NATIONAL BANK OF RWANDA

Quarterly Economic and Financial Report: Developments and Prospects

SECOND QUARTER 2016

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EXECUTIVE SUMMARY

The second quarter 2016 economic and financial report: Developments and Prospects presents 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 as well as macroeconomic stability in general.

The world economy continues to grow at slowing pace amid renewed financial and political turbulences and still sluggish global demand. From 3.4% in 2014, the global economy decelerated to 3.1% in 2015 and grew by 2.5% in 2016Q1. Looking ahead, the British vote to leave the European Union adds to concerns over the global economic health and leads to a downward revision of growth projection by the IMF to 3.1% on average in 2016. Globally, inflation fell from 3.2% in 2014 to 2.8% in 2015 due to weak economic activity and still low commodity prices but recovering. By end 2016, inflation is foreseen to slightly go up to 2.9% globally but to remain below central banks objectives in advanced countries, pointing to continuous accommodative monetary policy to boost the economy in those countries.

The Rwandan economy grew by 5.4% in 2016Q2 after 7.6% in 2016Q1 supported by prudent monetary policy implemented by BNR aiming to the financing of the private sector by the banking sector. The economy is projected to grow by 6.0% in 2016 from 6.9% recorded in 2015 as the sluggish global economy and the still lower levels of commodity prices continue to weigh down Rwanda's external sector.

In 2016Q2, trade deficit reduced by 0.9% to a deficit of USD 444.00 million from a deficit of USD 448.2 million in 2015Q2 as a result of increase in formal exports value by 6.7% and a slight increase in formal imports value by 0.8%. Formal exports covered 24.8% of formal imports against 23.5% in the same period of 2015. Including informal cross border, exports covered 30.4% of imports in 2016Q2 from 27.4% in 2015Q2.

The Rwandan Franc (FRW) has been under pressure due to the widening mismatch between imports and exports, coupled with the recent increase in forex demand by different companies and government projects under the Public Private Partnership (PPP) framework which needs to mobilize hard currency from the domestic market. In 2016Q2 compared to 2016Q1, the FRW depreciated against the USD by 1.9%, appreciated by 4.8% versus the GBP and depreciated by 0.3% against the EURO.

In 2016Q2, BNR's monetary policy stance remained prudent with unchanged policy rate at 6.5% since June 2014. This stance aims at boosting the financing of the economy and domestic demand amid lower inflationary pressures both domestically and globally. Inflation remained moderate, with headline inflation reaching 4.9% in 2016Q2 from 4.5% in 2016Q1 and 2.0% in 2015Q2.

Rwanda's financial system remains sound and stable as evidenced by the performance of various financial soundness indicators. Banking sector's capital and liquidity levels in 2016Q2 continued to remain adequate and above prudential norms amidst improving domestic economic environment. In general, the banking system continues to lead the sector with the largest share of the total financial sector assets.

I. INTERNATIONAL ECONOMIC OUTLOOK

The world economy continues to grow at a slowing pace amid renewed financial and political turbulences and still sluggish global demand. From 3.4% in 2014, global economic growth decelerated to 3.1% in 2015 and to 2.5% in 2016Q1. Mindful of the current global headwinds, the IMF revised downwards the world real GDP growth forecast for 2016 to 3.1% in July 2016, lower than the April 2016 and October 2015 projections by 0.1% and 0.5% respectively. The decision by the British to leave the European Union (Brexit) adds to concerns over the global economic prospects.

I.1 Economic growth

Supported by the accommodative monetary policy, low but recovering energy prices and improving confidence, real GDP growth in advanced countries is expected at 1.8% in 2016, slightly lower than 1.9% and 2.2% initially forecasted in April 2016 and October 2015 respectively. The anticipated slight slowdown is due to low productivity growth, still weak external demand as well as the likely impact of the Brexit.

Real GDP growth for the United States is estimated at 1.2% in 2016Q2 on the back of improving personal consumption expenditure, up from 0.8% and 0.9% realized in 2016Q1 and 2015Q4 respectively. However, the IMF revised downwards its 2016 forecast for US GDP growth to 2.2%, from 2.4% forecasted in April 2016 as a still stronger US dollar hurt exports and investors cut oil investments due to lower oil prices. Compared to the same period of 2015, US exports fell by 4.7% in the first six months of 2016.

Table 1: Economic growth developments (in %)

	Quarterly (BLOOMBERG)						*IMF*	
	2015				2016		2015	2016 Proje.
	Q1	Q2	Q3	Q4	Q1	Q2		
USA (QoQ)	0.6	2.6	2.0	0.9	0.8	1.2	2.4	2.2
Euro area	1.3	1.6	1.6	1.7	1.7	1.6	1.7	1.6
Japan (QoQ)	4.6	-1.7	1.7	-1.8	1.9	0.4	0.5	0.3
UK (YoY)	2.6	2.3	2.0	1.8	2.0	2.2	2.2	1.7
China (YoY)	7.0	7.0	6.9	6.8	6.7	6.7	6.9	6.6
India	6.7	7.5	7.6	7.2	7.9	7.5	7.6	7.4

Source: BLOOMBERG and IMF, World economic Outlook, July 2016

Though still constrained by weak external demand, the Eurozone economy continues to improve, supported by improving domestic demand, expansionary monetary and fiscal policies together with low energy prices and growing manufacturing production. In 2016Q2, GDP growth was 1.6% from 1.7% recorded in 2016Q1 and 2015Q4. After the Brexit, the IMF revised down its projection for the Eurozone GDP growth in 2016 to 1.6% from 1.7% projected in January 2016 but in line with October 2015 forecast.

Emerging and developing economies are still facing setbacks related to the effects of the Chinese economic rebalancing. The growth outlook in commodity exporting countries is still clouded by lower commodity prices and by political turmoil in some countries. Real GDP growth decelerated to 4.0% in 2015 from 4.6% recorded in 2014 but is projected to slightly improve to 4.1% in 2016 as higher growth prospects in India are likely to offset the expected gradual slowdown in China.

China's real GDP growth was 6.7% in both 2016Q2 and 2016Q1, down from 6.8% recorded in 2015Q4, reflecting a slowdown in industrial production, weak property investments and negative contribution from net exports. For 2016, GDP growth is expected at 6.6% in 2016, slightly higher than 6.5% and 6.3% forecasted in April 2016 and October 2015 respectively. This upward revision reflects resilient domestic demand, a rebound in the property sector, robust infrastructure spending, accelerated credit growth and a strong performance of the services sector that overcompensated weaknesses in the manufacturing sector.

In Sub-Saharan Africa, economic growth slowed to 3.3% in 2015 from 5.1% in 2014 due to still low commodity prices, deteriorating terms of trade as well as conflicts and epidemic diseases. Looking ahead, growth is expected to deteriorate further to 1.6% in 2016, significantly lower than 3.0% and 4.3% initially projected. The growth outlook is mostly undermined by the slowdown in oil and other non-energy resource exporting countries as well as droughts experienced in some countries like Ethiopia, Malawi, Zimbabwe and Southern East Africa.

The downside risks to the growth outlook for Sub-Saharan Africa are likely to be amplified by the Brexit impact, especially on the largest African economies including Nigeria, South Africa and Kenya, adding to the negative effect of the ongoing Chinese economic rebalancing especially on Africa's commodity exports.

Table 2: Economic growth within EAC countries (in %)

	2015				2016	Annual average	
	Q1	Q2	Q3	Q4	Q1	2015	2016 proj.
Burundi	0.3	-	-	-	-	-4.1	3.4
Kenya	5.0	5.9	6.0	5.7	5.9	5.6	6.0
Rwanda	7.6	7.1	5.9	7.0	7.3	6.9	6.0
Tanzania	6.5	7.9	6.3	7.1	-	7.0	6.9
Uganda	5.4	5.1	6.8	5.7	3.5	5.5	5.3

Source: National Bureau of Statistics Websites and IMF WEO, April 2016

Apart from Burundi whose economy contracted by 4.1% due to internal conflicts, other EAC economies performed well in 2015 compared to 2014 and are expected to continue growing through 2016 as the Burundian economic growth is foreseen to rebound to 3.4%.

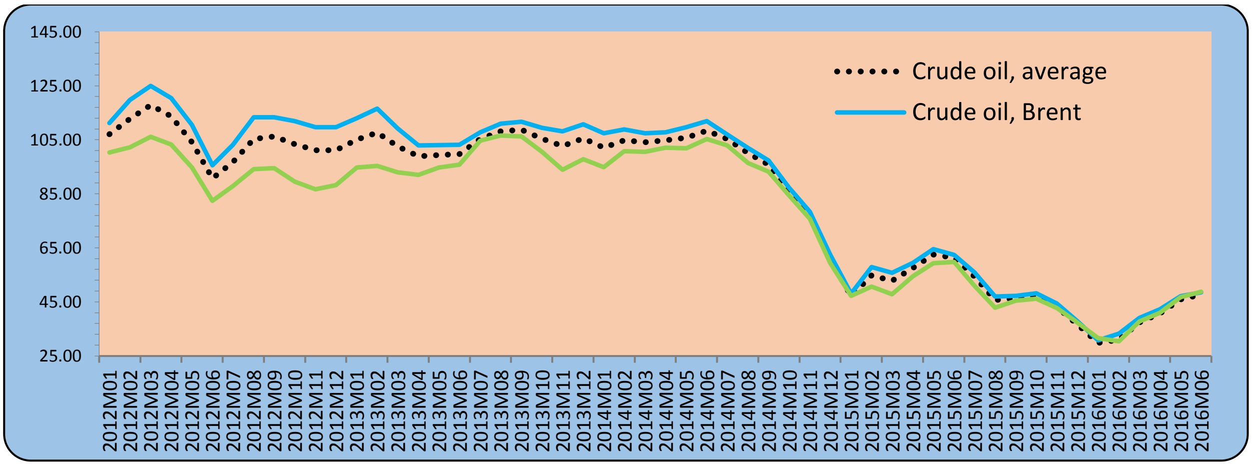
I.2 Inflation and Commodity Prices

1.2.1 Commodity prices

On commodity market, prices continue to recover since the beginning of 2016 supported by improving market sentiment and a weakening US dollar. Prices increased for most of products but remained below their 2015 levels. In 2016Q2, prices went up by 29.5% for energy commodities and by 6.6% for non-energy commodities, after declining by 20.7% and 2.0% respectively in the previous quarter.

Crude oil prices rose on quarterly basis by 36.9% in 2016Q2 following a decline in oil production in both OPEC and non-OPEC countries, the weakening of the US dollar and increased global oil demand.

Figure 1: Crude oil price developments (USD/barrel)



Source: World Bank

Brent crude oil prices rose on monthly basis by 2.9% in June 2016, to USD 48.48/barrel from USD 47.13/barrel in May 2016, after hiking by 12.7% a month before. However, Brent prices dropped by 22.2% on annual basis as markets remained well supplied. On quarterly basis, Brent prices rose by 33.8% in 2016Q2 after a decline of 20.9% in 2016Q1.

On quarterly basis, prices went up by 5.9% for beverages, 9.5% for food and 5.1% for agricultural raw materials. Coffee prices rose QoQ in 2016Q2 by 5.4% for Arabica and by 11.4% for Robusta as shipments from Brazil fell and the Brazilian currency strengthened against the US dollar. Tea prices in Mombasa Auction fell QoQ by 10.2% in 2016Q2 due to a sharp increase in Kenya tea production.

