



BANQUE NATIONALE DU RWANDA

NATIONAL BANK OF RWANDA

**Monetary Policy and
Financial Stability Statement**

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MONETARY POLICY STATEMENT

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I. INTRODUCTION

The monetary policy management in 2009 is done in a very troubled international environment marked by persistent uncertainties of the world economy due to the world financial situation in deep crisis since last year. On Rwanda side, the banking system has faced a liquidity crunch during the first half of 2009 with significant negative impact on economic activities.

In this Monetary Policy Statement a mid-term review of the implementation of the monetary and financial sector development program of year 2009 is done and some important measures to enhance the Rwandan financial sector stability will be presented.

After a brief overview of the international and national economic environment in 2009, this document highlights a number of policy measures that have been taken by the Central Bank and the Government to address the problem of liquidity in the banking system. Finally, the document gives the main orientations of our Exchange and Monetary Policy for the remaining of the Year 2009, as well as the measures to be implemented towards enhancing the country financial stability.

We hope that this document will be of particular interest for all those in the public and private sectors who are looking for updated information on economic and financial environment in which they operate.

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II. ECONOMIC ENVIRONMENT OVERVIEW

II.1 CURRENT GLOBAL ECONOMIC ENVIRONMENT

The global economy experienced a challenging beginning of the year 2009, after facing problems with the world financial crisis which affected the real economy. During the first half of 2009, the global financial markets have stabilized after concerted action by governments, including some extraordinary measures. There are also signs that the economic downturn may be bottoming out. However, it is still not clear whether the world economy is on a firm path to recovery. Indeed, major economies could be entering a prolonged period of weakness; given the time it might take for households and financial sectors to repair their balance sheets.

In its July projections, the IMF projected world output to decline by 1.4% in 2009, down sharply from growth of 2.2% in its November 2008 report. Global growth is then projected to gradually recover to 2.5% during 2010, but remains below potential, implying widening output gaps and increasing disinflationary pressures.

In the face of the acute economic downturn, the US, the Euro area, and Japan all undertook extraordinary fiscal and monetary measures in an effort to support the economy. In terms of monetary policy, central banks lowered rates aggressively, with the US Fed Funds rate being lowered to a target range of 0% - 0.25%, the European Central Bank (ECB) refinancing rate to 1.0%, and in Japan the overnight call rate to 0.1%. These measures eased monetary conditions and alleviated stresses in the credit markets.

The developing economies of East Asia also experienced a difficult first half of the year. The financial crisis originating in the advanced economies has had a broad-based impact on the region, triggering a

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synchronized slowdown in economic activity across all countries. According to July IMF forecasts, real GDP is expected to increase by 5.5% in developing Asia in 2009.

China has surprised many with better-than-expected economic performance in the first four months of 2009, prompting financial market participants to reassess growth and earnings outlook more favorably. Year-on-year GDP growth rate was established at 6.10% and 7.90% respectively in the first and second quarter 2009. The IMF projected growth in China to moderate to 7.5% in 2009, from the high level of 9% in 2008.

In Africa, economic perspectives remained positive but the economic growth is forecasted to drawback to 2% in 2009 against 5.2% in 2008, due to the downturn in the world demand and following the decline in commodity prices.

At a Sub regional level, East African Community member's countries could not escape the short term consequences of the international financial crisis and ensuing economic recession in most advanced economies although the domestic financial systems weren't directly exposed to the toxic assets that were at the heart of the credit crunch. The five EAC states exercised monetary restraint in an effort to maintain low and stable inflation, necessary for underpinning sustained economic growth. The main challenges to the conduct of monetary policy over the period included the relative instability associated with the global financial crisis witnessed in the financial markets. Nevertheless, macroeconomic indicators remained broadly stable over the semester.

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II.2 NATIONAL ECONOMIC OUTLOOK IN 2009

II.2.1 Economic Growth

Unlike the last few years when the Rwandan economy performed very well reaching for example a real GDP growth of 9.2% and 11.2% respectively in 2007 and 2008, the economic activity in secondary and tertiary sectors has been showing down during the first half of 2009. The 2009 growth objective initially set at 7% has been revised down to 5.3%. Even this later assumption is unlikely to be achieved unless a strong recovery of the economy is observed in the second half of the year.

Based on the MINAGRI preliminary estimates, the agriculture sector production increased by 11.2% in volume during the seasons 2009 A and B. This continuing good performance was due to favourable weather conditions and the Government Green revolution Policy.

**Table 1: Evolution of Foodstuffs production of seasons A and B in volume
(Annual % change)**

	2006	2007	2008	2009 Estim.
Cereals	-11.6	-1.7	29.7	33.2
Sorghum	-17.8	-11.0	-13.4	23.5
Maize	-5.6	11.6	62.9	71.5
Wheat	-10.9	26.0	175.5	4.4
Paddy rice	1.2	-2.0	32.9	-3.6
Legumes	32.3	21.3	-38.8	92.1
Beans	41.9	16.8	-6.8	19.0
Groundnuts	-14.2	-16.7	12.4	40.1
Soya	-11.1	184.8	15.3	14.0
Peas	-24.5	109.5	10.3	60.4
Roots & tubers	-6.0	-13.2	50.0	7.8
Irish potatoes	-2.2	-40.1	50.9	4.9
Sweet potatoes	-12.2	8.8	-2.2	-1.5
Taro	-8.4	20.8	-4.4	32.4
Cassava	-5.0	4.6	116.5	12.2
Bananas	-5.7	1.7	-3.5	9.1
Market gardening & fruits	22.5	5.3	6.4	-1.2
Overall	-2.1	-3.2	17.1	11.2

Source: MINAGRI

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Concerning non agriculture sector, the business climate has been deteriorating during the first half of 2009, following a number of unfavorable factors. The world economic crisis which affected the demand and prices for our exports, unusually tightening of credit conditions by the banking system due to current liquidity crunch, are among important factors behind the slow-down of non agriculture economic activities. Despite the fact that the planned Government expenditures were met, shortfall in credit distribution and exports receipts has contributed to the decline of the overall demand.

