**334.1**	**409.5**	**289.7**	**213.9**	**-13.3**	**56.3**	**-20.9**
Domestic credit	545.6	628.6	520.8	85.1	-4.5	38.2	-6.0
Central government (net)	-137.2	-76.4	-196.6	75.4	-43.3	-8.5	-276.3
Private sector	**682.5**	**705.4**	**717.1**	**18.9**	**5.1**	**35.6**	**18.3**
Other items net (Assets: +)	-211.5	-219.1	-231.1	-2.9	-9.3	-12.8	-23.0
Broad money M3	**889.9**	**885.1**	**966.4**	**12.7**	**8.6**	**22.3**	**9.8**
Currency in circulation	**107.0**	**105.6**	**116.3**	**8.6**	**8.7**	**9.9**	**4.2**
Deposits	**782.9**	**779.5**	**850.1**	**13.3**	**8.6**	**24.3**	**10.6**
of which: Demand deposits	318.7	318.2	392.5	18.6	23.2	21.4	18.6
Time deposits	299.6	304.1	297.0	15.9	-0.9	30.9	-2.7
Foreign currency	164.6	157.2	160.6	-2.5	-2.4	17.8	21.4

Source: BNR, Statistics Department

Similarly, new authorized loans amounted to FRW 220.5 billion in the first half of 2013 lower than FRW 251.7 billion recorded in the first half of 2012. This slowdown in new authorized loans was mainly explained by commercial banks policy to enhance their risks management, following the excessively high increase in credit distribution registered in 2012.

However, bank loans to the private sector significantly improved in the second quarter of 2013 compared to quarter 1, amounting to FRW 122.9 billion against FRW 97.6 billion in Q1 and exceeding the level of authorized loans of Q2 2012. Commerce & Hotel (48.8%), Mortgage industry (19.8%) and Manufacturing industries (6.7%) remained the most financed activities as in the previous periods.

On the money demand side, currency in circulation by end June 2013 increased by 8.6% compared to December 2012 against 8.5% in the same period of last year. Total deposits with the banking system increased by 8.5% against 13.3% registered in the first half of 2012. This increase was entirely attributed to demand deposits which expanded by 23.1%, partially offset by a decline in time deposits and foreign currency deposits which declined between December 2012 and June 2013 by 0.9% and 2.4% respectively.

By category of depositors, Households and Non-profit Institutions Serving Households (NPISH) deposits which account for 51.4% of total deposits increased by 14.8% between end December 2012 and end June 2013 while deposits of other non-financial corporations accounting for 25.3% of total deposits decreased by 1.7% over the period. Social security funds deposits representing 11.4% of total deposits increased by 8.9% between end December 2012 and June 2013.

Table 10: Stock of deposits by institutional sectors (in FRW billion)

	Jun-12	Dec-12	Mar-13	Jun-13	% Change	
					June-13/Dec-12	June-13/June-12
Non-Banks Financial Institutions	62.4	60.0	67.1	74.7	24.7	19.7
Social Security Funds	99.1	89.3	91.3	97.2	8.9	-1.9
Public enterprises	24.1	19.4	23.5	24.8	27.9	3.0
Other non- financial corporations	181.0	218.6	197.9	214.8	-1.7	18.7
Households and NPISH	399.4	380.4	397.6	436.8	14.8	9.4
Total	**766.1**	**767.6**	**777.4**	**848.4**	**10.5**	**10.7**

Source: *Statistics Department*

II.4. Banking system liquidity conditions

Outstanding short term money market instruments owned by the banking system kept on increasing in the first half of 2013, from FRW 145 billion by end December 2012 to FRW 239.3 billion by end June 2013, showing a comfortable level of the banking liquidity.

Table 11: Most liquid assets of commercial banks (in FRW billion)

	2012				2013					
	Jan	Feb	Mar	Dec	Jan	Feb	Mar	April	May	June
T-bills	64.9	52.9	41.9	55.5	72.2	74.5	76.5	83.1	74.2	105.5
Repo	79.3	97.6	109.0	52.5	20.0	20.0	17.1	25.4	54.0	90.2
Excess	11.8	8.6	-9.1	14.8	12.4	16.4	20.3	13.0	13.7	15.3
Cash in vault	16.6	18.1	16.3	22.3	20.8	22.7	20.2	22.7	24.5	28.3
Total	**172.6**	**177.2**	**158.1**	**145.0**	**129.5**	**139.3**	**134.0**	**144.2**	**166.4**	**239.3**

Source: *Monetary Policy and Economic Analysis Department*

II.5. Interest rates developments

With the improvement of short term liquidity in the banking system, money market rates declined. T-bills weighted average rate declined by 1.6 percentage points between December 2012 and June 2013 from 12.4% to 10.8%, while repo and interbank rates dropped from 7.5% and 11.1% to 6.7% and 9.6% respectively.