Table 3: Commodity prices (in % change as indicated)

	2015	2016		2016 MoM			2016 YoY			Annual Average	
	Q4	Q1	Q2	Apr	May	Jun	Apr	May	Jun	2015	2016 proj.
Energy	**-13.4**	**-20.7**	**29.5**	**7.9**	**10.9**	**5.1**	**-29.3**	**-27.2**	**-22.1**	**-45.1**	**-16.4**
OIL	**-13.4**	**-22.5**	**36.9**	**9.1**	**12.7**	**3.8**	**-29.2**	**-26.5**	**-22.2**	**-47.3**	**-15.2**
Non-energy	**-3.8**	**-2.0**	**6.6**	**2.4**	**1.6**	**2.1**	**-6.0**	**-5.2**	**-1.8**	**-15.0**	**-4.1**
BEVERAGES	-1.0	**-7.5**	**5.9**	**1.6**	**1.3**	**2.8**	**-1.7**	**-2.7**	**-3.0**	**-8.1**	**-4.2**
Coffee, Arabica	**-1.7**	0.1	5.4	-2.1	0.6	6.4	-6.0	-2.1	3.3	-20.3	-5.0
Coffee, Robusta	-4.2	-8.0	11.4	6.1	4.7	2.3	-12.9	-4.1	-4.9	-12.4	-12.4
Tea, Mombasa auctions	-1.4	-18.0	-10.2	-7.9	3.9	7.3	-20.3	-25.2	-24.4	2.6	-4.0(*)
CEREALS	**-1.8**	**0.3**	**4.1**	**1.6**	**1.8**	**3.6**	**-7.3**	**-1.8**	**2.4**	**-14.5**	**-3.7**
METALS &MINERALS	-8.0	**-1.3**	**4.6**	**1.4**	**-3.3**	**0.3**	**-14.0**	**-19.6**	**-14.5**	**-21.1**	**-11.0**
Tin	-1.0	2.4	9.5	0.8	-1.9	1.5	7.1	5.7	12.6	-26.6	3.3
Gold	-1.5	6.7	6.7	-0.2	1.5	1.2	3.6	5.2	8.0	-8.3	7.7
FERTILIZERS	-2.2	**-11.6**	**-6.6**	**-0.2**	**-0.7**	**-2.2**	**-17.2**	**-20.3**	**-23.5**	**-5.0**	**-18.0**

Sources: http://www.worldbank.org/en/research/commodity-markets

(*) Average price of tea in Mombasa, Colombo and Kolkata

Metals and minerals prices recovered by 4.6% on quarterly basis in 2016Q2, mainly helped by increased demand and supply constraints for some metals like Nickel and Zinc while prices fell for other metals and minerals, reflecting weak Chinese demand for industrial metals.

Looking ahead, in 2016, commodity prices are expected to decline, though less than previously forecasted, as market sentiment improved and the US dollar started to weaken.

1.2.2 Inflation

Global inflation fell from 3.2% in 2014 to 2.8% in 2015, the lowest since the global financial crisis of 2008, due to still sluggish economic activity and to low but recovering commodity prices. By the end 2016, inflation is foreseen to slightly go up to 2.9% globally and to 0.7% in advanced countries from 0.3% in 2015, pointing to continuous accommodative monetary policy aimed at boosting these economies.

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

	2015				2016				2015	2016
	Mar	Jun	Sep	Dec	Mar	Apr	May	Jun		
USA	-0.1	0.1	-0.0	0.7	0.9	1.1	1.0	1.0	0.1	0.8
Euro zone	-0.1	0.2	-0.1	0.2	0.0	-0.2	-0.1	0.1	0.0	0.4
Japan	2.3	0.4	0.0	0.2	-0.1	-0.3	-0.4	-0.4	0.8	-0.2
China	1.4	1.4	1.6	1.6	2.3	2.3	2.0	1.9	1.4	1.8

Source: National statistics offices & IMF WEO, April 2016

In USA, annual inflation stabilized at 1.0% in June 2016, the same as in May 2016 from 1.1% in April 2016 weighed down by a decline of 9.4% and 10.1% in energy price respectively in June and May 2016.

In the Euro area, annual inflation rose from negative 0.1% in May to 0.1% in June 2016 boosted by an increase in services sector (+1.1% in June compared to 1.0% in May) and less decline in energy cost (-6.5% compared to -8.1% in May 2016).

In Japan, annual inflation stabilized at -0.4% in June, the level it reached in May after -0.3% in April 2016 due to continuous decline in fuels, light and water charges (-8.7%), transport and communication cost (-2.4%). In China, consumer prices went up by 1.9% in June 2016 driven by 4.6% increase in food prices and 1.2% in non-food cost.

In Sub-Saharan Africa, inflation hiked to 7.0% in 2015 from 6.4% in 2014. It is projected to increase further to 9.0% by end 2016. In EAC, inflation remained moderate due to reducing pressures on regional currencies despite growing upward pressures from food prices.

Table 5: Headline inflation in EAC countries, in %

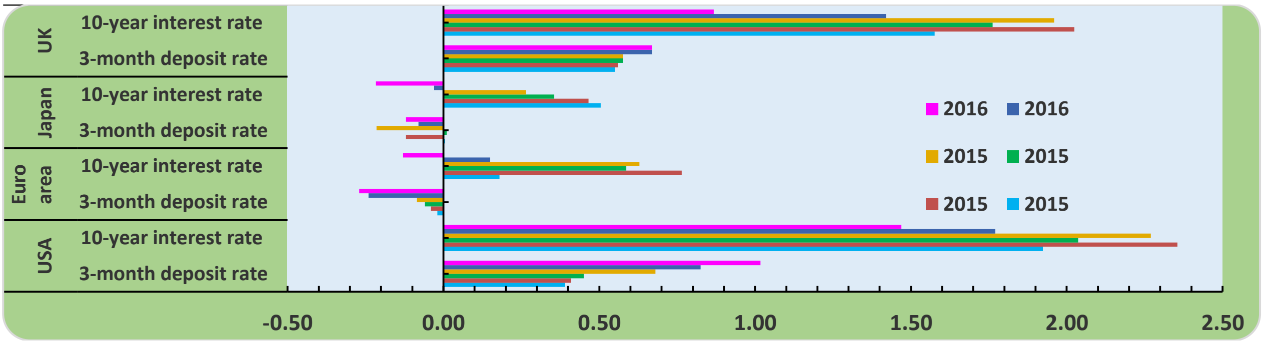
	2015				2016				2015	2016
	Mar	Jun	Sep	Dec	Mar	Apr	May	Jun		(IMF)
Uganda	1.9	4.9	7.2	8.4	6.2	5.1	5.4	5.9	5.8	6.7
Kenya	6.3	7.0	6.0	8.0	6.5	5.3	5.0	5.8	6.6	6.3
Tanzania	4.3	6.1	6.1	6.8	5.4	5.1	5.2	5.5	5.6	6.1
Burundi	4.7	7.7	4.1	7.1	4.3	2.6	2.7	3.9	5.6	7.6
Rwanda	0.8	2.8	3.7	4.5	4.6	4.7	4.6	5.5	2.5	4.8

Source: Country Bureaus of Statistics IMF, World Economic Outlook, April 2016

I. 3 Monetary Policy and Financial Markets

Monetary policy in developed countries remained accommodative to boost economic activities and keep inflation closer to the target of 2%. The central bank rate remained unchanged at 0.50% in UK, 0.00% in the Eurozone and Japan while it was kept in the range between 0.25% and 0.50% in USA. European and Japanese Central Banks continue to use the unconventional monetary easing program to reflate their economies and push inflation close to the target. The Bank of England expects to lower the policy rate effective August 2016 to mitigate the likely effect from the Brexit. In June 2016, the 3-month deposit rate remained negative in Japan and Eurozone standing at -0.12% and -0.27% respectively from -0.285% and -0.235% in May 2016. Ten-year interest rates declined to reflect: rising market uncertainty over a weakening global economy, growing political turmoil which fuel demand for safe havens, the uncertainty about the Federal Reserve's monetary policy, and, recently concerns over the Brexit.

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



Source: Bloomberg

On the foreign exchange market, the dollar is weakening against the Euro and the Yen while it remains strong against the pound. Relative to end December 2015, the dollar strengthened by 10.7% versus the Pound in 2016Q2, undermined by political turmoil which followed the Brexit vote on June 23rd 2016. It depreciated by 14.2% against the Yen, as the latter was seen as a safe haven currency, and by 2.2% versus the Euro.

Table 6: Nominal Exchange rate developments (end of period)

	2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2
EUR/1USD	0.9319	0.8971	0.8947	0.9206	0.8787	0.9004
GBP/1USD	0.6749	0.6365	0.6610	0.6786	0.6964	0.7513
YEN/1USD	120.13	122.50	119.88	120.22	112.57	103.20

Source: Bloomberg Database

In nominal effective terms, the dollar fell for the four consecutive month by 1.0% in June 2016 compared to end 2015.

II. NATIONAL ECONOMIC PERFORMANCE

2.1 Real Sector Performance

The Rwandan economy grew by 5.4% in 2016Q2 after 7.6% in 2016Q1 supported by prudent monetary policy implemented by BNR aiming to the financing of the private sector by the banking sector. The economy is projected to grow by 6.0% in 2016 from 6.9% recorded in 2015 as the sluggish global economy and the still lower levels of commodity prices continue to weigh down Rwanda's external sector.

2.1.1 Economic growth

The real GDP grew by 5.4% in 2016Q2 after 7.6% and 7.2% recorded in 2016Q1 and 2015Q2 respectively driven by good performance of the service sector (+9.0%) and agriculture sector (+3.0%) despite a decline of the industry sector (-2.0%). The decline of the industry sector was mainly attributed to the construction (-6.0%) and the ongoing slump in the mining sectors (-13.0%). The poor performance of the construction sector was a result of completion of big projects that were under construction like Kigali conventional centre, Marriott hotel and roads which imported construction materials mostly in 2015. This led to low imports of construction materials in the first half of 2016 (-30.6%) which reflect contraction in construction activities in 2016Q2.
However, despite low performance of the economy in 2016Q2, the average growth for the first half of the 2016 (+6.5%) is still above the projected growth of 6.0% end 2016.

