NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MPFSS, 21st February 2019

# MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

21st February 2019

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## LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ATM | : Automated Teller Machine |
| BIF | : Burundian Franc |
| B2P | : Business to Person |
| BK | : Bank of Kigali |
| BPR | : Banque Populaire du Rwanda |
| BRD | : Banque Rwandaise de Développement |
| CAR | : Capital Adequacy Ratio |
| CBA | : Commercial Bank of Africa |
| CIC | : Currency in Circulation |
| CIEA | : Composite Index for Economic Activities |
| CIF | : Cost, Insurance and Freight |
| CMA | : Capital Market Authority |
| CPS | : Credit to the Private Sector |
| CSD | : Central Securities Depository |
| CSD | : Central Securities Depository |
| DGF | : Deposit Guarantee Fund |
| DRC | : Democratic Republic of Congo |
| EAC | : East African Community |
| EAPS | : East Africa Payment System |
| ECB | : European Central Bank |
| EDPRS | : Economic Development and Poverty Reduction Strategy |
| EUR | : Euro |
| FOB | : Freight on Board (or Free on Board) |
| FOREX | : Foreign Exchange |
| FRW | : Franc Rwandais |
| FSD | : Financial Stability Directorate |
| FSDP-2 | : Second Financial Sector Development Program |
| FX | : Foreign Exchange |
| GBP | : Great British Pound |

GDP : Gross Domestic Product
IMF : International Monetary Fund
JPY : Japanese Yen
KCB : Kenya Commercial Bank
KES : Kenyan Shilling
M3 : Broad money
MFIs : Microfinance Institutions
MNOs : Mobile Network Operators
MINECOFIN: Ministry of Finance and Economic Planning
MPC : Monetary Policy Committee
NBFIs : Non-Bank Financial Institutions
NBR : National Bank of Rwanda
NCG : Net Credit to Government
NDA : Net Domestic Assets
NFA : Net Foreign Assets
NISR : National Institute of Statistics of Rwanda
NPISHS : Non Profit Institutions Serving Households
NPLs : Non Performing Loans
OPEC : Organization of the Petroleum Exporting Countries
P2G : Person to Government
P2P : Personal to Personal
POS : Point of Sale
Q1 : Quarter one
Q2 : Quarter two
Q3 : Quarter three
Q4 : Quarter four
REPO : Repurchase Agreement
RIPPS : Rwanda Integrated Payment Processing System
RNIT : Rwanda National Investment Trust
ROA : Return on Assets
ROE : Return on Equity

| | |
|---|---|
| RTGS | : Real Time Gross Settlement System |
| RSSB | : Rwanda Social Security Board |
| SACCOs | : Saving and Credit Cooperatives |
| SMEs | : Small and Medium Enterprises |
| TA | : Total Assets |
| T- Bills | : Treasury Bills |
| TZS | : Tanzanian Shilling |
| UGS | : Ugandan Shilling |
| UK | : United Kingdom |
| UOMB | : Urwego Opportunity Microfinance Bank |
| US | : United States |
| USA | : United States of America |
| USD | : American dollar |
| WEO | : World Economic Outlook |
| YoY | : Year-on-year |

## EXECUTIVE SUMMARY

The global economic growth is expected to slow down in the medium term. The IMF estimates global growth at 3.7 percent in 2018 after 3.8 percent in 2017. Growth forecasts for 2019 and 2020 have been revised downward to 3.5 percent and 3.6 percent, respectively. Growth in advanced economies is projected to slow from an estimate of 2.3 percent in 2018 to 2.0 percent in 2019 and 1.7 percent in 2020, due to downward revisions for the Euro area. Growth in Emerging market & developing economies is expected to slow down to 4.5 percent in 2019 from an estimate of 4.6 percent in 2018, before improving to 4.9 percent in 2020. The macroeconomic outlook for Sub-Saharan Africa economies continues to strengthen, and growth is expected to pick up from 2.9 percent in 2018 to 3.5 percent in 2019, and 3.6 percent in 2020.

Monetary policy stance in advanced economies are diverse. The Bank of England and the Federal Reserve Bank increased their policy rates by 25 basis points, respectively, in August and December 2018. The central bank rate remained unchanged in the Eurozone and Japan.

In Rwanda, economic growth remained high in 2018. In the first three quarters of 2018, GDP growth averaged at 8.3 percent against 4.6 percent in the same period of 2017. This growth resulted from good performance in agriculture sector (6.3 percent); service sector (8.0 percent) and industry sector (9.3 percent). High frequency indicators point to sustained good economic performance in 2018Q4. The composite index of economic activities grew by 13.1 percent in 2018Q4 after 16.5 percent recorded in 2017Q4, and 14.4 percent in 2018 after 11.2 percent recorded in 2017. This momentum is expected to continue in 2019, to reach the initial growth projection of 7.8 percent.