Indeed, Rwandan exports decreased by 21.3% in volume and by 31.9% in value during the first half of 2008 compared to the same period of 2009, and all main exports recorded significant decline in value, except tea. During the period under review, credit to private sector declined by 3.6% from an amount of RWF 341.0 billion in December to RWF 329.4 billion in June 2009.

As a key indicator of economic performance, total turnovers recorded by large companies in industry and Services sectors recorded an annual increase of only 7.68% and 4.68% during the first half of 2009 respectively, while it was 38.93% and 40.95% at the same period in 2008. Also construction sector is recorded weak performances this year, after three consecutive years of strong growth. Its large companies recorded an annual increase of turnovers of 4.19% during the first half of 2009, against an important increase of 45.17% during the same period of 2008.

Taking into account the annual increase of the producer price index estimated at around 10% by June 2009, the low nominal increases of turnovers of large companies during the first half of 2009 foresees an underperformance of the economy in real terms for this year.

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Table 2: Evolution of large companies' turnovers during the first half of the year (annual % change)

	2005	2006	2007	2008	2009
INDUSTRIES	13.81	34.77	21.53	38.93	7.68
MANUFACTURING INDUSTRIES	14.07	23.01	8.69	42.68	4.77
Breweries	27.68	23.73	18.03	24.97	13.97
Printing Shops	4.47	4.28	4.11	49.30	-6.00
Other manufacturing industries	7.39	16.94	3.15	54.88	0.03
ENERGY SECTOR	46.72	87.90	3.88	30.04	36.38
MINING SECTOR	4.79	187.01	83.23	15.03	2.90
CONSTRUCTION SECTOR	2.64	25.73	58.77	45.17	4.19
SERVICES	19.46	25.50	24.05	40.95	4.68
TRADE SERVICES	10.86	26.95	32.58	39.54	5.50
BRALIRWA Distributors	-2.75	15.47	42.20	53.92	4.28
General Trade	12.50	25.18	31.91	38.19	7.86
Hotels, Restaurants & Snack Bars	0.70	76.50	31.24	25.28	-14.50
Pharmaceutical shops	32.87	11.43	28.93	67.36	1.77
BANKS AND INSURANCE COMPANIES	36.81	26.10	22.41	45.54	10.78
Banks		28.28	21.45	45.26	9.85
Insurance companies		15.90	27.41	46.90	15.31
TRANSPORT & STORAGE SERVICES	10.51	16.93	39.13	21.64	2.67
GARAGE SERVICES	-4.30	-37.08	10.96	208.92	38.01
PETROLEUM COMPANIES	27.80	36.65	1.45	53.26	-21.17
POST & TELECOMMUNICATION	17.56	21.37	42.83	23.94	36.16
OTHER SERVICES	38.59	2.18	16.07	39.45	24.76
Customs and Clearing agencies	7.68	33.16	6.93	-57.26	130.22
Consultants and Advocates	29.84	3.71	136.85	106.68	60.36
Electronic Services	52.39	24.35	36.67	-6.91	-36.88
Real Estate	18.94	20.25	26.12	72.84	-3.68
Book shop stationeries	33.85	-42.75	19.49	42.96	-3.33
Others	44.86	8.65	-19.99	51.86	37.58
TOTAL TURNOVERS	17.80	28.14	23.29	40.36	5.56

Source: Rwanda Revenue Authority

Some sectors have been more underperforming during the first semester of 2009 in comparison with the same period of 2008. Indeed, the turnovers in large companies involved in petroleum products distribution dropped by 21.17%. Also, in hotels and restaurants it dropped by 14.5%.

II.2.2 External trade

When compared with the same period of 2008, the upward trend of imports values and volumes observed these last years was maintained during the first half of 2009 with an increase of 26.9% in value and 18.9% in volume, while exports decreased by 32.0% and 21.3% respectively in value and volume terms. Consequently, the exports/imports coverage ratio worsened from 25.3% in 2008 to only 13.6% in 2009.

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However, there is a slowdown trend in imports since the second quarter of 2009, meaning that the observed increase in the first quarter 2009 can be related to end 2008 orders when the economic activity was still booming. In volume, consumer goods imports declined by 25.8% between March and June 2009, Capital goods imports declined also by 20.2% between March and April before a slight increase of 9.9% between May and June 2009. Intermediate goods imports declined by 20.7% and 17% in March and April when considering monthly change, before an increase of 7% and 20.9% during the two last months of the period under review. The energy imports declined also since March till May before an increase observed in June 2009.

Table 3: Trade Balance, Jan. - June 2008-Jan. – June. 2009
(Value in millions of USD, volume in tons)

