



National Bank of Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT



**KANIMBA François
Governor**

February 24th 2011

TABLE OF CONTENT

EXECUTIVE SUMMARY.....	3
I. OVERVIEW OF ECONOMIC ENVIRONMENT IN 2010.....	7
I.1 International Economic Environment.....	7
I.2 National Economic Performance.....	8
II. MONETARY SECTOR DEVELOPMENTS IN 2010.....	13
II.1 Inflation.....	13
II.2 Monetary and Exchange Rate Policy implementation.....	13
II.3 Monetary aggregates and liquidity conditions.....	14
II.4 Exchange rate and Forex Market	18
III. FINANCIAL SYSTEM STABILITY IN 2010.....	20
III.1 Banking System.....	20
III.2 Microfinance Supervision.....	23
III.3 Non-Bank Financial Sector.....	26
III.4 Capital Market.....	27
III.5 Payment system Modernization.....	28
IV. MONETARY AND EXCHANGE RATE POLICY ORIENTATION FOR 2011	30
IV.1 Favourable starting economic and financial conditions	30
IV.2 Monetary policy orientation.....	30
IV.3 Exchange rate management.....	31
IV.4 BNR communication strategy.....	31
IV.5 Financial sector deepening reforms.....	31

EXECUTIVE SUMMARY

The year 2011 has started in favorable international and national economic and financial environment. In the wake of world economic recovery which stood at 5% last year from a recession of 0.6% in 2009, Rwanda recorded a real GDP growth of 7.4% in 2010 driven by global recovery in all economic activities, particularly services, agriculture production and construction sector. The country has also significantly benefited from improved terms of trade following worldwide declining import prices, while higher export commodity prices have been sustained in 2010.

Indeed, the country recorded improved external sector performance, with a positive overall balance of payments estimated at USD 71.8 millions, resulting from a significant increase of official and private capital inflows which have been offsetting important structural current account deficit. However the exports sector continued to perform well, sustained by traditional exports. Thus, supported by sufficient foreign exchange resources on domestic market, the real effective exchange rate remained quite stable, while a smooth depreciation in nominal terms has been recorded since June 2010.

Better economic performance in 2010 has been achieved with a very low inflation estimated at 0.2% in December 2010 on annual basis, against 5.7% recorded in the same period of 2009. In addition to the global disinflationary trend, domestic price stability is attributed to a relatively stable exchange rate, modest increase in monetary aggregates, as well as good harvest that kept domestic food markets stable.

While increase in domestic credit remained moderate throughout the year, broad Money supply (M3) stood at 17.0% mainly driven by important foreign financial inflows. Net Foreign Assets of the banking system recorded an overall strong increase of 17.5% in 2010, contributing 84.5% in the increase of money supply, against 15.5% attributed to the Net domestic Assets. Thus, the banking system liquidity has been significantly improving, hence giving more confidence to banks in treasury management, while continuing to invest in short term instruments. However, despite an accommodative monetary policy conducted in 2010, the credit to the private sector increased by 12.7% against 20.0% projected at the beginning of the year.

Forward looking, when considering the current monetary developments and outlook in economic and financial fundamentals, the National Bank of Rwanda expects to enhance its accommodative monetary policy stance in 2011 aiming at further supporting higher economic growth. As long as inflationary pressures are well anchored, the BNR policy rate will be maintained at low levels to reduce incentives for banks to invest in money market instruments, but stimulating them to expand credit to private sector, particularly the Small and Medium Enterprises (SMEs).

Concerning the financial sector soundness, developments in the Rwandan banking sector in 2010 continued to be healthy. In 2010, the consolidated balance sheet expanded by 25.9%, the paid up capital of the banking sector industry increased by 7.6 % and the capital adequacy ratio stood at 22.3% against the minimum requirement of 15%.

The access to banking services improved significantly. Banks opened 15 additional new places of business, ZIGAMA-CSS got the status of cooperative bank and 9 new foreign exchange bureaux were authorized to carry out foreign exchange operations. In addition, the number of deposit accounts operated by the commercial banks increased by 40.5% from 1 270 654 in 2009 to 1 785 744 in December 2010

Licensing of new MFIs, off-site and on-site examinations were performed to improve the efficiency of MFI's operations and assess their level of compliance with the microfinance law and regulations. Among 416 SACCOs established in line with UMURENGE SACCOs Program, 412 got a provisional license in 2010 while 4 have definitive operating license.

In 2011, BNR will build on its achievements and continue to strengthen the macro prudential surveillance of our financial system. Supervision actions will be carried out to improve the financial sector health mainly by conducting off-site and on-site surveillance, enhancing risk based supervision methodology, improving the quality of information on the banking sector with the use of Fina Off-site surveillance software, conducting on-site examinations of 7 banks and strengthening legal and regulatory framework. A special national campaign is underway to eradicate the culture of non repayment of loans in the microfinance sector. Umurenge Sacco program supervision will be enhanced as the licensing process move to completion. We do expect a significant contribution of microfinance institutions including Saccos to enhance access to finance for SMEs in 2011.

During the year 2010, the insurance sector's performance continued to record good results with total assets of RWF 119 billion from 102 billion in 2009. Also the registered performance is depicted by the increase in total premiums that reached RWF 53 billion in 2010 from RWF 47 billion in 2009. Insurance penetration also increased to 2% from 1.78 the previous year. The legal framework was strengthened and insurance companies' level of compliance increased. It is worth noting that at least one company separated life from none life business in 2010. In 2011, BNR will ensure that all companies separate life and none life insurance businesses. Two more insurance laws will be enacted in 2011 and more regulations and guidelines will be put in place to facilitate the insurance sector to move towards professionalism and better performance.

The pension sector's assets also increased from RWF 142 billion to RWF 161 billions, which is a very significant increase. The new pension law was drafted and submitted to the Ministry of Finance for legislative process and is expected to be enacted by June 2011. More pension regulations will be drafted to strengthen the sector supervisory process. BNR will ensure that existing private pension schemes/funds are registered and service providers are licensed as soon as the pension law is enacted. Population will be sensitized to increase awareness and pension coverage.

The Capital Market Advisory Council (CMAC) has continued the national public Education and awareness campaigns for both Government and Private Institutions. In conjunction with the Bralirwa IPO transaction team, CMAC undertook road shows around the country to sensitize the public on the IPO process. The IPO was very successful as the 128,570,000 shares were overwhelmingly subscribed at the rate of 274%, an over subscription of 174%.

After the Launch of the Rwanda Stock Exchange (RSE) and the BRALIRWA listing and other important achievements that the capital markets registered in 2010, the main focus for 2011 will be the activation of the secondary market through Capital market public education. CMAC and RSE will intervene in the IPO process and listing of Bank de Kigali (BK) as it is the next company to issue its shares to the public through an IPO. CMAC and RSE will also engage more regional companies to cross list on our market in order to increase the product base on Rwanda Stock Exchange.

In 2010, concerted effort was put into finalising the relevant laws and regulations related to the modernization of payment systems. The Electronic Transactions law, the law on the Central Securities Depository and the Payment Systems law were passed by parliament and published in the official Gazette. Several regulations were also published, notably; regulation on Electronic Funds transfers, regulation on licensing payment systems, regulation on oversight and the regulation on participation in the Central Securities Depository.

To ensure that time critical payments are settled in real time, the BNR has implemented a real time settlement system-the Rwanda Integrated Payments Processing System (RIPPS), encompassing the Automated Clearing House (ACH), the Real Time Gross Settlement (RTGS) and the Central Securities Depository (CSD), all three running on the same platform. Implementation is complete and the system went live on 11th February 2011.

With regard to card based payment system, a new commercial agreement was signed between SIMTEL and the banks to address the main bottlenecks in the card based payment infrastructure. The number of ATMs has drastically increased since then and now it stands at 88 ATMs. Before the new Service Level Agreement, only 99 POS existed and only accepted international cards. We now have more POS being ordered by banks from SIMTEL (250 POS) and these will accept both local and international cards. In addition, the mobile banking is developing rapidly. With these all ongoing reforms in the payment systems which have reached advanced stages, we do expect a major shift towards using modern payment instruments by the end 2011.