Table 12: Interest rates (in percentage)

	2012				**2013**					
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
BNR Policy Rates										
Key Repo Rate	7.0	7.50	7.50	7.5	7.5	7.5	7.5	7.5	7.5	7.0
Discount Rate	11.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.0
Money Market Rates										
Repo rate	6.9	7.4	7.5	7.5	7.4	7.4	7.0	7.2	7.1	6.7
Standing Deposit Facility	-	-	-	5.5	5.5	5.5	5.5	5.5	5.5	5.0
Standing Lending Facility	-	-	-	9.5	9.5	9.5	9.5	9.5	9.5	9.0
Treasury Bills Rate	7.7	9.3	12.3	12.4	12.4	12.2	12.2	12.0	12.0	10.8
Commercial Banks										
Interbank Rate	7.7	9.0	10.8	11.1	11.1	10.2	10.0	10.9	10.3	9.6
Deposit Rate	8.2	7.9	8.5	10.0	11.8	10.3	10.4	10.7	11.6	10.6
Lending Rate	16.3	16.8	17.1	16.5	17.1	17.1	17.2	17.3	17.6	17.7

Source: *BNR, Statistics Department*

Regarding market rates, deposit rates have increased from an average of 10.0% in December 2012 to 11.6% in May 2013 before slightly declining to 10.6%. The move was due to increased competition as commercial banks sought to attract new deposits to finance loans. As a result the weighted average lending rate increased from 16.5% to 17.7% between December 2012 and June 2013. However, interest rate spread between lending rate and deposit rate has been reducing over time from 8.9% in June 2012 to 7.1% in June 2013. This trend is attributed to the increasing competition within the banking system as a result of recent reforms in the financial sector leading to a network expansion, with new banks and new products.

III. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

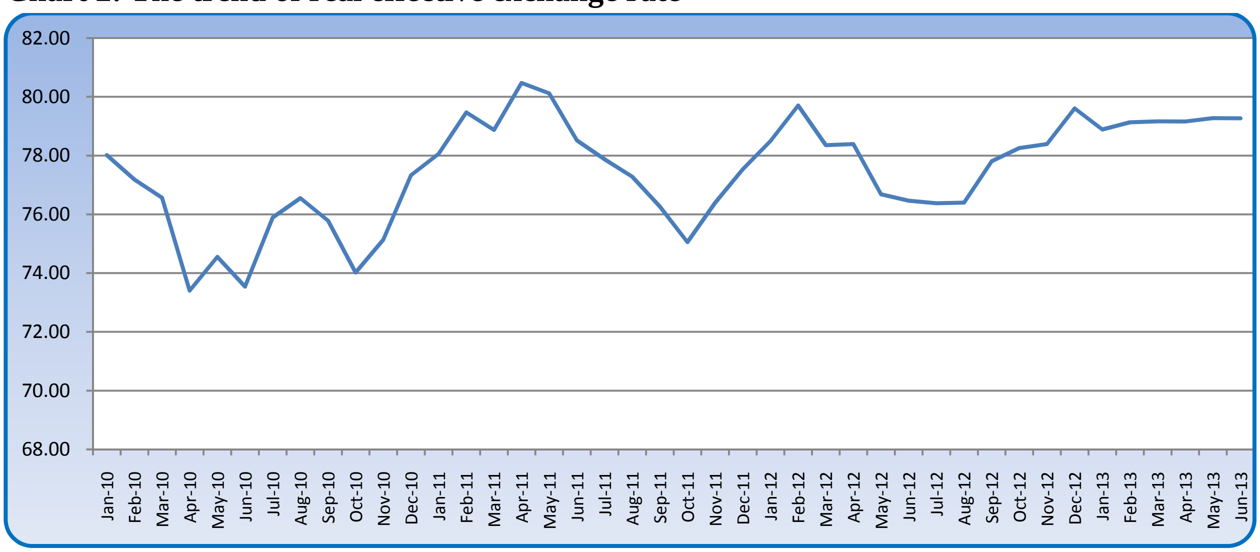
III.1. Exchange rates developments

In the first half of 2013, the FRW has regained its stability depreciating moderately by 1.8%, trading between FRW 631.41 end December 2012 and 642.66 end June 2013 against a depreciation of 4.5% recorded for the whole year 2012. In the same period, FRW appreciated by 5.0% against the GBP and slightly depreciated by 1.2% versus the EURO.

Similarly, the FRW depreciated against all EAC currencies by 1.7%; 0.3%; 4.3% and 0.1% versus Kenyan shilling, Tanzanian shilling, Ugandan shilling and Burundian franc respectively.

Following a appreciation recorded in the second half of 2012, the FRW Real Effective Exchange Rate (REER) has quite stabilized in the first half of 2013. Indeed, the moderate bilateral depreciation against USD, EURO and GBP recorded during the period has been offset by a moderate inflation differential with most of trading partners.

Chart 2: The trend of real effective exchange rate



Source: BNR, *Monetary Policy and Economic Analysis Department*

III.2. Domestic foreign exchange market

There have been a number of developments in the domestic foreign exchange market which led to its improvement. The Central Bank has spearheaded the establishment of the Dealers' Association in order to ensure an organized domestic foreign exchange market. This has not only enforced rules of the game, but also provided the platform for information sharing and capacity building.

