**NATIONAL BANK OF RWANDA**

# Quarterly Economic and Financial Report: Developments and Prospects


**FIRST QUARTER 2015**

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# *EXECUTIVE SUMMARY*

*The first 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 driven by improving economic activity in advanced economies following the decline in energy prices. However, weak performances in United States, China and a recession in Russia in the first quarter 2015 are likely to lead to a weak global growth. Recent estimates set the global real GDP growth at 1.8% in 2015Q1 after 2.3% and 2.8% respectively in 2014Q4 and 2013Q3. This slowdown is expected to be temporary as shown by increasing global composite Purchasing Manager Index in March 2015 which suggests better outlook ahead. By end 2015, world GDP growth is expected at 3.5% against 3.4% in both 2014 and 2013.*

*Inflationary pressures remained below the Central Bank's targets in advanced economies owing to both weak demand as evidenced by the negative output gap and easing commodity prices especially energy prices. Therefore, monetary policy remained accommodative to continue to support the economic activity and push inflation closer to the Central Banks targets.*

*After a slowdown in 2013, the Rwandan economy grew by 7.0% in 2014. This good performance was supported by effective coordination of monetary policy and fiscal policy and the accommodative monetary policy implemented by BNR since 2013 which led to the increase in financing of the private sector by the banking sector and contributed to boost consumption and private investment. Bank financing to the private sector increased where new authorized loans rose by 38.2% in 2014 from a decline of 5.3% in 2013 and outstanding loans increased by 19.5% after 11.1% in 2013. This economic performance is expected to continue in 2015Q1 as evidenced by the positive trends in leading indicators of economic activities such as the composite index of economic activities which increased by 12.7% in 2015Q1 after 12.3% and 7.8% in 2014Q4 and 2014Q1 respectively and economy is projected to grow by 6.5% in 2015.*

*In 2015Q1, total formal exports increased by 6.0% in value and by 19.5% in volume mostly driven by increase in volume of tea (+21.8%) and other exports (+36.3%), compared to a decrease of 21.95% during the same period of the previous year. Traditional exports performed poorly decreasing in both value and volume by 10.3% and 1.9% respectively, due to the decrease in the mining sector which went down by 25.8% in value and by 28.2% in volume. Total imports recorded an increase of 0.9% in value and 14.0% in volume compared to the same period of 2014. The increase in volume of imports was due to an increase in consumer goods (14.7%) mainly due to the increased demand for cereals, flour and seeds (+36.4%). As a result, Rwanda's trade balance slightly reduced by 0.6% to USD 432.53 million from USD 435.06 million in 2014Q1. Exports covered 24.2% of imports from 23.0% in 2014Q1. Trade balance is expected to persist in the short to medium term as strong demand for both intermediate and capital goods as well as lubricants continue to gradually expanding but still narrow export base.*

*In 2015Q1, inflation in Rwanda remained subdued due to sustained and well-coordinated monetary and fiscal policies and limited inflationary pressures from trading partners including stable international oil prices. Headline Inflation fell to 0.8% in March 2015 compared to 2.1% recorded in December 2014 and 3.4% in March 2014.*

*Since June 2013, the National Bank of Rwanda has maintained an accommodative monetary policy stance in order to support the financing of the economy. This has resulted into strong growth in credit to the private sector and increased liquidity injection from the fiscal operations such as banking system liquidity conditions remain healthier and most of the short term interest rates are showing a downward trend. Further still, the Rwandan franc has remained quite stable recording a nominal depreciation of 2.0% between Dec.2014 and March 2015.*

*The Rwandan financial system remains sound, healthier and well placed to support the expansion in the economy. The banking system is well capitalized, funding and liquidity buffers are comfortably above required minimum, and non-performing loans continue to decline. Regulatory changes in recent past have helped to improve prudential standards for both banks and non-bank deposit-takers. 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 continues to increase at moderate pace driven by improving economic activity in advanced economies following the decline in energy prices. However, weak performances in United States, China and a recession in Russia in the first quarter 2015 are likely to lead to a weak global growth. Recent estimates set the global real GDP growth at 1.8% in 2015Q1 after 2.3% and 2.8% respectively in 2014Q4 and 2013Q3.This slowdown is expected to be temporary as shown by increasing global composite Purchasing Manager Index in March 2015 which suggests better outlook ahead. By end 2015, world GDP growth is expected at 3.5% against 3.4% in both 2014 and 2013.

Inflationary pressures remained below the Central Bank's targets in advanced economies owing to negative output gap and easing commodity prices especially energy prices. Therefore, monetary policy remained accommodative to continue to support the economic activity and push inflation closer to the CBs targets.

## I.1 Economic growth

In advanced economies, growth is foreseen to further increase in 2015 helped by a great boost from the demand led by declining oil prices while geopolitical tensions should have downside effects. Real GDP is expected to 2.4% by end 2015 against 1.8% recorded a year before.

In USA, real GDP contracted to 0.7% in 2015Q1, following reported harsh weather; energy related spending cuts as well as a 4.5% gain of USD against the currencies of the US main trade partners. Negative contributions to GDP growth came from exports, non-residential fixed investment and government spending partly offset by positive private consumption expenditure, private inventory investment and residential fixed investment. Recent survey indicators point to still positive though moderate economic growth over the short term. The leading economic indicator (LEI) has increased by 0.2% in March following an increase of 0.1% and 0.2% respectively in February and January 2015. Confidence among consumers has also rebounded in March, a sign that the economic growth slowdown was temporary. For the year 2015, the US economy is revised down to 2.5% against 3.1% previously forecasted and 2.4% recorded in 2014. Business investment and private consumption will remain the key driver but net exports will be affected by the strong value of the US dollar.

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

| | 2014 | | | | 2015 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | | | |
| World (Y0Y) | 1.9 | 2.4 | 2.8 | 2.3 | 1.6 | 3.4 | 3.4 | 3.5 |
| USA (QoQ) | -2.1 | 4.6 | 5.0 | 2.2 | -0.7 | 2.2 | 2.4 | 2.5 |
| Euro area (YoY) | 1.1 | 0.8 | 0.8 | 0.9 | 1.0 | -0.5 | 0.9 | 1.5 |
| Japan (QoQ) | 4.9 | -6.9 | -2.1 | 1.1 | 2.4 | 1.6 | -0.1 | 1.0 |
| UK (YoY) | 2.7 | 2.9 | 2.8 | 3.0 | 2.4 | 1.7 | 2.6 | 2.7 |
| China (YoY) | 7.4 | 7.5 | 7.3 | 7.3 | 7.0 | 7.8 | 7.4 | 6.8 |
| India (YoY) | 4.6 | 5.7 | 5.3 | 7.5 | 7.4 | 6.9 | 7.2 | 7.5 |

**Source:** BLOOMBERG & IMF, World economic Outlook, April 2015

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

In Euro zone, the economy is gradually improving, thanks to easing monetary policy by ECB, improving business and consumer confidence as well as continued falling oil prices and depreciation of the euro currency. For the near future, recent leading indicators suggest a moderate recovery: the confidence improved by 3.0 points among consumer, the business confidence went up by 1.6 points to 103.9 and the leading economic index added 0.7% in March after 0.6% and 0.2% in February and January 2015. In addition, exports are expected to increase as result of the global recovery and improving prices competitiveness in the euro zone. Overall, real GDP increased by 1.0% in 2015Q1 after 0.9% in 2014Q4 and to further strengthen to 1.5% on average by end 2015. However, the downside risks remain related to disagreements around assistance plan for Greece.

Supported by housing investment and private consumption, the Japanese economy increased by 2.4% in 2015Q1 after a recovery of 1.1% in 2014Q4 from two quarters of recession following the April 2014 VAT hike. Recent survey indicators are suggesting continuous though moderate economic recovery over the short term: the six month average LEI up to February 2015 hiked by 4.2% on annual basis against a decline of 6.4% for the six previous months and the confidence among consumers improved by 4.1% month to month. In spite of fiscal and monetary stimulus, GDP growth recorded -0.1% on average in 2014, but is projected to recover to 1.0% in 2015.

While decelerating, growth in emerging and developing economies remained sustained. Real GDP grew by 4.6% in 2014 against 5.0% in 2013 and projected at 4.3% in 2015. This deceleration in growth is due to political conflicts in different regions, weak global demand and tightening financial market conditions and weakening activities in oil exporting countries.

In Asia, growth remained robust driven by China and India. Nevertheless, the Chinese economy has slowed to 7.0% in 2015Q1 after 7.3% in both 2014Q3 and 2014Q4 due to increased wage-cost, appreciation of Renminbi and slowdown of investment in real estate and industrial production following ongoing adjustments in sectors with excess capacity of production. Despite Chinese government fiscal and monetary stimulus efforts, GDP growth decelerated to 7.4% in 2014 and would furthermore slow down to 6.8% in 2015.

In Sub-Saharan Africa, the economic activity is projected to expand at a slower pace in 2015 to 4.5% from 5% recorded in 2014. The slower pace reflects the region’s vulnerability to falling commodity prices, waning terms of trade, rise of new type of conflicts and disease epidemics. In EAC, after erratic developments in 2013, economies improved in 2014 and are expected to continue improving in 2015.

**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

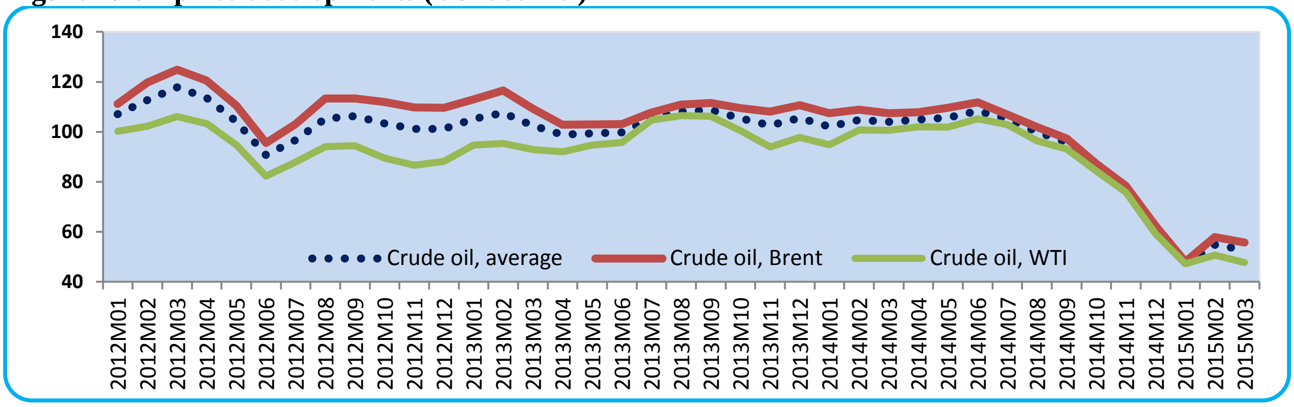
## I. 2 Inflation and Commodity Prices

### 1.2.1 Commodity prices

On commodity markets, prices continued to decline led by both energy and non-energy commodity prices. For the third consecutive quarter, energy prices fell by 28.2% in 2015Q1 after they had declined by 22.9% in 2014Q4 and non-energy decreased by 6.4% after a contraction of 4.2% in 2014Q4. The decline concerned all main groups of commodities and resulted from the strength of US dollar, abundant supply and large stocks for some commodities amid a weak global demand.