I. OVERVIEW OF ECONOMIC ENVIRONMENT IN 2010

I.1 INTERNATIONAL ECONOMIC ENVIRONMENT

I.1.1 ECONOMIC GROWTH

The world economy continued to recover from the recent global crisis reaching a real GDP growth estimated at 5% from a recession of 0.6% in 2009¹. In leading developed economies, economic activity is gradually improving in USA where real GDP growth attained 2.8% in 2010 up from -2.6% driven by business investment and public spending despite negative contribution from net exports. In the Euro Zone, economic growth reached 1.8% from -4.1% in 2009 as exports strengthened benefiting from the world economic recovery and helped by accommodative monetary policy despite recent sovereign debt concerns and poor climatic conditions. In Japan, led by temporary factors, private consumption was supportive of economic activity which increased by 4.3% end 2010 following -6.3% in 2009.

In emerging and developing economies, economic activity remained robust supported by prudent policy measures, increase in fixed investment and private consumption. Economic growth reached 7.1% while it was at 2.6% in 2009. In China, economic growth was estimated at 10.3% in 2010 up from 9.2% in 2009, while in Sub-Saharan Africa, the economic growth was estimated at 5% in 2010 against 2.8% in 2009.

I.1.2 INFLATION

Regarding the prices developments, inflation stood at 1.5% in developed countries and at 6.3% in emerging and developing countries against 0.1% and 5.2% respectively in 2009. Inflationary pressures remained subdued due to persisting spare capacity and high unemployment rate in developed countries while increased in emerging economies with the strong recovery.

With regard to commodity markets, oil prices increased by 27.8% between 2009 and 2010 due to the strong demand from emerging markets during the first phase of the

¹ According to the IMF estimates, made in January 2011

economic recovery. In medium term, oil prices are expected to slightly increase reflecting expectations of higher the global economic expectations.

For non energy commodities, world prices have recovered from their decline in the second quarter essentially for food commodities, beverages and agricultural commodities. Compared with the previous year, non energy prices denominated in USD increased by 23% end 2010. In 2010, Metal prices continued to soar after recovering from the June low level driven by the rise in prices of tin (+26.57%), silver (+39.22%), aluminum (+12.15%) and copper (+19.24%). In low and middle income countries, prices increased by 26.53% for energy and by 26.58% for non energy.

1.1.3 FINANCIAL MARKETS

In the financial markets, central banks' rates remained unchanged in developed countries and low enough to encourage investment financing. Furthermore, due to recent concerns on financial markets related to the sovereign debt risk in some European countries, central banks introduced further accommodative policy measures. In November, US Federal Reserve announced other quantitative monetary easing.

Central Bank rate in US stayed at 0.25% and three month rate at 0.30% end 2010 while they stood respectively at 1.0% and 1.01% in Euro area and at 0.1% and 0.19% in Japan. Ten year government bond yield declined to 3.30% from 3.84% in USA, to 2.96% from 3.39% in Euro Zone and to 1.13% from 1.30 in Japan.

With regard to exchange market, after a strong depreciation in the early 2010, the euro witnessed a significant rebound against the US dollar since June to the beginning of November. The appreciation of the USD versus the euro was mainly driven by increasing market expectations and following the decision of the Federal Reserve Open Market Committee on further monetary quantitative easing. Due to the new recent financial concerns in Europe, the euro has lost some of its earlier gains. The Japanese yen depreciated in the first quarter 2010 but appreciated during the following quarters. The Bank of Japan (BOJ) is intervening on exchange market to avoid disruptive movements.

I.2 NATIONAL ECONOMIC PERFORMANCE

I.2.1 ECONOMIC GROWTH

According to the preliminary estimates of MINECOFIN; real GDP in 2010 stood at 7.4% higher than 6.1% recorded in 2009. This high growth is driven by continuing good performance in agriculture production and significant recovery in services and industry sectors. It is worth to note that the 2010 growth rate was achieved with a very low headline inflation which declined from 5.74% in December 2009 to 0.23% in December 2010.

Table 1: Real GDP Growth, in %

	2005	2006	2007	2008	2009	2010 est.
GDP	9.4	9.2	7.7	11.5	6.1	7.4
Agriculture	6.5	2.8	2.7	6.4	7.7	7.1
Food Crop	7.9	1.4	4.0	6.2	9.4	7.5
Industry	9.3	11.7	9.1	15.1	1.4	5.6
Mining	30.4	-13.8	42.8	-15.7	-17.9	-16.9
Manufacturing	8.5	13.4	0.8	5.6	3.0	4.0
Construction	9.1	13.1	15.0	28.2	1.4	8.1
Services	11.9	13.3	12.3	14.7	5.9	8.8
Wholesale and Retail	13.3	18.2	14.8	19.4	4.0	2.5
Transport & Communication	16.8	22.5	15.0	23.8	9.2	16.8
Finance	1.4	9.5	11.6	1.8	-4.1	8.5
Adjustments	7.1	7.8	4.5	12.0	9.4	2.3

Source: MINECOFIN, Macroeconomic Policy Department

1. Agriculture sector

The strong performance recorded during the last 3 years in agriculture sector maintained the same trend during the year 2010. This good performance has been driven by roots & tubers and cereals production which increased by 18.8% and 18.7% respectively. There was also a significant increase in export crops production in 2010 compared to the previous year. The production of tradable coffee increased by 28.3% in 2010 rising from 15 055 tons in 2009 to 19 319 tons and the production of tea has also increased by 8.5%, from 20 507 tons to 22 249 tons.

2. Non-agriculture activities

Concerning non agricultural activities, both industry and services have recorded significant recovery in 2010 from the low performance recorded in 2009. Value added in industry has increased by 5.6% in 2010 against 1.4% in 2009, while for services reached 8.8% in 2010 against 5.9% in 2009. Industry activities have been marked by significant

recovery in construction industry (+8.1%) boosted by important public infrastructure projects and private housing construction. Manufacturing also performed better than the previous year, reaching 4.0% from 3.0% in 2009, a performance driven by food processing industry (6.7%), dominated by beverages and soft drinks production. In Services sector, transport & Communication activities have recorded the highest increase (+16.8%), followed by education (+14.5%) and health services (+12.6%).

I.2.2 EXTERNAL SECTOR

With regard to the External Trade in 2010, exports value increased by 27% compared to 2009, while its volume also rose by 6.4%. Following the upward trend of imports during the last years, their value increased by 14.7% in 2010 while volume increased by 26.9%.

a. Exports

The Rwandan exports remained dominated by traditional export products (coffee, tea and minerals) representing 60.2% of the total export earnings in 2010. Tea exports have continued to perform better in both value and volume increasing by 15.2% and 15.5% respectively, resulting mainly from stable international prices. Coffee exports also performed better than 2009 increasing highly by 50.4% in value and by 21.6% in volume as a result of improvement in domestic production and high international prices. Driven by overall upward trend of prices on international markets for minerals, the Rwanda mining exports value increased by 22.4% despite a decline in volume by 10.3% in 2010 compared to 2009. The increase in prices is mostly attributed to tin whose prices rose by 62.3% from an average of USD 6.69/kg in 2009 to 10.86/kg in 2010.

Table 2: Export developments (Value in million of USD, Volume in Tons)

	2009		2010		% Change	
	Volume	Value	Volume	Value	Volume	Value
1. Coffee	14992.4	37.3	18235.8	56.1	21.6	50.4
2. Tea	18689.3	48.2	21528.5	55.7	15.2	15.5
3. Minerals	6093.5	55.4	5466.4	67.9	-10.3	22.4
Cassiterite	4269.2	28.6	3874.2	42.2	-9.3	47.7
Coltan	949.9	20.2	748.7	18.5	-21.2	-8.7
Wolfram	874.5	5.8	843.4	7.1	-3.5	23.3
4. Hides and skins	1791.7	2	3730.9	3.7	108.2	90.8
5. Pyrethrum	3.2	0.6	6.3	1.4	99.2	118.6
6. Other products		95.9		116.6		21.6
Re-exportations		22.4		35.9		60.3
Total fob		234.9		298.3		27.0

* Including Informal Cross Border Survey

The value of other exports including re-exports representing 39.1% of the total export earnings in 2010 has increased by 21.6%, when cross border survey data are taken into

consideration. Other export products are dominated by a set of products and globally exported to DRC and EAC countries; except for minerals and hand crafts exported to UK, China, Hong Kong, USA, Belgium and Japan.

