NATIONAL BANK OF RWANDA

Quarterly Economic and Financial Report: Developments and Prospects

FIRST QUARTER 2016

TABLE OF CONTENT

EXECUTIVE SUMMARY

The first 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.

In 2016, the global economy is projected to grow by 3.4% lower than 3.5% initially forecasted in April 2015 after a moderate growth of 3.1% in 2015 led by strengthening recovery in advanced economies and improving economic activity in emerging and developing economies. However, downside risks related to rising US interest rates, slowing growth in global trade, and the decline in commodity prices exacerbated by a continuous slowdown in Chinese economy and low productivity are likely to increase global uncertainty and to constitute higher risks of economic vulnerability.

In advanced economies, real GDP growth is expected to stabilize at 1.9% in 2016 as in 2015, a downward revision compared to 2.1% projected in January 2016 reflecting weaker activity in some developed countries particularly US, Japan and other advanced Asian economies. For 2016Q1, GDP growth in advanced economies is foreseen to increase by 1.5%, the same level as in 2015Q4. In emerging and developing economies, slowing Chinese growth, declining commodity prices and political turmoil continue to undermine growth perspectives. Real GDP growth decelerated to 4.0% in 2015 from 4.6% recorded in 2014. It is projected to slightly improve to 4.1% in 2016 reflecting still higher demand in India which offset the slowdown in China, a normalization of conditions in previously distressed economies like Russia, Brazil, Latin America and Middle East and spill over from a pickup in advanced economies.

The Rwandan economy performed well in 2016Q1 supported by the continued accommodative monetary policy implemented by BNR since 2013 to support the financing of the economy by the banking sector. The economy grew by 7.3% in 2016Q1, slightly lower than 7.6 % recorded in 2015Q1 driven by the good performance of service sector (+7.0%) and agriculture sector (+7.0%) followed by industry sector (+10.0%). The economy is projected to grow by 6.0% in 2016 backed by the continuing accommodative monetary policy and macroeconomic stability mainly characterized by low inflationary pressures.

In 2016Q1, compared to the same period of 2015, trade deficit widened by 12.0% from a deficit of USD 410.8 million to a deficit of USD 460.1 million as a result of decline in formal exports by 11.4% in value compared to a decrease of formal imports value by 6.1%. Formal exports covered 21.0% of formal imports in 2016Q1 against 25.1% in the corresponding period of 2015. Including informal cross border, exports covered 28.5% of imports in 2016Q1 from 29.8% in 2015Q1.

The Rwandan Franc has been under relative pressure in 2016Q1 resulting mainly from the strengthening of the US dollar around the world as wells as decline in exports earnings. Relative to December 2015, the FRW depreciation against the USD reached 2.8% by end 2016Q1. In the same period, the FRW depreciated by 6.3% versus the EURO but appreciated by 0.2% against the British Pound (GBP). It also depreciated by 3.9%, 1.4%, 2.8% and 1.5% against the Kenyan, Tanzanian, Ugandan shillings and the Burundian franc respectively.

In 2015Q4, 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. Inflation remained moderate, with headline inflation reaching 4.6% in March 2016 from 4.5% in December 2015 and 0.8% in March 2015.

Rwanda's financial system remains sound and stable as evidenced by performance of various financial soundness indicators. Financial sector's capital and liquidity levels in 2016Q1 remain adequate and above prudential limits. In general, the banking system continues to lead the sector with the largest share of the total financial sector assets.

The growth in banking sector assets slipped in 2016Q1 standing at 2.4% compared to 4.2% in 2015Q4 and declined by 29.3% against the status of the same quarter in 2015. The sector's profitability indicators slightly slowed down with net profit after tax for the industry declined by 18.1% in 2016Q1. The return on average assets (ROA) declined to 1.9% from 2.1% in 2015Q4, and from 2.7% in 2015Q1. Similarly, the return on average equity (ROE) fell to 9.8% from 11.2% in 2015Q4 and from 14.1% in 2015Q1. Indeed, the banks overhead cost to income ratio increased to 49.1% in March 2016 from 46.8% in December 2015 and 43.6% in March 2015.

In general, the slight reduction in profitability level of the industry has been largely influenced by high operational costs than core costs generated mainly by new bank entrants. Despite the slight decline, the prudential indicators are retained within their limits, indicating that the financial institutions are efficiently using their assets in line with sustainability of their capital position. The capital adequacy ratio (CAR) stood at 25.3% in 2016Q1 increasing from 22.5% in 2015Q4 and 25.9% in 2015Q1. The solvency ratio resiliently remains above the BNR prudential benchmark of 15% as well as the Basel committee benchmark of 8%. Furthermore, the liquidity ratio stood at 43.9% in 2016Q1 well above the prudential limit of 20%. Similarly, the non-performing loans (NPLs) net of Provisions to core capital stood at 14.5% indicating that the banking system is robust to withstand losses from NPLs.

I. INTERNATIONAL ECONOMIC OUTLOOK

The global economy is projected to grow by 3.4% in 2016 lower than 3.5% initially forecasted in April 2015 after a moderate growth of 3.1% in 2015 led by strengthening recovery in advanced economies and improving economic activity in emerging and developing economies. However, downside risks related to rising US interest rates, slowing growth in global trade, and the decline in commodity prices exacerbated by a continuous slowdown in Chinese economy and low productivity are likely to increase global uncertainty and to constitute higher risks of economic vulnerability.

I.1 Economic growth

In advanced economies, real GDP growth is expected to stabilize at 1.9% in 2016 same as in 2015, a downward revision compared to 2.1% projected in January 2016 reflecting weaker activity in some developed countries particularly US, Japan and other advanced Asian economies. For 2016Q1, GDP growth in advanced economies is foreseen to increase by 1.5%, the same level as in 2015Q4.

In USA, GDP grew by 0.5% in 2016Q1 lower than 1.4% in 2015Q4 and 2.0% in 2015Q3 as result of slowdown in consumer and federal government spending, slowing manufacturing production and weak net exports, weak global and domestic demand, a cut in oil related investments following lower oil prices which reduced profit margins in energy sector as well as non-residential investments. For the whole year 2016, GDP growth is projected to average 2.4% by end 2016 helped by still easy financial conditions, reduced fiscal drag, and improving housing and labour markets.

Table 1: Economic growth developments (in %)

	Quarterly (BLOOMBERG)						*IMF*	
	2015				2016		2015	2016 Proje.
	Q1	Q2	Q3	Q4	Q1	Q2		
USA (QoQ)	0.6	3.9	2.0	1.4	0.5	2.3	2.4	2.4
Euro area (YoY)	1.3	1.6	1.6	1.6	1.6	1.4	1.6	1.5
Japan (QoQ)	4.6	-1.4	1.4	-1.1	0.4	1.2	0.5	0.5
UK (YoY)	2.6	2.4	2.2	2.1	2.1	1.8	2.2	1.9
China (YoY)	7.0	7.0	6.9	6.8	6.7	6.6	6.9	6.5
India	6.7	7.6	7.7	7.3	7.4	7.5	7.3	7.5

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

In the Eurozone, real GDP grew by 1.6% in 2016Q1 and 2015Q4 helped by easing monetary policy, competitive exchange rate, improving confidence among businesses and consumers as well as decline in energy prices and it is expected to average 1.5% by end 2016. The Japanese economy contracted by 1.1% in 2015Q4 on the back of a sharp decline in private consumption. It is expected to recover by 0.4% in 2016Q1 and reach 0.5% by end 2016.

In emerging and developing economies, the slowing Chine's economic growth, declining commodity prices and political turmoil continue to undermine growth perspectives. Real GDP growth decelerated to 4.0% in 2015 from 4.6% recorded in 2014. It is projected to slightly improve to 4.1% in 2016 reflecting still higher demand in India which offset the slowdown in China, a normalization of conditions in previously distressed economies like Russia, Brazil, Latin America and Middle East as well as spill over from a pickup in advanced economies.

For the 2016Q1, Chinese real GDP decelerated to 6.7% from 6.8% in 2015Q4 and 7.0% in 2015Q1 undermined by a slowdown in industrial production, weak property investments and negative contribution from net exports. In 2016, it is foreseen to average at 6.5%, the lowest performance in the last 25 years which is 0.2% higher compared to January 2016 forecasts against 6.9% in 2015 and 7.3% in 2014. This upward revision reflects resilient domestic demand particularly consumption, a strong increase in services sector that overcompensated weakness in manufacturing sector.

In Sub-Saharan Africa, real GDP growth fell short of forecasts to 3.4% in 2015 against expectations of 3.8% as a result of the fall in oil prices, decline in other commodity prices, and geopolitical and domestic conflicts in some countries against 5.1% in 2014. It will further decelerate to 3.0% by end 2016.

In EAC, apart from Burundi whose economy contracted by 4.1% due to internal conflicts, other regional economies performed well in 2015 compared to 2014. Regional economies are expected to continue growing through 2016 with the Burundian economy recovering by 3.4%.

Table 2: Economic growth EAC countries (in %)

	2015				Annual average	
	2015Q1	2015Q2	2015Q3	2015Q4	2015	2016
Burundi	0.3	-	-	-	-4.1	3.4
Kenya	4.9	5.2	5.8	-	5.6	6.0
Rwanda	7.6	7.0	6.0	7.1	6.9	6.3
Tanzania	6.5	7.9	6.3	7.1	7.0	6.9
Uganda	5.9	6.7	8.2	6.7	5.0	5.3

Source: Central Bank Reports & IMF, WECO, April 2016

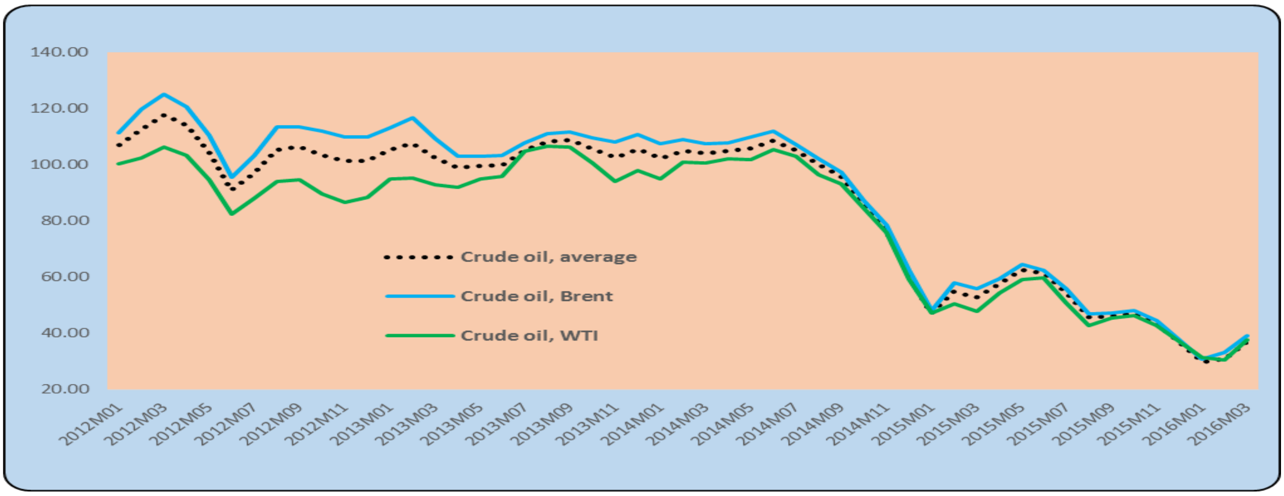
I.2 Inflation and Commodity Prices

1.2.1 Commodity prices

In 2016Q1, commodity prices kept on declining weighed down by abundant supply, lower global growth perspectives especially in emerging economies and a strong greenback. Overall, energy prices fell by 20.7% quarter-on-quarter while non-energy prices eased by 1.8% against respective declines of 13.4% and 3.8% the previous quarter. On annual basis, non-energy commodity prices kept declining in March 2016 led by declines in prices of agriculture commodities (-5.0%), metals and minerals (-14.8%) as well as fertilizers (-19.4%).