Besides, the foreign exchange resources in the banking system have increased by 2.6% in the first half of 2013 compared to the same period of last year. However, this increase has not been sufficient enough to meet the high demand for imports. Consequently, the Central Bank intervened on the Foreign exchange market by selling to banks USD 118.78 million in the first half of 2013.

Table 13: Foreign Capital flows (Jan-June, in USD million)

	Jan-Jun 2011	Jan-Jun 2012	Jan-Jun 2013
Commercial banks resources	1,315.6	1,525.7	1,565.4
Exports receipts	142.6	166.1	240.6
Receipts on services	137.7	162.4	165.1
Private transfers received	901.2	968.8	1,041.0
Purchases forex from NBR	134.1	228.5	118.8
Commercial banks expenditures	**1,445.6**	**1,470.3**	**2,053.4**
Imports of goods	860.8	937.1	1,531.8
Imports of services	226.3	216.9	218.9
Private transfers paid	284.2	242.5	284.4
Sales to Forex Bureaus	74.3	73.8	18.4
Deficit (-) Excess (+)	**-130.0**	**55.4**	**-488.0**
Memorandum items			
Budget Support	181.5	88.7	195.6
Government Projects	67.9	132.8	116.9
Sovereign bond proceeds		0.0	400.0

Source: *BNR, Statistics Department*

IV. FINANCIAL SECTOR STABILITY

In the period under review, the financial system mainly composed of banks, microfinance and non-banking financial institutions, remained robust and healthy. This has been achieved owing to the implementation of strengthened legal and regulatory frameworks for the supervised sectors and payment systems that continue to be among BNR top priorities. In addition, the operationalization of the financial stability committee has added value to the analysis of the financial system as a whole by clearly identifying the system's vulnerabilities and devising appropriate response mechanisms.

IV.1. Financial sector soundness

Banking Sector

The banking sector is composed of nine commercial banks, three microfinance banks, one development bank and one cooperative bank. Commercial banks have 80.5% of the total sector assets.

The sector continues to record good performance as evidenced by capitalization, assets, profitability and liquidity indicators. This is an indication of adequate supervision and good macroeconomic environment.

In the first half of 2013, the sector grew by 10.7% in its balance sheet. In absolute terms, total assets amounted to FRW 1,381.2 billion end June 2013 compared to FRW 1,247.7 billion end December 2012. The growth in total assets is mainly attributable to loans (on-balance sheet) that registered an increase of 5.5% from FRW 747.3 billion end December 2012 to FRW 788.2 billion end June 2013. The growth in loans is an indication of the sector's performance in resource allocation to investors and good performance of the economy. The banking sector continues to mobilize resources, as deposits registered an increase of 11.5% end June 2013 from FRW 844.0 billion end December 2012 to FRW 940.7[1] billion end June 2013.

Furthermore, the banking sector is quite strong to mitigate possible shocks as evidenced by the prudential assessment indicators such as asset quality, capital adequacy, liquidity and earnings. The non-performing ratio (NPL ratio) as measure of

[1] Figures also include BRD and non-residents data which are not captured in the monetary survey

quality of assets stood at 6.9% end June 2013 compared to 6.7% and 5.8% for end December 2012 and June 2012 respectively. The capital adequacy ratio (CAR) that measures the sector's capital strength to withstand risks stood at 23.1% end June 2013 compared to 23.9% recorded in December 2012 and far above the BNR's regulatory minimum capital of 15% and the Basel Committee benchmark of 10%.

Table 14: Key soundness indicators, in percent

Indicator	2012			2013	
	June	September	December	March	June
Solvency ratio (total capital)	25.1	24.1	23.9	24.6	23.1
NPLs / Gross Loans	5.8	6.3	6.0	6.7	6.9
NPLS net/Gross loans	4.2	5.0	5.4	5.9	3.2
Provisions / NPLs	51.1	49.3	53.6	49.0	54.8
Earning Assets / Total Assets	81.4	79.0	79.5	80.6	80.8
Large Exposures / Gross Loans	9.5	11.8	9.1	8.4	8.0
Return on Average Assets	2.2	2.3	2.2	2.5	2.1
Return on Average Equity	10.6	11.1	10.4	11.9	9.9
Cost of deposits	2.9	2.6	2.9	3.5	3.5
Liquid assets/total deposits	47.6	40.2	41.2	40.5	46.2
Forex exposure/core capital	-1.5	0.2	-0.3	-1.1	-3.0

Source: *BNR, Bank Supervision Department*

The sector remains profitable with a net profit of FRW 14.0 billion end June 2013 against FRW 12.9 billion end June 2012. Return on assets (ROA) and return on equity (ROE) stood at 2.1% and 9.9% respectively compared to 2.2% and 10.6% recorded end June 2012. The liquid assets to total deposits ratio which measures liquidity position of the sector stood at 46.2% end June 2013 against 47.6% end June 2012 and higher than 20% benchmark required by BNR.