Rwanda's formal trade deficit increased by 12.4 percent, resulting from the rise of import bill by 9.5 percent that outweighed the 5.5 percent increase in export earnings. High increase in imports is on account of ongoing infrastructure projects, including the construction of a Peat power plant in Southern province, Bugesera Airport and different roads as well as demand for intermediary goods for industrial production. Imports of capital goods increased by 10.4 percent while the imports of intermediary goods increased by 12.4 percent. As a result, formal exports cover of imports slightly declined to 41.1 percent in 2018, from 42.6 percent recorded in 2017.

Inflation remained low through 2018. Headline inflation averaged at 0.2 percent in 2018Q4 from 1.8 percent in 2018Q3. In 2018, headline inflation averaged at 1.4 percent from 4.9 percent in 2017, owing to lower food inflation. Core inflation remained moderate at 1.6 percent in 2018 from 3.9 percent in 2017, reflecting non-inflationary aggregate demand.

In 2018, the National Bank of Rwanda (NBR) maintained an accommodative monetary policy stance, keeping the policy rate at 5.50 percent to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange rate pressures were projected to remain subdued. As a result, broad money grew by 15.6 percent in 2018, from 12.4 percent in 2017. During the same period, outstanding credit to the private sector and new authorized loan rose by 10.8 percent and 17.2 percent, respectively, from 13.9 percent and 4.6 percent.

Money market interest rates remained broadly stable and have been converging towards the CBR as a result of improved management of liquidity. Commercial banks' lending and deposit rates slightly decreased, respectively standing at 16.96 percent and 7.51 percent in 2018, from 17.17 percent and 7.72 percent recorded in 2017.

Going forward, aggregate demand is expected to increase following the good economic outlook, but will remain non-inflationary. Exchange rate pressures are projected to remain moderate, and inflation to be around 3.0 percent in 2019, in line with the benchmark inflation band.

NBR will continue to monitor developments in global and domestic economy and stands ready to take appropriate actions as required, to ensure Rwanda's macroeconomic stability.

The performance of the financial sector continued to improve in 2018 on the back of favorable macroeconomic conditions. As at end December 2018, the total financial sector assets increased by 14.4 percent (year-on-year) to FRW 4,632 billion, against 13.8 percent growth registered the previous year. Growth of assets in Banks and MFIs was driven by increased deposits, additional capital injections as well as retained profits. The growth of assets of Insurers was driven by capital injections and increased profits, while the growth of pension was driven by increased contributions and investment income.  Lending improved in Banks and MFIs in 2018, reflecting Banks' improved loan approval rates in some sectors. Total outstanding bank loans increased by 13.6 percent as at end December 2018, against 12.9 percent registered in December 2017. During the same period, MFIs loans increased by 19 percent, compared to 3 percent.

The Non-Performing Loans (NPLs) ratio dropped in Banks and MFIs following improved economic conditions and write-offs of long outstanding non-performing loans. The NPLs ratio dropped in Banks from 7.6 percent in December 2017 to 6.4 percent in December 2018.  During the same period, NPLs ratio for MFIs dropped from 8.2 percent to 6.5 percent.  The improved agriculture performance in 2018 particularly supported the reduction of NPLs in MFIs.

The financial sector remained solvent in 2018. The Capital Adequacy Ratio (CAR) of Banks stood at 25.5 percent in December 2018, higher than 21.4 percent registered in December 2017, and above the 15 percent minimum prudential requirement. Similarly, the CAR of MFIs stood at 35.1 percent in December 2018 compared to 35.8 percent registered in December 2017 and the 15 percent minimum prudential requirement. Private Insurers maintained adequate solvency with a consolidated solvency ratio of 165 percent in December 2018, compared to the 100 percent prudential requirement. Sufficient capital buffers held by the financial sector indicate the resiliency of the sector to shocks.

Profits increased across the financial sector in 2018. The net profits (after tax) of Banks increased from FRW 28.5 billion in 2017 to FRW 56.6 billion in 2018. In the same period, profits of MFIs increased from FRW 2.4 billion to FRW 7.3 billion, while that of the insurance sector increased from 40.1 billion to 44.6 billion. For Banks and MFIs, the uptick in profits was mainly driven by recoveries of NPLs, growth in other non-interest income and a slowdown in growth of operating expenses. Total recoveries by Banks increased to FRW 26.6 billion in 2018, from FRW 14.2 billion in 2017. For the insurance sector, the increased premium rates on motor insurance products supported the growth of insurance sector profits.