In 2015Q1, energy prices fell by 28.2% mostly led by oil prices which fell by 30.9% on quarterly basis to USD 51.57/barrel from USD 74.59/barrel in 2014Q4. Brent oil prices fell to USD 53.93 and USD 76.01/barrel respectively in 2015Q1 and 2014Q4, i.e by 29.1% and 25.5% respectively following increased supply and a weak demand. Oil markets remained oversupplied as oil exports recovered from earlier tensions in Iraq and increasing US shale oil production.

**Figure 1: Oil price developments (USD/barrel)**




**Source**: World Bank

Non-energy prices dropped by 6.4% in 2015Q1 led by decline in agricultural commodity prices, prices of fertilizers and metals & minerals prices which fell by 4.9%, 2.7% and 10.8% respectively. Prices of agriculture commodities dropped as result of plentiful supply and positive outlook for production. Food prices went down in 2015Q1 by 5.1% after a decline of 2.6% in 2014Q4: prices sank by 1.5% for grains, by 6.2% for oils and meals and for other food by 6.7%.

**Table 3: commodity prices (% increase)**

| | 2013 | | | | 2014 | | | | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| **OIL** | **3.1** | **-5.5** | **8.1** | **-2.7** | **-0.8** | **2.6** | **-5.6** | **-25.7** | **-30.9** |
| Crude oil, Brent | 2.2 | -8.8 | 6.9 | -0.6 | -1.4 | 1.8 | -7.0 | -25.5 | -29.1 |
| WTI crude oil | 7.0 | -0.1 | 12.4 | -7.9 | 1.3 | 4.4 | -5.4 | -25.0 | -33.6 |
| **BEVERAGES** | **-5.3** | **-1.4** | **-1.3** | **1.1** | **13.7** | **10.8** | **0.5** | **-2.8** | **-8.9** |
| Coffee, Arabica | -6.1 | -4.7 | -6.8 | -7.2 | 38.2 | 22.1 | -2.4 | 1.8 | -16.1 |
| Tea, Mombasa auctions | -4.2 | -18.1 | -5.4 | -3.9 | 7.1 | -13.4 | 1.1 | -5.4 | 21.7 |
| Sugar, world | -5.6 | -5.6 | -2.4 | 3.1 | -5.2 | 8.1 | -4.9 | -6.3 | -10.7 |
| **CEREALS** | **-4.4** | **-3.7** | **-12.0** | **-10.0** | **0.6** | **0.7** | **-11.9** | **-0.8** | **-1.5** |
| **FRUITS** | 0.7 | -3.6 | -11.9 | -7.2 | 0.2 | -11.3 | 10.1 | -2.7 | -1.1 |
| **METALS &MINERALS** | **4.3** | **-10.7** | **-0.4** | **0.8** | **-3.2** | **-1.0** | **2.6** | **-6.5** | **-10.8** |
| Aluminium | -0.1 | -8.2 | -2.9 | -0.9 | -3.3 | 5.3 | 10.5 | -1.0 | -8.5 |
| Gold | -5.1 | -13.2 | -6.1 | -4.3 | 1.7 | -0.4 | -0.6 | -6.4 | 1.6 |
| Tin | 11.2 | -13.0 | 2.0 | 7.4 | -1.1 | 2.3 | -5.3 | -9.2 | -7.7 |

**Sources:** World Bank, IMF World Economic Outlook April 2015

With regard to beverages, prices further dropped by 8.8% in 2015Q1 compared to a decline of 2.8% in the previous quarter. Prices eased for coffee due to higher exports from Brazil helped by a weakening currency. Arabica prices lost by 16.1% and Robusta prices slid by 6.1% in 2015Q1. Average prices of tea fell by 7.7% weighed down as result of prices of tea Kolkota (-30.7%), Tea Colombo (-6.5%) while tea prices increased on Mombasa auction (+22.2%) as production declined in Kenya as a result of dry weather.

Due to weak demand and gradually improving supply, metals and minerals prices slid by 10.8% in 2015Q1 after -6.5% in the previous quarter (prices of base metals shrank by 10.2% while prices for precious metals rose by 1.5%).

For 2015, commodity prices are expected to further weaken as the demand is expected to remain weaker compared to supply. Oil prices are projected to fall by 39.6% after a decline of 7.5% in 2014 and metals by 16.6% against a contraction of 6.6%. Prices are projected to decline by 4.8% in 2015 for fertilizers, coffee Arabica by 26.5% and coffee Robusta by 18.1% while tea prices are expected to increase by 21.8%.

### 1.2.2 Inflation

Inflationary pressures remained below the Central Banks targets in advanced economies owing to negative output gap and easing commodity prices especially energy prices. In developed countries, inflation stabilized at 1.4% in 2014, the same level as in 2013 while projected to decelerate to 0.4% in 2015.

**Table 4: Annual inflation developments in %**

| | **2013** | | | | **2014** | | | | **2015** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Mar.** | **Jun.** | **Sept.** | **Dec.** | **Mar.** | **Jun.** | **Sept.** | **Dec.** | **Jan.** | **Feb.** | **Mar.** |
| USA | 1.5 | 1.8 | 1.2 | 1.5 | 1.5 | 2.1 | 1.7 | 0.8 | -0.1 | 0.0 | -0.1 |
| Euro Zone | 1.7 | 1.6 | 1.1 | 0.9 | 0.5 | 0.5 | 0.3 | -0.2 | -0.6 | -0.3 | -0.1 |
| UK | 2.8 | 2.9 | 2.7 | 2.0 | 1.6 | 1.9 | 1.2 | 0.5 | 0.3 | 0.0 | -0.0 |
| Japan | -0.9 | 0.2 | 1.0 | 1.6 | 1.6 | 3.6 | 3.2 | 2.4 | 2.4 | 2.2 | 2.3 |
| China | 2.0 | 2.6 | 3.1 | 2.5 | 2.4 | 2.4 | 1.8 | 1.5 | 0.8 | 1.4 | 1.4 |

**Source:** National Statistics Offices

In the Euro area, inflation was negative since December 2014 due to negative output gap and falling oil prices. In March 2015, it stood at -0.1% slightly up compared to -0.3% in February 2015 and -0.2% in December 2014 as result of slowing decline in energy prices (energy prices fell by 5.8% in the year up to March 2015 after 7.9% in February 2015). In Japan, despite continuous accommodative monetary policy, inflation slid to 2.3% end March 2015 from 2.4% end December 2014. It was slightly up compared to 2.2% realized in February due to increase in prices for food, clothes and footwear, for culture and recreation as well as for fuel, light and water charges. In US, inflation became negative at -0.1% in March 2015 from 0.8% in December 2014 owing to declines in food and energy prices as well as strong value of US dollar which slashed the prices of imported stuffs. Chinese inflation stayed flat at 1.4% in March reflecting lower food and services prices after the Lunar New Year holiday that fell in February 2015 against 1.5% recorded in December 2014.

In EAC, inflation remained contained due to softening prices of energy as well as positive agriculture performances despite some seasonal shocks. Rwanda's inflation fell to 0.8% in March from 2.1% in December 2014 reflecting a sharp decline in transport inflation which dropped from -2% in January to -3.9% in March 2015 and food inflation from 1.2% to 0.8% during the same period. Compared to December 2014, Tanzania's inflation edged down to 4.3% in March from 4.8% in December 2014 on falling food and fuels prices.

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

| | 2013 | | | | 2014 | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Mar.** | **Jun.** | **Sept.** | **Dec.** | **Jun** | **Sep.** | **Dec.** | **Jan** | **Feb** | **Mar** |
| Uganda | 4.0 | 3.4 | 8.4 | 6.7 | 4.9 | 1.4 | 1.8 | 1.3 | 1.6 | 1.9 |
| Kenya | 4.1 | 4.9 | 8.3 | 7.2 | 7.4 | 6.6 | 6.0 | 5.5 | 5.6 | 6.3 |
| Tanzania | 9.8 | 7.6 | 6.1 | 5.6 | 6.4 | 6.6 | 4.8 | 4.0 | 4.2 | 4.3 |
| Burundi | 5.9 | 11.4 | 12.1 | 9.0 | 3.3 | 5.5 | 3.8 | 3.5 | 1.2 | 4.7 |
| Rwanda | 3.3 | 3.7 | 5.1 | 3.7 | 1.4 | 0.2 | 2.1 | 1.4 | 0.7 | 0.8 |

**Source:** Country Bureaus of Statistics

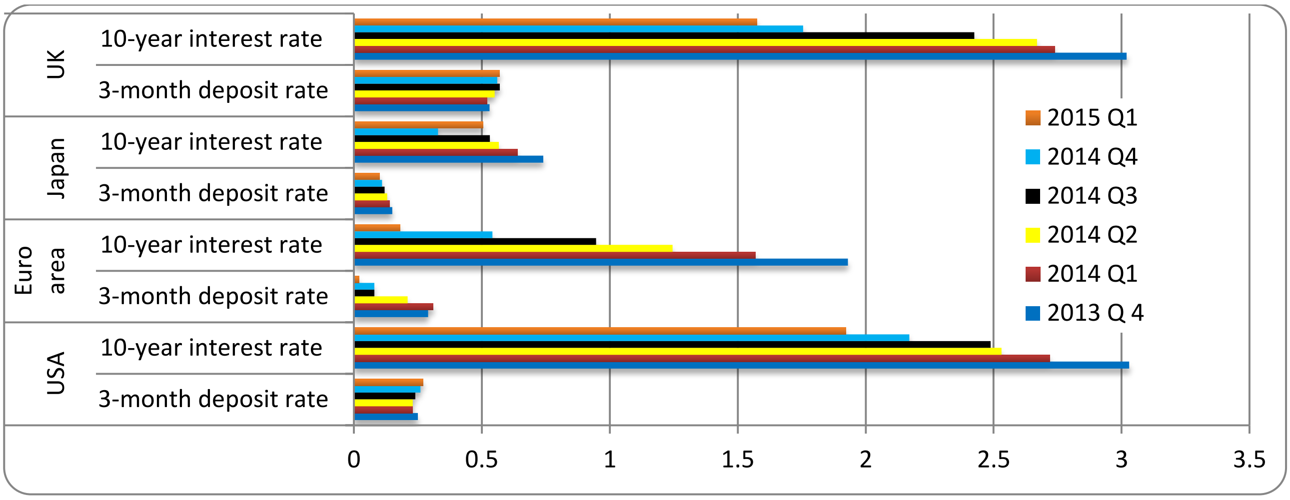
Uganda's inflation rose to 1.9% in March from a revised figure of 1.6% a month earlier and 1.8% in December 2014, driven by a continuous increase in non-food prices. Kenya's inflation rose to 6.3% in March from 5.6% in the previous month due to rising prices of vegetables, milk and other foodstuff. Burundi's inflation rate edged up by 4.7% driven by a hike in prices of food and non-alcoholic beverages, clothing and footwear, Housing, water, electricity, gas and other fuels as well as Restaurants and hotels.