	Jan. - June 2008		Jan.- June 2009		% change	
	Volume	Value	Volume	Value	Volume	Value
EXPORTS	64.70	123.02	50.90	83.68	-21.33	-31.98
Coffee	4.92	12.05	4.27	9.50	-13.04	-21.16
Tea	10.92	22.66	10.04	22.95	-8.06	1.28
Tin	2.28	22.26	2.06	12.58	-9.39	-43.49
Coltan	0.57	19.49	0.42	10.00	-26.65	-48.69
Wolfram	0.90	6.83	0.53	3.76	-41.40	-44.95
Hides and Skins	0.95	1.64	0.50	0.81	-47.14	-50.61
Pyrethrum	0.00	0.38	0.00	0.34	-45.15	-10.53
Other	36.55	18.26	30.55	10.69	-16.42	-41.46
Re-exports	7.61	19.45	2.53	13.05	-66.82	-32.90
IMPORTS	388.08	485.38	461.62	615.91	18.95	26.89
FINAL CONSUMER GOODS	118.60	118.67	163.16	175.75	37.57	48.10
of which: -Foodstuffs	82.60	38.39	123.48	60.45	49.48	57.46
-Pharmaceutical products	0.92	20.92	1.47	40.99	60.22	95.94
CAPITAL GOODS	16.98	160.79	21.76	210.99	28.15	31.22
of which: - transport materials	5.19	26.97	5.15	31.28	-0.67	15.98
- machinery, devices and tools	8.32	110.24	10.14	141.90	21.82	28.72
INTERMEDIATE GOODS	160.37	132.90	181.79	167.10	13.36	25.73
of which: - Construction materials	106.53	59.48	105.94	69.97	-0.56	17.64
- Industrial products	46.85	59.40	56.58	70.04	20.78	17.91
- Fertilizers	1.82	1.27	13.73	11.09	652.96	773.23
ENERGY AND LUBRICANTS	92.13	73.02	94.91	62.08	3.02	-14.98
of which fuel	88.99	69.04	90.63	55.66	1.84	-19.38
TRADE BALANCE						
(Exports less imports)		-362.36		-532.23		
Cover rate of imports/exports, %		25.34%		13.59%		

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Except for tea, all main Rwanda exports products recorded a significant decline due to the global financial crisis which impacted prices and reduced demand. Despite a decrease of 8% in volume, tea exports show a slight increase of 1.2% in value resulting from the improvement in price which passed from USD 2.08 to USD 2.29 per kg. The mining sector is the most affected with a decline in value of more than 40% for tin, coltan and wolfram, following a dramatic fall in their prices, respectively by 37.6%, 30.1% and 7.1%.

Coffee exports also underperformed, with a respective decrease of 21.1% in value and 13% in volume, in comparison with the first half of 2008. The average price decreased by 9.3%, from USD 2.45 per Kg to USD 2.22 per Kg. The decrease in volume is due to the fact that processing started a bit late in all provinces except in the Western Province, due to the delay in coffee campaign financing.

However, the perspectives of the coffee exports during the remaining of this year according to OCIR Café are expected to improve to reach 20,000 tons for the whole year compared to 18,191 tons for 2008 increasing then by 10%.

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III. MONETARY SECTOR DEVELOPMENTS

III.1 INFLATION

Contrary to the situation prevailing during the year 2008 marked by high inflationary pressures, Rwanda is now experiencing relatively low inflation. From 22.3% in December 2008, the annual overall inflation fell to 17.1% in March and 10.1% in June 2009. With such trend, there is no doubt that the objective of containing inflation in one digit numbers in 2009 will be achieved.

Table 4: Inflation (% change in CPI, base 2003:100)

	weights	2008	2009					
		Dec.	Jan.	Fev.	Marc	Apr	May	June
All Products and Services	10 000	22.3	20.4	20.0	17.1	13.6	12.7	10.07
1 Food and non-alcoholic beverages	3 709	30.9	28.2	28.9	28.1	22.6	19.3	13.33
<i>Bread and cereals</i>	625	43.7	39.3	38.0	37.1	27.8	25.2	17.22
<i>Meat</i>	345	51.9	48.4	46.5	43.2	33.2	27.8	22.45
<i>Fish</i>	114	36.3	35.4	31.7	27.6	16.0	18.6	14.44
<i>Vegetables</i>	1 332	17.8	18.0	22.6	23.5	27.5	23.0	11.54
<i>Non-alcoholic beverages</i>	180	20.4	16.5	18.3	22.5	22.6	17.2	17.32
2 Alcoholic beverages and tobacco	221	35.5	34.3	29.4	25.6	24.2	23.9	23.59
3 Clothing and footwear	500	4.9	4.9	3.8	3.5	4.4	2.6	1.09
4 Housing, water, electricity, gas and other fuels	1 579	21.4	21.7	20.6	9.8	4.4	8.1	9.72
5 Furnishing, household equipment and routine household maintenance	764	24.4	24.5	21.8	15.5	11.2	9.3	7.66
6 Health	708	12.3	8.3	8.9	12.9	10.8	8.3	4.52
7 Transport	987	12.2	7.6	2.9	3.0	6.1	4.7	2.74
8 Communication	37	14.3	15.2	-2.3	-1.3	-1.4	-0.7	-0.75
9 Recreation and culture	206	2.5	4.0	5.5	6.0	6.6	7.7	8.15
10 Education	432	14.2	9.4	17.0	17.6	17.7	18.8	19.52
11 Restaurants and hotels	273	25.1	25.4	20.4	21.1	20.8	16.1	12.91
12 Miscellaneous goods and services	584	7.9	6.9	7.8	5.3	6.0	4.3	2.85
All Products and Services	10 000	22.3	20.4	20.0	17.1	13.6	12.7	10.07

Source: NBR, Statistics Department

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The change of the overall price index as of end June 2009 is 1.8% compared to December 2008. This price stability during the first half of 2009 is attributed to the good performance of food production and the fall in international prices of fuel and other imported products.

The price index of locally produced goods significantly declined from 22.9% in December 2008 to 11.5% in June 2009 on annual change. The prices of imported goods fell from 21.6% to 6.2% in the same period. Since December 2008, price indices of locally produced and imported goods increased respectively by only 1.9% and 1.1% by end June 2009.