b. Imports

In 2010 imports increased by 14.9% in value CIF while increasing by 26.9% in volume. This trend is mainly due to the increase in value of import of consumer goods (30.2%) accounting for 30.6% of the total value of imports. The import of Capital Goods increased by only 0.8% in value while increasing by 8.4% in volume, a situation explained by the overall downward trend in import prices. During the same period, intermediate goods rose by 24.5% in value and 17.8% in volume. The increase in imports of capital goods (volume) and intermediate goods in 2010 is driven by higher demand for local industry and services during the recovery process as evidenced by the improved production in both sectors as already indicated.

c. Trade with EAC countries

Rwanda’s total trade with EAC partner states recorded a significant expansion in both imports and exports. From 2006 to 2010 the total trade volume with EAC recorded a high increase more than double from USD 278 to 600 million, driven mainly by imports clearly indicating that Rwanda is a net importer in the EAC region.

d. Informal cross-border trade

As evidenced by the results of a survey being conducted by the Ministry of Commerce, National Bank of Rwanda and National Institute of Statistics, total exports in 2010 under cross border trade amounted to USD 48.93 millions from USD 46.58 millions in 2009 and represented around 25% of formal exports. During the same period, the informal imports declined by 6.5% from USD 23.51 to 21.98 million between 2009 and 2010, leading to improvement in Rwanda’s positive trade balance with neighboring countries. This informal cross border exports and imports are dominated by crop products and live animals and the main trade partners are DRC and Uganda.

Table 3: Rwanda informal cross border trade (in USD millions)

	2009					2010				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Exports	11.10	10.65	11.06	13.77	46.58	12.55	10.91	12.22	13.25	48.93
Imports	5.98	5.47	5.96	6.10	23.51	4.69	4.85	6.58	5.86	21.98
Trade balance	5.12	5.18	5.10	7.67	23.07	7.86	6.07	5.64	7.39	26.95

Source: BNR, Statistics Department.

e. Overall Balance of payment

In the continuity of the trend observed during the past years, Rwanda ended the Year 2010 with a positive balance of payments of USD 71.8 millions leading to a buildup of official reserves at the Central Bank. As during the previous years, this positive balance of payments resulted from a significant increase of official and private capital inflows which have been offsetting important structural current account deficit. The current account structural deficit significantly worsened from USD 378.56 to 407.25 million, due especially to trade balance and Services deficits. Nevertheless, net current transfers reached USD 722.40 million from 604.02 million in 2009, driven especially by official transfers and remittances.

Table 4: Net Current Transfers (in USD millions)

	2007	2008	2009	2010 est.	% Change
Current transfers (net)	461.3	518.6	604.0	722.4	19.6
Current private transfers (net)	98.8	72.6	79.7	131.0	64.3
Remittances from Diaspora	98.5	63.3	88.1	98.2	11.4
Private transfers for churches and associations	29.3	41.5	26.6	75.7	184.4
Current officials transfers (net)	362.5	446.0	524.3	591.4	12.8
Current support net	259.3	339.8	415.8	504.3	21.3
Humanitarian aid	107.1	110.3	115.8	100.5	-13.2

Source: NBR, Statistics Department

The Capital and Financial account balance increased by only 1% in 2010 compared to 2009 due mainly to an important decline in financial account almost offsetting the increase of Capital transfers. Capital account balance increased by 43% while financial transactions account balance declined by 20% due especially to very low public external debt disbursement and low FDI flows in 2010 compared to 2009; despite the high level of long term private debt disbursements the same year. End December Official reserves are estimated at 5.2 months of goods and services imports from 5.5 months in 2009.

Table 5: Estimate BOP 2010 summary (in USD millions)

	2007	2008	2009	2010 Est.
Trade balance	-404.39	-624.16	-768.08	-804.44
Services and income (net)	-140.38	-135.67	-214.49	-325.21
Current account balance	-83.45	-230.15	-378.56	-407.25
Capital and Financial account balance	196.70	316.12	433.55	475.43
Errors and Omissions	-2.66	-27.97	2.05	3.64
Overall balance	110.60	58.01	57.05	71.81

II. MONETARY SECTOR DEVELOPMENTS IN 2010

II.1 INFLATION

In 2010, Rwanda has continued to experience significantly low inflation, a trend observed since the third quarter 2009. Annual headline inflation slightly rose by 0.2% in December 2010 from 5.7% in December 2009, a downward trend attributed to a number of factors, including the global disinflationary trend, a relatively stable exchange rate, modest increases in monetary aggregates, as well as a good harvest that kept stable domestic food prices.

The main contributions to the stable inflation have been food and non alcoholic beverages and transport, declining from 2.3% in January to -0.97% in December 2010, while that of transport declined from 1.4% to 0.5%. Indeed, the price index for locally produced goods significantly declined from 6.3% in December 2009 on annual change to -0.1% in December 2010 while prices for imported goods remained at low level, from 1.4% to 1.5% during the same period. The annual average inflation dropped to 2.3% in December 2010 after 10.3% in December 2009, and the underlying inflation which excludes fresh foods and energy from the overall CPI, on annual average has come down to 1.5% from 8.5% in December 2009.

Table 6: Inflation by origin and category (% change in CPI, base 2009:100)

	Weights	2009	2010			
		Dec.	Mar.	Jun.	Sept.	Dec.
Overall inflation	10 000	5.7	2.1	5.0	1.5	0.2
<i>Local Goods</i>	7947	6.3	2.7	5.9	1.8	-0.1
<i>Imported Goods</i>	2053	1.4	-0.4	1.6	0.3	1.5
<i>Fresh Food Products</i>	1403	20.5	4.6	14.8	2.8	-1.1
<i>Energy</i>	767	1.3	1.6	6.8	4.5	3.6
Underlying inflation	7829	3.5	1.6	3.1	0.9	0.2

Source: NBR, Statistic Department

II.2 MONETARY AND EXCHANGE RATE POLICY IMPLEMENTATION

II.2.1 MONETARY POLICY

In 2010, the Central Bank, under the Policy Support Instrument, was committed to making monetary and exchange rate policies more proactive to support the gradual recovery in 2010 by stimulating the lending to the economy, as long as underlying inflationary

pressures remained low and real interest rates remain positive to continue to stimulate domestic savings mobilization and support the financial sector deepening.

Therefore, the Monetary Policy Committee (MPC) decided to maintain the central bank policy rate low with the objective of releasing more liquidity to the system by keeping the cost of funds for banks at low level and limit incentives for banks to invest on money market. Thus, the Key Repo Rate (KRR) was reduced progressively from 9% to 7.5% in March 2010, to 7% in June and to 6% in November 2010.

II.2.2 EXCHANGE RATE POLICY

Regarding the exchange rate policy, BNR remained committed to keep the RWF exchange rate fundamentally market driven, depending on the demand and supply of foreign exchanges on the domestic market. Thus, BNR continued to intervene on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the RWF exchange rate volatility depending on the volume of foreign exchange reserves available. The new intervention mechanism on forex market introduced in 2010 has supported a deliberate policy of offsetting losses in Rwandan external sector competitiveness resulting from RFW appreciation accumulated between 2004 and 2008.

II.3 MONETARY AGGREGATES AND LIQUIDITY CONDITIONS

II.3.1 MONEY SUPPLY AND DEMAND

Despite a decline during the first quarter of the year, overall trend in Broad Money supply (M3) has been in line with the 2010 annual program up to end November, increasing by 11.1% against 12.9% programmed for whole year. M3 annual growth stood at 17.0% by end 2010, with the sole month of December accounting for 5.2%, with currency growing by RWF 9.6 billion (11.8 percent growth between November and December), and deposits growth by RWF 21.1 billion (4.2 percent growth between November and December). This exceptional growth may be explained by the end year's festivities for currency, while the surge in deposits may be explained by Government expenditures as well as the expansion of financial coverage through IMIRENGE SACCO and banks' branches. Other items net component has also declined over the period (-27.2 percent), mainly due to the increase in shares and other equity (the profit component) and to the accumulation of suspense accounts.