Microfinance Sector

The Microfinance Sector that comprises 490 institutions of which 12 are limited companies and 478 SACCOs including 416 UMURENGE SACCOs, has a wide coverage in the country. Its asset size registered an increase of 20.8% from December 2012 to June 2013, rising from FRW 101.0 billion to FRW 122.1 billion. The increase was mainly driven by the liquid assets and gross loans which increased by 43.8% and 7.9%, moving from FRW 33.1 billion to FRW 47.6 billion and from FRW 59.2 billion to FRW 63.9 billion, respectively.

Table 15: MFIs performance indicators (UMURENGE SACCOs included, in billions of FRW, unless otherwise indicated)

Indicator/Benchmark	31-Dec-11	31-Dec-12	30-Jun-13	Jun.13/Dec.12 (%)
Total Assets	77.4	101.0	122.1	20.8
Total Liquid Assets	32.8	33.1	47.6	43.8
Gross loans	40.7	59.2	63.9	7.9
Total Deposits	45.9	54.5	68.9	26.6
Demand Deposits	36.6	40.4	53.3	31.9
Net Equity	20.2	30.1	38.5	27.8
NPL Ratio (5% Max)	12.0%	8.5%	8.9%	n.a
Liquidity Ratio-Quick (30% Min)	89.5%	81.9%	89.3%	n.a
Capital Adequacy Ratio (15% Min)	26.1%	29.8%	31.5%	n.a

Source: *BNR, Microfinance Supervision Department*

The Microfinance Sector continues to grow while remaining liquid and well capitalized. Prudential norms show that the Capital Adequacy Ratio (CAR) stands at 31.5% well above the minimum regulatory requirement of 15%; the liquidity ratio stands at 89.3% against the minimum required of 30% and the non-performing loans ratio remains stable standing at 8.9% in June 2013 from 8.5% in December 2012.

UMURENGE SACCOs recorded a growth of 31.5% in deposits, reaching FRW 37.0 billion end June 2013 from FRW 28.2 billion end December 2012 and loans granted increased to FRW 16.4 billion in June 2013 from FRW 13.9 billion in December 2012. As a result, total assets increased from FRW 40.9 billion to FRW 54.7 billion, that is an increase of 33.5% for the period under review. The NPLs ratio for UMURENGE SACCOs deteriorated to 6.1% in June 2013 from 5.3% end December 2012. In the same period, the capital adequacy ratio stood at 27.0% and the liquidity ratio increased to 90.5% from 87.5%; well above the regulatory thresholds of 15% and 30% respectively. In addition, 334 UMURENGE SACCOs (80.2%) reached the breakeven in June 2013 compared to 304 in December, 2012, which is a good step towards sustainability in the sector.

Table 16: UMURENGE SACCO performance indicators (in billions of FRW unless otherwise indicated)

Indicator	Dec-12	Jun-13	Var. %
Total Assets	40.9	54.7	33.5
Liquid Assets	22.2	30.60	37.6
Gross loans	13.9	16.4	18.3
Net Loans	13.6	15.9	17.7
Total Deposits	28.2	37.0	31.5
Demand Deposits	21.6	25.4	17.6
Total Equity	10.6	14.8	38.9
NPL Ratio (%)	5.3	6.1	n.a
Liquidity ratio (%)	87.5	90.5	n.a
Capital Adequacy Ratio (%)	25.9	27.0	n.a

Source: *BNR, Microfinance Supervision Department*

Non-Bank Financial Institutions (NBFIs)

The non-bank financial institutions are comprised of insurance and pension sectors, regulated by the National Bank of Rwanda to protect interests of policyholders and pensioners by ensuring that these institutions are financially sound and stable.

Insurance sector

As at 30th June 2013, the insurance sector was composed of 10 private and two public insurers, making a total of 12 insurance companies in the market. In addition, the sector has market players in terms of insurance intermediation mainly composed of nine insurance brokers, 155 agents and eight loss adjusters.

Between June 2012 and June 2013, the insurance sector performance improved well. The total assets of the Rwandan insurance sector reached FRW 222 billion from FRW 176 billion (June, 2012), that is a growth of 26%. The 10 private insurers had total assets of FRW 97 billion representing 44% of the sector's assets while the two public insurers' total assets accounted for FRW 125 billion that is 56% of the sector's total assets.

During the same period, the total capital increased by 39% from FRW 110 billion (End of June, 2012) to 153.7 billion as at June, 2013. The 2 public insurers' total Capital accounted for FRW 118 billion representing 77% of the sector's total Capital.

Table 17: Financial soundness indicators for the insurance sector in billions of FRW unless otherwise indicated

Indicator	Dec-11	June-12	Dec-12	June-13[2]
Total assets	158.2	176.3	197.9	222.3
Total capital	103.2	110.4	135.4	153.7
Total gross premiums	45.7	33.2	67.5	38.2
Underwriting profit	3.4	6.7	16.8	8.2
Total net profit	10.8	12.7	37.5	16.0
Claims ratio (%)	52	46	38	45
Combined ratio (%)	91	77	71	78
Current ratio (%)	245	267	332	350
Return on equity ratio – ROE (%)	12	23	31	24
Return on assets ratio - ROA (%)	8	14	21	16

Source: *BNR, Non-Bank Financial Institution Supervision Department*

[2] These figures include Data from one insurance company that were computed using extrapolation method.

