NATIONAL BANK OF RWANDA

Quarterly Economic and Financial Report: Developments and Prospects

SECOND QUARTER 2015

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EXECUTIVE SUMMARY

The second quarter 2015 economic and financial report: Developments and Prospects present the National Bank of Rwanda's assessment of the recent developments and prospects on economic and financial developments influencing the real sector dynamics in particular and macroeconomic stability in general.

The world economy continues to increase at moderate pace with differences across countries and regions. The growth is supported by improving economic activity in advanced economies following the decline in energy prices, accommodative monetary policy and recovery in domestic demand. In 2015Q2, world economy grew by 2.7% from 1.4 % and 2.4% recorded in 2015Q1 and 2014Q2 respectively. Recent estimates set the global real GDP growth at 3.3% in 2015slighly lower than 3.4% achieved in both 2014 and 2013, due the poor economic performance in the United States, Russia and slowdown in China.

Inflationary pressures remained subdued and well below the Central Bank's targets in advanced economies owing to weak economic activity and falling commodity prices especially energy prices. By the end of 2015, inflation in developed countries is expected at 0.0% against 1.4% in 2014 and 2013. Therefore, monetary policy remained accommodative to boost economic activity and push inflation closer to the Central Banks targets.

Supported by accommodative monetary policy implemented by BNR since 2013 which led to the increase in financing of the private sector by the banking sector, the Rwandan economy grew by 7.0% in 2015Q2 from 7.6% and 6.1% in 2015Q1 and 2014Q2 respectively. This good performance is expected to continue as evidenced by the leading indicators of economic activities which show that economy continued to perform well after 2015Q2 and evolving toward the initial projected annual GDP growth of 6.5%.

By end 2015Q2, compared to the same period of 2014, Rwandan trade deficit improved by 4.7% to USD 858.83 million from USD 901.43 million as a result of 5.1% and 6.2% decline in formal imports and exports respectively. Formal imports coverage by exports slightly reduced to 24.3% from 24.6% in the same period of 2014.

Relative to December 2014, the FRW depreciation against USD reached 3.6% by end 2015Q2. By end June, the FRW has been under some pressures from the persistent wide trade deficit, the strengthening of USD against most of currencies around the world as well *as the speculation resulting from the depreciation of currencies of major trading partners in the EAC. However, through its policies and measures, including effective communication and market discipline, BNR managed to ensure that the stability of the currency was achieved.*

In 2015Q2, inflation in Rwanda remained moderate, with headline inflation averaging at 1.5% in the first half of 2015 compared to 2.6% in the same period in 2014. Looking at the second quarter of 2015, headline inflation increased by 2% from 1% in 2015Q1 mainly driven by the uptick in food and transport prices.

BNR continued to implement an accommodative monetary policy stance in the context of limited inflationary pressures to support the financing of the economy. As a result, new authorized loans to the private sector increased by 10.8% in the first half of 2015, amounting to FRW 360.8 billion from FRW 325.7 billion in the first half of 2014, while the outstanding credit to the private sector increased by 15.1% between December 2014 and June 2015 against 7.9% recorded in the corresponding period of 2014.

Rwanda's financial system remains healthy and sound in 2015Q2 as evidenced by various financial soundness indicators on banking sector such as capital adequacy, assets quality, liquidity, market sensitivity and profitability indicators. In general, the stability of Rwanda's banking system was sustained in 2015Q2 amidst improving domestic and global economic environment. Nonetheless, several risks such as exchange rate exposure and higher interest rates. This requires continued focus on financial system developments to mitigate risks that may accrue thereof.

I. INTERNATIONAL ECONOMIC OUTLOOK

The world economy continued to grow at moderate pace but with differences across countries and regions. The growth is supported by improving economic activity in advanced economies following the decline in energy prices, accommodative monetary policy and a recovery in domestic demand. In July 2015, IMF revised the world economic growth projections to 3.3% in 2015 lower than 3.5% projected in April 2015 against 3.4% achieved in both 2014 and 2013, due to the poor economic performance in the United States, Russia and slowdown in China.

Inflation remained subdued and well below Central Banks targets in advanced economies owing to weak economic activity and falling commodity prices especially energy prices. Consistently, monetary policy in developed countries remained accommodative to boost economic activities.

I.1 Economic growth

In advanced economies, growth was revised to 2.1% compared to 2.4% previously forecasted and compared to 1.8% recorded in 2014. The weak economic growth in USA (2015Q1) was due to reported harsh weather and port closures; energy related investment cuts and a stronger USD which is impacting the export sector. Factors behind this weak performance were short lived and American economy grew by 3.7% in 2015Q2 after 0.6% recorded in 2015Q1. This good performance reflects positive contributions from private consumption, exports and residential fixed investment. Meanwhile, GDP growth forecast is revised down to 2.5% in 2015, from 3.1% previously expected against 2.4% in 2014 due to lower than expected 2015Q1 performance.

Table 1: Economic growth developments (in %)[1]

	Quarterly						Annual		
	2014				2015		2013	2014	2015 Jul Proj.
	Q1	Q2	Q3	Q4	Q1	Q2			
World (Y0Y)	1.9	2.4	2.8	2.3	1.4	2.7	3.4	3.4	3.3
USA (QoQ)	-2.1	4.6	4.3	2.1	0.6	3.7	2.2	2.4	2.5
Euro area (YoY)	1.1	0.7	0.8	0.9	1.2	1.5	-0.4	0.8	1.5
Japan (QoQ)	4.9	-7.6	-1.1	1.3	4.5	-1.2	1.6	-0.1	0.8
UK (YoY)	2.7	3.0	3.0	3.4	2.9	2.6	1.7	2.9	2.4
China (YoY)	7.4	7.4	7.2	7.2	7.0	7.0	7.7	7.4	6.8
India (YoY)	4.6	6.7	8.4	6.6	7.5	7.0	6.9	7.3	7.5

Source: BLOOMBERG & IMF, World economic Outlook, April 2015 & July 2015 WECO

In Euro zone, the economy is gradually improving, thanks to easing monetary policy by ECB, weak euro currency, improving confidence among businesses and consumers as well as continued falling oil prices. GDP growth was 1.5% in 2015Q2 against 1.2% in 2015Q1 while projected to reach at 1.5% by end 2015. Nevertheless, the Eurozone is still facing downside risks related to Greek impasse, fragilities in the banking system and high unemployment rate.

[1] Quarterly data are from BLOOMBERG and annual data from IMF, World Economic Outlook, April 2015

Supported by housing investment and private consumption, the Japanese economy grew by 4.5% in 2015Q1 after 1.3% in 2014Q4. However, due to a decline in exports and consumer spending, the economic activity declined by 1.2% in the second quarter 2015 and projected to reach at 0.8% end 2015 after a contraction of 0.1% in 2014.

While decelerating, growth in emerging and developing economies remained sustained. Due to weakening activities in oil exporting countries, tighter financial conditions, political conflicts in different regions, weak global demand and tightening financial market conditions, the real GDP is projected to decelerate to 4.2% in 2015 against initial forecast of 4.3% and 4.6% achieved in 2014.

In Asia, the economy remained robust with growth expected to stand at 6.6% by end 2015 after 6.8% in 2014 driven by India and China. The Chinese economy unexpectedly rose by 7.0% in 2015Q2, the same level as in 2015Q1 and against 6.8% previously expected.

In Sub-Saharan Africa, the economy is expected to slow to 4.4% in 2015 from 5% in 2014 due to the falling commodity prices, waning terms of trade, conflicts and epidemic diseases. Growth in oil exporting countries has been revised downward while it was almost unchanged in oil importers where favourable oil effect is offset by lower prices of their commodity exports.

Table 2: Economic growth EAC countries (in %)

	2013	2014	2015 (proj.)
Burundi	4.5	4.7	4.8
Kenya	5.7	5.6	6.9
Rwanda	4.7	7.0	6.5
Tanzania	7.3	7.2	7.2
Uganda	3.9	5.2	5.4

Source: Central Banks Websites and IMF WECO, April, 2015

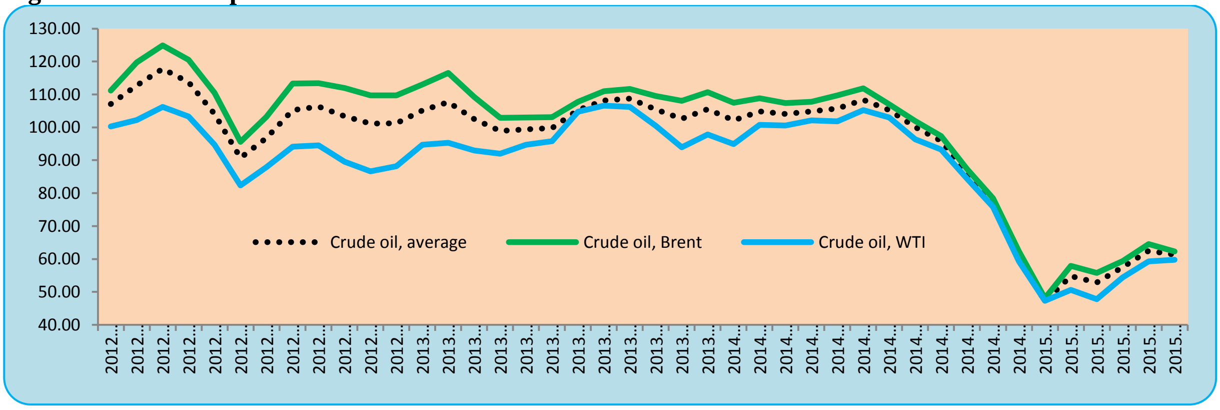
I. 2 INFLATION AND COMMODITY PRICES

1.2.1 Commodity prices

On commodity markets, prices continued to decline reflecting abundant supply, increased harvest, weak global demand and strong US dollar. In 2015Q2, oil prices fell year-on-year by 43.1% after a decline of 50.2% in 2015Q1 on ample supply. Brent prices dropped by 43.4% standing at USD 62.10/barrel on average in 2015Q2 from USD 109.78/barrel in 2014Q2. On quarterly basis, after a decline of 30.9% in 2015Q1 oil prices rose by 17.2% in 2015Q2 due to improved global demand, expectations that oil production growth in USA will slow faster than initially projected as well as geopolitical tensions in oil producing countries.

According to IMF forecasts, oil prices are projected to fall by 38.8% on average in 2015 after a decline of 7.5% in 2014.

Figure 1: Crude oil prices in USD/barrel



Source: World Bank Website

For non-energy commodities, prices fell on annual basis by 14.5% in 2015Q2 against a decline of 12.5% in 2015Q1. Prices sank by 14.8% year-on-year for metals and minerals and by 15.2% for agricultural commodities and by 0.2% for fertilizers. On quarterly basis, prices dropped by 0.4% for metals and minerals, by 2.6% and 3.7% respectively for agricultural commodities and fertilizers.

With regard to beverages, prices recovered by 0.2% in 2015Q2 from respective declines of 8.8% and 2.8% in 2015Q1 and 2014Q4 following supply constraints. The decline in coffee prices (-8.9% for Arabica and -6.5% for Robusta) was overcompensated by an increase in tea prices (14%) due to lower production in Kenya as result of dry weather. On Mombasa auction, the price of tea rose quarter on quarter by 20.6% in 2015Q2 and by 21.7% the previous quarter. Additionally, tea prices have jumped by 38.8% on Kolkata market after a sharp decline of 31.1% a quarter earlier.

