NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

MARCH 2023

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CONTENTS

LIST OF ACRONYMS AND ABBREVIATIONS

ACH : Automated Clearing House
ATM : Automated Teller Machine
BIF : Burundian Franc
BOP : Balance of Payments
CAD : Current Account Deficit
CAR : Capital Adequacy Ratio
CBR : Central Bank Rate
CO : Cash-Out
COPS : Complementary Occupational Pension Schemes
CPI : Consumer Price Index
DAP : Di-ammonium Phosphate
DC : Defined Contribution
DGF : Deposit Guarantee Fund
DSIBs : Domestic Systemically Important Banks
EAC : East African Community
ECB : European Central Bank
ECL : Expected Credit Losses
ERF : Economic Recovery Fund
EUR : Euro
FCD : Foreign Currency Deposits
FDI : Foreign Direct Invesment
FOB : Freight on Board (or Free on Board)
FOREX : Foreign Exchange
FRW : Franc Rwandais
FSC : Financial Stability Committee
FSCC : Financial Sector Coordination Committee
FX : Foreign Exchange
GBP : Great British Pound
GDP : Gross Domestic Product
GWP : Gross Written Premium
G7 : Group of Seven

H1	: Half 1
H2	: Half 2
ICBT	: Informal Cross Border Trade
IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
KG	: Kilogram
LCR	: Liquidity Coverage Ratio
MFIs	: Microfinance Institutions
MMI	: Military Medical Insurance
MNOs	: Mobile Network Operators
MPC	: Monetary Policy Committee
MPFSS	: Monetary Policy and Financial Stability Statement
MSMEs	: Micro, Medium and Small Enterprises
NALs	: New Authorized Loans
NBR	: National Bank of Rwanda
NBFI	: Non-Bank Financial Institutions
NCG	: Net Credit to Government
NDA	: Net Domestic Assets
NDFIs	: Non-Deposit Taking Lending Financial Institutions
NEER	: Nominal Effective Exchange Rate
NFA	: Net Foreign Assets
NISR	: National Institute of Statistics of Rwanda
NPLs	: Non-Performing Loans
NSFR	: Net Stable Funding Ratio
P.A	: Per Annum
PCA	: Prompt Corrective Actions
Proj.	: Projections
PSPs	: Payment Service Providers
PLCs	: Public Limited Companies
POS	: Point of Sale
PPS	: Personal Pension Scheme

Q1 : Quarter one
Q2 : Quarter two
Q3 : Quarter three
Q4 : Quarter four
REER : Real Effective Exchange Rate
REPO : Repurchase Agreement
RIPPS : Rwanda Integrated Payment Processing System
ROA : Return on Assets
ROE : Return on Equity
RTGS : Real Time Gross Settlement
RSSB : Rwanda Social Security Board
RWA : Rwanda
SMEs : Small and Medium Enterprises
SSA : Sub-Saharan Africa
SU : Seasonal unadjusted
T- Bills : Treasury Bills
TL : Total Liabilities
TZS : Tanzanian Shilling
UGS : Ugandan Shilling
UK : United Kingdom
U-SACCOs : Umurenge SACCOs
USD : United States Dollar
WEO : World Economic Outlook
Y-o-Y : Year-on-Year

EXECUTIVE SUMMARY

The objective of this March 2023 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic and financial developments of the year 2022 and give an outlook for the year 2023 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.

In 2022, global commodity prices increased but at a slowing pace in the last quarter, reflecting slowing global demand. Energy prices increased by 60.0 percent after 81.0 percent in 2021, attributed mainly to the rise in crude oil and natural gas. Non-energy commodity prices increased by 10.6 percent in 2022, from 32.9 percent in 2021, owing largely to higher prices for fertilizers.

World annual average inflation is projected to fall from 8.8 percent in 2022 to 6.6 percent in 2023. In advanced economies, consumer price inflation is projected to ease to 4.6 percent in 2023 from 7.3 percent in 2022. In the emerging market and developing economies, inflation is projected to ease to 8.1 percent in 2023, from 9.9 percent in 2022.

Rwanda's economy was resilient despite global economic challenges and unfavorable weather conditions. Real GDP increased by 8.2 percent in 2022, following a 10.9 percent increase in 2021, owing mainly to a strong rebound in tourism.

Rwanda's international trade continued its recovery in 2022. Merchandise exports rose by 33.2 percent in 2022 supported by increased global commodity prices and the good performance of domestic manufacturing activities. On the other hand, merchandise imports also rose by 26.9 percent, mainly driven by higher international commodity and fuel prices, combined with increased demand for imported goods and services to support the continued economic recovery. As results, the trade deficit surged by 20.7 percent.

Relative to USD, the Rwandan franc depreciated by 6.05 percent in 2022, higher than a depreciation of 3.82 percent recorded in 2021. This faster depreciation was linked to high international commodity prices that increased the import bill, and the strengthening of the USD that resulted from a more aggressive monetary policy tightening by the US Federal Reserve in comparison to other central banks.

In 2022, headline inflation accelerated to 13.9 percent on average, from 0.8 percent recorded in the previous year. This was reflected in all key components of inflation (core, food and non-alcoholic beverages and energy), generally as a consequence of increases noted in the international commodity prices (food and energy) coupled with lower domestic agricultural supply.

Since February 2022, the National Bank of Rwanda started a cycle of tightening monetary policy in anticipation of inflationary pressures, the CBR was increased by a cumulative 250 basis points until now, from 4.5 percent to 7.0 percent. These decisions were taken in an effort to bring inflation within the medium-term target range of 2 to 8 percent.

In response to the central bank rate hikes, the interbank rate increased by 74 basis points to 5.92 percent in 2022 compared to the previous year. The average lending rate increased by 20 basis points to 16.38 percent in 2022, while the deposit rate dropped by 12 basis points to 7.66 percent in 2022.

In line with the market conditions, the growth pace of Credit to the Private Sector (CPS) slowed to 13.6 percent in 2022.

*The notable economic recovery continued to support the performance and stability of the financial sector. As at December 2022, total assets of financial sector grew by 17.7 percent in December 2022 to FRW*8,909 *billion from FRW 7,532 billion in December 2021. The banking sector, which grew by 18.3 percent, dominates the financial sector with a share of 67.3 percent of the total assets of the financial sector. The assets of the pension sector (both public and private) increased by 9.7 percent, mainly driven by the growth in* *pension contributions and investment income. The assets of insurance sector grew by 18.3 percent and were mainly supported by investment income, and premiums, while the assets of microfinance sector expanded by 21.3 percent on back of increased deposits and equity.*

Despite the challenging economic conditions mainly driven by high inflationary pressures, Banks continue to provide support to the economy by ensuring constant flow of credit to the private sector. In 2022, new lending expanded by 12.9 percent. The value of loan applications grew by 10.9 percent to FRW 1,696 billion in 2022 from FRW 1,528 billion in 2021. During the same period, loan applications in volume increased by 28.6 percent higher than the growth of 18.2 percent registered in 2021. The improved growth of loan applications in volume mainly reflects the increased penetration and adoption of digital lending channels. Reflecting the increase in demand of insurance products, Premiums written grew by 27 percent in December 2022 compared to the growth of 22 percent registered as at December 2021. Growth in premiums was more evident in non-life than life insurance business.

The financial sector remains adequately capitalized and liquid. As at end December 2022, the banking sector aggregate Tier 1 CAR and total CAR stood at 20.9 percent and 21.7 percent respectively, higher than the prescribed minimum prudential requirements, and all banks continue to maintain capital buffers in excess of the minimum requirements. Regarding the capitalization of the microfinance sector, the aggregate CAR of MFIs stood at 34.5 percent, higher than the 15 percent minimum regulatory requirement. All categories of MFIs hold adequate capital buffers. The insurance sector remained solvent, Private insurer's solvency ratio stood at 221 percent as at end December 2022, compared to 142 percent in December 2021, driven by increased quality of assets due to changes in the investment mix of insurers. On the other hand, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the key liquidity indicators of banks, stood at 215.9 percent and 136.8 percent respectively against the

100 percent minimum requirements. Similarly, the industrywide liquidity ratio of MFIs stood at 90.9 percent higher than the 30 percent minimum prudential requirement.

The impact of inflation on debt servicing has so far been very moderate but vulnerabilities to credit risk remain. The outstanding Non-Performing Loans (NPLs) in banking sector dropped to FRW 127 billion in December 2022 from FRW 158 billion in December 2021, largely due to write offs of overdue loans (FRW 37.9 billion in 2022) and recoveries from non-performing loans. As result, the NPL ratio declined to 3.1 percent in December 2022, from 4.6 percent in December 2021. The reduction in the NPL ratio is also linked to the growth of outstanding loans during the period under review. In the MFI sector, credit defaults remained moderate during the period under review. As at end December 2022, the stock of NPLs in microfinances amounted FRW 11.3 billion, the same amount as at end December 2021. Following an improved growth in outstanding loans, NPLs ratio declined to 3.5 percent as at end December 2022, down from 4.8 percent in December 2021.

In the payment landscape, mobile technology continues to play a paramount role in creating an inclusive cashless society, by driving the usage and adoption of electronic payments. Regarding the systems' operational resilience, NBR continued to enhance the upgrade of the Rwanda Integrated Payments Processing System (RIPPS) and is currently working 24/7.

I. GLOBAL ECONOMIC ENVIRONMENT

1.1 ECONOMIC GROWTH AND OUTLOOK

According to the International Monetary Fund (IMF) World Economic Outlook (WEO) update published in January 2023, the world economic growth is projected to slow down to 2.9 percent in 2023 from 3.4 percent in 2022.

Growth estimates for 2022, reflect positive surprises and greater-than-expected resilience in many economies, while low growth forecasts for 2023 reflect the rise in central bank rates to fight inflation, especially in advanced economies as well as the war in Ukraine. The global fight against inflation, the Russia/Ukraine war, and a resurgence of COVID-19 in China weighed on global economic activity in 2022, but China re-opening to the world, a strong labor market with cooling inflation, and a mild winter in Europe keeping energy costs down have helped to avoid the worst.

Table 1: Global GDP Growth (p.a)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 est	2023 proj
World	3.5	3.4	3.3	3.8	3.6	2.8	-3.0	6.2	3.4	2.9
Advanced economies	2.0	2.3	1.8	2.5	2.3	1.7	-4.4	5.4	2.7	1.2
United States	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	5.9	2.0	1.4
Euro area	1.4	2.0	1.9	2.6	1.8	1.6	-6.1	5.3	3.5	0.7
Germany	2.2	1.5	2.2	2.7	1.1	1.1	-3.7	2.6	1.9	-0.3
France	1.0	1.0	1.0	2.4	1.8	1.9	-7.9	6.8	2.6	0.7
Italy	0.0	0.8	1.3	1.7	0.9	0.5	-9.0	6.7	3.9	0.6
Spain	1.4	3.8	3.0	3.0	2.3	2.1	-10.8	5.5	5.2	1.1
Japan	0.3	1.6	0.8	1.7	0.6	-0.4	-4.6	2.1	1.4	1.8
United Kingdom	2.9	2.4	1.7	1.7	1.3	1.7	--9.3	7.6	4.1	-0.6
Emerging & developing economies	4.7	4.3	4.4	4.7	4.6	3.6	-1.9	6.7	3.9	4.0
China	7.4	7.0	6.9	6.9	6.8	6.0	2.2	8.4	3.0	5.2
India	7.4	8.0	8.3	6.8	6.5	3.7	-6.6	8.7	6.8	6.1
Sub-Saharan Africa	5.0	3.2	1.5	3.0	3.3	3.2	-1.6	4.7	3.8	3.8

Source: IMF WEO update, January 2023

Economic growth in advanced economies is projected to slow down to 1.2 percent in 2023 after 2.7 percent in 2022, with a recession projected for the United Kingdom, and about 90 percent of advanced economies are projected to decline in growth.

Emerging market and developing economies are projected to grow moderately from 3.9 percent in 2022 to 4.0 percent in 2023, with an upward revision of 0.3 percentage points relative to October projections, and about a half of emerging market and developing economies have lower growth projections in 2023 than in 2022.

The Sub-Saharan African economy is projected to remain moderate at 3.8 percent in 2023, amid prolonged fallout from the Covid-19 pandemic, although with a modest upward revision of 0.1 percentage point relative to October projections, reflecting Nigeria's projected high growth in 2023 due to measures taken to address insecurity issues in the oil sector.

In the East African Community, four EAC countries that collect quarterly data recorded an average growth of 6.3 percent in the first three quarters of 2022, despite various external shocks combined with unfavorable weather condition.[1] Rwanda had the highest growth with 8.5 percent. The economic performance in EAC-5 countries is projected at 5.3 percent in 2023.

Table 2: Real GDP Growth in EAC (p.a)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 Proj.
EAC	**5.9**	**6.1**	**5.4**	**5.7**	**6.1**	**6.4**	**0.9**	**6.7**	**4.9**
Burundi	4.2	-3.9	-0.6	0.5	1.6	1.8	0.3	3.1	3.3
Kenya	5.0	5.0	4.2	3.8	5.6	5.1	-0.3	7.5	5.3
Rwanda	6.2	8.9	6.0	4.0	8.6	9.5	-3.4	10.9	8.2*
Tanzania	6.7	6.2	6.9	6.8	7.0	7.0	4.8	4.9	4.5
Uganda	5.7	8.0	0.2	6.8	5.6	7.8	-1.4	6.7	4.4
South Sudan	2.9	-0.2	-13.5	-5.8	-1.9	0.9	-6.5	5.3	6.5
DRC	4.6	6.9	2.4	3.7	5.8	4.4	1.7	6.2	6.1

Source: IMF, Regional Economic Outlook October 2022

* GDP growth for the year 2022, published by NISR.

[1] Quarterly data for Burundi, DRC and South Sudan are not available.

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is projected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 - above pre-pandemic (2007-2019) levels of about 3.5 percent- on the back of slowing global demand and easing pressures on commodity prices. It is estimated that about 84 percent of countries are expected to have lower headline inflation in 2023 than in 2022.

In advanced economies, consumer price inflation is projected to ease to 4.6 percent in 2023 (0.2 percentage points higher than in October 2022 projections), from 7.3 percent in 2022. In emerging market and developing economies, inflation is projected to ease to 8.1 percent in 2023, from 9.9 percent in 2022.

Table 3: Annual Average Inflation Developments (p.a)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 est	2023 proj
World	3.2	2.7	2.7	3.2	3.6	3.5	3.2	4.7	8.8	6.6
Advanced economies	1.4	0.3	0.8	1.7	2.0	1.4	0.7	3.1	7.3	4.6
United States	1.6	0.1	1.3	2.1	2.4	1.8	1.2	4.7	8.0	3.5
Euro area	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.7
Japan	2.8	0.8	-0.1	0.5	1.0	0.5	0.0	-0.2	2.5	1.4
United Kingdom	1.5	0.0	0.7	2.7	2.5	1.8	0.9	2.6	9.0	9.0
Emerging and dev. economies	4.7	4.7	4.3	4.4	4.9	5.1	5.1	5.9	9.9	8.1
China	2.0	1.4	2.0	1.6	2.1	2.9	2.4	0.9	2.0	2.2
India	5.8	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.1
Sub-Saharan Africa	6.4	6.7	10.2	10.7	8.3	8.2	10.2	11.1	14.4	11.9

Source: IMF WEO update, January 2023, October 2022 & Official numbers from countries

In Sub-Saharan Africa, annual headline inflation is projected to remain in double digits with 11.9 percent in 2023, after 14.4 percent in 2022, following the projected higher inflation rates in Zimbabwe (204.6 percent), Ethiopia (28.6 percent), Ghana (12.2 percent) and Angola (11.8 percent). In some Sub-Saharan African countries, food prices have increased significantly, amid local shortages and the rise in global food prices.

In the East African Community (EAC-5), annual headline inflation is projected to ease to 6.3 percent in 2023, from an estimated 10.3 percent in 2022. For all the EAC-5, headline inflation in 2022 was higher than in 2021 due to the different global shocks.

Table 4: Annual Average Inflation in EAC Countries (p.a)

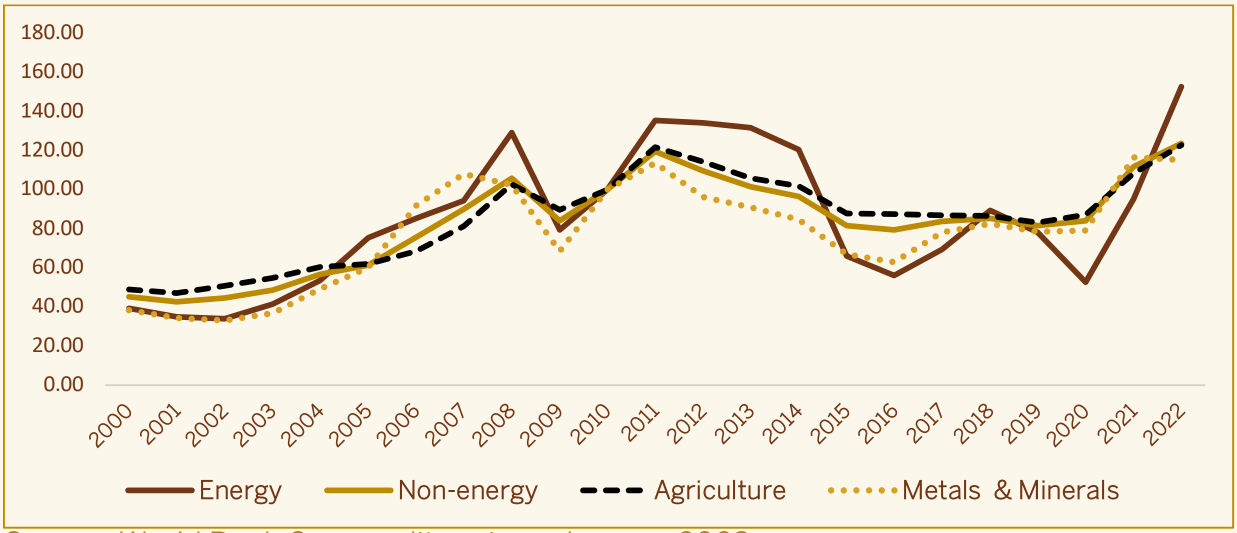
	2014	2015	2016	2017	2018	2019	2020	2021	2022 est	2023 proj
EAC -5	5.5	5.7	5.7	6.7	3.6	3.9	4.4	4.4	10.3*	6.3
Burundi	4.4	5.6	5.5	1.6	-4.0	-0.7	7.3	8.3	18.8*	8.3
Kenya	6.9	6.6	6.3	8.0	4.7	5.2	5.3	6.1	7.3*	6.6
Rwanda	1.8	2.5	5.7	4.8	1.4	2.4	7.7	0.8	13.9*	13.5**
Tanzania	6.1	5.6	5.2	5.3	3.5	3.4	3.3	3.7	4.3*	5.3
Uganda	4.3	3.7	5.2	5.6	2.6	2.1	2.8	2.2	7.2*	6.4
S. Sudan	1.7	52.8	379.8	187.9	83.5	49.3	24.0	30.2	17.6	21.7
DRC	1.2	0.7	3.2	35.7	29.3	4.7	11.4	9.0	8.4	9.8

Source: IMF, October 2022
*Annual average estimates using official numbers from countries for all EAC-5 countries
**BNR staff projections

1.2.2 Commodity Prices

In 2022, global commodity prices increased but at a slowing pace in the last quarter, reflecting lower global demand. Energy prices increased by 60.0 percent after 81.0 percent in 2021, attributed mainly to the rise in crude oil and natural gas. Non-energy commodity prices increased by 10.6 percent in 2022, from 32.9 percent in 2021, owing largely to higher prices for fertilizers that partly outweighed the easing prices of metals and minerals and slower growth in prices of agriculture commodities.

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



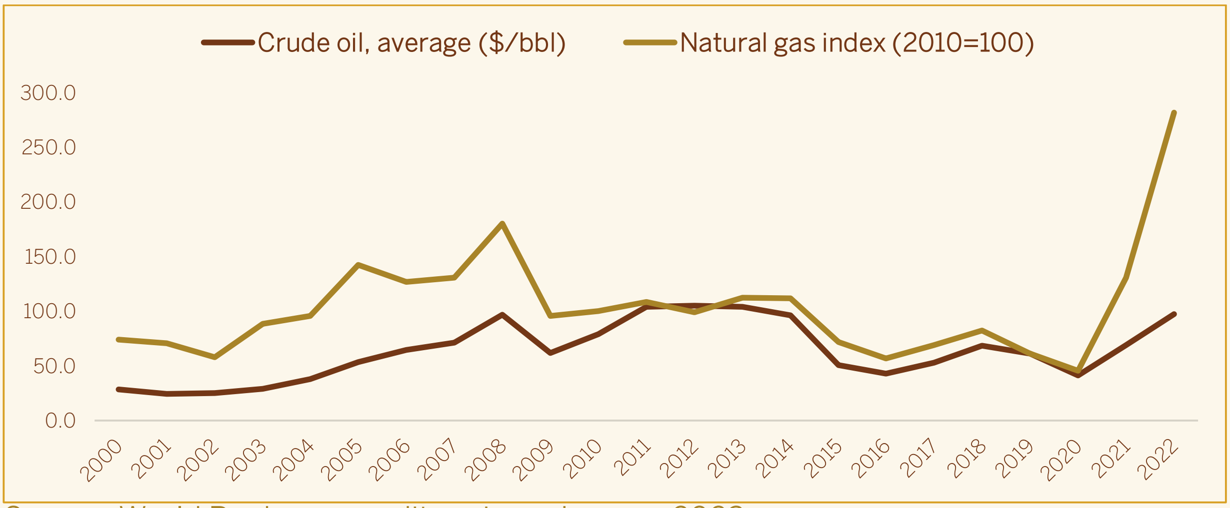
Source: World Bank Commodity prices, January 2023

Global energy prices are projected to drop by 11.2 percent in 2023 attributed mainly to the projected falling crude oil prices and natural gas. Non-energy prices are projected to drop by 8.1 percent, following the projected fall for all non-energy components.

In 2022, crude oil prices increased by 40.6 percent on average compared to a rise of 67.4 percent in 2021, following production constraints and supply disruptions on concerns about a global recession in 2023 and tightening financing conditions. In January 2023, IMF projected oil prices to drop by 16.2 percent to USD 81.4/barrel in 2023 from USD 97.1/barrel in 2022, amid slowing global demand.

Natural gas prices increased highly by 115.4 percent in 2022 after surging by 187.2 percent in 2021, reflecting a sharp increase in demand, especially from China and constrained supply exacerbated by some disruptions, with adverse weather conditions playing a key role. In October 2022, World Bank projected natural gas prices to drop by 15.2 percent in 2023.

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



Source: World Bank commodity prices, January 2023

In 2022, average prices for agricultural commodities increased by 13.3 percent from 24.4 percent in 2021, driven by supply shortfalls, strong demand for animal feed commodities in China, and input cost increases, especially fertilizers and natural gas. Agricultural commodity prices are projected to drop by 4.5 percent in 2023 and drop further by 0.2 percent in 2024.

Food prices increased by 17.9 percent in 2022 compared to 30.8 percent in 2021, of which oils & meals (14.2 percent), cereals (21.4 percent), and other foods (19.9 percent). Food prices increased in response to the ongoing spike in energy and fertilizers prices as well as supply-chain constraints. Global food prices are projected to drop by 6.2 percent in 2023, reflecting expectations of improved yields, the continuation of Ukraine's return to the global market, and weakening demand in response to the slowdown in the global economy.

Beverages prices increased by 13.7 percent in 2022 from 16.3 percent in 2021 mainly led by coffee prices (both Arabic and Robusta) due to production shortfall in Brazil following a frost that affected the country's coffee production. Coffee prices are projected to drop by 6.8 percent in 2023. Tea prices (Mombasa) increased by 15.9 percent in 2022 after 5.2 percent in 2021, as tea production reflects weather-related production shortfalls in East

Africa, especially in Kenya, the world's largest black tea exporter. Tea prices are projected to drop by 9.7 percent in 2023, before a slight rise 0.7 percent in 2024.

Metals & mineral prices reduced by 1.2 percent in 2022, after rising by 47.1 percent in 2021, reflecting slowing global demand. Tin prices dropped by 3.2 percent in 2022 from a surge of 89.1 percent in 2021, undermined by a reduced demand from the electronics sector. World Bank projected metal and mineral prices to drop by 15.2 percent in 2023.

Prices for precious metals slowed down in 2022 dropping by 2.4 percent after increasing by 5.0 percent in 2021, 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 slightly increased by 0.1 percent in 2022 after the previous slight increase of 1.7 percent in 2021.

Prices for fertilizers increased by 62.6 percent in 2022 after surging by 80.5 percent in 2021. The high increase resulted from production restrictions and trade policies, of which China's suspension of phosphate exports until June 2022, putting more pressure on DAP fertilizers. In October 2022, the World Bank projected fertilizers to drop by 12.4 percent in 2023 and drop further by 9.4 percent in 2024, as supply disruptions ease gradually.

Table 5: Commodity Prices (% changes)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 proj.
Energy	-8.5	-45.1	-15.2	23.8	28.8	-12.4	-32.7	81.0	60.0	-11.2*
Crude oil, average	-7.5	-47.3	-15.7	23.3	29.4	-10.2	-32.8	67.4	40.6	-16.2**
Natural gas	-0.3	-35.9	-20.4	21.1	19.1	-25.5	-25.6	187.2	115.4	-15.2*
Non-energy	-4.8	-15.4	-2.8	5.5	1.7	-4.2	3.1	32.9	10.6	-8.1*
Agricultural comm.	-3.6	-13.8	-0.5	-0.6	-0.5	-4.0	4.7	24.4	13.3	-4.5*
Beverages	22.2	-7.7	-2.8	-9.0	-4.8	-3.7	5.6	16.3	13.7	-6.6*
Coffee, Arabica	43.8	-20.3	2.4	-8.0	-12.0	-1.6	15.4	35.8	24.8	-6.8*
Coffee, Robusta	6.8	-12.4	0.6	14.0	-16.0	-13.2	-6.5	30.7	15.3	-10.6*
Tea Mombasa	-14.8	45.0	-18.3	22.7	-13.2	-14.3	-9.2	5.2	15.9	-9.7*
Food	-7.5	-16.6	1.3	0.6	0.3	-3.8	7.1	30.8	17.9	-6.2*
Cereals	-18.8	-16.4	-7.3	-0.2	10.2	0.2	7.2	29.9	21.4	-5.6*
Oils & meals	-7.0	-20.7	4.6	-0.8	-2.9	-8.9	15.9	41.6	14.2	-7.8*
Metals & Minerals	-6.6	-21.1	-5.9	24.2	5.5	-5.0	1.0	47.1	-1.2	-15.2*
Tin	-1.7	-26.6	11.6	11.9	0.4	-7.4	-8.2	89.1	-3.2	-29.0*
Precious metals	-12.1	-10.4	7.5	0.4	-0.7	8.5	26.6	5.0	-2.4	-3.6*
Gold	-10.3	-8.3	7.6	0.7	0.9	9.7	27.1	1.7	0.1	-4.2*
Fertilizers	-11.3	-3.0	-21.0	-4.4	11.1	-1.4	-10.1	80.5	62.6	-12.4*

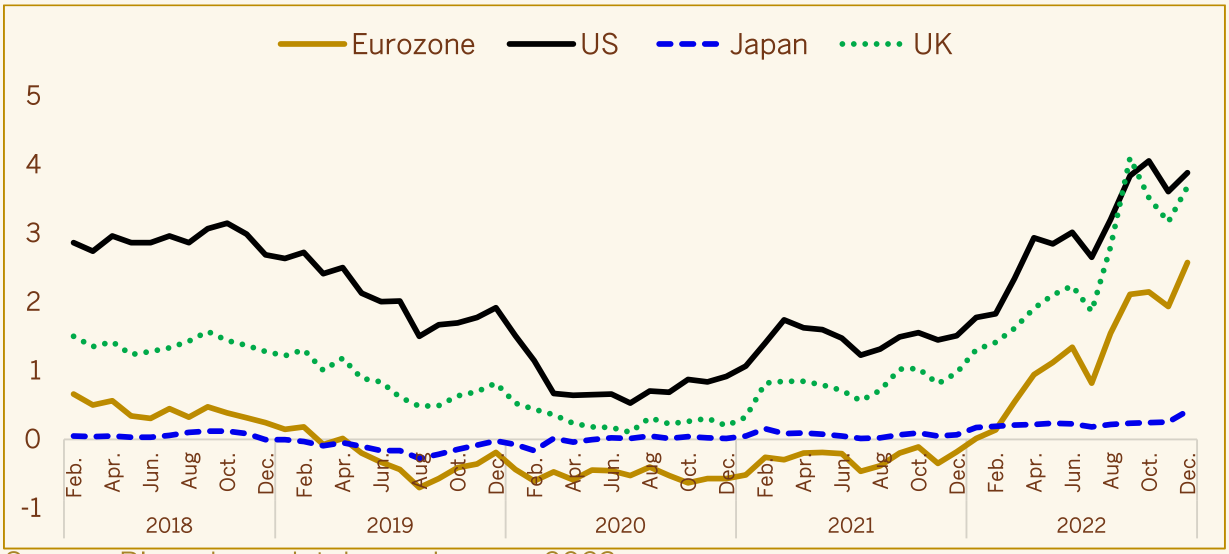
Source: IMF, January 2023 WEO projections & World Bank, October 2022 CMO forecasts
**IMF, January 2023 WEO projections
*World Bank, October 2022 CMO forecasts

1.3 MONETARY POLICY AND FINANCIAL MARKETS

Most advanced economies as well as some emerging market and developing economies started monetary policy tightening to help inflation return to central bank targets, at the beginning of 2022. The Fed has tightened seven times since the beginning of 2022, the Bank of England has increased its bank rate eight times in 2022 following another hike at the end of 2021, and ECB has increased its bank rate four times.