The gross premiums increased by 15% from FRW 33 billion (June, 2012) to FRW 38 billion as at 30th June, 2013. The private insurers recorded a larger share of FRW 22 billion compared with FRW 16 billion of public insurers

Subsequent to the existing regulatory and legal framework, the insurance sector is continuously becoming profitable. In the period under review, the underwriting profit increased by 21% from FRW 6 billion to FRW 8 billion and the profitability after tax increased also by 26% from FRW 12 billion to FRW 16 billion. However, motor insurance product does not perform as good.

Similarly, the liquidity position of the insurers is considered strong as the current ratio stood at 350%. The return on assets increased from 14% to 16% and the return on equity increased from 23% to 24% in the period under review as most of the insurers continue to invest prudently.

Pension sector

Table 18: Public pension sector financial indicators (in billions of FRW unless otherwise indicated)

Indicator	June 2012	June 2013	% Change
Total assets	298.9	357.8	20
Total Contributions Received	42.9	55.3	29
Total benefits paid	8.4	9.9	18
Total investment income	10.7	14.2	40

Source: *BNR, Non-Bank Financial Institution Supervision Department*

The Pension Sector is comprised of one public social security fund and at least 53 private pension schemes managed by insurers.

The sector performed well increasing by 20% in assets, 29% in contribution received from members, and 18% in benefits paid. The sector stands the chance to develop further with the enactment of the draft law on pension that is currently in parliament.

IV.2. Regulatory and supervision framework

Banking Sector

BNR continued to use both offsite and onsite tools to monitor and conduct surveillance of the banking sector performance. During the period under review, five onsite inspections have been conducted as planned, in addition to 10 on-site examinations conducted during the year 2012.

The existing supervisory legal framework has also evolved to match and incentivize product innovations and market penetration so as to serve the rural and poor segments of the population. In the spirit of encouraging financial inclusion, four banks are offering banking agent service and so far registered 1,161 banking agents compared to 844 banking agents licensed during the year 2012. This product has improved the market penetration or banking outreach supplementing the branch network growth. In the period under review the banks' network increased from 1,282 including banking agents to 1,609 between end December 2012 and end June 2013.

Table 19: Banking Outreach Indicators

	Kigali City		Other Provinces		Total	
	2012	June 2013	2012	June 2013	2012	June 2013
Number of Branches	56	55	93	97	150	152
Number of Sub-Branches	42	46	130	134	172	180
Number of outlets	44	43	73	73	116	116
Total branch & outlets	**142**	**144**	**296**	**304**	**438**	**448**
Banking agents	-		-		844	1,161
Total Network					**1,282**	**1,609**
Number of clients accounts	**974,094**	**931,492**	**1,574,193**	**1,64,124**	**2,548,287**	**2,572,616**

Source: BNR, Bank Supervision Department

Currently, the banking law is under review so as to accommodate the market dynamism and allow the implementation of the recommendations as stipulated in the Financial Sector Development Program (FSDP-II). Subsequently, the regulations implementing the banking law will be developed. Similarly, the draft Deposit insurance law is planned to be finalized by the end December 2013; aimed for contingency planning and protecting depositors in times of crises.

For enforcement of implementation of the new regulation on Foreign Exchange Bureaus, on-site inspections were conducted to existing Forex Bureaus during the last quarter of 2012 and first quarter of 2013 before renewal of their licenses and measures were taken where serious weaknesses were found as provided by the regulation.

Microfinance Sector

During the period under review, off-site and on-site inspections were performed on regular basis. The microfinance supervision activity mainly concentrated on the licensing and on-site inspections of SACCOs established in line with UMURENGE SACCO program. It is worth noting that 100% of UMURENGE SACCOs are now fully licensed. On-site inspections were conducted countrywide by inspectors from BNR headquarters jointly with inspectors in districts.

Non-Bank Financial Institutions

During the period under review, BNR accomplished a number of activities relating to strengthening the legal framework and conducting inspections for Non-Bank Financial institutions. These activities include modernization of the reporting system by supervised institutions, publication of the regulation on winding up and dissolution of the insurance companies, follow up of the enactment of the draft pension law currently under examination in Parliament, sensitization of the insurers to be innovative and to look for ways to increase their customer base and consequently increasing the penetration and coverage. The Central Bank also worked with East African Insurance Supervisors on the harmonization of the cross border supervision framework in the region.

IV.3. Access to finance

SMEs financing

The outstanding loans granted to SMEs by banks (excluding MFIs and SACCOs) increased by 14% from FRW 161.9 billion end December 2012 to FRW 183.9 billion end June 2013. This represents 23.3% of the total portfolio of the banking sector.

Women access to finance

Assessment of access to finance by gender indicates that loans granted by banks to women amounted FRW 19.7 billion end June 2013 representing 20.8% of total loans to individuals.

Concerning the microfinance sector access indicators, the number of accounts opened increased by 11.3% between December 2012 and June 2013, with 38.7% of accounts belong to women. In the same period the number of loans increased by 14.4% overall of which 21.2% for women.