Table 7: Monetary aggregates developments (in RWF billion, by end period)

	2008	2009	2010				% Change	
			Mar	Jun	Sep	Dec	2009/2008	2010/2009
Net foreign assets	403.8	442.9	407.7	474.5	484.9	518.9	9.7	16.9
Net domestic assets	85.6	82.6	95.0	80.5	86.1	97.0	-1.6	17.4
Domestic credit	220.9	217	246.8	244	237.4	268.2	-1.8	23.6
Central government (net)	-144.6	-141.3	-119.9	-125.8	-139	-131.3	2.2	7.1
Public enterprises	2.8	3.0	2.8	2.9	2.8	3.2	5.3	6.7
Private sector	363.1	357.3	365.9	371.2	378	397.1	-1.6	11.1
Other items net (Assets: +)	-135.3	-134.5	-151.8	-163.5	-157.9	-171.2	0.5	-27.2
Broad money M3	486.5	526.6	502.8	554.9	571.0	615.9	8.2	17.0
Currency in circulation	80.8	77	68.4	83.5	81.8	90.5	-4.7	17.5
Deposits	405.7	447.5	434.4	471.5	489.3	525.4	10.3	17.4

Source: BNR, Statistics Department

The Domestic credit increase has been mainly driven by the Credit to the Private Sector as well as the Net Credit to Government reflecting important decline in Government deposits with the banking system, following increase in public spending. Credit to other public entities increased by 6.7%.

After a decline of 1.6% in 2009 due to liquidity crunch, the outstanding credit to private sector increased by 11.1% in 2010. However, this was lower than 20.0% projected at the beginning of the year which is explained by the strengthening of the recovery process and writing off of bad loans by most banks. When considering the credit distributed by banks and microfinance institutions, the aggregate credit to private sector increased by 12.7% in 2010.

Indeed, the new authorized loans by the banking system have been significantly increasing since the last quarter 2009, showing the consolidation of recovery from the liquidity crunch. New authorized loans by commercial banks and BRD stood at RWF 262.0 billion in 2010 from RWF 198.4 billion authorized during the year 2009, that is an increase of 32.0% against 6.9% a year ago.

On money demand side, the broad money increase in 2010 was attributed to both currency in circulation and banks' deposits. Currency in circulation increased by 17.5% on annual basis by end 2010 against a decline of 4.7% in 2009, while total deposits increased by 21.5% from 10.3% in 2009. This upward trend in money demand was backed by the recovery process in economic activities, supported by Government Spending and recovery in the credit to the private sector.

Table 8: New loans authorized by commercial banks and BRD (in RWF billion)

ACTIVITY BRANCH	2008	2009					2010				
		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Commerce, Restaurant & Hotels	74.8	18.7	17.7	18.2	18.6	73.0	19.9	37.1	28.4	26.4	111.8
Public works and Building industry	53.8	7.1	6.6	9	14	36.7	7.5	8.6	14.7	14.3	45.1
Manufacturing industries	11.4	5.0	4.7	4.5	5.9	20.1	7.0	5.6	7.2	7.0	26.8
Transport, Warehousing & Communications	16.9	5.5	3.7	2.5	20.2	31.9	9.0	3.8	3.5	6.4	22.7
O.F.I, insurances and other Non-Financial services	2.4	1.9	0.2	3.6	1.8	7.5	1.5	1.5	4.2	1.3	8.5
Services provided to the community	10.3	1.1	1.1	0.5	2.0	4.7	1.3	3.4	2.3	2.8	9.8
Agriculture, animal husbandry & fishing	3.9	0.8	1.2	0.7	1.1	3.7	0.9	1.6	1.3	1.6	5.4
Energy and Water	0.2	0.0	0.0	1.7	1.6	3.2	0.0	0.4	0.5	0.5	1.4
Mining industries	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.1
Activities non classified elsewhere	11.9	4.0	4.6	4.7	4.3	17.6	5.5	7.4	9.0	9.1	31
TOTAL	185.6	44.1	39.8	45.3	69.3	198.4	52.6	69.3	71.1	69.4	262.4

Source: BNR, Financial Stability Directorate

II.3.2 BANKING SYSTEM LIQUIDITY CONDITIONS

During the year 2010, monetary conditions remained relatively relaxed and supportive of domestic economic activity. A more moderate pace in Reserve Money expansion has been registered, keeping significant level of excess liquidity with the banking system. On average, excess reserves have been around RWF 5.2 billion on daily basis. Further, the liquidity of the banking system has been building up and the BNR has been intervening to absorb excess liquidity in order to keep Reserve Money consistent with quantitative targets defined in the BNR’s 2010 Monetary Program.

With regard to the BNR 3-12 months liquidity facility and the Government long term deposit facility, they continued to significantly improve the banking system liquidity conditions in 2010 with a respective amount of RWF 8.0 and 12.21 billion of injection, against RWF 7.74 and 6.77 billion in 2009 when both facilities were introduced to contribute in addressing the banking system liquidity problem. In 2010, for the Government deposit facility, it has been mainly used for financing mortgage and equipments, amounting RWF 12.15 billion. In view of this, BNR is consulting with the Government (MINECOFIN) to limit lending to mortgage to a maximum of 30% of the deposit facility.

II.3.3 INTEREST RATES DEVELOPMENTS

The money market interest rates have been fluctuating during the year 2010 driven by short term liquidity development in the banking sector. The repo rate has fluctuated between 3.46% and 5.47%. Both t-bills and interbank rates fluctuated respectively

between 7.65 and 9.065 and between 6.13% and 7.38%. Commercial banks deposit interest rates slightly declined to 7.1% in December 2010 from 8.5% in December 2009 and lending rates, so far, remained high and have been fluctuating between 16.7% and 17.6%.

Table 9: Interest rates (in percentage)

	2010											
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
BNR Policy Rates												
Key Repo Rate	7.50	7.50	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00
Discount Rate	11.50	11.50	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	10.00	10.00
Money Market												
Repo rate	5.25	4.61	4.42	3.46	3.92	5.19	5.42	5.42	5.47	5.23	5.07	5.47
Refinancing Facility Rate	-	-	9.04	9.24	-	9.13	-	9.50	8.83	-	-	-
Treasury Bills Rate	9.06	8.81	8.42	7.94	7.60	7.30	7.15	7.14	7.62	7.51	7.28	7.32
Commercial Banks												
Interbank Rate	7.07	7.28	6.81	6.30	6.13	6.58	7.03	6.76	7.38	7.32	7.16	6.84
Deposit Rate	7.59	7.12	7.17	6.93	6.86	6.30	6.14	6.12	6.22	6.51	7.07	7.1
Lending Rate	17.28	16.08	16.94	16.96	16.65	17.38	16.91	17.20	16.82	17.34	17.51	16.94

Source: BNR, Statistics Department

II.3.4 MONETARY POLICY COMMUNICATION STRATEGY

During 2010, BNR has significantly improved its monetary policy communication strategy with the public. In addition to releasing quarterly monetary policy decisions taken by the central bank Monetary Policy Committee, it has been decided to post on BNR web site those decisions and a summary of supporting documents explaining the rationale behind the decisions taken. The management of the bank organized meetings with different stakeholders including commercial banks managing directors to explain BNR monetary policy orientations. This effort aims at improving the transmission mechanism of monetary policy by shaping the expectations of the public.