In December 2022, the three-month deposit rates remained negative in Japan, standing at -0.135 percent, affecting banks' deposits in the Central Bank and encouraging economic financing. In the US, deposit rates increased to 4.601 percent from 0.220 percent in December 2021, increasing for UK to 3.990 percent from 0.315 percent in December 2021, and increasing for the Eurozone to 2.295 percent from -0.535 percent in December 2021.

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



Source: Bloomberg database, January 2023

In December 2022, the 10 Year government bond rate increased in the United States, United Kingdom, Eurozone and Japan to 3.875 percent, 3.672 percent, 2.571 percent and 0.413 percent, respectively, from 0.971 percent, 1.510 percent, -0.177 percent and 0.065 percent in December 2021.

On the foreign exchange market, the US dollar is appreciating against all major currencies, notably the Japanese Yen, the British Pound, the Euro, and the Chinese Yuan. It is estimated that more than a half of appreciation of the dollar in 2022 could be explained by the Fed's comparatively aggressive monetary tightening.

Table 6: Units Currency per 1 US Dollar (p.a)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
USD/GBP	4.60	6.10	19.40	-8.60	5.90	-3.78	-2.98	1.01	13.61
USD/EUR	11.30	13.40	3.20	-12.40	4.71	2.26	-8.22	7.42	8.09
USD/JPY	16.40	0.60	-2.70	-3.70	-4.29	0.07	2.95	3.57	15.93
USD/CNY	-	-	-	-	5.71	1.23	-6.26	-2.62	8.25

Source: Bloomberg database, January 2023

II. NATIONAL ECONOMIC PERFORMANCE

This section presents the developments in the national economy, focusing on the drivers of economic growth in 2022 and the outlook for 2023. Available economic indicators show that the Rwandan economy performed well in 2022, despite global headwinds and unfavorable weather conditions. The economy grew by 8.2 percent in 2022, higher than the initial projection of 6.8 percent and is expected to remain resilient in 2023.

2.1 ECONOMIC GROWTH

Rwanda's economy remained on a strong growth trajectory in 2022, building on the recovery from Covid-19 recorded in 2021. The real GDP growth rate averaged 8.2 percent in 2022 after the 10.9 percent recorded in 2021.

The observed good performance was mainly driven by the strong performance of the services sector, which contributed by 5.7 percentage points to the real GDP growth. The services sector grew by 12.2 percent in 2022, owing primarily to a strong recovery in the tourism industry. This is evidenced by the high performance of hotels and restaurants (+86.9 percent), travel and tour services (+27.0 percent), and transport services (+21.7 percent). Besides the tourism recovery, the growth of services was driven by the sustained improvement in trade services (+13.9 percent), the information and communication sector (+19.7 percent), education (+17.4 percent), and financial services (+10.3 percent).

Table 7: Rwanda's real GDP growth (percent, Y-o-Y)

	2018	2019	2020	2021	2022
GDP	8.6	9.5	-3.4	10.9	8.2
Agriculture	6.1	5	0.9	6.4	1.6
Food crops	5.9	4	0.3	6.7	-0.9
Export crops	6.9	4.5	-9.4	-0.5	3.5
Livestock & livestock products	10.7	11.2	8.2	8.1	8.7
Forestry	4.3	5.6	3.7	5.4	4.8
Fishing	5.4	3.7	-15.5	24.0	3.3
Industry	8.7	16.6	-4.2	13.4	5.0
Mining & quarrying	3.1	-0.3	-31.2	26.7	14.1
Manufacturing	13.6	11.3	2.0	10.6	11.0
Electricity	9.8	7.2	1.9	11.7	14.0
Water & waste management	2.1	2.1	2.4	4.6	3.6
Construction	4.8	32.8	-5.7	15.2	-5.7
Services	9.7	8.3	-5.5	11.9	12.2
Trade & transport	18.3	14.2	-10.6	13.5	15.9
Maintenance and repair of motors	6.6	6.9	-3.1	35.3	5.1
Wholesale & retail trade	18.2	15.7	-3.3	11.7	13.9
Transport services	19.7	12.4	-23.7	14.6	21.7
Other services	6.6	5.9	-3.3	11.2	10.6
Hotels & restaurants	7.3	9.7	-40.2	20.4	86.9
Information & communication	14.2	9.1	29.2	18.8	19.7
Financial services	10	8.4	-2.4	18.0	10.3
Real estate activities	4.8	3.9	0.3	4.1	1.5
Professional, scientific and technical activities	9.5	9.8	-0.8	13.2	1.0
Administrative and support services	4.1	4.7	-6.8	5.8	1.4
Public administration and defense	7.1	4.6	2.9	2.4	9.6
Education	3.6	2.2	-37.5	58.6	17.4
Human health and social work activities	-0.2	3.4	15.9	8.9	8.1
Cultural, domestic & other services	9.3	8.2	-1.2	9.5	8.2
Taxes less subsidies on products	9.4	15.1	-1.7	13.4	11.8

Source: MINECOFIN & NISR (2022)

The industry sector grew at a moderate rate of 5.0 percent in 2022, supported by the good performance in mining and quarrying as well as manufacturing subsectors, which was weighed down by a contraction in the construction subsector (-5.7 percent) mostly from a base effect. In fact, construction projects played an important role in the economic recovery from Covid-19 in 2021 and in 2022, but the slowdown started in the second quarter of 2022 as most infrastructure projects were completed, while new ones were still at the beginning phase. Mining and quarrying expanded by 14.1 percent, but at a lower rate compared to the growth of the previous year (26.7 percent), following the slowdown of metal and mineral prices on the international market. These prices decreased by 1.2 percent in 2022, compared with 47.1 percent growth registered in 2021.

In terms of manufacturing, good performance is evident across all manufacturing activities as a result of continuous improvement in aggregate demand. We note food processing growing by 13.4 percent, beverages and tobacco by 8.8 percent, textiles by 20.9 percent, wood, paper, and printing by 15.9 percent, chemicals by 14.4 percent, and cement production by 37.2 percent.

The agriculture sector grew by only 1.6 percent in 2022 from a good performance of 6.4 percent in 2021. The decline in food crop (-0.9 percent) and underperformance of export crops (3.5 percent) were the main causes. Poor food crops production is linked to unfavorable weather conditions and the war in Ukraine, which led to higher prices of agricultural inputs such pesticides and fertilizer, while exports crops slowdown was mainly due to the decreased coffee production, which represents 52 percent of the subsector. As food and export crops subsectors represent 69 percent of the agriculture sector, their poor performance outweighed the good performances of the livestock (+8.7 percent), forest (+4.8 percent), and fishing (+3.3 percent) subsectors.

In 2023, the economy is anticipated to perform well despite a slowdown in the global economy and unpredictable weather conditions.

2.2 EXTERNAL TRADE PERFORMANCE

Rwanda's merchandise[2] exports receipts increased by 33.2 percent in 2022 amounting to USD 1,555.6 million, up from USD 1,167.8 million a year earlier, owing to increased global commodity prices and good performance of domestic manufacturing exports.

Similarly, in 2022, merchandise imports[3] went up by 26.9 percent, amounting to USD 4,060 million from USD 3,201.0 million in 2021. The rise in imports is due to the higher international commodity and fuel prices, combined with the increased demand for imported goods and services to support the continued economic recovery.

As a result, Rwanda's merchandise trade deficit widened by 20.7 percent, in 2022, amounting to USD 2,459.5 million from USD 2,038.4 million in 2021. The coverage of total imports by total exports increased to 46.2 percent in 2022 from 42.9 percent in 2021[4].

Table 8: Developments in Trade Balance (Value in millions of USD, Volume in 000' tons)

		2017	2018	2019	2020	2021	2022	% Change
Total exports	Value	1,037.1	1,121.8	1,240.1	1,408.9	1,530.9	2,111.3	**37.9**
	Volume	799.5	973.9	1,127.5	859.4	1,026.0	1,235.5	**20.4**
Merchandise exports	Value	946.5	1,048.2	963.9	761.3	1,167.8	1,555.6	**33.2**
	Volume	799.5	973.9	1,127.5	859.4	1,026.0	1,235.5	**20.4**
Total imports	Value	2,348.6	2,636.2	3,094.1	3,421.5	3,569.3	4,570.8	**28.1**
	Volume	2,716.6	3,026.8	3,117.9	3,264.6	3,247.7	3,806.5	**17.2**
Merchandise imports	Value	2,348.6	2,636.2	2,854.9	2,746.7	3,201.0	4,060.8	**26.9**
	Volume	2,716.6	3,026.8	3,112.7	3,264.6	3,247.7	3,806.5	**17.2**
Trade balance	Total trade	**-1,311.6**	**-1,514.3**	**-1,854.0**	**-2,012.6**	**-2,038.4**	**-2,459.5**	**20.7**
	Merchandise trade	**-1,402.1**	**-1,588.0**	**-1,891.0**	**-1,985.3**	**-2,033.2**	**-2,505.2**	**23.2**
Exports/Imports	%	**44.2**	**42.6**	**40.1**	**41.2**	**42.9**	**46.2**	**7.7**

Source: NBR, Statistics Department

[2] Merchandise exports/imports refer to total exports/imports excluding gold.
[3] Imports are valued at c.i.f basis.
[4] This includes the informal cross border trade and gold

2.2.1 Merchandise Exports Developments

Merchandise trade increased across all exports categories. Specifically, traditional exports[5] rose by 27.7 percent, non-traditional exports[6] by 26.8 percent, and re-exports by 39.3 percent.

Regarding the composition of Rwanda exports revenues in the period under review, re-exports leads with a share of 31.0 percent from 30.7 percent in 2021, followed by traditional exports (19.9 percent from 21.5 percent), non-traditional exports (16.6 percent from 18.0 percent).

[5] Traditional exports refer to historically exported commodities notably coffee, tea, minerals (cassiterite, coltan, and wolfram), hides and skins, and pyrethrum.
[6] Non-traditional exports refer to domestically produced goods other than those in traditional exports.

Table 9: Major Exports Developments (Value FOB in USD millions, Volume 000' tons)

	2017	2018	2019	2020	2021	2022	Percent. change
Coffee							
- Value	64.1	69.6	69.8	53.9	78.3	105.0	**34.1**
- Volume	18.7	21.3	23.4	16.0	17.5	17.8	**2.1**
- Price USD/KG	3.4	3.3	3.0	3.4	4.5	5.9	**31.4**
Tea							
- Value	84.3	90.5	86.9	90.3	96.8	106.7	**10.3**
- Volume	26.2	30.9	31.2	32.7	35.4	36.5	**3.1**
- Price USD/KG	3.2	2.9	2.8	2.8	2.7	2.9	**7.0**
Minerals							
- Value	123.7	143.0	100.3	83.1	149.5	203.8	**36.4**
- Volume	8.0	8.4	7.1	5.7	7.0	8.7	**24.1**
Cassiterite							
- Value	50.2	49.9	37.9	31.4	56.8	85.6	**50.7**
- Volume	4.8	4.8	3.8	2.8	3.1	4.5	**41.9**
- Price USD/KG	10.5	10.4	9.9	11.1	18.1	19.2	**6.2**
Coltan							
- Value	60.9	71.6	45.6	34.0	42.1	63.7	**51.3**
- Volume	1.7	1.6	1.4	1.0	1.0	1.3	**24.7**
- Price USD/KG	35.9	43.6	33.7	33.1	40.2	48.8	**21.3**
Wolfram							
- Value	12.6	21.5	16.8	17.8	50.6	54.5	**7.8**
- Volume	1.5	2.0	1.9	1.8	2.8	2.9	**4.2**
- Price USD/KG	8.3	10.9	8.9	9.8	17.9	18.5	**3.5**
Hides and Skin							
- Value	7.5	3.1	2.5	1.5	1.8	1.5	**-18.7**
- Volume	7.0	5.5	3.9	2.8	3.2	3.7	**15.8**
- Price USD/KG	1.1	0.6	0.6	0.5	0.6	0.4	**-29.8**
Pyrethrum							
- Value	3.2	4.7	6.2	5.0	3.4	4.0	**17.8**
- Volume	0.1	0.1	0.1	0.0	0.0	0.0	**12.7**
- Price USD/KG	48.1	54.5	64.4	149.3	201.7	211.0	**4.6**
I. Traditional exports							
- Value	282.7	310.9	265.6	233.9	329.7	421.0	**27.7**
- Volume	59.9	66.2	65.7	57.2	63.1	66.7	**5.8**
II. Re-exports							
- Value	267.3	313.4	351.9	314.8	469.53	654.23	**39.3**
- Volume	299.5	350.8	412.2	395.8	508.80	557.23	**9.5**
III. Non-traditional exports							
- Value	298.0	298.6	237.5	176.0	275.98	350.04	**26.8**
- Volume	264.2	298.4	329.4	303.8	454.19	613.76	**35.1**
V. Informal cross-border trade							
- Value	98.4	125.3	108.9	36.6	92.53	130.65	**41.2**
Merchandise exports							
- Value	946.5	1,048.2	963.9	761.3	1167.8	1555.9	**33.2**
- Volume	799.5	973.9	1,127.5	859.4	1026.0	1237.7	**20.6**

Source: NBR, Statistics Department

Revenues from traditional exports grew by 27.7 percent in 2022 to USD 421.0 million in 2022 from USD 329.7 million in 2021, on the account of higher receipts from coffee (+34.1 percent), tea (+10.3 percent) and minerals (+36.4 percent). This performance reflects the improvement of international commodity prices, and value addition in minerals.

The increase of revenues from minerals was mainly driven by improving external demand, combined with government policies to increase value addition in the mining sector. Specifically, export earnings from cassiterite, coltan and wolfram increased by 50.7 percent, 51.3 percent and 7.8 percent respectively, driven by the rise in prices and volumes. Unit prices of cassiterite, coltan and wolfram rose by 6.2 percent, 21.3 percent and 3.5 percent respectively, while their respective exported quantities increased by 41.9 percent, 24.7 percent and 4.2 percent.

Similarly, the good performance of coffee exports was largely driven by the increase in prices (+31.4 percent), as a result of rising global price and improved quality of Rwandan coffee. Coffee exports volume rose moderately by 2.1 percent. Likewise, the increase of tea receipts is due to the rise of unit price (+6.9 percent) and exported volume which increased by 3.1 percent.

Moreover, receipts from hides and skins decreased by 18.7 percent, mainly due to the fall in unit price (-29.8 percent), despite the increase in exports volume (+15.8 percent). Lastly, exports earnings from pyrethrum increased by 17.8 percent due to the rise in unit price (+4.6 percent) as well as exports volume (+12.7 percent).

Non-traditional exports (other exports) that are dominated by locally manufactured products, agro-processing, and horticulture products (i.e. flowers, fruits and vegetables), rose by 26.8 percent, amounting to USD 350.0 million in 2022 from USD 276.0 million in 2021. The increase in non-traditional exports is attributable to high exported quantities of agro-processed products (such as milling products, diary, vegetable oil, etc), contruction materials (such as cement and metal products), reflecting the continued good performance of domestic manufacturing activities.

Finally, re-exports mainly composed of petroleum products, foodstuffs, vehicles, machinery, and electronics, rose by 39.3 percent to USD 654.2 million during the period under review, up from USD 469.5 million registered in 2021, mainly due to continued higher global fuel prices combined with improvement of trade with the region.

2.2.2 Merchandise Imports Developments

Rwanda's merchandise imports bill rose by 26.9 percent, to stand at USD 4,060.8 million from USD 3,201.0 million in 2021, mainly from higher international food and fuel prices, combined with the increased demand for imported goods and services in line with the continued economic recovery.

The table below shows that the imports value of consumer goods, intermediary goods and energy increased by 21.6 percent, 23.0 percent and 92.1 percent respectively. In volume terms, the increase was 19.1 percent, 14.2 percent and 27.4 percent respectively. On the other hand, the imports bill of capital goods decreased by 0.2 percent in value and 9.8 percent in volume.

Table 10: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

		2017	2018	2019	2020	2021	2022	% change
Total imports	**Value**	**2,348.5**	**2,636.3**	**3,094.1**	**3,421.5**	**3,569.3**	**4,570.8**	**28.1**
	Volume	**2,678.5**	**2,992.3**	**3,094.2**	**3,264.6**	**3,247.7**	**3,806.5**	**17.2**
Merchandise Imports	**Value**	**2,348.5**	**2,636.3**	**2,854.8**	**2,746.7**	**3,201.0**	**4,060.8**	**26.9**
	Volume	**2,678.5**	**2,992.3**	**3,094.2**	**3,264.6**	**3,247.7**	**3,806.5**	**17.2**
Consumer goods	Value	656.9	690.0	714.6	771.0	880.0	1,070.5	21.6
	Volume	793.9	843.6	715.2	821.3	802.1	955.0	19.1
Capital goods	Value	504.1	583.7	692.5	660.0	736.6	735.0	-0.2
	Volume	60.2	67.9	88.0	84.2	102.4	92.4	-9.8
Intermediary goods	Value	563.6	628.5	730.6	761.9	881.1	1,083.4	23.0
	Volume	914.3	1,023.9	1,175.1	1,428.0	1,347.9	1,539.1	14.2
Energy and lubricants	Value	487.1	562.3	521.5	348.7	397.3	763.1	92.1
	Volume	782.4	881.8	902.3	691.4	679.4	865.3	27.4
Non-monetary gold	Value	-	-	239.3	674.9	368.3	510.0	38.5
	Volume	-	-	0.0	0.0	0.0	0.0	39.1
Imports of non-fuel re-exports	Value	113.5	151.5	183.8	202.5	301.8	402.2	33.3
	Volume	127.7	175.1	213.6	235.8	315.9	354.6	12.3
Informal cross-border trade	Value	23.3	20.3	11.8	2.5	4.1	6.6	60.9

Source: NBR, Statistics Department

In terms of the share to total imports value in 2022, intermediate goods tops with 23.7 percent from 24.7 percent in 2021, followed by consumer goods (23.4 percent from 24.7 percent), energy and lubricants (16.7 percent from 11.1 percent), capital goods (16.1 percent from 20.6 percent), and non-monetary gold (11.2 percent from 10.3 percent). Imports for re-exports and Informal Cross Border Trade (ICBT) stabilized at 8.8 percent and 0.1 percent respectively.

The above-mentioned increase in imported consumer goods was due to an increase in food products by 23.4 percent (of which milk products, cereals, flours, and seeds), as well as imports of non-food products that rose by 15.'6 percent (of which domestic articles, beverages & tobacco and article of clothing products). In contrast, imports of health and care products decreased by 16.4 percent, driven by pharmaceutical products (-19.6 percent) whose demand reduced in the aftermath of the Covid-19 crisis.

Imports of intermediate goods, increased by 14.2 percent in volume and 23.0 percent in value to USD 1,083.4 million in 2022 from USD 881.1 million in 2021. The increase is owed to surged demand for industrial products and construction materials, reflecting strong improvement of domestic manufacturing activities. Specifically, imports of industrial products rebounded by 25.0 percent in value, reflecting increased demand of raw materials by local industries. Also, fertilizer imports increased by 86.8 percent in value terms and 20.8 percent in volume, reflecting the hike in prices attributable to the Russia-Ukraine war.

The volume of imports of construction materials increased by 16.4 percent in 2022, largerly driven by imports of cement (+22.9 percent), despite a rise of local cement production by 13.4 percent refleting a surge in demand of cement.

Table 11: Domestic production and trade of cement (in tons)

	2017	2018	2019	2020	2021	2022	% change
Domestic production	322,391	364,864	415,371	506,778	630,439	715,229	13.4
Imports of cement	225,905	318,854	377,897	575,116	427,306	525,091	22.9
Exports of cement	71,725	43,263	48,120	66,005	134,802	229,081	69.9
Domestic demand	476,571	640,455	745,148	1,015,889	922,943	1,011,239	9.6

Source: BNR, Statistics Department

Imports of capital goods decreased by 9.8 percent in volume and by 0.2 percent in value to USD 735.0 million in 2022 from USD 736.6 million in 2021, reflecting a decrease in imports of transport materials (-16.7 percent) which outweighed the increased imports of industrial machinery (+2.6 percent) and imports of other capital goods (+13.4 percent).

Lastly, imports of energy and lubricants dominated by petroleum products rose in volume by 27.4 percent and in value by 92.1 percent, mainly due to the increase in global oil prices.

2.2.3 FORMAL TRADE WITH OTHER EAC COUNTRIES

Rwanda's exports to EAC member countries, representing 3.3 percent of the total exports in 2022, rose by 16.2 percent in value, standing at USD 69.9 million from USD 60.2 million in 2021 mainly owing to increasing domestic supply and improvement in external trade in the aftermath of the Covid-19 pandemic. On the other hand, imports from EAC went up by 21.9 percent. As a result, Rwanda's trade deficit with EAC expanded by 22.7 percent to USD 565.9 million in 2022, from USD 461.4 million in 2021.

Table 12: Trade flows with EAC[7] (in USD million)

		2017	2018	2019	2020	2021	2022
Exports to EAC	Value in USD millions	90.3	80.3	116.2	46.9	60.2	69.9
	percent change	16.4	-11.1	44.8	*-59.7*	*28.3*	*16.2*
	Share to total exports	8.7	7.2	9.4	3.3	3.9	3.3
Imports from EAC	Value in USD millions	429.3	522.2	472.6	490.0	521.5	635.8
	percent change	-8.7	21.6	-9.5	*3.7*	*6.4*	*21.9*
	Share to total imports	18.3	19.8	15.3	14.3	14.6	13.9
TRADE BALANCE		-339.0	-441.9	-356.4	-443.1	**-461.4**	**-565.9**

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 124.0 million in 2022, 40.3 percent higher than USD 88.4 million recorded in 2021. During the period under review, ICBT exports and imports accounted for 6.2 percent and 0.1 percent share of total exports and imports, respectively.

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

[7] EAC includes Burundi, Kenya, South Soudan, Tanzania and Uganda.

Table 13: Rwanda informal cross border trade (USD million)

		2017	2018	2019	2020	2021	2022
Exports	Value in USD millions	98.4	125.3	108.9	36.6	92.5	130.7
	Percent change	*-25.8*	*27.3*	-13.1	-66.4	152.7	41.2
	Share of total exports	8.7	11.2	8.8	2.6	6.0	6.2
Imports	Value in USD millions	23.3	20.3	11.8	2.5	4.1	6.6
	Percent change	*-23.9*	*-12.8*	-41.7	-79.2	67.9	60.9
	Share of total imports	1.0	0.8	0.4	0.1	0.1	0.1
Trade balance		**75.1**	**105**	**97.1**	**34.2**	**88.4**	**124.0**

Source: NBR, Statistics Department

2.2.5 BALANCE OF PAYMENTS

Rwanda external position worsened in 2022 owed to the deterioration of goods deficit albeit soared inflows from secondary income and services. The expansion in merchandise trade deficit is partly due to deteriorated terms of trade on account of adverse spillovers from the Russia-Ukraine conflict. On the financing part, the surplus from financial account recorded a steep contraction of 28 percent largerly due to shrinkage of government disbursements despite soaring FDI inflows. The deterioration of the CAD combined with reduced financing resulted in an overall BOP deficit of USD 129 million in the year in 2022 compared to a year earlier. Consequently, the international reserves have declined to 4.2 months of imports cover relative to 4.7 months in 2021.

The current account deficit (CAD) continued its upward path, widening to USD 1,341 million, up from USD 1,243 million, representing an increase of 7.8 percent. The increase in the CAD was driven by goods deficit and primary income deficit. Despite significant upsurge in goods export revenues, the increase in import expenditure outweighed that performance, resulting in an increase of goods deficit. The increase in exports of goods was supported by higher global prices, which mostly benefited traditional commodity exports and good performance of manufacturing exports. On the other hand, however, higher global oil and food prices amid strong recovery of domestic economic activities put upward pressures on trade deficit. The goods deficit also reflects volume effects on imports of food products and intermediate goods as domestic economic activities rebound.

In contrast, the services deficit improved by 70 percent to USD 37 million in 2022 from USD 122 million in 2021 driven by soared receipts from travel (+167 percent) and transport (60 percent), reflecting a strong recovery of these services from the Covid-19 pandemic. In addition, inflows from secondary income soared by 26 percent on account of higher government current transfers and diaspora remittances by 35 percent and 22 percent respectively.

Table 14: Balance of payments (USD million)

	2017	2018	2019	2020	2021	2022
A. Current account balance	-875	-975	-1231	-1228	-1243	-1341
Goods and services, balance	-1167	-1298	-1482	-1649	-1780	-2027
A.1. Goods balance	-974	-1155	-1465	-1650	-1659	-1990
Credit	1040	1130	1240	1408	1531	2111
Debit	2014	2284	2705	3058	3190	4102
A.2. Services balance	-193	-144	-18	2	-122	-37
Credit	863	914	1015	521	579	883
o/w Transport	141	184	213	107	146	235
Travel	381	392	458	120	150	400
Debit	1056	1057	1033	520	701	920
ow/ Freight	350	393	344	233	287	397
Travel	371	345	336	104	189	272
A.4. Primary income balance	-291	-344	-330	-200	-219	-295
Credit	22	19	16	12	21	28
Debit	313	363	345	211	240	322
o/w dividends and reinvested earnings	136	148	124	41	96	126
interest	140	179	191	150	108	151
A.5. Secondary income balance	582	668	581	621	756	981
Credit	681	752	658	683	840	1061
o/w remittances	208	253	252	274	379	461
Debit	99	85	76	63	83	80
Capital account and Financial account						
B. Capital account	190	245	260	313	380	322
C. Financial account	687	811	926	1115	1112	784
C.1. Direct investment	258	348	258	153	233	399
C.2. Portfolio investment	-74	-15	-30	26	273	-61
C.3. Other investment	503	477	698	936	605	446
D. Reserves (+ deficit)	-157	-96	-112	-328	-154	129
E. NEO	156	15	157	128	-94	106

Source: NBR, Statistics Department

The financial account surplus contracted to USD 784 million in 2022, down from USD 1,112 million, a decline of 30 percent driven by the decline in government borrowings compared to the previous year. In 2021, government inflows increased significantly on disbursements from the issuance of a new Eurobond as well as the IMF SDR allocations. The decline in government flows offset the increase in FDI flows. In 2022, FDI flows are estimated to USD 399 million, up from USD 233 million registered in 2021, an increase of 71 percent, reflecting the country's strong economic performance and continued good investment policies which increases the attractiveness of foreign investments.

Rwanda external sector outlook is projected to deteriorate in 2023 due to widening CAD and improves thereafter. The adverse spillovers from the continuing geo-political tensions, high borrowing costs, elevated financial vulnerabilities, subdued global growth and the global commodities prices dynamics will continue to weigh on Rwanda external sector in the short-term. The CAD is projected to widen in 2023 on expected higher GDP growth amid continued higher international prices before gradually narrowing to 7.7 percent of GDP in 2027. Trade deficit will continue to be the major driver of this CAD as imports are expected to remain high although they will be partially offset by projected high increase in exports revenues boosted by government policies to increase and diversify Rwanda exports base as well as increase of intra-African trade (AfCFTA). Besides, increase in exports of services buoyed by strong recovery in travel and transport services as well as persistent inflows from diaspora remittances will contribute further to the improvement in the CAD. This CAD is projected to be financed by private inflows notably FDI which will offset the decline of public sector borrowing amid fiscal consolidation. As a result, the country's international reserves are projected to remain adequate covering more than 4 months of prospective imports of goods and services.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

3.1 INFLATION DEVELOPMENTS

In 2022, headline inflation accelerated to 13.9 percent on average, from 0.8 percent recorded in 2021. This was reflected in all inflation components. Food and non-alcoholic beverages inflation increased to 25.7 percent from -1.0 percent, core inflation picked up to 11.0 percent from 2.1 percent, while energy inflation hiked to 17.4 percent from 1.8 percent. Generally, the rise in headline inflation is a consequence of poor domestic agricultural supply linked to bad weather conditions, coupled with the spillover effects from the rise in the international commodity prices (food and energy).

Table 15: Inflation developments for key items (annual average, percent change)

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

Source: NBR, Statistics Department

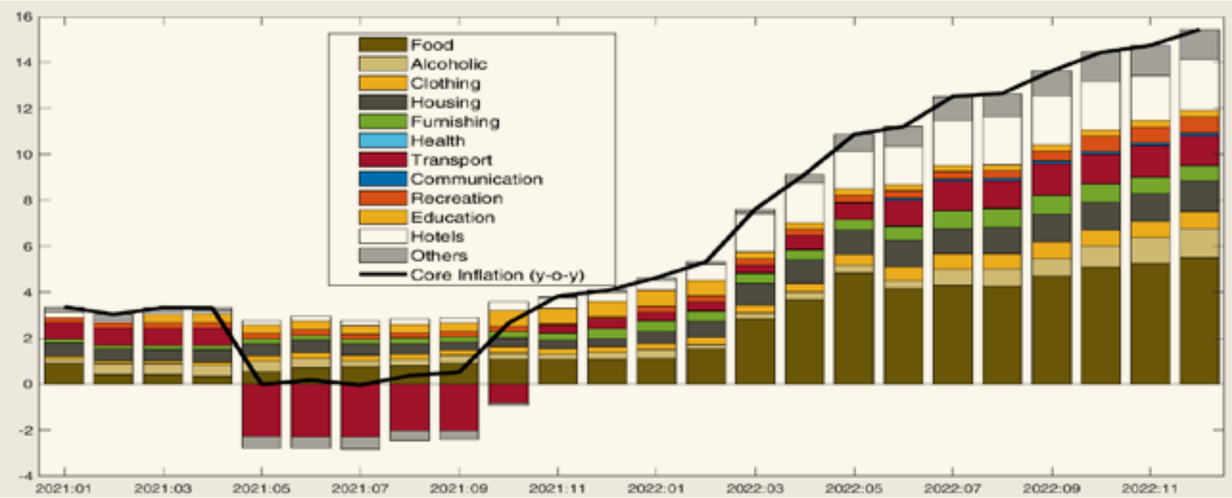
3.1.1 Contributors to headline inflation

a. Core inflation

In 2022, the accelerations observed in core inflation were mainly reflected in core food inflation (from 4.6 percent to 24.0 percent), core transport inflation (from -4.9 percent to 6.8 percent), core hotels inflation (from 2.0 percent to 14.8 percent), and core housing inflation (from 2.4 percent to 5.2 percent).