## I. 3 Monetary Policy and Financial Markets

Monetary policy in developed countries remained accommodative to boost economic activities. Central bank rates remained low: 0.05% in Euro area, 0.25% in US, 0.5% in UK and 0.10% in Japan. However, USA is likely to increase its fund rate though later in 2015 than previously announced. This interest rate hike is however conditional to further improvement in labour market and expectations about inflation to move back to its 2% objective over the medium term. In its meeting on 29-30 April 2015, the FOMC decided to keep the Fund rate at 0.25% to support continued progress towards maximum employment and price stability.

The 10-year interest rates remained at historic low level since the beginning of this year in all major economies as result of the European Central Bank quantitative easing combined with lower than expected economic data in United States and geopolitical tensions in emerging economies. European portfolio outflows seeking for higher yield increased demand for longer-term debt securities in the United States. For the 2015Q1, 10-year further decelerated to 1.92% from 2.17% in 2014Q4 in USA, to 0.18% from 0.54% in Euro Area, 1.58% against 1.76% in UK during the same period. 10-year interest rates slightly rose in Japan to 0.52% from 0.33% in 2014Q4.

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




**Source:** Bloomberg database

On the foreign exchange market, the dollar remained strong compared to other leading currencies, supported by relatively stronger US economy despite a slowdown in the current quarter. On quarterly basis, the USD added 11.3% against the euro, 4.9% and 0.3% respectively vis-à-vis the Pound and the Yen against respective gains of 4.2%, 3.9% and 9.2% in 2014Q4. However, the slowdown in 2015Q1 GDP growth is likely to weaken the dollar as it delays interest rates hikes.

**Table 6: Nominal Exchange rate developments**

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

**Source:** Bloomberg Database

# II. NATIONAL ECONOMIC PERFORMANCE

After a slowdown in 2013, the Rwandan economy grew by 7.0% in 2014. This good performance was supported by effective coordination of monetary policy and fiscal policy and the accommodative monetary policy implemented by BNR since 2013 which led to the increase in financing of the private sector by the banking sector and contributed to boost consumption and private investment. Bank financing to the private sector increased where new authorized loans rose by 38.2% in 2014 from a decline of 5.3% in 2013 and outstanding loans increased by 19.5% after 11.1% in 2013. This economic performance is expected to continue in 2015Q1 as evidenced by the positive trends in some leading indicators of economic activities and economy is projected to grow by 6.5% in 2015.

## 2.1 Real Sector Performance

The real GDP grew by 6.2% in 2014Q4 from 7.5%, 6.1%, 8.0% and 4.2% recorded in 2014Q1, 2014Q2, 2014Q3 and 2013Q4 respectively. This good performance was driven by service sector (+8.0%), followed by Agriculture sector (+5.0%) and Industry sector (+5.0%).

**Table 7: Rwanda Real GDP growth, in %**

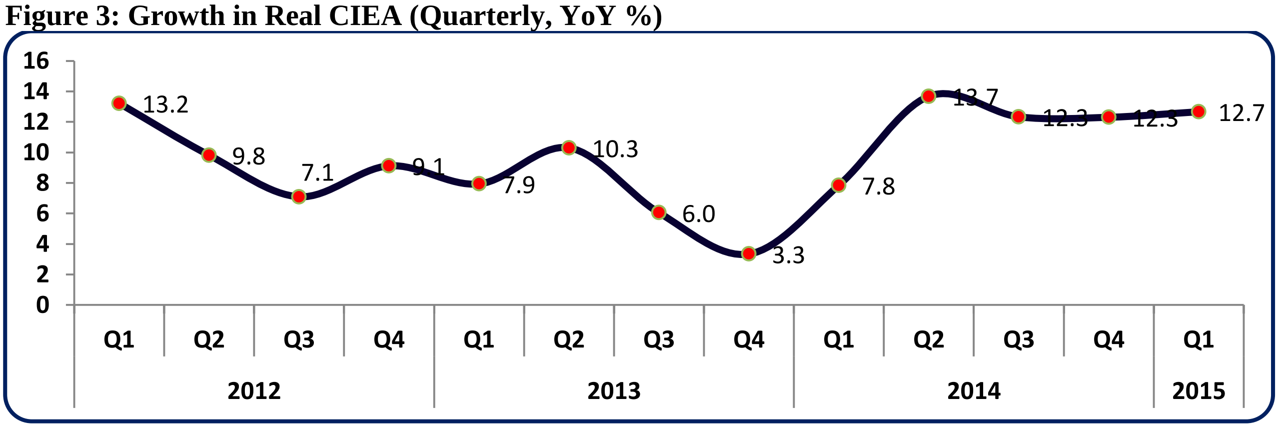
| | 2013 | | | | | 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Annual** | **Q1** | **Q2** | **Q3** | **Q4** | **Annual** |
| **Real GDP** | **4.7** | **7.2** | **2.9** | **4.2** | **4.7** | **7.5** | **6.1** | **8.0** | **6.2** | **7.0** |
| Agriculture | **6.0** | **7.0** | **1.0** | **-1.0** | **3.0** | **5.0** | **5.0** | **6.0** | **5.0** | **5.0** |
| Food crops | 7.0 | 7.0 | 1.0 | 1.0 | 4.0 | 6.0 | 6.0 | 7.0 | 7.0 | 6.0 |
| Industry | **13.0** | **14.0** | **9.0** | **3.0** | **9.0** | **9.0** | **5.0** | **4.0** | **5.0** | **6.0** |
| Mining and quarrying | 7.0 | 38.0 | 21.0 | 16.0 | 20.0 | 20.0 | 4.0 | 22.0 | 1.0 | 11.0 |
| Manufacturing | 5.0 | 6.0 | 5.0 | 3.0 | 5.0 | 7.0 | 5.0 | -5.0 | -2.0 | 1.0 |
| Construction | 21.0 | 16.0 | 9.0 | 0.0 | 11.0 | 8.0 | 5.0 | 7.0 | 12.0 | 8.0 |
| Services | **4.0** | **6.0** | **4.0** | **7.0** | **5.0** | **9.0** | **9.0** | **11.0** | **8.0** | **9.0** |
| Wholesale & retail trade | 3.0 | 7.0 | 2.0 | 11.0 | 6.0 | 12.0 | 10.0 | 7.0 | 8.0 | 9.0 |
| Financial services | 15.0 | 13.0 | 6.0 | 7.0 | 10.0 | 4.0 | 3.0 | 10.0 | 4.0 | 5.0 |
| Real estate activities | -3.0 | -3.0 | 4.0 | 5.0 | 1.0 | 9.0 | 3.0 | 14.0 | 8.0 | 8.0 |

**Source:** Rwanda National Institute of Statistics (NISR)

## 2.2 Leading indicators

The real composite Index of Economic Activities (CIEA) increased by 12.7% in 2015Q1 after 12.3% and 7.8% in 2014Q4 and 2014Q1 respectively.

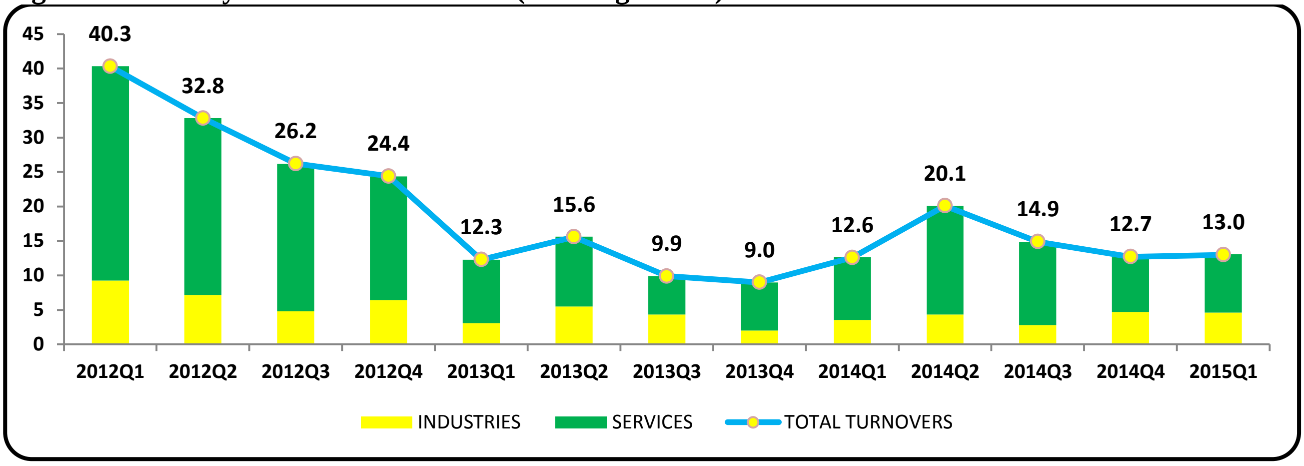
**Figure 3: Growth in Real CIEA (Quarterly, YoY %)**




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

The expansion in economic activities is shown also by the growth in the total turnovers of industry and services sector of 13.0% in 2015Q1 from 12.6% in the same period of 2014.

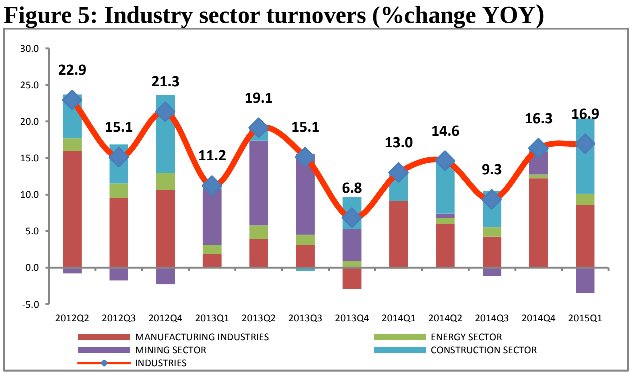
**Figure 4: Industry & Services turnovers (%change YOY)**




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

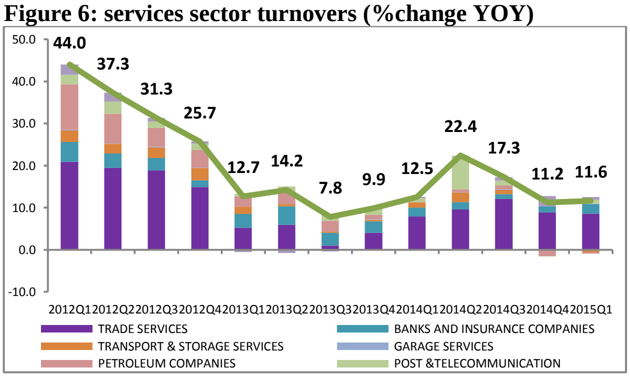
Services sector led the gains by contributing 71.6% to the total sales of both sectors and increasing by 11.6% in 2015Q1 from 12.5% in 2014Q1. The good performance in services sector resulted mainly from trade services and banking and insurance sectors which grew by 18.3% and 14.8% respectively in the period under review.