Crude oil prices declined by 22.5% Q-o-Q due to weak global demand, increased oil stocks, rising production in OPEC together with higher than expected oil exports from Iran. Brent prices fell by 20.7% to USD 34.36/barrel in 2016Q1 from USD 43.42/barrel in 2015Q4. Non-energy prices fell by 1.8% in 2016Q1 driven by prices of agricultural commodities, fertilizers and metals & minerals which plunged by 1.8%, 11.6% and 1.3% respectively.

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



Source: World Bank

Agricultural prices declined on the back of higher stocks as well as increased production for some commodities. For the first time in the last eight quarters, food prices recorded a slight increase of 0.1% in 2016Q1 due to dry weather (El Nino) which affected production in Asia while prices continued falling for other food stuffs on ample supply: grains prices rose by 0.3%, oils and meals by 0.4%, while other food prices fell by 0.4%.

Prices for beverages dropped by 7.5% due to favourable coffee production in Brazil and Vietnam, weak demand for cocoa particularly from China and increased production of tea from many African countries. Prices fell for Robusta coffee by 8.0%, for tea by 14.4% as well as prices for all three auctions, tea Kolkata (-25.2%), tea Mombasa (-18.0%) and tea Colombo (-1.0%) while prices slightly increased for coffee Arabica by 0.1%.

Table 3: Commodity prices (in % change m-o-m)

	2015			2016							Annual Average	
	Q2	Q3	Q4	Q1	Jan .MoM	Feb. MoM	Mar MoM	Jan. YoY	Feb. YoY	Mar YOY	2015	2016
OIL	**17.2**	**-19.3**	**-13.4**	**-22.5**	**-18.6**	**4.2**	**20.3**	**-36.8**	**-43.4**	**-29.3**	**-47.2**	**-31.6**
BEVERAGES	**0.2**	**0.5**	**-1.0**	**-7.5**	**-7.8**	**-1.1**	**4.3**	**-11.3**	**-10.2**	**-0.9**	**-3.1**	**-15.2**
Coffee, Arabica	-8.9	-5.1	-1.7	0.1	-2.4	1.8	6.6	-23.7	-17.4	-2.0	-20.9	-3.7
Coffee, Robusta	-6.5	-5.7	-4.2	-8.0	-5.8	-0.9	2.1	-23.8	-24.7	-18.0	-10.8	-7.2
Tea, Mombasa auctions	20.6	5.6	-1.4	-18.0	-9.6	-7.8	-6.5	20.8	5.2	-12.9	34.1	4.1(*)
CEREALS	**-5.8**	**-4.7**	**-2.5**	**0.3**	**-0.4**	**0.8**	**0.1**	**-15.2**	**-13.1**	**-10.3**	**-14.5**	**-5.3**
METALS &MINERALS	**-0.4**	**-11.7**	**-8.0**	**-1.3**	**-2.0**	**4.5**	**6.0**	**-25.2**	**-20.3**	**-14.8**	**-23.1**	**-14.1**
Tin	-15.1	-2.3	-1.0	2.4	-6.0	13.1	8.3	-29.0	-14.4	-3.0	-26.6	-6.6
Gold	-2.1	-5.8	-1.5	6.7	2.1	9.3	3.8	-12.2	-2.2	5.6	-8.3	-7.3
FERTILIZERS	**-3.7**	**-1.3**	**-2.2**	**-11.6**	**-5.1**	**-5.2**	**-5.2**	**-16.3**	**-18.1**	**-19.4**	**-5.0**	**-3.9**

Source: WB, IMF, World Economic Outlook, April 2016

(*) Forecasts of average prices of the 3 auctions: Colombo, Kolkata and Mombasa.

Metals and mineral prices eased by 1.3% as the decline in base metals (-1.8%) overcompensated the increase in precious metals (+5.6%). The decline in metals prices was due to slowing growth prospects in China and still ample supply due to earlier investments. For some metals like tin, iron, and zinc, prices increased on the back of production cuts and renew demand. Additionally, the decline in energy prices and the exchange rate depreciation in many producing countries delayed closure of the higher cost mines.

Overall, compared to 2015, commodity prices are expected to keep declining in 2016 due to persistent oversupply and for industrial commodities due to weak growth prospects in emerging economies. Oil prices are projected to fall by 31.6% averaging USD 37.0/barrel against USD 50.8/barrel in 2015, metals by 14.1% and coffee prices by 3.7% (for Arabica) and by 7.2% (for Robusta) while tea average prices are expected to go up slightly by 1.5%.

1.2.2 Inflation

In advanced economies, inflation remained subdue and well below central bank targets reflecting declines in commodity prices and still frail economic activity. Headline inflation averaged 0.3% in 2015 and projected to slightly pick up to 0.7% by end 2016 against 1.4% in 2014. In emerging economies, deflationary pressures from commodity prices are, in some economies, offset by large currency depreciation. Overall, inflation in emerging and developing countries was stable at 4.7% in 2015 same level as in 2014 while expected to decelerate to 4.5% by end 2016.

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

	2015				2016			2015	2016
	Mar.	Jun.	Sept.	Dec	Jan.	Feb.	Mar.		
USA	-0.1	0.1	-0.0	0.7	1.4	1.0	0.9	0.1	0.8
Euro zone	-0.1	0.2	-0.1	0.2	0.3	-0.2	0.0	0.0	0.4
Japan	2.3	0.4	0.0	0.2	-0.1	0.3	-0.1	0.8	-0.2
China	1.4	1.4	1.6	1.6	1.8	2.3	2.3	1.4	1.8

Source: National statistics offices & IMF WEO, April 2016

In March 2016, weighed down mostly by decline in energy prices and transportation costs, inflation stood at 0.0% in the Euro area, 0.9% in USA and 2.3% in China against 0.2%, 0.7% and 1.6% respectively in December 2015. In Japan, it fell to negative 0.1% in March 2016 from 0.2% in December 2015.

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 slowed down in March 2016 compared to December 2015 as regional currencies slightly recover against the US dollar and food and energy inflation lowered in most of regional countries.

Table 5: Headline inflation in EAC countries, in %

	2015				2016			2015	2016(IMF)
	Mar.	Jun.	Sept.	Dec.	Jan.	Feb.	Mar.		
Uganda	1.9	4.9	7.2	8.4	7.7	7.0	6.2	5.8	6.7
Kenya	6.3	7.0	6.0	8.0	7.8	6.8	6.5	6.6	6.3
Tanzania	4.3	6.1	6.1	6.8	6.5	5.6	5.4	5.6	6.1
Burundi	4.7	7.7	4.1	7.1	6.3	6.7	4.3	5.6	7.6
Rwanda	0.8	2.8	3.7	4.5	4.5	4.4	4.6	2.5	4.8

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

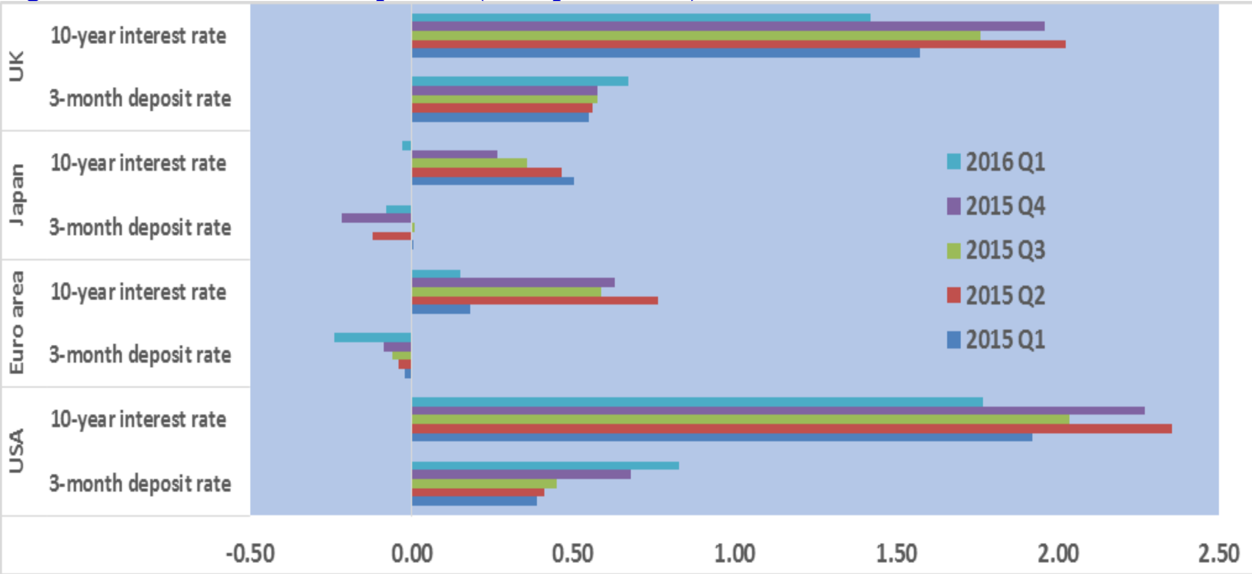
I. 3 Monetary Policy and Financial Markets

Monetary policy in developed countries remained accommodative to boost economic activities. In UK, the central bank rate remained unchanged at 0.5%. Faced with the background of deflationary pressures and low economic recovery, the ECB lowered, on March 10th,2016, its main refinancing rate by 5 basis points to 0.0% and increased its bond buying program from euro 60 billion up to 80 billion to ensure inflation objective of 2.0%. The bond buying program is intended to expand up to March 2017 even beyond depending on inflation trajectory.

In its January 29th, 2016 meeting, the BOJ adopted a negative interest-rate policy on marginal excess reserves and continued its quantitative easing program to push banks to lend as to give a boost to the weakening economy and maintain the price stability target of 2%. On contrary, US Federal Reserve made its tightening first step on 15-16 December 2015, raising for the first time its target range for the fund rate to 0.25% - 0.50% from 0 - 0.25% since 2009. Short term deposit rate reduced to negative for both Eurozone and Japan to discourage bank deposit and redirect the money towards the economic activity. In 2016Q1, the 3-month deposit rate was at -0.08% in Japan and at -0.24% in Eurozone from -0.215% and -0.085% respectively in 2015Q4.

The 10-year interest rates declined to the lowest level since May 2012 reflecting both flight to safety and increased risk aversion. Indeed, global economic growth remained sluggish, financial market turbulences persist and there is continuous exposure to commodity sector. Additionally, weaker-than-expected US data as an echo of a fragile state of the American economy limits the Fed's room to increase interest rates.

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



Source: Bloomberg database, year

On the foreign exchange market, the dollar remained strong against the pound which was undermined by investors 'anxiety about the UK's potential exit from European Union and expectations about normalization of British monetary policy. Actually, investors are more reluctant to hold sterling-denominated assets. The dollar weakened against the Yen and the euro on meagre US economic data as well as waning expectations about further hike in US interest rates.

Table 6: Nominal Exchange rate developments

	2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
USD/1EUR	1.3769	1.3692	1.2631	1.2098	1.0731	1.1147	1.1177	1.0862	1.138
USD /1 GBP	1.6662	1.7106	1.6213	1.5577	1.4818	1.5712	1.5128	1.4736	1.436
YEN/1USD	103.23	101.33	109.65	119.78	120.13	122.50	119.88	120.22	112.57

Source: Bloomberg Database

In 2016Q1 compared to 2015Q4, the USD gained by 2.6% against the GBP while it lost by 6.4% and 4.8% against the Yen and the Euro respectively.