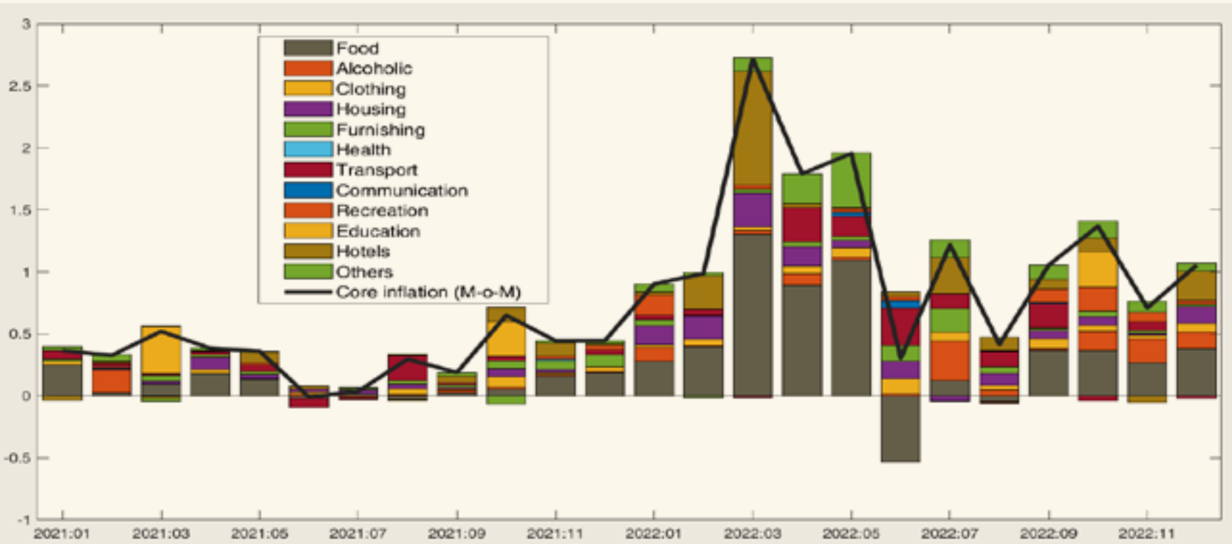
Throughout 2022, the rise in core food inflation is in line with international food prices, especially for sugar, rice, cooking oils, cereals and flours. Similarly, the increasing trend observed in transport inflation originates from the surge in prices of cars consistent with the rise in the costs of manufacturing cars. The upward trend observed in housing inflation is attributed to the increases in prices of maintenance and repair of dwellings, while the rise in prices of hotels and restaurants reflects upticks in the prices of foods and drinks menus.

Figure 4: Developments in core inflation (% change, y-o-y)



Source: NBR, Monetary Policy and Research Directorate

Figure 5: Developments in core inflation (% change, m-o-m)

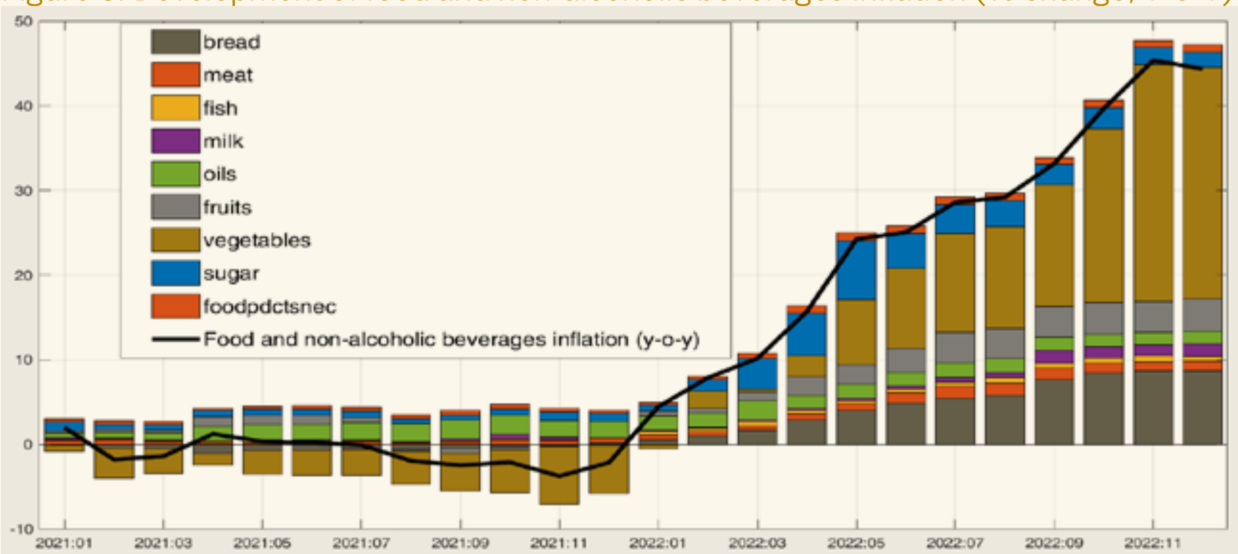


Source: NBR, Monetary Policy and Research Directorate

b. Food and non-alcoholic beverages inflation

In 2022, the acceleration in food and non-alcoholic beverages inflation was mainly reflected in vegetables inflation (from -10.6 percent to 33.3 percent), fruits inflation (from 2.6 percent to 21.7 percent), and bread & cereals inflation (from -2.1 percent to 24.0 percent).

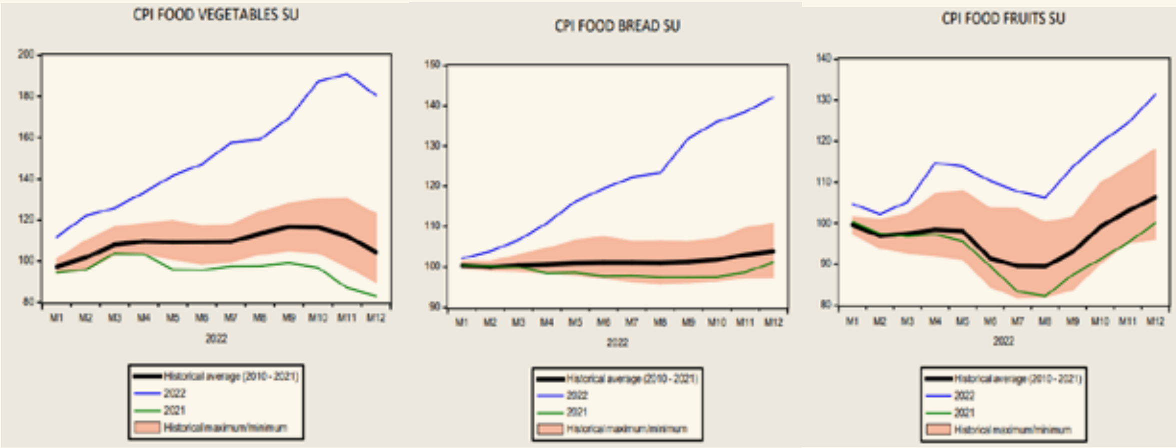
Figure 6: Development of food and non-alcoholic beverages inflation (% change, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

Vegetables' prices in 2022 evolved above the 2021 price levels and above the historical prices in the last decade. The accelerations observed in vegetables inflation in 2022 started in the beginning of the year, as a result of the poor performance of agricultural production for Season A 2022. Pressures on some processed food items (bread, cereals/grains and flours) that started mainly in March 2022, are associated to the spillover effects from the war in Ukraine.

Figure 7: Development of vegetables, fruits, and bread & cereals consumer price indices

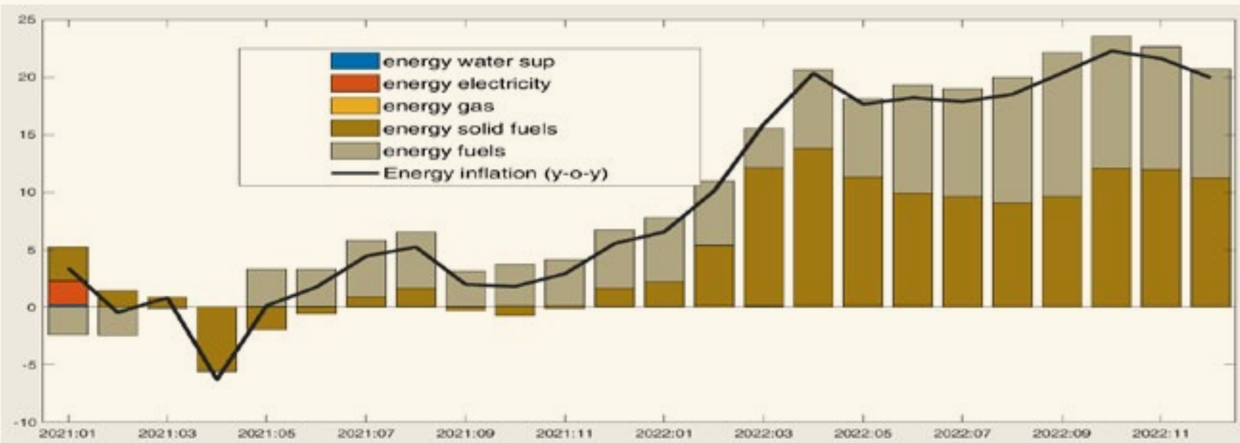


Source: NBR, Monetary Policy and Research Directorate

c. Energy inflation

The rise in energy inflation in 2022 was mostly reflected in both solid and liquid fuels inflation. Solid fuels inflation rose to 18.8 percent in 2022 from 0.0 percent recorded in 2021, while liquid fuels inflation picked up to 33.0 percent from 8.7 percent during the same period. The rise observed in solid fuels inflation was mostly associated with the supply, and demand of charcoals, and wood on the market, while the increase in prices of liquid fuels (diesel and petrol) is on the back of the upward trend observed in the international oil prices since February 2022, despite its ease recorded since October 2022.

Figure 8: Energy inflation (% change, Y-o-Y)



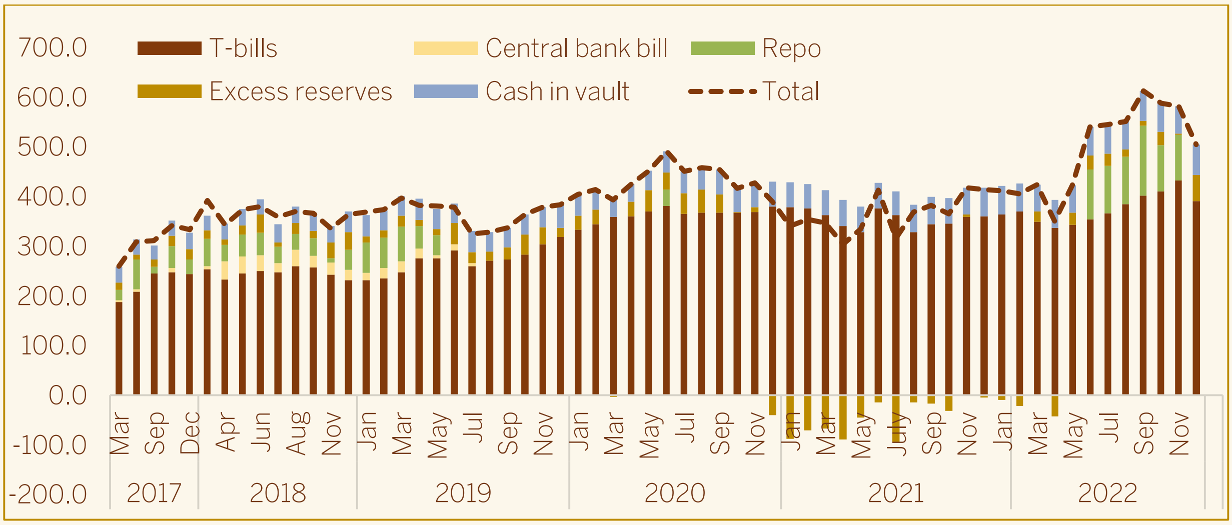
Source: NBR, Monetary Policy and Research Directorate

3.2 MONETARY SECTOR DEVELOPMENTS

3.2.1 Banking System Liquidity Conditions

In 2022, the bank's most liquid assets grew by 21.9 percent compared to a growth of 6.1 percent recorded in 2021. This growth resulted from increased government spending, which led to rebounded excess reserves and increased T-bills investment.

Figure 9: Most liquid assets of commercial banks (FRW Billion)



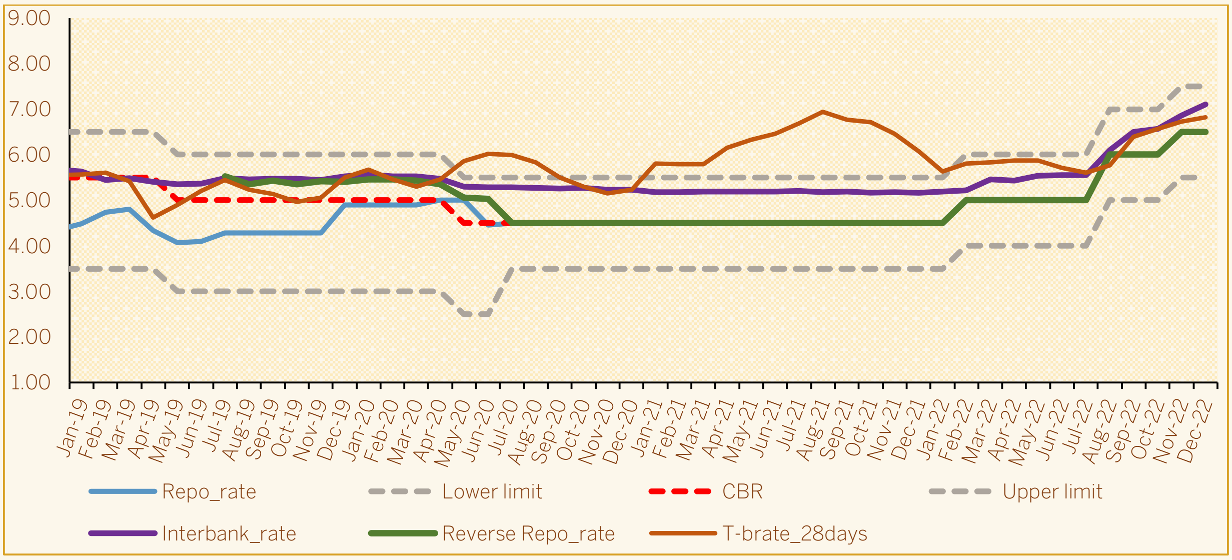
Source: NBR, Monetary Policy and Research Directorate

3.2.2 Monetary Policy and Interest Rates

Since February 2022, the National Bank of Rwanda started a cycle of tightening monetary policy in anticipation of inflationary pressures, the CBR was increased by a cumulative 250 basis points until now, from 4.5 percent to 7.0 percent. These decisions were taken in an effort to bring inflation within the medium-term target range of 2 to 8 percent.

As a result, money market rates were steered around the central bank rate, with the average interbank rate increasing by 74 basis points to 5.92 percent in 2022, from 5.18 percent in 2021.

Figure 10: Money market rates developments (p.a)

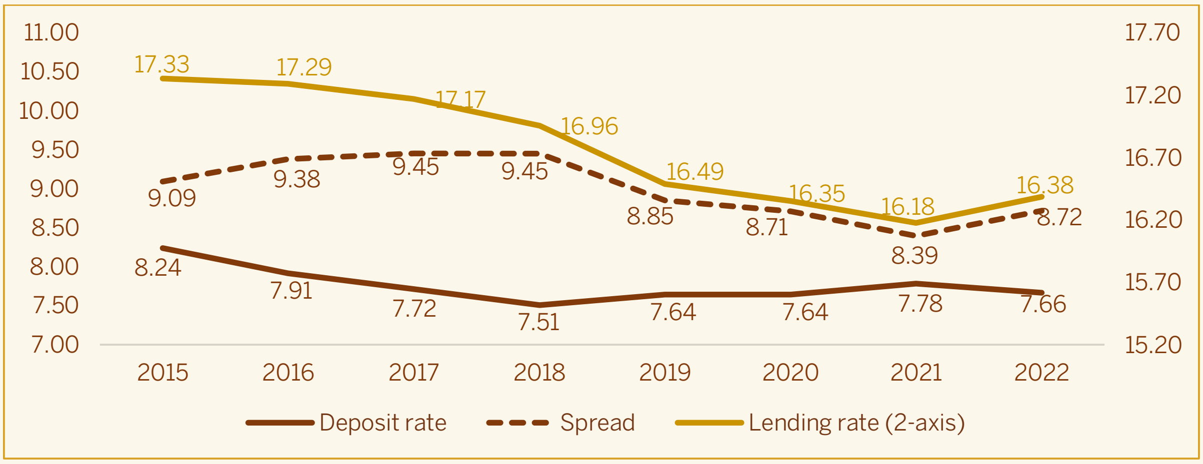


Source: NBR, Monetary Policy and Research Directorate

The annual average lending rate increased by 20 basis points to 16.38 percent in 2022 from 16.18 percent in 2021, on the back of increased share of loans with short term maturity, which are usually priced at higher rates.

During the same period, annual average deposit rate dropped by 12 basis points to 7.66 percent in 2022 from 7.78 percent in 2021, resulting from increased share of short term deposits. As a result, the spread between the lending rate and the deposit rate widened by 33 basis points, to 8.72 percent in 2022 from 8.39 percent in 2021.

Figure 11: Market interest rates (p.a, average)

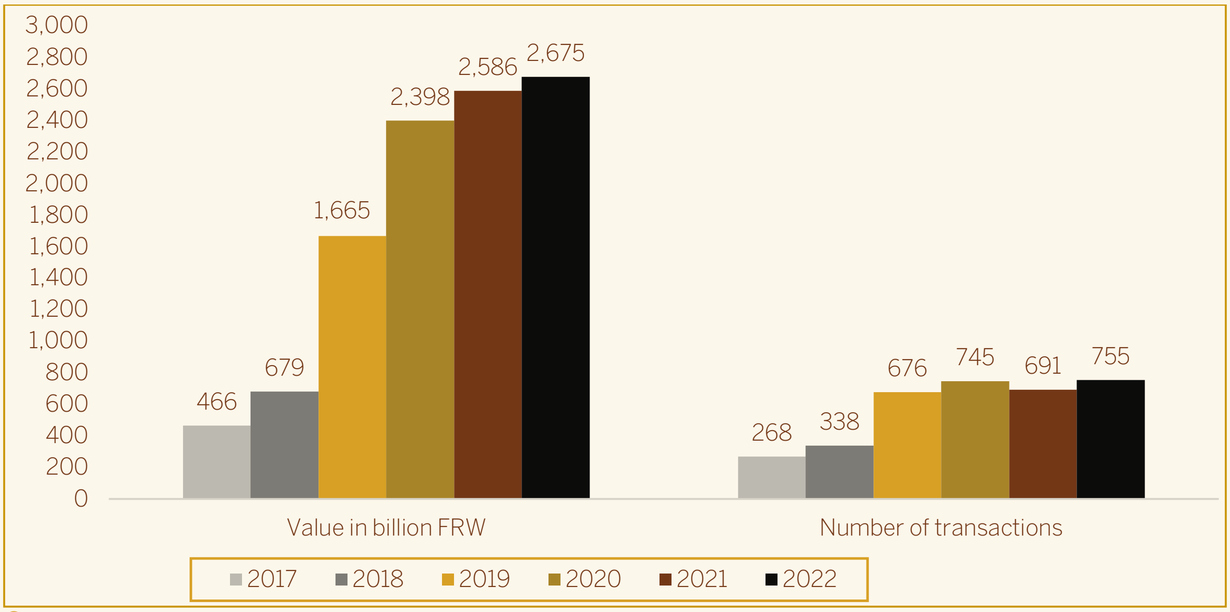


Source: NBR, Monetary Policy and Research Directorate

3.2.3 Interbank market development

In 2022, the interbank market was more active compared to the previous year, recording a higher number of transactions and a bigger volume of exchanged amounts, thanks to the continued interbank market development. The number of transactions increased by 9.3 percent to 755 from 691 transactions in 2021, while the amount exchanged increased by 3.4 percent to FRW 2,675 billion from FRW 2,586 billion in 2021.

Figure 12: Development of interbank market (2017- 2022)



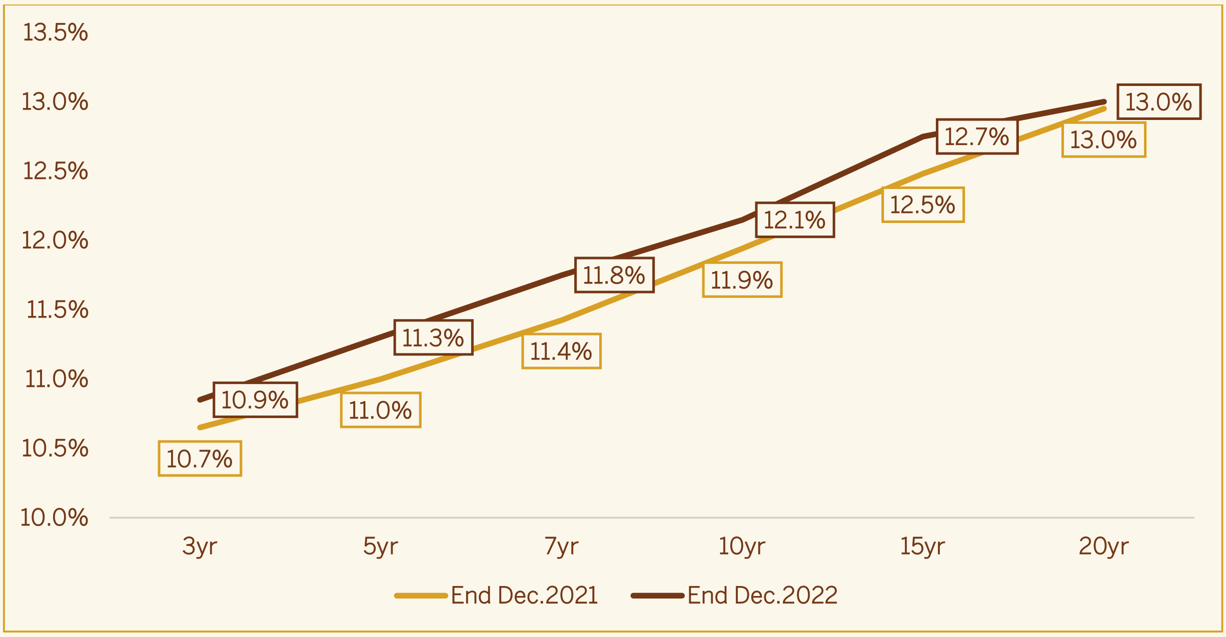
Source: NBR, Financial Markets Department

3.2.4 Bond primary market development

In 2022, the Government of Rwanda through the National Bank of Rwanda, has successfully issued five new bonds and reopened ten, with an average subscription of 130.7 percent from 117.8 percent in 2021. The increase in the bond subscription reflects the rise in the bank's most liquid assets.

On bond yields, in 2022, there was an increase for all maturities, following CBR hikes by the National Bank of Rwanda and inflation pressures.

Figure 13: Yields of Treasury Bonds (p.a)

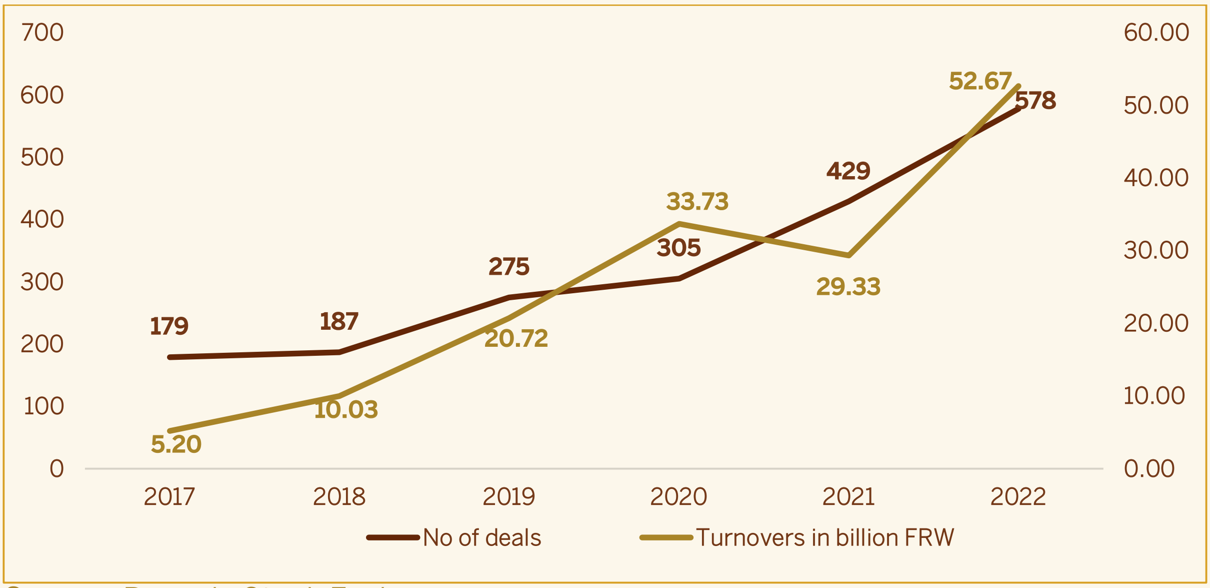


Source: NBR, Financial Markets Department

3.2.5 Bond secondary market development

Currently, only government bonds are traded on the Rwanda stock exchange (RSE). In the year 2022, the number of deals increased by 34.7 percent to 578, while bond turnovers increased by 79.6 percent to FRW 52.67 billion. The observed increase is a result of continued awareness in bond instruments coupled with the ongoing economic recovery from the Covid-19 pandemic.

Figure 14: Bond trading on the Rwanda Stock Exchange 2017 – 2022

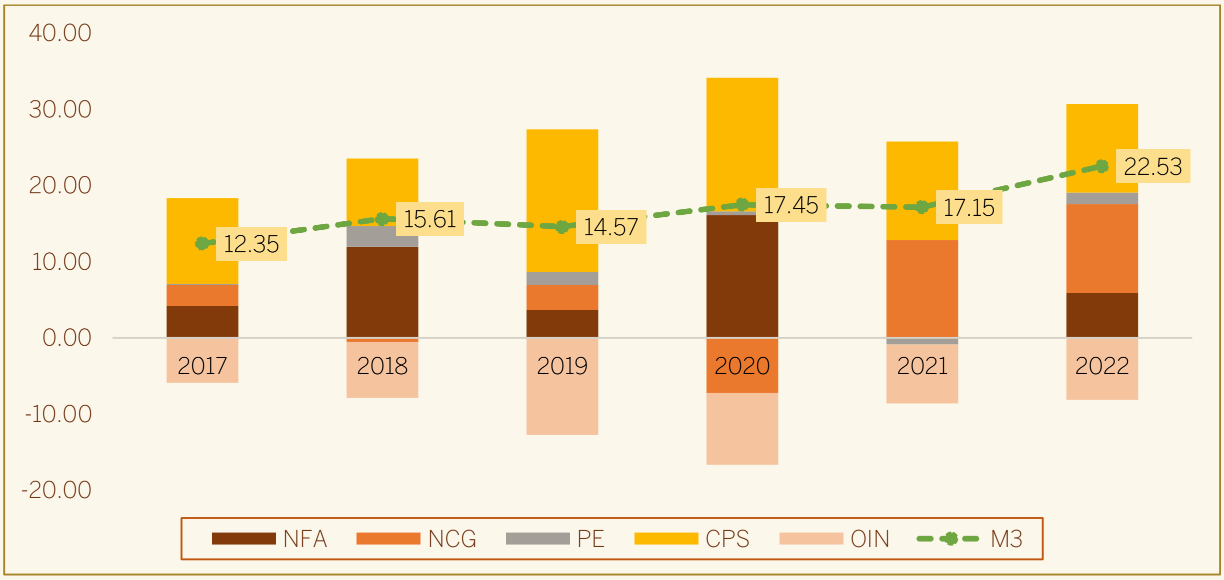


Source: Rwanda Stock Exchange

3.2.6 Money supply

In 2022, broad money (M3) grew by 22.5 percent, up from 17.2 percent in 2021, primarily driven by the growth in the net credit to the government (NCG) of 121.3 percent, credit to the private sector (CPS) of 13.6 percent, and net foreign assets (NFA) of 13.2 percent.