Table 3: commodity prices (% increase)

	2013				2014				2015	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
OIL	**3.1**	**-5.5**	**8.1**	**-2.7**	**-0.8**	**2.6**	**-5.6**	**-25.7**	**-30.9**	**17.2**
Crude oil, Brent	2.2	-8.8	6.9	-0.6	-1.4	1.8	-7.0	-25.5	-29.1	15.1
WTI crude oil	7.0	-0.1	12.4	-7.9	1.3	4.4	-5.4	-25.0	-33.6	19.1
BEVERAGES	**-5.3**	**-1.4**	**-1.3**	**1.1**	**13.7**	**10.8**	**0.5**	**-2.8**	**-8.9**	**0.2**
Coffee, Arabica	-6.1	-4.7	-6.8	-7.2	38.2	22.1	-2.4	1.8	-16.1	-8.9
Coffee, Robusta	3.8	-5.9	-5.0	-9.3	15.0	6.4	-1.6	1.6	-6.1	-6.5
Tea, Mombasa auctions	-4.2	-18.1	-5.4	-3.9	7.1	-13.4	1.1	-5.4	21.7	20.6
Sugar, world	-5.6	-5.6	-2.4	3.1	-5.2	8.1	-4.9	-6.3	-10.7	-9.8
CEREALS	**-4.4**	**-3.7**	**-12.0**	**-10.0**	**0.6**	**0.7**	**-11.9**	**-0.8**	**-1.5**	**-5.8**
Maize	-3.8	-4.5	-17.0	-17.6	5.3	2.0	-18.7	-0.3	0.4	-3.4
Sorghum	2.3	-11.0	-15.6	-7.8	10.9	-2.1	-16.0	9.1	18.1	-9.4
Wheat, US SRW[2]	-11.8	-7.5	-6.4	7.3	-4.5	-0.1	-18.9	11.9	-6.7	-8.2
Wheat, US HRW[3]	-9.6	-2.4	-2.5	0.7	-3.5	8.4	-18.5	-1.8	-7.4	-9.5
Rice, Thai 5%	0.7	-3.6	-11.9	-7.2	0.2	-11.3	10.1	-2.7	-1.1	-7.5
Rice, Thai 25%	1.3	-5.3	-14.5	-6.1	-8.3	-6.3	13.9	0.6	-1.2	-6.3
Rice, Thai A.1	2.2	-4.0	-13.8	-6.5	3.6	-6.8	12.8	-4.7	-2.8	-6.7
Rice, Vietnamese 5%	-8.5	-3.4	-1.2	3.7	-1.5	-0.7	12.0	-4.9	-12.3	-3.2
FRUITS										
Bananas EU	-0.6	-2.1	-8.3	-4.7	12.4	8.2	-12.8	-0.8	-6.8	0.0
Bananas Us	-1.6	-2.4	2.9	-0.8	2.4	-2.6	1.4	-3.7	9.0	1.7
METALS &MINERALS	**4.3**	**-10.7**	**-0.4**	**0.8**	**-3.2**	**-1.0**	**2.6**	**-6.5**	**-10.8**	**-0.4**
Aluminium	-0.1	-8.2	-2.9	-0.9	-3.3	5.3	10.5	-1.0	-8.5	-1.8.
Gold	-5.1	-13.2	-6.1	-4.3	1.7	-0.4	-0.6	-6.4	1.6	-2.1
Tin	11.2	-13.0	2.0	7.4	-1.1	2.3	-5.3	-9.2	-7.7	-15.1

Sources: World Bank, IMF World Economic Outlook April 2015

[2] SRW: Soft red winter
[3] HRW: Hard Red Winter

Metals prices were improving as they fell on average by 0.4% in 2015Q2 after a decline of 10.8% in 2015Q1 led by an increase in prices of iron ore after Chin's stockpiles dropped and following a rebound in price of uranium.

On average in 2015, metals prices are projected to fall by 21.0% due to the slowing demand in China together with increased supply for most of metals. Coffee prices will drop by 25.3% (for Arabica) and by 15.2% (for Robusta) mainly reflecting improved supply conditions for Arabica coffee in Brazil while tea prices are expected to increase by 34.8% on average by end 2015 due to dry weather conditions in Kenya, the third global tea producer over the period 1993-2013.

1.2.2 Inflation

Inflation remained subdued and well below Central Banks targets in advanced economies owing to weak economic activity and falling commodity prices especially energy prices. By end 2015, inflation in developed countries is expected at 0.0% against 1.4% in both 2014 and 2013.

In Eurozone, inflation is slightly increasing in 2015Q2 compared to 2015Q1 following a recent increase in the underlying inflation and the euro depreciation pass-through. In June 2015, inflation eased to 0.2% reflecting declining energy prices and easing prices of food and services from 0.3% in May pointing to persistent vulnerability of the region to inflation pressures. In USA, inflation was slightly up to 0.1% in June from 0% in May on the back of rising gasoline prices (-23.3%). In Japan, annual inflation reduced to 0.4% from 0.5% in May following the decline in fuel prices, light and water charges (-3.1%) and transportation& communication (-2.0%).

Table 4: Inflation in major economies (% p. a)

	2014		2015						2014	2015
	Sept.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.		
USA	1.7	0.8	-0.1	0.0	-0.1	-0.2	0.0	0.1	1.6	0.1
Euro zone	0.3	-0.2	-0.6	-0.3	-0.1	0.0	0.4	0.2	0.4	0.1
Japan	3.2	2.4	2.4	2.2	2.3	0.6	0.5	0.4	2.7	1.0
China	1.8	1.5	0.8	1.4	1.4	1.5	1.2	1.4	2.0	1.2

Source: National statistics offices& IMF Web

In Sub-Saharan Africa, inflation is expected at 6.6% by end 2015 from 6.3% in 2014. In EAC, inflation has been increasing during the second half of 2015 due to high depreciation of regional currencies against the US dollar. Uganda's headline inflation was stable at 4.9% in June compared to May 2015, thanks to a decrease in food prices. Kenya and Burundi's year-on-year inflation rose to 7.0% and 7.7% in June 2015 from 6.9% and 7.2% in May 2015 due to the rising food prices. In Rwanda, inflation rose to 2.8% in June due to the rising prices of food and non-alcoholic beverages, housing water, electricity, gas and other fuels and transport.

Table 5: Inflation in EAC countries (in % p.a)

	2013	2014			2015					
	Dec	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
Uganda	6.7	4.9	1.4	1.8	1.3	1.6	1.9	3.6	4.9	4.9
Kenya	7.2	7.4	6.6	6.0	5.5	5.6	6.3	7.1	6.9	7.0
Tanzania	5.6	6.4	6.6	4.8	4.0	4.2	4.3	4.5	5.3	6.1
Burundi	9.0	3.3	5.5	3.8	3.5	1.2	4.7	7.5	7.2	7.7
Rwanda	3.7	1.4	0.2	2.1	1.4	0.7	0.8	0.9	2.2	2.8

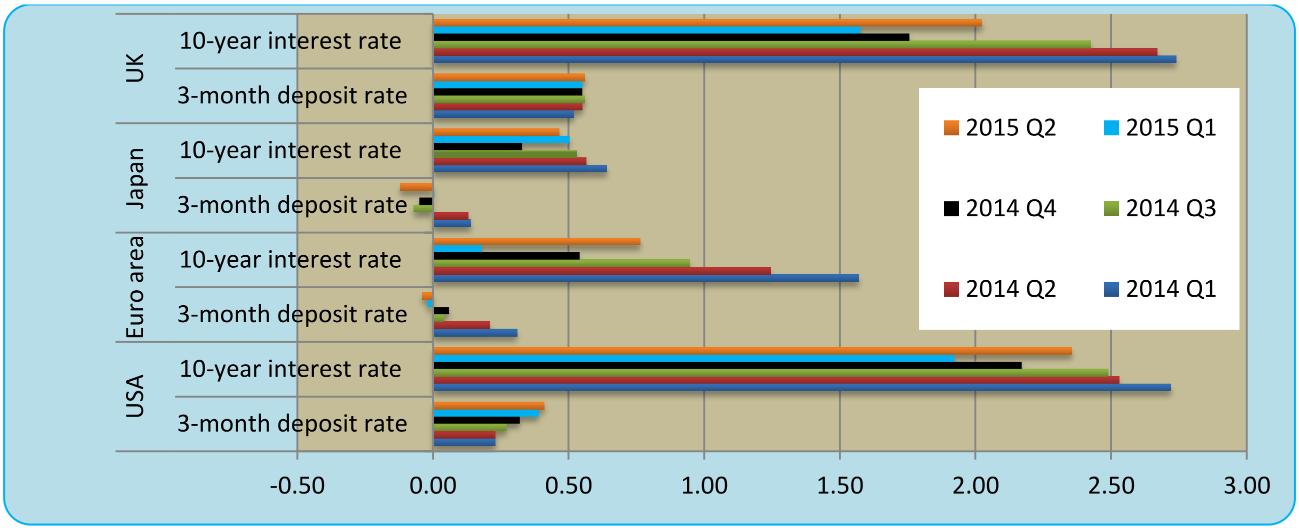
Source: Country Bureaus of Statistics

I. 3 Monetary Policy and Financial Markets

Monetary policy in developed countries remained accommodative to boost economic activities. Central bank rates remained unchanged in 2015Q2 compared to the previous quarter: 0.05% in Euro, 0.25% in USA, 0.5% in UK and 0.10% in Japan. However, US Federal Reserve is expected to increase interest rates later this year. In its meeting on 16-17 June 2015, the FOMC confirmed its view that the current level of the fund rate remains appropriate in order to ensure continued progress towards a maximum employment and 2% inflation target.

In 2015Q2, 10-year government bond rate increased in developed countries as traders around the world have been selling off government bonds bringing down bond prices and, in turn, driving up the 10-year interest rates. Additionally, US and Eurozone economies are gaining momentum in 2015Q2 and signal continuous increase in interest rates. In 2015Q1, the 10-year government bond interest rates were declining due to geopolitical tensions as well as uncertainties about global economic growth.

Figure 2: Interest rates developments (in % per annum)



Source: Bloomberg database

On the foreign exchange market, the dollar remained strong supported by the robust growth of the US economy, higher US 10-year government bond yield which made US government security more attractive for foreign investors. Compared to end December 2014, the dollar gained 7.9% and 9.2%

respectively in June and May against the euro. It depreciated by 0.9% against the GBP after an appreciation of 1.8% in May 2015. The dollar remained strong versus the Yen against which it advanced by 2.3% and by 3.6% respectively in May and June 2015.

On quarterly basis, the dollar lost by 6% in 2015Q2 against the GBP which was supported by an acceleration of British economy above the trend pace and by 3.9% versus the Euro which benefited from weak US first quarter data and improving economic dynamics in the Eurozone against respective appreciation of 4.9% and 11.3% in 2015Q1. USD kept on gaining against the Yen advancing by 2.0% and 0.3% respectively in 2015Q2 and 2015Q1.

Table 6: Nominal Exchange rate developments

	2013		**2014**				**2015**	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
USD/1EUR	1.3527	1.3743	1.3769	1.3692	1.2631	1.2098	1.0731	1.1147
USD /1 GBP	1.6186	1.6557	1.6662	1.7106	1.6213	1.5577	1.4818	1.5712
YEN/1USD	98.27	105.31	103.23	101.33	109.65	119.78	120.13	122.50

Source: Bloomberg Database

II. NATIONAL ECONOMIC PERFORMANCE

2.1 Real Sector Performance

The Rwandan economy continues to recover from a low economic growth recorded in 2013 supported by accommodative monetary policy implemented by BNR since 2013 which led to the increase in financing of the private sector by the banking sector.

2.1.1 Economic growth

Real GDP grew by 7.0% in 2015Q2 after 7.6% in 2015Q1 and 6.1% in 2014Q2, driven by industry sector (10.0%), followed by services sector (+6.0%), and agriculture sector (+5.0%). This good performance was supported by increasing banking financing to the private sector. New loans to the private sector increased by 14.5% to FRW 182.8 billion in 2015Q2 from FRW 159.7 billion in 2014Q2 while outstanding loans to private sector rose by 15.1% to FRW 1,043.0 billion end June 2015 from FRW 906.3 billion end December 2014 against 7.9% realized in the corresponding period of the previous year.

Table 7: Rwanda Real GDP growth, in %

	2014					2015		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Annual projections
GDP	**7.5**	**6.1**	**8.0**	**6.5**	**7.0**	**7.6**	**7.0**	**6.5**
Agriculture	**5.0**	**5.0**	**6.0**	**5.0**	**5.0**	**4.0**	**5.0**	**5.2**
Food crops	6.0	6.0	7.0	7.0	6.0	4.0	4.0	
Industry	**9.0**	**5.0**	**4.0**	**5.0**	**6.0**	**7.0**	**10.0**	**8.7**
Manufacturing	7.0	5.0	-5.0	-2.0	1.0	8.0	9.0	
Construction	8.0	5.0	7.0	12.0	8.0	11.0	15.0	
Services	**9.0**	**9.0**	**11.0**	**8.0**	**9.0**	**8.0**	**6.0**	**7.3**
Wholesale & retail trade	12.0	10.0	7.0	10.0	9.0	7.0	5.0	
Financial services	4.0	3.0	10.0	4.0	5.0	10.0	7.0	
Real estate activities	9.0	3.0	14.0	8.0	8.0	5.0	11.0	

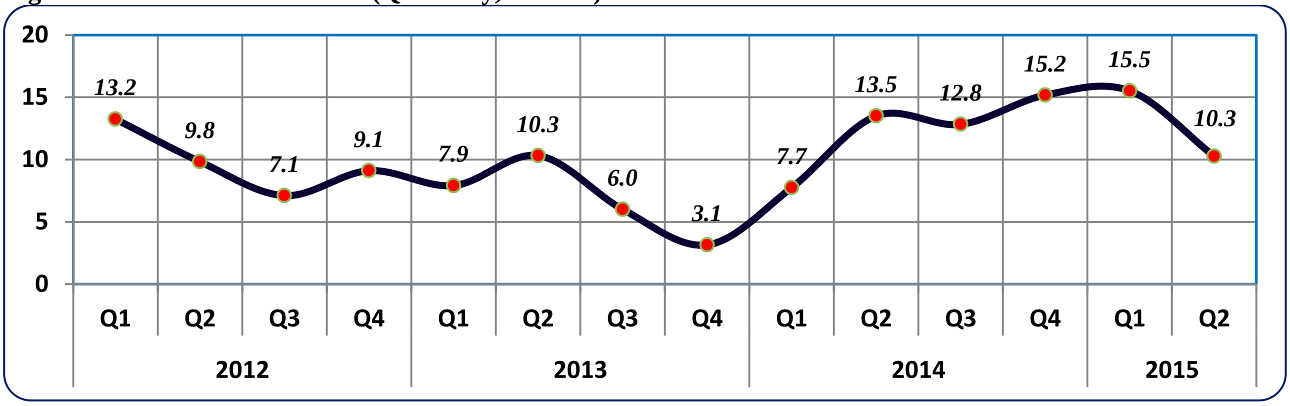
Source: National Institute of Statistics of Rwanda (NISR)

This economic performance is expected to continue in 2015Q3 as evidenced by positive trends in some leading indicators of economic activities and economy is projected to grow by 6.5% in 2015 from 7.0% recorded in 2014.