Table 7: Real GDP growth (%, y-o-y)

	2014					2015					2016	
	Q1	**Q2**	**Q3**	**Q4**	**Annual**	**Q1**	**Q2**	**Q3**	**Q4**	**Annual**	**Q1**	**Q2**
GDP	**7.5**	**6.1**	**8.1**	**6.4**	**7.0**	**7.6**	**7.2**	**5.9**	**7.1**	**6.9**	**7.6**	**5.4**
Agriculture	**5.0**	**5.0**	**6.0**	**5.0**	**5.0**	**4.0**	**6.0**	**6.0**	**5.0**	**5.0**	**7.0**	**3.0**
Food crops	6.0	6.0	7.0	7.0	6.0	4.0	4.0	5.0	5.0	4.0	4.0	4.0
Industry	**9.0**	**5.0**	**4.0**	**5.0**	**6.0**	**7.0**	**10.0**	**3.0**	**6.0**	**7.0**	**10.0**	**-2.0**
Mining & quarrying	20.0	4.0	22.0	1.0	11.0	-12.0	-2.0	-15.0	-4.0	-9.0	-5.0	-13.0
Manufacturing	7.0	5.0	-5.0	-2.0	1.0	8.0	10.0	7.0	6.0	8.0	10.0	6.0
Electricity	9.0	9.0	8.0	9.0	9.0	8.0	9.0	8.0	7.0	8.0	25.0	13.0
Water & waste management	4.0	5.0	2.0	2.0	3.0	2.0	0.0	0.0	1.0	1.0	3.0	6.0
Construction	8.0	5.0	7.0	12.0	8.0	11.0	15.0	6.0	9.0	10.0	13.0	-6.0
Services	**9.0**	**9.0**	**11.0**	**8.0**	**9.0**	**8.0**	**6.0**	**7.0**	**8.0**	**7.0**	**8.0**	**9.0**
Wholesale & retail trade	12.0	10.0	7.0	10.0	10.0	7.0	5.0	5.0	9.0	7.0	11.0	13.0
Information & communication	4.0	19.0	25.0	18.0	17.0	35.0	7.0	17.0	10.0	16.0	0.0	15.0
Financial services	4.0	3.0	10.0	4.0	5.0	10.0	7.0	18.0	7.0	10.0	7.0	4.0
Real estate activities	9.0	3.0	14.0	8.0	8.0	5.0	11.0	5.0	6.0	7.0	4.0	3.0

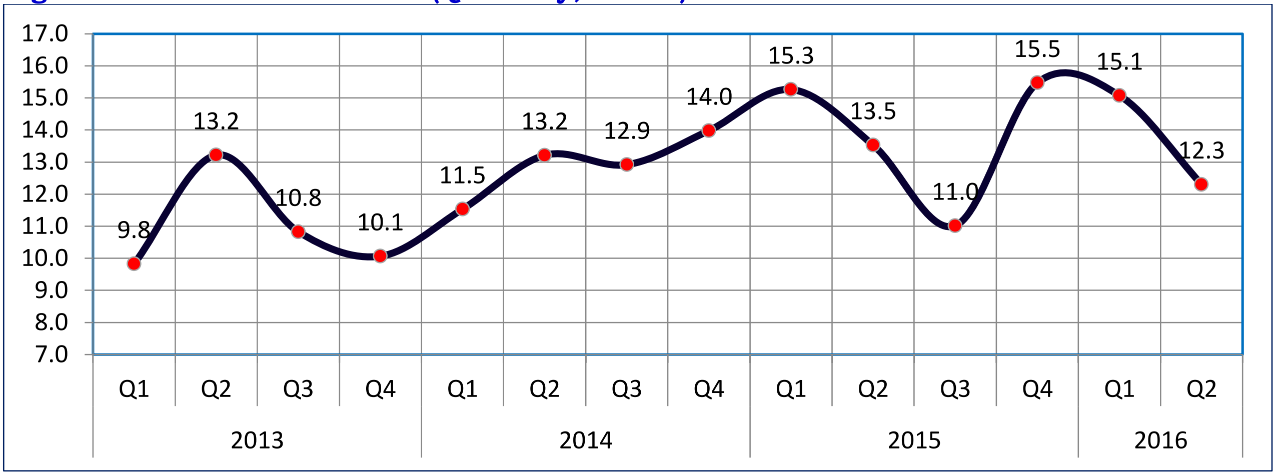
Source: National Institute of Statistics of Rwanda

Leading economic indicators of the real sector such as the composite index of economic activities (CIEA) and total turnovers of industry and services indicate that economic performance in 2016Q3 is expected to be higher than in 2016Q2 and prospects for 2016.

2.1.2 Composite index of economic activities (CIEA)

The composite index of economic activities (CIEA) in real term grew by 12.3% in 2016Q2 from 15.1% in 2016Q1 and 13.5% in 2015Q2, indicating that economy continued to record a slow pace in the performance of economic activities. This was mainly led by a decline in the mining sector (-16.2% in 2016Q2 from -20.5% in 2015Q2).

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

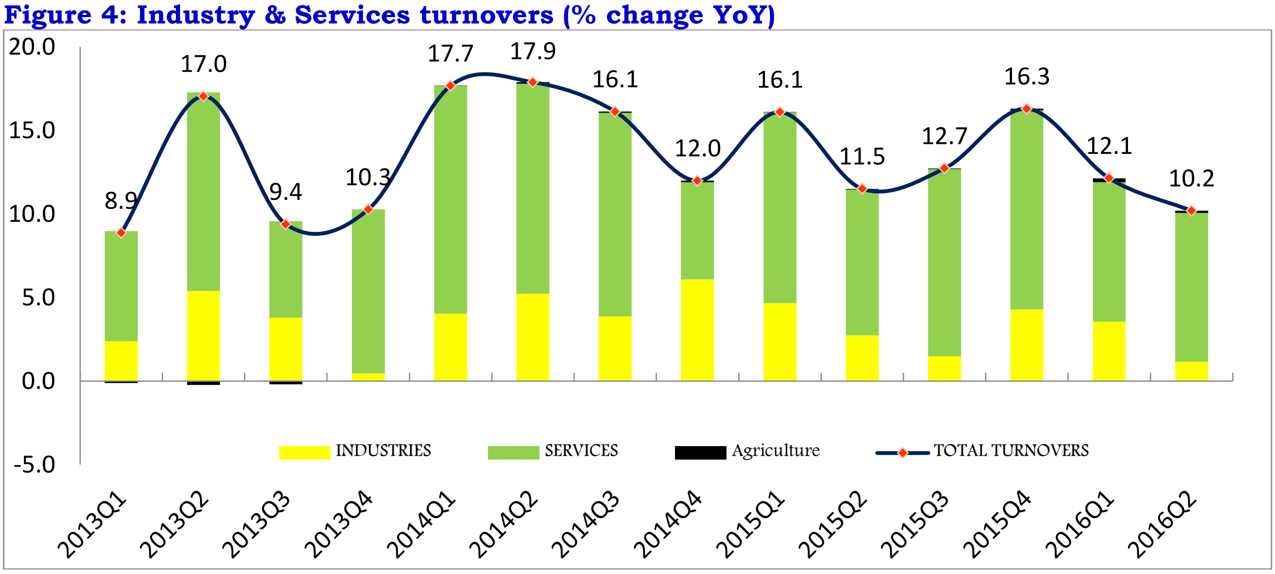


Source: BNR, Monetary Policy and Research Department

2.1.3 Turnovers of industry and services sectors

The total turnovers of industry and services sectors rose by 10.2% in 2016Q2 from 11.5% registered in 2015Q2 given a decline in the mining sector (-21.6%) and construction (-6.0%) sectors and a moderate growth in wholesale and retail trade (+4.2%).

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

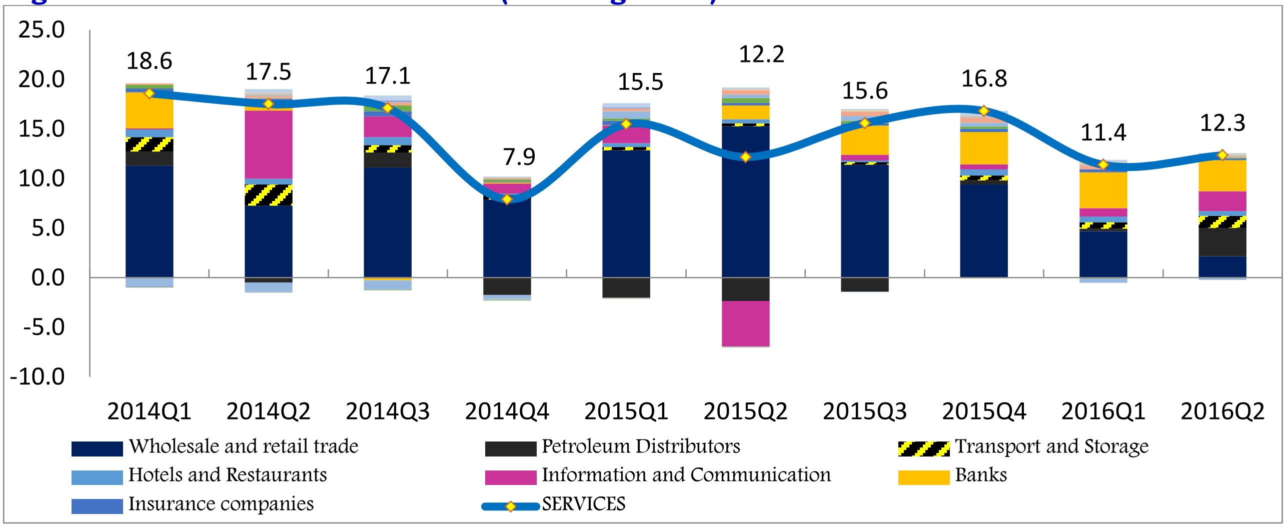


Source: BNR, Monetary Policy and Research Department

The services sector, with a share of 73.2% in total turnovers of service and industry sectors, led the developments in total turnovers, recording a steady growth of 12.3% in 2016Q2 from 12.2% in 2015Q2. This growth emanates from good performance in banks (+30.1%). Additionally, the sector was supported by a recovery in information and communication subsector (+30.0%) as well as in petroleum companies (+22.7%) coupled with a good performance in hotels and restaurants (+14.7%).

The good performance of hotels and restaurants was a result of various recent local and international events of which 2016 African National Championship (CHAN), World economic forum on Africa and African union 27Th summit. However, wholesale and retail trade, increasing by 4.2% after 35.2% and contributing 48.7% to total services sector's sales, led to the slow pace in the performance of the service sector. This slow pace in trade is linked to the decline in imports of consumer goods (-6.2%) as well as construction material (-28.6%).

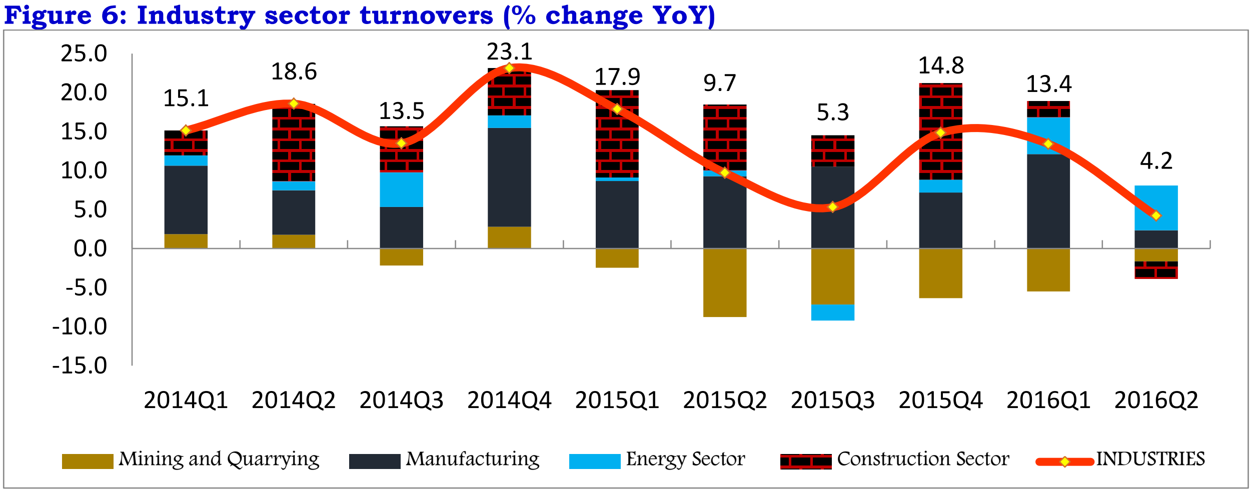
Figure 5: Services sector turnovers (% change YOY)



Source: BNR, Monetary Policy and Research Department

The mining sector continued to weigh down on the performance of the industry sector as international commodity prices are still low. The industry sector rose by 4.2% in 2016Q2 compared to 9.7% during the same period of 2015. All subsectors apart from energy trended down, mining and construction registering negative growth and manufacturing slow pacing to 5.0% against 21.9% in 2015Q2. The energy sector was supported by new plants such as KIVUWATT and MUKUNGWA 1 that boosted electricity production as well as 35.8% increase of electricity price.