I. NATIONAL ECONOMIC PERFORMANCE

2.1 Real Sector Performance

The Rwandan economy performed well in 2016Q1 supported by accommodative monetary policy implemented by BNR since 2013 which led to the increase in financing of the private sector by the banking sector. The economy is projected to grow by 6.0% in 2016 backed by the continuing accommodative monetary policy and macroeconomic stability mainly characterized by low inflationary pressures.

2.1.1 Economic growth

The real GDP grew by 7.3% in 2016Q1 from 7.1% and 7.6% recorded in 2015Q4 and 2015Q1 respectively driven by good performance of service sector (+7.0%) and agriculture sector (+7.0%) followed by industry sector (+10.0%).

Table 7: Rwanda Real GDP growth, in %

	2012	2013	2014	2015					2016
				Q1	Q2	Q3	Q4	Annual	Q1
GDP	**8.8**	**4.7**	**7.0**	**7.6**	**7.1**	**5.9**	**7.0**	**6.9**	**7.3**
Agriculture	**6.0**	**3.0**	**5.0**	**4.0**	**6.0**	**6.0**	**5.0**	**5.0**	**7.0**
Food crops	7.0	4.0	6.0	4.0	4.0	5.0	5.0	4.0	4.0
Industry	**8.0**	**9.0**	**6.0**	**7.0**	**10.0**	**3.0**	**6.0**	**7.0**	**10.0**
Mining & quarrying	-7.0	20.0	11.0	-12.0	-2.0	-15.0	-4.0	-9.0	-5.0
Manufacturing	6.0	5.0	1.0	8.0	10.0	7.0	6.0	8.0	10.02
Electricity	17.0	8.0	9.0	8.0	9.0	8.0	7.0	8.0	25.0
Water & waste management	8.0	5.0	3.0	2.0	0.0	0.0	1.0	1.0	3.0
Construction	15.0	11.0	8.0	11.0	15.0	6.0	9.0	10.0	13.0
Services	**12.0**	**5.0**	**9.0**	**9.0**	**6.0**	**7.0**	**8.0**	**7.0**	**7.0**
Wholesale & retail trade	14.0	6.0	9.0	7.0	5.0	5.0	9.0	7.0	11.0
Information & communication	33.0	0.0	17.0	35.0	7.0	17.0	10.0	16.0	0.0
Financial services	13.0	10.0	5.0	10.0	7.0	18.0	7.0	10.0	7.0
Real estate activities	0.0	1.0	8.0	5.0	11.0	5.0	6.0	7.0	4.0
Taxes less subsidies on products	**2.0**	**-3.0**	**3.0**	**22.0**	**14.0**	**7.0**	**13.0**	**14.0**	**4.0**

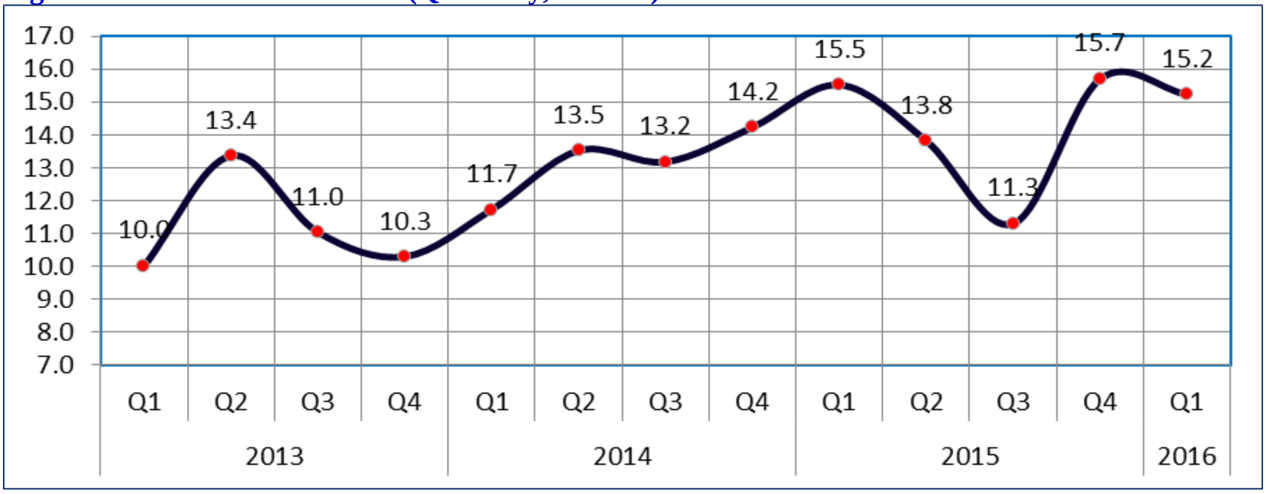
Source: Rwanda National Institute of Statistics (NISR)

This good performance of the economy realized in 2016Q1 (+7.3%) is however slightly lower than in 2015Q1 (+7.6%) as a result of continuing slowdown in the mining sector. This downtrend is depicted by the leading economic indicators of the real sector activities such as composite index of economic activities and total turnovers of industry and services.

2.1.2 Composite index of economic activities (CIEA)

The composite index of economic activities (CIEA) in real terms grew by 15.2% in 2016Q1 slightly lower than 15.5% in achieved 2015Q1. This good performance resulted from increase in credit to private sector (+24.2%), electricity production (+48.1%) and manufacturing (+32.5%) despite a decline in the mining sector by 21.0% due to falling international commodity prices. Metal and minerals prices further declined by 20.1% in 2016Q1 after falling by 15.2% in 2015Q1 and 13.2% in 2014Q1.

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

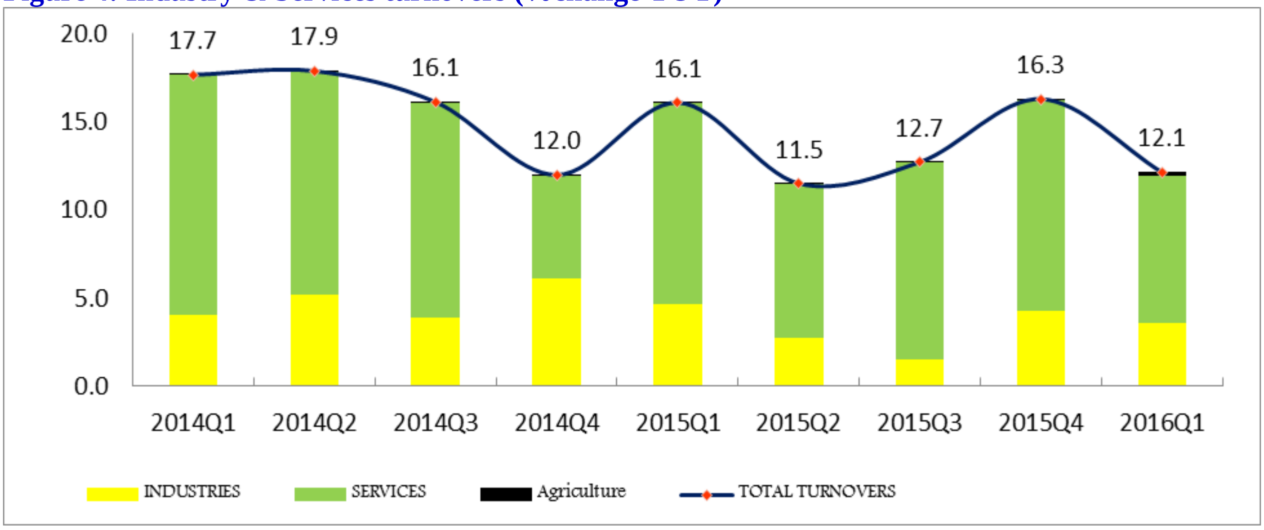


Source: BNR, Monetary Policy and Research Department

2.1.3 Turnovers of industry and services sectors

The total turnovers of industry and services sectors rose by 12.1% in 2016Q1 compared to 16.1% registered in 2015Q1 following a moderate growth in construction sector (+6.5%) as well as in wholesale and retail trade (9.4%) and a continuous decline in the mining sector (-48.2%).

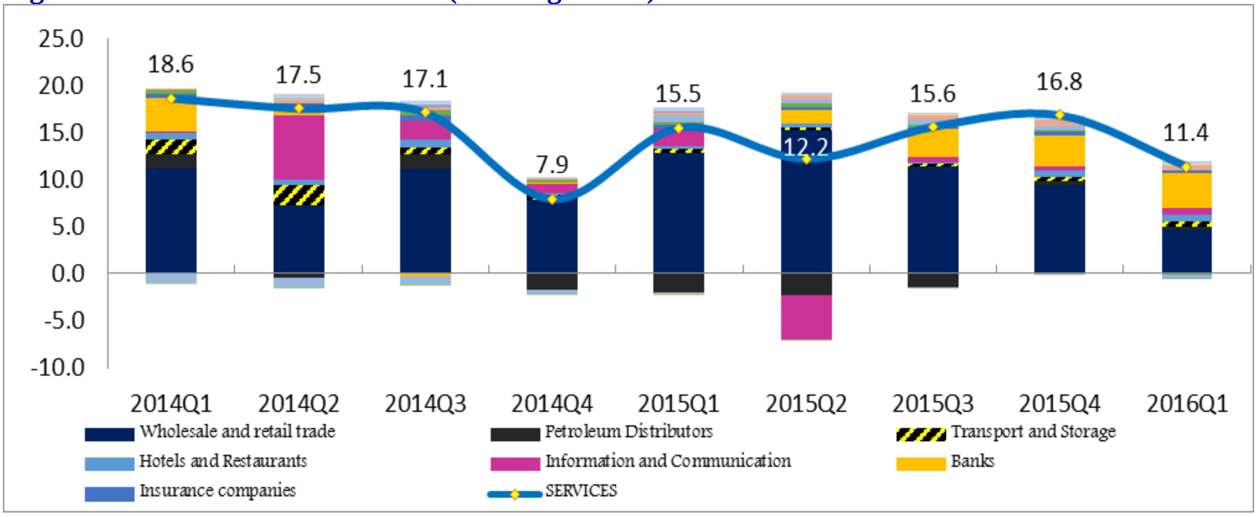
Figure 4: Industry & Services turnovers (%change YOY)



Source: BNR, Monetary Policy and Research Department

The services sector which represent 72.9% of the sales for industry and services sector in 2016Q1, increased by 11.4% in 2016Q1 from 15.5% in 2015Q1. This growth was partly due to the base effect as banks' performance increased by 33.2% in 2016Q1 from a meagre 0.4% in 2015Q1 and 32.4% in 2014Q1. Banking sector's turnovers jumped as credit to private sector continues to expand following accommodative monetary policy. On the other hand, the sector was supported by hotels and restaurants (+18.2%) as well as petroleum companies (+1.9%). Recent events including African National Championship (CHAN) 2016 boosted hotels and restaurants sector. Upcoming events such as World Economic Forum, Africa Union Summit and Africa Hotel Investment Forum among others will bolster the sector and the services sector in general throughout the year 2016. Wholesale and retail trade, increased by 9.4% after 28.8% and contributed 48.9% to the total services sector's sales, led to the slow pace in the performance of the sector.