**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

After high increase in manufacturing and construction by 16.9% and 39.8%, respectively, the industry sector increased by 16.9% in 2015Q1 from 13.0% in the corresponding period of 2014. Construction sector supported the industry thanks to on-going infrastructure projects, of which hydropower construction and rehabilitation, road maintenance, rehabilitation and construction, construction of RUSUMO international bridge and one boarder post and urban affordable house building. In addition, cement consumption increased by 19.5% in 2015Q1 from 0.7% in 2014Q1.

Additionally, credit to private sector expansion continued to facilitate the development of economic activities. Outstanding loans to private sector rose by 5.4% to FRW 955.6 billion end March 2015 from FRW 906.3 billion in December 2014 and by 21.2% when compared to FRW 788.3 billion of March 2014. New loans to private sector rose by 7.3% from FRW 166.0 billion in 2014Q1 to FRW 178.1 billion in 2015Q1.

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

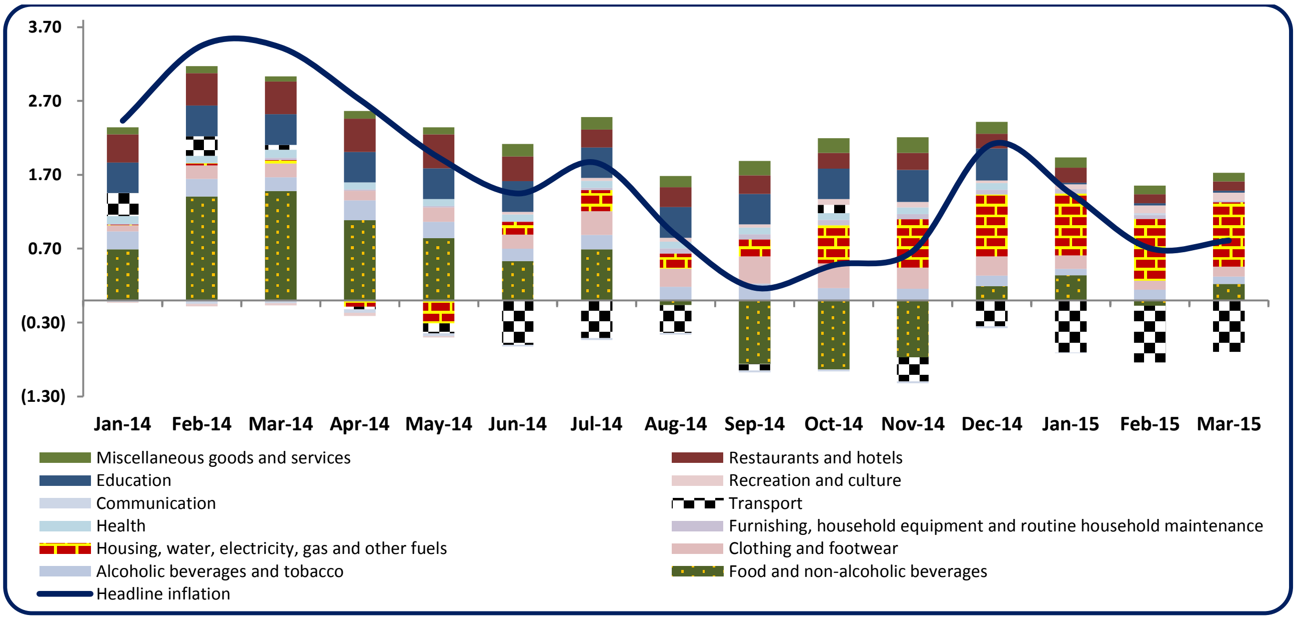
| | 2013 | | | | 2014 | | | | 2015 | % change (q-o-q) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | |
| **Manufacturing** | 2.7 | 12.2 | 10.9 | 18.1 | 35.2 | 9.4 | 15.4 | 11.9 | 7.9 | -77.6 |
| **Mortgage industries** | 17.5 | 26 | 20.1 | 29.6 | 26 | 42.7 | 31.8 | 37.9 | 64.5 | 147.9 |
| **Commercial restaurant and hotel** | 49.7 | 57.7 | 48.5 | 60.2 | 61 | 71 | 65.5 | 75.8 | 74.7 | 22.4 |
| **Total credit to private sector** | 97.5 | 122.9 | 104.4 | 147.7 | 166 | 159.7 | 156.5 | 171 | 178.1 | 7.3 |
| **Share** | 71.8 | 78.1 | 76.1 | 73.1 | 73.7 | 77.1 | 72 | 73.5 | 82.5 | |

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

## 2.3 Price Developments

Headline inflation fell to 0.8% end March 2015 from 2.1% end December 2014 dragged down by transport prices that decreased further by 3.9% end March 2015 after a decline of 2.0% end December 2014. However, inflation remained positive given a slight increase of food inflation and housing and utilities inflation by 0.8% and 3.8%, respectively end March 2015 from 0.75% and 3.7% end December 2014.

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



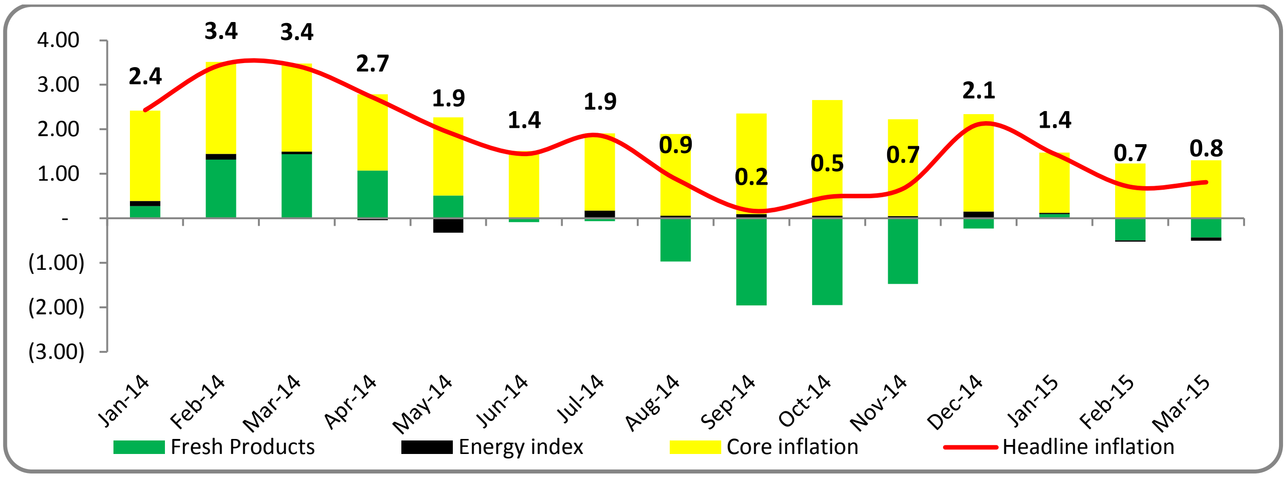

**Source:** BNR, Monetary Policy & Research Department

Year-on-year food inflation slightly fell from 0.7% in December 2014 to 0.8% in March 2015 on account of the decline in vegetables by 2.3% in March 2015 after a decline of 4.2% in December 2014. The decline in vegetables inflation counteracted an increase in bread and cereals, whose inflation stood at 8.3% from 8.0% during the same period.

Energy prices fell by 0.9% end March 2015 from 2.0% end December 2014 which led to a further decline in transport costs. Transport deflation stood at 3.9% after 2.0% over the same period.

The core inflation rate which excludes fresh food and energy decelerated to 1.7% end March 2015 from 2.9% end December 2014.

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




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

# III. EXTERNAL TRADE DEVELOPMENTS

## 3.1 Trade Balance

In 2015Q1, Rwanda's trade balance slightly reduced by 0.6% to USD 432.53 million from USD 435.06 million in 2014Q1. Exports covered 24.2% of imports from 23.0% in 2014Q1. Including informal cross border, exports covered 28.7% of imports from 27.3% of imports in 2014Q1. Trade balance is expected to persist in the short to medium term as strong demand for both intermediate and capital goods as well as lubricants continue to outstrip the gradually expanding but still narrow export base.

**Figure 9: Trade balance in millions of USD**


**Source:** BNR, Statistics Department

### 3.1.1 Formal exports

During 2015Q1, Rwanda's formal export sector was dominated by traditional exports (44.6%) composed by coffee, tea and minerals (tin, coltan and wolfram), followed by other exports (27.9%) mainly composed by foods and beverages, live animals, fruits & vegetables, and cosmetic products; and re-exports (27.5%) dominated by petroleum products, vehicles and machines & engines. Compared to a decline of 0.1% in 2014Q1, total formal exports increased in value by 6.0% in 2015Q1, boosted by increase in exports value of coffee (+32.2%), tea (+23.5%) and other exports (+69.4%). Exports volume increased by 19.5% after 0.23% in 2014Q1, mostly driven by increase in volume of tea (+21.8%) and other exports (+36.3%), compared to a decrease of 21.95% during 2014Q1.

**Table 9: Exports developments (annual % change)**

| | Volume | | | | Value | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Q4 | 2014 Q4 | 2014 Q1 | 2015 Q1 | 2013 Q4 | 2014 Q4 | 2014 Q1 | 2015 Q1 |
| **EXPORTS** | **-9.13** | **15.14** | **0.23** | **19.50** | **-7.26** | **14.47** | **-0.11** | **5.98** |
| MAIN EXPORTS | 1.60 | -15.78 | 1.25 | -1.95 | -1.23 | 4.14 | -15.39 | -10.26 |
| REEXPORTS | 29.03 | 8.68 | 47.94 | 10.59 | -15.96 | 6.54 | 25.00 | -2.49 |
| OTHER EXPORTS | -28.77 | 34.98 | -21.94 | 36.32 | -13.89 | 77.69 | 24.91 | 69.45 |

**Source:** BNR, Statistics Department

The main exports (traditional exports) poorly performed decreasing in both value and volume by 10.3% and 1.9% respectively, due to the decrease in the mining sector which went down by 25.8% in value and by 28.2% in volume. Tin exports decreased by 32.0% in value and by 22.6% in volume due to the decline in unit price by 12.2% from USD 12.22/Kg to USD 10.72/Kg, coltan and wolfram declined by 8.6% and 48.5% in value and by 24.0% and 43.4% in volume respectively.