2.1.2 Leading indicators

The real Composite Index of Economic Activities (CIEA) shows that economic activities progressed by 10.3% in 2015Q2 after growing by 15.5% in 2015Q1 and 13.5% 2014Q2 respectively.

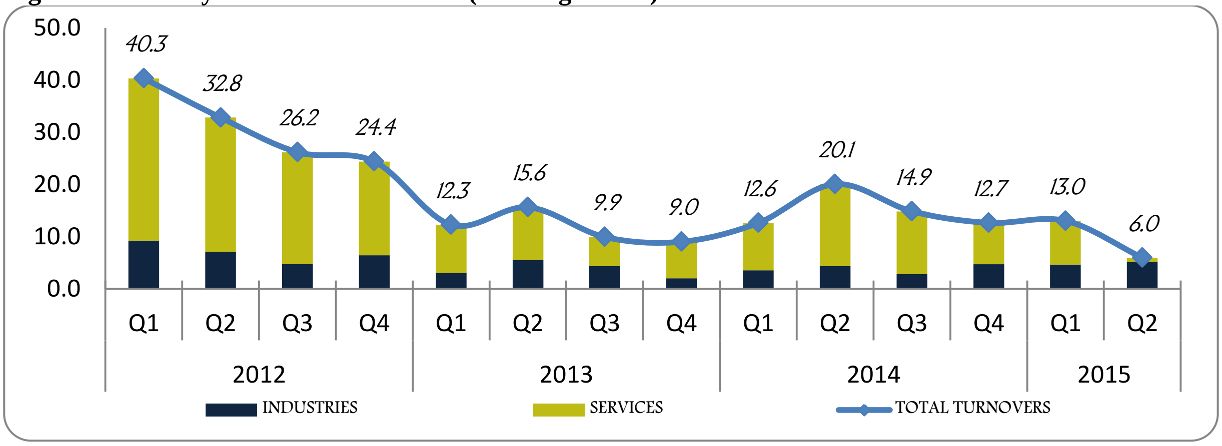
Figure 3: Growth in Real CIEA (Quarterly, YoY %)



Source: BNR, Monetary Policy and Research Department

The expansion in economic activities is further shown by the growth in the total turnovers of industry and services sector to 6.0% in 2015Q2 from 20.1% in the same period of 2014.

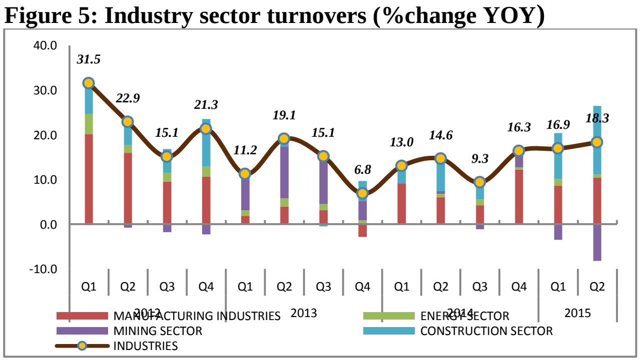
Figure 4: Industry & Services turnovers (%change YOY)



Source: BNR, Monetary Policy and Research Department

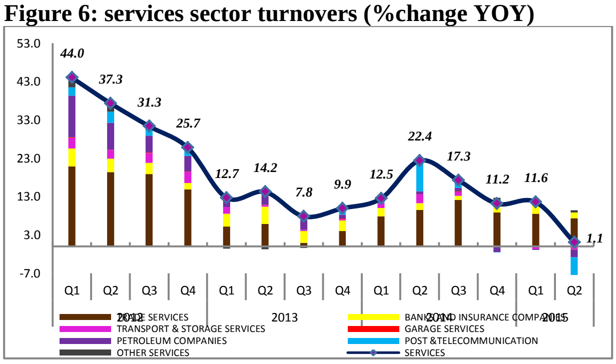
The industry sector led the growth, increasing by 18.3% in 2015Q2 from 16.9% and 14.6% in 2015Q1 and 2014Q2 respectively. This good performance results from fruitful developments in manufacturing and construction sectors which increased from 13.1% and 27.2% in 2014Q2 to 23.1% and 52.3% in 2015Q2 respectively. The two sectors have been enabled by gross fixed capital formation that increased by 10% in 2015Q2 after 8% in 2014Q2, rise in production of cement by 17.7% in 2015Q2 from 2.4% in 2014Q2 and on-going infrastructure projects such as hydropower construction and rehabilitation, road maintenance, rehabilitation and construction, construction of RUSUMO international bridge and one boarder post as well as construction of affordable urban houses.

Figure 5: Industry sector turnovers (%change YOY)



Source: BNR, Monetary Policy and Research Department

Figure 6: services sector turnovers (%change YOY)



Source: BNR, Monetary Policy and Research Department

Despite good performance in trade services (+16.1%) and banks and insurance companies (11.8%); the services sector slow paced in 2015Q2, growing by 1.1% from 11.6% in 2015Q1 and 22.4% in 2014Q2. The slow pace in services sector originates from falling international oil prices from the 2014Q2 high record sales in posts and telecommunications sector.

The falling international oil prices led to downward review of local pump prices, and total sales of petroleum companies decreased by 10.9% in 2015Q2 compared to an increase of 3.3% in 2014Q2. Total sales of posts and communications sector declined by 43.5% in 2015Q2 compared to an increase of 101.1% recorded in 2014Q2; dragged down by sales of MTN RWANDACELL Ltd, the leading telecommunication company with a share of 49.3% in posts and communications sector, that dropped by 59.0% in 2015Q2, as result of selling its towers to HIS Holdings.

Credit to private sector expansion continued to facilitate the development of economic activities. Outstanding loans to private sector rose by 15.1% to FRW 1043.0 billion end June 2015 from FRW 906.3 billion end December 2014 and by 27.5% when compared to FRW 817.8 billion of June 2014. New loans to private sector rose by 14.5% from FRW 159.7 billion in 2014Q2 to FRW 182.8 billion in 2015Q2.

Table 8: New loans to leading sub-sector in industry and services sectors

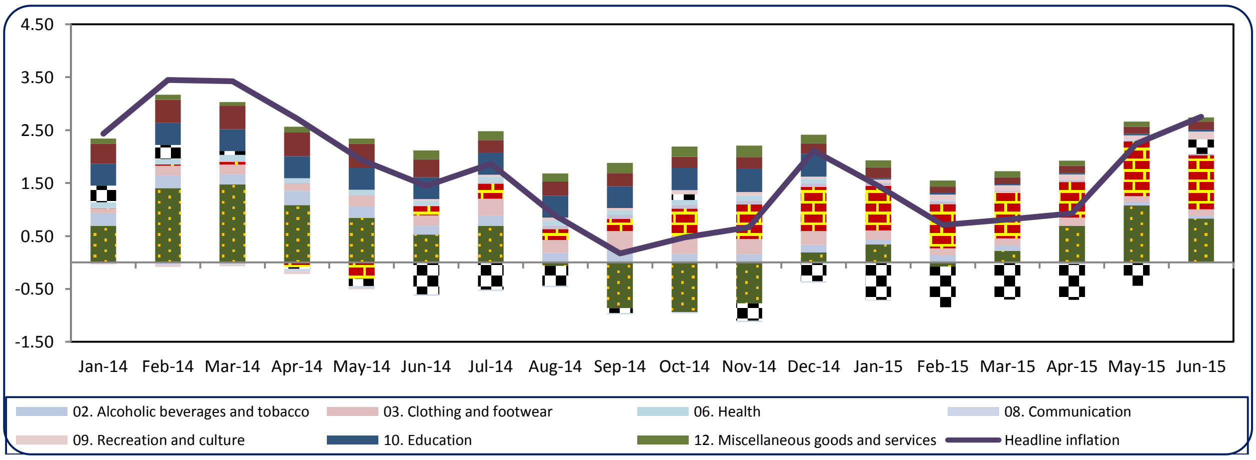
	2013				2014				2015		% change
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q2/Q2
Manufacturing	2.7	12.2	10.9	18.1	35.2	9.4	15.4	11.9	7.9	4.4	-53.2
Mortgage industries	17.5	26.0	20.1	29.6	26.0	42.7	31.8	37.9	64.5	54.9	28.6
Commercial restaurant and hotel	49.7	57.7	48.5	60.2	61.0	71.0	65.5	75.8	74.7	69.6	-2.0
Total credit to private sector	97.5	122.9	104.4	147.7	166.0	159.7	156.5	171.0	178.1	182.8	14.5
Share	71.8	78.1	76.1	73.1	73.7	77.1	72.0	73.5	82.5	70.5	

Source: BNR**,** Monetary Policy and Research Department

2.2 Price Developments

The headline inflation rose from 2.2% recorded in May 2015 to 2.8% in June 2015 following an increase in transport costs and housing prices by 1.5% and 4.5% in June 2015 respectively.

Figure 7: Headline inflation developments (%, y-o-y)



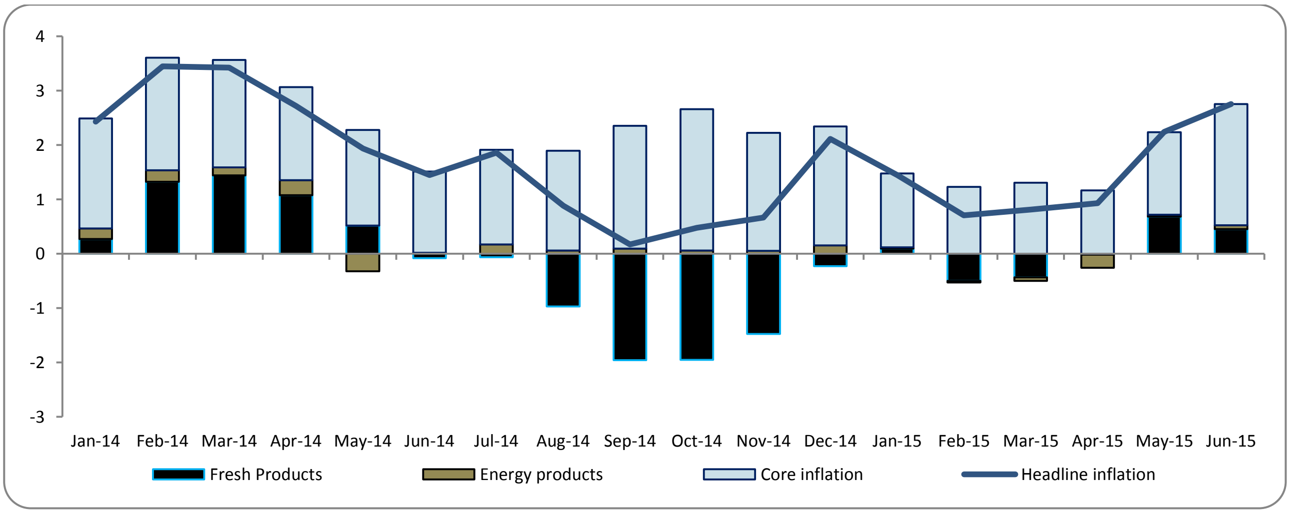
Source: BNR, Monetary Policy & Research Department

Food inflation decelerated to 2.9% in June from 3.8% recorded in May 2015, as result of food availability corresponding to agricultural season B harvest. This was mainly reflected in prices of vegetables which declined from 6.2% in May to 4.6% in June 2015 and prices for bread and cereals which dropped from 6.5% to 5.4% during the same period.

Housing inflation remained unchanged at 4.5% while transport inflation advanced as result of drop of personal transport deflation from -6.5% to -5.8% due to an increase in local pump prices from 810 FRW/litre to 840 FRW/litre in May 2015 and as motor cars inflation rose from -0.6% in May to 8.5% in June.

Domestic inflation slightly dropped from 2.8% in May 2015 to 2.6% in June driven by the decline in domestic food inflation from 3.4% in May to 2.3% in June 2015. Imported inflation jumped to 3.3% in June from 0.6% in May 2015 due to the depreciation of the FRW against USD (3.6% by 30th June 2015), increasing transport costs and inflationary pressures in the EAC trading partners.