The Bank initiated and coordinated a number of reforms to modernize the payment system. In this regard, a National strategy framework for the National Payment System was developed and approved by the Cabinet in November 2018. The same year, the NBR started the process of upgrading the current interbank payment system (RIPPS). This upgrade will, among other things, extend the operating hours of the system to 24/7 hours, open access to none bank payment service, as well as, enrich payment information by adopting the ISO 20022. The NBR is also working with the payment system industry to establish an interoperable retail payment system. This initiative aims to facilitate economic agents to easily and instantly transfer/or receive funds across all payment accounts including mobile money. The industry has already agreed on the key features and designs of this system and the actual implementation of this interoperable system is expected to happen in 2019.

# INTRODUCTION

The objective of this first Monetary Policy and Financial Stability Statement (MPFSS) for 2019 is to assess economic developments for year 2018 and give an outlook for 2019. This statement first presents the global economic developments in Section 1 to contextualize the domestic economic performance presented in Sections 2, 3, 4 and 5 before concluding with an outlook in Section 6.

# I. GLOBAL ECONOMIC ENVIRONMENT

This section presents recent macroeconomic developments and near-term outlook in the global economy, with a focus on major advanced countries, Sub Saharan Africa and the East African Community. The section contextualizes the economic environment within which the Rwandan economy performed and NBR conducted its monetary policy in 2018. That context also helps to rationalize Rwanda's economic outlook.

## 1.1 ECONOMIC GROWTH AND OUTLOOK

According to the International Monetary Funds' (IMF) forecasts published in January 2019, global economic performance was steady, with an estimated 3.7 percent GDP growth in 2018 (from 3.8 percent recorded in 2017). Global growth is projected to decline to 3.5 percent in 2019 before slightly picking up to 3.6 percent in 2020.

Growth in advanced economies is projected to slow down from an estimated 2.3 percent in 2018 to 2.0 percent in 2019 and 1.7 percent in 2020. The estimated growth rate for 2018 as well as the projections for 2019 are 0.1 percentage points lower than previous IMF's projections of October 2018, mostly due to downward revisions for the Euro area.

Table 1: Global GDP Growth (p.a)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| World | 5.4 | 4.3 | 3.5 | 3.5 | 3.6 | 3.5 | 2.4 | 3.8 | 3.7 | 3.5 |
| Advanced economies | 3.1 | 1.7 | 1.2 | 1.4 | 2.1 | 2.3 | 1.7 | 2.4 | 2.3 | 2.0 |
| United States | 2.6 | 1.6 | 2.2 | 1.8 | 2.5 | 2.9 | 1.6 | 2.2 | 2.9 | 2.5 |
| Euro area | 2.1 | 1.6 | -0.9 | -0.2 | 1.4 | 2.1 | 1.9 | 2.4 | 1.8 | 1.6 |
| Japan | 4.2 | -0.1 | 1.5 | 2.0 | 0.4 | 1.4 | 0.6 | 1.9 | 0.9 | 1.1 |
| United Kingdom | 1.7 | 1.6 | 1.4 | 2.0 | 2.9 | 2.3 | 1.8 | 1.8 | 1.4 | 1.5 |
| Emerg.& developing economies | 7.4 | 6.4 | 5.3 | 5.1 | 4.7 | 4.3 | 3.7 | 4.7 | 4.6 | 4.5 |
| China | 10.6 | 9.5 | 7.9 | 7.8 | 7.3 | 6.9 | 6.7 | 6.8 | 6.6 | 6.2 |
| India | 10.3 | 6.6 | 5.5 | 6.4 | 7.4 | 8.2 | 7.1 | 6.7 | 7.3 | 7.5 |
| Sub-Saharan Africa | 7.1 | 5.1 | 4.6 | 5.2 | 5.1 | 3.3 | 1.3 | 2.9 | 2.9 | 3.5 |

Source: IMF, January 2019

The United States (US) GDP growth rate is expected to pick up to 2.9 percent in 2018 from 2.2 percent in 2017. The growth is expected to decline to 2.5

percent in 2019 and decelerate further to 1.8 percent in 2020 with the unwinding of fiscal stimulus. In the Eurozone, growth is set to moderate from 1.8 percent in 2018 to 1.6 percent in 2019 and 1.7 percent in 2020, reflecting a slowdown in many economies, including Germany, Italy and France. In the United Kingdom, the substantial uncertainty around the Brexit deal continues to pose challenges for forecasting the future growth pattern, initially projected at around 1.5 percent in 2019-2020. Japan's economy is set to grow by 1.1 percent in 2019, and 0.5 percent in 2020.