Despite the decline by 17.1% in volume, coffee exports increased in value as unit price increased by 59.4% to USD 3.65/Kg from USD 2.29/Kg. Tea exports increased in both value and volume by 23.5% and 21.8% respectively due to the rise in unit price (+1.4%) to USD 2.54/Kg from USD 2.50/Kg in 2014Q1. Other exports increased in both volume and value by 36.3% and 69.4% respectively due mainly to the increase of exports of edible vegetables. Re-exports products decreased in volume by 10.6% and by 2.5% in value attributed to the decline in re-exports of petroleum products (+23.8%).

### 3.1.2 Formal Imports

During 2015Q1, imports recorded an increase of 0.9% in value and 14.0% in volume compared to the same period of 2014. The increase in volume of imports was due to an increase in consumer goods (14.7%) mainly due to the increased demand for cereals, flour and seeds (+36.4%) which account for 25.7% of the total imports of food products, as well as pharmaceutical products (25.8%).

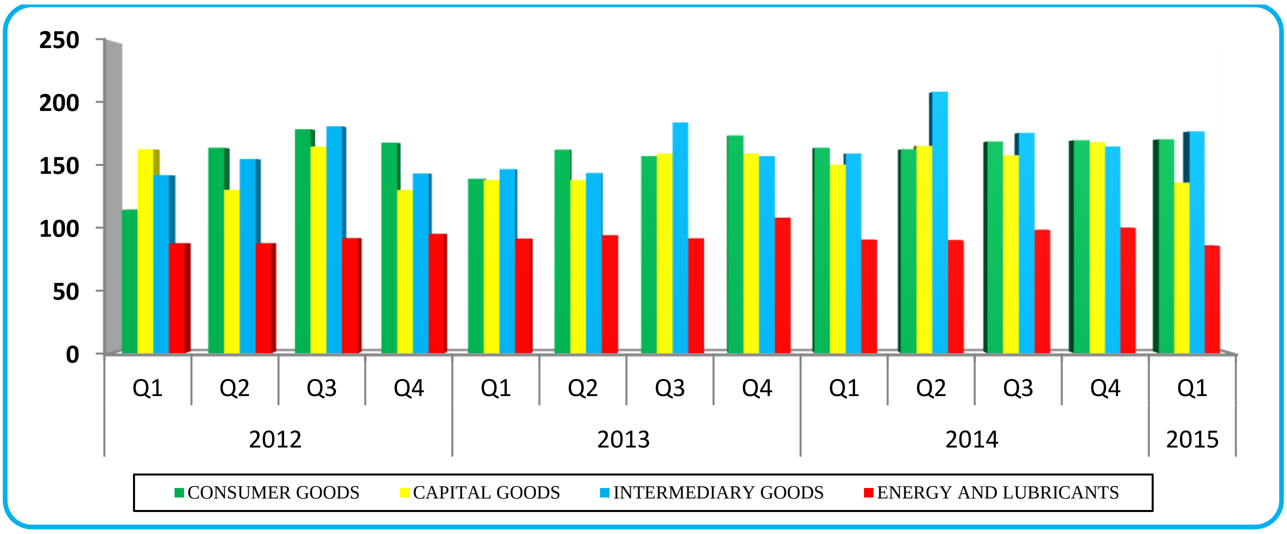
**Table 10: Imports developments in % change**

| | **Volume** | | | | **Value** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4 2013/2012** | **Q4 2014/2013** | **Q1 2014/2013** | **Q1 2015/2014** | **Q4 2013/2012** | **Q4 2014/2013** | **Q1 2014/2013** | **Q1 2015/2014** |
| Total imports | 4.78 | 6.49 | -2.64 | 14.04 | 11.53 | 0.85 | 9.48 | 0.93 |
| Consumer goods | 1.06 | 3.33 | -0.76 | 14.67 | 3.44 | -2.16 | 17.85 | 4.07 |
| Capital goods | 1.49 | -7.25 | 20.22 | 5.19 | 22.41 | 5.64 | 8.79 | -9.47 |
| Intermediary goods | 5.74 | 11.89 | -7.66 | 21.78 | 9.61 | 4.96 | 8.60 | 11.01 |
| Energy and lubricants | 11.17 | -0.19 | 5.40 | -7.37 | 13.84 | -7.36 | -0.84 | -5.24 |

**Source:** BNR, Statistics Department

Capital goods decreased by 9.5% in value but increased by 5.2% in volume due mainly to the increased demand for imported trucks (+59.0%) which account for 27.2% of the total imports of capital goods.

**Figure 10: Imports developments in USD millions**



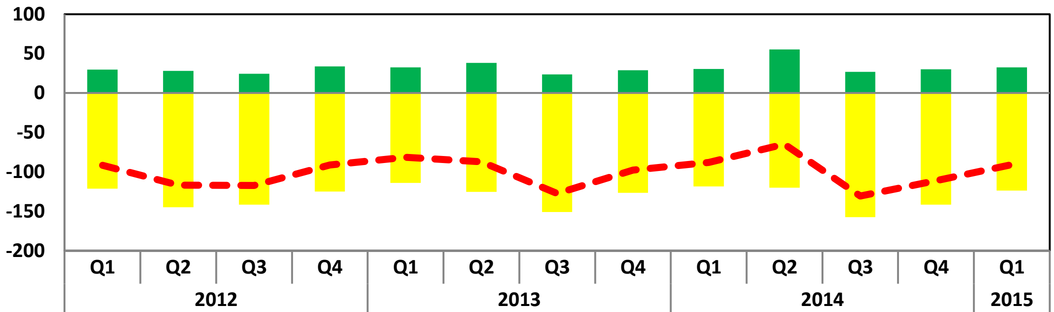

**Source**: BNR, Statistics Department

Intermediary goods which are mainly composed of industrial products and construction materials with a share of 59.7% and 29.6% respectively, increased by 11.0% in value and by 21.8% in volume due to the increase of construction materials (+22.8%) like cement and other similar products which increased by 27.8% in volume and by 16.0% in value, as well as high increase of fertilizers as a result of Government policy to continue promoting the use of fertilizers in agriculture sector for boosting domestic production. Energy and lubricants decreased in both value and volume by 5.2% and 7.4% due to the decrease of petroleum products (-4.2% in value and -7.5% in volume).

### 3.1.3 Trade with EAC countries

Rwandan exports to other EAC member countries amounted to USD 32.61 million in 2015Q1 from USD 30.39 million in the corresponding period of 2014, which is an increase of 7.3%, after a decrease of 6.1% in the same period of 2014. Imports from EAC region increased by 4.3% from an increase of 4.1% in 2014Q1, and amounted to USD 123.58 million from USD 118.46 million in 2014Q1. As a result trade deficit with EAC widened by 3.3% to USD 90.98 million in 2015Q1 from USD 88.06 million in 2014Q1.

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




| | 2012 Q1 | 2012 Q2 | 2012 Q3 | 2012 Q4 | 2013 Q1 | 2013 Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 Q1 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Imports | -121.18 | -144.81 | -141.57 | -125.00 | -113.80 | -125.24 | -150.78 | -126.57 | -118.46 | -120.18 | -157.46 | -141.38 | -123.58 |
| Exports | 29.56 | 28.08 | 24.37 | 33.58 | 32.38 | 38.18 | 23.62 | 28.77 | 30.39 | 55.12 | 26.88 | 30.06 | 32.61 |
| Trade balance | -91.62 | -116.72 | -117.20 | -91.43 | -81.42 | -87.07 | -127.16 | -97.80 | -88.06 | -65.07 | -130.58 | -111.31 | -90.98 |

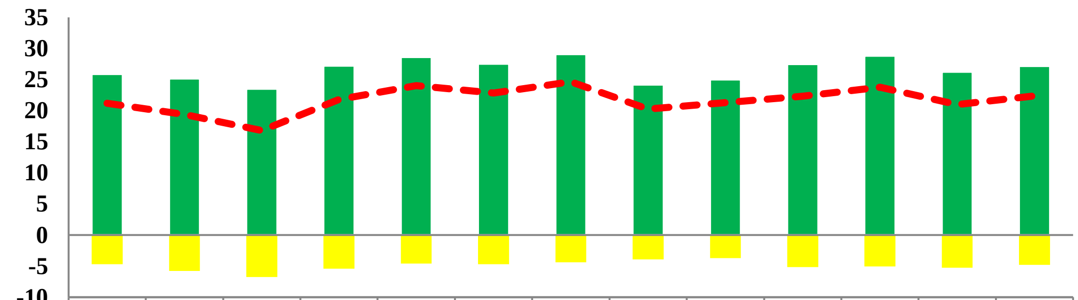
**Source**: BNR, Statistics Department

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

### 3.1.4 Informal cross-border trade

With regard to the informal cross-border trade, in 2015Q1 total exports recorded a good performance increasing by 8.5% after a decrease of 12.6% in the same period over the last year, and amounted to USD 27.1 million from USD 25.0 million in 2014Q1 representing about 19.7% of formal exports. In general, agriculture products and livestock were the major commodities traded in informal cross border exports. In terms of destination, exports to Tanzania, DRC and Uganda increased by 27.0%, 17.8% and 4.7% respectively, while exports to Burundi decreased by 14.9%.

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




| | 2012 Q1 | 2012 Q2 | 2012 Q3 | 2012 Q4 | 2013 Q1 | 2013 Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 Q1 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Imports | -4.69 | -5.79 | -6.73 | -5.42 | -4.61 | -4.69 | -4.39 | -3.92 | -3.74 | -5.16 | -5.06 | -5.27 | -4.78 |
| Exports | 25.88 | 25.17 | 23.50 | 27.22 | 28.62 | 27.51 | 29.04 | 24.18 | 25.00 | 27.45 | 28.80 | 26.25 | 27.13 |
| Trade balance | 21.18 | 19.38 | 16.77 | 21.80 | 24.01 | 22.82 | 24.65 | 20.26 | 21.26 | 22.29 | 23.74 | 20.98 | 22.36 |

**Source:** BNR, Statistics Department

Informal imports increased by 27.8% from USD 3.7 million to USD 4.8 million in 2015Q1, after a decrease of 19.0% recorded in same period of last year, leading to an increase of 5.1% in Rwanda's positive informal trade balance from USD 21.3 million to USD 22.4 million with neighbouring countries. The main imported products from neighbouring countries are coffee, Irish potatoes, husked rice, sorghum, bananas for cooking, poultry live, 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 56.4%, 27.6% and 12.0% respectively.