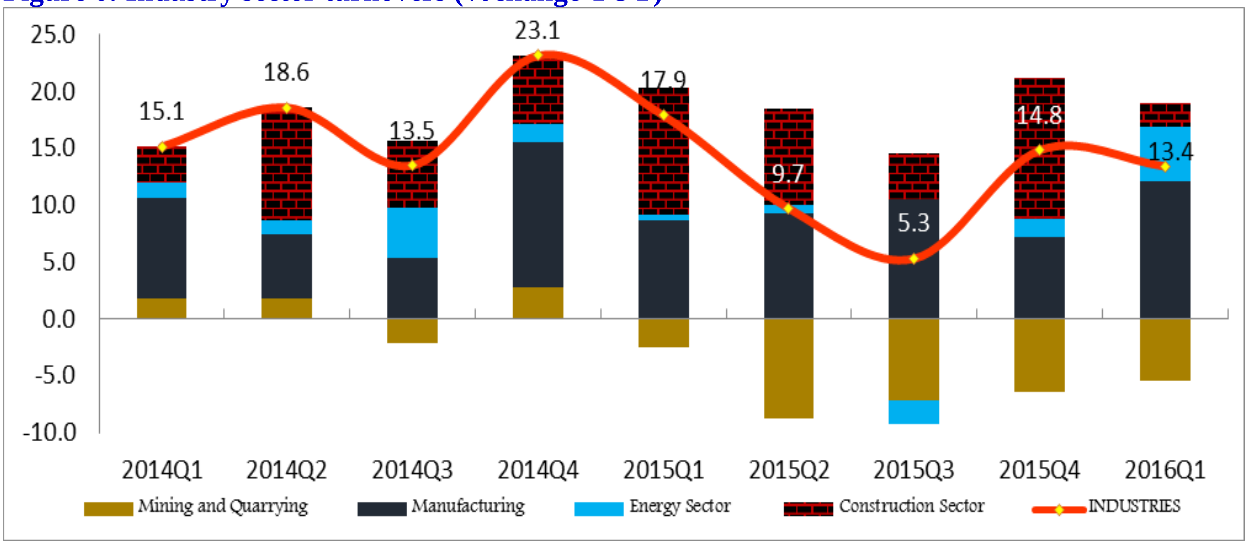
Figure 5: Services sector turnovers (%change YOY)



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 continued to decline. However, good performance in other sub-sectors outweighed the negative impact of this event. In 2016 Q1, the industry sector's performance was led mainly by gains in manufacturing (+24.9%) and energy sector (+57.4%). Energy sector was boosted by investment in hydropower that led to the increase in electricity production as well as electricity price hike by 35.8%.

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 12.0% in 2016Q1 (FRW 199.5 billion) from 7.3% in 2015Q1 (FRW 178.1 billion). Outstanding loans to the private sector increased by 2.0% end March 2016 (FRW 1,171.3 billion) compared to December 2015 (FRW 1,148.1 billion), against 17.7% end March 2015 compared to end December 2014.

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

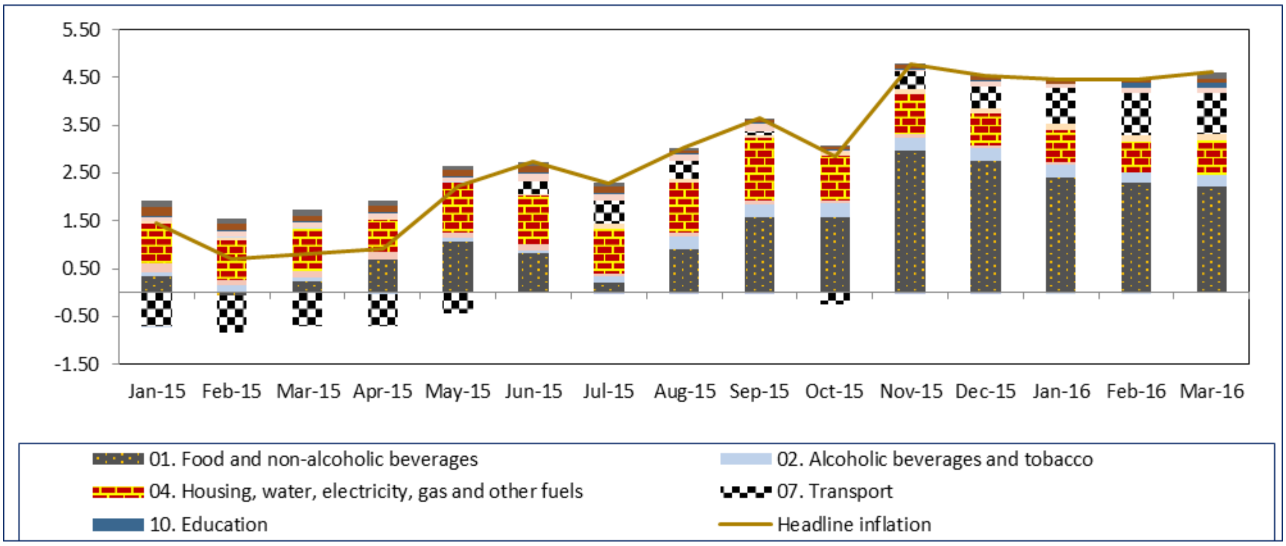
ACTIVITY	2014				2015				2016	%Change
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1/Q1
Industry	**77.2**	**52.2**	**48.8**	**58.5**	**72.8**	**60.7**	**67.8**	**88.8**	**57.7**	-20.8
Manufacturing activities	35.2	9.4	16.0	11.9	7.9	4.4	17.6	21.4	13.3	69.4
Mortgage industries	26.0	42.7	31.8	37.9	64.7	54.9	50.3	67.4	35.9	-44.6
Services	**71.5**	**87.6**	**90.7**	**95.1**	**86.7**	**103.3**	**76.9**	**104.0**	**119.4**	37.7
Commercial restaurant and hotel	61.0	71.0	64.4	75.6	74.7	69.6	58.8	76.7	103.9	39.1
Transport & warehousing & communication	5.6	9.8	15.1	11.6	6.7	17.6	11.5	18.0	8.7	29.7
Services provided to the community	4.5	5.9	9.4	6.3	4.7	4.2	6.1	7.6	3.9	-18.5
Total	**166.0**	**159.7**	**156.5**	**170.8**	**178.1**	**182.7**	**166.6**	**214.6**	**199.5**	**12.0**

Source: BNR, Monetary Policy and Research Department

2.2 Price Developments

Headline inflation slightly rose by 4.5% in 2016Q1 after 4.1% in 2015Q4 and 1.0% in 2015Q1 mainly hiked by food inflation (+8.2%).

Figure 6: Headline inflation developments (%, y-o-y)



Source: BNR, Monetary Policy & Research Department

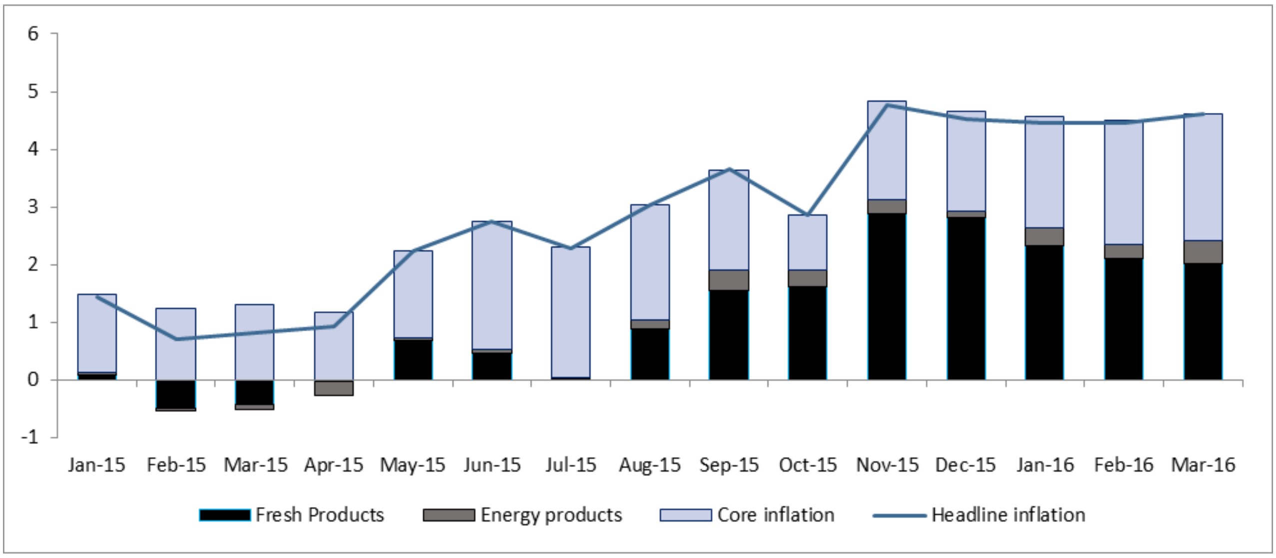
Food and non-alcoholic beverages prices increased by 8.2% in 2016Q1 after 8.6% the previous quarter and 0.6% in 2015Q1 as vegetables inflation climbed from negative 2.9% in 2015Q1 to 19.4% in 2015Q4 and 19.2% in 2016Q1.

Housing inflation decelerated to 2.9% in 2016Q1 from 3.5% in 2015Q4 and 3.7% in 2015Q1 while Transport inflation jumped to 4.7% in 2016Q1 from 1.0% in 2015Q4 and negative 4.1% in 2015Q1.

Imported inflation rose to 2.1% in during the first quarter of 2016 from 0.8% in the previous quarter and negative 0.1% in 2015Q1. Local inflation was dominant, increasing to 5.3% after 5.2% and 1.4% in the last and first quarters of 2015 respectively.

Core inflation stood at 2.8% in 2016Q1 from 1.7% in 2015Q1 and 1.9% in 2015Q4 as a result of the continued BNR accommodative monetary policy and more spending due to CHAN competitions.

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



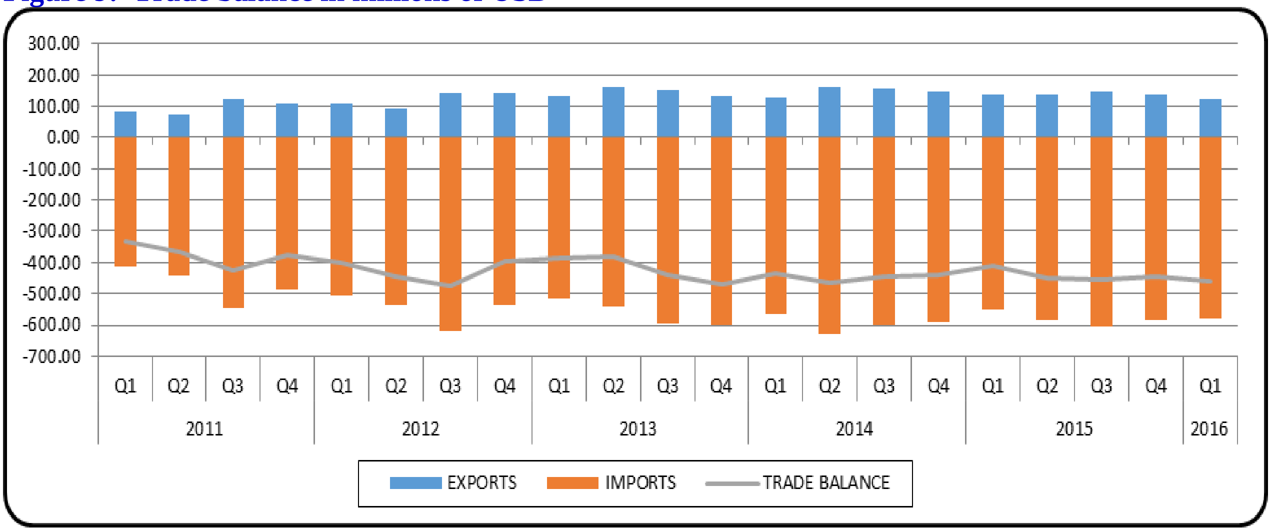
Source: BNR, Monetary Policy & Research Department

2.3 External trade developments

2.3.1 Trade Balance

In 2016Q1, compared to the same period of 2015, trade deficit widened by 12.0% from a deficit of USD 410.8 million to a deficit of USD 460.1 million as a result of decline in formal exports by 11.4% in value compared to a decrease of formal imports value by 6.1%. Formal exports covered 21.0% of formal imports in 2016Q1 against 25.1% in 2015Q1. Including informal cross border, exports covered 28.5% of imports in 2016Q1 from 29.8% in 2015Q1.