Table 20: Outreach in Microfinance Sector

		31-Dec-12	30-Jun-13	% change Jun.13/ Dec.12	% of each group
Number of accounts	Men	1,079,161	1,190,389	10.3	53.8
	Women	784,750	857,139	9.2	38.7
	Groups	124,782	165,868	32.9	7.5
	Total	**1,988,693**	**2,213,396**	**11.3**	**100.0**
Number of loans	Men	90,875	101,606	11.8	64.7
	Women	40,989	49,667	21.2	31.6
	Groups	5,307	5,663	6.7	3.6
	Total	**137,171**	**156,936**	**14.4**	**100.0**

Source: BNR, Microfinance Supervision Department

Youth access to finance

Assessment of youth access to finance indicates that loans granted by banking sector to the Youth (borrowers aged up to 35 years), indicates an upward trend of 57.4%, from FRW 34.5 billion for the first half 2012 to FRW 54.35 billion first half 2013.

IV.4. Credit information system

The private credit reference bureau (CRBAfrica) continues to share credit information with all mandatory participants for the purpose of minimizing credit moral hazards for the credit underwriting process. All financial institutions (Banks, MFIs/SACCOs, Insurance companies and 57% of UMURENGE SACCOs) have signed memorandum of understanding with CRBAfrica and regularly provide data to CRBAfrica. The remaining UMURENGE SACCOs will start sharing credit information by September 2013.

In addition to mandatory participants (financial institutions), voluntary participants such as the utility companies (EWSA) and telecom companies (MTN &TIGO) are sharing credit information regarding their clients.

The private credit bureau coverage by adult population increased to 17.2% end June 2013 from 12.8% in December 2012.

Furthermore, BNR with the support of AfDB has conducted a public awareness campaign on credit reference services in March-April 2013, to sensitize lenders, consumers, participants and policy makers on the role of credit information sharing and consumer rights.

Table 21: Compliance status with CRBAfrica as at end June 2013

Participants	Number of institutions	Credit information held by the credit bureau	Usage of CRBAfrica database		
			Total searches	Successful searches	Successful searches in%
I.Mandatory participants: Banks	14	756,455	26,835	25,577	95
MFIs /SACCOs	54	551,767	3,243	2,965	91
UMURENGE SACCOs	238	11,011	571	485	85
Insurance companies	8	24,069	44	37	84
II. Voluntary participants Utility agency(EWSA)	1	6,805	-	-	-
Telecom companies	2	1,141	77	55	71

Source: CRBAfrica Rwanda

Going forward, the National Bank of Rwanda will continue to ensure improved quality and coverage of credit information sharing with voluntary participants to include retail traders (supermarkets, breweries, etc..), new licensed financial institutions as well as other credit granting institutions. Furthermore, the private credit bureau (CRBAfrica) plans to offer a new product that is credit scoring (a rating method of borrowers allowing lending institutions to access a customer's creditworthiness), by December 2013.

V. PAYMENT SYSTEMS MODERNISATION

A payment system facilitates money movement within the economy. Payment systems are very important for monetary policy implementation and for the financial sector development. This requires an efficient and secure National Payment System (NPS) that ensures smooth and risk free transfers of funds among buyers and sellers.

There has been remarkable improvement in the use of Rwanda Integrated Payments Processing System (RIPPS) which allows automatic gross settlements in real time. Retail payment system has also improved; Japanese Credit Bureau (JCB) and American Express cards have been introduced on the market. Mobile Visa product is operational since April 2012 with two banks and one Mobile Network Operator is linked to two banks to facilitate funds movement between mobile payments and mobile banking wallets of a client. In addition, all commercial banks offer now e-tax payment service.

V.1. Rwanda Integrated Payments Processing System

The Rwanda Integrated Payments Processing System (RIPPS) is composed of three main parts in one platform: an Automated Clearing House (ACH- a netting system), a Real Time Gross Settlement System Transfer System (RTGS) and a Central Securities Depository (CSD). The CSD-Rwanda is closely integrated with the RTGS and operates a settlement cycle of T+2, making it the fastest settlement cycle for the stock exchange in the region. RIPPS has improved the payment lag as now the process of a payment order takes a maximum of one day and a maximum of two hours for banks with a smoothly functioning interface. Before the RTGS was introduced payment orders took a minimum of three days for the beneficiary to obtain funds.

As a result of those developments, customers' transactions and the interbank transfers through RTGS during the first half of 2013 have increased by 29% and 30% respectively in terms of value compared to the first half of 2012.

V.2. Card based payment system and E-commerce

Much progress has been achieved in card based payment system in the first half of 2013. Between December 2012 and June 2013, the number of ATMs increased by 10.7% from 292 to 323 while the number of POS devices increased by 19.7% from

666 in March 2013 to 797 in June 2013. The number of debit cards increased by 13.25%, that is, from 389 269 to 440 875 while the number of credit cards increased by 182.1% from 418 to 1 179.