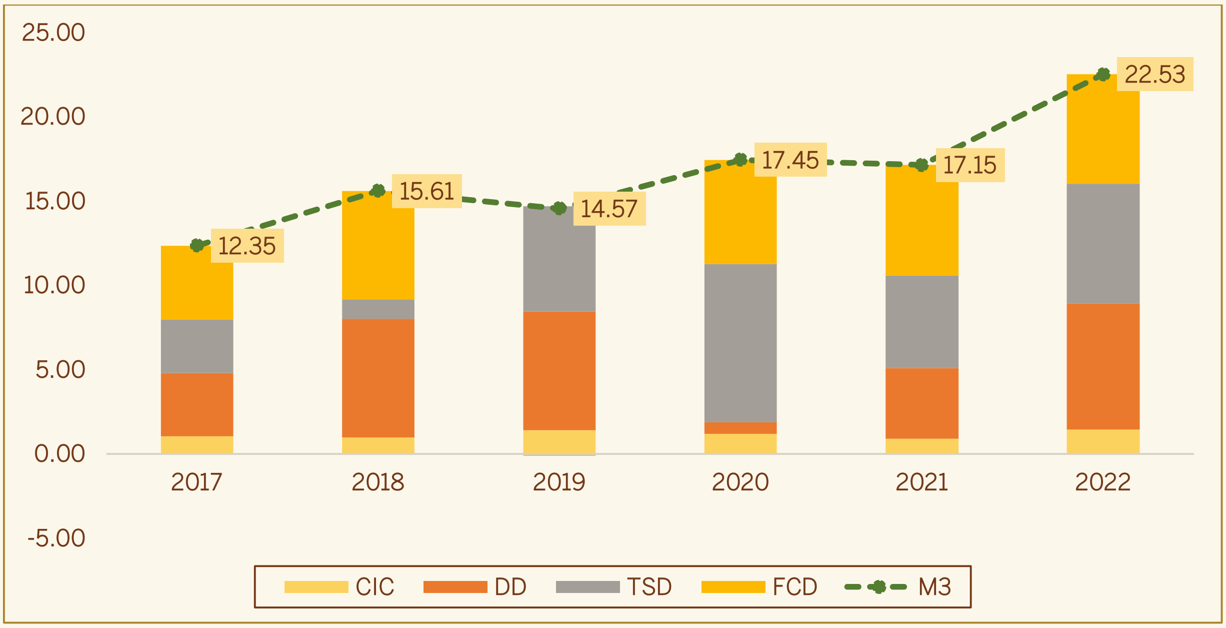
Figure 15: Contributors to M3 growth on the asset side (% change)



Source: NBR, Monetary Policy and Research Department

From the liability side, the main contributors to M3 growth were Demand Deposits (DD) with a growth of 23.12 percent, followed by Time & Saving Deposits with 20.99 percent, and Foreign Currency Deposits (FCD) with 25.23 percent.

Figure 16: Contributors to M3 growth on liability side (% change)



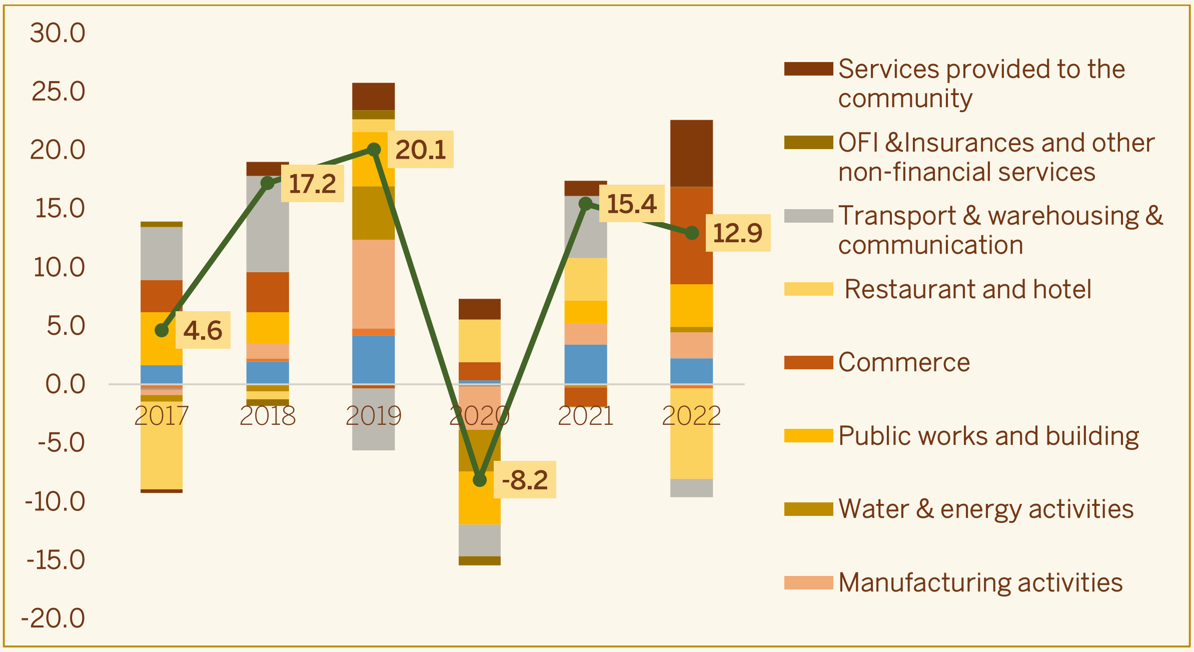
Source: NBR, Monetary Policy and Research Directorate

3.2.7 Credit

New Authorized Loans (NALs) rose by 12.9 percent in 2022 compared with 15.4 percent recorded in 2021. This was on the back of larger loans approved in 2021 for corporates, in sectors such as Restaurants and Hotels, as well as Communication and Services. Four sectors, namely commerce, public works & building, personal loans and manufacturing activities are always among the top financed sectors. In 2022, commerce was granted 30.0 percent of the total NALs, followed by public works & building (22.3 percent), personal loans (15.4 percent), and manufacturing (10.6 percent).

In terms of maturity, short-term debts predominate over other loans, especially for corporates, as most of the corporates' loans particularly in the commerce and manufacturing sectors are working capital and overdrafts. They represent 45.3 percent of total NAL in 2022, while medium and long-term loans represent 36.8 percent and 17.9 percent respectively.

Figure 17: Contributions of Sectors to the Change in New Authorized Loans (%, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section analyses developments in foreign exchange rate and foreign exchange market for the year 2022 and the outlook for 2023. Following the recovery of domestic economic activities that necessitated high intermediate and capital imports bill, the increase in international commodity prices, together with the strengthening of the USD, the local currency depreciated further versus the USD in 2022 compared to 2021.

4.1 EXCHANGE RATE DEVELOPMENTS

As of end December 2022, the Rwandan franc depreciated by 6.05 percent year-on-year against the USD, from a depreciation of 3.82 percent in 2021. This faster depreciation was linked to high international commodity prices that increased the imports bill, and the strengthening of the USD that resulted from a more aggressive monetary policy tightening by the US Federal Reserve in comparison to other central banks.

However, during the same period, the FRW attracted gains against other major currencies, with an appreciation of 5.30 percent, 0.04 percent and 7.90 percent versus the Pound, the Euro and the Japanese Yen, respectively.

Relative to regional currencies, the FRW remained strong versus the Kenyan shilling while it weakened against the TZS, the BIF and UGS. The franc added 2.80 percent vis-à-vis the KES in December 2022, while it had depreciated by 0.24 percent in 2021. The franc weakened by 4.47 percent, 1.17 and 2.03 percent versus the TZS, Uganda shilling, and the BIF, respectively.

Table 16: FRW exchange rate (in percent change compared to Dec. previous year)

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGX	FRW/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	4.04	-1.96	-0.07	6.20	5.46	1.24	1.77	1.93
Dec-19	4.94	8.48	2.81	6.25	4.53	3.73	5.13	-0.24
Dec-20	5.42	9.42	15.71	11.43	-1.34	5.66	7.17	2.53
Dec-21	3.82	2.94	-4.39	-6.96	0.24	4.78	6.85	1.00
Dec-22	6.05	-5.30	-0.04	-7.90	-2.80	4.47	1.17	2.03

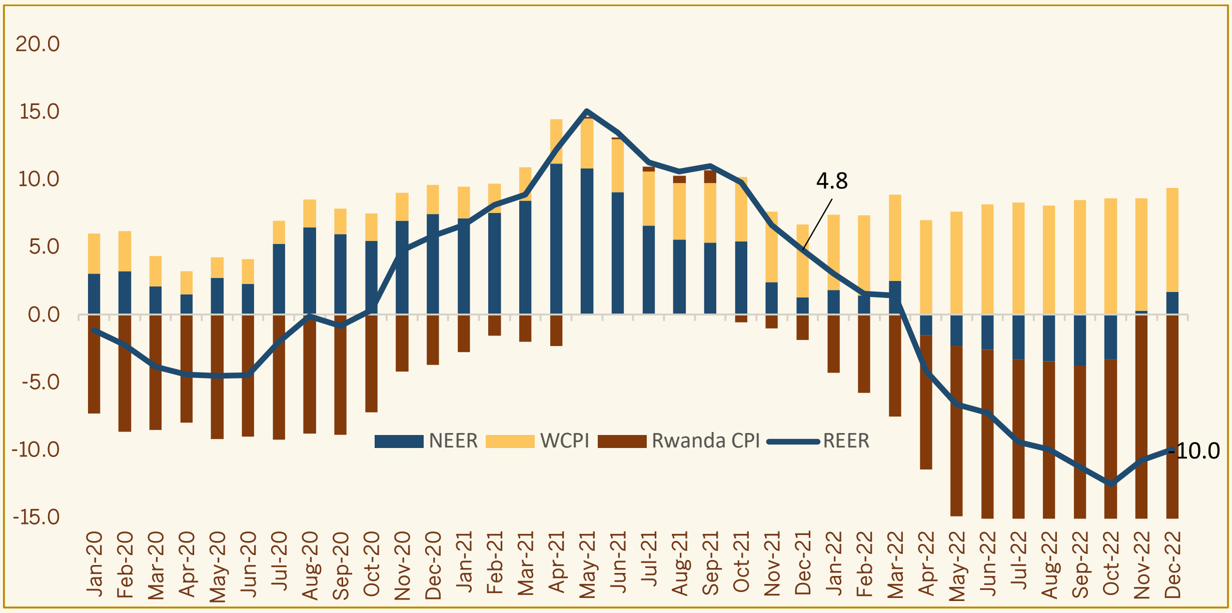
Source: NBR, Monetary Policy Department

In real effective terms, the current domestic context of high inflationary pressures is continuing to shape the franc exchange rate. Since April 2022, the Rwandan franc nominal effective indices were slowing down in levels, pointing to an appreciation of the FRW compared to currencies of trading partners. In December 2022, the FRW appreciated in real terms by 10.0 percent year-on-year while it had depreciated by 4.8 percent in December 2021.

The negative inflation differential (higher domestic than the weighted foreign inflation) drove the appreciation of the FRW in real effective terms. As implications, domestic products become less competitive compared to foreign goods which are relatively cheaper. The monetary policy tightening is expected to provide some relief to the franc in real term.

In nominal effective terms, the FRW depreciated by 1.7 percent in December 2022 after a depreciation of 1.3 percent in the corresponding period of 2021.

Figure 18: Drivers of REER movement



Source: BNR, Monetary Policy Department

4.2 FOREIGN EXCHANGE MARKET DEVELOPMENTS

The foreign exchange market remained stable in 2022, backed by sustained FX inflows. Net foreign assets of commercial banks increased by 101.4 percent in 2022, reflecting an increase in foreign assets (7.7 percent) amid a slowdown in the foreign liabilities (- 4.7 percent).

However, the Rwandan Franc has been under pressure in the second half of the year 2022 due to the mismatch between a high imports bill and low export revenues. NBR interventions on market are marginal and represents less than 10% of total annual import bill.

V. FINANCIAL SECTOR STABILITY

5.1 INTRODUCTION

The financial sector continues to remain stable and has maintained its growth momentum, despite elevated vulnerabilities caused by higher than-anticipated inflationary pressures fueled by global energy crisis, spillover effects from Russia's invasion of Ukraine, and higher food prices which resulted from bad weather conditions.

As at December 2022, total assets of financial sector grew by 17.7 percent to FRW 8,909 billion from FRW 7,568 billion in December 2021. With improved asset growth, the financial sector continued to deepen. Measured by the size of the financial sector assets relative to Gross Domestic Product (GDP), the depth of the financial sector grew to 64.9 percent in December 2022 against the average of 62.9 percent over the last five years. This portrays the prominent and expanding role the financial sector continues to play in financing the economy.

Despite the significant challenges facing global economy, the financial sector remains resilient to a range of potential adverse shocks. The size of capital and liquidity reserves that regulated financial institutions hold make the financial sector resistant to external shocks and strengthen their ability to absorb losses and maintain the provision of financial services to the real sector.

In medium term, the financial sector is expected to remain stable despite the increase in near term risks emanating from global economic outlook. To ensure the financial sector is safeguarded from different cascading shocks and rising risks, the NBR continues to monitor and assess the impact of macroeconomic environment on the financial stability and take suitable measures to contain risks that may arise from uncertain macro financial conditions. In addition, through regular oversight of the financial sector, the NBR will continue ensuring that financial institutions hold enough capital relative to the risks they undertake, as well as sufficient liquidity to meet financial obligations.

The sections that follow underscore the performance and stability of the financial sector in 2022, 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 AND PERFORMANCE OF THE FINANCIAL SECTOR

The Rwandan financial system is composed of a range of diverse financial institutions, markets and infrastructure. As of end December 2022, the financial system comprises of 634 regulated financial institutions up from 611 institutions as at end December 2021. The change in the number of regulated financial institutions was mainly in the Banking Sector, Forex Bureaus, Payment Services Providers (PSPs), Insurance Sector and, Non-Deposits Taking Financial Institutions (NDFIs). In the banking sector, the number of Banks reduced to 15 Banks from 16 following the merger between Banque Populaire du Rwanda Plc and Kenya Commercial Bank Rwanda Plc. In the insurance sector, the number of institutions increased to 17 from 15 after the of licensing 1 Captive insurance company and 1 Health maintenance organization (Eden Care). The number of Forex Bureaus declined to 78 from 80 following the revocation of the license of 2 companies that were not in compliance with regulatory requirements. In contrast, the number of PSPs increased by 7 to 22 in December 2022 from 15 in December 2021 following the licensing of 6 new Payment Initiation Service Providers (PISPs), and 1 E-Money Issuer. Similarly, the number of NDFIs increased to 32 in December 2022 from 14 in December 2021 owing to the licensing of 6 new lending only institutions, 9 debt collection companies, 1 leasing, 1 credit guarantee, and 2 trust and company service providers. These dynamics in the financial system are part of the NBR objective of modernizing the financial system and expanding its regulatory boundaries in order to improve access to finance, as well as the effectiveness and efficiency of the financial system.

The NBR is also mandated to regulate forex dealers and the entire payment system including payment service providers. As at December 2022, licensed forex dealers were 78 including, 3 remittance companies that offer forex services, while payment services providers were 22. Payment services providers include 6 remittance companies (of which 3 provide both forex and money transfer services), 9 payment initiation services providers, 5 e-money issuers and 2 payment systems operators. The financial sector remains highly concentrated as Banks account for about 67.3 percent of total financial sector assets, while Non-Bank Financial Institutions (NBFIs) constitute 32.7 percent of total assets of the financial sector. The pension sector accounted for about 16.6 percent of total assets of the financial sector, Insurance 9.3 percent and Microfinance Institutions (MFIs) 5.7 percent. Other NBFIs that include Forex bureaus, payment services providers and non-deposit taking lending only institutions remain relatively small and accounted for about 1.1 percent of the total assets of the financial sector.

Table 17: Structure of Financial Sector

Regulated Financial Institutions	Dec 2021			Dec- 2022		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Banks	**16**	**5,064**	**67.2**	**15**	**5,992**	**67.3**
Commercial Banks	11	4,176	55.6	10	4,814	54.0
Microfinance Banks	3	70	0.9	3	78	0.9
Development Banks	1	315	4.2	1	478	5.4
Cooperative Banks	1	503	6.7	1	622	7
Pension Schemes	**13**	**1,313**	**17.4**	**13**	**1,480**	**16.6**
Public	1	1,237	16	1	1,401	15.7
Private	12	76	1.0	12	79	0.9
Insurers	**15**	**701**	**9.3**	**17**	**829**	**9.3**
Life	3	67	0.9	3	85	1
Non-Life	11	632	8.4	11	733	8.2
Micro insurer	1	2	0.0	1	5	0.1
Captive insurer	-	-	-	1	6	0.1
HMO	-	-	-	1	-	-
Microfinances	**457**	**422**	**5.7**	**457**	**512**	**5.7**
U-SACCOs	416	163	2.2	416	192	2.2
Other SACCOs	22	134	1.8	22	158	1.8
Limited Companies	19	125	1.7	19	162	1.8
Foreign Currency Dealers	**80**	**8**	**0.1**	**78**	**9**	**0.1**
Forex Bureau	80	8	0.1	78	9	0.1
Payment Services Providers (PSPs)	**15**	-	-	**22**	-	-
Money Transfer & Remittance Companies	6	-	-	6	-	-
Payment Initiation Services Providers	3	-	-	9	-	-
E-Money Issuers	4	-	-	5	-	-
Payment Systems Operators	2	-	-	2	-	-
Non-Deposits Taking Financial Institutions	**14**	**24**	**0.3**	**32**	**86**	**1**
Lending only	6	-	-	10	-	-
Factoring	1	-	-	2	-	-
Guarantees	-	-	-	1	-	-
Debt Collection	6	-	-	15	-	-
TCSPs	1	-	-	3	-	-
Leasing	-	-	-	1	-	-
Credit Reference Bureaus	**1**	-	-	**1**	-	-
Grand Total	**611**	**7,532**	**100%**	**634**	**8,909**	**100 %**

Source: NBR, Financial Stability Directorate

Despite the challenging global economic conditions, the financial sector continued to grow. During the period under review, total assets of the financial sector grew by 17.7 percent to FRW 8,909 billion in December 2022 from FRW 7,532 billion in December 2021.The banking sector grew by 18.3 percent on account of growth of deposits and capital. The assets of the pension sector (both public and private) increased by 9.7 percent, mainly driven by the growth in pension contributions and investment income form placements in banks and Government securities. The assets of insurance sector grew by 18.3 percent mainly supported by the growth of premiums and investment income, while the assets of microfinance sector expanded by 21.3 percent on back of the increase of deposits and equity.

5.3. BANKING SECTOR

5.3.1. Structure of the Banking Sector

Relative to December 2021, the number of banks in the financial sector reduced by 1 following the merger between Banque Populaire du Rwanda PLC and Kenya Commercial Bank Rwanda PLC in June 2022. Currently, the banking sector is comprised of 15 banks (of which are 10 commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank). Foreign banks continue to dominate the banking sector, of which 10 banks out of the 15 are subsidiaries of foreign banks controlling about 53.9 percent of the banking sector's market share in terms of total assets.

The banking sector plays an important role as a financial intermediary and primary source of financing for the private sector. Banks are the main providers of essential financial services, and their development has been of paramount importance in facilitating and supporting the economic growth, and transformation process in Rwanda.

5.3.2. Performance of the Banking Sector

The balance sheet of banks continues to expand despite the challenging economic conditions mainly driven by high inflationary pressures (Table 18). The total assets of the banking sector increased by 18.3 percent to FRW 5,993 billion as at end December 2022 from FRW 5,064 billion as at end December 2021, higher than the growth of 17.5 percent registered during the previous year. The improved growth of assets of banks largely reflects the growth of deposits and capital base during the period under review.

Banks' main activity remains lending to the private sector, especially large Non-Financial Corporates (NFCs). During the year to end December 2022, net loans accounted for 52.2 percent of total assets of banks, while Government securities constituted of 21.1 percent of total assets of banks. During the same period, the reserves at the NBR were 8.6 percent, placements in domestic banks (8.5 percent), placements in foreign banks (2.9 percent), fixed assets (2.9 percent), other assets (2.3 percent) and cash (1.6 percent). With this balance sheet structure, interest income on loans and advances is the main source of income of banks with approximately 59.2 percent as total revenues of banks. Therefore, the performance of loans in terms of serviceability highly influences the stability of the banking sector.

The balance sheet of banks is primarily funded by customer deposits although most of them are short-term (Table 18). As at end December 2022, customer deposits represented 60.1 percent of total assets of banks (against 61.0 in December 2021) and 72.2 percent of total liabilities (against 73.2 percent in December 2021). Deposits increased by 16.6 percent to FRW 3,600 billion as at end December 2022, same level of growth as of the previous year. The other major sources of funds for banks include domestic borrowing (22.1 percent of total liabilities) and foreign borrowing (9.2 percent of total liabilities). Banks borrow on domestic market, mainly on the interbank market to meet short term liquidity needs not exceeding 7 days. On the other hand, foreign borrowings are medium to long term in nature and enable banks to provide long term credit and at the same time effectively manage assets liability mismatch.

The domestic funding sources are expected to remain stable despite global financial market volatility. The funding conditions in global financial markets have been negatively affected by the uncertainty of the pace of monetary policy tightening by major central banks and geopolitical tensions, leading to higher offshore risk premiums and funding costs. In the context of the Rwandan banking sector, banks' offshore funding needs are limited by the abundance of domestic deposit funding and only account for 9.2 percent of total bank funding. As a result, funding base of banks is not expected to be adversely affected by offshore liquidity financial conditions.

Table 18: Balance Sheet of the Banking Sector

Assets (FRW Billion)	Dec-2020	Dec-2021	Dec-22	% Change 20/21	% Change 21/22
Cash and Bank Balances	885.2	1,077.9	1,294.8	21.8	20.1
Government Securities	779.1	954.3	1,262.3	22.5	32.3
Net Loans	2,383.4	2,714.0	3,125.9	13.9	15.2
Fixed Assets	173.3	173.1	171.0	-0.1	-1.2
Other Assets	89.3	144.6	138.9	62.0	-3.9
Total Assets	**4,310.3**	**5,063.9**	**5,992.9**	**17.5**	18.3
Liabilities (FRW Billion)	**Dec-2020**	**Dec-2021**	**Dec-22**	**% Change 20/21**	**% Change 21/22**
Due to Other Domestic FIs	729.3	792.4	1,100.2	8.7	38.8
Due to FIs Abroad	26.7	62.3	458.3	132.9	635.6
Customer Deposits	2,647.3	3,087.3	3,600.3	16.6	16.6
Other Liabilities	192.9	272.8	251.4	41.4	-7.8
Capital (FRW Billion)	**Dec-2020**	**Dec-2021**	**Dec-22**	**% Change 20/21**	**% Change 21/22**
Total Shareholders Fund	714.1	849.2	1,005.8	18.9	18.4
Paid up Capital	364.1	402.6	456.2	10.6	13.3
Reserves	121.1	145.0	193.0	19.7	33.1
Total Liabilities and Equity	**4,310.3**	**5,063.9**	**5,992.9**	**17.5**	18.3

Source: NBR, Financial Stability Directorate.

Banks continue to provide support to the economy by ensuring constant flow of credit to the private sector. In 2022, new lending expanded by 12.9 percent (to FRW 1,389 billion from FRW 1,230 billion approved in 2021), albeit lower than the growth of 15.4 percent registered during the previous year. The moderation of the growth of new loans is linked to the base effect, in line with large amount of new loans that were approved in 2021 and the slowdown of credit demand amid tight credit standards.

Tight credit standards have been mainly in form of non-price credit conditions like maturity and collateral requirements. Hikes in the recent monetary policy rate have been passed through to money market rates but not fully passed to lending interest rate. The interbank rate moved in line with the increase of the policy rate three times in 2022. The weighted average interbank rate increased to 5.9 percent in 2022 from 5.2 percent in 2021, but the increase was more apparent in the second half of 2022 (6.4 percent in H2 2022 against 5.1 in H2 2021), following the increase in the central bank rate twice, in August 2022 (by 100 basis points) and in November 2022 (by 50 basis points). Prior to that, in February 2022, the MPC had also increased the central bank rate by 50 basis points to 5 percent from 4.5 percent. These hikes have however not been fully transmitted to the lending rate, which remained relatively stable at 16.4 percent in 2022 against 16.2 percent in 2021. Subsequently, the value of loan applications grew by 10.9 percent to FRW 1,696 billion in 2022 from FRW 1,528 billion in 2021, against the growth of 14.5 percent recorded in 2021. During the same period, loan applications in volume increased by 28.6 percent to FRW 702,538 higher than the growth of 18.2 percent registered in 2021. The improved growth of loan applications in volume mainly reflects the increased penetration and adoption of digital lending channels.

Outstanding loans continued to grow but at slower pace compared to the previous year. During the period under review, outstanding credit increased by 13.9 percent (to FRW 3,306 in December 2022 from FRW 2,903 in

December 2021) compared to the growth of 15.0 percent registered during the previous year. The moderation in the growth of outstanding loans largely reflects the slowdown of new lending and write offs of overdue loans. In 2022, write offs amounted to FRW 37.8 billion against FRW 74.9 billion in 2021 and FRW 21.7 billion in 2020. Writing off is a good international practice that regulatory authorities impose on banks to preserve transparency in their balance sheet. In Rwanda, regulation on credit classification and provisioning requires banks to clean up their balance sheet by writing offs loans that have been overdue for at least 360 days. By doing so, the amount of impaired loans reduces and hence a reduction in outstanding loans by the same amount, since impaired loans are part of outstanding loans.

Banks continue to implement credit diversification strategies to cushion risks that could arise from sectoral credit concentration. Economic diversification and transformation benefits banks in terms of diversifying their credit portfolio, creating investment opportunities to economic sectors that have been underfinanced. Contrary to historical trends, where banks credit was mainly driven by lending to trade, real estate and hotels, recently, there have been a significantly uptick in credit for sectors like manufacturing, services, water and energy and in transport (Table19).

Table 19: Banks' Outstanding Loans by Sector

Activity Sector	Loans (FRW Billion)			Annual Change	
	Dec-20	Dec-21	Dec-22	% change 20/21	% change 21/22
Consumer Loans	302.1	244.0	352.3	-19.2	44.4
Agricultural & Livestock	24.4	29.6	25.7	21.2	-13.2
Mining	3.8	0.6	0.5	-83.8	-16.7
Manufacturing	293.8	307.5	377.3	4.6	22.7
Water & Energy	109.6	118.6	154.2	8.2	30.0
Public Works	203.1	225.2	212.5	10.9	-5.6
Residential Properties	375.7	472.4	526.2	25.7	11.4
Commercial Properties	242.0	260.9	237.7	7.8	-8.9
Trade	366.8	431.8	489.3	17.7	13.3
Hotels	211.1	318.0	265.4	50.7	-16.5
Transport & Communication	257.8	323.2	359.3	25.4	11.2
Financial Services	32.0	9.1	23.4	-71.6	157.1
Other Services	102.5	161.9	282.3	58.0	74.4

Source: NBR, Financial Stability Directorate

Global monetary policy tightening to fight inflation has so far tightened financial conditions and led to the appreciation of United States Dollar (USD). In particular, the cost of borrowing in USD is increasing and domestic banks are transferring the cost to their clients, especially clients with loans in foreign currencies such as the USD. This move could be a potential source of credit risk, given that the majority of clients have loan contracts with floating interest rate, hence the increased credit burden in terms of credit payment instalments from hikes in the interest rate. However, this risk is not expected to cause material impact on the stability of banks, even if it materializes given the low level of financial sector dollarization. For example, the proportion of foreign currency denominated loans in total loans remains low at 11.3 percent as at end December 2022 and averaged 11.4 over the last five years. Furthermore, the conservative nature of the NBR directive on lending in foreign currency currencies is a mitigant for this risk. According to the directive no 2500/2018-09 of 27th December 2028 on lending in foreign currency, only borrowers with an income stream generated from businesses permitted to generate foreign currency and which are not less than 150 percent of their annual instalments, are permitted to be granted loans in foreign currency.

Banks continue to invest in Information Technology Systems to revolutionize the banking business operations. The innovations and adoption of technology witnessed in the last few years continue to have a positive impact on the provision of banking services. These innovations have not only improved the speed at which services are delivered but are also playing a key role to improving efficiency and costs rationalization of banks, thus contributing towards greater banking convenience. However, there are inherent operational risks associated with technology adoption. Generally, banks remain operationally and digitally resilient, with no major system-wide operational disruptions.

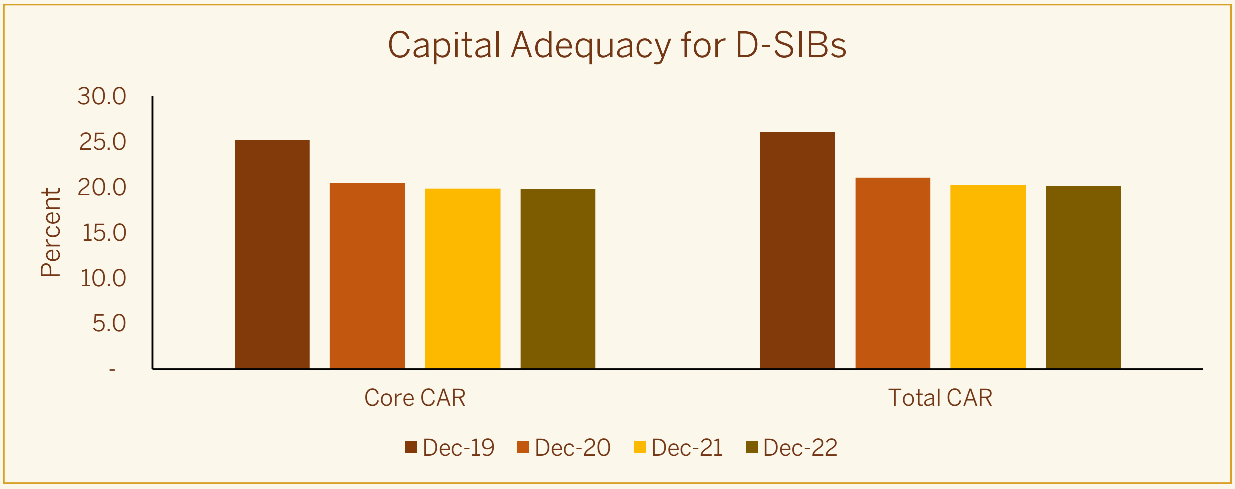
The NBR remains vigilant in ensuring that banks fully comply with business continuity requirements, and is also planning to put in place a framework that guides financial institutions on the implementation of new systems and requirements to upgrade existing systems. This framework will set the minimum requirements which banks will be expected to meet and implement for systems upgrade.