Figure 8: Headline inflation developments (%, y-o-y)



Source: BNR, Monetary Policy & Research Department

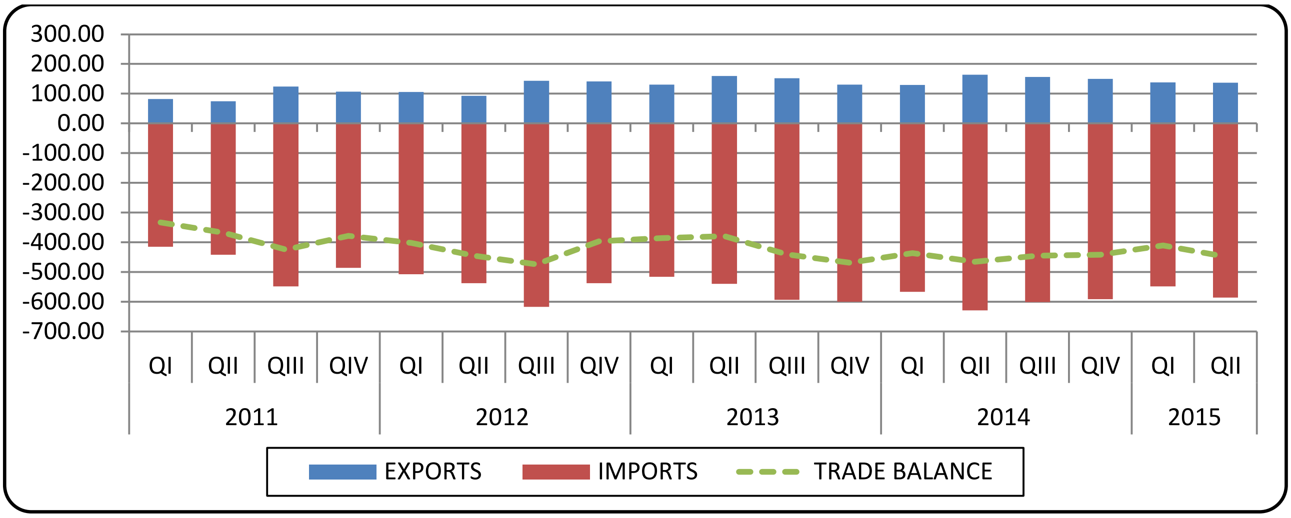
Core inflation, which excludes energy and fresh products, increased for the third consecutive month from 2.0% in May to 3.0% in June 2015 following the rise in aggregate demand due to the increase in economic financing supported by the continued BNR accommodative monetary policy.

2.3 External trade developments

2.3.1 Trade Balance

In 2015Q2, Rwanda's trade balance reduced by 3.7% to USD 448.09 million from USD 465.32 million in 2014Q2. Exports covered 23.5% of imports from 26.0% in 2014Q2. Including informal cross border, exports covered 27.4% of imports from 30.1% in 2014Q2. Trade balance is expected to persist in the short to medium term as strong demand for both intermediary and capital goods continue to outstrip the gradually expanding but still narrow export base.

Figure 9: Trade balance in millions of USD



Source: BNR, Statistics Department

2.3.2 Formal exports

During 2015Q2, Rwanda's formal export sector was dominated by traditional exports (47.9%) composed by coffee, tea and minerals (tin, coltan and wolfram), followed by re-exports (34.1%) dominated by petroleum products, vehicles and machines & engines. Other exports mainly composed by foods and beverages, others minerals, live animals, fruits and vegetables, and cosmetic products account for 18% of the total formal exports. Compared to an increase of 2.4% in 2014Q2, total formal exports decreased in value by 16.0% in 2015Q2, due to the decrease in exports value of mining sector (-36.0%), re-exports (-23.3%) and other exports (-6.0%). However, exports volume increased by 31.7% after a decline of 3.4% in 2014Q2, mostly driven by the increase in volume of coffee (+36.3%), tea (+10.9%), re-exports (+54.4%) and other exports (+26.4%).

Table 9: Exports developments (annual % change)

	Volume				Value			
	Q1	**Q1**	**Q2**	**Q2**	**Q1**	**Q1**	**Q2**	**Q2**
	2014/2013	**2015/2014**	**2014/2013**	**2015/2014**	**2014/2013**	**2015/2014**	**2014/2013**	**2015/2014**
EXPORTS	**0.2**	**19.7**	**-3.4**	**31.7**	**-0.1**	**6.0**	**2.4**	**-16.0**
MAIN EXPORTS	1.3	-0.8	-1.9	5.0	-15.4	-10.2	-21.5	-13.5
REEXPORTS	47.9	10.6	-4.9	54.4	25.0	-2.5	66.4	-23.3
OTHER EXPORTS	-21.9	36.3	-3.0	26.4	24.9	69.5	1.1	-6.0

Source: BNR, Statistics Department

Traditional exports poorly performed decreasing by 13.5% in value, but increased by 5.0% in volume, due to the decrease in mining sector which went down by 36.0% in value and by 26.7% in volume mainly due to the falling international prices. Cassiterite and coltan declined respectively by 61.1% and 26.5% in value as a result of fall in their prices by 29.1% and 7.7% respectively. Despite the decline of its unit price by 7.0%, wolfram increased in both value and volume by 21.8% and 30.9% respectively. Export value and volume for pyrethrum and hides & skins also decreased in both value and volume.

Coffee exports significantly increased by 35.2% in value and by 36.3% in volume, despite a slight decline in the unit price by 0.8% from USD 2.99/Kg in 2014Q2 to USD 3.02/Kg in 2015Q2. Tea exports also increased in both value and volume by 45.9% and 10.9% respectively mainly due to the rise of unit price (+31.6%) from USD 2.19/kg to USD 2.88/Kg.

Other exports (non-traditional exports) which are dominated by milling industries mainly foods and beverages, edible vegetables, roots & tubers and live animals exported to DRC increased by 26.4% in volume, but declined by 6.0% in value mainly attributed to the decrease in exports of beverages (-61.1%), cereals (-28.3%) and animal or vegetables fats and oils (-45.3%). Re-exports which are dominated by petroleum products, vehicles and machines as well as engines that are re-exported to DRC and Burundi increased by 54.4% in volume but decreased by 23.3% in value. The decrease in value was due to the fall in re-exports value of machines and engines which decreased by 82.8%, despite the increase of 35.2% in value of re-exports of petroleum products.

2.3.3 Formal imports

During 2015Q2, imports recorded a decrease of 6.9% in value, but increased by 20.6% in volume compared to the same period of 2014. The increase in volume was attributed to an increase in energy & lubricants (+34.2%), consumer goods (+31.8%), capital goods (9.9%) and intermediary goods (9.9%). The decline in total imports CIF value is attributed to the decrease in imports of intermediary goods (-1.8%), capital goods (-20.7%) and energy & lubricants (-17.3%)

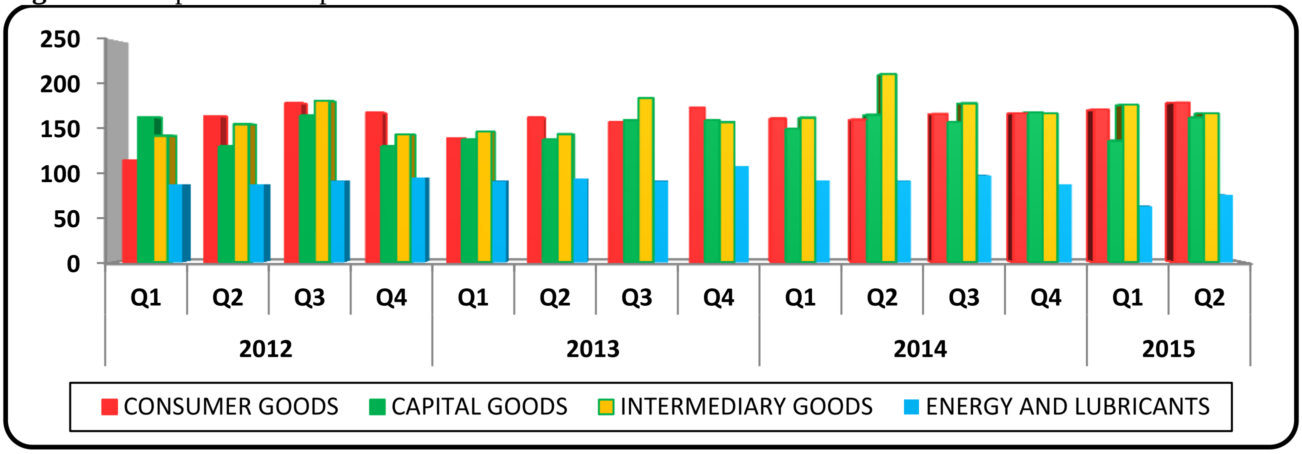
Table 10: Imports developments in % change

	Volume				Value			
	Q1 2014/2013	Q1 2015/2014	Q2 2014/2013	Q2 2015/2014	Q1 2014/2013	Q1 2015/2014	Q2 2014/2013	Q2 2015/2014
Total imports	-2.7	17.2	4.2	20.6	9.7	-3.1	16.7	-6.9
Consumer goods	-2.8	17.1	0.2	31.8	15.8	6.2	-1.4	12.0
Capital goods	19.8	5.5	14.0	9.9	8.5	-9.0	19.7	-1.8
Intermediary goods	-6.4	26.6	6.6	9.9	10.5	9.0	46.7	-20.7
Energy and lubricants	5.4	-7.4	3.4	34.2	0.8	-31.2	-2.6	-17.3

Source: BNR, Statistics Department

Capital goods decreased by 1.8% in value, but rose by 9.9% in volume due mainly due to the increased demand for imported trucks (+17.6%) which account for 32.4% of the total imports of capital goods.

Figure 10: Imports developments in USD millions



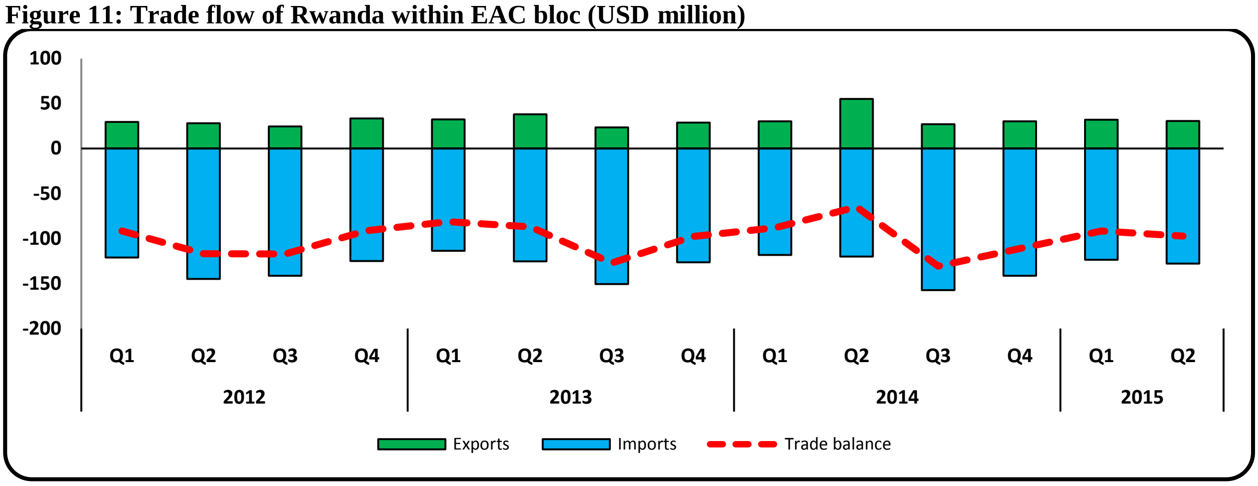
Source: BNR, Statistics Department

Intermediary goods which composed by industrial products and construction materials with a share of 49.6% and 37.5% respectively, decreased by 20.7% in value, but increased by 9.9% in volume due to the increase of construction materials (+27.6%) like cement and other similar products which increased by 21.9% in volume and by 12.6% in value and represent 76.8% of total imports of construction materials. Energy and lubricants decreased by 17.3% in value, but increased by 34.2% in volume due to the imports of petroleum products (-21.3% in value and 18.5% in volume).

2.3.4 Trade with EAC countries

Rwanda's exports to other EAC member countries amounted to USD 30.48 million in 2015Q2 from USD 55.12 million in the corresponding period of 2014, which is a significant decrease of 44.7%, after an increase of 44.4% in the same period of 2014. The decrease was mainly due to the decrease of products mostly exported to Burundi and the fall in international commodities' prices. Imports from EAC region increased by 6.3% from a decrease of 4.0% in 2014Q2, and amounted to USD 127.80 million from USD 120.18 million in 2014Q2. As a result trade deficit with EAC widened by 49.6% to USD 97.32 million in 2015Q2 from USD 65.07 million of the same period in 2014.