Table 5: Inflation by origin and category (% change in CPI, base 2003:100)

Categories	Weights	Annual inflation			Inflation since Dec.2008	
		2008	2009		2008	2009
		Dec	Mar		Dec	Mar
Overall inflation	10 000	22.3	17.1	10.1	3.2	1.8
Local Goods	6 956	22.9	17.8	11.5	3.8	1.9
1. Food and non-alcoholic beverages	2 627	29.8	30.3	14.9	5.0	0.5
2. Housing, water, electricity, gas and other fuels	1 501	21.3	9.3	10.5	1.9	0.9
3. Transport	698	10.9	1.7	3.8	0.3	6.1
Imported Goods	3 044	21.6	15.6	6.2	1.7	1.1
1. Food and non-alcoholic beverages	1 082	36.1	22.3	9.2	1.1	0.9
2. Furnishing, household equipments	533	11.2	11.0	5.6	1.7	0.6
3. Transport	289	14.8	12.4	0.6	1.9	2.2
Kigali City	7 679	21.3	15.1	9.0	2.8	1.4
Other Provinces	2 321	25.8	23.3	13.1	4.0	2.6
Fresh Food Products	2 186	25.2	29.7	14.5	7.1	1.2
Energy	761	19.0	4.1	8.5	2.2	0.8
Underlying inflation	7 053	22.1	16.3	9.5	2.5	2.6

Source: NBR, Statistics Department

The underlying inflation, on annual change fell to 9.5% in June 2009 from 16.3% in March 2009 while it was 22.1% in December

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2008. On monthly basis, during the 6 first months of 2009, the underlying inflation is estimated at 2.25%.

III.2 MONEY SUPPLY AND DEMAND

During the first semester of 2009, money supply showed a downward trend due to the slowing down banking sector credits to private sector following the liquidity crunch experienced at the beginning of the year and the delay in external budget support disbursements. Thus, Broad Money decreased by 4.9% by end June compared to December 2008, while initial monetary program targeted an increase of 4.5%. It is worth to recall that during the same periods of 2007 and 2008, Broad Money had increased by 6.5% and 3.6% respectively.

Indeed, Net Foreign assets dropped by 3.5% between end December 2008 and end June 2009, as the external budget support disbursements amounted to USD 65.12 against 101.3 million initially planned, while the expenditure in foreign exchange stood at USD 80.65 against 65.99 million planned.

On the other hand, while the Monetary Program targeted an increase of 3.2% during the first half of 2009, outstanding Credit to private sector declined by 3.4%. This unexpected situation is explained by the liquidity crunch the banking system was facing at the beginning of the year. During the first half of 2007 and 2008, the banking system outstanding credit to private sector had increased by 9.1% and 13.3% respectively.

During the first half of 2009, the new loans authorized by the banking system to the private sector compared to the same period of 2008 fell by 24.02%, following a strong increase of 41.5% and 8.1% in corresponding periods respectively in 2008 and 2007. The most underfinanced activities

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are leasing, mortgage industry, agriculture seasonal campaign, treasury needs for companies etc...

Table 6: New loans authorized by banks to Private sector during the first half of the Year (in RWF Billions)

Categories of credits	2006	2007	2008	2009	% Change		
					2007/06	2008/07	2009/08
Treasury loans	18.97	23.25	34.57	29.58	22.58	48.66	-14.43
Seasonal Campaign	10.68	7.16	9.63	5.90	-32.98	34.59	-38.69
Consumer loans	2.11	3.49	5.56	3.79	65.44	59.38	-31.76
Vehicle	1.95	3.28	4.77	4.05	68.27	45.23	-15.02
Mortgage	7.23	6.89	10.59	6.12	-4.63	53.54	-42.23
Leasing	1.20	2.83	4.97	1.96	136.21	75.21	-60.51
Investment	14.22	11.74	13.88	14.50	-17.46	18.30	4.41
Other categories	5.36	8.08	10.42	5.81	50.81	28.98	-44.21
Total	61.71	66.72	94.38	71.71	8.12	41.45	-24.02

Source: Credit Reference Bureau, Financial Stability Directorate

On the demand side, both currency in circulation and deposits in the banking system consistently declined during the first half of 2009, respectively by 10.8% and 3.7% by end of December 2008.

Table 7: Monetary aggregates by end of period (in RWF billions)

	2008		2009		% Change June09/Dec08
	June	Dec	Mar	June	
Net foreign assets	405.0	403.8	348.7	389.4	-3.5
Net domestic assets	49.0	62.6	84.2	54.1	-13.7
Domestic credit	153.9	200.4	221.8	199.6	-0.4
Government (net)	-141.2	-142.0	-119.5	-131.1	7.7
Auton. Agencies	-0.5	-0.4	-0.4	-0.6	35.4
Public enterprises	1.3	1.8	2.3	1.9	9.2
Private sector	294.3	341.0	339.4	329.4	-3.4
Other items net	-104.9	-137.7	-137.6	-145.5	-5.7
Broad Money (M3)	454.0	466.4	432.9	443.6	-4.9
Broad Money (M2)	374.2	384.1	351.0	358.1	-6.8
Narrow Money (M1)	221.9	225.7	199.1	238.6	5.7
Currency in circulation	72.4	80.9	66.3	72.2	-10.8
Deposits	381.5	385.5	366.6	371.4	-3.7
Transferable in RWF	149.4	144.8	132.8	166.4	15.0
Nontransferable RWF	152.3	158.4	151.9	119.5	-24.6
In Foreign currency	79.8	82.3	81.9	85.5	3.9

Source: Statistics Department

III.3 LIQUIDITY CONDITIONS IN THE BANKING SYSTEM

III.3.1 Recent liquidity crunch

Since 2004 to second quarter of 2008, Rwanda banking sector has consistently experienced an important excess of liquidity as a result of an increase in public spending, especially owing to increases in aid inflows. During the above mentioned period, the Central Bank monetary policy was mainly focused on managing the excess liquidity which was quite permanent in the banking system.

However, following a strong credit distribution in 2007 and 2008 at a time when deposits growth was slowing down for many reasons, a deposit-credit mismatch was observed since June 2008 and the banking liquidity declined since then in such a way that in January 2009, NBR was obliged to inject liquidity in the system for the first time since 2004.

To help banks to cope with the liquidity crunch, the Central Bank and the Government have undertaken important measures in order to avoid risks of systemic crisis and rebuild the confidence in the domestic banking system.