However, the ATM availability decreased from 94% in March 2013 to 91% in June 2013 due to the frequent hardware and network issues during the first half of 2013; while the ATM interoperability decreased from 87% in March 2013 to 86% in June 2013 mainly due to the increase in the number of ATMs by banks which are not fully interoperable. Three banks are operating POS devices with one of the Banks accepting Visa, MasterCard, China Union Pay (CUP), Dinners Club, Japanese Credit Bureau (JCB) cards and RSwitch proprietary cards.

Table 22: Cards payment infrastructure and performance

Period	Number of ATMs	Number of POS terminals		Number of debit cards	Total number of credit cards	ATM transactions		POS transactions	
		Merchants	Agents						
						Volume	Value (million FRW)	Volume	Value (million FRW)
Dec-12	292	666		389,269	418	5,753,163	180,566.6	54,632	8,487
June 13	323	797	390	440,875	1179	3,943,981	122,354	92,542	6,262

Source: BNR, Payment Systems Department

Regarding E-commerce, Rwandair is offering e-commerce facilities to its clients but also one bank in Rwanda has obtained an e-commerce license and it is planned to go live in August 2013.

V.3. Visa National Net Settlement System and International Acquiring

Eight banks operating 86% of ATMs in Rwanda are participants in Visa National Net Settlement System (NNSS); and the other two banks licensed by VISA are in the certification process. The Visa NNSS facilitates domestic transactions made with Visa cards to be settled in local currency and the Central Bank is the settlement agent. The resultant effect is that the foreign exchange loss that has been experienced by Rwanda banks' clients that use VISA cards does now no longer exist.

With regard to international acquiring, two banks introduced two new international card brands namely JCB and American Express (Amex) on the market. Up to June 2013, international cards were accepted by Rwanda banks terminals as follows:

Table 23: International acquiring

	Visa	MasterCard	China Union Pay	Diners Club	JCB	Amex
Number of Banks	10	1	3	2	1	1

Source: BNR, Payment Systems Department

V.4. Mobile Financial Services, Internet Banking and E-tax payment

With regard to mobile financial services developments, all the three Telecom companies have been licensed to offer mobile payment services by the Central Bank and eight commercial banks are offering mobile banking services and internet banking.

In addition, Visa Rwanda Ltd has developed Mobile Visa (mVisa) product to allow mobile banking services interoperability. Two banks are now live since April 2013. Transactions through mVisa are settled by RIPPS through Visa NNSS. Moreover, one Mobile Network Operator is now linked to two banks to facilitate funds movement between mobile payments and mobile banking wallets of a client.

The transaction figures have registered tremendous growth during the period January –June 2013 as it is shown in the table below.

Table 24: Mobile financial services and internet banking developments

Period	Number of subscribers	Number of transactions	Value in FRW million
Mobile Payment			
Dec 2012	1,440,541	22,191,674	161,808
June 13	2,048,260	21,052,075	134,119
Mobile Banking			
Dec 2012	297,537	1,458,063	3,926
June 13	425,815	1,047,004	9,032
Internet banking			
Dec 2012	3,411	10,036	12,746
June 13	8,229	9,207	7,547

Source: BNR, Payment Systems Department

It is worth highlighting as well that today nine commercial banks offer e-tax payment service. One microfinance bank is still in discussion with RRA, whereas other two banks will go live by July and August 2013 respectively. The remaining one microfinance bank has not yet started the project implementation.

V.5. Remittances services providers

The remittances service is fast becoming a big vehicle for money transfers aimed at facilitating day to day living, construction of residential houses and financing other small investments. In that regard, the National Bank of Rwanda put in place a regulation that opened doors to “stand alone” remittance companies other than the traditional ones. Currently there are 10 licensed remittance companies, which have brought competition into the market.

V.6. Legal and regulatory framework

Subsequent to the existing strong regulatory and legal framework, the payment systems remained safe and sound. Moreover, a regulation relating to cheque truncation was drafted and approved by the BNR Board. The purpose of this regulation is to facilitate the implementation of an effective and efficient payment system by establishing rules and principles for the management of cheque truncation in Rwanda and by specifying the rights and responsibilities of presenting and paying banks under the Cheque Truncation System.

Additionally, a directive on the monitoring of ATMs was approved by the BNR management. The directive aims at establishing minimum requirements applicable to financial institutions in monitoring the Automated Teller Machines (ATMs) they deploy. Regular monitoring will increase the stability, efficiency and safety in card based payment system, therefore creating trust in users.

VI. CAPITAL MARKET DEVELOPMENTS

On the Rwanda Stock Exchange (RSE), equities trading continued on an upward trend. The two counters of BRALIRWA and Bank of Kigali still dominate in volumes, transactions and price changes. From January to June 2013, RSE market recorded a total turnover of FRW 28.1 billion from 66 million shares traded compared to a total turnover of around FRW 7 billion traded in 45.2 million shares for the period in 2012, that is respectively an increase of more than 301.4% and 46% in turnovers and shares.