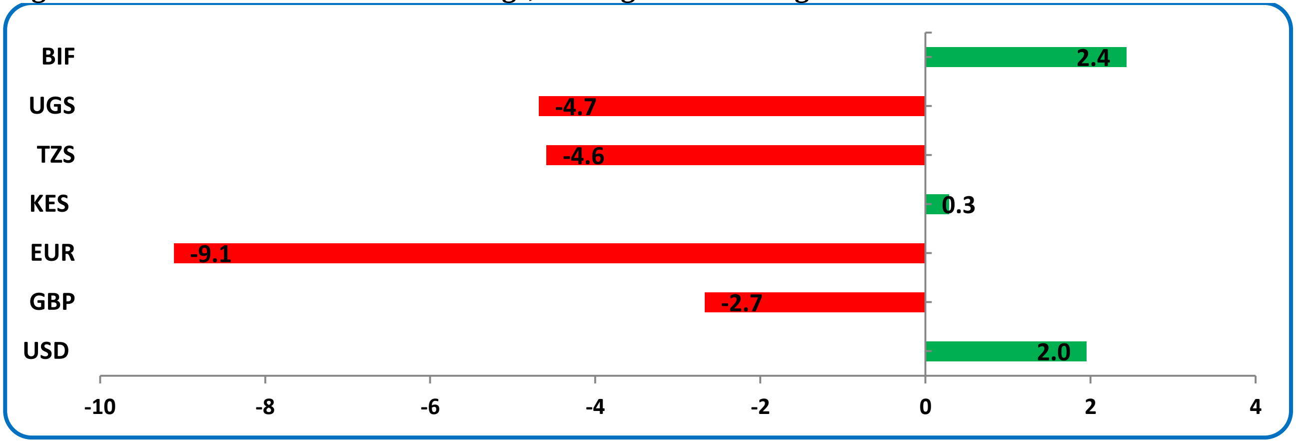
# IV. EXCHANGE RATE AND FOREIGN MARKET DEVELOPMENTS

The Rwandan Franc was under relative pressure in 2014Q4 resulting from high demand of forex to finance imports. However, through its policies and measures, including effective communication and market discipline, the National Bank of Rwanda managed to ensure that the stability of the currency was achieved.

## 4.1 Exchange Rate Developments

Despite high demand for forex, BNR managed to keep stability of Rwandan franc through interventions on foreign exchange market as well as increased inflows from private sources such as export receipts, private transfers and receipts on services. As a result, end March 2015, FRW depreciated by 2.0% against the USD, trading between FRW 707.92 per dollar against FRW 694.37 per dollar by end of December 2014.

**Figure 13: Evolution of nominal exchange, leading currencies against US dollar**

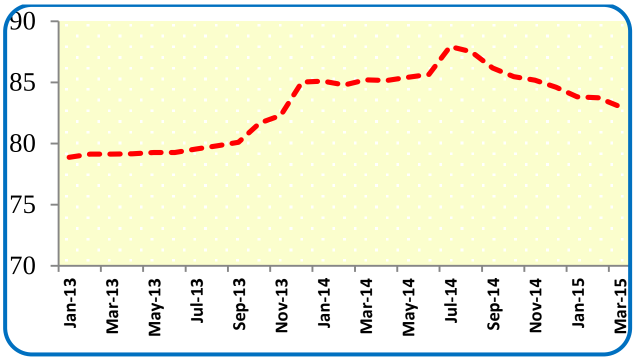



**Source:** BNR, Monetary Policy and Research Department

In the same period, the FRW appreciated by 2.7% and 9.1% against GBP, EURO while USD appreciated against these currencies. Concerning the East African region, the FRW appreciated by 4.6% and 4.7% against Tanzanian shilling and Ugandan shilling respectively, but depreciated by 0.3% and 2.4% versus the Kenyan shilling and Burundian franc respectively. The appreciation of FRW against shillings was due to the weakened regional currencies against USD.

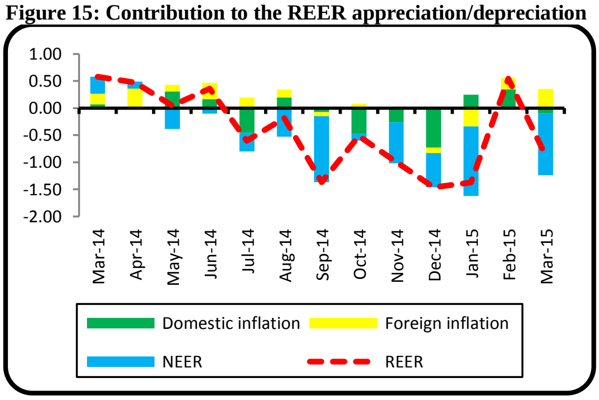
The real effective exchange rate (REER) slightly decreased from 83.74 in February 2015 to 83.03 in March 2015, appreciating by 0.9% after 0.1% the previous month, mainly driven by an appreciation of the nominal value of FRW against some currencies of the major trading partners.

**Figure 14**: **Evolution of real effective exchange rate**




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

**Figure 15: Contribution to the REER appreciation/depreciation**

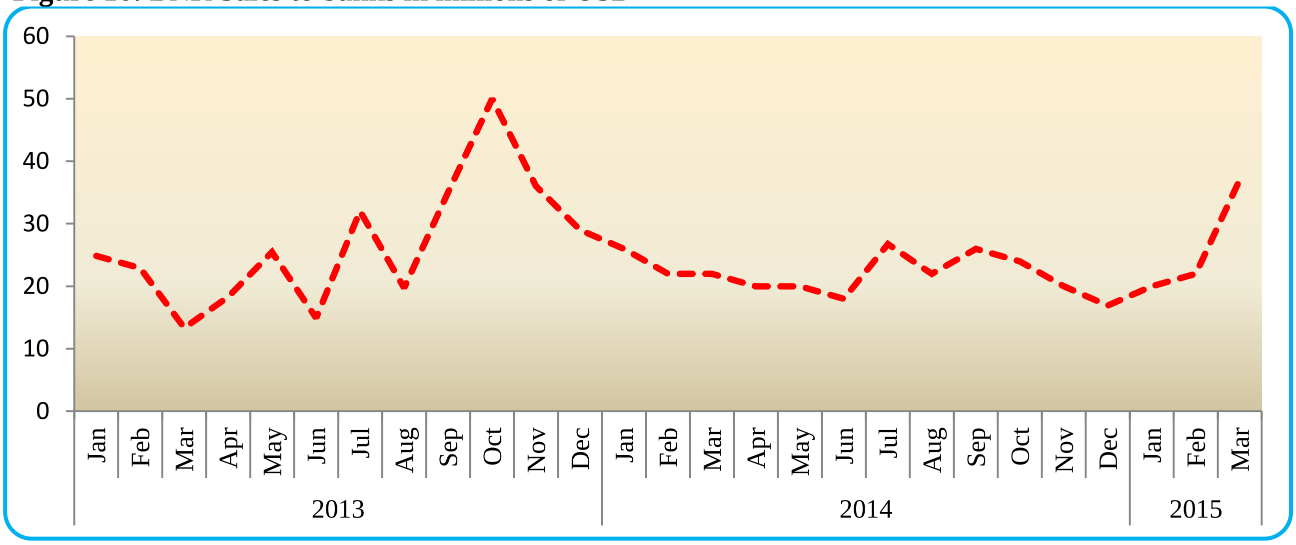



**Source**: BNR, Monetary Policy and Research Department

## 4.2 Domestic Foreign Exchange Markets

In the context of increasing demand for imports to support the dynamic economic activities, pressures on forex market have been the key challenge for the central bank to continue sustaining the exchange rate stability. Sales to commercial banks of US currency decreased by 12.9% to reach USD 79.0 million end March 2015 against USD 70.0 million end March 2014.

**Figure 16: BNR Sales to banks in millions of USD**




**Source**: BNR, Financial Market Department

## V. MONETARY SECTOR DEVELOPMENTS

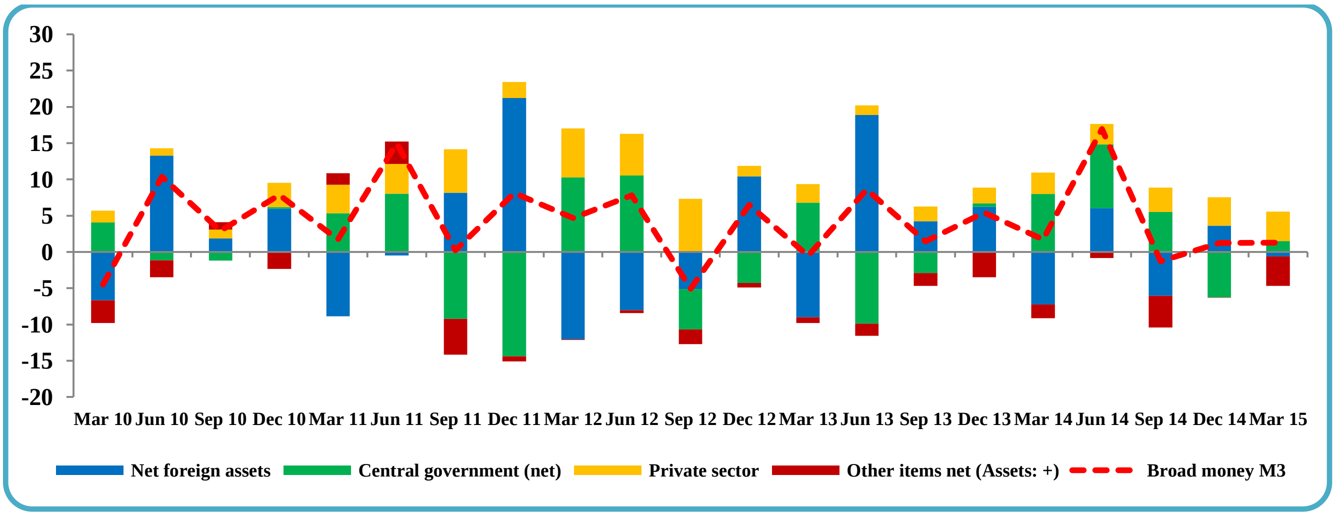
In 2015Q1, BNR's monetary policy stance remained accommodative with unchanged policy rate at 6.5% since June 2014. This accommodative stance aims at boosting the financing of the economy and domestic demand amid lower inflationary pressures both domestically and globally. BNR has pursued an accommodative monetary policy since 2013 with a cut in the policy rate in June 2013 and June 2014. Subsequently, credit to the economy has been recovering in 2014 and output gap gradually closing as the real economic growth in 2014 was stronger than initially projected.

### 5.1 Monetary aggregates developments

As at end March 2015, key monetary aggregates remained in line with the projections in monetary program. Between end December 2014 and end March 2015, the broad money M3 went up by 1.3% lower than 1.7% registered in the corresponding period of the year before while it picked up by 18.4% (y-o-y) in March 2015 compared to 18.2% recorded in March 2014. Net credit to the government and credit to the private sector have been the main source of the increase in money supply during the above specified period.

Between December 2014 and March 2015, NFA slightly contracted by 1.1% against the decline of 10.0% registered in same period of the previous year. This improvement in NFA between December 2014 and March 2015 followed the growth of 12% in foreign inflows for budget support. An amount of USD 175 million of foreign inflows has been recorded in 2015Q1 compared to USD 157 million in 2014Q1 and the expansion in exports earnings by 6% while they had remained stable in the corresponding period of 2014. Another reason is the reduction of expenditure for government projects by 48.3% to USD 19.2 million in 2015Q1 from USD 37.2 million in 2014Q1 amidst a slight increase of 0.9% in imports compared to 9.5% recorded in the same period of the year before.