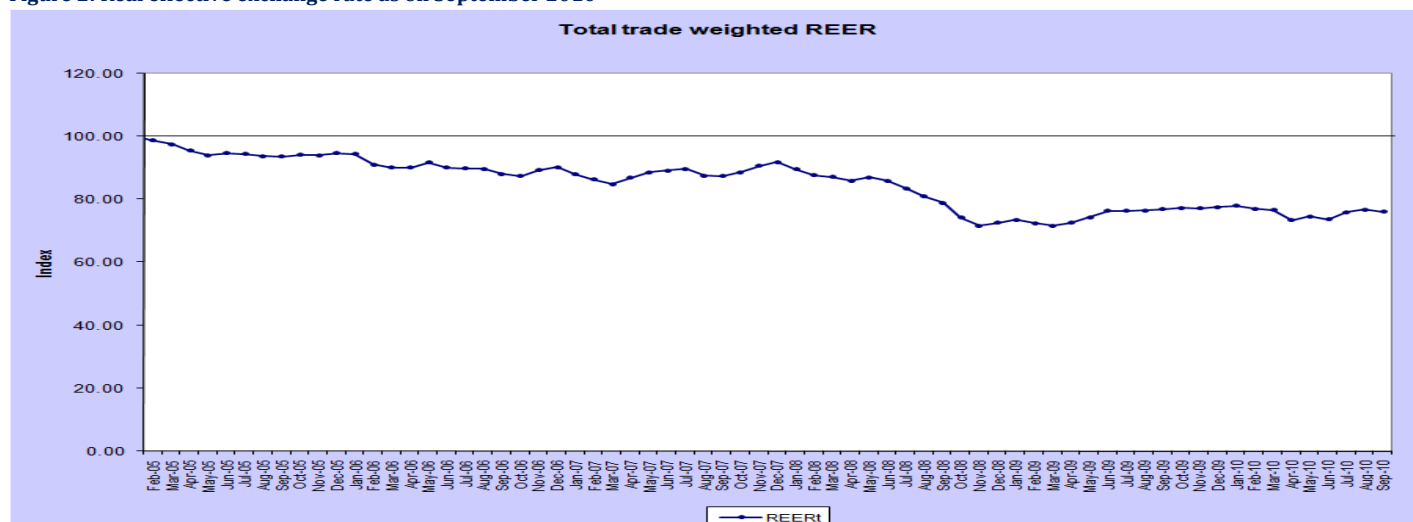
II.4 EXCHANGE RATE AND FOREX MARKET

II.4.1 EXCHANGE RATE DEVELOPMENTS

In 2010, the Rwandan franc has recorded a depreciation of 4.0% versus the USD between December 2009 and December 2010. It depreciated also by 1.0% vis-à-vis GBP, while it appreciated against EUR by 5%. Against other EAC currencies, RWF depreciated by 2.0%, 6.0% and 14.0% versus Kenyan, Tanzanian and Ugandan shillings during the same period, but appreciated by 5.0% against Burundi franc.

The RWF Real Effective Exchange Rate appreciation of 7.5% observed between 2004 and 2008 is being reversed since June 2010 resulting from a deliberate policy of offsetting losses in Rwandan external sector competitiveness resulting from the RWF appreciation.

Figure 2: Real effective exchange rate as on September 2010



Source: Research and Policy Analysis Department

II.4.2 FOREIGN MARKET DEVELOPMENTS

Compared to 2009, domestic foreign exchange market has been significantly boosted by a substantial increase both in resources (+13.0%) and expenditures (+12.2%) to reach respectively total amounts of USD 3.3 and 3.1 billion. In this regard, on account of economic recovery process in 2010, the private sector’s demand for forex increased by 14.4% for imports of goods and by 17.9% for transfers. To meet its external payment

commitments, the Government has also significantly increased its spending in forex by 45.4%.

Also, to respond to this increasing demand for forex, the BNR sold USD 232.9 million in 2010 against USD 228.3 million to commercial banks, while on the other side, operations on FOREX interbank market recorded USD 44.7 million in 2010 against USD 27.0 million recorded in 2009.

Table 10: Revenue and expenditure in Forex (In USD millions)

	2009	2010	% Change
Revenue	2929.3	3309.6	13.0
BNR	976.8	1049.2	7.4
Of Which Government Budget Support	409.6	466.0	13.8
Government Projects	199.9	290.0	45.0
Banks	1952.5	2260.4	15.8
Of which Exports receipts	198.3	249.0	25.6
Receipts on services	250.8	218.9	-12.7
Private transfers received	1275.3	1559.6	22.3
Expenditure	2770.7	3108.8	12.2
BNR	836.7	969.8	15.9
Of which Government Spending	239.7	348.4	45.4
Non Bank Clients	107.5	117.7	9.6
Sales to banks (interbank market)	228.3	232.9	2.0
Banks	1934.0	2139.0	10.6
Of which Imports of goods	1025.4	1172.7	14.4
Imports of services	361.6	336.8	-6.9
Private transfers paid	398.0	469.4	17.9
Sales to Forex Bureaus	148.9	160.1	7.5

III. FINANCIAL SYSTEM STABILITY IN 2010

This section reports on developments within the Rwandan financial sector in 2010 composed by the banking sector, microfinance institutions and non banking financial institutions.

III.1 BANKING SYSTEM

III.1.1 FINANCIAL SOUNDNESS

Developments in the banking sector through December 2010 continued to be healthy as shown by the financial soundness indicators of the Rwandan banking industry, measured in terms of capital adequacy, earnings, asset quality and liquidity.

In 2010, the commercial banks' balance sheet expanded to 728.5 billion RWF from 578.6 billion RWF achieved in 2009, which is an increase of 25.9% against 13.2% realized last year. This increase was mainly due to deposits which increased by 27.4% from 425.4 billion RWF in 2009 to 542 billion in 2010. Net loans and advances amounted to 325.9 billion RWF, showing an annual growth of 12.9% against a decrease of 5.2% recorded last year.

The paid up capital of commercial banks increased to 57.3 billion RWF in 2010 from RWF 53.5 billion in 2009, which is an increase of 7.1 % in 2010. The banking system continued to be well capitalized. Additionally, taking into account the figures for ZIGAMA-CSS, the total paid up capital for the banking sector increased to 73.7 billion RWF in 2010 from 68.5 billion RWF in 2009 which represents an increase of 7.6 % in 2010. The capital adequacy ratio for the industry including ZIGAMA CSS was 22.3% against 21% in 2009 compared to the minimum requirement of 15%.

The banking sector in Rwanda has exhibited high profitability in 2010. The commercial banks' profit after tax increased from 3.8 billion in 2009 to 13.1 billion RWF in 2010. This

net profit yielded an annualized Return on Assets (RoA) of 1.9% from 0.7% in December 2009 while Return on Equity (RoE) increased to 13.7% in December 2010 against 5% in December 2009. The major source of income was interest income from loans, which amounted to 45% of total income. Liquidity of the commercial banks continued to be satisfactory. The ratio of liquid assets to total assets improved significantly and stood at 55.6% above the required ratio of 20%.

The level of non -performing loans improved with a ratio of 13.1% in December 2009 to 11.3% in December 2010.

The net non-performing loans ratio without taking into account interest rates in suspense slightly decreased to 9.7% in 2010 from 11.4% in 2009. In addition, the aggregate credit still concentrated in mortgage industries as well as in trading (restaurants and hotels). The two sectors account for an average of 60.4% of the total loans to private sector during the period 2007-2010 and their shares are 29.3% and 31.1% respectively during the same period. The large concentration of aggregate credit in a specific economic sector of activities makes banks vulnerable to adverse developments in that sector.

The banking sector in Rwanda remains highly dominated by 4 commercial banks representing 69.1% of the total deposits of the industry and 46.7% of loans. This may reduce the likelihood of banking sector problems, but it can also limit the possibility of resolving any possible systemic problem in case it arises.

However, this concentration in the banking sector is continuously decreasing since 2007, showing an improvement in the banking sector competition. The Herfindahl index, generally used to assess structure change in an industry has been reduced by 27.7% and 11.9% respectively in deposit and loan markets between 2007 and 2010 although still high. The share of four biggest banks in loans market has also significantly decreased during the same period, from 64.5% to 46.7%. This positive development results from significant improvement in the banking regulatory framework through improving banks' risk incentives and entry of new banks in the sector.

The tables below show the evolution of the consolidated financial soundness indicators for 8 commercial banks and for the consolidated banking industry (including ZIGAMA-CSS):

Table 11: Consolidated financial soundness indicators of commercial banks (in %)

Indicators	2009	2010			
	December	March	June	September	December
Solvency ratio (core and total)	19.0	18.1	17.6	20.3	19.4
NPLs / Gross Loans	13.1	12.5	12.2	12.4	11.3
NPLS net/Net loans	11.4	11.0	10.4	10.7	9.7
Provisions / NPLs	55.2	57.2	56.8	57.0	53.1
Earning Assets / Total Assets	81.7	78.2	81.1	77.6	78.1
Large Exposures / Gross Loans	13.9	18.5	20.4	17.4	15.1
Return on Average Assets	0.7	-0.2	1.3	1.6	1.9
Return on Average Equity	5.0	-1.4	10.3	12.2	13.7
Cost of deposits	2.4	2.8	2.7	2.6	2.4
Liquid assets/total deposits	65.3	*51.7	*58.4	*47.9	*55.6
Forex exposure/core capital	1.9	4.9	1.5	2.4	6.8

Source: Banking Supervision Department

*The decrease was due to the new definition of liquid assets since end 2009.