Figure 11: Trade flow of Rwanda within EAC bloc (USD million)



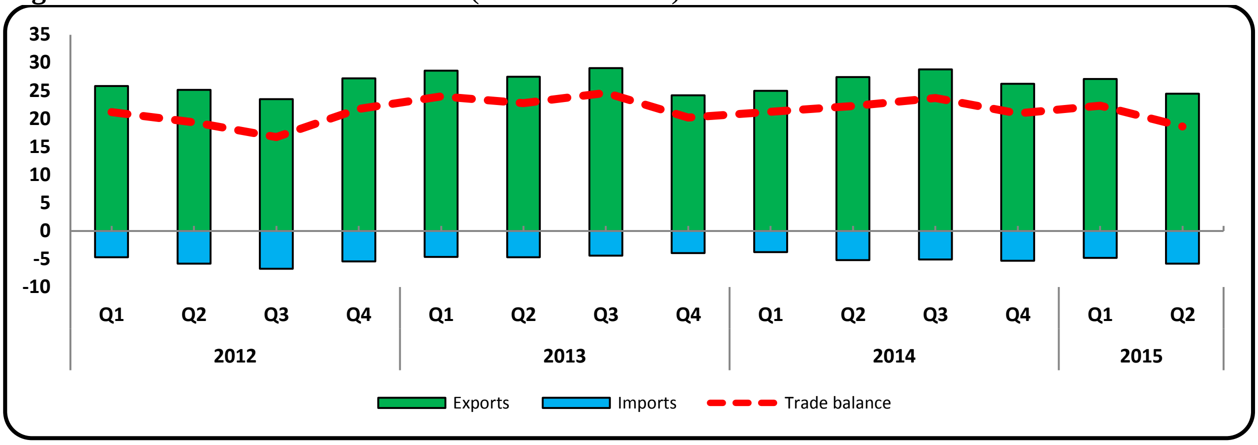
Source: BNR, Statistics Department

Rwanda's main exports to other EAC member countries remain tea sold at Mombasa commodity exchange, coffee, raw hides and skins of bovine, leguminous vegetables and beer. With regard to imports, the main products are cement, refined and non-refined palm oil and other cooking oils, sugar cane, vegetable fats, animals and clothing.

2.3.5 Informal cross-border trade

With regard to the informal cross-border trade, in 2015Q2 total exports performed poorly decreasing by 10.8% after a decrease of 0.2% in the same period of last year, and amounted to USD 24.47 million from USD 27.45 million in 2014Q2 representing about 18.0% of formal exports. The major commodities traded in informal cross border exports are agriculture products and livestock. In terms of destination, exports to Burundi, DRC and Uganda decreased by 7.3%, 6.5% and 6.3% respectively, while exports to Tanzania increased by 6.8%.

Figure 12: Informal cross border trade (in USD millions)



Source: BNR, Statistics Department

Informal imports increased by 12.8% from USD 5.16 million to USD 5.82 million in 2015Q2, after a 10.1% recorded in the same period of last year, leading to a decrease of 16.3% in Rwanda's positive informal trade balance from USD 22.29 million to USD 18.65 million with neighbouring countries. The main imported products from neighbouring countries are coffee, Irish potatoes, husked rice, sorghum, bananas for cooking, live poultry, and other manufactured and recycled products, where the main trading partners are Uganda, Burundi and Democratic Republic of Congo (DRC) which represent a share of 49.1%, 33.7% and 16.2% respectively.

III. DOMESTIC DEBT DEVELOPMENTS

The stock of the Government domestic debt by end of June 2014 increased by 39.2% compared to the previous same period in 2014, largely driven by expansion in holdings of the banking sector (+44.3%) and non-banking sector (+49.5%).

Table 11: Sectoral Composition of the Public Domestic Debt (% share of the total debt)

Sector	*2013*	*2014*				*2015*		*% change*
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar	Jun.	*Jun. 15 /Jun. 14*
BNR (excluding monetary instruments)	**14.8**	**14.4**	**14.1**	**13.2**	**12.8**	**11.8**	**10.2**	**0**
Consolidated debt	14.8	14.4	14	13.0	12.8	11.8	10.2	0
Overdraft	0.0	0	0	0.2	0.0	0.0	0.0	0
Banking Sector	**61.7**	**61.9**	**63.6**	**61.9**	**60.0**	**61.1**	**65.9**	**44.3**
Development bonds	2.8	3.9	10	10.7	13.3	14.5	12.7	73.9
Bonds issued at MINECOFIN	0.6	0.6	1	0.4	0.3	0.3	0.2	-35.4
Treasury bills (issued at BNR for treasury issues)	58.3	57.4	53	50.8	46.3	46.4	52.9	39.4
Non-Banking Sector	**23.5**	**23.7**	**22.3**	**24.9**	**27.2**	**27.0**	**23.9**	**49.4**
Development bonds	0.4	2.6	4	7.1	9.5	11.1	10.8	282.4
Consolidated debt to RSSB	16.0	14.9	12	11.4	11.3	10.4	8.9	0
Bonds issued at MINECOFIN	0.3	0.3	0	0.3	0.3	0.3	0.2	-12.2
Treasury bills (issued at BNR for treasury issues)	4.3	3.5	3	4.0	4.0	3.3	2.3	0
Other bonds for old arrears	2.5	2.4	2	2.1	2.1	2.0	1.7	0
TOTAL DOMESTIC DEBT STOCK	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**39.2**

Source: BNR, Statistics Department

Banking sector continues to dominate with 65.9% of the total government domestic debt whereby 52.9% of its debt is credited to the short-term debt instruments. The overall debt outstanding of the Non-banking sector rose by 49.4% against the same end period in the previous year. The growth in purchase of new government development bonds against the corresponding quarter in 2014 suggests as the main source of increase in both sectors. In terms of aggregate domestic debt stock outstanding, Banking sector remains the main holder with a lion's share of 65.9% followed by non-banking sector (+23.9%) and then BNR (+10.2%).

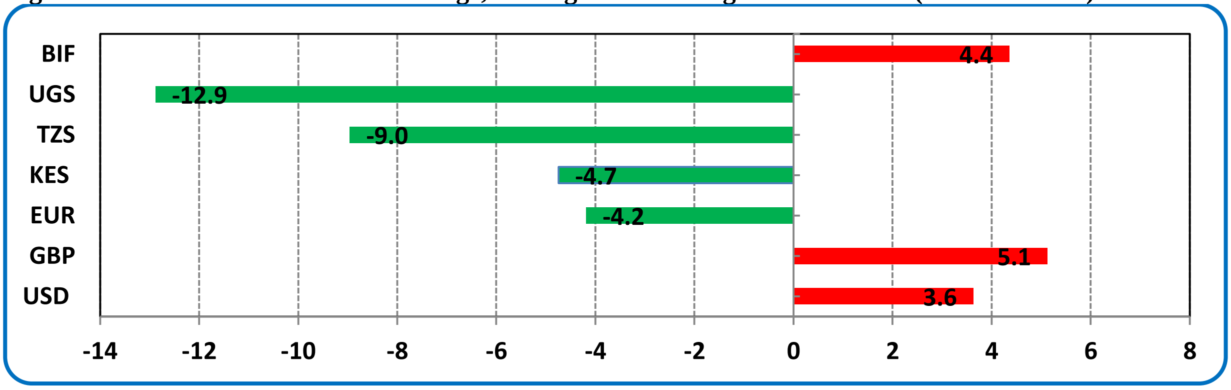
IV. EXCHANGE RATE AND FOREIGN MARKET DEVELOPMENTS

The Rwandan Franc has been under relative pressure in 2015Q2 resulting from the strong value (strengthening) of the US dollar against most of currencies around the world, and contagious effects of the depreciation of currencies of major trading partners in the EAC. BNR kept the FRW exchange rate fundamentally market driven, while continuing to intervene on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the FRW exchange rate volatility.

4.1 Exchange Rate Developments

By end June 2015, FRW depreciated by 3.6% against the USD, trading between FRW 719.54 per dollar against FRW 694.37 per dollar by end December 2014, after a depreciation of 1.9% end June 2014. In the same period, the FRW appreciated by 4.2% against EURO, while depreciated by 5.1% versus GBP.

Figure 13: Evolution of nominal exchange, leading currencies against US dollar (end June 2015)

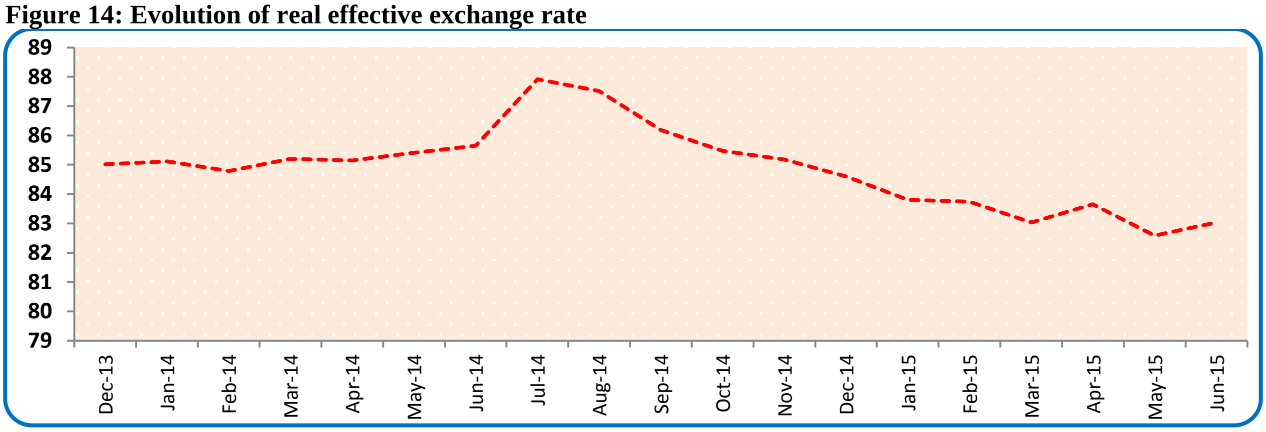


Source: BNR, Monetary Policy and Research Department

Concerning the East African region, the FRW appreciated against all regional currencies except the Burundian Franc. It appreciated by 12.9%, 9,0% and 4.7% against the Ugandan shilling, Tanzanian shilling and Kenyan shilling respectively, but depreciated by 4.4% versus the Burundian franc. The appreciation of FRW against shillings was due to the weakened regional currencies against USD.

The Real Effective Exchange Rate (REER) has gradually appreciated during 2015Q2. It has appreciated by 1.9% by end June compared to December 2014, mainly driven by an appreciation of the nominal value of FRW against some currencies of the major trading partners.

Figure 14: Evolution of real effective exchange rate

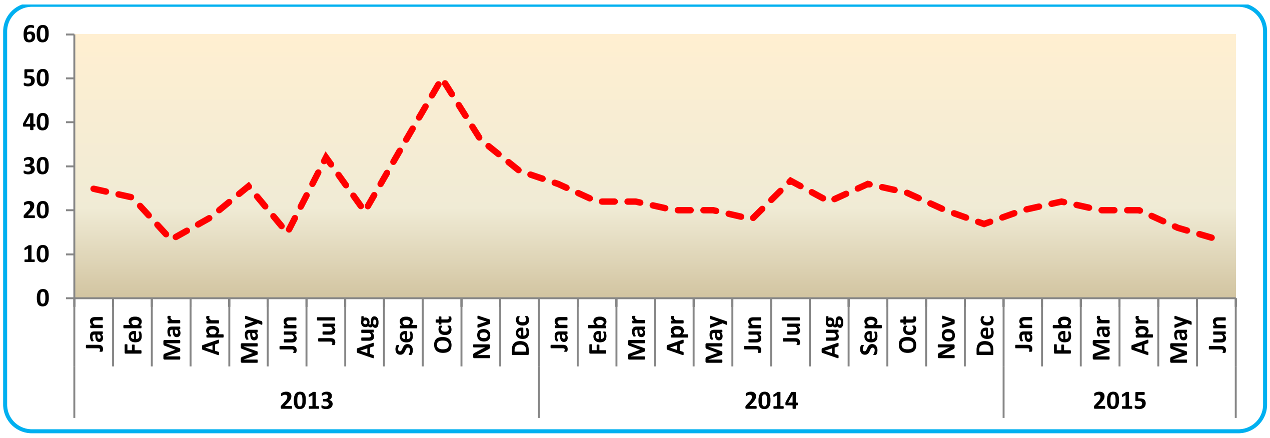


Source: BNR, Monetary Policy and Research Department

4.2 Domestic Foreign Exchange Markets

In 2015Q2, the banking system recorded a decrease of 14.6% in forex resources and 6.4% in expenditures compared to the same period of 2014, leading to a cash deficit of USD 6.5 million in commercial banks. The decrease in resources was mainly attributed to transfer transactions which decreased by 21.0% from USD 554.37 million to USD 437.77 million in 2014Q2. Despite the cash deficit of USD 6.5 million recorded at the level of commercial banks, BNR sales to commercial banks decreased by 14.7%, that is, from USD 58.00 million sold to the market in 2014Q2 to USD 49.50 million sold in 2015Q2.