Figure 9: Trade balance in millions of USD



Source: BNR, Statistics Department

2.3.2 Formal exports

In 2016Q1, traditional exports (main exports) continue to dominate Rwanda's formal export sector representing 39.5% of the total formal exports, followed by re-exports (+36.5%) dominated by petroleum products, vehicles, and machines & engines. 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 24.0% of the total formal exports.

Compared to an increase of 6.0% in 2015Q1, total formal exports decreased in value by 11.4% in 2016Q1, due to the high decrease in exports value of minerals (-42.9%), and other exports (-23.8%). However, exports volume increased by 7.7%, attributed mainly to coffee exports (+21.4%), tea (+5.7%) as well as re-exports (+17.6%).

Table 9: Exports developments (annual % change)

	Volume		Value	
	2015Q1	2016Q1	2015Q1	2016Q1
EXPORTS	19.7	7.7	6.0	-11.4
MAIN EXPORTS	-0.8	-4.8	-10.3	-21.5
REEXPORTS	10.6	47.6	-2.5	17.6
OTHER EXPORTS	36.3	-16.5	69.4	-23.8

Source: BNR, Statistics Department

Traditional exports performed poorly decreasing by 21.4% in value, due to the decrease in the mining sector which went down (-42.9% in value and by -21.4% in volume) mainly due to the fall in the international commodity prices which impacted exported volume as well. Cassiterite and coltan declined respectively by 36.5% and 49.1% in value as a result of their decline in volume by 28.8% and 26.4% respectively and the fall in their unit prices (-13.3% and -27.4% respectively). Wolfram also decreased by 21.6% in value due to the decline of its unit price (-10.0%), but increased by 8.0% in volume. Export value and volume for hides & skins also decreased by 58.5% and 44.5% respectively.

Coffee exports increased in both volume and value by 71.3% and 21.4% respectively, despite the fall in unit price by 22.3% from USD 3.65/Kg in 2015Q1 to USD 2.84/Kg in 2016Q1. This increase in coffee exports volume resulted mainly from the increase in production observed in the first quarter of 2016, from 917 tons in 2015Q1 to 3,549 tons in 2016Q1, mainly in the Northern Province due to favourable rainfall combined with the increase in operational coffee washing stations which increased from 216 washing stations in 2015Q1 to 234 washing stations in 2016Q1. However, tea exports decreased in volume by 4.8% but increased in value by 5.7% due to the rise of unit price (+11.1%) from USD 2.48/Kg in 2015Q1 to USD 2.76/Kg in 2016Q1.

Non-traditional exports (other exports) which are dominated by other minerals, products of the milling industries, live animals, edible vegetables, roots &tubers and other non-traditional exports, which represent respectively 41.7%, 19.3%, 4.5%, 3.4%, and 17.1% of non-traditional exports, decreased by 16.5% in volume and 23.8% in value following the decrease of products of milling industry (-37.9%), other minerals (-0.3%), edible vegetables, roots and tubers (-61.8%), cereals (-35.9%) and live animals (-21.5%). Re-exports which are dominated by petroleum products, vehicles and machines as well as engines highly increased by 47.6% in volume and by 17.6% in value as a result of re-exports of petroleum products which are re-exported to DRC and Burundi.

2.3.3 Formal imports

During 2016Q1, formal imports recorded an increase of 6.1% in value to USD 582.1 million from USD 548.5 million in 2015Q1, after a registered decrease of 3.1% in the same period of 2015, and slightly increased by 0.8% in volume, driven by consumer goods (+24.4%), capital goods (+27.2%), despite the decrease in intermediary goods (-20.9%) and energy and lubricants (-23.2%). The increase in total imports CIF value was attributed to the rise in imports of consumer goods (+5.0%) and capital goods (+42.0%).

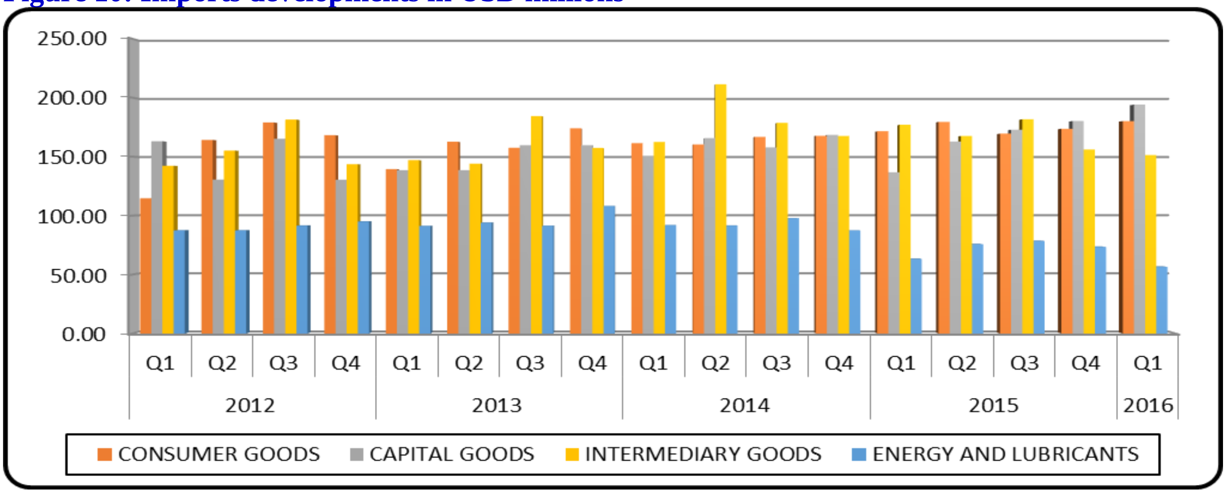
Table 10: Imports developments in % change

	Volume		Value	
	2015Q1	2016Q1	2015Q1	2016Q1
Total imports	**17.2**	**0.8**	**-3.1**	**6.1**
Consumer goods	17.1	24.4	6.2	5.0
Capital goods	5.5	27.2	-9.0	42.0
Intermediary goods	26.6	-20.9	9.0	-14.5
Energy and lubricants	-7.4	23.2	-31.2	-10.6
Trade deficit			5.8	-12.0
Import cover			**9.4**	**-16.5**

Source: BNR, Statistics Department

Imports of consumer goods were dominated by food products representing 79.1% and 33.6% of the total volume and value of imports of consumer goods. They increased by 24.4% in volume and by 5.0% value attributed mainly to the increase in food products and articles of clothing. Imports of food products increased by 36.0% in volume and 7.7% in value. The increase was mainly attributed to the increased imports of meat and fish (+11.3% in volume and +7.3% in value), milk and milk products, birds, eggs and natural honey (+50.1% in volume and 63.9% in value), fats and oils of animals or plant origin (+62.4% in volume and 41.6% in value) and cereals (+41.5% in volume and +24.4% in value).

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 value and volume by 42.0% and 27.2%, respectively, attributed mainly to the high imports of transport materials (+82.4% in volume and +33.4% in value) as well as imports of machines, devices and tools which increased by 24.5% in volume and by 63.4% in value.

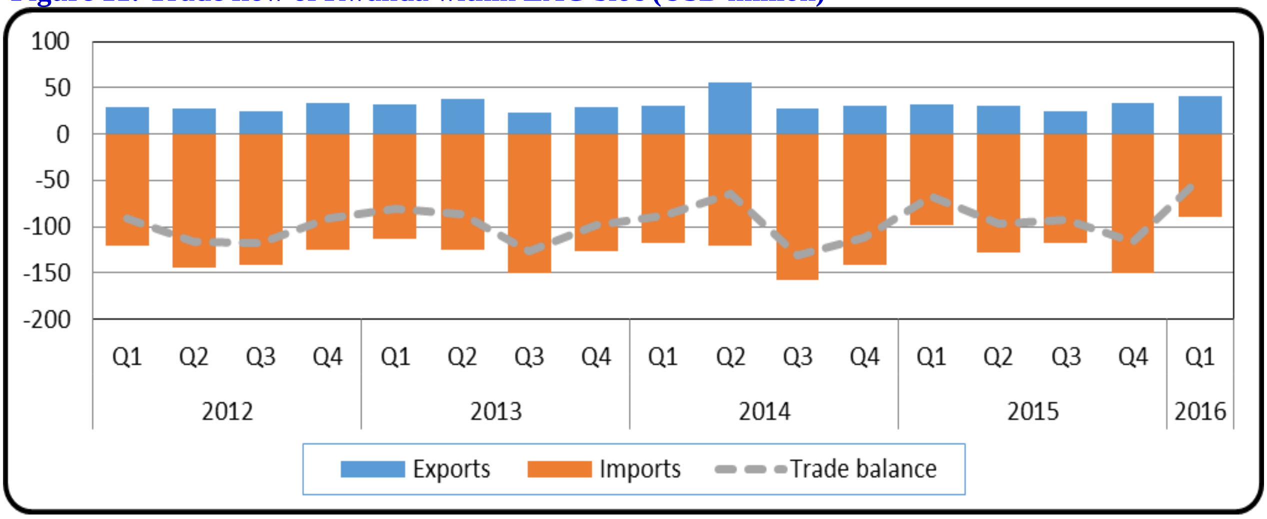
With regard to intermediary goods which are composed by construction materials, industrial products, and fertilizers decreased in volume by 20.9% and value by 14.5%. The decrease was mainly due to the imports of construction materials which decreased by 32.7% in volume and 16.7% in value, where cement and other similar products decreased by 45.8% in volume and 44.9% in value. Industrial products slightly increased by 0.3% in volume but decreased by 9.7% in value mainly due to the imports of chemical industries (+19.5% in volume and -11.8%in value).

Imports of energy and lubricants increased in volume by 23.2% but decreased by 10.6% in value. The decline in value was mainly due to the fall in price of imports of petroleum products like gas oil which decreased by 20.7%.

2.3.4 Trade with EAC countries

Rwanda's exports to other EAC member countries which represent 33.6% of the total exports amounted to USD 41.0 million in 2016Q1 from USD 31.7 million in the corresponding period of 2015, increasing by 29.3%, after an increase of 4.3% in the same period of 2015. Imports from EAC region decreased by 9.4% after a decline of 16.5% in 2015Q1, and amounted to USD 89.7 million from USD 99.0 million in 2015Q1. As a result, trade deficit with EAC improved by 27.5% to USD 48.8 million in 2016Q1 from USD 67.3 million of the corresponding period in 2015.