Figure 6: Industry sector turnovers (% change YoY)



Source: BNR, Monetary Policy and Research Department

2.1.4 Credit to private sector

Total new loans to the private sector increased by 8.9% in 2016Q2 against 14.5% in 2015Q2, amounting to FRW 199.0 billion from FRW 182.7 million. Outstanding loans to the private sector increased by 7.9% to FRW 1,271.6 billion end June 2016 from FRW 1,148.1 billion end December 2015 and by 22.0% compared to 1,042.1 billion end June 2015.

Table 8: New loans to leading sub-sector in industry and services sectors (in billion unless otherwise indicated)

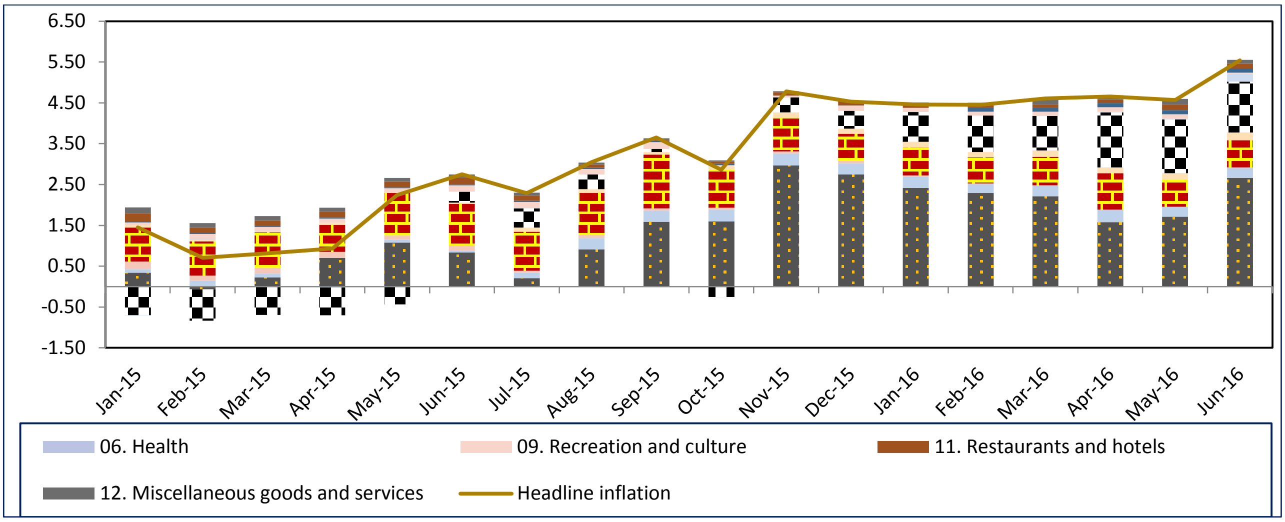
	2014				2015				2016		% change
ACTIVITY	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q2/Q2
Industry	**77.2**	**52.2**	**48.8**	**58.5**	**72.8**	**60.7**	**67.8**	**88.8**	**82.4**	**88.6**	**45.8**
Manufacturing activities	35.2	9.4	16.0	11.9	7.9	4.4	17.6	21.4	13.3	22.5	407.3
Mortgage industries	26.0	42.7	31.8	37.9	64.7	54.9	50.3	67.4	60.6	64.8	17.9
Services	**71.5**	**87.6**	**90.7**	**95.1**	**86.7**	**103.3**	**76.9**	**104.0**	**119.4**	**88.8**	**-14.0**
Commercial restaurant and hotel	61.0	71.0	64.4	75.6	74.7	69.6	58.8	76.7	103.9	73.2	5.2
Transport & warehousing & communication	5.6	9.8	15.1	11.6	6.7	17.6	11.5	18.0	8.7	10.1	-43.0
Services provided to the community	4.5	5.9	9.4	6.3	4.7	4.2	6.1	7.6	3.9	5.1	19.9
Total	**166.0**	**159.7**	**156.5**	**170.8**	**178.1**	**182.7**	**166.6**	**214.6**	**224.2**	**199.0**	**8.9**

Source: BNR, Monetary Policy and Research Department

2.2 Price Developments

Headline inflation rose to 4.9% in 2016Q2 from 4.5% in 2016Q1 and 2.0% in 2015Q2 mainly led by food inflation and transport inflation.

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



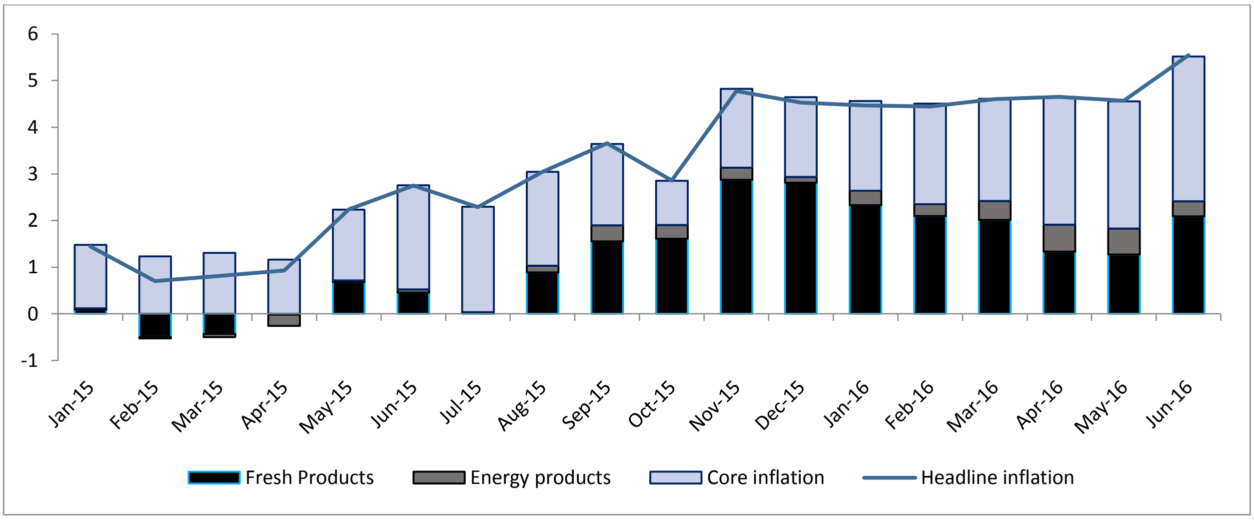
Source: BNR, Monetary Policy & Research Department

Food and non-alcoholic beverages inflation rose to 7.0% in 2016Q2 against 8.2% in 2016Q1 and 3.1% recorded in 2015Q2 driven mainly by increase in vegetables inflation, which rose to 14.3% from 19.2% and 4.5% during the same period in 2015 due the effects of the prolonged dry season. Transport inflation jumped to 7.3% in 2016Q2 after 4.7% in 2016Q1 and -1.6% in 2015Q2 mainly due to imported transport inflation that surged from negative 1.9% in 2015Q2 to 3.0% and 7.6% in 2016Q1 and Q2 respectively. Housing inflation decelerated to 2.9% and 4.0% in 2016Q1 and 2015Q2 respectively.

Imported transport inflation led the imported inflation to increase to 4.0% in 2016Q2 from 2.1% and 1.2% respectively in 2016Q1 and 2015Q2. Local inflation, dominated by food inflation, rose to 5.2% against 5.3% and 2.3%. Local food inflation increased to 8.2 % after 10.0% and 2.5% over the period.

Core inflation, which excludes fresh products and energy, also went up on average from 2.2% in 2015Q2 to 2.8% in 2016Q1 and to 3.8% in 2016Q2.

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



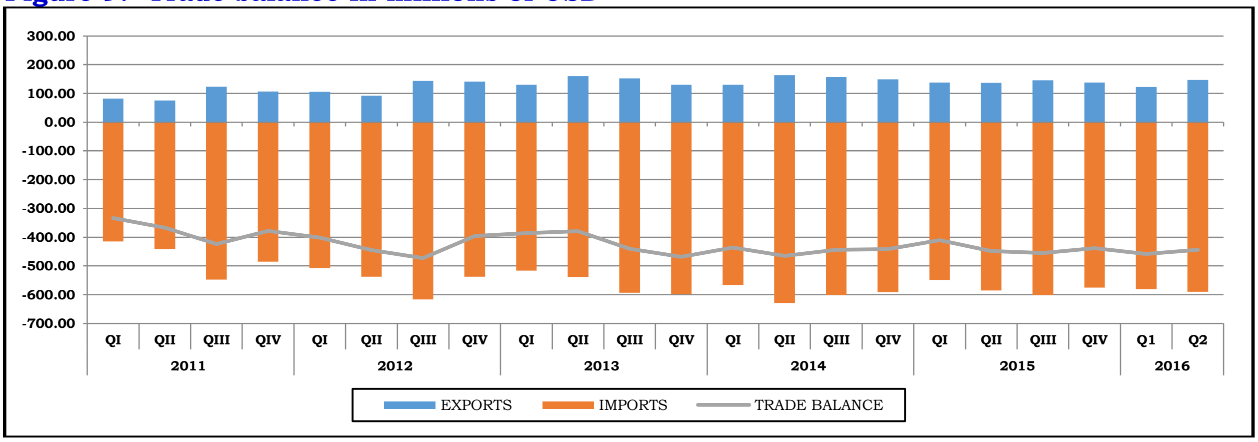
Source: BNR, Monetary Policy & Research Department

2.3 External trade developments

2.3.1 Trade Balance

In 2016Q2, trade deficit reduced by 0.9% from a deficit of USD 448.2 million in 2015Q2 to a deficit of USD 444.00 million as a result of the increase in formal exports value by 6.7% and a slight increase in formal imports value by 0.8%. Formal exports covered 24.8% of formal imports against 23.5% in 2015Q2. Including informal cross border, exports covered 30.4% of imports in 2016Q2 from 27.4% in 2015Q2.

Figure 9: Trade balance in millions of USD



Source: BNR, Statistics Department

2.3.2 Formal exports

In 2016Q2, re-exports mainly composed of petroleum products, vehicles, and machines & engines, continue to dominate Rwanda's formal export sector representing 42.9% of the total formal exports, followed by traditional exports (+34.4%). Other exports mainly dominated by foods and beverages, other minerals, products of the milling industries, live animals, fruits and vegetables, and cosmetic products account for 22.8% of the total formal exports.

Table 9: Exports developments (annual % change)

	Volume				Value			
	2015Q1	2015Q2	2016Q1	2016Q2	2015Q1	2015Q2	2016Q1	2016Q2
EXPORTS	**88.31**	**101.61**	**95.12**	**126.09**	**137.77**	**137.35**	**122.06**	**146.51**
% change	*19.7*	*31.6*	*7.7*	*24.1*	*6.0*	*-16.1*	*-11.4*	*6.7*
TRADITIONAL EXPORTS	**13.54**	**14.49**	**12.89**	**13.49**	**61.38**	**65.74**	**48.16**	**50.35**
% Change	*-0.8*	*4.8*	*-4.8*	*-6.9*	*-10.3*	*-13.7*	*-21.5*	*-23.4*
REEXPORTS	30.88	38.72	45.58	61.67	37.95	46.83	44.61	62.82
% Change	*10.6*	*54.4*	*47.6*	*59.3*	*-2.5*	*-23.3*	*17.6*	*34.1*
OTHER EXPORTS	43.88	48.40	36.64	50.94	38.45	24.78	29.29	33.34
% Change	*36.3*	*26.4*	*-16.5*	*5.3*	*69.4*	*-6.0*	*-23.8*	*34.6*

Source: BNR, Statistics Department

In 2016Q2, total exports recorded growth of 6.7% in value (USD 146.51 million from USD 137.35 million), after a decrease of 16.1% in the same period of 2015, as a result of the high growth recorded by re-exports (+34.1%) and other exports (+34.6%), despite the poor performance of the mining sector (-30.3%), coffee (-28.8%) and tea (-15.6%). Exports volume increased by 24.1% in 2016Q2, due to robust growth in tea exports (+4.2%), re-exports (+59.3%) and other exports (+5.3%).