Figure 15: BNR Sales to banks in millions of USD



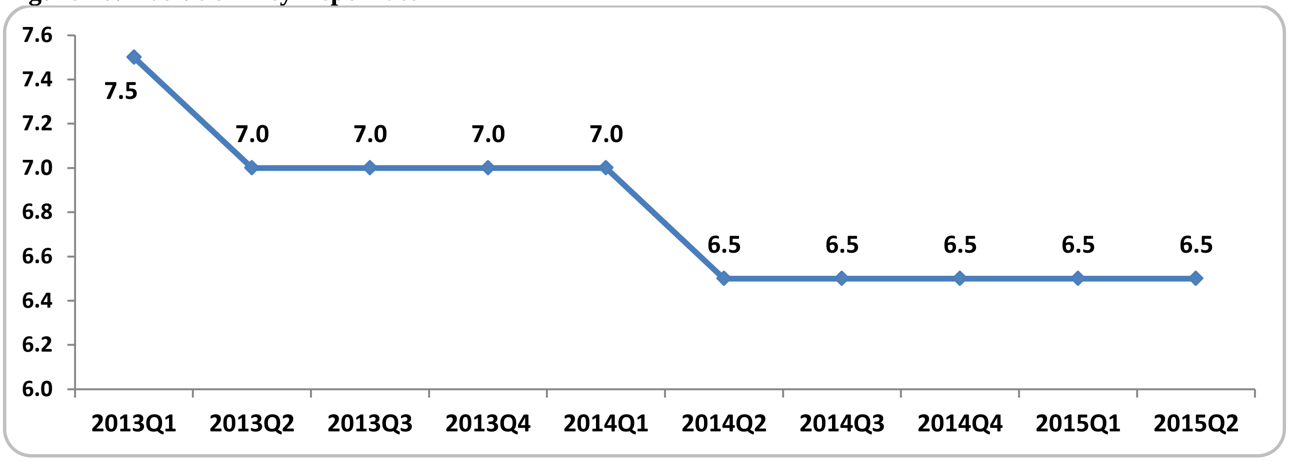
Source: BNR, Financial Market Department

V. MONETARY SECTOR DEVELOPMENTS

5.1 Monetary Policy Stance

In 2015Q2, BNR's monetary policy stance remained accommodative with unchanged policy rate at 6.5% since June 2014. This accommodative stance aims at boosting the financing of the economy and domestic demand amid lower inflationary pressures both domestically and globally. BNR has pursued an accommodative monetary policy since 2013 with a cut in the policy rate in June 2013 and June 2014.

Figure 16: Evolution Key Repo Rate



Source: BNR, Monetary Policy and Research Department

5.2 Monetary aggregates developments

As at end June 2015, key monetary aggregates have already surpassed their projections in monetary program though inflation remained contained. Broad money grew by 16.7% cumulatively from December 2014 boosted by the increase in net credit to government and credit to the private sector while net foreign assets contracted.

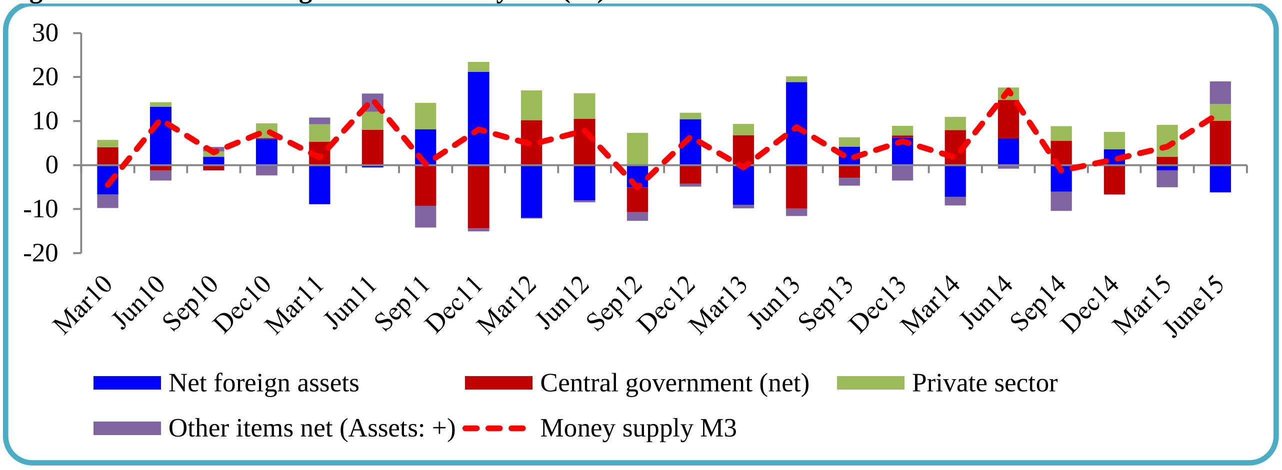
Money supply and money demand

Globally, monetary aggregates changes in 2015 display a reduction compared to 2014 on the back of the bas effect as in 2014 they picked up compared to a lower level in 2013. This decline in the growth of extended broad money is a result of the expansion in net credit to government and the credit to private sector while on the contrary net foreign assets contracted. Except the net credit to government, other broad money counterparts have already surpassed their projections as at end June 2015.

On the demand side, total private deposits edged up by 17.1% (y-o-y) in June 2015 compared to 30.6% in June 2014. This situation is caused by an increase in demand deposits and term deposits while foreign currency deposits contracted.

Total private deposit share in broad money kept increasing while the currency ratio declining as a result of the banking system network, payment system modernization and financial services awareness.

Figure 17: Source of change in broad money M3 (%)



Source: BNR, Monetary Policy Research Department

Money Supply

The growth in money supply M3 slowed down to 12.0% in June 2015 compared to March 2015 versus 16.9% recorded in the similar period in the year before. Between December 2014 and June 2015, the broad money M3 went up by 16.7% to FRW 1427.8 billion from FRW 1223.9 billion that is 16.7% of growth lower than 19.0% achieved in the comparable period in the year before. However between December 2014 and June 2015 the growth in money supply is already above the projection in monetary program of 8.7% and 15.9% respectively by end June and December 2015.

Considering year on year, extended broad money M3 rose to FRW 1427.8 billion in June 2015 from FRW 1224.0 billion in June 2014 that is an increase of 17.1% lower than 30.6% realized in the last year.

All the above mentioned upticks in broad money M3 in different periods was a result of the expansion in net credit to government and the credit to private sector while on the contrary net foreign assets contracted.

Actually, the Net Credit to Government (NCG) significantly rose by 578.0% following a decrease in external grants which lowered the total revenues despite the continuing expansion in government expenditure while the increase in Credit to Private Sector (CPS) was caused by the current easing monetary policy stance.

However, the Net foreign assets in banking system declined to FRW 599.5 billion by end June 2015 from FRW 702.5 billion by end December 2014 that is a decline of 14.7% triggered by the contraction in foreign inflows for budget support and projects as previously said together with the contraction in export earnings by 7.3% in the first half of 2015 compared to the corresponding period in the previous year.

Table 12: Money supply and its main components in (FRW billion)

	2014				2015		% change				
	Mar	Jun	Sep	Dec	Mar	Jun	Jun-14/ Jun-13	Jun-15/ Jun-14	Jun-14/ Dec-13	Jun-15/ Dec-14	Jun-15/ Mar-15
Net foreign assets	**669.6**	**733.0**	**659.0**	**702.5**	**688.0**	**599.5**	**14.0**	**-18.2**	**-1.5**	**-14.7**	**-12.9**
o/w BNR	549.3	559.7	518.4	597.9	603.9	534.9	-2.8	-4.4	-11.8	-10.5	-11.4
Commercial banks	120.4	173.3	140.5	104.6	84.1	64.5	158.2	-62.8	58.1	-38.3	-23.3
Net domestic assets	**377.0**	**490.9**	**549.7**	**521.3**	**586.9**	**828.3**	**53.8**	**68.7**	**72.5**	**58.9**	**41.1**
Domestic credit	679.2	801.8	913.8	885.9	998.3	1173.3	45.5	46.3	41.4	32.4	17.5
Central government (net)	-105.1	-13.3	54.0	-26.2	-3.4	125.3	91.9	1040.8	92.9	578.0	3740.3
Public enterprises	1.8	2.0	5.8	5.8	6.2	5.0	103.1	147.3	61.7	-13.9	-19.3
Private sector	788.3	817.8	858.7	906.3	995.5	1043.0	14.1	27.5	7.9	15.1	4.8
Other items net (Assets: +)	-302.2	-310.8	-364.0	-364.6	-411.4	-345.0	-34.0	-11.0	-10.0	5.4	16.1
Broad money M3	**1046.6**	**1224.0**	**1208.7**	**1223.9**	**1274.9**	**1427.8**	**27.2**	**16.7**	**19.0**	**16.7**	**12.0**
Currency in circulation	109.4	119.4	105.6	118.5	117.4	134.9	2.7	13.0	2.4	13.9	14.9
Deposits	937.2	1104.5	1103.1	1105.3	1157.5	1292.9	30.6	17.1	21.1	17.0	11.7
o/w: Demand deposits	386.0	453.9	442.7	456.2	480.7	616.2	16.4	35.8	19.8	35.1	28.2
Time and saving deposits	348.9	391.2	410.5	407.3	446.7	441.1	32.5	12.8	15.3	8.3	-1.2
Foreign currency deposits	202.2	259.5	249.8	241.8	230.2	235.6	61.6	-9.2	33.6	-2.6	2.4

Source: BNR, Statistics Department

Net foreign assets (NFA)

Between December 2014 and June 2015, NFA reduced by 14.7% against a decline of 1.5% registered in the corresponding period of the previous year while the monetary program indicates respectively a decrease of 12% and 11.1% by end June and end December 2015.

This deterioration in NFA between December 2014 and June 2015 followed a contraction in foreign inflows for budget support to FRW 57.8 billion from FRW 125.1 that is a decline of 53.8%. Another reason is the continuing increase in government expenditure by 4.3% to FRW 1085.7 billion in June 2015 from FRW 1040.5 billion recorded in December 2014.

Net credit to government

In June 2015, the net credit to government hugely expanded by 3740.3% compared to March 2015 due to an increase in domestic government borrowing by 24.3% and the reduction in government deposits at BNR by 31.2% as a result of an increase in government spending related to the effect of the end of the fiscal year 2014/2015.

Between December 2014 and June 2015, net credit to government rose by 578.0% higher than 92.9% recorded between December 2013 and June 2014 but lower than the projections in the monetary program which set the growth of 616.4% and 641.2% respectively by end June 2015 and end December 2015.

The net credit to government also picked up by 1040.8% y-o-y in June 2015 against 91.9% recorded in June 2014 due to less foreign inflows for budget support compared to what had been realized between June 2013 and June 2014.

The fiscal deficit remained negative and therefore the continuing increase in domestic government borrowing dominated by T-bills and T-bond.
It is worthy to note that the non-banking financing kept improving due to effective saving culture awareness.

Credit to the private sector

Generally, credit to the private sector kept improving in 2015 compared to 2014 as expected due to the accommodative monetary policy aimed at supporting the financing to the private sector for bolstering economic activities.

Between March and June 2015, the stock of CPS moved up by 4.8% against 3.7% realized in the corresponding period in 2014. It also increased y-o-y to FRW 1043.0 billion in June 2015 from FRW 817.8 billion in June 2014, that is 27.5% compared to 14.1% achieved in comparable period in the last year.
Between December 2014 and June 2015 outstanding CPS rose by 15.1% to FRW 1043.0 billion from FRW 906.3 billion against 7.9% realized in the corresponding period in 2014 while the monetary program projected a growth of 8.3% and 19.7% respectively by end June and end December 2015.

With regard to new authorized loans, they continued to grow in 2015 but at a slower pace than in 2014 due to the base effect as the new loans in 2014 are compared with the ones in 2013 coincided with a remarkable slowdown in CPS on the back of a decline in government spending and fewer loans given by some banks to reduce risks associated to non-performing loans.