III.3.2 Policy responses

1. Measures to address short term liquidity

In February 2009, NBR reduced the required reserve ratio from 8 to 5%. In addition, it was decided not to roll over the short term Treasury bills maturing in 2009. As result, the short term liquidity in the banking system was rebuilt progressively from negative numbers in January 2009 to 31.7 billion at end June 2009.

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2. Measures to address long term liquidity

During first quarter of 2009, NBR introduced medium and long term refinancing facility to allow banking system to borrow liquidity from Central Bank for 3-12 months to address the problem of long term resources. So far, only two requests worth of RWF 2.072 billion were presented and refinanced against Treasury Bonds as collaterals. Recently, the Government and the Central Bank introduced a long term (5 years) deposit facility as an additional measure to enhance long term liquidity in the banking system to facilitate banks increasing long term lending to the economy.

III.3.3 Interest rates developments

As a result of shortage of long term liquidity in the banking system, both deposits and lending rates increased during this year 2009, fluctuating respectively around 10.5% and 17% by July, against 6.0% and 16.2% at the same month last year.

Table 8: Interest rate developments (in %)

Categories	2008				2009					
	Mar	June	Sept	Dec.	Jan	Feb	Mar	Apr	May	June
Deposit rate	5.69	6.05	6.40	6.72	7.41	8.09	9.02	10.1	10.1	10.9
Lending rate	15.63	16.2	16.5	16.5	16.3	16.1	15.7	16.8	16.6	16.8
Money market rate										
• Repo Rate	-	-	6.55	6.56	7.28	6.50	5.29	2.49	4.64	5.50
• Reverse Repo					11.0	-	-	-	-	-
Discount rate	12.5	12.5	11.2	11.2	12.8	-	-	-	-	-
Interbank rate	8.00	6.62	6.97	7.69	8.67	9.15	7.49	4.95	5.47	6.94
Weight average rate	6.22	6.5	7.02	7.72	-	-	-	7.69	9.72	10.0

Source: Financial Market Department

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IV. EXCHANGE RATE AND FOREX MARKET

IV.1 RWF EXCHANGE RATE DEVELOPMENT

The Rwanda Franc exchange rate against the US dollar was quite stable during the first half of 2009, registering a moderate depreciation of 2.3% between December 2008 and June 2009. However, a higher depreciation of 7.16% and 11.74% was observed against respectively the Euro and GBP.

IV.2 FOREIGN EXCHANGE MARKET DEVELOPMENT

During the first half of 2009 in comparison with the same period of 2008, the NBR forex revenue dropped from USD 473.81 million to USD 365.47 million by June 2009 due to the delay in external budget support disbursements.

Tableau 9: NBR's Forex Revenue and Expenditure (in millions of USD)

	January- June		Annual Change	
	2008	2009	Amount	%
Revenue	473.8	365.5	-108.3	-22.9
Of which: Budget support	249.1	178.5	-70.6	-28.4
Government projects	64.3	61.4	-2.9	-4.5
Expenditure	373.5	395.0	21.5	5.8
Of which: Government spending	80.5	117.7	37.3	46.3
Non bank clients	54.3	49.9	-4.4	-8.1
Sales to commercial banks	154.3	124.7	-29.5	-19.2
Balance	100.3	-29.5	-129.8	-129.4

Source: Financial Markets Department

On expenditure side, foreign exchange sales by the NBR to its clients decreased during the first semester of 2009, following a slowdown demand for forex, as one of the consequences of prevailed liquidity crunch in the banking system. However, the Government spending in forex significantly increased, from USD 80.47 to 117.73 million,

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explained by important imports of fertilizers and equipments for public infrastructure.

Regarding commercial banks, the forex revenue also declined (-12.75%) during the first half of 2009 compared to the same period of 2008, due likely to the global financial crisis. The spending also significantly declined (-12.02%) attributed mostly to fall in sales to forex bureaus (-41.75%) and paid private transfers (-31.72%). This trend explains largely the moderate (2.84%) increase of imports financed by commercial banks.

Tableau 10: Commercial Banks' Forex Revenue and Expenditure (in millions of USD)

	January-June		Annual Change	
	2008	2009	Amount	% change
Resources	1037.4	905.1	-132.3	-12.8
Exports receipts	79.0	86.6	7.6	9.7
Receipts on services	111.3	104.8	-6.5	-5.8
Private transfers received	692.8	589.6	-103.2	-14.9
Purchases forex from NBR	154.3	124.0	-30.2	-19.6
Expenditure	1007.1	886.0	-121.1	-12.0
Imports of goods	431.4	443.7	12.3	2.8
Imports of services	157.0	169.8	12.8	8.2
Private transfers paid	285.2	194.7	-90.5	-31.7
Sales to Forex Bureaus	133.5	77.8	-55.7	-41.8
Balance	30.3	19.1	-11.2	-37.0

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V. FINANCIAL SECTOR STABILITY

V.1 BANKING SYSTEM SOUNDNESS

V.1.2 Commercial banks activities

The consolidated balance sheet of the 8 commercial banks increased moderately by 2.8% from RWF 511.09 billion as at 31st December 2008 to RWF 525.5 billion as at June 2009.

During the same period, the consolidated solvency ratio for the financial sector stood at 19.5% against 15.6% in December 2008. This improvement is due to the inclusion of KCB SA core capital, a RWF 2.5 billion capital injection in ECOBANK and the decrease of risk weighted asset (-4.6%).