Table 12: Consolidated financial soundness indicators of banking sector including CSS (in %)

Indicators	2009	2010			
	December	March	June	September	December
Solvency ratio (core and total)	21.0	20.3	19.8	22.0	22.3
NPLs / Gross Loans	11.9	11.5	12.0	12.4	10.8
NPLS net/Net loans	10.0	9.9	10.2	10.6	9.3
Provisions / NPLs	58.7	61.5	55.2	56.7	50.6
Earning Assets / Total Assets	76.3	78.9	81.9	78.8	79.5
Large Exposures / Gross Loans	12.0	15.9	17.4	14.9	13.1
Return on Average Assets	1.0	-0.2	1.2	1.0	1.8
Return on Average Equity	5.5	-1.2	6.8	5.6	10.2
Cost of deposits	2.3	2.8	2.7	2.6	2.6
Liquid assets/total deposits	68.1	*55.2	*62.7	*51.2	*56.2
Forex exposure/core capital	0.9	4.0	1.2	2.0	5.0

Source: Banking Supervision Department

*The decrease was due to the new definition of liquid assets since end 2009.

III.1.2 SUPERVISION ACTIONS

The activity of conducting off and on-site inspections was one of the key priorities of the Bank to ensure financial soundness of the banking industry. The frequency of on-site inspections increased to 7 on-site examinations conducted in 2010 against 4 conducted in 2009 and recommendations to address identified weaknesses were made.

III.1.3 DEVELOPMENT IN ACCESS TO FINANCIAL SERVICES

During the year 2010, actions to facilitate access to banking services were performed through authorization of bank branches network expansion. Banks opened 15 additional new places of business many of them being located up country. By end December 2010, banking system recorded 99 branches and 204 counters throughout the country.

Furthermore, the process of supervising ZIGAMA-CSS under Banking law and its implementing regulations was finalized in 2010 and a relevant Instruction was put in place. In addition, 9 new foreign exchange bureaux were authorized to carry out foreign exchange operations and the licenses for the 69 existing foreign exchange bureaux were renewed. Moreover, the number of deposit account operated by the commercial banks increased by 40.5% from 1 270 654 in 2009 to 1 785 744 in December 2010.

III.1.4 LEGAL AND REGULATORY FRAMEWORK REFORMS

In order to strengthen and improve the functioning of the banking system, the prudential regulations to implement the banking law are being updated. During the year 2010, 6 regulations out of 7 approved in 2009 have been translated and published in the official Gazette and the remaining is under process for publication in the first quarter of 2011. In addition, 8 regulations were approved by BNR Board in 2010 and are in the process of being published in the Official Gazette before end of quarter 1 of 2011.

III.2 MICROFINANCE SUPERVISION

III.2.1 MFIS CONSOLIDATED FINANCIAL SITUATION

The financial situation of MFIs in Rwanda, ZIGAMA CSS excluded, shows a growth in the sector. The Total assets of the sector increased by 25.6% from December 2009 to December 2010 moving from RWF 36,055.68 million to RWF 45,275.09 million. The Gross Loans and the Deposits increased by 36% and 25.1%, moving from 24,718.24 million to 33,607.79 million and from 19,099.64 million to 23,898.61 million, respectively for the same period.

As shown in the table below, the financial soundness indicators of the microfinance sector, SACCOs established in line with UMURENGE SACCO Program excluded, measured in terms of capital adequacy, liquidity and delinquency ratios show an improvement. The capital adequacy ratio saw a slight increase from December 2009 to December 2010. Compared to the minimum prudential norm of 15%, the capital adequacy ratio increased from 33.2% to 34.6% and the liquidity ratio decreased from 68.8% to 59.3% compared to the minimum liquidity ratio required of 30%. On a consolidated basis, the NPL rate decreased slightly from 11.6% at the end of December 2009 to 11.2% at the end of December 2010. The delinquency rate is very high compared to the delinquency rate of 5% tolerable in the microfinance best practices.

Table 13: MFIs Consolidated financial situation (in RWF billion)

Million RWF	2009	2010	% Change
Total Assets	36.06	45.28	25.6
Cash and Cash Equivalent	8.58	9.40	9.5
Gross Loans (Before Provisions)	24.72	33.61	36.0
Non Performing Loans (Before Provisions)	2.87	3.76	30.9
Provisions	1.28	1.89	47.3
Loans (Net of Provisions)	23.44	31.72	35.3
Deposits	19.10	23.90	25.1
Equity	11.96	15.67	31.1
Non Performing Loans Rate	11.6	11.2	
Liquidity Rate	68.8	59.3	
Capital adequacy (Solvency)	33.2	34.6	

Considering the income of the microfinance sector, the level of the MFI's net income is higher than the level achieved in the previous year. This is due high performance in bigger MFIs such as COOPEDU and some limited Companies (MFIs, SA).

Table 14: Income statement of MFIs (in RWF billion)

ALL MFIs	2009	2010	% Change
Financial Revenue	7.06	9.01	27.62
Financial Expenses	0.60	0.73	21.69
Net Financial Income before Provisions	6.46	8.28	28.17
Net Provision Expenses/Gains	0.69	0.93	34.07
Financial Revenue (After Net Provisions)	5.77	7.35	27.47
Operating Expenses	5.90	6.61	12.03
Personnel Expenses	3.00	3.39	13.10
Net Operating Income	-0.14	0.74	-636.11
Net Non-Operating Income/Expense	0.17	0.26	57.97
Net Income (Before Taxes& Donations)	0.03	1.00	3472.92
Net Income (After Taxes & Before Donations)	0.03	0.99	3463.50
Donations	0.85	0.25	-70.91
Net Income after Taxes and after Donations	0.87	1.24	41.87

* Net Income (Before Taxes& Donations)*= Net Operating Income +Net Non-Operating Income (or Expenses)

III.2.2 SUPERVISION ACTIVITY

Licensing of new MFIs, off-site and on-site examinations were performed on ongoing basis. The number of licensed MFIs, December 31st, 2010, has increased to 103 from 98 in December 2009. In order to improve the efficiency of MFI's operations, full scope inspections were conducted in 21 MFIs and targeted inspections were completed in 21 MFIs by 31st December 2010. In addition, the analysis of the financial situation of MFIs is regularly performed to assess their level of compliance with the microfinance law and regulations.

Among 416 SACCOs established in line with UMURENGE SACCOs Program, 412 are provisionally licensed while 4 have definitive operating license. The effort of licensing all SACCOs was hindered by the management of those institutions failure to produce on time some management tools such as business plans and procedures manual. Meanwhile, BNR has set an intermediate step whereby any SACCO accomplishing the requirements is allowed to grant loans. These include reaching a threshold of RWF 10 million of deposits: having a manager, an accountant, a loan officer, a credit committee and a savings and credit policy. Four SACCOs obtained definitive operating license while 56 SACCOs out 412, representing 13,4%, have provisional license allowing them to grant loans.

Following recommendations of the National Dialogue conference of 20-21 December 2010, 23,476 cases of defaulters in loan repayment for a total amount of RWF 7,2 billion (capital and interest) have been identified. Among them 1,895 cases are in Courts (Pending or Non Executed) for an amount of RWF 1.2 Billion. Embezzlements are listed in 868 cases for an amount of RWF 1.1 Billion.

Table 15: Indicators regarding the implementation of UMURENGE SACCO Programme:

	Population >=16 years old	Membership Subscription	Nbr of members who paid Shares	Nbr of Account Opened	Share Subscription in RWF	Shares Paid up in RWF	Deposits Collected in RWF
Countrywide Dec. 31 st , 2010	5,028,577	1,069,675	695,095	471,036	4,116,690,400	2,111,831,641	6,322,267,782
Countrywide Jan. 31 st , 2011	5,088,061	1,100,277	779,444	516,699	4,280,448,300	2,213,186,539	8,121,715,705
Change	1.2%	2.9%	12.1%	9.7%	4%	4.8%	28.5%

Source: RCA/December 2010; January 2011

III.2.4 LIQUIDATION PROCESS OF CLOSED MFIS

The liquidation process of those MFIs is still ongoing and by December 2010, out of RWF 1.5 billion released by GoR to refund 50% of the deposits, RWF 1.08 billion has been

reimbursed to depositors and only RWF 236.4 million were recovered from closed MFIs liquidation out of RWF 1.8 billion.

III.3 NON-BANK FINANCIAL SECTOR

Insurance companies and pension schemes are commonly referred to as non-bank financial institutions in Rwanda and BNR has the mandate to supervising these institutions to ensure that they are financially sound in order to meet their present and future financial obligations.

Like banks they play an intermediary role of savings mobilizations, allocation of resources by investing in different financial and non financial assets. NBR set up a dedicated department with the core mission of supervising these institutions.