**Figure 17: Source of changes in broad money M3, in %**



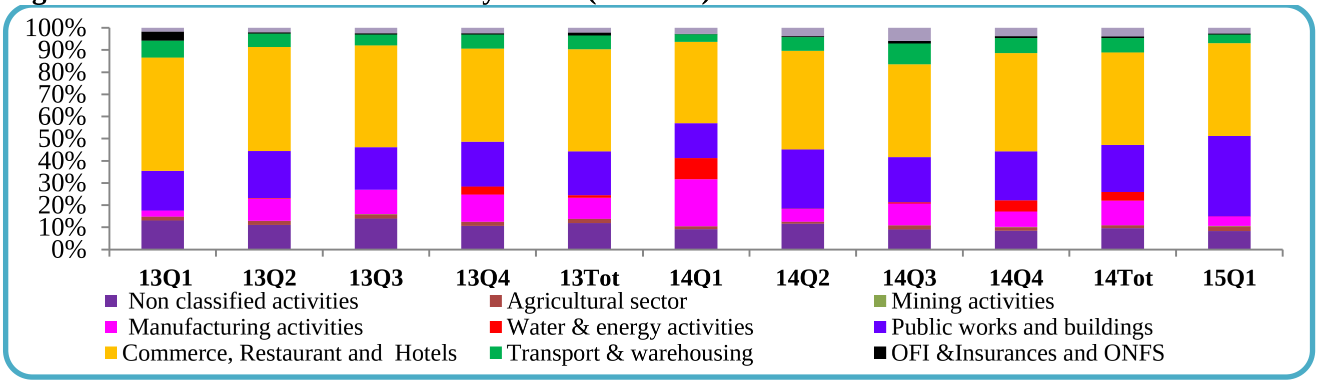

**Source:** BNR, Statistics Department

## 5.2 Developments in banks credits

The on-going expansion in outstanding credit to the private sector (+5.4% in 2015Q1 against 4.0% realized in 2014Q1) is a result of sustained commercial bank lending in 2015Q1 similar to the previous quarters in 2014. The new authorized loans continued to improve in 2015Q1 (+7.3%) compared with 2014Q1 lower than +70.2% recorded in the same period of the year before boosted by the expansion in new authorized loans mainly oriented in Commerce Restaurants and Hotels (+22.3%) and Public works and buildings (+147.8%). More loans have been oriented in different domestic trade activities, coffee campaign, some big Hotels and companies of construction.

In terms of loans distribution by sector of activity, Commerce, Restaurant and Hotels remained the sector with a big share (42%) in 2015Q1 higher than 37% recorded in the same period of 2014, followed by Public works and building sector with 36% much higher than 16% recorded in 2014Q1 and non-classified activities mainly composed of loans advance with 8% lower than 9% recorded in 2014Q1. However, the share of Manufacturing sector dropped to 4% in 2015Q1 from 21% in 2014Q1 following substantial fixed asset loans granted to some big companies mainly in the first two months of 2014. Water and energy sector received very low financing by the banking system (FRW 0.06 billion) in 2015Q1. The domestic financing of agriculture sector remained low standing at 2% in 2015Q1 compared to 1% in 2014Q1.

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




**Source:** BNR, Financial Stability Directorate

## 5.4 Interest rates developments

Money market interest rates kept on declining consistently to plentiful liquidity in the banking system and the current monetary policy stance. Repo, T-bills and interbank interest rates declined respectively to 2.0%, 4.3% and 3.8% in March 2015 from 2.8%, 4.9% and 4.8% in December 2014, and 3.3%, 6.0% and 5.8% in March 2014.

**Table 11: Money market interest rates developments**

| | 2014 | | | | | | | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. | Feb. | Mar. | Apr. | Jun. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. |
| **Key Repo Rate** | 7.0 | 7.0 | 7.0 | 7.0 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| **Discount Rate** | 11.0 | 11.0 | 11.0 | 11.0 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| **Repo rate** | 4.3 | 3.7 | 3.3 | 3.1 | 3.7 | 4.2 | 3.9 | 3.2 | 2.8 | 2.7 | 2.3 | 2.0 |
| **T-Bills Rate** | 6.4 | 6.1 | 6.0 | 6.0 | 5.6 | 5.5 | 5.3 | 5.1 | 4.9 | 4.6 | 4.6 | 4.3 |
| **Interbank Rate** | 5.6 | 5.8 | 5.8 | 5.6 | 5.7 | 5.6 | 5.7 | 5.7 | 4.8 | 4.2 | 4.1 | 3.8 |

**Source:** BNR, Statistics Department

Regarding market rates, the pass-through of changes in money market interest rates to market interest rates has been still sluggish. This was evidenced by the fact that lending rates increased to 17.4% in March 2015 from 16.8% in March 2014. Deposit rates on the other hand decreased from 8.3% in March 2014 to 8.1% in March 2015 as some banks managed to raise funds at cheaper price.

**Table 12: Market interest rates**

| | 2014 | | | | | | | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. | Feb. | Mar. | Jun. | Jul. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. |
| **Deposit Rate** | 8.9 | 8.0 | 8.3 | 8.6 | 8.4 | 7.3 | 7.3 | 8.2 | 7.8 | 8.5 | 8.5 | 8.1 |
| **Lending Rate** | 17.5 | 17.1 | 16.8 | 17.5 | 17.2 | 17.1 | 17.5 | 16.7 | 17.7 | 17.5 | 17.5 | 17.4 |
| **Spread** | 8.7 | 9.1 | 8.5 | 8.9 | 8.8 | 9.8 | 10.2 | 8.5 | 9.9 | 9.0 | 9.0 | 9.3 |
| **Risk premium** | 11.1 | 11 | 10.8 | 11.9 | 11.7 | 11.6 | 12.2 | 11.6 | 12.8 | 12.9 | 12.9 | 13.0 |

**Source:** BNR, Statistics Department

## 5.5 Domestic Debt Developments

The stock of the Government domestic debt by end of March 2015 reached FRW 326.0 billion, indicating a rise of 20.5% compared to the previous same period in 2014 largely contributed by 12.4% and 9.1% increase in holdings of both banking and non-banking sectors respectively.

**Table 13: Sectoral Composition of Public Domestic Debt (billion FRW)**

| Sector | 2014 | | | | | | 2015 | | | % change Mar. 15 /Mar. 14 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. | Feb. | Mar. | Jun. | Sept. | Dec. | Jan. | Feb. | Mar. | |
| **BNR (excluding monetary instruments)** | **38.6** | **38.6** | **38.6** | **38.6** | **39.2** | **38.6** | **38.6** | **38.6** | **38.6** | **0** |
| Consolidated debt | 38.6 | 38.6 | 38.6 | 38.6 | 38.6 | 38.6 | 38.6 | 38.6 | 38.6 | 0 |
| Overdraft | 0 | 0 | 0 | 0 | 0.6 | 0 | 0 | 0 | 0 | 0 |
| **Banking Sector** | **160.1** | **162.6** | **166.1** | **173.6** | **184.4** | **180.4** | **192.4** | **199.3** | **199.3** | **20.0** |
| Development bonds | 7.4 | 10.5 | 10.5 | 27.8 | 31.8 | 39.1 | 40.1 | 47.2 | 47.2 | 348.3 |
| Bonds issued at MINECOFIN | 1.6 | 1.6 | 1.5 | 1.4 | 1.3 | 1.0 | 1.0 | 1.0 | 0.9 | -40.0 |
| Treasury bills (issued at BNR for treasury issues) | 151.1 | 150.5 | 154.0 | 144.4 | 151.3 | 139.1 | 151.1 | 151.1 | 151.2 | -1.8 |
| **Non-Banking Sector** | **62.3** | **68.9** | **63.6** | **60.9** | **74.1** | **81.7** | **79.4** | **87.1** | **88.1** | **38.5** |
| Development bonds | 1.1 | 7.0 | 7.0 | 10.7 | 21.0 | 28.4 | 28.4 | 36.1 | 36.2 | 419.3 |
| Consolidated debt to RSSB | 41.7 | 41.7 | 40.0 | 34.0 | 34.0 | 34.0 | 34.0 | 34.0 | 34.0 | -15.0 |
| Bonds issued at MINECOFIN | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | -1.2 |
| Treasury bills (issued at BNR for treasury issues) | 12.2 | 12.9 | 9.3 | 8.9 | 11.8 | 12.0 | 9.7 | 9.7 | 10.6 | 13.6 |
| Other bonds for old arrears | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 0 |
| **TOTAL DOMESTIC DEBT STOCK** | **261.0** | **270.1** | **268.2** | **273.1** | **297.7** | **300.2** | **310.4** | **325.0** | **326.0** | **21.5** |

**Source:** BNR, Statistics Department

Banking sector continues to dominate the Government T-bills market and remains the main holder of the outstanding debt instrument with a share of 61.1% billion to the total outstanding debt. The increase in the domestic financing of the government deficit by both sectors against the same period in 2014 is largely contributed by sharp increase in purchase of new development bonds by 13.7% and 10.9% in banking and non-banking sectors respectively.

# VI. FINANCIAL STABILITY ANALYSIS

Rwanda's financial system remained healthy and sound in 2015Q1 as evidenced by various financial soundness indicators on banking sector such as capital adequacy, assets quality, liquidity, market sensitivity and profitability indicators. Overall, the stability of Rwanda's banking system was sustained in 2015Q1 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 its role in effectiveness of monetary policy transmission.

Even though available indicators depict a sound banking system, there were slight changes in the banking sector performances in 2015Q1 compared to 2014Q4 and generally, the little movements observed were mixed. On one hand, a slight improvement was observed in liquidity ratio, return on average assets (ROA), and return on average equity (ROE) whereas earning assets ratio, Non-performing loans ratio, credit risk due to large exposure, foreign exchange exposure to capital ratio assets recorded a marginal decline.

Despite the resulting decline of earning assets to total assets ratio, the profitability indicators improved in 2015Q1 compared to 2014Q4 as ROA increased to 2.6% whereas ROE improved to 14.0% from 10.7% in 2014Q4. This profitability of the banking sector was positively revamped by slightly lower cost incurred by banks in 2015Q1.