Table 11: Consolidated financial indicators of commercial banks as at June 2009 in %

PERFORMANCE INDICATORS	2008				2009	
	Mar	June	Sept	Dec	Mar	Jun
Core Capital / Risk Weighted Assets	15.1	17.3	15.3	15.6	19.1	19.5
Non - performing loans – Provisions / Core Capital	16.6	15.9	11.7	17.8	23.2	19.1
Non performing loans (Gross) / Gross Loans	12.2	12.0	10.6	11.4	13.9	13.0
Non Performing loans (Net)/Net loans	9.6	9.8	8.4	9.3	10.5	8.62
Provisions / Non performing loans	78.1	75.5	82.3	74	66.9	69.1
Return on Average Assets	4.9	3.1	2.5	2.4	1.7	1.1
Return on Average Equity	10.8	24.5	19.5	18.6	11.8	10.5

Source: NBR, Banking Supervision Department

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During the first half of 2009 the quality of banks' aggregated loan book as measured by the level of the non-performing loans on net loans slightly worsened, from 9.3% in December 2008 to 10.5% in March 2009, before however a significant improvement by June to reach 8.6%, following important efforts of the banking community to recover non performing loans. However due to the general economic slowdown with its effect in the banking sector this year objective of bringing down the overall non performing loan ratio to 7% might be compromised.

As at end June 2009, the consolidated net profit after tax was established at RWF 3.6 billion compared to RWF 7.2 billion in June 2008 and RWF 2.07 billion in March 2009. The annualized return on average equity decreased from 24.5% in June 2008 to 10.5% as at June 2009 and the return on assets stood at 1.1% against 3.1% in June 2008, showing the efforts of the banking community to recover non performing loans. However due to the general economic slowdown with its effect in the banking sector this year objective of bringing down the overall non performing loan ratio to 7% might be compromised.

As at end June 2009, the consolidated net profit after tax was established at RWF 3.6 billion compared with RWF 7.2 billion in June 2008 and RWF 2.07 billion in March 2009. The annualized return on average equity decreased from 24.5% in June 2008 to 10.54% as at June 2009 and the return on assets stood at 1.14% against 3.1% in June 2008, showing a marked slowdown in the banks' performance during the 1st and 2nd quarter of 2009.

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With regard to the supervision of banks, the risk based supervisory approach adopted by NBR continued to focus on identifying risky management practices in the financial sector. As this approach emphasizes on understanding and assessing the quality of risk management systems, the recommendations of offsite and onsite supervision reports requested banks' management to address the highlighted specific weaknesses.

The Central Bank improved the use of Fina off-site Surveillance system for the automated electronic transmission of data by banks as well as its processing. The software was supposed to be fully operational by end February 2009 but has been postponed to a later date due to staffing problem.

Regarding the establishment of a Private Credit Reference Bureau in Rwanda the legal and regulatory framework for the Rwandan credit bureau industry is being finalized. CompuScan is moving forward with the development of its business plan and of the information specifications ("specs") for ultimate use by the credit bureau and participating credit providers. A study tour with the main stakeholders will be organized in Uganda and South Africa to discuss past experiences and the development of proper oversight procedures.

Regarding the Public Outreach Campaigns, four strong firms have been shortlisted and given a detailed itemization of the types of issues that may be addressed through such a campaign. Donor

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funding is being mobilized to support the necessary activities in order to establish a private credit bureau in Rwanda before end 2009.

V.1.2. Legal and regulatory framework reforms

Following the publication of the new banking law on April 2008, the process to update the prudential regulations has been ongoing since September 2008. As of end July 2009, the regulations on liquidity ratio, capital adequacy and prompt corrective action have been drafted, discussed with different stakeholders and approved by NBR Board.

V.1.3. Access to financial services: development of the banks' branches network

During the first half of 2009, 16 additional branches and one counter were opened by commercial banks. The National Bank of Rwanda has also given its non objection to Kenya Commercial Bank to open 7 branches for which the opening process should be finalized before end 2009.

During the same period the number of deposit accounts operated by the commercial banks (including BPR) increased by 6.8% from 1.101.518 at the end of December 2008 to 1.176.140 at the end of May 2009.

V.2. MICROFINANCE SECTOR

V.2.1 Microfinance activities regulation

The Law n° 40/2008 of 26/08/2008, establishing the organization of microfinance activities, has been adopted by the Parliament and published in the Official Gazette n° 13 of 30/03/2009. The implementing regulation of this Law has been signed by the Governor and sent to the services entitled to be published in the Official Gazette.

Two microfinance funds, the capacity building fund and the refinancing fund were put in place to assist in respectively training directors and managers of MFIs and refinance Microfinance Institutions' activities that have a significant impact on poverty reduction. During the first half of the year 2009, 100 managers have been trained in management and governance. The training of trainers is ongoing and the perspective of training the Board members is in its implementation phase.

Regarding the refinancing fund activities, to date only 8 MFIs have been refinanced from this fund the tune of 1.3 billion. This low demand compared to the supply underlines the need to assist MFIs' access to this facility.

Based on the consolidated financial position without CSS, activity of MFIs has been consolidating, with an increase of 10.4% in total assets, 12.7% and 13.5% in deposits and loans respectively. The decrease of the liquidity ratio when cash and equivalent remain stable (increase of 0.3%) would be explained by the increase in deposits by 12.7%.The loan portfolio have deteriorated with an increased delinquency rate moving from 8% at the end of December 2008 to 12% at the end of June 2009. In terms of outreach, the

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number of beneficiaries of financial services provided by the microfinance institutions, CSS included, increased from 685,651 as at 31st December 2008 to 722,474 as at 30th June 2009.