Table 13: New authorized loans developments (FRW billion)

ACTIVITY BRANCH	2013	2014			2015			% change				
	Jan-Jun	Q1	Q2	Jan-Jun	Q1	Q2	Jan-Jun	14HI/13H1	15H1/14H1	14Q2/13Q2	15Q2/14Q2	15Q2/15Q1
Non classified activities	26.3	15.3	18.5	33.8	14.8	15.8	30.6	28.6	-9.4	36.3	-14.6	6.8
Agricultural sector	4.04	2.1	1.3	3.4	3.8	3.0	6.7	-16.3	99.4	-44.9	126.9	-22.4
Mining activities	0	0.0	0.0	0.0	0.2	0.2	0.3	-	-	-	-	-20.0
Manufacturing activities	14.92	35.2	9.4	44.6	7.9	4.4	12.3	198.7	-72.4	-22.8	-52.9	-43.9
Water & energy activities	0.4	16.0	0.1	16.1	0.1	1.2	1.3	-	-92.2	-75.0	1100	1100
Public works and buildings	43.54	26.0	42.7	68.7	64.5	54.9	119.4	57.8	73.7	64.0	28.7	-14.8
Commerce, Restaurant and Hotels	107.5	61.0	71.0	132.0	74.7	69.6	144.2	22.8	9.2	22.9	-2.0	-6.9
Transport & warehousing & communication	14.9	5.6	9.9	15.5	6.9	17.6	24.6	4.0	58.8	34.5	78.2	155.7
OFI &Insurances and ONFS	4.6	0.4	0.8	1.2	0.6	1.9	2.5	-74.6	109.3	8.1	131.3	208.3
Services provided to the community	4.2	4.5	6.0	10.4	4.7	14.2	18.9	148.9	81.6	141.9	137.0	202.6
TOTAL NEW LOANS	**220.5**	**166.0**	**159.7**	**325.7**	**178.1**	**182.8**	**360.9**	**47.7**	**10.8**	**30.0**	**14.4**	**2.6**

Source: BNR, Financial Stability Directorate

Between 2015Q1 and 2015Q2, new authorized loans soared up by 2.6% to FRW 182.8 billion form FRW 178.1 billion. They also picked up to FRW 360.9 billion in the six months to June 2015 from FRW 325.7 billion achieved in the similar period in the year before, that is an expansion of 10.8% despite the increase in lending rate on average to 17.5% from 17.3%.

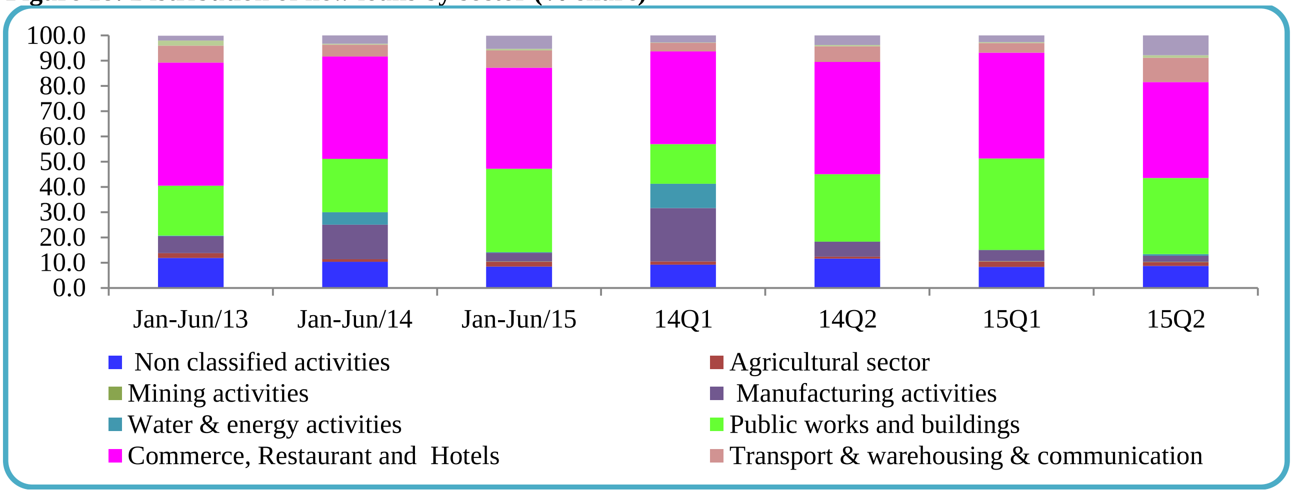
In the first half of 2015, the new loans disbursed totalized 79% of total loans compared with 61% recorded in the same period in the last year. Commerce Restaurant and hotel, Public works and buildings remained the main contributors to an increase in banking financing and also the best contributors to Rwandan economic growth with the share in total loans amounting to 40.0% and 33.1% respectively in the first half of 2015 from 40.5% and 21.1% recorded in the similar period in the year before.

Other sectors which have a non-negligible share in total loans in the six months to June 2015 are activities not classified elsewhere sector dominated by personal loans whose share reduced to 8.5% from 10.4% registered in the first half of 2014 and transport warehousing and communication whose share expanded to 6.8% from 4.8%.

The domestic financing of agricultural sector remained low due to risks associated to this sector mainly weather conditions.

It is important to highlight that the share of Manufacturing sector dropped to 3.4 in the first half of 2015 from 13.7% realized in the corresponding period in the last year on the back of the base effect related to substantial fixed asset loans granted to some big companies mainly in the two first months of 2014. Water and energy sector's share also declined to 0.3% from 4.9% due to more loans given for electricity generation in 2014.

Figure 18: Distribution of new loans by sector (% share)



Source: BNR, Financial Stability Directorate

Money Demand

On the demand side, total private deposits inched up by 17.1% y-o-y in June 2015 compared to 30.6% in June 2014. This situation is explained by an expansion in demand deposits and term deposits by 35.8% and 12.8% respectively against 16.4% and 32.5% recorded in June 2014 while foreign currency deposits declined by 9.2% y-o-y in June 2015 from 61.6% in June 2014.

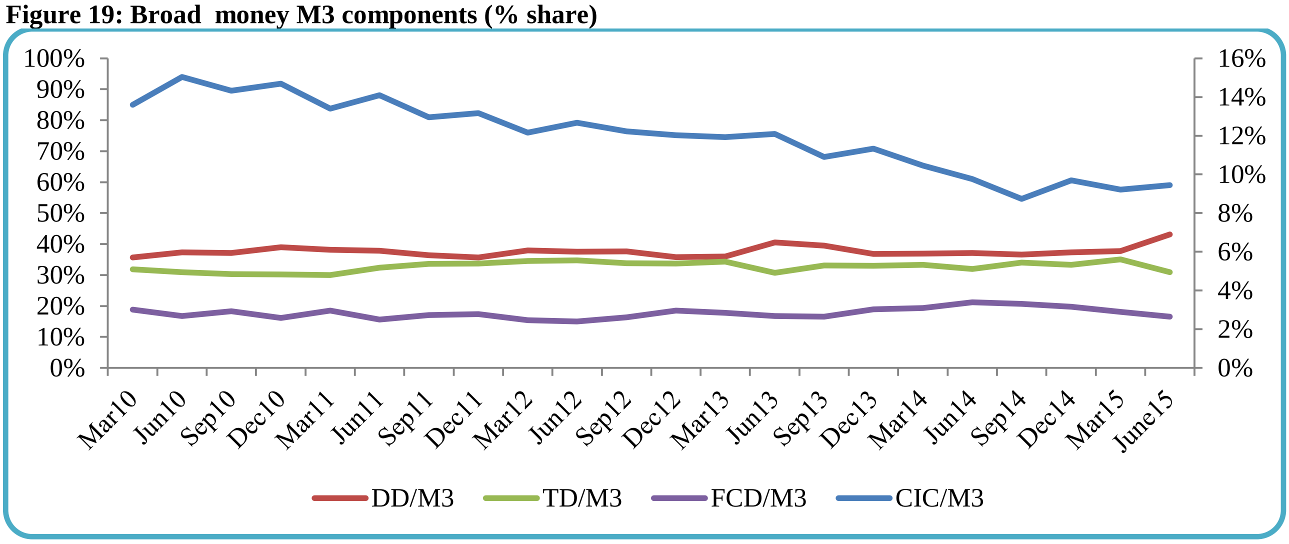
It is important to note that time and saving deposit growth slowed down in 2015 due to a non-attractive deposit rate which decreased on average to 8.20% in the year ending June 2015 from 8.80% recorded in the similar period in the previous year while the slowdown in total private deposits is related to the base effect caused by a remarkable increase in foreign currency deposits in 2014 as a result of foreign inflows mainly from the sale of MTN towers to IHS in April 2014.

Regarding the currency in circulation, it expanded by 13.0% (y-o-y) in June 2015 higher than 2.7% in June 2014. This is explained by the vibrant coffee campaign in 2015 and the improvement in economic activities in 2015Q1 and 2015Q2 as evidenced by upward trend in total turnovers and real CIEA.

Concerning the share of total private deposits in broad money, it kept growing year on year standing at 85.8% in June 2011 to 87.3%, 87.9%, 90.2% and 90.5% respectively recorded at end June of 2012, 2013, 2014 and 2015. Consequently, the currency in circulation ratio on the contrary followed a downward trend standing at 14.2 in June 2011 to 12.7%, 12.1%, 9.8% and 9.5% respectively in 2012, 2013, 2014 and 2015.

However, demand deposits ratio remained higher, followed by term deposits and then foreign currency deposits. The improvement in total deposits ratio in extended broad money and consequently the decline in currency ratio is due to the improvement in financial sector network and payment system modernization.

Figure 19: Broad money M3 components (% share)

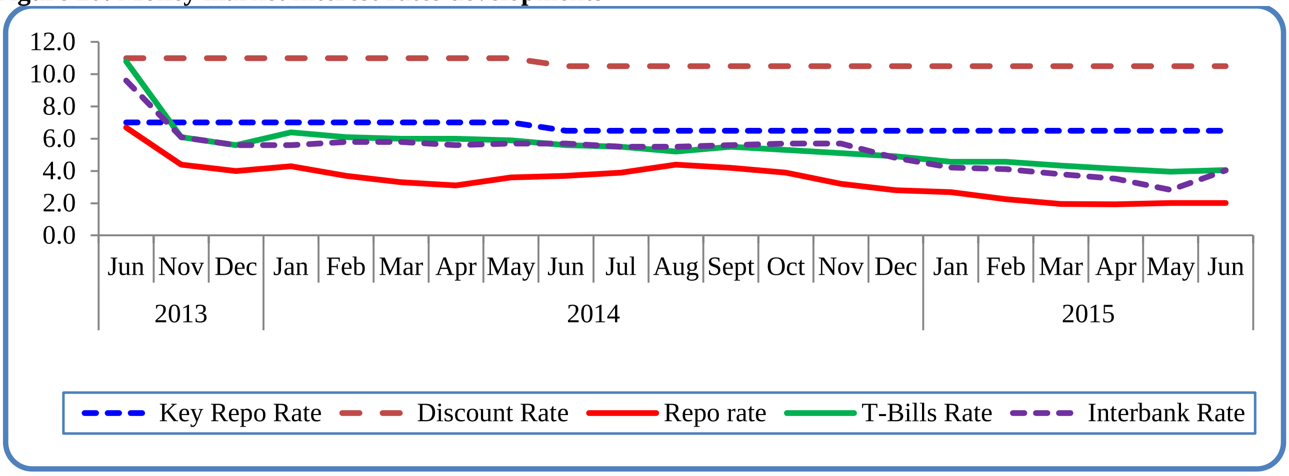


Source: BNR, Statistics Department

5.3 Interest rates developments

In 2015Q2, money market interest rates remained relatively low in line with prevailing liquidity conditions in the banking system and the unchanged accommodative monetary policy stance. On average, repo, T-bills and interbank interest rates stood respectively at 2.0%, 4.0% and 3.5% in the second quarter from 2.3%, 4.5% and 4.0% in the 1st quarter 2015.

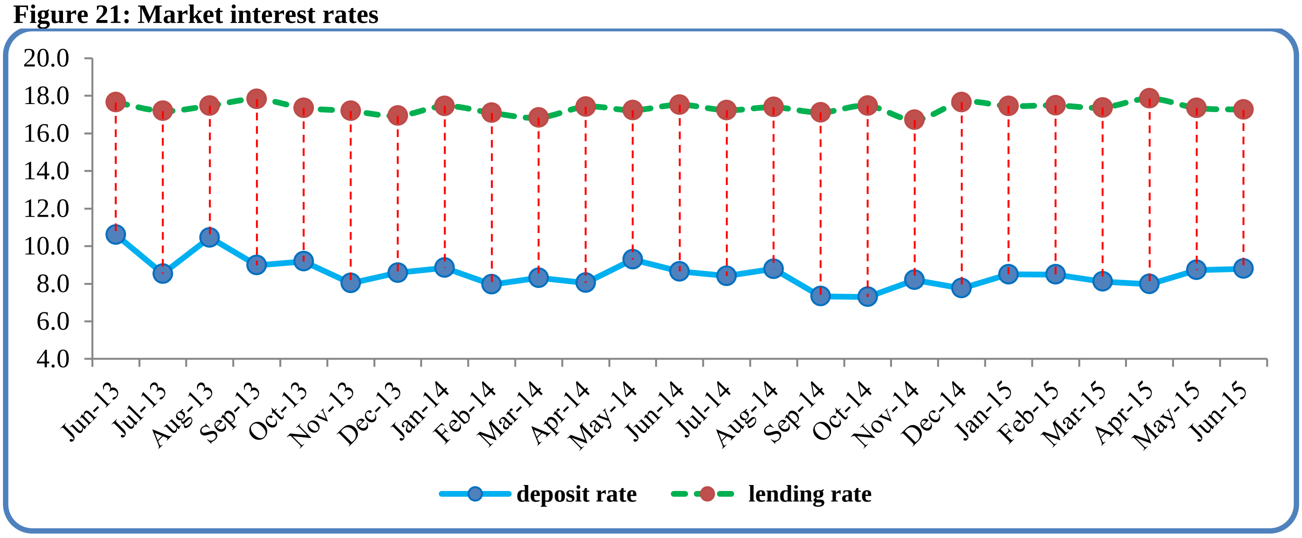
Figure 20: Money market interest rates developments



Source: BNR, Statistics Department

Regarding commercial banks interest rates, we noticed mixed movements in both lending and deposits rates. While lending rate decreased to 17.26% in June 2015 from 17.37% in March 2015, deposit rates increased to 8.80% from 8.12% during the same period. As such decline in lending rates emanated from low interest rates charged to corporate borrowers who have much bargaining power comparatively to individuals. Regarding to deposit rate, the increase was imputed to some banks which raised funds at high price, especially those from RSSB, the main depositor of our banking system.