5.3.3. Soundness of the Banking Sector

The banking sector remains adequately capitalized. Banks are required to maintain the Capital Adequacy Ratio (CAR) of 15 percent to be able to absorb potential losses. As at end December 2022, the banking sector aggregate CAR stood at 21.7 percent, higher than the prescribed minimum prudential requirements, and all banks continue to maintain capital buffers in excess of the minimum requirements. The capital buffers that banks hold support their resilience to shocks and enable the sector to sustain the flow of credit to the economy, reducing the likelihood of distressed banks and the need for bailing out.

All Domestic Systemically Important Banks (D-SIBs) hold adequate capital buffers (Figure20). Of the fifteen banks in the Rwandan credit market, five have been designated as systemically important. Systemically important banks are those whose distress or failure could cause serious damage to the financial system and the wider economy, on account of their size, complexity, cross-jurisdictional activities, interconnectedness with the economy and financial system, as well as their products and services which cannot be substituted on a short notice. Due to their systemic importance, they are subjected to special regulatory requirements under the D-SIBs framework. For example, banks designated as D-SIBs are required to set aside a Higher Loss Absorbency (HLA) between 0.5 percent and 1 percent of Risk Weighted Assets (RWA) fully met by CET1 capital, and determined by the bucket in which the bank is classified on basis of aggregate bank score. The aim of this buffer is to increase their capacity to absorb losses. As at end December 2022, the aggregate core CAR of D-SIBs stood at 19.8 percent, while the consolidated total CAR of D-SIBs stood at 20.1 percent. This demonstrates that D-SIBs are in position to absorb losses during times of crisis.

Figure 20: Capital Adequacy of Systemically Important Banks



Source: NBR, Financial Stability Directorate

Furthermore, risks that could arise from excessive leverage remain minimal. Unlike the CAR that measures capital sufficiency relative to RWA, the leverage ratio gauges the capital sufficiency of banks independently of their risk-weighted assets. It is complementary to the risk-based capital framework and aims to restrict the buildup of excessive on and off-balance sheet leverage in the banking sector. To mitigate such type of risks, banks are required to operate with at least a minimum leverage of 6 percent. As at end December 2022, the industry wide leverage ratio stood at 12.4 percent against 13.8 percent in December 2021 and all banks comply with the leverage ratio requirement.

Going forward, the capitalization of banks is expected to remain stable. Since December 2018, banks were given a five-year transitioning period to comply with new licensing requirements, and are therefore expected to increase their capital in 2023. Furthermore, the macroeconomic conditions are projected to remain stable in the medium term. More importantly inflationary pressures are expected to ease in the second half of 2023, preserving the strong capitalization of banks, by limiting their probability of default and expected credit losses.

The liquidity risks remain minimal as bank funding conditions remained stable despite the increase of in the central bank rate to cushion inflationary pressures. During the year to end December 2022, banks continued to implement prudent liquidity risk management by keeping adequate liquidity buffers. The key liquidity indicators used to measure the liquidity of banks; the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), remain above the minimum prudential requirement. By complying with these two indicators, banks ensure they are resilient to funding shocks both over the short- and longer-term horizon, while continuing to support lending activities.

The LCR promotes the resilience of the liquidity risk profile by ensuring that banks hold a sufficient reserve of High-Quality Liquid Assets (HQLA) to allow them to survive a period of significant liquidity stress lasting 30 calendar days. From liquidity risk management, the 30 calendar days are considered as the minimum period necessary for corrective action to be taken by the bank's management or the supervisory authority. During this period, holding HQLA helps in ensuring that banks will reliably meet cash flow needs, which may be variable and unpredictable. The HQLA buffers refer to banks' stock of liquid assets such as cash, central bank reserves and government securities, all of which are easily converted into cash to meet unexpected cash outflows needs. As at end December 2022, the consolidated LCR of banks, in both local currency and significance currencies (i.e. United States Dollar) stayed well above the regulatory requirement of 100 percent. By considering all currencies, the LCR stood at 215.9 percent against 100 percent minimum requirement. This portrays the resilience of banks to short-term outflows of funds.

Unlike the LCR that promotes short term liquidity resilience, the NSFR aims at preventing banks from excessively financing long-term assets with short-term liabilities and thus seeks to mitigate the potential for future funding stress. Banks are inherently vulnerable to liquidity risk arising from the maturity transformation role they play- the use of short-term liabilities such as, customer deposits to fund longer term assets like loans. To mitigate these risks, the NBR liquidity policy requires banks to maintain a stable funding structure by complying with NSFR requirements. The NSFR ensures funding resilience over a longer time horizon, requiring banks to fund long-term assets with long-term liabilities and thus limit the degree of maturity mismatch. Specifically, the NSFR requires that banks' available stable funding over a one-year horizon is at least as large as the required stable funding over the same horizon. As at end December 2022, the aggregate NSFR of banks stood at 136.8 percent compare to the 100 percent minimum regulatory requirement.

The funding conditions of banks are expected to remain stable amidst tight monetary conditions. The increase in the central bank rate to curb inflationary pressures is not expected to materially affect the liquidity of the banking sector, given the strong liquidity buffers that banks hold.

Furthermore, the asset quality of banks is expected to remain healthy, and banks cash flow from loans repayment will remain stable. The interbank market continues to operate effectively and the availability of the reverse repo facility and Emergency Liquidity Facility (ELF) at the NBR will provide additional support for banks in managing their liquidity in case the need arise. These conditions will continue to ensure that funding conditions remain orderly.

Table 20: Key Financial Soundness Indicators for Banks (Percent)

Indicators	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Total CAR (min 15 %)	25.5	24.1	21.5	21.5	21.7
Core Capital Tier 1 (min 12.5%)	23.8	22.6	20.3	20.6	20.9
NPLs Ratio	6.4	4.9	4.5	4.6	3.1
Provisions / NPLs	68.2	81.5	106.3	119.8	141.9
LCR (min 100%)	299	215	254.7	268.9	215.9
NSFR (min 100%)	222	111	161.4	147.1	136.8
FX Exposure/Core Capital (± 20%)	-5.6	-4.8	-4.4	-3.7	-0.6

Source: NBR, Financial Stability Directorate

The impact of inflation on debt servicing has so far been very moderate but vulnerabilities to credit risk remain. The outstanding Non-Performing Loans (NPLs) in banking sector dropped to FRW 127 billion in December 2022 from FRW 158 billion in December 2021, largely due to write offs of overdue loans (FRW 37.9 billion in 2022) and recoveries from non-performing loans. As result, the NPL ratio declined to 3.1 percent in December 2022, from 4.6 percent in December 2021. The reduction in the NPL ratio is also linked to the growth of outstanding loans during the period under review.

From sectoral perspective, NPLs ratio dropped in most sectors including trade, hotels, transport, public works, residential properties, commercial properties, water and energy, mining, services, other financial services and for consumer loans (Table 21). The reduction in the NPL ratio in these sectors mainly reflects the growth of outstanding loans in line with increased new loans, write offs and recoveries form NPLs especially in commercial real estate.

In contrast, the NPL ratio increased in manufacturing and agriculture (Table 21). In the manufacturing sector, though NPLs have not reached an alarming level, they are increasing and their increase mainly reflects global supply chain disruptions caused by the Russia-Ukraine war and COVID-19 pandemic, especially for firms that have not been able to recover quickly form the effects of the pandemic. As an energy intensive sector, with most of their inputs imported, some of the firms in the manufacturing sector are experiencing increased inputs and logistic costs attached to higher increase in energy prices, hence revenues adversely affected. The NBR together with other public agencies are planning to conduct a survey on the effects of the global supply chain disruptions on the manufacturing sector to further understand the challenges the sector is currently experiencing. Findings of the survey are expected to inform policy formulation and give guidance on interventions necessary to support this key sector.

Regarding the agriculture sector, the increase in NPLs is linked to the poor performance of the sector on account of unfavorable weather conditions and increased prices of fertilizers. However, the impact credit defaults in agriculture on the stability of banks is still small, given the sector is amongst the least financed with only a share of 1 percent of total outstanding loans of banks.

Looking ahead, while higher interest rates and costs of living could see credit defaults rise in some loan segments, the overall increase in impairments is expected to be modest given the projected economic growth prospects in the medium term and inflation outlook especially in the second half of 2023. More importantly large borrowers have resumed normal credit payment after the expiry of credit relief, thanks to the Economic Recovery Fund (ERF), and they are expected to continue to servicing their loans as economic conditions return to normal.

Table 21: NPLs Ratio by Economic Sector (percent)

Activity Sectors	NPLs Ratio (Percent)				% share in total NPLs
	Dec-19	Dec-20	Dec-21	Dec-22	
Personal Loans	6.9	5.9	8.0	5.4	12.8
Agricultural & Livestock	4.4	3.3	8.0	26.5	6.0
Mining	78.0	70.7	0.6	0.1	0.0
Manufacturing	0.8	0.9	0.9	3.3	11.0
Water & Energy	-	0.0	0.0	0.0	0.0
Public works	1.0	4.0	12.6	1.9	3.5
Residential Properties	5.0	3.0	3.7	3.2	14.7
Commercial Properties	5.1	7.5	19.1	6.7	14.0
Trade	9.5	8.1	13.5	5.4	23.4
Hotels	2.8	4.5	5.3	4.0	9.4
Transport & Communication	1.2	1.2	2.2	1.3	4.0
Financial Services	0.7	5.9	3.4	0.4	0.1
Other Services	5.3	6.7	2.4	0.4	1.0

Source: NBR, Financial Stability Directorate

Banks remain profitable and their high reserves continued to boost their capital buffers. The aggregate net profits of banks increased by 40 percent to FRW 175.7 billion as at end December 2022 from FRW 125.5 billion as at end December 2021. Similarly, the Return on Assets (ROA) increased to 3 percent as at end December 2022 from 2.5 percent as at end December 2021, while the Return on Equity (ROE) increased to 17.8 percent as at end December 2022 from 15.0 percent as at end December 2021. From the stability perspective, improved profitability enhances the resilience of banks through internally generated capital buffer against shocks and simultaneously play the capital and liquidity funding role.

The improved profitability of banks was underpinned by higher growth of revenues relative to expenses during the period under review. Banks' revenues increased by 15 percent to FRW 762.7 billion in 2022 from FRW 663.1 billion in 2021 owing to the growth of interest income. Interest income on loans, which represents 59.2 percent of total bank revenues increased by 12.8 percent in 2022 compared to the growth of 17.2 percent in 2021. The slowdown of interest income on loans is due to the moderation of the growth of outstanding loans as the lending interest rate remained relatively stable. During the same period, interest income on government securities increased by 27.4 percent to FRW 91.2 billion from FRW 75.5 billion reflecting increased investment in government securities.

Non-interest income that represents 25 percent of total revenues of banks grew by 14.5 percent to FRW 190.7 billion in December 2022 from FRW 166.7 billion in December 2021, supported by recoveries from NPLs and increased demand of banking services. Non-interest income is made of commissions (43.2 percent), recoveries (33.3 percent) and foreign exchange income (23.5percent).

The profitability of banks was also supported by the slower growth of expenses. Banks' expenses increased by 5.6 percent to FRW 508.8 billion in 2022 from FRW 481.9 billion in 2022, against the growth of 15.4 percent recorded in 2021. The slowdown in the growth of expenses is linked to the decline in provisions for bad debts by 45 percent in 2022, against the growth of 22.2 percent in 2021 that was in line with improved credit risk profile following the resumption of payment of loans that were restructured due to COVID-19. During the same period, interest expenses on deposits increased by 24.1 percent from 12.4 percent on account of improved growth of deposits while other expenses that are largely made of IT expenses increased by 24.3 percent from 22.5 percent as banks continue to invest in technology to improve cyber resilience and services delivery through digital channels.

Table 22: Income and Expenses Structure of Banks

Interest Structure (FRW Billion)	Dec-20	Dec-21	Dec-22	% Change 20/21	% Change 21/22
Interest Income	416.7	496.5	572.0	19.1	15.2
Fees & Commissions	49.3	63.2	82.4	28.2	30.4
Foreign Exchange Income	31.7	47.1	44.8	48.5	-4.9
Other Income	40.0	56.3	63.5	40.7	12.8
Total Income	**537.8**	**663.1**	**762.8**	**23.3**	**15.0**
Expenses Structure (FRW Billion)	Dec-20	Dec-21	Dec-22	% Change 20/21	% Change 21/22
Interest Expenses	121.4	136.0	164.2	12.1	20.7
Provisions for Bad Debts	83.7	102.3	56.2	22.2	-45.1
Staff Costs	89.2	97.3	112.8	9.1	15.9
Transport and Depreciation	31.4	33.6	35.5	7.1	5.7
Other Expenses	92.0	112.7	140.1	22.5	24.3
Total Expenses	**417.7**	**482.0**	**508.8**	**15.4**	**5.6**
Profits (FRW Billion)	Dec-20	Dec-21	Dec-22	% Change 20/21	% Change 21/22
Profits before Tax	120.2	181.2	254.0	50.8	40.2
Profits after Tax	81.7	125.5	175.7	53.6	40.0
Return on Average Assets	2.0	2.5	3.0		
Return on Average Equity	11.8	15.0	17.8		

Source: NBR, Financial Stability Directorate

5.4. THE MICROFINANCE SECTOR

5.4.1. Structure of the Microfinance Sector

The structure of the microfinance sector has not changed since the publication of the previous MPFSS. The sector is still made of 457 institutions of which 416 are Umurenge SACCOs (U-SACCOs), 22 non-Umurenge SACCOs and 19 Public Limited Companies (PLCs). The size of Microfinance institutions (MFIs) relative to other financial intermediaries remains small. As at end December 2022, the share of the microfinance sector in total assets of the financial sector increased to 5.8 percent from 5.6 percent in December 2021. However, MFIs play an important economic role in fostering financial inclusion given their country-wide presence which facilitates access to finance for unbanked population, especially rural households. For example, the number of account holders in MFIs increased from 4,860,105 in December 2021 to 5,204,981 in December 2022 with the majority (around 69.6 percent) in UMURENGE SACCOs (U-SACCOs) that are in all 416 sectors of the country.

The microfinance sector remains adequately capitalized, liquid, and its profitability has improved in line with the current good credit risk profile. The sections that follow underline the performance of the microfinance sector during the year ended December 2022, and highlights the main factors driving the stability of microfinance institutions.

5.4.2. Performance of the Microfinance Sector

During the year to end December 2022, the balance sheet of the microfinance sector continued to grow. The total assets of the microfinance sector increased by 21.6 percent in December 2022 to FRW 512.4 billion from FRW 421.4 billion in December 2021.The expansion of the sector's assets is largely linked to the growth of deposits and equity. On one hand, customer's deposits account grew by 24.6 percent (to FRW 274.3 billion in December 2022 from FRW 220.2 billion in December 2021), higher than the growth of 14.6 percent recorded during the year before. The improved growth in deposits of microfinances is largely explained by the recovery in businesses especially small and medium businesses that bank with microfinances. On the other hand, the nominal capital of microfinance sector increased by 17.1 percent (to FRW 176.5 billion as at end December 2022 form FRW 150.7 billion as at end December 2021), albeit lower than the growth of 17.7 percent registered in December 2021. The growth in the capital of microfinances originated from the increase of retained earnings (+21.9 percent), capital injections (+10.3 percent), the profits of the current period (+27.0 percent) and the other equity largely made of subsidies (18.4 percent).

Financial intermediation remains the main activity of MFIs and registered an improved growth during the period under review. During the year to end December 2022, net loans accounted 62.3 percent of total assets of banks up from 54.4 percent in December 2021. The improved intermediation will expand the profitability of microfinances given their interest income is the main source of income of MFIs and their quality of loans remains healthy. The second major component of assets of MFIs is the placements in banks with 26.3 percent of total assets in December 2022, down from 33.1 percent in December 2021. Placement in banks reduced as MFIs prioritized lending following the increased resources and improved assets quality. The other categories MFI assets are relatively small and include cash in vault (2.1 percent), Government securities (1.4 percent), and other assets comprised of fixed assets (7.9 percent).

Lending activities increased during the period under review. The outstanding credit significantly increased by 38.1 percent to FRW 324.8 billion in December 2022, from FRW 235.2 billion, higher than the growth of 16.2 percent recorded during the previous year. The growth of credit grew in all categories of microfinances. During the year to end December 2022, the outstanding credit in U-SACCOs increased by 37.6 percent up from 22.5 percent in December 2021. Similarly, outstanding credit in Public Limited Companies (PLCs) expanded by 32.5 percent in December 2022 against the growth of 16.4 percent in December 2021, while outstanding credit in other SACCOs grew by 43.4 percent in December 2022 from 11.6 percent in December 2021. The improved growth of loans in microfinance sector largely reflects increased resources (deposits), improved assets quality, that induced lending appetite and the recovery of economic activities, especially small and medium businesses, hence the growth in credit demand.

5.4.3. Soundness of the Microfinance Sector

The capitalization of the microfinance sector remains stable. As at end December 2022, the aggregate CAR of MFIs stood at 34.5 percent, higher than the 15 percent minimum regulatory requirement. All categories of MFIs hold adequate capital buffers. The CAR of U-SACCOs stood at 35.2 percent as at end December 2022. During the same period, the CAR of PLCs stood at 23.7 percent, while the CAR of other SACCOs stood at 44.5 percent. The stable capitalization of MFIs has been underpinned by the growth of equity. During the period under review, total equity of MFIs expanded by 17.1 percent to FRW 176.5 billion as at end December 2022 from FRW 150.7 billion as at end December 2021. The equity of MFIs is comprised of paid-up capital of FRW 6.7 billion (34.4 percent), subsidies FRW 59.4 billion (33.7 percent), retained earnings FRW 33.4 billion (18.9 percent) and profit of the current period FRW 23 billion (13.1 percent). The strong capital position of MFIs provides confidence that MFIs can withstand unexpected losses from various shocks.

The microfinance sector remains liquid. The consolidated liquidity ratio of the microfinance sector stood at 90.9 percent higher than the 30 percent minimum prudential requirement. All categories of MFIs hold liquidity buffers above the regulatory requirement. The liquidity ratio of U-SACCOs stood at 91.8 percent as at end December 2022, while the liquidity ratio of PLCs and Other SACCOs stood at 83.5 percent and 105.1 percent respectively. The stability of the liquidity conditions of MFIs has been underpinned by the growth of deposits, growth of capital, improved assets quality and profitability, consistent with the recovery of economic activities.

Credit defaults remained moderate during the period under review. As at end December 2022, the stock of NPLs in microfinances amounted FRW 11.3 billion, the same amount as at end December 2021. Following an improved growth in outstanding loans, NPLs ratio declined to 3.5 percent as at end December 2022, down from 4.8 percent in December 2021. By category of MFIs, NPLs reduced in U-SACCOs and other SACCOs. In U-SACCOs, the outstanding NPLs dropped to FRW 6.0 billion in December 2022 from FRW

6.2 billion in December 2021, while in other SACCOs, the outstanding NPLs reduced to FRW 2.1 billion in December 2022 from FRW 2.6 billion in December 2021. During the same period, the outstanding NPLs in PLCs slightly increased to FRW 3.0 billion from FRW 2.5 billion. Similarly, the NPL ratio dropped to 6.6 percent from 9.2 percent in U-SACCOs, while in other SACCOs, NPL ratio reduced to 1.7 percent from 2.9 percent. In PLCs, the NPL ratio marginally declined to 2.9 percent from 3.1 percent mainly on account of the improved growth of outstanding loans.

The microfinance sector remains profitable and its profitability continues to improve. The consolidated net profits of MFIs increased by 27 percent to FRW 23.0 billion as at end December 2022, from FRW 18.1 billion recorded as at end December 2021. As a result, the Return on Assets (ROA) increased to 4.6 percent in December 2022 from 4.4 percent in December 2021, while Return on Equity (ROE) increased to 13.3 percent in December 2022 from 12.4 percent in December 2021. The increase in the profit of MFIs is mainly associated with the growth of revenues in line with increased lending and reduction of provisions for bad debts consistent with muted credit impairments. The total revenues of MFIs significantly increased by 23.4 percent (to FRW 79.3 billion in December 2022 from FRW 64.2 billion in December 2021), higher than the growth of 11.6 percent registered during the previous year. The provision for bad debts reduced by FRW 2.5 billion to FRW 2.1 billion in 2022 from FRW 4.6 billion in 2021.

Table 23: Performance Indicators of Microfinance Sector

Microfinance Sector	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Assets (FRW billion)	279.5	320.7	356.1	421.4	512.4
Loans (FRW billion)	164.0	183.6	202.4	235.2	324.8
Deposits (FRW billion)	144.5	170.2	192.2	220.2	274.3
Equity (FRW billion)	98.1	114.4	128.0	150.7	176.5
Net profit/Loss (FRW billion)	7.3	12.0	10.3	18.1	23.0
Capital Adequacy Ratio (%)	35.1	35.7	36.0	35.8	34.5
NPLs Ratio (%)	6.5	5.7	6.7	4.8	3.5
Liquidity Ratio (%)	100.3	100.6	101.5	112.3	90.9
U-SACCOs	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Assets (FRW billion)	121.8	134.3	143.5	163.0	192.5
Loans (FRW billion)	47.9	51.9	55.0	67.3	92.7
Deposits (FRW billion)	60.7	73.6	80.8	88.5	105.4
Equity (FRW billion)	42.5	46.1	50.4	58.8	67.8
Net profit/Loss (FRW billion)	2.8	4.3	4.1	7.4	9.1
Capital Adequacy Ratio (%)	34.9	34.3	35.1	36.1	35.2
NPLs Ratio (%)	11.8	11.3	12.4	9.2	6.6
Liquidity Ratio (%)	113.2	105.1	105.8	104.3	91.8
Public Limited Companies	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Assets (FRW billion)	77.1	94.1	106.8	124.7	162.1
Loans (FRW billion)	51.0	62.4	68.3	79.5	105.4
Deposits (FRW billion)	48.1	56.7	63.6	72.9	91.8
Equity (FRW billion)	16.7	22.8	26.9	33.2	38.5
Net profit/Loss (FRW billion)	0.1	2.4	1.1	2.8	3.4
Capital Adequacy Ratio (%)	21.7	24.2	25.2	26.6	23.7
NPLs Ratio (%)	4.9	3.6	4.0	3.1	2.9
Liquidity Ratio (%)	73.1	70.8	76.6	82.1	83.5
Other SACCOs	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Assets (FRW billion)	80.7	92.3	105.8	133.7	157.8
Loans (FRW billion)	65.1	69.3	79.1	88.3	126.7
Deposits (FRW billion)	35.6	39.9	47.8	58.8	77.1
Equity (FRW billion)	38.9	45.5	50.8	58.7	70.2
Net profit/Loss (FRW billion)	4.4	5.2	5.1	8.0	10.5
Capital Adequacy Ratio (%)	48.2	49.3	48.0	43.9	44.5
NPLs Ratio (%)	3.7	3.4	5.0	2.9	1.7
Liquidity Ratio (%)	110.4	160.0	143.0	210.4	105.1

Source: NBR, Financial Stability Directorate

5.5 INSURANCE SECTOR

5.5.1 Structure of the Insurance Sector

Insurers provide financial and economic functions that support economic activity, by contributing to the flow of savings into investments and enabling risk transfer, by assuming the risks of households and businesses in return of a premium. Insurance is classified into two broad Categories-Non-life insurance and Life business, and the insurance sector has also three special categories; Micro insurance, Captive insurance and Health Maintenance Organization (HMO). The Private insurance is composed of 14 insurance companies, of which 9 offer non-life insurance products, 3 offer life insurance, 1 micro insurance business, 1 Captive Insurance, and 1 Health maintenance Organization (Eden care). In addition to private insurers, the sector also consists of 2 public health insurers (RSSB Medical and MMI). In the field of intermediation, there are 14 active insurance brokers, 8 banc assurance, 1 544 Insurance agents, and 26 loss adjusters as of December 2022.

The insurance sector continues to grow, industry asset base grew by 17 percent to FRW 824 billion in December 2022 from FRW 701 billion in December 2021.Public medical insurers remain dominant in size with a percentage share of 69.1 percent of the total assets of the insurance sub-sector as of December 2022, compared to 62.9 percent in December 2021. In terms of Gross written premiums (GWP), the two public medical insurers share 43 percent of sector's total written premiums. The insurance sector in Rwanda continues to be the provider of liquidity for financial institutions. As at December 2022, total placements of insurers held in financial institutions was FRW 301.4 billion equivalent to 37 percent of total assets of the insurance sector and 8 percent of total financial institutions customer deposits. The growth in placements was due to increased interest rate and appetite of insurers to invest in safe investment channels. Insurers also held investments in local equities (FRW 123.4 billion) which accounts for 15 percent of their total asset and government securities amounting to FRW 199.6 billion equivalent to 24 percent of their total assets.

General insurance (Non-life) business which is considered short term remained the highest contributor to private insurance premiums, with 77.1 percent of premiums of private insurers, and 43.6 percent of the sector's total gross written premiums (GWP) as of December 2022. General insurance business is largely dominated by motor and medical insurance classes of business with combined share of 63 percent of total gross premiums and 27 percent of total insurance industry's premiums. On the other hand, life insurance is a long-term category of insurance that provides financial compensation of the amount assured at maturity or in case of the death of a policyholder. Life insurance business consists of ordinary life, traditional life, term and credit life products. Ordinary life and Credit protection dominated with 63 percent of gross premiums collected by Life insurance as at December 2022 (Table 25).

Table 24: Product Break Down for Non-Life Insurance

Product Description (In FRW Million)	Dec-21			Dec-22		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Motor	37,857	21,170	63%	42,036	24,977	67%
Property	12,486	727	19%	15,099	822	17%
Liability	2,947	506	42%	3,401	913	83%
Transportation	1,235	106	18%	1,381	326	50%
Accident& Health	2,139	1,069	74%	2,732	388	23%
Engineering	5,788	242	23%	9,034	359	23%
Guarantee	3,818	910	58%	4,631	110	7%
Medical	22,947	13,989	76%	29,701	14,923	68%
Miscellaneous	6,077	316	36%	6,323	517	26%

Source: NBR, Financial Stability Directorate.

Table 25: Product Break-Down for Life Insurance

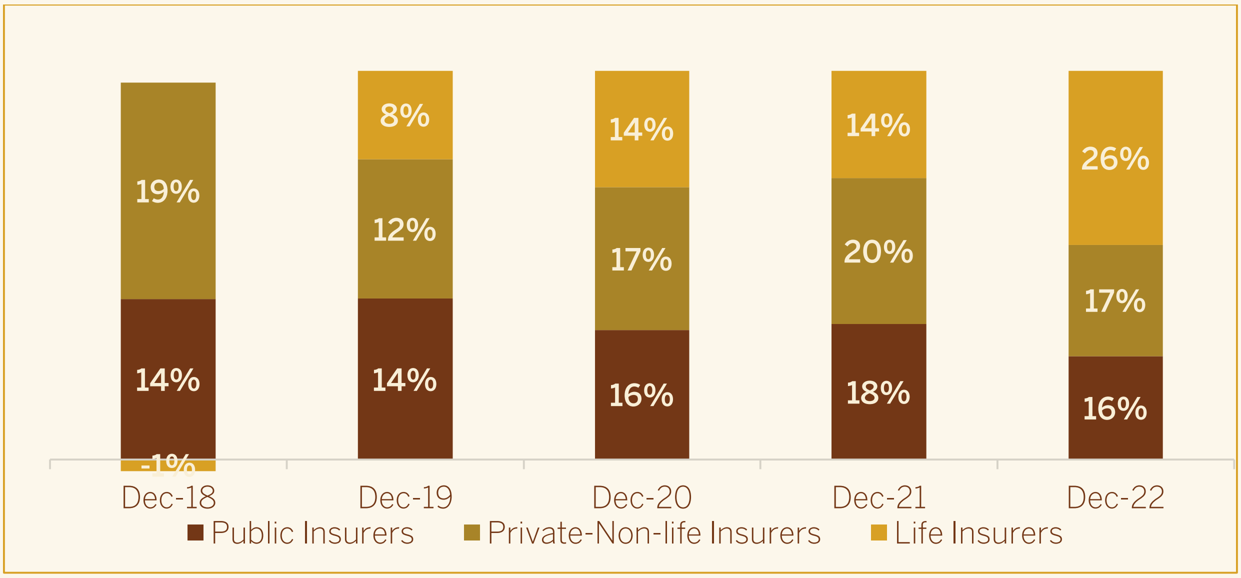
Product description (In FRW Million)	Dec-21			Dec-2022		
	GWP	Claims	Claims ratio	GWP	Claims	Claims ratio
Ordinary life	10,320	8,026	82%	12,019	7,810	72%
Traditional life	2,356	2,530	117%	2,623	2,899	134%
Term life	2,241	399	25%	6,368	1,521	42%
Credit life	4,904	3,006	93%	7,036	3,171	90%
Funeral and others	2,876	2,049	85%	1,669	1,047	68%

Source: Financial Stability Directorate

5.5.2 Performance of the Insurance industry

The balance sheet of the insurance sector continued grow in period under review. Total assets of the sector increased by 17.5 percent to FRW 824 billion higher than FRW 701 Billion (18 percent) growth recorded in December 2021. All categories of Insurers recorded double-digit growth between December 2021 and December 2022 reflecting higher returns on investments income (Figure 21).