Table 12: MFIs Consolidated financial situation without CSS
(In RWF billion, except otherwise indicated)

Indicators	31-Dec-08	30-Jun-09	% change
Members/Clients (number)	629,524	666,347	5.85
Assets	27.22	30.04	10.36
Cash and equivalents	6.91	6.93	0.29
Gross Loans	17.78	20.18	13.50
Non Performing Loans (NPL)	1.34	2.33	73.88
Provisions	0.61	0.97	59.02
Net Loans	17.17	19.22	11.94
NPL Rate, in %	7.54	11.55	4.01 points
Deposits	14.75	16.63	12.75
Other Liabilities	3.83	3.89	1.57
Equity	8.63	9.52	10.31
Solvency ratio, in %	31.70	31.69	-0.01 points
Liquidity (Quick Ratio), in %	37.19	33.77	-3.42 points

Source: NBR, Microfinance Supervision Department

Note that the reporting MFIs at end December 2008 are 93 out of 122 operational MFIs when the reporting MFIs at end June 2009 is 100 out of 122. The impact of additional MFIs which declare their financial data is irrelevant due to their small size.

In line with the Government strategy to mobilize domestic savings and build an inclusive financial system in Rwanda, it has been decided to establish at least one SACCO per UMURENGE, with the main objective to allow unbanked but bankable people access to financial services at low transaction costs. In this respect, the implementation of UMURENGE SACCO is in progress as they have attained the stage of sensitising and collecting shares.

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V.2.2 Expansion and Modernization of the microfinance sector

In order to professionalize the microfinance sector, the Association of Microfinance Institutions in Rwanda (AMIR) has put on place a computerization strategy for the MFIs. This strategy has been sent to Consultative Group to Assist the Poor (CGAP) for comments. CGAP has agreed to finance the services of a consultant who will help assess the existing systems and will identify new solutions and partners to help implement new information systems where necessary.

Table 13: Number of MFI Reporting to the Central bank

	31-Dec-08	30-Jun-09
SACCOs	79	87
SA	12	11
SARL	2	2
TOTAL	93	100

Source: NBR, Microfinance Supervision Department

The liquidation process of the 9 closed MFIs in June 2006 is ongoing. As of end June 2009, more than 1 billion RWF was used to compensate depositors for 50% of their deposits. End July 2009 has been set as the final deadline for depositors to declare their deposits.

The objective for end 2009, in terms of compliance with prudential norms, was to have all MFIs meeting the minimum solvency ratio of 15%. For the remaining prudential norms the objective was to reduce by half the number of those non compliant at end 2008.

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The performance assessment by end June 2009 shows that the compliance with the required prudential norms has been deteriorating in each category of MFIs but with more impact on Sacco's performance. The deterioration of NPL rate is due to a sharp increase in non-performing loans while the deterioration in solvency ratio would be due to the change in the minimum prudential norms, moving from 10% to 15%.

Table 14: Prudential requirements for MFIs and compliance status

Required norms	SACCOS compliance				S.A. compliance			
	31-Dec-08		30-Jun-09		31-Dec-08		30-Jun-09	
	In number	In %	In number	In %	In number	In %	In number	In %
NPL≤10%	56	71	26	30	6	50	4	36
SOLVENCY ≥15% (requirement was 10% in 2008)	65	82	40	46	12	100	10	91
LIQUIDITY≥30%	50	63	22	25	11	92	7	64

Source: NBR, Microfinance Supervision Department

V.3 NON-BANK FINANCIAL SECTOR

The Rwanda Financial Sector Development Program approved by the Government in November 2006, included, among other things, the institutional reforms which required the Central Bank to extend its regulatory authority to cover non bank financial institutions (NBFIs).

To provide the legal and regulatory framework for supervising NBFIs, NBR has drafted laws governing the organization of insurers and insurance intermediaries, pension funds, and collective investments schemes. The law governing the organization of insurance business took effect in March 2009 when it was published in the Official Gazette. The proposed law to govern pensions have been submitted to

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Cabinet while the proposed law for collective investment schemes has been taken over by the Capital Market Advisory Council (CMAC) which will submit this draft law as part of capital markets legal framework.

The Bank has drafted core regulations to implement the new Insurance Law and has discussed them with the insurance industry. These regulations cover minimum capital and solvency, licensing criteria and procedures, prudential and reporting requirements, and corporate governance rules for insurers and insurance intermediaries. More regulations are being drafted to prescribe market conduct rules and risk management. The financial and management audits of all insurers being carried out by NBR consultants, Pricewaterhouse-Kenya, will be completed in August 2009

The Bank is also starting to carry out off-site supervision of the financial condition of all insurers and insurance brokers using the CAMELS (Capital & solvency, Assets/Investments, Reinsurance, Actuarial liabilities, Management & Corporate Governance, Earnings, Liquidity and Subsidiaries & related parties) framework for evaluating financial and managerial performance. Efforts to establish a risk-based on-site inspection methodology and procedures are also underway.

On the pension sector, the Bank has completed a survey on occupational pension schemes owned by business companies and organisations in Rwanda.

The Bank has developed partnership with other NBFIs supervisory and regulatory bodies both at regional and international levels. It has been admitted as member of the International Association of Insurance Supervisors (IAIS in April 2009) and is using the IAIS Core Curriculum for Insurance Supervisors for training purposes.

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V.4 PAYMENT SYSTEM

The National Bank of Rwanda in partnership with the Rwanda Bankers Association has been working on several reforms in the Payment systems. These reforms include the introduction of new payment instruments, mechanisms (systems) and improving the legal environment.

In the first half of 2009, the NBR worked with several stakeholders to draft and send to parliament a couple of laws, namely, the Payment Systems law, and the law on negotiable instruments. More still, the NBR and other stakeholders were able to draft the law governing the Central Securities Depository and the Electronic transaction law-these have not yet been presented to parliament. More to that, in order to ensure that Payment Systems operate in a safe, reliable and efficient manner, the National Bank has put in place regulations governing the operations of Payment Service Providers. The number of Remittances Services Providers has increased and this has enabled more information to be captured regarding remittances and more importantly, the usual monopoly of working through banks and hence keeping the prices high is being discouraged.

After the Government making it compulsory for all its institutions to pay their suppliers through bank accounts, the National Bank of Rwanda together with the bankers' association has implemented similar measures to encourage their clients to use bank accounts rather than withdraw cash to make payments.