Re-exports dominated by petroleum products (+52.5% mostly re-exported to Burundi), other re-exports (+34.9%) and machines and engines (+9.8%), increased by 34.1% in value and 59.3% in volume due to the increase in re-exports of petroleum products (+41.6% in value and +81.5% in volume) and other re-exports (+35.1% in value and +39.7% in volume).

Traditional exports (main exports) performed poorly decreasing by 23.4% in value, due to the decrease in the mining sector which went down (-30.3% in value and by -13.6% in volume) mainly due to the fall in international commodity prices which has affected mineral export receipts. Cassiterite and coltan declined respectively by 3.6% and 34.4% in value as a result of their decline in volume. The fall in the unit price of Wolfram by -37.1% led to a decline in its exports value and volume by 53.2% and 25.6%, respectively.

In 2016Q2, coffee exports decreased by 20.5% in volume and by 28.8% in value due to the fall in unit price by 10.4%, from USD 2.99/Kg to USD 2.68/Kg in 2016Q2, coupled with the decrease in production observed in 2016Q2 (-37.6%), from 3,825 tons in 2015Q1 to 2,429 tons in 2016Q2. Tea exports increased by 4.2% in volume but decreased by 15.6% in value due to the fall in the unit price by -18.9%, from USD 2.87/kg to USD 2.33/Kg.

Export value and volume for hides & skins also decreased by 23.9% and 17.7% respectively due to the decelerating Chinese demand as well as a regulation that was adopted by the EAC to increase tax on exports of hides and skins to discourage their exportation. This contributed to support "Kigali Leather Limited", a newly established factory in Bugesera that transforms hides and skins into different finished products.

Pyrethrum exports rose by 153.3% in volume, from 3.36 tons in 2015Q2 to 8.50 tons in 2016Q2. Its value highly increased by 172.9% due to the rise in unit price (+7.8%) from 173.79 USD/Kg to 189.26 USD/Kg in 2016Q2, as well as the increased volume of pyrethrum exports as a result of new additional markets including China, Germany, Italy, South Korea, Netherlands and USA.

Non-traditional exports dominated by products of other minerals, with a share of +42.7%, and milling industry, with a share of +19.2%, increased by 34.6% in value and 5.3% in volume, mainly attributed to the increase in exports of milling industries (+2.0% in value and +7.5% in volume) and other minerals (+280.9% in value and +384.0% in volume).

2.3.3 Formal imports

During 2016Q2, formal imports slightly increased by 0.8% in value to USD 590.50 million from USD 585.57 million, after a registered decrease of 6.9% in the same period of 2015 following the increase in the value of imported consumer goods (+1.5%) and imported capital goods (+29.2%). In volume, formal imports decreased by 10.4% in 2016Q2 against an increase of 20.6% in the corresponding period of 2015 on the back of the decrease in volume of consumer goods (-6.2%), intermediary goods (-12.0%) and energy & lubricants (-19.5%), despite the increase in capital goods (+15.1%).

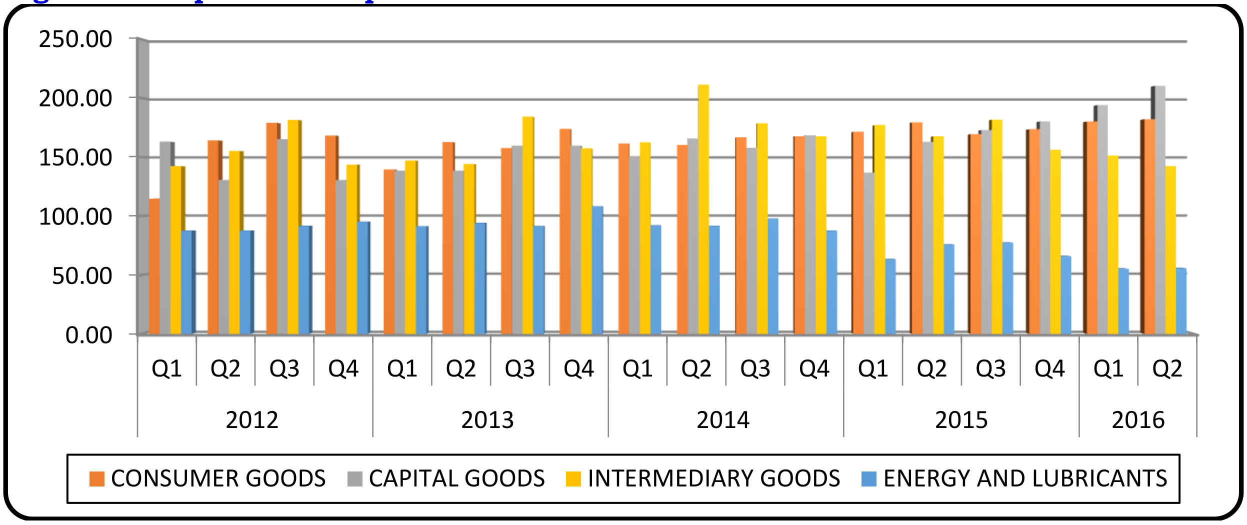
Table 10: Imports developments in % change

	Volume				Value			
	2015Q1	**2015Q2**	**2016Q1**	**2016Q2**	**2015Q1**	**2015Q2**	**2016Q1**	**2016Q2**
Total imports	**474.96**	**521.43**	**478.86**	**467.18**	**548.53**	**585.57**	**580.75**	**590.50**
% Change	*17.2*	*20.6*	*0.8*	*-10.4*	*-3.1*	*-6.9*	*5.9*	*0.8*
Consumer goods	150.20	182.36	186.89	171.02	171.53	179.49	180.12	182.11
% Change	*17.1*	*31.8*	*24.4*	*-6.2*	*6.2*	*12.0*	*5.0*	*1.5*
Capital goods	15.67	16.48	19.94	18.97	136.70	162.81	194.18	210.41
% Change	*5.5*	*9.9*	*27.2*	*15.1*	*-9.0*	*-1.8*	*42.0*	*29.2*
Intermediary goods	246.78	233.56	195.27	205.56	177.09	167.55	151.33	142.35
% Change	*26.6*	*9.9*	*-20.9*	*-12.0*	*9.0*	*-20.7*	*-14.5*	*-15.0*
Energy and lubricants	62.30	89.03	76.76	71.63	63.22	75.72	55.12	55.64
% Change	*-7.4*	*34.2*	*23.2*	*-19.5*	*-31.2*	*-17.3*	*-12.8*	*-26.5*
Trade deficit					-410.76	-448.22	-458.69	-444.00
% Change					*5.8*	*3.7*	*-11.7*	*0.9*
Imports cover (ratio of exports to imports)					**25.1**	**23.5**	**21.0**	**24.8**

Source: BNR, Statistics Department

Imports of consumer goods, which are dominated by food products with a share of 74.0% in volume and 36.2% in value, decreased in volume by -6.2% but increased in value by +1.5% in 2016Q2. The drop in volume was mainly attributed to the fall in imports of food products (-10.7%), beverages and tobacco (-6.9%) and domestic articles (-4.4%) as well as sugar and sweets (-56.8%).

Figure 10: Imports developments in USD millions



Source: BNR, Statistics Department

Capital goods, dominated by machines, devices and tools, and transport materials, increased in both volume and value by 15.1% and 29.2% in 2016Q2, mainly due to the high imports of machines and devices (+9.6% in volume and +22.4% in value), as well as imports of trucks which increased by 94.9% in volume and by 112.9% in value.

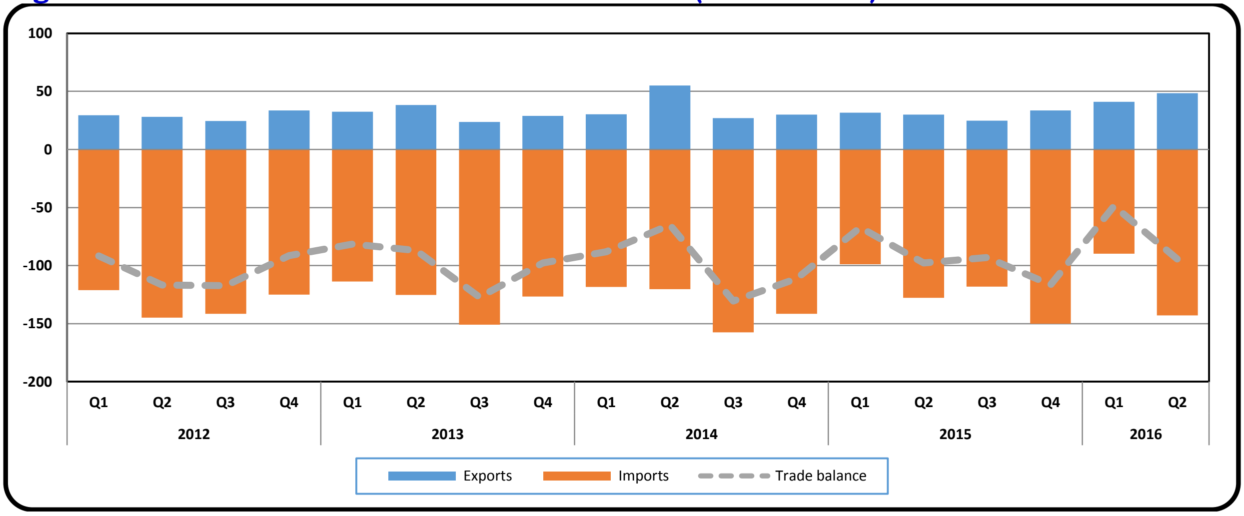
Intermediary goods, dominated by construction materials, industrial products, and fertilizers, decreased in both volume and value by 12.0% and 15.0%, respectively. The decrease was mainly due to the imports of construction materials which decreased by 28.6% in volume and by 29.7% in value, driven by the fall in imported cement and other similar products which represent 72.0% of imports of construction materials. In fact, imports of cement and other similar products decreased in both volume and value by 33.1% and 35.7% respectively as a result of increased domestic production.

Imports of energy and lubricants decreased by 19.5% in volume and 26.5% in value, due to the decline in imports of petroleum products by 12.1% in volume and 26.2% in value.

2.3.4 Trade with EAC countries

Rwanda's exports to other EAC member countries which represent 33.0% of total exports, increased by 61.1% to recover from a decline of 45.4% in the corresponding period of 2015, amounting to USD 48.5 million from USD 30.1 million in 2015Q2. Imports from EAC countries increased by 11.9%, from USD 127.8 million recorded in 2015Q2 to USD 143.0 million in 2016Q2. As a result, trade deficit improved by 3.3%, to USD 94.5 million in 2016Q2 from USD 97.7 million in the corresponding period of 2015.