III.3.1 INSURANCE SECTOR

The Rwandan insurance sector is comprised of seven private insurers and two public insurers, making a total of nine insurance companies, four licensed insurance brokers and 120 insurance agents. The insurance industry size has grown over the past years as demonstrated by the industry asset, premiums and the insurance penetration measured by the ratio of gross premiums to GDP even if it is still far below that of middle income economies like South Africa (10%). BNR’s target is to achieve 10% insurance penetration ratio by 2020 and with the current reforms going on and minimization of the existing challenges, it is hoped the target will be attained.

It is in this perspective that in 2010, BNR accomplished a number of activities ranging from strengthening NBFi sector legal infrastructure and supervisory framework. These include finalizing insurance core regulations published in the 3rd quarter, drafting the insurance contract law; drafting two regulations relating to liquidation and dissolution and the regulations on mergers and closure of insurers, licensing of insurance intermediaries (about 120 insurance agents), conducting off-site analysis for all insurers and on-site inspection for three insurers (AAR, COGEAR and SONARWA) were carried out.

Table 16: Insurance: Premiums/GDP and Assets/GDP (in RWF billions)

	2005	2006	2007	2008	2009	2010
Gross Premium	13.7	19.8	27.6	35.9	47.9	53
G.P/GDP	1.0%	1.2%	1.3%	1.4%	1.6%	2.6%
Assets	31.8	44.3	61.7	80.1	102.9	119
Assets/GDP	2.2%	2.6%	3%	3.1%	3.1%	3.6%
GDP nominal	1,440	1,716	2049	2,565	2,991	3,302

III.3.2 PENSION SECTOR

Rwanda's pension sector is in the nascent state as its coverage ratio still stands at approximately 5.7% of the active population far low compared to coverage ratio within middle income economies like South Africa with about 25%. The reason behind the low coverage is the lack of proper legal framework for private pensions and limited sensitization of the public.

To overcome this challenge, BNR developed the legal framework for the regulation and supervision of the pension sector by drafting the pension law and its implementing core regulations; regulations governing establishment of pension schemes and licensing service providers and regulations governing pension fund management.

Additionally, off-site surveillance of Social Security fund of Rwanda (CSR) was carried out and analysis report produced. The on-site inspection for CSR was also carried out and the BNR has discussed the output of this inspection with the Fund's Management and Board of Directors. The pension sector performance indicators such as Asset/GDP and Contribution/GDP show a sustained positive trend since 2007 as illustrated by the following table.

Table 17. Pension Assets/GDP and Contributions/GDP (in RWF billions)

	2007	2008	2009	2010 Est
Assets	100.6	129.0	142.4	161.0
Assets/GDP	4.9%	5.0%	4.8%	4.9%
Contributions	15.8	20.7	23.9	25.0
Contribution/GDP	0.8%	0.1%	0.8%	0.8%
GDP (nominal)	2,049	2,565	2,991	3,302

*2010 GDP estimate is based on 7.2% nominal increase (source: Rwanda country Brief: 2010)

III.4 CAPITAL MARKET

The Rwanda over the Counter (ROTC) Market has been in existence since early 2008. A number of achievements have been registered within the framework of Capital Market Development, including improvement in capital market legal framework. The Central Depository Law Governing the Holding and Circulation of Securities was gazette. It provided for mandatory dematerialization of securities listed on the Rwanda Stock Exchange. Different laws have been adopted by the Parliament and are waiting for publication. They include the law establishing the Capital Markets Authority, the law regulating the Capital Markets Industry and the law regulating the Collective Investment Scheme.

CMAC has continued the national public education and awareness campaigns have been organized for both Government and Private Institutions. CMAC also in conjunction with the Bralirwa IPO transaction team did road shows around the country to sensitize the public on the IPO process. Around 1.5 million people benefited from this campaign. The IPO was very successful as the 128,570,000 shares were overwhelmingly subscribed at the rate of 274%, an over subscription of 174%.

The company listed its shares at the official launch of Rwanda Stock Exchange (RSE) on January 31st, 2011 which has taken over trading operations of Rwanda's capital market. The new listing is now traded on dematerialized form and the securities are cleared and settled through the Central Depository. Banque de Kigali (BK) is the next company in line to go public as it has started the process of issuing 25% shareholding through an IPO.

During the period under review, two Government bonds worth RWF 6 billion were issued and listed on the OTC market. The total outstanding government bonds are RWF 15 billion and the BCR bond of RWF 1 billion which makes it a total of RWF 16 billion outstanding bonds. On the equity side, three companies were listed and the number of shares traded in the period from June 2010 and December 2010 is 69,500 and the total turnover RWF 12,058,460.

III.5 PAYMENT SYSTEM MODERNIZATION

The BNR, banks and other stakeholders continued to work on the payment system modernization program to ensure that payment systems are safe, efficient and reliable. This program involves introduction of new payment instruments, mechanisms (systems) and improving the legal environment.

To this end a robust legal framework is highly desirable because this raises public confidence in Payment Systems. In 2010, concerted effort was put into finalising the relevant laws and regulations. The Electronic Transactions law, the law on the Central Securities Depository and the Payment Systems law were passed by parliament and published in the official Gazette. Several regulations were also published, notably; regulation on Electronic Funds transfers, regulation on licensing payment systems, regulation on oversight and the regulation on participation in the Central Securities Depository. Concerning the legal framework for modern payment systems, at the moment Rwanda has attained an admirable level that is up to international standards.

To ensure that time critical payments are settled in real time, the BNR has implemented a real time settlement system-the Rwanda Integrated Payments Processing System (RIPPS), encompassing the Automated Clearing House (ACH), the Real Time Gross Settlement (RTGS) and the Central Securities Depository (CSD), all three running on the same platform. Implementation is complete and the system went live on 11th February 2011.

With regard to card based payment system, SIMTEL and Banks signed a new agreement and this has enabled the banks to issue more cards with the confidence that SIMTEL can deliver the required level of services. More to that, the Government has subsidized the cards issued by SIMTEL so as to ensure that many Rwandans get cards. The number of ATMs has drastically increased and now it stands at 88 ATMs. Before the new SLA, only 99 POS existed and only accepted international cards. We now have more POS being ordered by banks from SIMTEL (250 POS) and these will accept both local and international cards. The resultant effect has been an increase of transactions on ATMs as depicted in the table below.

Table 18: Transactions on ATMs (Value in RWF millions)

	2007		2008		2009		2010	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Debit Cards	121 228	17 565	177 882	7 243	221 489	11 038	393,088	26,983

In addition to the 10 Ecobank ATMs that have been accepting international cards, BK has also deployed 24 more ATMs that accept international cards. However, there is still a vacuum because the ATMs that accept international cards cannot accept local cards; this is because SIMTEL is not a certified VISA processor. In the absence of that Ecobank and BK are working on Host-to-host-connectivity between SIMTEL and E-process and MSCC respectively so that all cards can be accepted at all ATMs. More banks are also moving towards issuing VISA cards that will be accepted both locally and outside Rwanda.

Throughout 2010, there were several initiatives in mobile payments and remittances services. TIGO applied to operate a mobile money service and Rwandatel as well. We continued to receive applications from stand alone Remittance Services Providers (RSP) and several licences were issued. The licensed companies include; Express Money; Madina, Dahabshill and UAExchange. This will ensure that the Rwandan Diaspora can easily remit funds back home and will also enhance the compilation of our remittances statistics. MTN was licensed to carry out Mobile Money payment services within the country and currently has slightly over 200 000 subscribers and about 300 agents country wide. It is our firm belief that M- payments and banking will revolutionize the delivery of financial services in Rwanda in a near future.

IV. MONETARY AND EXCHANGE RATE POLICY ORIENTATION FOR 2011

IV.1 FAVORABLE STARTING ECONOMIC AND FINANCIAL CONDITIONS

The year 2011 started with favorable economic and financial environment, characterized by sustained economic recovery process with a very low inflation, while the banking system has been strongly consolidating its comfortable liquidity conditions. Indeed, the banking system started the year 2011 with RWF 121.4 billion invested in short term money markets and fiscal instruments, against RWF 63.2 billion at the beginning of 2010.

However, despite this improving liquidity conditions in 2010, the lending to the private sector has not been increasing as expected to sustain a high economic growth in the medium term. With only 12.7% increase in outstanding credit to the private sector by end 2010, while 20% were expected at the beginning of the year, additional stimulus will be necessary to further boost the financing of economic activities in 2011.