Figure 21: Assets Growth per Category



Source: NBR, Financial Stability Directorate

The asset mix of Insurers varies depending on their line of business. From an industry-wide perspective, insurers are becoming more attracted to safe investment, mostly in placements in financial institutions (37 percent of total insurers' assets as at December 2022), followed by Government securities (24 percent), equity investments (15 percent), receivables (10 percent), investment in property (8 percent), and other assets (5 percent). This diversification of assets of the insurance sector minimizes concentration risk (Figure22).

Figure 22: Asset mix for Insurance

Source: NBR, Financial Stability Directorate.

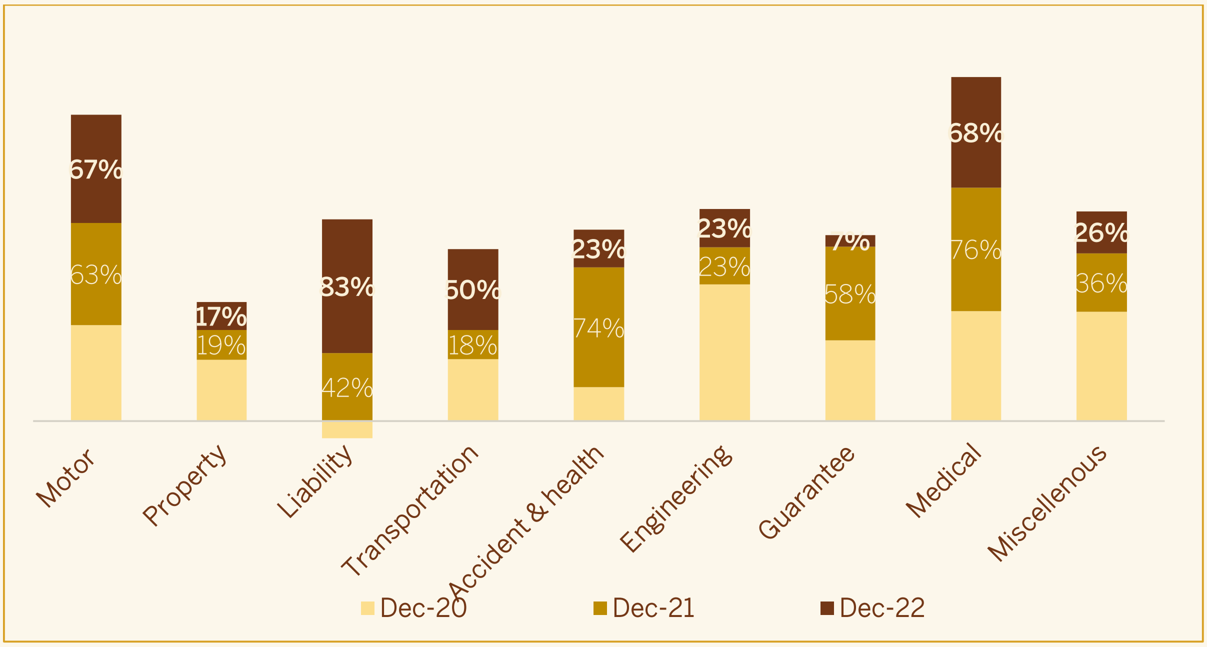
Life insurers reduced their exposure in properties for less risky and high return investments, like Government securities and placements. On the other hand, private non-life insurers (short-term insurers) continued to hold most of their assets in short term investments, to cater for their short-term liabilities – placements in banks with an average of one-year maturity representing 27.2 percent of total assets and Government securities—dominantly treasury bills (21 percent). Other investments are properties with a share of 13 percent, loans and receivables (15.8 percent), and other assets (15.5 percent).

Regarding technical provisions- the amount an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders over the lifetime of the insurer's portfolio of an insurance contract, increased reflecting increased risks undertaking. As at December 2022, technical provisions in private insurance increased by 10 percent to FRW 149.7 billion, below the growth of 19 percent registered in December 2021. A big portion of technical provisions (60 percent) were held by non-life insurers in form of unearned premiums (53 percent), claims reported outstanding (36 percent) and claims incurred but not reported (10 percent). In Life insurers, actuarial provisions constituted the largest share accounting for 82.3 percent of total technical provisions, followed by unexpired risks (11.1 percent) and unearned premiums (6.2 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 high rate compared to the corresponding period. Premiums increased by 27 percent in December 2022 (from FRW 206 billion to FRW 262.3 billion), compared to the growth of 22 percent registered as at December 2021. (Table 27). Growth in premiums was more evident in non-life than life insurance business. In private Non-life insurance, gross premiums increased by 20 percent to FRW 114.3 billion, lower than 21 percent recorded in December 2021.

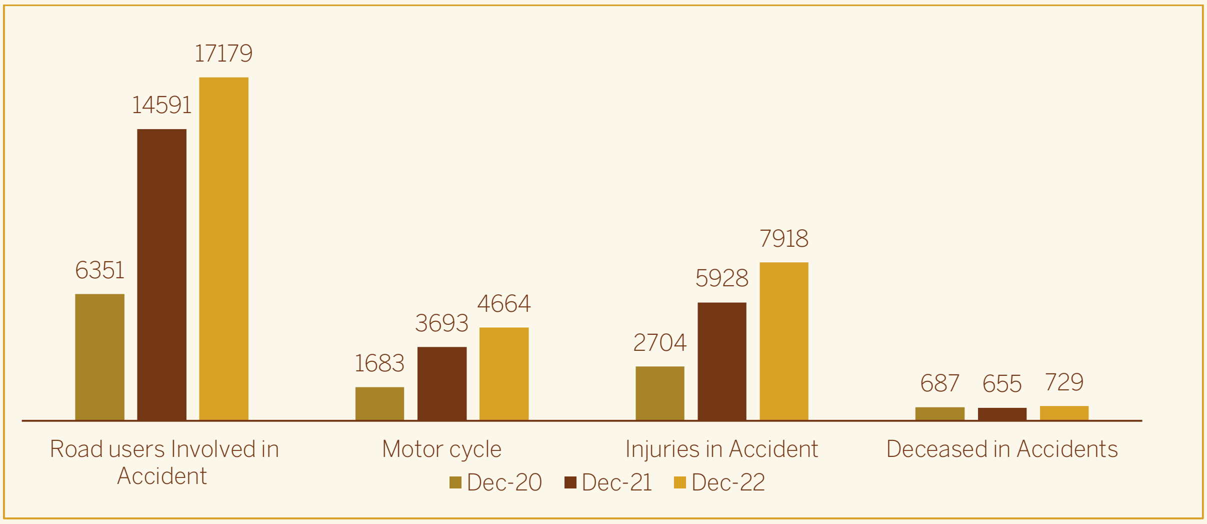
Claims in private insurance have also increased at low rate during the period under review. As at December 2022, the value of claims increased by 9 percent to FRW 60.4 billion. The claims ratio which is the ratio of claims incurred to net premium earned reduced from 67 percent to 62 percent in December 2022 in private insurance (figure 23). However-higher claims were noted in motor insurance categorised in Non-life (private insurance). The growth of claims in motor was partially associated with an increase in accidents, and hikes in spare parts prices and (Figure 24, 25).

Figure 23: Claims ratio per product.



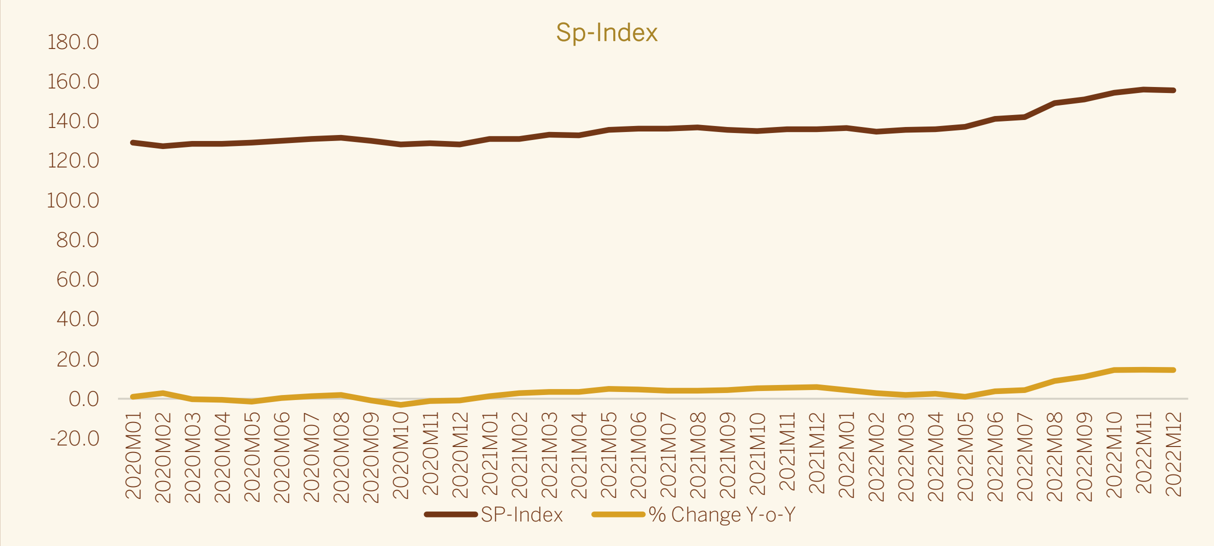
Source: NBR, Financial stability Doctorate

Figure 24: Number of road users involved in accidents



Source: Rwanda National Police.

Figure: 25 Spare part price index



Source: NBR,Financial stability dictorate

Table 26: Financial Performance Highlights of the Insurance sector

Description (In FRW billion)	Public Insurers			Private Insurers			Insurance sector		
	Dec-20	Dec-21	Dec-22	Dec-20	Dec-21	Dec-22	Dec-20	Dec-21	Dec-22
Gross written premiums	72.2	86.4	114.1	97.2	119.5	148.2	169.4	205.9	262.3
Net premiums written	72.2	86.4	114.1	76.5	90.8	106.5	148.6	177.2	220.6
Net Premiums earned	72.2	86	114.1	70.6	82.2	97.0	142.7	168.5	211.1
Total Claims	37.5	45.7	58.1	45.3	55.4	60.4	82.9	101.1	118.6
Commission expenses	-	-	-	5.3	4.1	2.9	5.3	4.1	2.9
Management Expenses	9.7	12.3	13.4	24.2	263	33.7	34.0	38.6	47.1
Underwriting profit (loss)	24.9	28.3	42.6	4.3	3.7	0.004	20.6	24.7	42.6
Investment Income	4.8	21.8	30.0	17.9	15.1	17.9	26.7	36.9	47.9
Other Income	14.8	1.5	0.5	3.7	4.6	3.7	7.9	6.1	4.2

Net profit after taxes	42.	51.64	73.0	9.4	11.9	14.8	52.4	63.6	87.9
Assets	373.3	441.2	510.4	219.0	260.2	313.5	592.3	701.4	824.0
Technical provisions	1.6	1.9	2.0	114.5	136.3	149.7	116.1	138.2	151.8
Liabilities	4.9	4.8	4.6	35	40	53	40.1	44.4	57.2
Capital and reserves	367	435	504	149.7	84.34	111	156.1	182.6	209.0

Source: Financial Stability Directorate

5.5.3 Financial soundness of the Insurance Sector

The insurance sector remained solvent and liquid during the period under review. Generally, insurance companies are required to maintain a solvency ratio of 100 percent to minimize bankruptcy risk. This solvency position reflects sufficient capital buffers to support the growth of insurance businesses, as well as withstanding adverse shocks. Hence, it is a good indicator for an insurance company's financial capacity to meet both its short-term and long-term liabilities. During the period under review, the solvency position remained above prudential requirements. Private insurer's solvency ratio stood at 221 percent as at end December 2022, compared to 142 percent in December 2021, driven by increased quality of assets due to changes in the investment mix of insurers.

On the liquidity perspective, private insurers also maintained ample liquid assets. The liquidity ratio indicates the proportion of Insurers' liquid assets to cover their current liabilities. In December 2022, the liquidity ratio of private insurers stood at 98 percent, still below the prudential requirements of 100 percent, but an improvement from 94 percent in December 2021, due to increased investment in more liquid assets and an improvement in asset liquid composition. In the same period under review, the underwriting loss for private insurers reduced, an indicator of a reduction in insurance risk (Table 27). Premium receivables continued to increase which poses credit risk to insurance. In normal circumstances, insurers are not allowed to sell insurance on credit, but due to COVID-19, NBR permitted insurers to sell insurance on credit up to 90 days, to support clients who were affected by the pandemic. In November 2021, NBR revised its regulatory forbearance to reduce the tenure of insurance credit to 60 days. As at December 2022, premium receivables represented 7.2 percent of private insurers' assets, compared to 6.8 percent in December 2021.

Table 27: Financial Soundness of the Insurance Sector

Description (Ratios %)	Public Insurers			Private Insurers			Insurance sector		
	Dec 2020	Dec 2021	Dec-2022	Dec 2020	Dec 2021	Dec 2022	Dec 2020	Dec 2021	Dec 2022
Solvency margin (Min. 100%)	2496%	2879%	2379%	114%	142%	221%	1245%	1477%	1375%
Claims ratio (max.60%)	52%	53%	51%	64%	67%	62%	58%	60%	56%
Expenses ratio (max. 30%)	13%	14%	12%	42%	37%	38%	28%	25%	24%
Combined ratio (max.90%)	65%	67%	63%	106%	104%	100%	238%	244%	226%
ROE (Min.16%)	12%	16%	15%	14%	19%	13%	12%	16%	14%
ROA (Min.4%)	12%	16%	14%	4%	6%	5%	12%	16%	14%
Current Ratio (min. 120%)	3490%	3837%	3711%	75%	85%	94%	238%	244%	226%
Liquidity ratio (min. 100%)	116%	4922%	5238%	91%	94%	98%	258%	299%	286%

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, with a share of 15.3 percent of total assets of the financial sector as of end December 2022. The sector is dominated by the mandatory pension scheme (RSSB) for all salaried workers, and operates as a defined benefit scheme. A defined benefit scheme, is referred to a scheme where pension benefits are determined using a formula defined by pension legislations or contracts, and on the basis of the number of periods (salaries) received by the insured, the period of contribution, and his/her age. The scheme guarantees pension benefits to retirees (early retirement at 60 years and 65 years for mandatory retirement) who have contributed for a minimum of 15 years. Retirees who contribute for less than 15 years receive a lump sum payment. The Fund also administers the Long-Term Savings Scheme (LTSS) Ejo-Heza that was developed to increase pension penetration targeting workers in the informal sector not covered by the mandatory pension scheme.

The mandatory scheme holds 92.0 percent of total pension sector assets as of December 2022 from 93.3 percent in December 2021, and this indicates the continued growth of other pension schemes (private pension and LTSS). The 2015 Pension Law paved the way for the licensing of voluntary pension schemes which operate as Defined Contribution schemes (DC). DC schemes provide pension benefits based on the contributions collected, and the performance of the investment of those contributions. As at December 2022, the sector registered 12 schemes of which 7 were Complementary Occupational Pension Schemes (COPS) and 5 Personal Pension Schemes (PPS). COPS are established by agreement between employers and their employees, while PPS are operated by financial institutions that provide retirement savings accounts for their clients.

5.6.2 Performance of Public Pension Fund (RSSB)

Assets of the public pension fund recorded moderate growth in the period under review. Total assets increased by 12 percent from FRW 1213 billion in December 2021 to FRW 1,361 billion in December 2022, on the back of increased contributions and investment income. Contributions increased by 23 percent in December 2022 from FRW 59.7 billion to 73.4 billion. In addition, total investment income increased by 48 percent from 27.4 billion in December 2021 to FRW 40.7 billion in December 2022 due to an increase in interest income (on treasury bills and bonds, corporate papers, as well as bank deposits), as well as dividend income which increased from FRW 5.1 billion as December 2021 to FRW 12.3 billion as at December 2022.

On the Fund's investment allocation front, as at end December 2022, RSSB pension scheme's investment portfolio reached FRW 1,342 billion, and was diversified in different investment classes, increasing in long-term investment classes which have high return (Table 28). Investments in local unquoted equities worth FRW 272 billion represented 20 percent of the Fund's total portfolio, Government securities and investments in properties each represented 22 percent and 16 percent respectively, while Investments in local listed equities represented 9 percent, and offshore listed and unlisted equities represented 12 percent of the portfolio.

Table 28: RSSB Investment Mix

Investment Mix-Description (FRW Billion)	Dec-21	Dec-22	Portfolio Share
Treasury Bills	27	18.8	14%
Treasury Bonds	157	276.1	20%
Equity investments	469	553	14%
Investment in properties	219	220.9	16.4%
Term Deposits	144	106.6	8%
Cash (Current accounts)	107	60.5	4.5%
Commercial papers & Corporates bonds	71	106.0	8%
TOTAL	1194	1342	100%

Source: NBR, Financial stability Directorate

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

The Government of Rwanda through the Ministry of Finance and Economic Planning established a Long-Term Savings Scheme (LTSS) Ejo Heza under the Law N° 29/2017 of 29th June 2017, with an aim of increasing pension penetration in the informal sector. The LTSS-Ejo Heza is a Defined Contribution (DC) scheme established on voluntary basis, whereby a subscriber opens a savings account with authorized financial intermediaries (Banks or Mobile Network Operators). The LTSS was established to solve the problem of pension and social security coverage gap, where only 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 the Prime Minister's Order No. 58/03 of 04/04/2018. The scheme started collecting savings from January 2019.

Assets of the Ejo-Heza Fund continued to grow as at end December 2022. Total assets increased by 65 percent from FRW 24.1 billion in December 2021 to FRW 39.7 billion in December 2022, supported by increased contributions. Total contributors increased by 69.9 percent from 1,423,870 to 2,414,422 as LTSS embarked on an aggressive awareness campaign, leading to an increase in contributions from 23 FRW billion in December 2021 to FRW 39.3 Billion in December 2022 – a 69 percent increase (Table 29).

Table 29: Key Financial Highlights of LTSS Ejo Heza

Description (In Million FRW)	Dec 2021	Dec 2022	% change
Assets	24.1	39.7	65%
Contributions received	23	39.3	69%
Investment income	1.8	2.5	36%
Other income (Govt subsidies)	1.9	3.2	66%
Expenses	0.28	0.5	79%

Source: NBR, Financial Stability Directorate

5.6.4 Voluntary Pension Schemes

The assets of voluntary pension schemes continued to expand. As at end December 2022, assets increased by FRW 2.4 billion from FRW 76.4 billion in December 2021, to FRW 78.8 billion in December 2022. This growth in assets was supported by increased contributions (Table 30). Contributions increased from FRW 10.4 billion to FRW 11.7 billion in the period under review. Investments in voluntary pension scheme are mainly in Government bonds and Treasury bills, representing 79 percent of total investment portfolio. While Investments in real estate held 7 percent of the sub-sector's portfolio as at December 2022.

Table 30: Key financial highlights of Voluntary Pension Scheme

Description (In Billion FRW)	Dec 2021	Dec 2022	% Change
Assets	76.39	78.81	3%
Liabilities	0.30	0.24	-20%
Technical Reserves	76.09	78.56	3%
Contributions received	10.35	11.72	13%
Benefits paid	7.45	7.07	-5%
Investment income	3.53	7.46	111%
Operating expenses	0.59	0.43	-27%
Number of contributors	66,482	21,770	-67%
Number of people took pension benefits	5,436	6,767	24%
Number of pension schemes	12	12	

Source: NBR, Financial Stability Directorate

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

In November 2022, the regulation n° 52/2022 of 01/09/2022 governing Trust and Company Service Providers (TCSPs) was established, and has now paved a way for new entrants on the Rwandan market.

Additionally, 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 2021, the number of all authorized NDFIs increased from 14 to 32 in December 2022. Amongst the licensed companies, 10 are lending only institutions, 15 debt collection companies, 2 factoring companies, 1 leasing company, 1 credit guarantee scheme, and 3 Trust and Company Service Providers.

The table below highlights the financial position of 13 reporting NDFIs as at end December 2022.

Table 31: Value of NDFIs Assets and Loans

Details (Billion FRW)	Dec-21	Dec-22	% change
Total Assets	23.9	86.0	259.8
Total loans (value)	16.2	33.2	104.9

Source: NBR, Market Conduct and Consumer Protection Department

The increase in total asset and loans is attributed to the increase in number of licensed and reporting institutions from 8 to 13 as at the end December 2022.

Table 32: Value of Loans outstanding by economic sector

Economic activities	Value of loans	% share
Agriculture, Livestock, Fishing	1,242,129,637	3.7
Public Works (Construction), Buildings, Residences/Homes	5,683,150,105	17.1
Commerce, Restaurants, Hotels	17,191,781,323	51.7
Transport, Warehouses, Communications	237,652,510	0.7
Others	8,802,271,912	26.5
TOTAL	**33,245,058,915**	

Source: NBR, Market Conduct and Consumer Protection Department

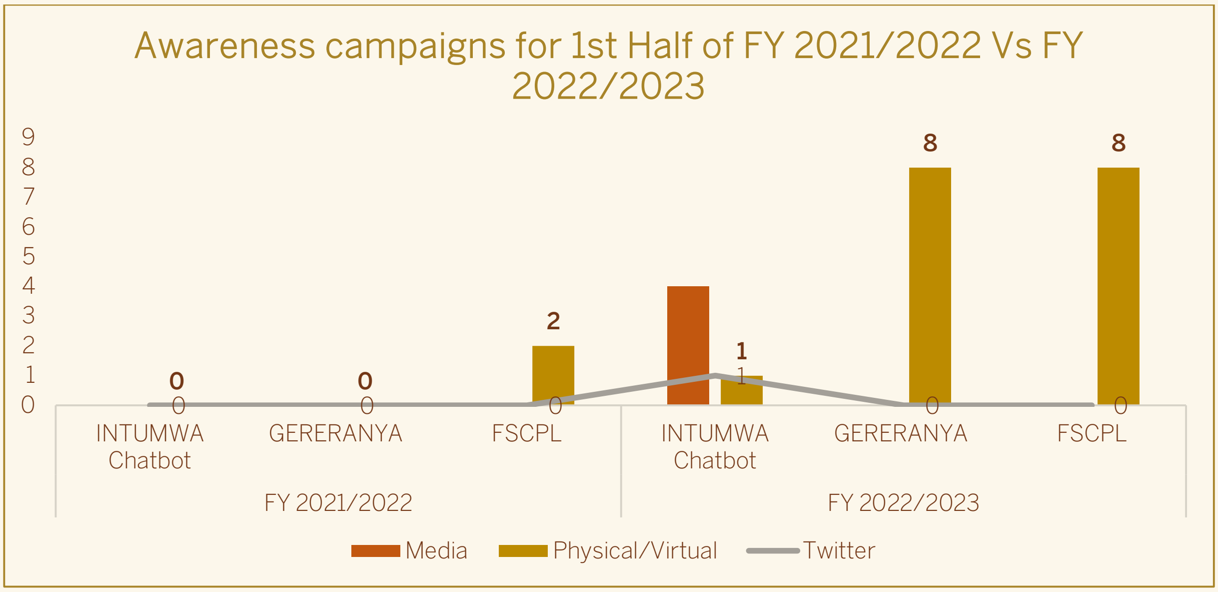
As indicated above, commerce, restaurants and hotels consume the biggest part of NDFI's loans with 51.7% and Transport, Warehouses, Communications with the least share of 0.7%. Moving forward, linking NDFIs with EDWH and developing comprehensive reporting templates are a major priority tasks as far as NDFI reporting is considered.

5.8 FINANCIAL SECTOR CONDUCT & CONSUMER PROTECTION

5.8.1 Awareness campaigns

The awareness Campaigns for the financial service consumer protection Law and its implementing tools e.g. Regulations, Web comparator GERERANYA and Complaint handling system INTUMWA Chatbot were conducted for both Financial service providers and Financial service consumers. The awareness mainly targeted SACCOs and Access to the finance forums.

Figure 26: Awareness campaigns in the 1st half of FY 2021/2022



5.8.1.1 New Developments related to financial service consumer protection

a) Legal and regulatory reforms

i. Regulation n° 55/2022 of 27/10/2022 Relating to Financial Service Consumer Protection, aims at implementing Law No 017/2021 of 03/03/2021 relating to protection of financial service consumers. This regulation among other things aims at establishing key principles of financial service consumers' protection at the Financial Service Providers' level which includes; corporate governance relating to consumer protection, fair treatment and equitable treatment of consumers, transparency and disclosures, responsible business conduct, and sanction regime for non-compliance

ii. Regulation n° 56/2022 of 27/10/2022 on Financial Service Consumer's Internal Complaints Handling, aims at establishing guidelines for internal dispute resolution mechanisms as per articles 36 to 39 of Law No 017/2021 of 03/03/2021, aiming at enhancing transparency in dispute resolutions.

b) Supertech tools-Intumwa Chatbot

INTUMWA Chabot is a complaint handling and customer engagement system that was developed by the National Bank of Rwanda in collaboration with its development partners "Proto and Africa Digital Financial Inclusion Facility of African Development Bank". The Chatbot was launched to enhance a transparent complaint and dispute resolution mechanism. Financial service consumers can lodge complaints and receive feedback within 15 working days in accordance to article 36 of law No 017/2021 of 03/03/2021 relating to protection of financial service consumers, and article 7 of regulation No 56/2022 of 27/10/2022 on financial service consumer's internal complaints handling. INTUMWA was launched on 22nd September 2022.

5.8.1.2 Complaint handling

Table 33: Complaints by Category

Category	FY 2021/2022	FY 2022/2023
Handling	38	156
Follow up	40	193
Social Media	6	90
Total	**84**	**439**

This significant rise in the number of complaints reflects different initiatives by Government OF Rwanda and National Bank of Rwanda, through the enactment of Law No 017/03/2021 and regulation No 56/2022 of 27/10/2022, relating to internal complaints handling in the financial sector. The increase in the number of complaints among other factors broadened the key principles of enhancing transparency in complaints handling. Establishment of INTUMWA Chatbot eased lodging complaints to FSPs and ultimately to the National bank of Rwanda for handling. In addition, awareness campaigns targeting consumers about their rights to complain and the tools that can facilitate them to lodge complaints without any implicit and explicit costs, also contributed to the increase in complaints.

In the FY 2021/2022, NBR received a total of 267 complaints in the categories of handling, follow up and tracked on social media as shown in table 34.

Table 34: Complaints by category

Category	July-December 2021	Jan-June 2022	TOTAL
Handling	38	76	114
Follow up	40	57	97
Social Media	6	50	56
Total	**84**	**183**	**267**

Table 35: Complaints per sub sector

Subsector	FY 2021/2022	FY 2022/2023
Banks	67	364
Insurance	11	8
MFIs	6	54
MNOs	-	11
NDFIs	-	2
Total	**84**	**439**

As shown in table 36, the majority of complaints (73percent in the first half of 2022 from 79 percent registered in the second half of 2021, were in the banking sector.

Table 36: Complaints per sub sector

Subsector	July-December 2021	Jan-June 2022	TOTAL
Banks	67	135	202
Insurance	11	19	30
MFIs	6	14	20
MNOs	0	12	12
NDFIs	0	3	3
Total	**84**	**183**	**267**

The following are some of the ongoing projects:

a) Thematic reviews

The market conduct supervision department is currently conducting a thematic review to assess current or emerging risks regarding issues or products across a number of institutions in the financial sector. This will focus on finding out what is happening and suggesting ways of tackling the issues arising.

b) Mystery shopping

Mystery shopping is one of the most effective ways to gather deep insights on consumer experience with FSPs in predefined scenarios. The NBR organized the first mystery shopping to examine service delivery, customer care, and compliance with consumer protection laws, regulations, and principles by FSPs. This was done to for NBR to be able to prioritize areas that require more focus and if possible, prepare training on the identified issues for further improvement.

c) Offsite inspections

The national bank of Rwanda designated reporting templates to monitor how financial service providers are implementing the law relating to financial service consumer protection.

5.9 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, informed and faster decisions when giving out loans.

Since its inception in May 2010, the Credit Reporting System is regulated by the National Bank of Rwanda (NBR). Similarly, an operator of credit bureau was licensed by the NBR in July 2010 to provide credit reference services.

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, Telecommunication companies, Utilities, etc. The credit bureau uses this data to build a credit history on individuals and legal entity, then share to lending institutions and individual consumers. Lending institutions use this information to assess risks of borrowers and inform lending decisions.

Data from TransUnion Rwanda indicates that, the usage of its information stood at 94.43 percent in December 2022 from 93 percent in December 2021 and 90.6 percent in December 2020. This shows the level at which data users are able to get information compared inquiries made, and it highlights the increasing role of the credit bureau in lending decision.

In addition, credit information reported to the credit bureau has been increasing in response to different initiatives aimed at enhancing credit information in Rwanda. As at December 2022, the coverage ratio, which measures the percentage of adult population reported to the credit bureau, increased to 37.11 percent from 33.1 percent in December 2021, and 29.9 percent in December 2020. In addition to mandatory data providers, the credit bureau continues to engage voluntary data providers, to share credit information and to use CRB information for their business of selling on deferred payment.

Currently, the Advisory credit reporting council, through its technical committee is, aiming at ensuring 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.