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



Source: BNR, Statistics Department

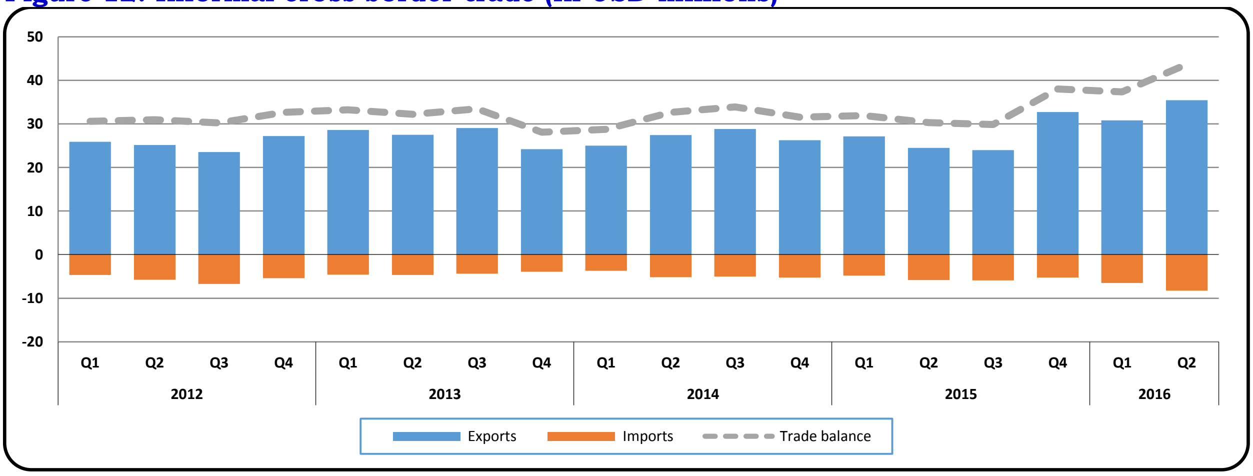
Rwanda's main exports to other EAC member countries remain tea sold at Mombasa commodity exchange, raw hides and skins of bovine, coffee, bars and rods of iron or non-alloy steel, leguminous vegetables, telecommunication equipment and beer. With regard to imports, the main products are cement, refined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

2.3.5 Informal cross-border trade

With regard to the informal cross-border trade, total informal exports with neighbouring countries, which account for 24.1% of formal exports in 2016Q2, significantly increased by 44.7% and amounted to USD 35.4 million in 2016Q2 from USD 24.5 million in the same period of 2015.

The major commodities traded in informal cross border exports are agriculture products, telecommunication equipment and livestock. In terms of share, exports to the Democratic Republic of Congo (DRC) represent a big share of 63.9% of the total informal cross border exports, followed by exports to Uganda with 28.4%, exports to Burundi and Tanzania account for 7.8% and 0.02% respectively.

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



Source: BNR, Statistics Department

Informal imports increased by 41.9% in 2016Q2, to USD 8.3 million from USD 5.8 million in 2015Q2. Rwanda's informal trade surplus with neighbouring countries increased by 45.5%, from USD 18.6 million in 2015Q2 to USD 27.1 million in 2016Q2. The main imported products from neighbouring countries are coffee, Irish potatoes, fresh fish, sorghum, bananas for cooking, and other manufactured and recycled products, where the main trading partners are Uganda, Burundi and Democratic Republic of Congo (DRC) which have a share of 58.2%, 31.6% and 7.7% respectively.

2.4 Domestic Debt Developments

The stock of the Government domestic debt at the end of 2016Q2 amounted to FRW 474.8 billion, indicating an increase of 20.0% against the previous year's same period. The upsurge resulted from increases in both holdings of banking and non-banking sectors respectively by 11.5% and 42.9%.

Table 11: Sectoral Composition of Public Domestic Debt (billion FRW)

Sector	*2015*				*2016*		*Annual %age Q2.16/Q 2.15*
	Q1	Q2	Q3	Q4	Q1	Q2	
BNR (excluding monetary instruments)	**38.6**	**38.6**	**38.6**	**38.6**	**39.8**	**43.2**	**11.9**
Consolidated debt	38.6	38.6	38.6	38.6	38.1	38.1	-1.3
Overdraft	0	0	0	0	1.7	5.1	-
Banking Sector	**199.3**	**250.5**	**253.7**	**268.6**	**282.4**	**279.4**	**11.5**
Development bonds	47.2	48.4	55.7	61.0	66.8	70.3	45.2
Bonds issued at MINECOFIN	0.9	0.9	0.8	0.4	0.4	0.4	-55.6
Treasury bills (issued at BNR for treasury issues)	151.2	201.2	197.2	207.2	215.2	208.7	3.7
Non-Banking Sector	**104.6**	**106.5**	**106.0**	**113.2**	**127.3**	**152.2**	**42.9**
Development bonds	36.2	40.9	47.6	53.5	63.3	69.3	69.4
Consolidated debt to RSSB	50.2	49.5	48.5	54.0	39.4	38.3	-22.6
Bonds issued at MINECOFIN	0.9	0.8	0.9	0.9	0.9	0.9	12.5
Treasury bills (issued at BNR for treasury issues)	10.6	8.9	2.7	11.5	17.3	37.3	319.1
Other bonds for old arrears	6.4	6.4	6.4	6.4	6.4	6.4	0
TOTAL DOMESTIC DEBT STOCK	**342.5**	**395.6**	**383.9**	**420.4**	**449.4**	**474.8**	**20.0**

Source: MINECOFIN

Considering the government domestic debt by type of creditors, the government largely borrowed from banking sector and remains the main holder of the government overall outstanding debt with a total share of 58.8%. The increase in government domestic financing from the banking and non-banking sectors is reflected in the increase of new development bonds and treasury bills.

III. EXCHANGE RATE AND FOREIGN MARKET DEVELOPMENTS

The Rwandan Franc (FRW) has been under pressure due to the widening mismatch between imports and exports, coupled with the recent increase in forex demand by different companies and government projects under the Public Private Partnership (PPP) framework which needs to mobilize hard currency from the domestic market.

3.1 Exchange Rate Developments

Compared to 2016Q1, the FRW depreciation against the USD reached 1.9% by end 2016Q2. In the same period, the FRW appreciated by 4.8% versus the GBP but depreciated by 0.3% against the EURO. It also depreciated by 2.1%, 1.9% and 0.9% against the Kenyan shilling, Tanzanian shilling and Ugandan shilling respectively, while it appreciated by 5.1% versus Burundian franc.

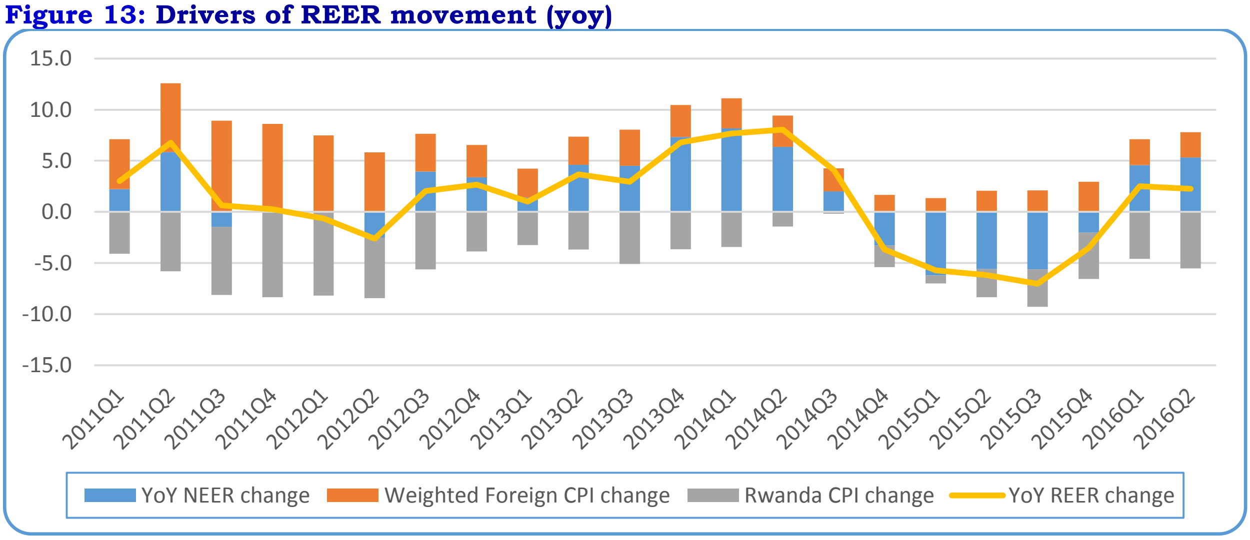
Table 12: Evolution of nominal exchange of selected currencies against US dollar (end 2016Q2 compared to 2016Q1)

	FRW/USD	FRW/GBP	FRW/EUR	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
2013Q4	1.9	4.3	4.1	2.7	3.0	3.3	0.9
2014Q1	1.2	2.1	1.0	1.1	-1.4	0.4	1.0
2014Q2	0.7	3.1	0.0	-2.0	-4.0	-2.8	-0.3
2014Q3	0.6	-3.8	-6.4	-1.4	0.8	-0.7	1.7
2014Q4	1.1	-3.6	-3.2	-0.5	-2.5	-3.7	-1.2
2015Q1	2.0	-2.7	-9.1	0.3	-4.6	-4.7	2.4
2015Q2	1.6	8.0	5.4	-5.0	-4.6	-8.6	1.9
2015Q3	1.5	-2.3	1.6	-4.9	-7.2	-9.2	1.8
2015Q4	2.3	0.1	-0.6	5.3	2.4	11.7	3.5
2016Q1	2.8	-0.2	6.3	3.9	1.4	2.8	1.5
2016Q2	1.9	-4.8	0.3	2.1	1.9	0.9	-5.1

Source: BNR, Monetary Policy and Research Department

Looking at the basket of currencies for Rwanda's main trading partners, it is worth mentioning that by end 2016Q2, the FRW real effective exchange rate depreciated by 2.3% (y-o-y) after a depreciation of 2.5% end 2016Q1, while in nominal effective terms, it depreciated by 5.3%.

Figure 13: Drivers of REER movement (yoy)

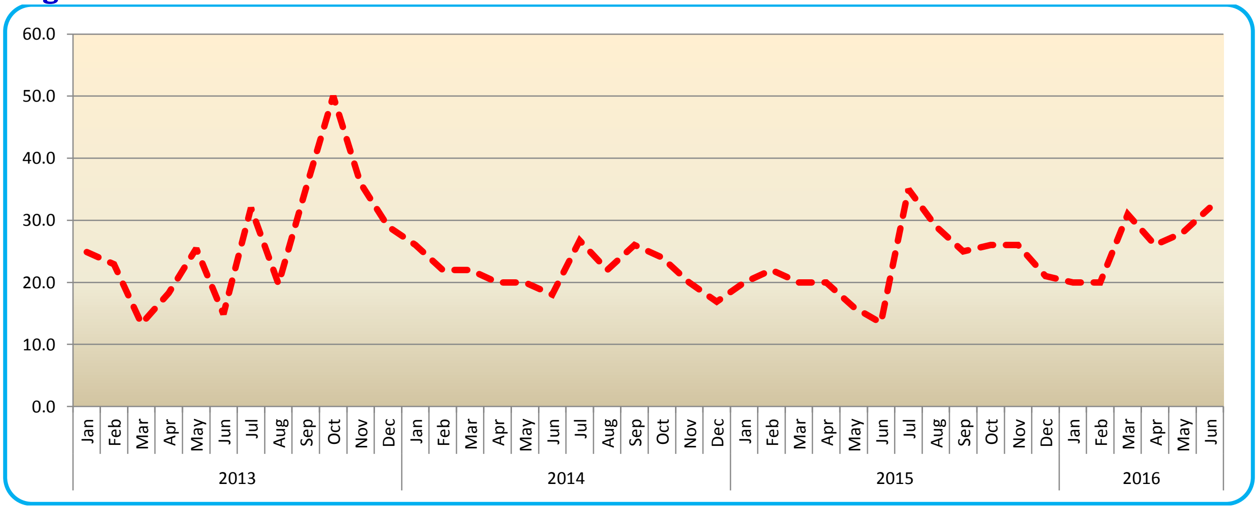


Source: BNR, Monetary Policy and Research Department

3.2 Domestic foreign exchange markets

In 2016Q2, the forex resources in the banking system stood at USD 752.08 million against USD 832.55 million in 2015Q2, while expenditures amounted to USD 688.17 million after USD 840.98 million in 2015Q2, leading to a surplus of USD 63.90 million in commercial banks. The decrease in resources was mainly attributed to exports revenues which decreased by 41.0% from USD 102.89 million to USD 60.70 million in 2016Q2.