On retail payments, the volume of cards both international and domestic has increased by 18 percent and 46 percent respectively. Additionally, several initiatives are being run by banks in order to provide electronic banking services to their clients.

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V.5 CAPITAL MARKET DEVELOPMENT

Since the launch of the Rwanda OTC market early 2008, the development of the Capital Market is going smoothly, and during the first semester of 2009 the main achievements among many others are as follow:

- Capital Market Legal framework: in March 2009 two laws were submitted to the MINECOFIN, and a Law on the regulation of collective schemes is in the final stages;
- National Public Education: by June 2009, 2273 people were educated in different institutions across the Country;
- Capital Market incentives: in March 2009, a package of incentives both non and fiscal incentives were introduced to the MINECOFIN for approval;
- Cross Listing of securities: KCB cross listed on the Rwanda OTC market in June 2009;
- Regional integration: many activities were conducted in this regards, attendance in different meetings, ...
- New listings: Companies like BRALIRWA, MTN, and CIMERWA have expressed interest in issuing corporate bonds; one Municipal Bonds from MVK is undergoing also!

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VI. PERSPECTIVES FOR THE 2nd HALF OF 2009

VI.1 MONETARY AND EXCHANGE RATE POLICY

During the 2nd half of 2009, the Monetary and Exchange rate Policy will focus on stimulating economic recovery by boosting the credit to economy. Specific measures are in place to improve the liquidity conditions in the banking system, restore the confidence of banks and increase their capacity to finance the economy in medium and long term.

With the Government Long Term Liquidity Facility Fund established this month, we expect banks to significantly increase the volume of medium to long term lending to the economy while revising down their lending rates which were significantly increased in the first half of 2009.

To stimulate domestic saving mobilization and increase in commercial banks deposits, NBR will take advantage of the low level of inflation and restore positive real interest rates on deposits.

Concerning the exchange rate policy, the current foreign exchange market conditions indicate that the exchange rates of the RWF against the USD will remain stable during the second half of 2009.

VI.2 FINANCIAL SECTOR DEEPENING

VI.2.1 Banking Sector Reforms

The main priorities for the second half of 2009 and 2010 will include the Inclusion of the market risk component in the solvency ratio calculation and updating the regulation and regulatory framework of banks, the supervisory process and procedures, as well as developing complementary tools, in order to be fully compliant with Basel I and the 25 core principles for effective banking supervision.

The full implementation of Fina off-site Surveillance Application for the electronic transmission of data from banks coupled with the continued monitoring and surveillance of banks liquidity positions will assist the Central Bank in reacting timely to weaknesses observed in the financial sector.

The monitoring of banks' NPL recovery plans in order to reach the threshold of 7% for each bank during 2010 will be greatly assisted by the opening of a Private Credit Bureau toward end 2009.

Continued participation in the initiatives and activities of international and regional bodies, such as East Africa Community will be pursued through information sharing of and joint on-site examination of regional banks.

In order to improve access to financial services, the National Bank of Rwanda will continue to encourage the expansion of the current banks branches network. All banks will be requested to develop marketing strategies to raise the awareness of low income segments

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of the population by offering them innovative saving and credit products as well as payment services.

VI.2.2 Microfinance sector

During the remaining of the year 2009, NBR efforts will be concentrated in capacity building of MFIs and improvement of their MIS by introducing a program of computerization with the assistance of CGAP experts. The central bank will continue to support and closely monitor the UMURENGE SACCO program in order to promote access to financial services to all. NBR will examine the possibility of using money collected from the reimbursement of loans distributed to compensate depositors of MFIs closed in 2006 for other part of their deposits. In order to promote the compliance with prudential norms which has been greatly undermined during the first half of 2009 NBR will reinforce its onsite and offsite supervision of MFIs.

VI.2.3 Non-banking Financial Sector regulation

In the second half of the year 2009, the NBR will continue the drafting of the regulations completing the new insurance law; complete the drafting of the insurance contract law, the mandatory insurance law and the on-going audit of insurance companies. The Central Bank will define an action plan for each insurance company to comply with the new prudential norms.

Regarding the pension sector, NBR will publish the new pension law and establish an action plan to supervise the Social Security Board. The survey on Occupational pension Schemes will be completed and NBR will continue identifying partners in regulation

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of insurance businesses and pension schemes and acquiring membership of other relevant bodies like AIO, IOPS, etc.

VI.3 CAPITAL MARKET

Regarding the Capital market development, during the 2nd half of 2009, some activities started will continue and be finalized while other will start. Mainly we can recall the following:

- Privatization through Capital Markets: Listing Government shares in one company before end 2009;
- Electronic Platform and Network: Acquisition of an electronic platform before end 2009;
- Public education and awareness: will continue!

VI.4 PAYMENT SYSTEM MODERNIZATION

Regarding the Payment System modernization, tests are going on to ensure that our ATMs and POS accept international cards. SIMTEL is now being under way with VISA certification for cards personalization in Rwanda. This will address the problems of delays as it will take about 2-3 working days to get ATM cards. In order to comply with new VISA standards, SIMTEL is preparing to get Payment Card Industry certificate (PCI). During this second half, the RPC project will be in implementation phase.

Regarding the large value payment systems, the selection of the service provider for implementation of the Rwanda Integrated Payments Processing System (RIPPS) is in final stages. The final evaluation of the bids from potential suppliers will take place mid next month. The real time settlement system will encompass the Automated Clearing House (ACH), the Real Time Gross Settlement (RTGS) and the Central Securities Depository (CSD) all integrated

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in one system. This is a state-of-the-art system that is only operated in very few countries. Traditional thinking was that an Automated Clearing House, the Real Time Gross Settlement systems are set separately and on different platforms. In the RIPPS all these systems will be integrated on the same platform. We do expect to sign the contract with the selected system supplier and start implementation before end December 2009.

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