**Table 14: Key soundness indicators, (in %)**

| Indicator | 2013 | | 2014 | | | | 2015 |
|---|---|---|---|---|---|---|---|
| | September | December | March | June | September | December | March |
| Solvency ratio (total capital) | 22.9 | 23.1 | 22.6 | 23.6 | 24.0 | 24.2 | 25.9 |
| NPLs / Gross Loans | 7.2 | 6.9 | 6.7 | 6.6 | 6.3 | 6.0 | 6.3 |
| NPLS net of interests/Gross loans | 6.5 | 6.0 | 5.7 | 5.5 | 5.5 | 5.1 | 4.8 |
| Provisions / NPLs | 50.3 | 53.3 | 56.4 | 50.0 | 55.3 | 56.8 | 52.3 |
| Earning Assets / Total Assets | 79.1 | 78.6 | 82.1 | 80.6 | 83.0 | 93.1 | 79.3 |
| Large Exposures / Gross Loans | 9.9 | 11.6 | 15.1 | 15.8 | 14.8 | 17.7 | 19.3 |
| Return on Average Assets | 1.7 | 1.5 | 2.3 | 2.1 | 1.9 | 1.9 | 2.6 |
| Return on Average Equity | 8.3 | 7.4 | 11.9 | 12.1 | 10.9 | 10.7 | 14.0 |
| Cost of deposits | 3.8 | 3.8 | 4.1 | 3.4 | 3.2 | 3.3 | 3.1 |
| Liquid assets/total deposits | 48.8 | 49.4 | 46.3 | 54.2 | 54.0 | 49.2 | 46.0 |
| FOREX exposure/core capital | -3.0 | -2.2 | -12.6 | -1.5 | -4.8 | -2.2 | -5.5 |

**Source:** BNR, Bank Supervision Department

The capital adequacy ratio is above the BNR prudential benchmark of 15% with a record of 25.9% in 2015Q1 from 24.2% in 2014Q4. This indicates that the Rwandan banking system is resiliently growing to a greater level to absorb unexpected losses to their balance sheets before becoming insolvent. Regarding banks' assets quality in 2015Q1, the ratio of earning assets to total assets reduced reaching 79.3% from 93.1% in 2014Q4 whereas the ratio of non-performing loans to total loans slightly increased to 6.3% from 6.0% in 2014Q4, and are still suspended above the benchmark of 5%. The concentration of credit risks increased as the large exposures to gross loans ratio raised to

19.3% from 17.7% in 2014Q4. Meanwhile, this pose less threat as may be mitigated by quite higher level of provision either for NPLs or by lower level of NPLs ratio in some banks. The on-going increase in ratio of provisions to non-performing loans reduced to 52.3% from 56.8% in 2014Q4, 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, forex loans to forex deposits and forex assets to forex liabilities shows that the sensitivity of the banking sector to exchange rate volatility deteriorated in 2015Q1 after it had improved in 2014Q4. 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 3.4% in 2015Q1 from 0.8% in 2014Q4, reaching FRW 1,864 billion from FRW 1,803 billion. 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 Q1) but partially cancelled by a reduction in claims to domestic and abroad banks.

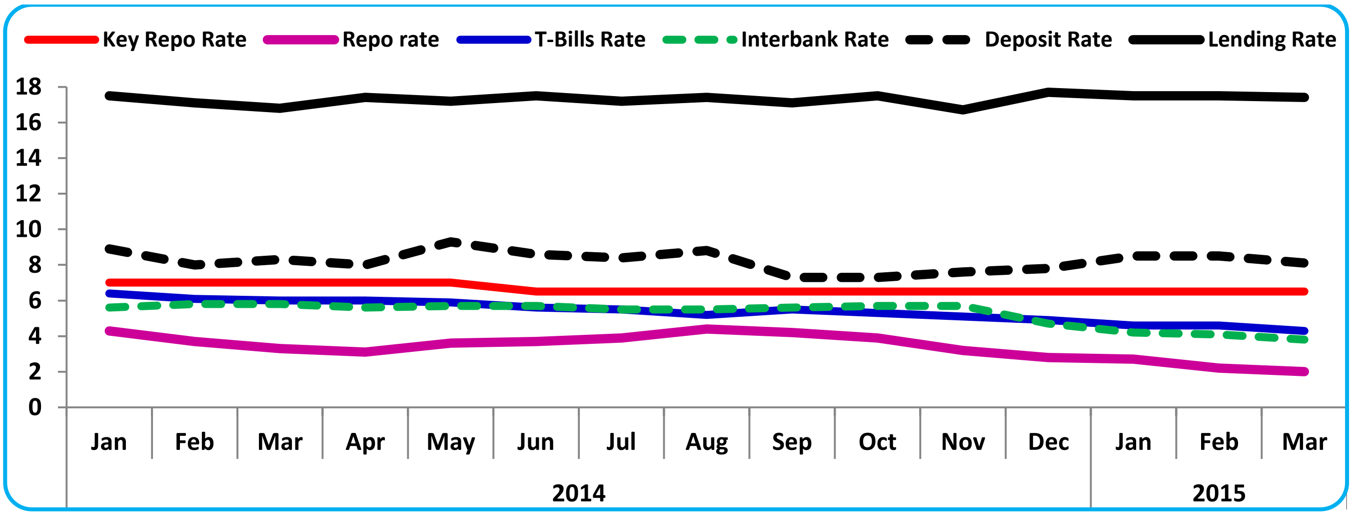
About the sectoral distributions of new loans to total new loans, the commerce, restaurant and hotel sector (41.9%) and the public works and building industries (36.2%) continued to attract a bigger share of total new loans in 2015Q1. However, this apparent concentration in credit distribution is not of much concern, as currently the two sectors are respectively the first and third in contribution 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. Indicators previously discussed portrayed a sound banking system during 2015Q1, which would favour a smoother transmission of monetary policy.

Nevertheless, similar to previous quarters of 2014, accommodative stance of monetary policy was not reflected in retail banks rates especially lending rates which continued to hover above 17% despite a cut in policy rate in June 2014. Money market rates (T-bills rate, repos rates and interbank rate) were responsive to the policy stance, as they were low and gradually trending downward in 2015Q1. Despite this decline in returns of alternative assets, the lending rates were rigid while deposits rates fluctuated leading to volatility in the interest rates spread. Actually, banks have managed to cut their overhead cost whereby their ratio to income slightly reduced to 43.7% in 2015Q1 from 49.6% in 2014Q4. This combined with a decline of provisions to 52.3% from 56.9% in 2014Q4, which are not conducive for an improvement in monetary policy transmission. However, it is worthy to note that although the current level of overhead cost in banks is still high, it has been declining overtime, which is a good development.

**Figure 19: Evolution of interest rates, (percent)**




**Source:** BNR, Financial Markets Department and Monetary Policy Directorate

The interest rate spread remained high at 9.1% on average during 2015Q1. The level of spread has been particularly small in 2015Q1 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 7.0% in 2014 higher than 6% previously expected and as this positive dynamics is expected to continue, 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 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. 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 global economy continues to grow at a slowing pace with real GDP stabilizing at 3.4% by the end of 2014, the same level as 2013 but well below the pre-crisis levels and is projected to slightly improve to 3.5% by the end of 2015.

Inflationary pressures remained below subdued in advanced economies owing to persistent spare capacity of production and softening commodity prices especially energy prices. In developed countries, inflation slid to 1.4% in 2014 the same level as in 2013 while projected to slightly rise to 0.4% in 2015. In emerging and developing economies, inflation decelerated to 5.1% in 2014 from 5.9% in 2013 and foreseen to stand at 5.4% in 2015.

As the world economic growth continues to be modest in 2014, the demand for exports from developing and emerging economies may plummet leading to lower export revenues and thus leading to currency depreciations. This however is still dependent on economic performance in China as well as the trend of export commodities' prices, which have remained stable over the past and are likely to ease in the near future.

## 7.2 Domestic Economic Outlook

After a slowdown in 2013, the real GDP grew by 7.0% in 2014 (7.5% in Q1, 6.1% in Q2, 8.0% in Q3 and 6.2% in Q4) on the account of robust growth in agriculture, service and industry sectors. The economy is projected to continue expanding in 2015 as BNR has planned to continue easing its monetary policy to support the economy financing by the banking sector. In addition, the revised budget 2014/2015 as well as projections of the budget 2015/2016 show a slight increase in resources. The economic growth is further evidenced by current developments in leading indicators of economic activities such as turnovers of industry and services sectors, composite index of economic activities and credit to the private sector.

## 7.3 Risks to Domestic Economic Outlook

Rwanda's economic growth is projected to reach 6.5% by end 2015 compared to 7% registered in 2014. Nonetheless, the economic growth outlook is likely to be affected by changing global environment as well as delay in the implementation of capital expenditures and as such the domestic growth and inflation remain subject to some amount of uncertainty given that developments in both the external environment and domestic economy are less certain leading to some degree of risk surrounding growth projections.

Though modest, the rebound in the global economy may prompt an increase in commodity prices and thus global inflation, which could feed through to domestic inflation. However, a build-up in global inflation seems unlikely given weak global demand and ample agricultural supplies along with low inflationary pressures in most advanced economies.

Regional inflation remains on the downside and agricultural produce in EAC region is expected to perform well. This coupled with falling oil prices with its effects on international transport costs will ease pressures on imported inflation.

Rwanda's export sector registered a good performance in 2015Q1 compared to 2014Q1 mainly due to improving production of export crops and increase in export earnings boosted by increase in exports value of coffee (+32.2%), tea (+23.5%) and other exports (+69.4%), following the good performance in commodity prices on the international market.

As a result, Rwanda's trade balance slightly reduced by 0.6% though continues to be in a deficit as strong demand for imports of intermediary goods, capital goods and energy & lubricants continue to outstrip the expanding but still narrow export earnings. The share of export earnings to imports improved to 28.7% in 2015Q1 from 27.3% in 2014Q1 (including cross border trade) and the weakness of the current account insinuate the vulnerability of her external sector.

Rwanda's real exchange rate depreciation reduced the pace following a decline in the nominal exchange rate of FRW which decelerated from 2.5% in 2014Q1 to 1.8% in 2015Q1 and a slowdown in inflation that prompted an increase in relative prices. Despite easing exchange rate depreciation, exchange rate pressures are however likely to persist over the next quarter due to high demand for foreign exchange to finance imports and given the weak current account, consequently, the depreciation will increase import prices, which firms are expected to pass on to retail prices.

Lending rates remain relatively high, reflecting structural factors such as high operating costs and rising provisions for bad debts and this further led to the widening of interest rate spread implying that the cost of borrowing remains high constraining potential borrowers. However, the recovery in credit growth has picked up since the first quarter of 2014, most likely as a result of falling non-performing loans and recovery in economic activities.

## 7.4 Policy Outlook, Implications and Conclusion

Rwanda's economy continues to recover from 4.2% in 2013Q4 to 6.2% in 2014Q4 and 7% in 2014 following a slowdown in 2013 which was attributable to adverse effects of aid cuts, deceleration of credit to private sector as well as unfavourable weather that led to the poor performance of the agriculture sector.

Since June 2014, inflation in 2014 remained subdued mainly due to good performance of the agriculture sector and falling international oil prices. Looking ahead, inflation is projected to be around 2.8% in June 2015 and 3.5% end December 2015, while the main risk to the inflation outlook remains food supply shocks and developments in international oil prices. The current BNR monetary policy stance remains supportive to the economy by supporting the economy to fully recover from the adverse effects of cuts and delays in budget support disbursements faced in 2012. However, to timely mitigate any potential risks to economic outlook, BNR will continue to closely monitor developments in underlying economic fundamentals particularly economic growth, inflation and exchange rate developments so as to take appropriate measures.