Figure 14: BNR Sales to banks in millions of USD



Source: BNR, Financial Market Department

IV. MONETARY SECTOR DEVELOPMENTS

In 2016Q2, BNR's monetary policy remained prudent with unchanged policy rate at 6.5% since June 2014. This stance boosted the financing of the economy and domestic demand amid lower inflationary pressures both domestically and globally.

4.1 Monetary aggregates developments

The broad money supply M3 expanded by 6.2% in June 2016 compared to March 2016 from 12.0% recorded in the corresponding period of 2015 due to an expansion in net foreign assets and net domestic assets. The growth in money supply M3 decelerated to 6.1% between December 2015 and June 2016 from 16.7% in the corresponding period of 2015 as a result of a slowdown in the growth of net credit to government and the stock of credit to private sector.

Table 13: Money supply and its main sources (FRW billion)

	2015				2016		% change	
	Mar	Jun	Sep	Dec	Mar	Jun	Jun16/ Dec15	Jun16/ Mar16
Net foreign assets	**659.7**	**599.5**	**560.1**	**642.6**	**559.3**	**567.5**	**-11.7**	**1.5**
o/w BNR	575.6	535.0	491.6	609.1	545.6	570.8	-6.3	4.6
Commercial banks	84.1	64.5	68.4	33.5	13.6	-3.3	-109.9	-124.3
Net domestic assets	**615.2**	**828.3**	**857.9**	**839.5**	**920.7**	**1004.9**	**19.7**	**9.1**
Domestic credit	998.2	1172.1	1198.7	1221.9	1315.2	1418.7	16.1	7.9
Central government (net)	-3.4	125.0	98.7	39.5	73.2	124.4	214.9	69.9
Public enterprises	6.2	5.0	4.6	4.3	22.6	22.8	425.7	0.6
Private sector	995.4	1042.1	1095.4	1178.1	1219.5	1271.6	7.9	4.3
o/w in foreign currency	69.5	85.4	95.6	134.9	171.0	196.5	45.7	14.9
Other items net (Assets: +)	-383.0	-343.8	-340.8	-382.4	-394.6	-413.8	-8.2	-4.9
Broad money M3	**1274.9**	**1427.8**	**1417.9**	**1482.1**	**1479.9**	**1572.4**	**6.1**	**6.2**
Currency in circulation	117.4	134.9	122.0	142.6	133.0	150.8	5.7	13.4
Deposits	1157.5	1292.9	1295.9	1339.5	1347.0	1421.6	6.1	5.5
o/w Demand deposits	480.7	616.2	578.9	614.6	617.8	640.0	4.1	3.6
Time deposits	446.7	441.1	461.1	469.0	472.8	512.4	9.3	8.4
Foreign currency deposits	230.2	235.6	255.9	255.9	256.4	269.2	5.2	5.0

Source: BNR, Statistics Department

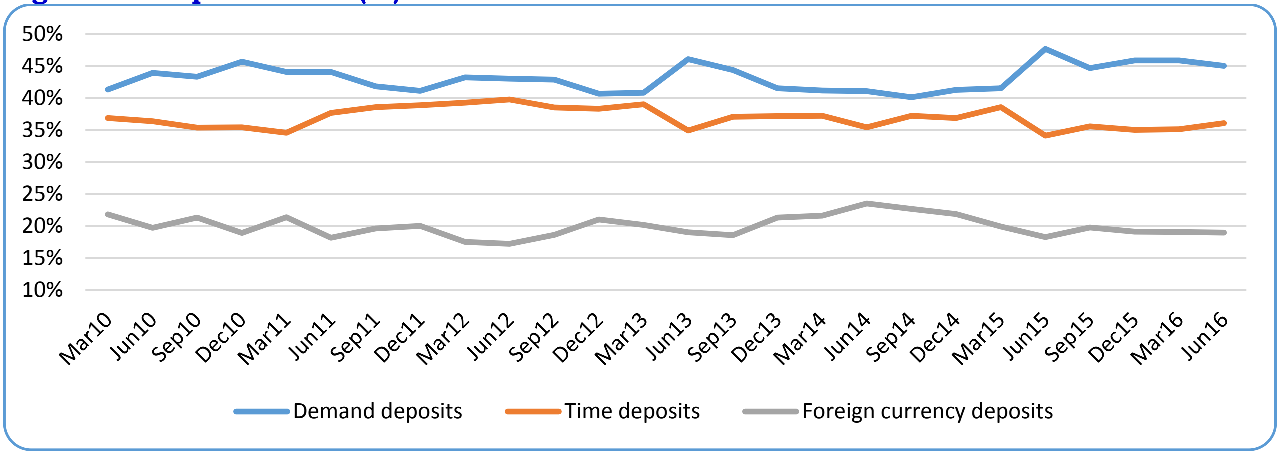
The net foreign assets recovered with an increase of 1.5% between March and June 2016 from a decline of 9.1% registered in the same period of the year before on the back of a positive improvement in NFA of BNR as a result of increased resources in foreign currency mainly from inflows for budget support and less expenditures in foreign currency.

On the demand side, total deposits and currency in circulation kept expanding but at lower rhythm in the first half of 2016 compared to same period of 2015 due to a slight slowdown in economic activity.

The slowdown in currency in circulation is attributed to the development in banking sector network and MFIs, payments system modernization and financial service awareness. The decline in the growth of deposits is linked to the slight decline in economic activity as already mentioned.

Demand deposits continued to dominate other deposits with a share of 45% of total deposits end June 2016 from 46% end March 2016 followed by term deposits with 36% from 35% and foreign currency deposits with 19.0% in June 2016 and March 2016. In the last five years, the share of demand deposits, term deposits and foreign currency deposits averaged 43.0%, 37.0% and 20.0% respectively.

Figure 15: Deposit ratios (%)



Source: BNR, Statistics Department

With regard to deposits by category of depositors, Households and non- profit Institutions Serving Households (NPISHs) own a big share of 46.6% of total deposits in June 2016 from 44.5% in March 2016 followed by other non-financial corporations with 28.6% from 28.7%, social security fund with 14.9% from 16.3%, other financial institutions with 8.4% from 8.3% and public enterprises with 1.6% from 2.2%.

4.2 Developments in Banks Credit

With regard to new authorized loans, they increased by 13.9% in 2016Q2 to FRW 227.2 billion from FRW 199.5 billion in 2016Q1 while expanding by 24.3% in 2016Q2 compared to 2015Q2.

Table 14: New authorized loans (FRW billion)

Activity branch	2014	2015			2016			% Change	
	Jan-Jun	Q1	Q2	Jan - Jun	Q1	Q2	Jan-Jun	Q2-16/ Q2-15	Q2-16/ Q1-16
Non classified Activities	33.8	14.8	15.8	30.6	19.0	18.8	37.8	**18.9**	**-1.0**
Agricultural, Fisheries& Livestock	3.4	3.8	2.9	6.7	3.4	2.8	6.3	**-3.9**	**-17.6**
Mining Activities	0.0	0.2	0.2	0.3	0.7	1.0	1.7	**584.1**	**50.0**
Manufacturing Activities	44.6	7.9	4.4	12.3	13.3	22.5	35.8	**407.3**	**69.1**
Water & Energy Activities	16.1	0.1	1.2	1.3	7.8	0.2	8.0	**-80.6**	**-97.0**
Public works and building	68.7	64.7	54.9	119.4	35.9	54.1	89.9	**-1.6**	**50.6**
Commerce, Restaurant and Hotels	132.0	74.7	69.6	144.2	103.9	112.2	216.1	**61.2**	**8.0**
Transport & Warehousing & Communication	15.5	6.7	17.6	24.6	8.7	10.1	18.7	**-43.0**	**16.0**
OFI & Insurances and Other Non-financial Services	1.2	0.6	11.9	2.5	3.0	0.5	3.5	**-95.6**	**-82.7**
Services provided to the Community	10.4	4.7	4.2	18.9	3.8	5.1	8.9	**19.9**	**31.5**
Total New Loans	**325.7**	**178.1**	**182.7**	**360.8**	**199.5**	**227.2**	**426.7**	**24.3**	**13.9**

Source: BNR, Financial Stability Directorate

Considering the sectoral distribution of new authorized loans, Commerce, restaurants and hotels continued to dominate other sectors with a share of 49.4% of total loans in 2016Q2 from 52.1% recorded in 2016Q1 followed by Public works and building with a share of 23.8% from 18.0%, manufacturing activities with a share of 9.9% from 6.7% Activities not classified elsewhere mainly composed by personal loans with a share of 8.3% from 9.5%.

The share of loans to public works and building expanded in 2016Q2 mainly due to the financing of one big company that obtained a loan worth 2.2% of total loans in the quarter while manufacturing activities' share also increased owing to the financing of two big companies whose loans worth 4.9% of total loans in 2016Q2.

It is important to note that the share of water and energy activities sector declined to 0.1% of total loans in 2016Q2 from 3.9% in 2016Q1 due to a higher financing in 2016Q1 especially to a big company of energy production that obtained a loan equivalent to 3.5% of the total loans authorized in that period.

4.3 Interest rates developments

In 2016Q2, money market interest rates were almost stable apart from interbank rate which kept increasing as the market was very active. T-bills and Repo increased respectively to 7.29% and 3.62% in 2016Q2 compared to 4.05% and 2.01% in 2015Q2, while interbank rate hiked to 5.93% compared to 4.03% during the corresponding period of the previous year.