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



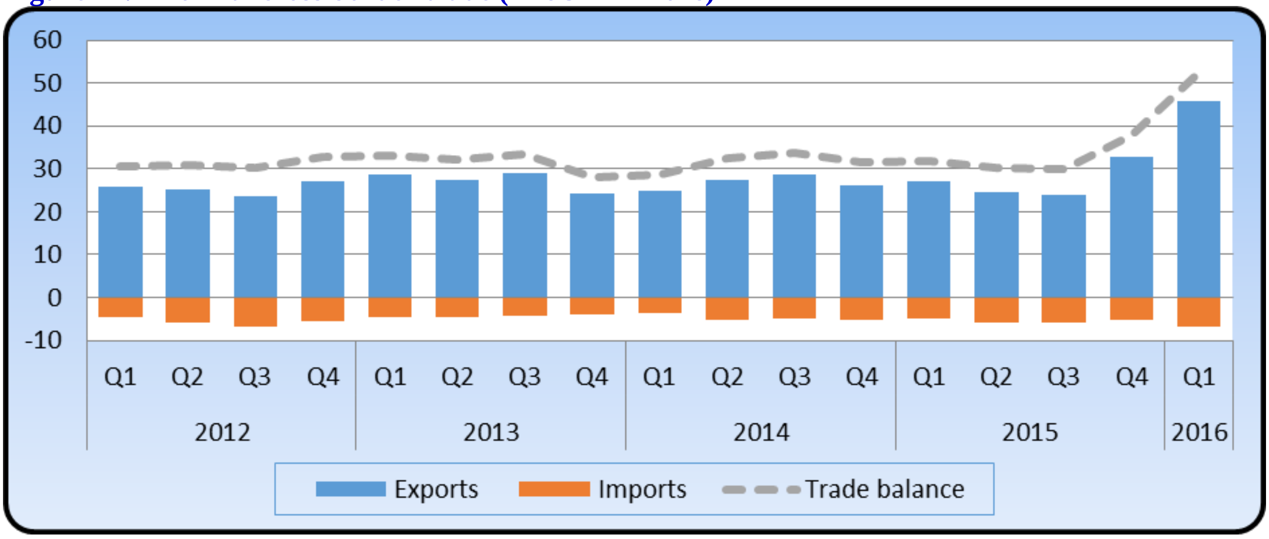
Source: BNR, Statistics Department

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

2.3.5 Informal cross-border trade

With regard to the informal cross-border trade, total informal exports representing 37.5% of the formal exports in 2016Q1, recorded a good performance increasing by 69.0% after an increase of 8.5% in the same period of 2015, and amounted to USD 45.8 million from USD 27.1 million in 2015Q1. The major commodities traded in informal cross border exports are agriculture products, telecommunication equipment and livestock. Exports to the Democratic Republic of Congo (DRC) represent a big share of 69.9% of the total informal cross border exports, followed by exports to Uganda with 24.7%. Exports to Burundi and Tanzania account for 5.4% and 0.04% respectively.

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



Source: BNR, Statistics Department

Informal imports increased by 39.6% from USD 4.8 million in 2015Q1 to USD 6.7 million in 2016Q1, after an increase of 27.8% recorded in the same period of last year, leading to an increase of 74.6% in Rwanda's positive informal trade balance with neighbouring countries, from USD 22.4 million to USD 39.1 million. The main imported products from neighbouring countries are 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 represent a share of 59.3%, 32.8% and 5.8% respectively.

2.4 Domestic Debt Developments

The stock of the Government domestic debt by end 2016Q1 amounted to FRW 449.5 billion, indicating an increase of 31.2% compared to the previous year's same period. The upsurge was contributed by 41.7% and 21.7% growth in holdings of both banking and non-banking sectors respectively.

Table 11: Sectoral Composition of the Public Domestic Debt (in bn Frw or otherwise indicated)

Sector	2015				2016			Annual %age Q1.16/Q1.15
	Q1	Q2	Q3	Q4	Jan.	Feb.	Q1.	
BNR (excluding monetary instruments)	**38.6**	**38.6**	**38.6**	**38.6**	**41.7**	**38.6**	**39.8**	**3.1%**
Consolidated debt	38.6	38.6	38.6	38.6	38.6	38.6	38.1	-1.3%
Overdraft	0	0	0	0	3.1	0	1.7	-
Banking Sector	**199.3**	**255.2**	**253.7**	**268.6**	**266.0**	**270.7**	**282.4**	**41.7%**
Development bonds	47.2	48.4	55.7	61.0	61.0	66.8	66.8	41.5%
Bonds issued at MINECOFIN	0.9	0.9	0.8	0.4	0.4	0.4	0.4	-55.6%
Treasury bills (issued at BNR for treasury issues)	151.2	201.2	197.2	207.2	204.6	203.6	215.2	42.3%
Non-Banking Sector	**104.6**	**106.5**	**106.0**	**113.2**	**118.8**	**126.9**	**127.3**	**21.7%**
Development bonds	36.2	40.9	47.6	54.0	54.1	63.3	63.3	74.9%
Consolidated debt to RSSB	50.2	49.5	78.4	40.5	39.4	39.4	39.4	-22.0%
Bonds issued at MINECOFIN	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0%
Treasury bills (issued at BNR for treasury issues)	10.6	8.9	2.7	11.5	18.0	16.9	17.3	63.2%
Other bonds for old arrears	6.4	6.4	6.4	6.4	6.4	6.4	6.4	0%
TOTAL DOMESTIC DEBT STOCK	**342.5**	**395.6**	**398.3**	**420.4**	**426.5**	**436.2**	**449.5**	**31.2%**

Source: BNR, Statistics Department

Banking sector continues to dominate the Government T-bills market and remains the main holder of the overall government outstanding debt instruments with a share of 62.8% to the total outstanding debt. The increase in government domestic financing against the same last year's period through banking sector is mostly dominated by purchase of treasury bills (47.9% share) while in non-banking sector is mostly driven by purchase of new development bonds covering 14.1%.

III. EXCHANGE RATE AND FOREIGN MARKET DEVELOPMENTS

The Rwandan Franc (FRW) has been under relative pressure resulting mainly from the continued strengthening of the US dollar around the world and the widening mismatch between imports and exports. As a result, relative to December 2015, the FRW depreciated against the USD by 2.8% on average (trading between FRW 768.41 per dollar against FRW 747.41 by end December 2015) compared to 2.3% and 2.0% in 2015Q4 and 2015Q1 respectively.

3.1 Exchange Rate Developments

Compared to 2015Q4, the FRW depreciation against the USD reached 2.8% by end 2016Q1. In the same period, the FRW appreciated by 0.2% versus the GBP but depreciated by 6.3% against the EURO. It also depreciated by 3.9%, 1.4%, 2.8% and 1.5% against the Kenyan shilling, Tanzanian shilling, Ugandan shilling and the Burundian franc respectively.

Table 12: Evolution of nominal exchange, leading currencies against US dollar (end 2015Q4 compared to 2015Q3)

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
2013Q4	1.9	4.3	4.1	-4.5	2.7	3.0	3.3	0.9
2014Q1	1.2	2.1	1.0	3.9	1.1	-1.4	0.4	1.0
2014Q2	0.7	3.1	0.0	1.2	-2.0	-4.0	-2.8	-0.3
2014Q3	0.6	-3.8	-6.4	-6.2	-1.4	0.8	-0.7	1.7
2014Q4	1.1	-3.6	-3.2	-8.4	-0.5	-2.5	-3.7	-1.2
2015Q1	2.0	-2.7	-9.1	2.5	0.3	-4.6	-4.7	2.4
2015Q2	1.6	8.0	5.4	-0.4	-5.0	-4.6	-8.6	1.9
2015Q3	1.5	-2.3	1.6	3.9	-4.9	-7.2	-9.2	1.8
2015Q4	2.3	0.1	-0.6	1.6	5.3	2.4	11.7	3.5
2016Q1	2.8	-0.2	6.3	10.9	3.9	1.4	2.8	1.5

Source: BNR, Monetary Policy and Research Department

The US dollar has also continued to weaken other hard currencies as well as regional currencies as depicted from table below. The USD appreciated by 2.6% against the British pound in 2016Q1. It also appreciated by 1.4% and 1.3% against the Tanzanian shilling and the Burundian franc respectively.

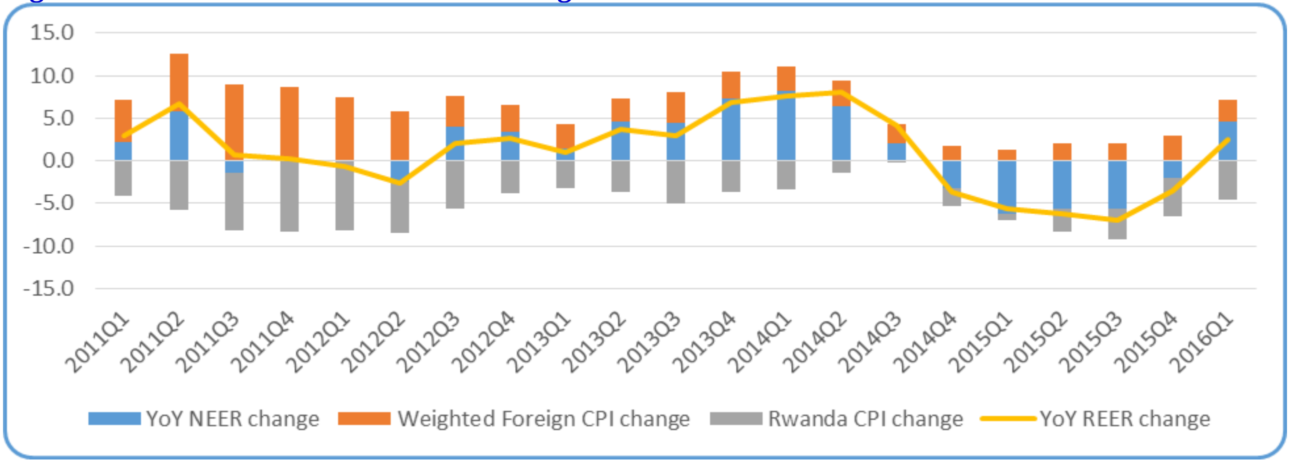
Table 13: Evolution of nominal exchange arte leading currencies and regional currencies against USD (QoQ)

	FRW/USD	EUR/USD	GBP/USD	JPY/USD	KES/USD	UGS/USD	TZS/USD	BIF/USD
2013Q4	1.9	-1.5	-2.3	7.2	-0.4	-1.3	-1.9	0.2
2014Q1	1.2	-0.2	-0.7	-2.1	0.2	0.9	3.6	0.2
2014Q2	0.7	0.6	-2.5	-1.7	1.4	2.0	1.2	0.1
2014Q3	0.6	8.4	5.4	8.3	1.9	0.9	0.9	0.1
2014Q4	1.1	4.4	4.1	9.2	1.5	5.8	3.6	0.3
2015Q1	2.0	12.7	5.1	0.3	1.9	6.9	3.6	0.2
2015Q2	1.6	-3.7	-5.7	2.0	6.8	11.3	13.0	0.7
2015Q3	1.5	-0.3	3.9	-2.1	6.7	12.0	6.4	1.0
2015Q4	2.3	2.9	2.7	0.3	-2.9	-8.6	0.0	2.2
2016Q1	2.8	-4.5	2.6	-6.4	-0.8	-0.1	1.4	1.3

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 2016Q1, the FRW real effective exchange rate depreciated by 4.3% (y-o-y) after a depreciation of 1.9% end 2015Q4, while in nominal effective terms, it depreciated by 4.2%.