In addition, the banking sector in Rwanda remains highly concentrated which limits the competition in the sector. The credit aggregate is concentrated in few economic activities, making banks vulnerable to adverse developments in these activities. The Small and medium enterprises have very little access to the credit. In 2011, BNR will promote policies which tend to increase competition in the banking sector with more focus on improving access to finance by SMEs.

IV.2 MONETARY POLICY ORIENTATION

Considering the current developments and outlook in economic fundamentals, the National Bank of Rwanda will maintain in short run its accommodative monetary policy stance going forward in supporting the growth objective of 7% or more in 2011. With the current levels of inflation, there is room to further revise down the Central bank policy rate to minimize incentive for banks to invest in money market instruments and invest more in economic activities. BNR will continue to regularly assess the developments in economic activities to ensure underlying inflationary pressures are well anchored. It will also continue to ensure that real interest rates remain positive to stimulate domestic savings mobilization and support the financial deepening required for growth.

In this regard, the BNR is committed to keeping inflation low and stable over the short and medium term. Despite some remaining uncertainties related to exogenous shocks, including food and fuel prices, the inflation is projected to be contained at 6% maximum in 2011 and 5% in medium term.

With the assumptions above and taking into account the current liquidity conditions in the banking system; the 2011 Monetary Program is projecting a strong recovery in credit to private sector growth, to reach 22.4% in 2011 from 12.7% in 2010.

IV.3 EXCHANGE RATE MANAGEMENT

The exchange rate will continue to be market driven and BNR intervention on foreign exchange market will continue towards greater flexibility, and encourage further development of the foreign exchange interbank market. The exchange rate policy objective in 2011 is to avoid further appreciation of the real effective exchange rate to safeguard the external competitiveness of the economy.

IV.4 BNR POLICY COMMUNICATION STRATEGY

In 2011, BNR will continue to increase the understanding of the public about our monetary and exchange rate policy to foster public support for our goal and actions. In addition, the communication will be expanded to financial literacy and public awareness campaign on the ongoing financial deepening reforms like credit information system, Umurenge Sacco program, capital market development and payment systems modernization. Our communication strategy will also contribute to create a solid interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and business community.

IV.5 FINANCIAL SECTOR DEEPENING REFORMS

During 2011, while consolidating our achievements in building the stability of the financial system, our financial sector deepening reforms will focus on expanding access to financial services for the rural population and increasing access to finance for SMEs through the expansion of microfinance banks, the consolidation of lending operations of existing MFIs and enhancing the UMURENGE SACCO program.

IV.5.1 BANKING SECTOR REFORMS

Within the context of increasing competition in the financial sector as well as aiming to implement recommendations of the recent FSAP update conducted by the IMF-WB joint mission early 2011, action plans will be put in place to enable the following activities:

- a. Enhance banking industry efficiency through monitoring of the assets quality by reinforcement of NPLs recovery plans in order to reach the threshold of less than 7% for each bank by end 2011.
- b. Increase competition by the following mechanism: license of new financial institutions based on the capacity to innovate; upgrade big MFIs into Microfinance banks; encourage partnership alliance between Banks and MFIs; increase access to long term external resources; enhance credit information system and expand credit to SMEs through the operationalization of the SMEs development Fund and the BDS (Business Development Services) network.

Furthermore, supervision actions will be carried out to improve the financial sector health mainly by conducting off-site and on-site surveillance, enhancing risk based supervision methodology, improving the quality of information on the banking sector with the use of Fina Off-site surveillance software, conducting on-site examinations of 7 banks and strengthening legal and regulatory framework.

With regard to the reinforcement of the prudential framework, the process of updating prudential regulations will be completed this year. In addition, a study on the introduction of deposit insurance fund will be conducted in 2011.

IV.5.2 MICROFINANCE SECTOR

During the year 2011, apart from the ordinary tasks of off-site and on-site surveillance of MFIs, the microfinance industry will be significantly enhanced through the following activities: Building the financial soundness of MFIs by focusing on the recovery of MFI's funds; consolidation of small SACCOs into viable MFIs; complete the licensing process of SACCOs established in line with UMURENGE SACCO Program and establish an adequate structure of their supervision; enhancing linkages between commercial banks and MFIs, especially by encouraging banks to refinance MFIs, enhancing then their financial capacity to distribute credit to SMEs.

IV. 5. 3 NON-BANKING FINANCIAL SECTOR REFORMS

During the year 2011, BNR will continue to strengthen the legal framework of the insurance sector, focusing on the separation of life and non-life insurance businesses, the capital and solvency margin requirements and drafting the mandatory insurance law. In addition, Off-site analysis of audited financial statements for all insurance companies will be done and on-site inspections for four insurers will be conducted.

In pension sector, the main priorities in 2011 will include the streamlining of the legal framework for both public and private pension funds by following up the enactment of the new pension law. The new law encourages liberalization of the pension sector by allowing private companies to manage pension funds. The law encourages professionalism and competition in pension business, and ensures proper regulation and supervision to safeguard the stability of the pension sector. The regulations and institutions implementing the new pension law will be drafted and the registration of existing occupational pension scheme will be completed.

The supervision of the social security fund will be enhanced through a close follow up of the implementation of recommendations set out by onsite inspection for CSR conducted in 2010.

During the year 2011, BNR will also ensure the Financial Sector Assessment Programme (FSAP) recommendations are implemented. These include: enforcing insurance companies' compliance with reporting requirements, corporate governance, and audit, strengthening the supervisory capacity in insurance and further develop skills in off-site and on-site inspection, amending investment guidelines to take into account different investment horizons between life and non life business, CSR to increase availability of long term funds to the banking system (reverse auction), and setting investment guidelines for the CSR such that the fund maintains adequate liquidity.

IV.5.4 CAPITAL MARKET

After the Launch of the Rwanda Stock Exchange and the Bralirwa listing and other important achievements that the capital markets registered in 2010, the main focus for 2011 is the activation of the secondary market through Capital market public education programs that will be intensified to sensitize investors, issuers, the general public and other market participants on the secondary market operations and encourage them to participate actively. CMAC and RSE will intervene in the IPO process and listing of Bank de Kigali (BK) as it is the next company to issue its shares to the public through an IPO. CMAC and RSE will also engage more regional companies to cross list on our market in order to increase the product base on Rwanda Stock Exchange.

On market infrastructure, the ongoing Electronic Trading Platform project will continue during the year 2011. The project is aimed at automating the Stock Exchange to make the trading activities more efficient and more competitive.

IV.5.5 PAYMENT SYSTEM

The Rwanda Integrated Payments Processing System has gone with banks as the only direct participants. We shall follow by interfacing the system with MINECOFIN so that government payment orders are sent electronically and settled in real time, which will improve and quicken Government payments to their suppliers. At the same time, we are working on an interface with RRA so that tax payments are also sent electronically and settled in real time. This will ensure that all Government tax revenues are put onto the Government account in real time. The above interfaces will be ready in the first half of 2011. At the regional dimension, we shall link the RTGS part of RIPPS onto the East African Payment System (EAPS), which links all RTGS systems in the regional Central Banks together. We shall also continue to work with other COMESA Central Banks on the Regional Payment and Settlement System.

Concerning retail payment systems, concerted effort will be put in the following areas; deployment of ATMs and POS in addition to issuing as many cards as possible based on the principle of interoperability. We will also work on SIMTEL getting the VISA certification so as to be a full payments processor. In case that does not happen as quickly as we desire, the banks that use other switches outside the country for various reasons will implement a host-to-host connection between those switches and SIMTEL so as to be

able to accept both international and domestic non VISA branded cards on their infrastructure.

IV.6.6 EAC MONETARY UNION

In the ongoing process of establishment of EAC monetary union, BNR will continue to participate and contribute in all planned activities including the implementation of EAC Monetary Affairs Committee's recommendations related to priority activities that would be undertaken in the transition to East African Monetary Union (EAMU). These priorities falling within the following broad functional areas: Economic policy, financial markets, prudential supervision of financial institutions and financial stability, information technology, payment infrastructure, capacity building, legal issues, finance and accounting, and banking and currency.

*

*

*

Paul VI Avenue, PO Box 531 Kigali
Tel. :(250)252 574282, Fax: (250) 252 577391
Email: info@bnr.rw
Web: www.bnr.rw
Swift code: BNRWRWRW