Figure 21: Market interest rates



Source: BNR, Statistics Department

VI. FINANCIAL STABILITY ANALYSIS

Rwanda's financial system remains healthy and sound in 2015Q2 as evidenced by various financial soundness indicators on banking sector such as capital adequacy, assets quality, liquidity, market sensitivity and profitability indicators. In general, the stability of Rwanda's banking system was sustained in 2015Q2 amidst improving domestic and global economic environment.

6.1 Financial sector performance indicators

This section focuses on performance indicators of the banking sector due to its prominence in the whole financial system and to its role in effectiveness of monetary policy transmission.

Even though available indicators depict a sound banking system, there are some slightly indicating changes in the banking sector performances in 2015Q2 compared to 2015Q1 and generally, the little movements observed are mixed. On one hand, a slight upgrading is observed in earning assets ratio, liquidity ratio, credit risk to large exposure, Non-performing loans ratio, whereas return on average assets (ROA), and return on average equity (ROE), foreign exchange exposure to capital ratio assets recorded a marginal decline.

Despite the resulting increase of earning assets to total assets ratio, the profitability indicators declined in 2015Q2 compared to 2015Q1 as return on average assets (ROA) declined to 2.4% whereas return on average equity (ROE) fell to 13.1% from 14.0% in 2015Q1. This profitability of the banking sector was negatively affected by slightly increase in cost incurred by banks in 2015Q2.

Table 14: Key soundness indicators, (in %)

Indicator	2013		2014				2015	
	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
Solvency ratio (total capital)	22.9	23.1	22.6	23.6	24.0	24.0	25.9	24.3
NPLs / Gross Loans	7.2	6.9	6.7	6.6	6.3	6.0	6.3	5.9
NPLS net of interests/Gross loans	6.5	6.0	5.7	5.5	5.5	5.1	4.8	4.9
Provisions / NPLs	50.3	53.3	56.4	50.0	55.3	56.8	52.3	51.5
Earning Assets / Total Assets	79.1	78.6	82.1	80.6	83.0	93.1	79.3	81.8
Large Exposures / Gross Loans	9.9	11.6	15.1	15.8	14.8	17.7	19.3	22.5
Return on Average Assets	1.7	1.5	2.3	2.1	1.9	1.9	2.6	2.4
Return on Average Equity	8.3	7.4	11.9	12.1	10.9	10.7	14.0	13.1
Cost of deposits	3.8	3.8	4.1	3.4	3.2	3.3	3.1	3.1
Liquid assets/total deposits	48.8	49.4	46.3	54.2	54.0	49.2	46.0	49.5
FOREX exposure/core capital	-3.0	-2.2	-12.6	-1.5	-4.8	-2.2	-5.5	-7.1

Source: BNR, Bank Supervision Department

The capital adequacy ratio is above the BNR prudential benchmark of 15% with a record of 24.3% in 2015Q2 from 25.9% in 2015Q1. This indicates that the Rwandan banking system has resiliently grown to a greater level to absorb unexpected losses to their balance sheets before becoming insolvent. Regarding banks' assets quality in 2015Q2, the ratio of earning assets to total assets increased reaching 81.8% from 79.3% in 2015Q1 whereas the ratio of non-performing loans to total loans slightly decreased to 5.9% from 6.3% in 2015Q1, but still suspended above the benchmark of 5%. The concentration of credit risks increased as the large exposures to gross loans ratio raised to

22.5% from 19.3% in 2015Q1. Meanwhile, this pose less threat as may be curbed by quite higher level of provision for NPLs and by lowering levels of NPLs ratio in some banks. The on-going increase in ratio of provisions to non-performing loans reduced to 51.5% from 52.3% in 2015Q1, which is in line with strong growth and improving quality in the banking sector assets that facilitates banks to reduce this cost of holding more provisions.

The evolution of forex exposure to core capital and forex assets to forex liabilities shows that the sensitivity of the banking sector to exchange rate volatility deteriorated in 2015Q2 compared to 2015Q1 except forex loans to forex deposits that improved to 32.6% from 27.%1 in 2015Q1. However, risks associated with FRW depreciation can still be mitigated.

Regarding the balance sheet of the banking system, quarter on quarter growth of total assets of the banking sector sharply increased to 7.3% in 2015Q2 from 3.4% in 2015Q1, reaching FRW 2.0 trillion from FRW 1.9 trillion. This marginal increase was again driven by increasing outstanding credit to private sector and investment in government securities and other securities (as shown by higher earning assets to total assets ratio in Q2).

About the sectoral distributions of new loans to total new loans, the commerce, restaurant and hotel sector (38.1%) and the public works and building industries (30.1%) continued to attract a bigger share of total new loans in 2015Q2. However, this apparent concentration in credit distribution is not of much concern, as currently the two sectors are among the biggest contributors to the growth rate of real GDP.

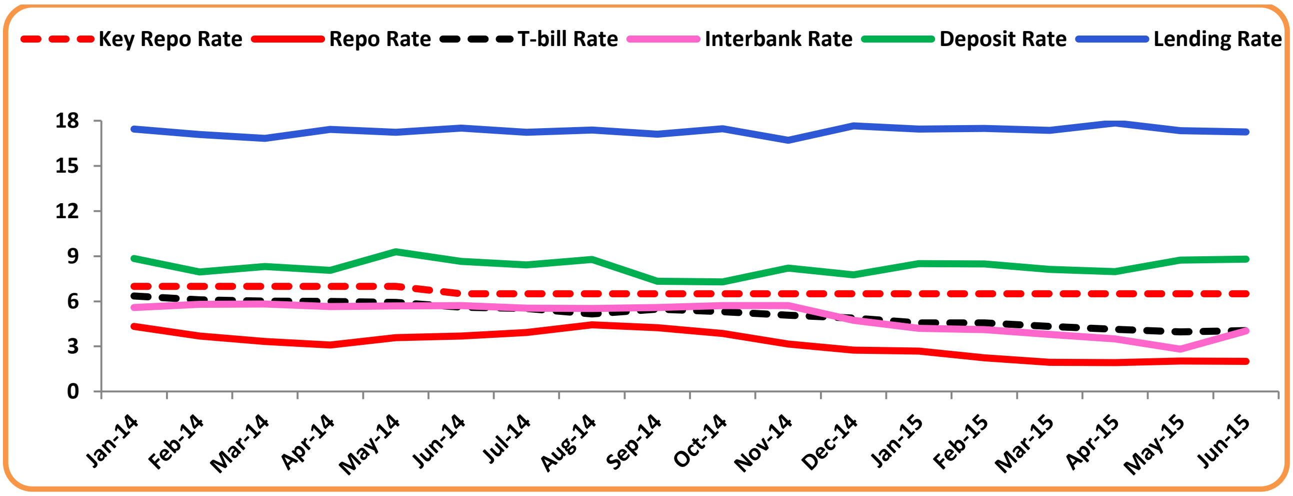
6.2 Financial stability and Monetary Policy

A health and sound financial system notably the banking system is crucial for effectiveness of monetary policy transmission as well as enabling monetary policy stance to have implications on financial system stability. Prior indicators discussed portray a sound banking system during 2015Q2, which would favour a smoother transmission of monetary policy.

Nevertheless, similar to previous quarters, accommodative stance of monetary policy was not reflected in retail banks rates especially in lending rates which continued to hover above 17% despite a cut in policy rate since June 2014. Money market rates (T-bills rate, repos rates and interbank rate) did not respond to the policy stance, as they slightly increased compared to 2015Q1 however, they are still lower than the pre-accommodative stance of monetary policy. Despite changes in returns of alternative assets, the lending rates were rigid while deposits rates fluctuated leading to changes in spread of interest rates. Indeed, the banks overhead cost raised whereby their ratio to income increased to 46.0% in 2015Q2 from 43.7% in 2015Q1, contrary to provisions which slightly declined to 51.5% from 52.3% in 2015Q1, which obstruct the improvement in monetary policy transmission. It is also worthy to note that although the current level of overhead cost in banks has increased in

2015Q1, it is still on declining trend compared to the previous quarters, which signals a good development.

Figure 22: Evolution of interest rates, (percent)



Source: BNR, Financial Markets Department and Monetary Policy Directorate

The interest rate spread stood at around 8.9% on average during 2015Q2. The level of spread has been particularly small in 2015Q2 compared to the previous quarter. While this may lead to more profitability in the banking sector, it can also reflect high-perceived risks, weakened transmission of monetary policy and lack of competitiveness in the banking sector. Even if, some proxy measures such as the Herfindahl Hirschman index for loans and deposits markets is at 0.14 indicating that the concentration on the banking markets has been waning.

6.3 Economic prospects and financial stability

Following a stronger real economic growth of 7.6% realised in 2015Q1 and if this positive dynamics continues the soundness of households and corporate sector would likely improve and definitely brings more stability in the banking system. Monetary policy remained accommodative for the first half of 2015 as long as Inflation is expected to remain moderate and output gap is still negative. In such a context, liquidity in the banking system will continue to be adequate to keep short-term interest rate low and less volatile and not disrupt financial markets.

In addition to the positive outlook in the Rwandan economy, the outlook in the global economy is generally positive however slightly to lower than the previous estimates. Hence, there is no major downside risk coming from global or domestic economy so far. This would help to strengthen the stability in the Rwandan banking system through improvement of its assets quality and profitability. Similar to the previous quarters, the downside risks on banking sector soundness would arise from the negative effect of higher lending rates on households and corporate sector soundness especially if robust rate of real economic growth are not sustained in the near future.

VII. ECONOMIC OUTLOOK AND RISKS

7.1 Global Economic Outlook

The world economy is expected to continue growing at a moderate pace. Real GDP is expected to increase by 3.3% by end 2015 against 3.4% in 2014. The economic activity will slightly pick up in advanced economies supported the decline in energy prices, accommodative monetary policy and a recovery in domestic demand and decelerate in emerging and developing economies.

The outlook is however overshadowed by the slowing Chinese economy which is likely to increase volatility in financial markets and put down pressures on commodity prices. The expected US interest rate hike and the resulting strength of the USD will continue to exert pressures on emerging and developing currencies.

7.2 Domestic Economic Outlook

The Rwandan economy is expected to continue growing in line with the initial projection of real GDP growth of 6.5% in 2015 where agriculture sector growth is estimated at 5.2%, services sector at 7.3% and industry sector at 8.7%. This prospect on economic performance is confirmed by recent developments in CIEA and total turnovers of industry and services sectors as well as credit to the private sector which are in line with the initial projections and Government macroeconomic program.

In real terms, during the first eight months of 2015, the CIEA grew by 11.7% from 11.6% in the same period of last year while in 2015Q1 and 2015Q2; grew by 15.5% and 10.3% respectively. From January to August 2015, total turnovers grew by 9.4% while by end August the new authorized loans increased by 9.2%.

However, the Rwandan economy remains vulnerable due to persistent current account deficit and adverse weather conditions. Strong USD and uncertainties concerning commodity prices which could negatively affect our exports and worsen further the terms of trade may put more pressure on our forex market while likely adverse weather conditions could impact agriculture production and generate food inflationary pressures.

7.3 Monetary Policy outlook

Globally, the developments in key monetary aggregates have already surpassed their projections as at end of June 2015. Despite this situation, inflation remained below the medium target of 5% averaging 2.0% in 2015Q2 from 1.0% 2015Q1. Money market interest rates together with the deposits rate continued to respond to NBR’s monetary policy stance while the lending rate remained sticky mainly due to operating cost and high provisions for non-performing loans. Looking forward, BNR will continue to implement a prudent monetary policy stance in a bid to anchor inflationary expectations while supporting growth and containing pressures on the FRW.