Figure 13: Evolution of real effective exchange rate

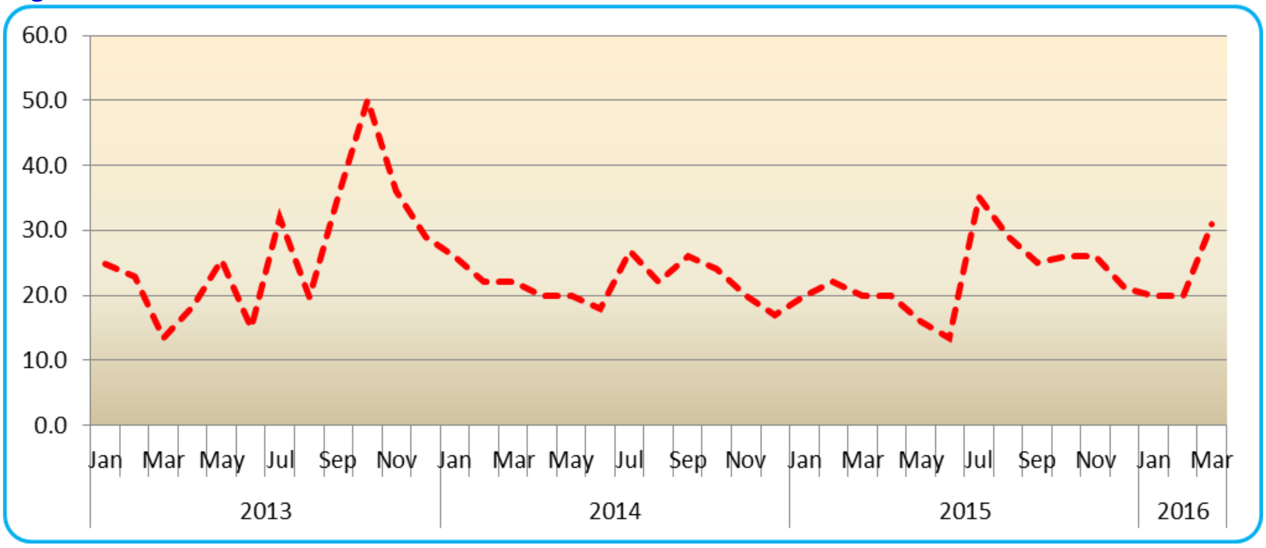


Source: BNR, Monetary Policy and Research Department

3.2 Domestic Foreign Exchange Markets

In the first quarter of 2016, the forex resources in the banking system stood at USD 706.47 million against USD 909.88 million in 2015Q1. The decrease in resources (-22.4%) was mainly attributed to exports receipts which decreased by 46.8% from USD 125.9 million in 2015Q1 to USD 67.0 million in 2016Q1. Following the high demand of forex for financing imports, BNR sales to banks increased by 14.5% to USD 71.0 million in 2016Q1 from USD 62.0 million sold to the market in the corresponding period of 2015.

Figure 14: BNR Sales to banks in millions of USD



Source: BNR, Financial Market Department

IV. MONETARY SECTOR DEVELOPMENTS

In 2016Q1, 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.

4.1 Monetary aggregates developments

The broad money expanded by 16.1% y-o-y in March 2016 against +21.8% recorded in March 2015. This low growth of money supply compared to that of the previous period was caused by a greater decrease in NFA (-15.4%) in March 2016 compared to -1.5% recorded in March 2015. The decline in NFA in March 2015 compared to March 2014 was mainly prompted by decline in exports receipt.

The currency in circulation continued to have a declining share in broad money M3 due to an improvement in banking sector network, payments system modernization and financial services awareness. It reduced by 6.8% in 2016Q1 compared to 2015Q4 against a decline of 1.0% in 2015Q1.

Table 14: Money supply and its main sources (FRW billion)

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Mar15/ Mar14	Mar16/ Mar15	Mar15/ Dec14	Mar16 /Dec15
Net foreign assets	659.7	599.5	560.1	642.6	558.3	-1.5	-15.4	-4.4	-13.1
Net domestic assets	615.2	828.3	857.9	839.5	921.5	63.2	49.8	15.3	9.8
Domestic credit	998.2	1172.1	1198.7	1221.9	1313.6	47.0	31.6	12.0	7.5
Central government (net)	-3.4	125.0	98.7	69.4	120.2	96.7	3590.8	83.8	73.1
Public enterprises	6.2	5.0	4.6	4.3	22.1	245.6	256.5	6.6	411.5
Private sector	995.4	1042.1	1095.4	1148.1	1171.3	26.3	17.7	9.8	2.0
O/W in foreign currency	69.5	85.4	95.6	104.9	123.0	187.3	76.9	9.3	17.2
Other items net (Assets: +)	-383.0	-343.8	-340.8	-382.4	-392.1	-26.7	-2.4	-7.2	-2.5
Broad money M3	**1,274.9**	**1,427.8**	**1,417.9**	**1,482.1**	**1,479.8**	**21.8**	**16.1**	**4.2**	**-0.2**
Currency in circulation	117.4	134.9	122.0	142.6	133.0	7.3	13.3	-1.0	-6.8
Deposits	1,157.5	1,292.9	1,295.9	1,339.5	1,346.9	23.5	16.4	4.7	0.6
O/W demand deposits	480.7	616.2	578.9	614.6	617.8	24.5	28.5	5.4	0.5
Term deposits	446.7	441.1	461.1	469.0	472.7	28.0	5.8	9.6	0.8
Foreign currency deposits	230.2	235.6	255.9	255.9	256.4	13.8	11.4	-4.8	0.2

Source: BNR, Statistics Department

On the demand side, compared to 2015Q4, total deposits slightly increased by 0.6% in 2016Q1 against +4.7% recorded in 2015Q1. On annual basis, total deposits rose by 16.4% in 2016Q1 but lower than +23.5% recorded in 2015Q1 mainly due to a deceleration in the growth of demand deposits, term deposits and foreign currency deposits by 5.4%, 5.8% and 11.4% from 28.5%, 28.0% and 13.8%, respectively.

Demand deposits continued to own a lion' s share in total deposits reaching 45.9% of total deposits end 2016Q1 followed by term deposits and foreign currency deposits with 35.1% and 19.0%, respectively. For the last four years, the share of demand deposits, term deposits and foreign currency deposits averaged 43.0%, 37.0% and 20.0% respectively.

With regard to deposits by category of depositors, Households and non- profit Institutions Serving Households (NPISHs) kept dominating with a share of 44.5% of total deposits followed by other non-financial corporations with 28.5%, social security fund with 16.3%, other financial institutions with 8.3% lower than 9.3% and public enterprises with 2.2% higher than 1.9%.

4.2 Developments in Banks Credit

In 2016Q1 new authorized loans increased by 12.0% to FRW 199.5 billion from FRW 178.1 billion in 2015Q1. With regard to the sectoral distribution of the new loans by economic activity, in 2016Q1 commerce, restaurants and hotels owned a big share (+52.1%) upper than 41.9% recorded in 2015Q1 followed by Public works and buildings with 18.0% but lower than 36.3% in 2015Q1, activities not classified elsewhere composed by personal loans with a share of 9.5% higher than 8.3% in 2015Q1, then manufacturing activities with 6.7% higher than 4.4% recorded in 2015Q1.

Table 15: New cash loans distribution by economic sector (billion Rwf)

	2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Non classified activities	15.3	18.5	14.2	14.6	14.8	15.8	17.6	18.9	19.0
Agricultural, fisheries& livestock	2.1	1.3	2.8	2.6	3.8	2.9	4.3	2.9	3.4
Mining activities	0	0.0	0.0	0.2	0.2	0.2	0.0	0.0	0.7
Manufacturing activities	35.2	9.4	16.0	11.9	7.9	4.4	17.6	21.4	13.3
Water & energy activities	16.0	0.1	1.0	8.5	0.1	1.2	0.0	0.0	7.8
Public works and building	26.0	42.7	31.8	37.9	64.7	54.9	50.3	67.4	35.9
Commerce restaurant and hotel	61.0	71.0	64.4	75.6	74.7	69.6	58.8	76.7	103.9
Transport & warehousing & communication	5.6	9.8	15.1	11.6	6.7	17.6	11.5	18.0	8.7
OFI &Insurances and other non-financial services	0.4	0.8	1.8	1.5	0.6	11.9	0.6	1.8	3.0
Services provided to the community	4.5	5.9	9.4	6.3	4.7	4.2	6.1	7.6	3.9
TOTAL NEW LOANS	**166.1**	**159.5**	**156.5**	**170.7**	**178.2**	**182.7**	**166.8**	**214.7**	**199.5**

Source: BNR, Financial Stability Directorate

It is important to highlight that the share of loans in commerce, restaurants and hotels has tremendously expanded in 2016Q1 due to loans issued to Repli Investments and New century worth respectively 3.5% and 7.3% of the total loans. The share of loans directed to public works and buildings remarkably decreased due to the base effect as more loans had been authorized to some big companies of construction. The share of water and energy activities sector expanded to 3.9% of the total loans in 2016Q1 from 0.03% in 2015Q1 due to the loan authorized to Amahoro energy ltd worth 3.5% of the total loans in 2016Q1.

4.3 Interest rates developments

In 2016Q1, 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 6.35% and

3.09% in 2016Q1 compared to 4.33% and 1.95% in 2015Q1, while interbank rate hiked to 5.18% from 3.79% during the corresponding period of the previous year.

Table 16: Interest rates developments (in %)

	2014				2015				2016		
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Jan.	Feb.	Mar.
Key Repo Rate	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Discount Rate	11.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Repo rate	3.32	3.68	4.24	2.77	1.95	2.01	1.90	2.36	3.97	3.52	3.09
T-Bills Rate	6.02	5.61	4.64	4.88	4.33	4.05	4.64	7.04	7.27	6.05	6.35
Interbank Rate	5.82	5.71	5.60	4.74	3.79	4.03	3.67	3.73	4.93	4.80	5.18
Deposit Rate	8.31	8.65	7.33	7.76	8.12	8.80	8.32	7.59	7.56	8.22	7.32
Lending Rate	16.83	17.52	17.17	17.66	17.37	17.26	17.17	17.03	16.69	17.59	17.09
Spread	8.52	8.87	9.84	9.90	9.25	8.46	8.85	9.44	9.13	9.37	9.77

Source: BNR, Statistics Department

With regard to the commercial bank's interest rates, deposit and lending interest rates showed downward trends in 2016Q1. The deposit interest rates declined by 80 basis points standing at 7.32% from 8.12% recorded in 2015Q1. Similarly to the lending rate, the decline of 28 basis points was recorded as it stood at 17.09% from 17.37% during the corresponding period of the previous year. 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.

Although lending rate declined, it is slightly high compared to February 2016, and this is mainly linked among other factors to the persistence of market power as indicated by high lending rates charged to individual borrowers compared to those that were charged to corporate borrowers who benefited from low rates. Lending rates for individual borrowers stood at 17.83%, while for corporate borrowers stood at 16.65%. In addition, there were still issues of high operating costs.

Interest rate spread has been still high due to the persistence of structural problems such as high operating cost of banks and 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 such as market concentration and competition, sectoral credit distribution, capital adequacy, assets quality, profitability and some liquidity indicators. Financial sector's capital and liquidity levels in 2016Q1 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.

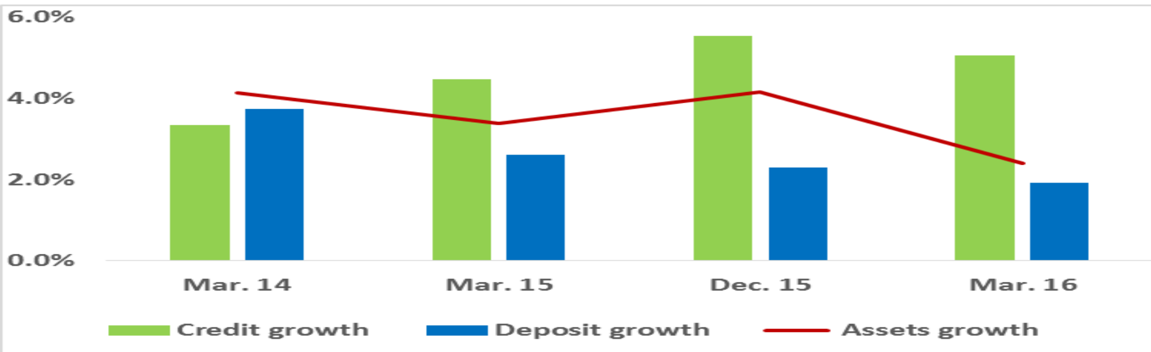
5.1 Financial sector performance indicators

The analysis of the performance indicators of the banking sector follows their importance in the entire financial system as well as their role in the effectiveness of monetary policy transmission. Herfindahl Hirschman index (HHI) which is one of the indicators for measuring concentration in the banking sector market for deposits and loans stands around 0.131 slightly below 0.133 of the previous quarter and 0.15 above which the market becomes moderately concentrated. This clearly indicates that the deposits and loans markets in commercial banks are not concentrated largely facilitated by increasing in number of banks in the banking system.