Concerning the price development, RSE launched the Rwanda Stock Exchange share Index with the main objective of availing the composite report of market performance. The new mechanism will act as a barometer of RSE market performance in general and especially as a weatherglass of the domestic listed companies' performance. Therefore, the RSE Rwanda share Index (RSI) and RSE All Share Index (ALSI) went up by 39.55% and 11.62%, respectively from January 2013 to June 2013. For the same period in 2012 the RSI went up 4.80% whereas the ALSI went down by 11.14%.

On the regulatory framework, the Law regulating the creation of trusts and trustees was published in the Official Gazette nº 25 of 24/06/2013. In addition, three other pieces of regulations were published. These include regulations on compensation scheme; provisional of custodial services and issuance of regional fixed income securities.

VII. POLICY ORIENTATION AND OUTLOOK FOR THE SECOND HALF OF 2013

VII.1. Monetary and exchange rate policy orientation

The Rwandan economy grew by 5.9% in the first quarter 2013 in the line with the 7.5% projected for the whole year. Development in economic activities in the second quarter 2013 as well as prospects for the second half of 2013 indicate that the economy will continue to growth as planned.

During the second half of 2013, the National Bank of Rwanda will continue to implement a prudent monetary and exchange rate policy, using a mix of monetary policy instruments to ensure that the liquidity in the banking sector is within the desired level consistent with the financial need of the economy and limiting monetary inflationary pressures. Headline inflation is expected to continue easing in the second half of 2013 and not exceed the 7.5% end December 2013.

Low inflation rates have been achieved in Rwanda during the last five years, partly supported by proactive monetary policy, coordination between fiscal and monetary policies and stability in nominal FRW exchange rate. However, the sustainability of low and stable inflation over the medium term will depend on different Government measures to complement BNR monetary policy actions. These measures include enhancing capacity for food production and distribution, management of strategic food reserves and management of seeds program.

Going forward, BNR will continue to closely monitor development in underlying factors of inflation so as to take appropriate measures to limit inflationary pressures, using the monetary policy instruments.

VII.2. Financial stability outlook

The outlook for Rwandan financial stability remains positive. As of end June 2013, the financial system remained well performing and stable and resilient to different shocks as proven by stress testing results. The main contributing factor to the prevailing stability of the sector is the governance structures that exist in the supervised institutions, regulatory framework in place and regular prudential meetings as well as continuous off- and on-site inspections performed by BNR. As a result, financial institutions are well capitalized, with satisfactory asset quality, highly liquid and profitable.

Going forward, the BNR is focused towards developing a more modern, competitive, open and inclusive financial system. It is in this line that the Financial Sector Development Program Phase II (FSDP II) has been developed and providing the five year strategic plan.

The objective of the FSDP II is to develop a stable and sound financial sector that is sufficiently deep and broad, capable of efficiently mobilizing and allocating resources to address the development needs of the economy and reduce poverty. FSDP II is a five year programme (2013/14 to 2017/18) comprising four main components to be implemented in the period, namely; financial inclusion; developing financial institutions, markets and the supporting infrastructure; investment and savings to transform the economy; and protecting consumers and maintaining financial stability. The National Bank of Rwanda will focus on implementing reforms therein to further strengthen the financial stability and reinforce the supervisory legal framework to accommodate new market developments all aiming to widen financial access and financial stability.

It is expected that the Rwandan financial system will face some challenges due to the unfavorable global and regional economic outturn. Mindful of the potential risks to the financial stability, the BNR remains vigilant in its regular supervision of the financial system for any early warning and committed to take proactive actions accordingly. Through its Financial Stability Committee, the BNR will continue monitoring key developments in the financial sector in order to take timely measures to avoid any systemic crisis. BNR will continue to ensure that financial institutions remain prudent in their operations through on-site and off-site examinations as well as regular prudential meetings.

VII.3. Payment systems modernization: projects in 2013

All the projects in payment system area are designed to increase payment transactions efficiency by promoting security and accessibility.

With regard to the regional integration, Rwanda started operations with COMESA Regional Payments and Settlement System (REPSS) on 3rd October 2012 and was officially launched in the 18th COMESA Governor's meeting that which took place in Kigali from the 10th -11th December 2012.

However, the link with RTGS of EAC Member States is not yet functional. Thus, the East African Payment Systems (EAPS) is under test and linkage with RIPPS is expected to be operational by December 2013.

To further enhance the developments in payment systems, the BNR together with the Rwanda Bankers Association, have embarked on the Cheque Truncation Project. This project will help to fast track the cheque payment process with more security and trusted method of processing as more security features have been added to the standardized cheques. The full implementation of check truncation system has been postponed from December 2013 to May 2014 due to unforeseen circumstances.

Though much progress has been achieved in MFS, the real contribution to financial inclusion will be achieved through the implementation of full interoperability by which a customer will be able to transfer money from one network/bank to another. In that regard all the stakeholders in the industry are discussing the feasibility of this important project at the time of reporting.

Currently a big number of POS devices accept only international cards. Thus, the banks and RSwitch Ltd are joining their efforts so that local cards are accepted on all POSs in the near future. This will help to reduce cash out of the banking system as people will pay goods and services using their cards.

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