To enhance the knowledge about the credit reporting system, the National Bank of Rwanda in partnership with TransUnion Rwanda organized, between November 2022 and January 2023, an awareness campaign on credit reporting system. The campaign was implemented through different channels such as workshops; Road shows; TV and Radios shows. Throughout the campaign, MENYESHA product (an application which helps individual's customers to get credit report through their phones) has been launched and is being used (Please, dial *707# and follow the instruction).

The total number of CRB usage increased by 21 percent; to 368,239 in December 2022 from 303,578 in November 2022 due to the usage of MENYESHA product.

5.10. CRISIS MANAGEMENT AND RESOLUTION ARRANGEMENTS

The NBR is also entrusted with the crisis management and resolution responsibility, to ensure stability within the financial sector, and that any weak or failing financial institutions are resolved in a manner that does not cause systemic risks. A number of key components of the comprehensive crisis management framework 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; the Emergency Liquidity Facility (ELF) and the Financial Sector Coordination Committee (FSCC) that deals with crisis management issues at the national level.

The resolution framework for Deposit Taking Financial Institutions (DTFIs) was approved in December 2022 and will be will deal with failing or likely to fail Deposit taking financial institutions. This framework provides guidance on how NBR will manage failing deposit taking financial institutions (Banks and MFIs), in the interest of financial stability. It describes key features of NBR's resolution framework for deposit taking financial institutions, including objectives of resolution; triggers or conditions of resolution; powers and tools for resolution; resolution valuation; governance of resolution and communication of resolution actions. The framework also touches on the practical steps of implementing different resolution options/ tools, resolution planning and financing.

Depositor protection is a key element of crisis management, to booster public's confidence in the system, reducing the risk of bank runs. In Rwanda, the Deposit Guarantee Fund (DGF) was established by Law N° 31/2015 of 05/06/2015 to determine the organization and functions of the DGF for banks and MFIs. The main purpose of the DGF is: (i) to protect insured depositors of banks or MFIs, by providing insurance against the loss of insured deposits and (ii) contribute to the stability of the financial sector by ensuring that depositors have prompt access to their insured deposits in the event of failure of banks or microfinance institutions. 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 member is liquidated. The Fund collects premiums from deposit taking institutions (banks, limited liability MFIs and SACCOs) on a quarterly basis computed at 0.1 percent per annum on eligible deposits (i.e. 0.025 percent each quarter). Eligible deposits refer to a deposit taking institution's total deposits less deposits held by peer banks, microfinance institutions, insurance companies, pension funds, collective investment schemes, Government or public agency, and deposits held by persons holding shares of more than five percent (5 percent) of voting rights in a contributing bank or microfinance institution.

As at December 2022, total collections amounted to FRW 15.1 billion from FRW 10.9 billion in December 2021, an increase of 38 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 2022, the insured deposits from banks amounted to FRW 188 billion equivalent to 4.7 percent of total deposits in banks and FRW 29.6 billion equivalent to 32 percent of total deposits in MFIs (PLCs).

In line with operation efficiency, the DGF undertook the strategic initiative to automate all its operating processes/ functions: Premiums declaration & payment, investment of premiums collected as well as reimbursement/ pay out of insured deposits in case of failure. Once the project is completed the Fund will be able to get all declaration of premiums on time; interest incomes earned and received will be accounted for on time in the system and the time taken to pay insured depositors will reduce due to availability of data (payout list) on time and in an easy way. The project is at its final stage where the development of the main modules has been finalized and the DGF Team is doing "user acceptance tests"

The DGF Law also is being reviewed to comply with international best practices set by the International Association of Deposit Insurers (IADI) and in that line a technical assistance was requested from the Association to help in the self-assessment so as to identify gaps in the existing scheme and provide guidance and advice on ways to address them. The request was approved by IADI and a team of experts were formed to start the analysis of the existing documents of the DGF before their onsite visit to the Fund.

5.11. NATIONAL PAYMENT SYSTEMS

The National Payments System (NPS) is one of the pillars of financial stability and the economic system. The NPS does not only entail payments made between banks, but encompasses the total payment process. This includes all the systems, mechanisms, institutions, agreements, procedures, rules and laws that come into play from the moment an end-user using a payment instrument issues an instruction to pay another person or a business, through the final interbank settlement of the transaction in the books of the Central Bank. The NPS therefore, enables the transacting parties to exchange value and to conduct business efficiently.

The Rwanda National Payments System consists of wholesale, retail payment systems, instruments, and Payment Service Providers (PSPs).

5.11.1 The Rwanda Integrated Payment Processing System

1.1. Structure and key development

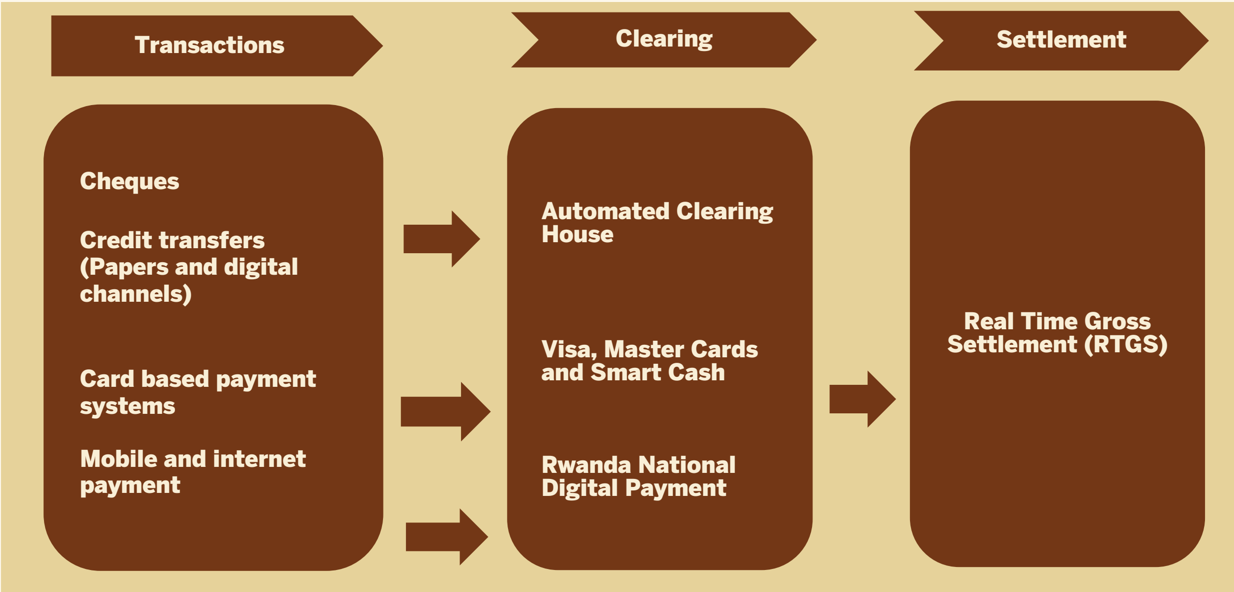
The Rwanda Integrated Payment Processing System (RIPPS) is an Automated Transfer System (ATS), which is operated by NBR and composed of the Real Time Gross Settlement (RTGS), and Automated Clearing House (ACH). The RTGS lies at the heart of every payment in Rwanda. On top of interbank bank transactions, the RTGS provides settlement services to participants in 4 retail payment systems (Visa, MasterCard, SmartCash, and RNDPS) and Central Securities Depository. The RTGS is also the mechanism through which the Bank implements monetary policy decisions and provides liquidity to the financial system.

The Rwanda Integrated Payment Processing System was upgraded in order to adapt to the market demand and comply with international standards.

The RIPPS processes credit transfers on round-the-clock basis. RIPPS is only closed for approximately half an hour at about 23h30, in order for the entries to be closed for the previous value date and start the new value date. This closure period primarily serves as a maintenance window, during which work can be carried out, in particular, on the technical infrastructure. The cheque processing cycle are 2 clearing sessions per day with the shortest time possible. Cheques processed before noon are cleared and settled at 4: PM, while those received in the afternoon are processed the next day at 10: AM.

In order to promote efficiency and competition in payment, access to RIPPS was extended to non-bank financial institutions. Currently, 11 microfinance institutions directly participate in RIPPS systems. These MFIs are able to send and receive credit transfers from/to other financial institutions. E-money Issuers also participate indirectly through settlement agents.

Table 37: Rwanda Integrated Payment Processing System



Source: NBR, Financial Stability Directorate

5.11 Performance of the Rwanda Integrated Payment Processing System

RIPPS continued to process financial transactions smoothly throughout the year 2022 without major disruption. RIPPS volumes grew year-on-year from 2021 to 2022, partly reflecting that the economy was recovering from the disruption caused by Covid-19. Customer transfers dominate RIPPS activities with a share of 92 % in terms of volume and 62 % in terms of value.

Figure 27: Volume of RIPPS Transactions

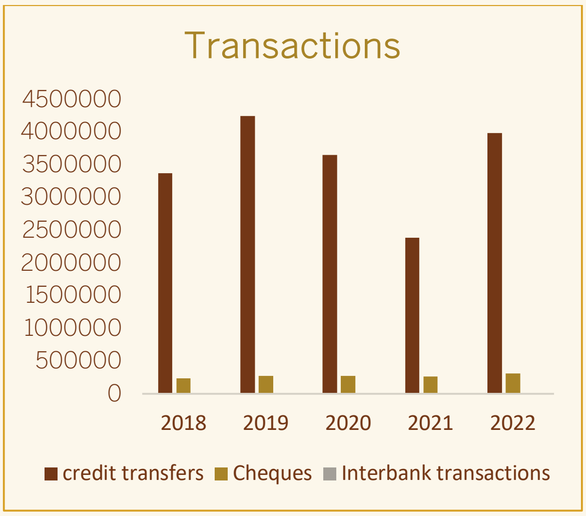
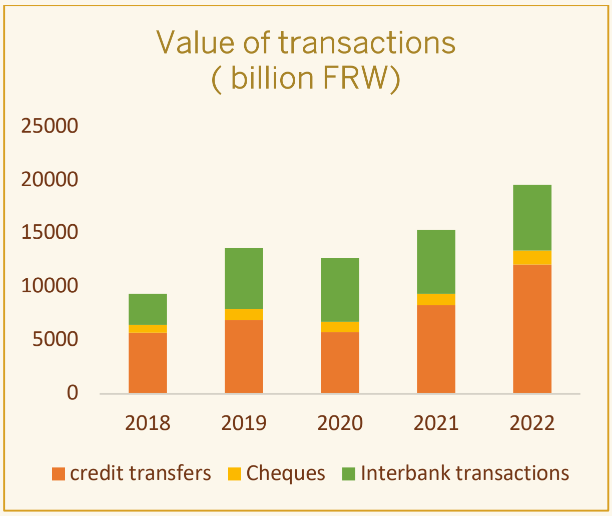


Figure 28: Value of RIPPS Transactions in B/FRW



1. Central Securities Depository

The number of transactions on the secondary market for both Bonds and Equities increased after Covid-19. In 2022, Bonds traded increased by 34 % from 430 to 578, while Equities traded increased by 12 % from 545 to 611. The value of Bonds traded Increased by 72 % from FRW 29 billion to FRW 50 billion, while the value of Equities traded increased by 81 % from FRW 11 Billion to FRW 20 billion.

Figure 29: Bonds Transactions

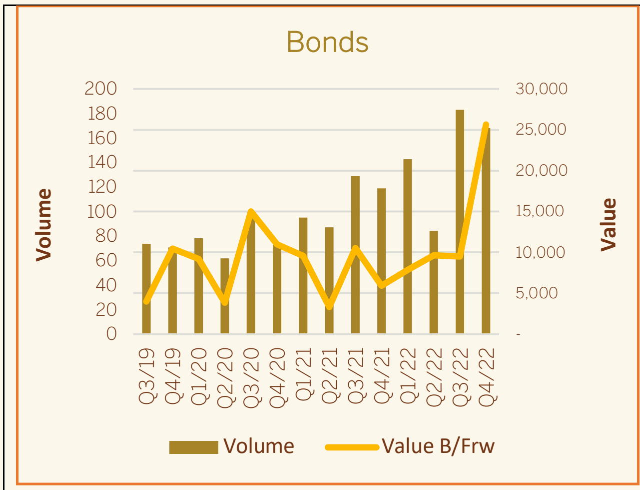
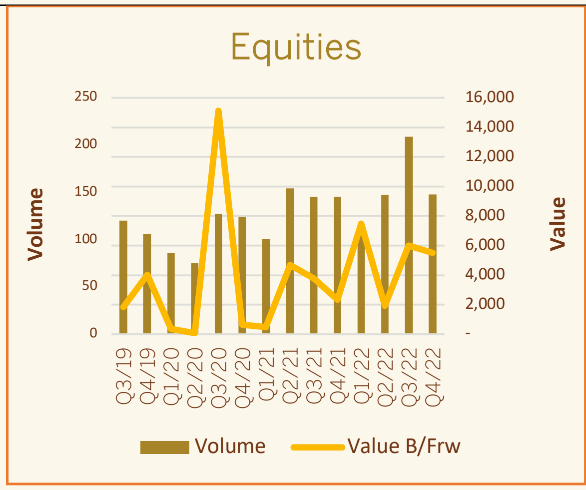


Figure 30: Equities Transactions



2. Retail Payment System

5.11.2 Rwanda National Digital Payment System (RNDPS)

RNDPS is an instant payment processing various use cases. The first use case was launched in May 2022, for transfer between Mobile Money Operators.

Since the launch, a total of 1,643,113 customers were registered and an aggregated value of FRW 6,464,905,116 was transacted.

Figure 31: eKash Registration

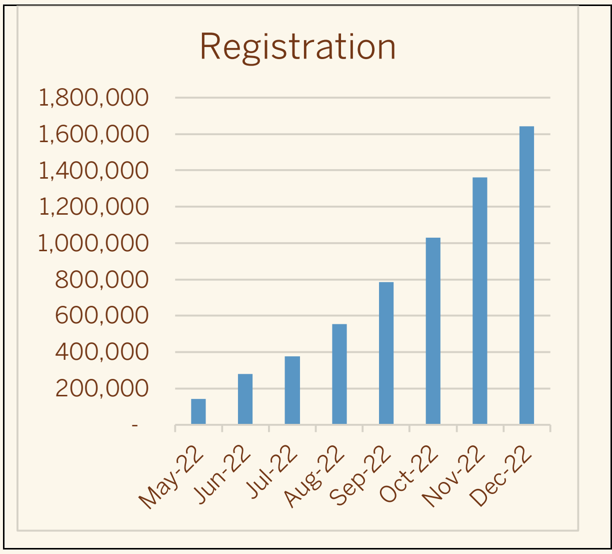
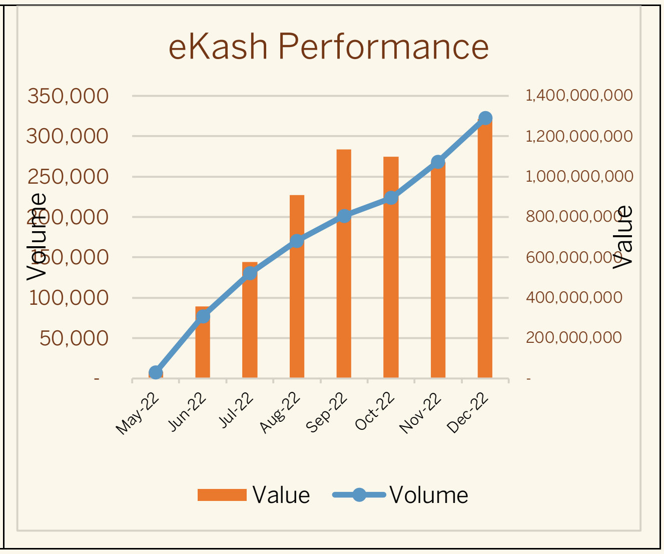


Figure 32: ekash Transactions



5.11.3 Payment acceptance points

Access Point are places or capabilities that are used to initiate or receive a payment. Access points include bank branch offices, ATMs, terminals at the POS, agent outlets, mobile phones, and computers.

Comparing December 2021 and December 2022, the number of card-based POS increased by 11% from 4,339 to 4,835, and the number of mobile POS increased by 211% from 45,739 to 142,351. This increase is due to awareness campaigns and facilitation in merchant onboarding process. The number of mobile payment agents increased by 21%, from 124,373 to 150,767 agents, while agents providing banking services increased by 35 % from 7,578 to 10,228 agents, and the number of ATMs slightly increased by 3 % from 337 to 347.

Table 38: Payment acceptance points

Access Points	Penetration rates of payment access Points	December 2022	December 2021	December 2020	December 2019	December 2018
ATM	Number of devices	347	337	334	383	383
	Penetration rate of ATMs per 100,000 adult population	4.4	4.3	4.4	5.2	5.2
Traditional POS	Number of devices	4,835	4,339	4,335	3,477	2,801
	Penetration rate of Traditional POS per 100,000 adult population	60.6	55.3	57.1	47.3	39.3
Modern POS (Mobile and Virtual)	Number of devices	146,705	50,019	44,029	19,770	11,928
	Penetration rate of Modern POS per 100,000 adult population	1,839	637.3	579.5	268.7	167.5
Banking Agents	Number of bank agents	10,228	7,578	6,103	- 2,564	2,163
	Penetration rate of agents per 100,000 adult population	128.2	96.6	80.3	34.9	30.4
Mobile Agents	Number of Mobile agents	150,767	124,373	131,173	98,359	107,858
	Penetration rate of Bank agents per 100,000 adult population	1,890.2	1,584.8	1,726.4	1380.8	1,514.1

Source: NBR, Financial Stability Directorate

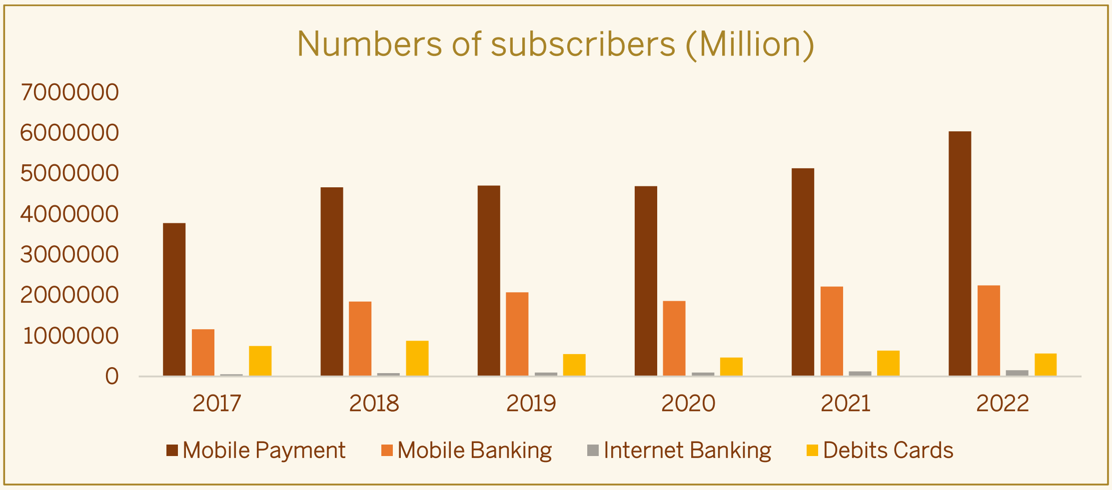
5.11.5 Payment instruments issuance

On the issuance side, active[7] mobile payment subscribers increased by 18 % from 5,125,090 in December 2021 to 6,036,044 in December 2022 representing 76% of adult population (above 16 years).

[7] Active over 90 days.

Mobile banking subscribers increased by 2 % from 2,208,683 in 2021 to 2,248,588. Mobile banking accounts are 57% of total bank current accounts. Regarding internet banking, subscribers increased by 25 percent from 123,242 to 154,156. On the other hand, payment cards decreased by 45 % from 686,309 in December 2021 to 559,617 in December 2022 as per the figure below. This decrease was caused by cards that expired and the cards owners did not request for their cards to be renewed.

Figure 33: Payment Instrument Issuance



Source: NBR, Financial Stability Directorate

5.11.6 Transactions of the Retail Payment System

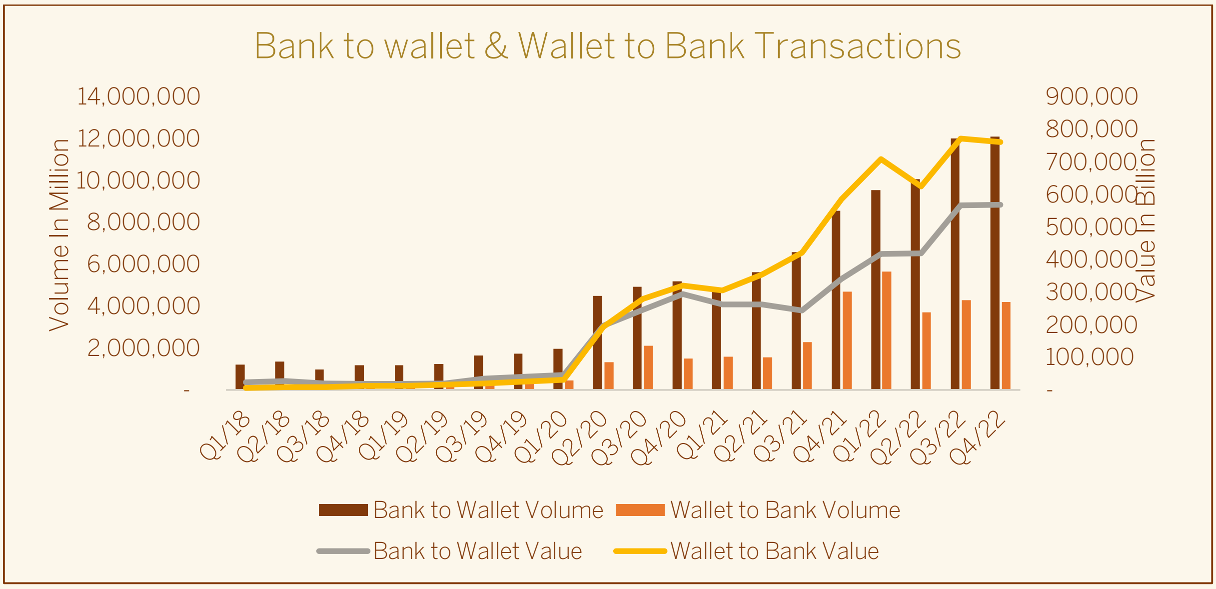
The removal of fees on mobile payment for transfers between bank accounts and mobile wallets, and the zero charges on MoMo Pay for merchant's transactions below FRW 4,000, has boosted merchants' payment service usage.

i. Digital cash-in and digital cash-out.

The volume of Bank to wallet transactions increased by 72% from 25 Million in 2021 to 44 Million, and the value increased by 69% from 1,148 Billion in

2021 to 1,940 billion, the wallet to Bank volume increased by 77% from 10 Million in 2021 to 18 Million, and the value by 72% from 1,665 Billion in 2021 to 2,865 Billion.

Figure 34: Wallet/Bank Transaction

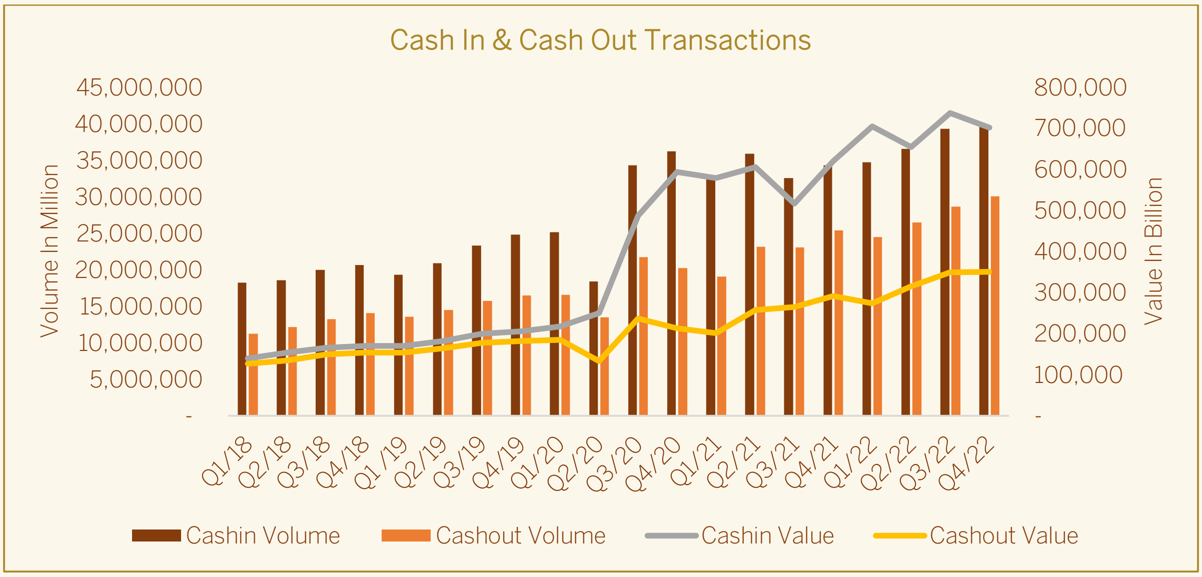


ii. Physical cash-in and cash-out

On the other hand, Cash-in (CI) volume transactions increased in year 2022 by 11 % from 135 Million in year 2021 to 151 Million, and the value increased by 21 % from 2,371 billion in year 2021 to 2,798 Billion, while Cash-out (CO) slightly increased in volume by 21 % from 91 Million in year 2021 to 110 Million, and the value increased by 27 % from 1,015 Billion in year 2021 to 1,290 Billion.

Push and pull transactions are increasing higher compared to cash-in and cash-out transactions. People are adopting to pull and/or push money between their bank accounts and mobile wallet because they are free and instant.

Figure 35: Ci/Co Transactions



Source: NBR, Financial Stability Directorate

iii. Merchant transactions

Merchant payment transactions increased during the year 2022. The number of merchant payment transactions through mobile POS increased by 57 % from 100 Million to 157 Million transactions, while the value of transactions decreased by 23 % from FRW 1,594 billion to FRW 1,238 billion due to the charges applied to the service. However, since 2022 transactions started increasing with continued awareness campaigns.

Figure 36: Volume of Merchant payments

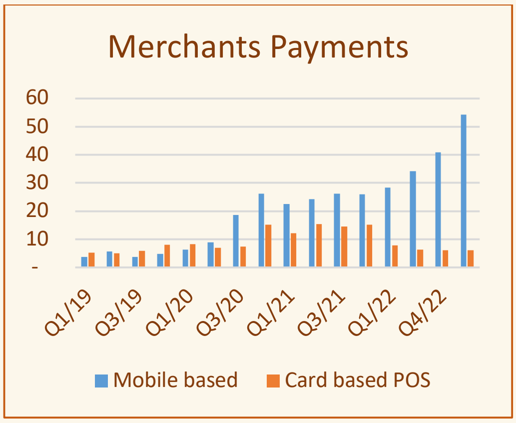
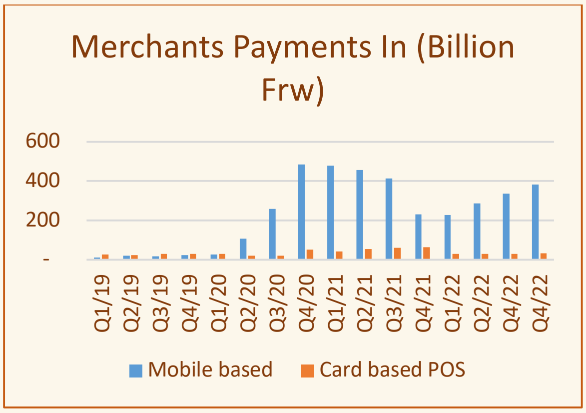


Figure 37: Value of Merchant payments in M/FRW



Source: NBR, Financial Stability Directorate

iv. Composition of mobile payment transactions

Comparing the year 2021 and 2022, people are preferring to move money from bank accounts to wallets and vice versa, than depositing and withdrawing funds through mobile agents. As per the figure below, the potion of transaction value of cash-in decreased from 22% to 19%, and the portion of cash-out decreased from 10% to 9%. The percentage of Bank to MNO transactions increased from 11% to 13% and MNO to Bank from 16% to 20%.