Low concentration contributes to increased competition and innovation in the banking sector in terms of products and services. Moreover, it is important to note that the increasing competition and innovation in the banking system would facilitate monetary transmission especially through banks pricing of loans and deposits.

Generally, the growth in banking sector assets slipped in 2016Q1 standing at 2.4% compared to 4.2% in 2015Q4 and declined by 29.3% against the status of the same quarter in 2015. The shortfall in assets growth compared to the preceding quarter was mainly attributed to drop in amount transacted in interbank operations as well as in banks' cash liquid. While the observed growth of bank assets were largely driven by high growth in loans largely dominated by loans to private sector, which accounts for 61.0% of total assets followed by investment in government securities that cover 18.5%.

Figure 16: Growth in assets, Credit and Deposit of the Banking System, (in %)



The sector's profitability indicators slowed down with net profit after tax for the industry declined by 18.0% from FRW 12.2 billion in 2015Q1 to FRW 10.0 billion in 2016Q1. The return on average assets (ROA), which intends to measure the efficiency of deposit takers in using their assets declined to 1.9% from 2.1% in 2015Q4, and from 2.7% in 2015Q1. Similarly, the return on average equity (ROE) fell to 9.8% from 11.2% in 2015Q4 and from 14.1% in 2015Q1. Indeed, the banks overhead cost to income ratio increased to 49.1% in March 2016 from 46.8% in December 2015 and 43.6% in March 2015. Such higher costs deters the. It is worthy to note that the sector's lower profitability realised has been largely influenced by higher operational costs especially on new expansions in banking network as well as from the mismatch between loans and deposits maturities.

Table 17: Key soundness indicators, (in %)

Indicator	2014				2015				2016
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Solvency ratio (total capital)	22.6	23.6	24.0	24.0	25.9	24.3	24.2	22.5	25.3
NPLs / Gross Loans	6.7	6.6	6.3	6.0	6.3	5.9	6.3	6.2	6.2
NPLS net of interests/Gross loans	5.7	5.5	5.5	5.1	4.8	4.9	5.1	5.2	5.2
Provisions / NPLs	56.4	50.0	55.3	56.8	52.3	51.5	48.3	46.2	46.0
Earning Assets / Total Assets	82.1	80.6	83.0	93.1	79.3	81.8	83.1	83.1	65.6
Large Exposures / Gross Loans	15.1	15.8	14.8	17.7	19.3	22.5	20.9	23.4	22.6
Return on Average Assets	2.3	2.1	1.9	1.9	2.7	2.4	2.3	2.1	1.9
Return on Average Equity	11.9	12.1	10.9	10.8	14.0	13.1	12.7	11.2	9.8
Cost of deposits	4.1	3.4	3.2	3.3	3.1	3.1	3.1	3.2	3.7
Liquid assets/total deposits	46.3	54.2	54.0	49.2	46.0	49.5	46.8	45.7	43.9
Forex exposure/core capital	-12.6	-1.5	-4.8	-2.2	-5.5	-7.1	-7.9	-5.7	-6.6
Forex loans/forex deposits	11.0	12.7	16.2	29.5	27.1	32.6	38.7	37.2	41.7

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 capitalised with sufficient liquidity. The ratio stood at 25.3% in 2016Q1 increasing from 22.5% in 2015Q4 and 25.9% in 2015Q1. The solvency ratio resiliently remains above the BNR prudential benchmark of 15% as well as the Basel committee benchmark of 8%. Furthermore, the liquidity ratio stood at 43.9% in 2016Q1 well above the prudential limit of 20%. This buffer provides the assurance of depositors' protection as well as the stability of banking system. Similarly, the non-performing loans (NPLs) net of Provisions to core capital stood at 14.5% indicating that the banking system is robust to withstand losses from NPLs.

The banks' assets quality in 2016Q1 improved with a ratio of earning assets to total assets stood at 82.9%. The non-performing loans ratio (NPLs) though has been lowered toward the benchmark of 5% remained at 6.2% the same level as of the previous quarter. This trend in NPLs ratio is a result of improved bank usage of credit information services as well as the continued BNR's strict enforcement of onsite and offsite supervisory frameworks.

The ratio of provisions to non-performing loans continues to slowdown standing at 46.0% from 46.2% in 2015Q4 and from 52.3% in 2015Q1. This explains the incessant improvement in assets quality of the industry that has importantly facilitated banks to curb costs of holding more provisions.

The concentration of credit risks stands at 22.6% down from 23.4% in 2015Q4 and is below the benchmark of 25%. This poses no threat to the industry following the prevailing provisions for NPLs together with lowering levels of NPLs ratio.

The shares of forex exposure to core capital, forex loans to forex deposits and forex assets to forex liabilities indicate that the sensitivity of the banking sector is resilient to exchange rate volatility that may arise from changes in market prices.

Regarding the sectoral distributions of new cash loans authorised, commerce, restaurant and hotel sector (52.1% share of the total) and the public works and building industries (18.0% share of the total) continued to attract a bigger share of the total new loans in 2016Q1. Looking at the previous period's sectoral loan distribution, these are 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 mining industry still lags behind other sectors in terms of bank financing with a share of 0.35% of the total new cash loans. The sectoral allocation of loans depends to the level of riskiness the sector conveys, meaning that the more risk the sector is the most is less financed. However, this apparent lack of diversification may pose serious risks to financial sector stability as would make banks vulnerable to adverse developments in those loan concentrated sectors.

5.2 Financial stability and Monetary Policy

A health and sound financial system is crucial for effectiveness of monetary policy transmission by enabling monetary policy stance to have implications on financial system stability. The soundness indicators show slight decline in some prudential indicators such as in profitability indicators compared to the previous quarter though the industry continues to be resilient to shocks. This on-going improvement in terms of financial sector concentration has also been supportive to the sector especially in terms of banks pricing of deposits and loans, which would in turn be positive to the economy.

Money market rates (T-bills rate, repos rates and interbank rate) increased amid accommodative monetary policy stance, except repo rate which maintained the previous rate. The interbank rate increased to 5.55% from 5.18% in March 2016 while the T-bill rate raised to 7.15% from 6.35%. Despite the increase, the rates still remain at lower levels compared to the pre-accommodative stance of monetary policy.

The retail bank interest rates continues to indicate a weak responsiveness of the banking sector to the accommodative monetary policy stance. Indeed the lending rates remains high standing at 17.1% from 17.03% in December 2015 and from 17.4% of the same end period in 2015. The rigidness is largely contributed by high cost of deposits as well as the mismatch between loans and deposits maturities. The increase in deposit rates have been facilitated by lower levels of banks concentration, growing competition as well as high interest rates imposed to banks by large depositors.

The interest rate spread stood at around 9.4% on average during 2016Q1, slightly higher than 9.2% of the previous quarter. While this may lead to more profitability in the banking sector, it also reflects high-perceived risks, weak transmission of monetary policy, lower level of competitiveness as well as resulting mismatch between loans and deposit maturities.

5.3 Economic prospects and financial stability

Given the slight decline in growth of the leading economic indicators to 15.2% in 2016Q1 from 15.5% in 2015Q1, real economic growth is projected to lower in 2016 to 6.0% from 6.9% achieved in 2015. Since the expected slippage is somehow marginal, we expect the continued improvement in the economic standards of households and corporate sector to be minimally affected which definitely would result to continued stability of the banking system. Monetary policy to remain accommodative, following low inflationary pressures along with the continued negative output gap. Hence backed by continuing accommodative monetary policy and stability in macroeconomic indicators, the level of liquidity in the banking system will remain adequate in order to keep money market interest rates low and less volatile to avoid interferences on financial markets.

The outlook in the global economy is projected to gain momentum in 2016 by 0.3 percentage points higher than 3.1% in 2015 particularly reflecting strengthening recovery in advanced economies as well as improving economic activities in emerging and developing economies. However, downside risks arising from scrambling US interest rates, decelerating growth in global trade, and decline in commodity prices are likely to intensify global uncertainty resulting to higher risks of economic vulnerability. The likely impact is double edged on safeties of the financial system. However, the soundness of the financial system is expected to remain stable given the positive domestic and global economic outlook that is expected to lessen the scale of the projected external shocks.

VI. ECONOMIC OUTLOOK AND RISKS

6.1 Global Economic Outlook

The world economic growth was 3.1% in 2015 weaker than 3.5% initially forecasted in April 2015 and lower than 3.4% recorded in 2014 reflecting softening growth in advanced economies towards end 2015, still stressed emerging economies and continuous impact of falling commodity prices on resource based exports countries. IMF April 2016 report projects world GDP growth at 3.2% by end 2016 slightly higher compared to 2015 growth but 0.2% lower than 3.4% January 2016 forecasts.

In advanced economies, real GDP growth is expected to stabilize at 1.9% in 2016 same as in 2015, a downward revision compared to 2.1% projected in January 2016 reflecting weaker activity in some developed countries particularly US, Japan and other advanced Asian economies. For 2016Q1, GDP growth in advanced economies is foreseen to increase by 1.5%, the same level as in 2015Q4. In emerging and developing economies, slowing Chinese growth, declining commodity prices and political turmoil continue to undermine growth perspectives. Real GDP growth decelerated to 4.0% in 2015 from 4.6% recorded in 2014. It is projected to slightly improve to 4.1% in 2016 reflecting still higher demand in India which offset the slowdown in China, a normalization of conditions in previously distressed economies like Russia, Brazil, Latin America and Middle East and spill over from a pickup in advanced economies.

6.2 Domestic Economic Outlook

The Rwandan economy performed well in 2016Q1 supported by the continued accommodative monetary policy implemented by BNR since 2013 to support the financing of the economy by the banking sector. The economy grew by 7.3% in 2016Q1, slightly lower than 7.6 % recorded in 2015Q1 driven by the good performance of service sector (+7.0%) and agriculture sector (+7.0%) followed by industry sector (+10.0%). The economy is projected to grow by 6.0% in 2016 backed by the continuing accommodative monetary policy and macroeconomic stability mainly characterized by low inflationary pressures.

Leading indicators of the economic activity indicate that the economy continues to perform well in 2016Q1 and evolving towards attaining the projected growth of 6.0% in 2016. Total turnovers of industry and services sectors increased by 12.1% in 2016Q1 compared to 16.1% recorded in 2015Q1 while the composite index of economic activities (CIEA) increased by 15.2% in 2016Q1 slightly lower than 15.5% achieved in 2015Q1.

The easy 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 12.0% in 2016Q1 (FRW 199.5 billion) from 7.3% in 2015Q1 (FRW 178.1 billion). Outstanding loans to the private sector increased by 2.0% end March 2016 (FRW 1,171.3 billion) compared to December 2015 (FRW 1,148.1 billion), against 17.7% end March 2015 compared to end December 2014.

6.3 Monetary Policy outlook

The monetary policy loosening adopted by BNR since 2013 continues to yield expected good results as aggregate demand has been progressively improving. To continue sustaining economic growth, in 2016Q2 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 4.6% end March 2016 from 4.5% end December 2015 and 0.8% end March 2015. On average, headline inflation stood at 4.5% in 2016Q1 from 4.1% in 2015Q4 and 0.7 in 2015Q1 attributed mainly to food inflation and housing inflation.

The main challenge continued to be the widening trade deficit as a result of increase in formal imports compared to a decrease in formal exports, persistent volatility in commodity price on international market. This may exert more pressures on FRW exchange rate, leading to FRW depreciation and increase the exchange rate pass through to domestic prices. Another challenge could be the seasonal food crops harvests that mostly depend on the weather conditions.