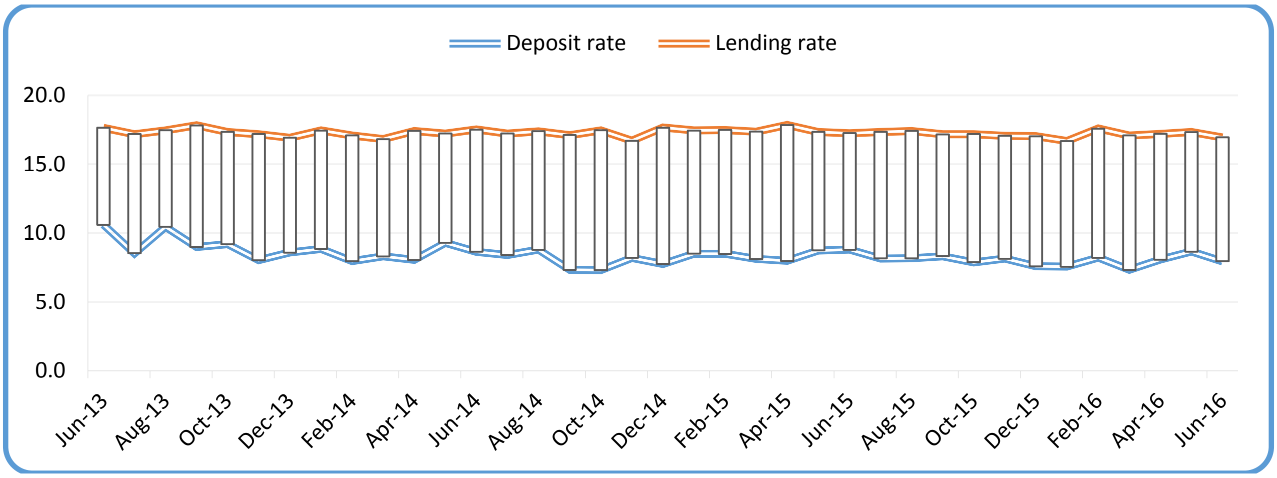
Table 15: Interest rates developments (in %)

	2014	2015				2016					
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
Key Repo Rate	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Discount Rate	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Repo rate	2.77	1.95	2.01	1.90	2.36	3.97	3.52	3.09	3.09	3.09	3.62
T-Bills Rate	4.88	4.33	4.05	4.64	7.04	7.27	6.05	6.35	7.15	6.85	7.29
Interbank Rate	4.74	3.79	4.03	3.67	3.73	4.93	4.80	5.18	5.59	5.91	5.93
Deposit Rate	7.76	8.12	8.80	8.32	7.59	7.56	8.22	7.32	8.07	8.65	7.94
Lending Rate	17.66	17.37	17.26	17.17	17.03	16.69	17.59	17.09	17.21	17.34	16.95
Spread	9.90	9.25	8.46	8.85	9.44	9.13	9.37	9.77	9.14	8.69	9.01

Source: BNR, Statistics Department

Contrary to the money market developments, lending and deposit interest rates were relatively stable, predictable and showed a slight decline. In 2016Q2, both lending and deposit rates declined respectively to 16.95% and 7.94% from 17.26% and 8.80% in 2015Q2. The decline in the deposit rate was mainly explained by the fact that there were some banks that collected savings from their customers with significant amount at low interest rate.

Table 16: Market interest rates



Source: BNR, Monetary Policy and Research Department

Interest rate spread has been high due to the persistence of structural problems such as high operating cost of banks as well as limited bargaining power for retail borrowers.

V. FINANCIAL STABILITY ANALYSIS

Rwanda's financial system remains sound and stable as evidenced by performance of various financial soundness indicators. Banking sector's capital and liquidity levels in 2016Q2 continued to remain adequate and above prudential limits amidst improving domestic economic environment. In general, the banking system continues to lead the sector with the largest share of the total financial sector assets.

5.1 Financial sector performance indicators

Herfindahl Hirschman Index (HHI) is one of the indicators for measuring concentration in the banking sector market for deposits and loans. This clearly indicates that the sector continues to feature an enhanced competition, with lowering concentration of deposits and loans markets. This has been largely facilitated by generic growth of new banks entering the market and favourable legal environment on financial services.

The banking sector assets expanded by 13.9% in 2016Q2 to stand at FRW 2.3 trillion from FRW 2.0 trillion recorded in the corresponding period of 2015. The total assets ratio to GDP increased to 55% in June 2016 up from 53.8% in June 2015. The growth in total assets of banks is mainly attributable to private financing whereby the loans account for 60%.

Table 16: Banking sector performance as at end June 2016 (in billions FRW)

	Jun-15	Mar. 16	Jun-16	YoY % change
Total assets	2,000.0	2,183.5	2,278.1	13.9%
Total deposits	1,366.5	1,445.2	1,507.0	10.3%
Loans (on balance sheet)	1108.8	1,289.9	1,322.6	19.3%
Profit after tax	23.6	10.0	19.3	-18.2%
Government Securities	216.7	246.7	229.2	5.8%

Source: BNR, Bank Supervision Department

The sector's profitability indicators slowed down with net profit for the industry declining by 18.2% from FRW 23.6 billion in 2015Q2 to FRW 19.3 billion in 2016Q2. The shortfall is attributable to high growth in remunerated savings, deposits and operational costs. As a result, the return on average assets (ROA), which intends to measure the efficiency of deposit takers in using their assets declined to 1.7% from 2.4% in 2015Q2, and from 1.9% in 2016Q1. Similarly, the return on average equity (ROE) fell to 9.2% from 13.1% in 2015Q2 and from 9.8% in 2016Q1. Indeed, the banks overhead cost to income ratio increased to 49.9% in 2016Q2 from 46.0% in 2015Q2 and 49.1% in 2016Q1.

Table 17: Key soundness indicators, (in %)

Indicator	2014				2015				2016	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Solvency ratio (total capital)	22.6	23.6	24.0	24.0	25.9	24.3	24.2	22.5	25.3	23.3
NPLs / Gross Loans	6.7	6.6	6.3	6.0	6.3	5.9	6.3	6.2	6.2	7.0
NPLS net of interests/Gross loans	5.7	5.5	5.5	5.1	4.8	4.9	5.1	5.2	5.2	6.1
Provisions / NPLs	56.4	50.0	55.3	56.8	52.3	51.5	48.3	46.2	46.0	42.7
Large Exposures / Gross Loans	15.1	15.8	14.8	17.7	19.3	22.5	20.9	23.4	22.6	25.6
Return on Average Assets	2.3	2.1	1.9	1.9	2.7	2.4	2.3	2.1	1.9	1.7
Return on Average Equity	11.9	12.1	10.9	10.8	14.0	13.1	12.7	11.2	9.8	9.2
Cost of deposits	4.1	3.4	3.2	3.3	3.1	3.1	3.1	3.2	3.7	3.6
Liquid assets/total deposits	46.3	54.2	54.0	49.2	46.0	49.5	46.8	45.7	43.9	42.8
Forex exposure/core capital	-12.6	-1.5	-4.8	-2.2	-5.5	-7.1	-7.9	-5.7	-6.6	-1.8

Forex loans/forex deposits	11.0	12.7	16.2	29.5	27.1	32.6	38.7	47.7	51.0	55.7

Source: BNR, Bank Supervision Department

The capital adequacy ratio (CAR) which signals the level at which unexpected shocks on banks' balance sheets can be absorbed before becoming insolvent show that the industry is well capitalised. The ratio stood at 23.3% during the quarter under review from 24.3% in 2015Q2 and 25.3% in 2016Q1. The change largely follows the increased needs for loans and advances by banks. The solvency ratio resiliently remains above the minimum prudential benchmark of 15.

Furthermore, the banking liquidity ratio stood at 42.8% in 2016Q2 from 49.5% in 2015Q2 and remains well above the minimum prudential norm ratio of 20%. This buffer provides the assurance of depositors' protection as well as the stability of the banking system. Similarly, the non-performing loans (NPLs) net of Provisions to core capital stood at 6.1% from 4.9% in the same period in 2015Q2, indicating that the banking system is robust to withstand losses from NPLs.

The banks' assets quality in 2016Q2 slightly deteriorated with NPLs which increased to 7.0% compared to 5.9% recorded in 2016Q2. This was mainly due to prudent measure on loan classification and workout plans by banks as well as enhanced supervision to ensure compliance with prudential standards. However, this is not worrying as banks are able to absorb related risks following the strong capital buffers in the system.

Regarding the sectoral distributions of new cash loans authorised in 2016Q2, commerce, restaurant and hotel sector attracted more loans followed by the public works and building industries. Looking at the previous period's sectoral loan distribution, the two same sectors have been highly financed compared to other sectors and their performance has been among the major contributors to the real economic growth. The energy and water sector with a share of 0.2% of new authorized loans lags behind other sectors in terms of bank financing. This apparent lack of diversification may pose serious risks to the banking sector stability as would make banks vulnerable to adverse developments in those loan concentrated sectors.

5.2 Financial stability and Monetary Policy

The soundness indicators show that the banking sector remains sound and performed satisfactorily in the quarter under review. The sector continued to be characterised by enhanced competition, well capitalised and liquid as well as profitable.

The interest rate spread recorded 9.0% in June 2016, slightly lower than 9.8% of the previous Quarter but slightly higher than 8.5% of the corresponding same quarter in 2015. Generally the spread is still high. While higher spread may lead to more profitability in the banking sector, it may also reflect high-perceived risks, slow transmission mechanism of monetary policy as well as the lower level of competitiveness in the banking sector. However, the Herfindahl Hirschman Index continues to indicate that deposits and loans markets in Rwanda's banking system are low concentrated.

VI. ECONOMIC OUTLOOK AND RISKS

6.1 Global Economic Outlook

The world economy continues to grow at slowing pace amid renewed financial and political turbulences and still sluggish global demand. From 3.4% in 2014, the global economy further decelerated to 3.1% in 2015. In 2016Q1, real GDP grew by 2.5% annually after 2.6% in 2015Q4. Looking ahead, the British vote to leave the European Union adds to concerns over the global economic health and leads to a downward revision of growth projection to 3.1% on average in 2016, 0.1% lower than April 2016 forecasts and 0.5% less than October 2015 projections.

In advanced economies, supported by accommodative monetary policy, still low though recovering energy prices, improving confidence and a return to fiscal neutrality, real GDP growth is expected at 1.8% in 2016 compared to 1.9% and 2.2% initially forecasted in April 2016 and October 2015 respectively, hindered by low productivity growth, still weak external demand and legacies from the global financial crisis which have not fully waned. This downward revision reflects the expected impact of the Brexit mostly on advanced European economies while it will be relatively mute outside Europe.

6.2 Domestic Economic Outlook

The Rwandan economy grew by 5.4% in 2016Q2 after 7.6% in 2016Q1 supported by prudent monetary policy implemented by BNR aiming to the financing of the private sector by the banking sector. The economy is projected to grow by 6.0% in 2016 from 6.9% recorded in 2015 as the sluggish global economy and the still lower levels of commodity prices continue to weigh down Rwanda's external sector.

Leading indicators of the economic activity indicate that the economy continues to perform well in 2016Q3 and evolving towards attaining the projected growth of 6.0% in 2016. Total turnovers of industry and services sectors increased by 10.2% in 2016Q2 compared to 11.5% recorded in 2015Q2 while the composite index of economic activities (CIEA) increased by 12.3% in 2016Q2 lower than 15.1% achieved in 2016Q1 and 13.5% in 2015Q2, indicating a slowdown of economic activities. This was mainly led by the poor performance in the mining sector (-16.2% in 2016Q2 from -20.5% in 2015Q2) and a deceleration in growth of credit to private sector (17.2% from 32.8%).

The prudent monetary policy continued to facilitate the development of economic activities by expanding credit to private sector. Total new loans to the private sector increased by 8.9% in 2016Q2 against 14.5% in 2015Q2, amounting to FRW 199.0 billion from FRW 182.7 million. Outstanding loans to private sector increased by 7.9% to FRW 1,271.6

billion end June 2016 from FRW 1,148.1 billion end December 2015 and by 22.0% compared to 1,042.1 billion end June 2015.

6.3 Monetary Policy outlook

The prudent policy loosening adopted by BNR continues to yield expected good results as aggregate demand has been progressively improving. To continue sustaining economic growth, in 2016Q3 BNR still has a room to support the financing of the economy.

Generally, inflation in Rwanda continues to record moderate and low levels though it has been increasing since the beginning of 2016. Headline inflation slightly rose to 4.9% end June 2016 from 4.5% end March 2016 and 2.0% end June.