Figure 38: Transactions volume

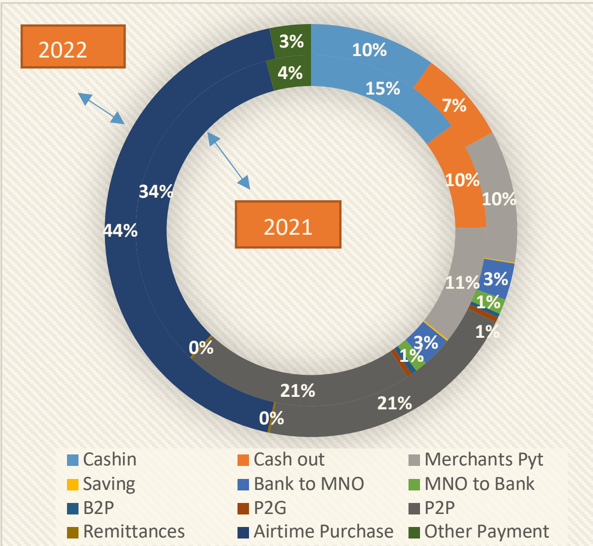
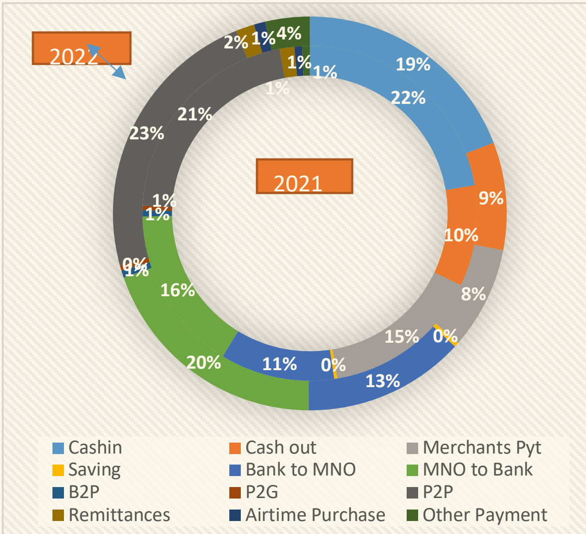


Figure 39: Transactions value

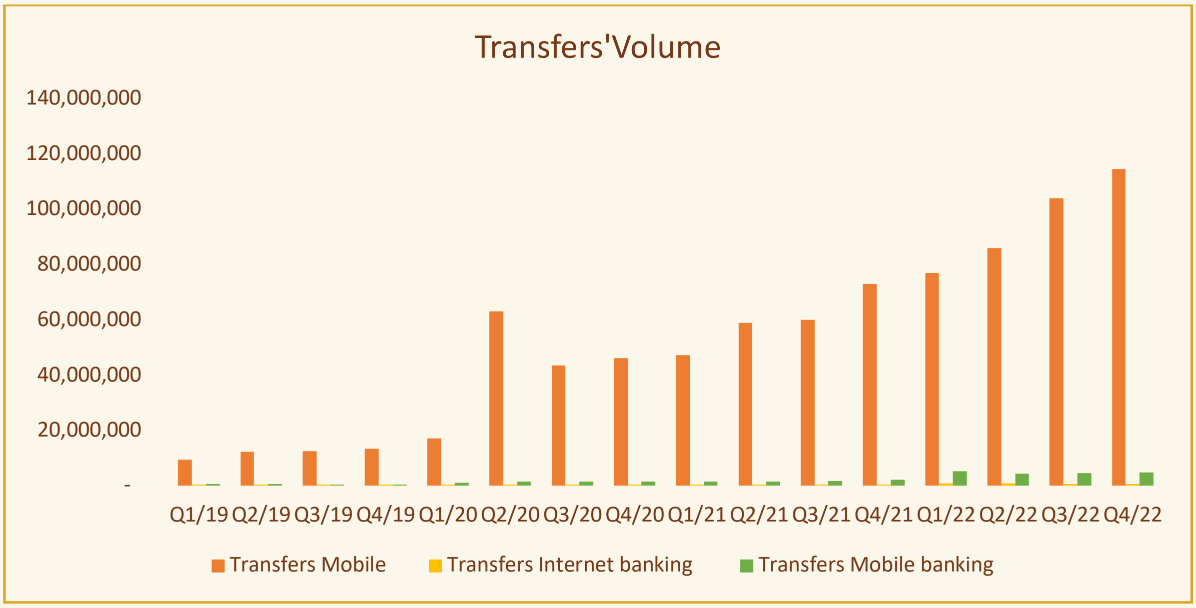


Source: NBR, Financial Stability Directorate

5.11.7. Funds transfers

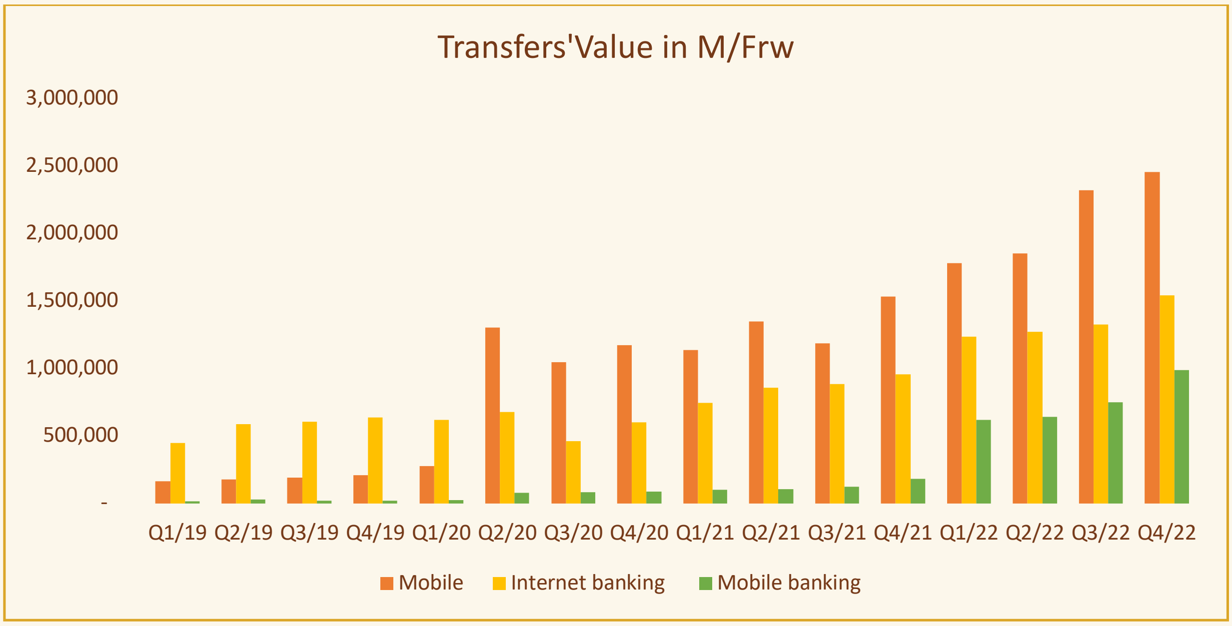
The number of funds transfers through mobile payments increased by 60 % from 239 million to 382 million, and the transfers value increased by 61 % from FRW 5,208 billion to FRW 8,409 billion, compared to 2021. Transfers through internet banking transactions increased by 59 per cent from 1.7 Million to 2.7 Million transfers, and the value of transactions by 56 per cent from FRW 3,446 billion to 5,378 Billion.

Figure 40: Volume of Transfers



Source: NBR, Financial Stability Directorate

Figure 41: Value of Transfers in M/FRW

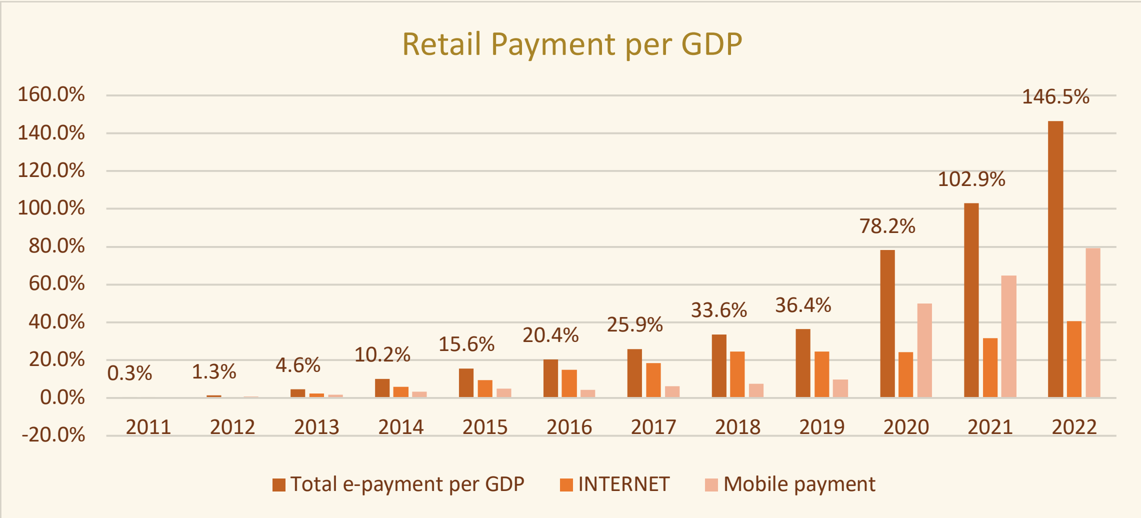


Source: NBR, Financial Stability Directorate

I. Overall cashless performance

The value of e-payment to GDP increased during the period under review to 146.5% due to the significant use of digital channels. The usage was dominated by mobile payment acquiring services, and internet banking services, which accounted for 54 % and 27.6 % of the GDP respectively.

Figure 42: Value of retail e-payment to GDP

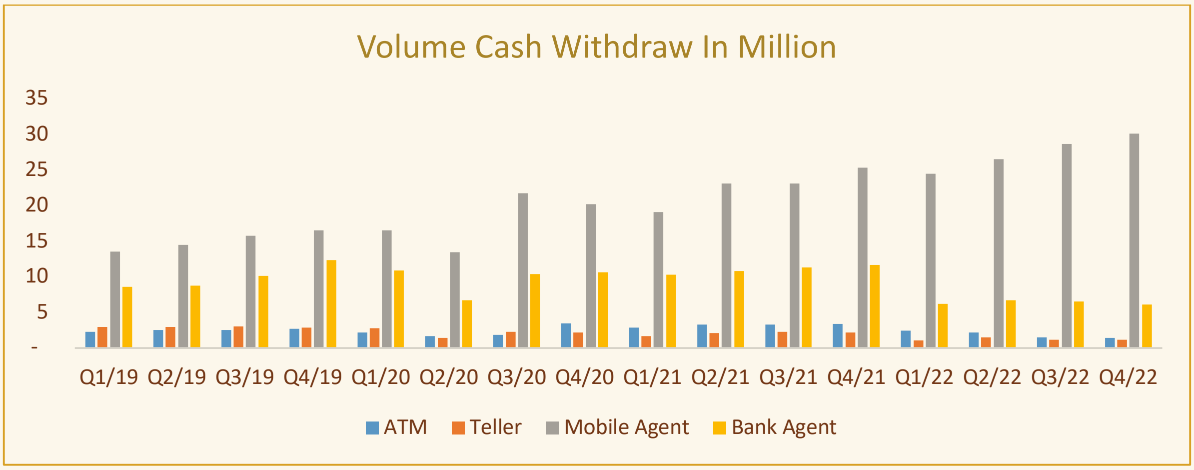


Source: NBR, Financial Stability Directorate

II. Cash withdrawals

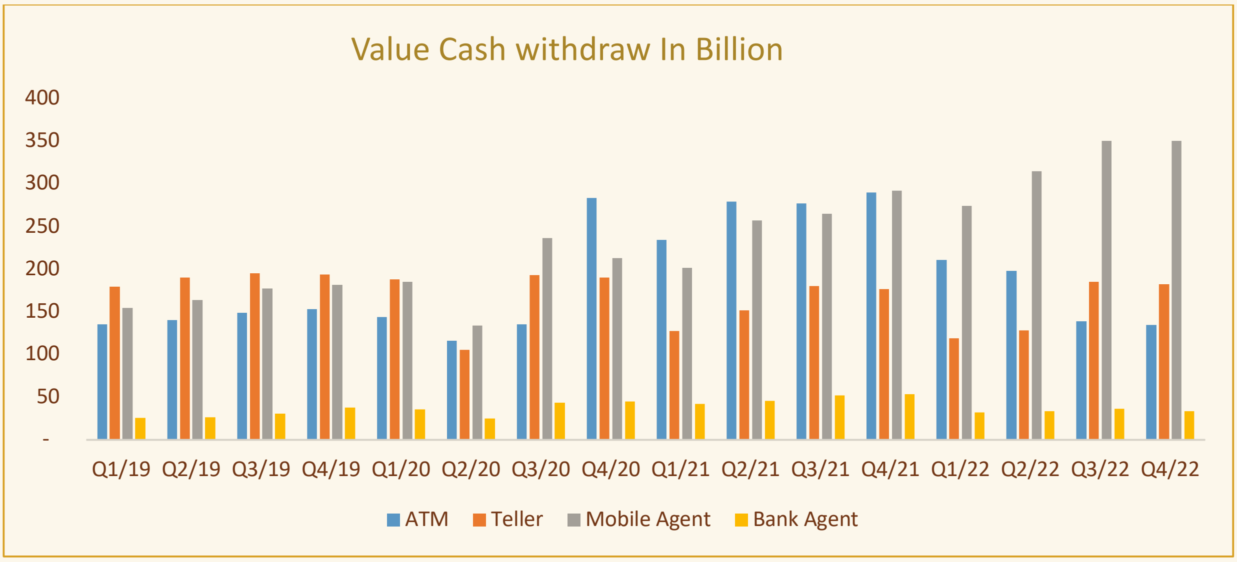
Despite the use of digital channels for cashless payment, in term of volume, more cash withdrawals happened from mobile agents, also in terms of value, more cash was withdrawn from mobile agents. (Figure below).

Figure 43: Volume cash withdrawals



Source: NBR, Financial Stability Directorate

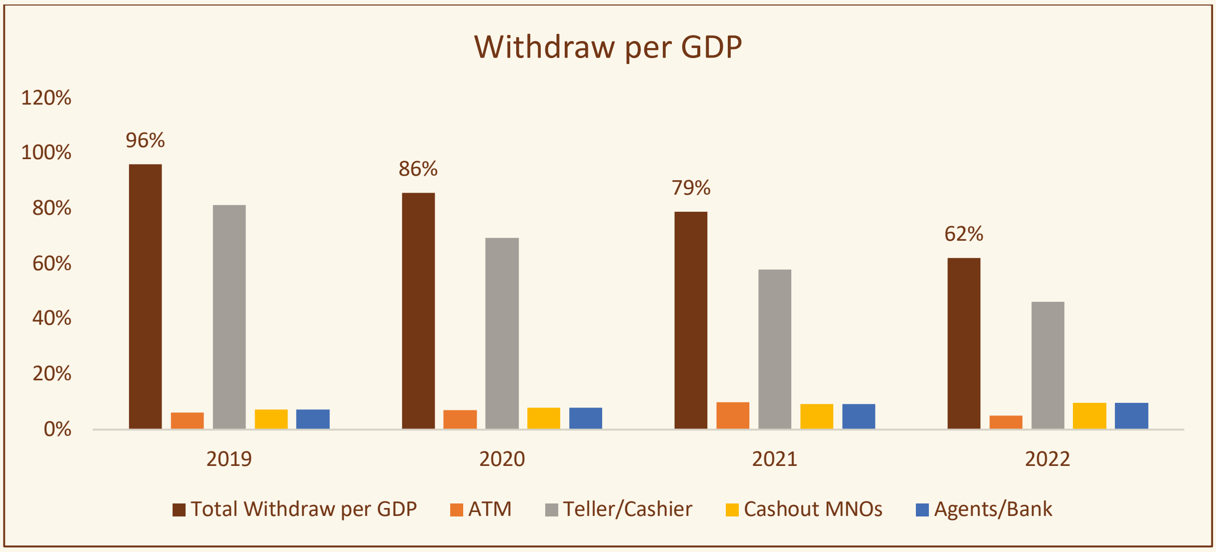
Figure 44: Value cash withdrawals (in Billion FRW)



Source: NBR, Financial Stability Directorate

The value of withdrawals per GDP continue to decline over the period under review, due to the adoption of digital channels, and measures put in place to enhance people to use digital channels.

Figure 45: Value withdrawals per GDP



Source: NBR, Financial Stability Directorate

5.11.8 Way forward

Among the key milestone of the initiated projects are:

- Rwanda Integrated Payments Processing System (RIPPS): the onboarding process of non-bank financial institution is still ongoing. The direct debit instrument will start during the third quarter of 2023, while the payee confirmation functionality will be introduced by the end of year 2023, in order to reduce the number of rejections due to wrong customer identification. The Central Bank shall continue to enhance the operational resilience and risk management of the system.
- The Rwanda National Digital Payment System (RNDPS): Today the system is operational for wallet to wallet from different Mobile Network Operators. Banks are preparing to join the system by April 2023.
- The NBR continued to revise and enhance existing regulatory instruments in order to promote a developed, efficient, and stable payment system.

5.12 ACCESS TO FINANCE

Developing a financial sector that is stable, efficient, inclusive and capable of mobilizing financial resources for economic development is the broader supervisory objective of the NBR. The NBR works with government institutions, financial institutions, and development partners to identify and address challenges in financial markets and establish an enabling environment for the financial sector development. To develop the financial sector, the central bank mainly focuses on 3 areas:

i) increasing access and usage of affordable financial services;
ii) improving efficiency in the provision of financial services;
iii) promoting innovation in the financial sector.

In monitoring financial sector development and inclusion, the NBR relies on two sets of data:

(i) The FinScope survey done every 4 years (the last one was done is 2020)

(ii) Supply side data from FSPs.

During the period under review, the NBR embarked on several interventions to develop the financial sector. These included financial literacy campaigns targeting teens in secondary schools and MSMEs, a financial education campaign on credit reporting to empower consumers to make informed decisions, as well as capacity building for MSMEs in lease financing. In addition, a special report on the financial inclusion level of refugees in Rwanda was disseminated. Further, the NBR continues to promote financial innovation through the regulatory sandbox aimed at supporting FinTech innovators to test their products.

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

5.12.1 Financial Service Access Points

In the period under review, the number of financial access points decreased with bank branches and outlets decreasing by 6 percent and 46 percent respectively, while the number of sub-branches remained unchanged. This decrease signals the sustained shift to branchless banking models adopted by banks. 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 the banking sector access points (33 percent) followed by Western Province and Eastern province, each with 19 percent of total access points. Southern province (17 percent), while the Northern province (12 percent). The high concentration of access points in Kigali city reflects 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 accounts for 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 their locations. Such geographical distribution of access points should continue guiding financial sector players and policy makers to allocate efforts where needed. In rural areas, limited bank access points are supplemented by U-SACCOs.

Regarding clients account penetration, the number of client accounts in banks decreased, while the number of client accounts in microfinance institutions grew during the period under review. The number of bank accounts reduced by 1 percent from 5.54 million in December 2021 to 5.50 million in December 2022. During the same period, clients' accounts in microfinance sector increased by 7 percent from 4.86 million to 5.2 million.

Table 39: Distribution Access Points per Province (December 2022)

Distribution	City of Kigali	Northern Province	Eastern Province	Western Province	Southern Province	Total
Number of Branches	108	37	56	52	38	291
Number of Subbranches	10	0	0	2	0	12
Number of Outlets	37	20	32	33	40	162

Source: Financial Sector Development and Inclusion Department

5.12.2 Usage of formal financial services

5.12.2.1 Usage of Banks' and MFIs' financial services

During the period under review, access to credit improved in the banking sector and non-deposit taking financial institutions (NDFIs), but slightly dropped in the microfinance sector. The number of loans from NDFIs increased by 783% percent from 1,296 in December 2021 to 11,446 in December 2022. The number of borrowers in banks grew by 0.5 percent to 576,203 in December 2022 from 573,580 in December 2021, while in the microfinance sector, the number of borrowers fell by 6 percent to 373,759 in December 2022 from 399,592 in December 2021. Generally, the level of borrowing from formal financial institutions remains low, despite the high account penetration mentioned above. The main lending challenge relates to MSME borrowing constraints such as; lack of collateral, information opacity, and limited financial literacy. To address these challenges, the NBR in collaboration with relevant Government agencies is working on multiple interventions to address MSME borrowing constraints. These interventions include financial education targeting MSMEs, strengthening of the credit information system, enhancing and establishing of regulatory frameworks for leasing products, and other alternative lending products, complemented with capacity building in lease financing for MSMEs. Government interventions to support MSME lending include; the partial credit guarantee schemes (through BDF), and targeted MSME financing schemes under Rwanda Development Bank (BRD).

Regarding deposits, the number of depositors in banks increased by 9 percent to 2,948,793 in December 2022 from 2,707,045 in December 2021. During the same period, the number of deposit accounts in the microfinance sector increased by 7 percent from 4,860,102 in December 2021 to 5,204,981 in December 2022. 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 in secondary schools and universities, with a 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 40: Depositors and Borrowers in Bank and Microfinance Institutions

Banks	Dec-21	Dec-22
Number of Depositors in Banks	2,707,045	2,948,793
Amount of Bank deposits (FRW billion)	3,087	3,600
Number of borrowers in Banks	573,580	576,203
Amount of outstanding loans (FRW billion)	2,903	3,306
Microfinance Institutions	Dec-21	Dec-22
Number of Deposit accounts in MFIs and U-SACCOs	4,860,102	5,204,981
Number borrowers in MFIs and U-SACCOs	399,592	373,759
Amount of outstanding loans of MFIs and U-SACCOs (FRW billion)	235	325
NDFIs	Dec-21	Dec-22
Amount of outstanding loans (FRW billion)	2,055	20,371

Source: Financial Sector Development and Inclusion Department

5.12.3Usage of insurance and pension services

The total number of insured people increased during the period under review, by 15 percent, while the number of life insurance policyholders increased by 17 percent, reaching 600,583 as at the end December 2022 from 512,442 in December 2021. Similarly, the number of general insurance policyholders increased by 10 percent, reaching 253,632 as at the end December 2022 from 229,978 in December 2021.

Regarding pension schemes, the number of contributors to public pension grew by 8 percent to 635,716 in December 2022 from 587,479 in December 2021. In private pension, the number of contributors fell sharply by 67 percent to 21,770 in December 2022 from 66,482 in December 2021, due to the reclassification of some private pension schemes into life insurance. Savings through the Ejo Heza Long-Term Saving Scheme (LTSS) continues to grow during the period under review, the total number of contributors grew by 69 percent, and the number of beneficiaries significantly grew by 92 percent in the same period.

Table 41: Access to Insurance and Pension

Insurance and Pension Category Description	Dec 2021	Dec 2022
General (non-life) and Life Insurance policies	742,420	854,215
Number of contributors to Public and Private pensions	653,961	657,486
Number of beneficiaries of Public and Private pensions	50,946	55,467
Number of Contributors to EJOHEZA (LTSS)	1,423,377	2,413,367
Number of Beneficiaries of EJOHEZA (LTSS)	561	1,079

5.13. FOREX BUREAUS

The NBR is also mandated to regulate forex dealers. As at December 2022, licensed forex dealers were 78 including, 3 remittance companies that offer forex services.

The National Bank of Rwanda has continued its efforts to regulate and supervise forex bureaus. As at December 2022, the growth of total assets of forex bureaus was mainly due to capital increase by some forex bureaus to strengthen their financial capacity. In addition, the subsector remained profitable during the period under review (Table 42).

Table 42: The financial position of forex bureaus

ASSETS	Dec-2019	Dec-2020	Dec-2021	Dec-2022
1. Cash	4.1	3.6	4.1	4.3
2. Balance at banks	2.1	3.7	3.5	4.6
3. Fixed assets	0.5	0.5	0.5	0.3
4. Other assets	0.3	0.6	0.3	0.3
TOTAL ASSETS	**7.0**	**8.4**	**8.4**	**9.5**
LIABILITIES	Dec-2019	Dec-2020	Dec-2021	
6. Borrowing (local)	0.4	0.2	0.6	0.4
7. Foreign liabilities	0.2	0.0	0.0	0.0
8. Other liabilities	1.0	1.3	0.5	1.0
TOTAL LIABILITIES	**1.5**	**1.5**	**1.1**	**1.4**
EQUITY	0.0	0.0	0.0	0.0
9. Paid up capital	5.6	5.6	5.7	6.4
10. Reserves	0.6	1.0	1.3	1,3
11. Profit & loss account	0.3	0.3	0.3	0.4
TOTAL EQUITY	**6.6**	**6.9**	**7.2**	**8.1**
TOTAL LIABILITIES+EQUITY	**7.0**	**8.4**	**8.4**	**9.5**

Source: NBR, Market Conduct and Consumer Protection Department

As a way forward, identification of gaps within the current Regulation n° 2310/2018 - 00015 [614] of 27/12/2018 governing forex bureaus and the research on digitalization of forex bureau's transactions is ongoing to cater for new developments in the sector.

5.14. 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. Five Laws were passed during the second half of 2022 in relation to the financial sector under NBR Supervision.

Regulation Governing Trust and Company Service Providers

The NBR established the Regulation n° 52/2022 of 01/09/2022 Governing Trust and Company Service Providers (TCSPs). This regulation was developed to cater for NBR new mandate on Trust and Company Service Providers. It states requirements and the process of applying for a license as a trust and company service provider, and sets out the governance of the TCSPs, including the board of directors and senior management. This regulation applies to all TCSPs, except trustee licensed or authorized by the Capital Market Authority; Trustee licensed or authorized by the pension law, as well as trustee of e-money trust funds, and trustees appointed by Courts.

Regulation Establishing Operational Requirements and Other Requirements for Pension Schemes and Long-Term Saving Scheme

In September 2022, the NBR enacted the Regulation n° 53/2022 of 01/09/2022 establishing operational requirements and other requirements for pension schemes and long-term saving schemes. This regulation reviewed the Regulation N° 05/2016 of 26/09/2016 of the National Bank of Rwanda establishing operational and other requirements for pension schemes, and aims at increasing the security in the invested fund through the setting of thresholds according to the risks associated to the asset class. This regulation ensures market stability through corporate governance as a key requirement.

Regulation Governing Electronic Money Issuers

Having reviewed the Regulation nº 08/2016 of 01/12/2016 Governing the Electronic Money Issuers, the NBR gazetted the new Regulation n° 54/2022 of 01/09/2022 Governing the Electronic Money Issuers. This revised regulation incorporates rules governing activities of the electronic money issuers and the safeguarding measures of money that belong to e-money holders, and sets the rules governing activities of electronic money issuers, safeguarding measures of electronic money and conditions that the e-money issuers shall consider in undertaking customer due diligence.

Regulation Relating to Financial Service Consumer Protection

The NBR published the Regulation n° 55/2022 of 27/10/2022 Relating to Financial Service Consumer Protection. This Regulation aims at protecting financial service consumers. With this regulation, we expect to have a sound financial consumer protection framework which is fundamental in increasing access, and improvement in the quality of financial services. This regulation requires financial service providers to put in place means and modes of communication through which financial service consumers communicate to various levels of financial service provider staff and management and in turn for the financial service providers to communicate to consumers. This Regulation applies to financial service providers and their representatives providing the following products and related services: deposits, savings, loans; credit reporting; insurance, pension; payment services; finance lease; money exchange; any other activity approved by the Supervisory Authority.

Regulation on Financial Service Consumer's Internal Complaints Handling

In October 2022, the NBR established the Regulation n° 56/2022 of 27/10/2022 on Financial Service Consumer's Internal Complaints Handling. This Regulation aims at: i) Putting in place minimum standards that must be included in the internal policies, and procedures for handling financial services consumer complaints and ii) Ensuring that consumers are aware that their complaints can be raised to the committee responsible for resolving financial consumers' complaints, in case they not resolved to their satisfaction by the financial service provider. The regulation applies to financial services providers under Supervisory Authority and the representatives of financial service providers.

Directive on Minimum Requirements of the Recovery Plan

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

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 MONETARY POLICY OUTLOOK

Weaker growth momentum and higher inflationary pressures globally.

According to the IMF World Economic Outlook published in January 2023, the world economy is projected to slow to 2.9 percent in 2023 from 3.4 percent in 2022, reflecting forecast upgrades from advanced economies, and emerging market and developing economies. In advanced economies, growth is projected to slow down to 1.2 percent in 2023 after 2.7 percent in 2022, largely attributed to a projected contraction for the United Kingdom, and about 90 percent of advanced economies that are projected to decline in growth.

In emerging market and developing economies, growth is projected at 4.0 percent in 2023 from 3.9 percent in 2022, and about a half of emerging market and developing economies have lower growth projections in 2023 than in 2022. The Sub-Saharan African economy is projected to remain moderate at 3.8 percent in 2023, amid prolonged fallout from the Covid-19 pandemic.

Domestic economic recovery is expected to continue.

Rwanda's 2022 economic performance has been strong, with a real GDP growth of 8.2 percent that exceeded the initial projection of 6.8 percent. The economy is expected to continue improving in 2023, though a slowdown in the global economy and unpredictable weather may pose challenges.

The external sector outlook will deteriorate in 2023 before improving in 2024.

In 2023, driven by higher oil prices and declining mineral prices, Rwanda's trade deficit in goods is expected to widen. However, this will be partially *offset by the rebound in service exports from a strong recovery of key service sectors, notably travel and transport as well as high inflows from diaspora remittances, resulting into a moderate increase in the current account deficit (CAD). This CAD will be financed by private inflows, such as foreign direct investment (FDI) and public borrowings. As result, foreign exchange reserves are expected to remain adequate.*

Headline inflation is projected to remain high, before converging toward the benchmark by the end of 2023.

Overall, inflation pressures are expected to remain high in the 1st half of 2023, before converging towards the target band (below 8 percent) at the end of the year. The expected downward trend in headline inflation considers a good performance of the agriculture sector, and a decline in international commodity prices, coupled with the expected impact of NBR monetary policy tightening, and other policy measures in place.

In view of these projections, the Monetary Policy Committee will continue to monitor the situation closely. The NBR remains committed to its objective of price stability, by bringing inflation within the medium-term objective band of 2-8 percent.

6.2 THE FINANCIAL SECTOR STABILITY OUTLOOK

Despite the war in Ukraine, high inflation, and lingering effects from Covid-19 that pose financial stability risks, the financial system has continued demonstrated resilience to these new shocks. 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.

Regarding the systems' operational resilience, NBR will continue to enhance the upgrade of the Rwanda Integrated Payments Processing System (RIPPS) *and ensure payment systems operate smoothly without any major interruption.*

The continuing journey of aligning the regulatory framework with international standards has also been of paramount importance in prompting a stable, resilient and transparent sector. In view of this, the NBR will continue to revamp regulatory instruments to ensure they are up to date and comprehensively promote stability of the sector. In addition, through regular oversight of the financial sector, the NBR will continue ensuring that financial institutions hold enough capital and sufficient liquidity to meet financial obligations.

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