In the emerging markets and developing economies, growth is expected to slow down to 4.5 percent in 2019, from estimated 4.6 percent in 2018, before improving to 4.9 percent in 2020.

The Chinese economy grew by 6.6 percent in 2018, the lowest growth for the last 28 years, and is projected to grow by 6.2 percent in 2019, amid intense trade dispute with the US, weakening domestic demand and alarming off-balance-sheet borrowings by local governments.

In Sub-Saharan Africa economies, growth is expected to pick up from 2.9 percent in 2018 to 3.5 percent in 2019, and 3.6 percent in 2020. However, these projections are lower than initial projections, as a result of softening oil prices that have caused downward revisions for Angola and Nigeria.

Table 2: Growth in Oil Exporting African Countries (p.a)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Angola | 4.9 | 3.5 | 8.5 | 5.0 | 4.8 | 0.9 | -2.6 | -2.5 | -0.1 | 3.1 |
| Nigeria | 11.3 | 4.9 | 4.3 | 5.4 | 6.3 | 2.7 | -1.6 | 0.8 | 1.9 | 2.0 |
| South Africa | 3.0 | 3.3 | 2.2 | 2.5 | 1.8 | 1.3 | 0.6 | 1.3 | 0.8 | 1.4 |
| South Sudan | - | - | -52.4 | 29.3 | 2.9 | -0.2 | -13.9 | -5.1 | -3.2 | -4.6 |
| Egypt | 5.1 | 1.8 | 2.2 | 3.3 | 2.9 | 4.4 | 4.3 | 4.2 | 5.3 | 5.5 |
| Libya | 3.2 | -66.7 | 124.7 | -36.8 | -53.0 | -13.0 | -7.4 | 64.0 | 10.9 | 10.8 |

Source: IMF, October 2018 & January 2019

In the East African Community (EAC), GDP growth is expected to remain strong, from 5.3 percent in 2017, to 5.9 percent in 2018 and 6.3 percent in 2019. Rwanda's economic growth stood at 7.7 percent in 2018Q3 from 6.7

percent in 2018Q2, and projected at 7.2 percent in 2018 and 7.8 percent in 2019. Kenya's GDP growth stood at 6.0 percent in 2018Q3 after 6.2 percent in 2018Q2 and estimated at 6.0 percent in 2018 and 6.1 percent in 2019. In Uganda, GDP growth increased to 6.8 percent in 2018Q3 after 5.2 percent in 2018Q2, and projected at 5.9 percent in 2018 and 6.1 percent in 2019. For 2019, Tanzania and Burundi are projected to grow by 6.6 percent and 0.4 percent, respectively.

Table 3: Real GDP Growth in EAC (p.a)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| EAC | 7.4 | 6.9 | 4.5 | 6.1 | 5.9 | 6.1 | 5.4 | 5.3 | 5.9 | 6.3 |
| Burundi | 5.1 | 4.0 | 4.4 | 5.9 | 4.5 | -4.0 | -1.0 | 0.0 | 0.1 | 0.4 |
| Kenya | 8.4 | 6.1 | 4.6 | 5.9 | 5.4 | 5.7 | 5.9 | 4.9 | 6.0 | 6.1 |
| Rwanda | 7.3 | 7.8 | 8.8 | 4.7 | 7.6 | 8.9 | 6.0 | 6.1 | 7.2 | 7.8 |
| Tanzania | 6.4 | 7.9 | 5.1 | 7.3 | 7.0 | 7.0 | 7.0 | 6.0 | 5.8 | 6.6 |
| Uganda | 7.7 | 6.8 | 2.2 | 4.7 | 4.6 | 5.7 | 2.3 | 4.8 | 5.9 | 6.1 |

Source: IMF, WEO database, October 2018

## 1.2 INFLATION AND COMMODITY PRICES

### 1.2.1 Inflation

World annual average inflation is estimated at 3.8 percent in 2018 from 3.2 percent in 2017 in line with rising commodity prices and improvement in global demand.

Table 4: Annual Average Inflation Developments (p.a)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| World | 3.7 | 5.0 | 4.1 | 3.7 | 3.2 | 2.8 | 2.8 | 3.2 | 3.8 | 3.8 |
| Advanced economies | 1.5 | 2.7 | 2.0 | 1.4 | 1.4 | 0.3 | 0.8 | 1.7 | 2.0 | 1.7 |
| Euro area | 1.6 | 2.7 | 2.5 | 1.3 | 0.4 | 0.0 | 0.2 | 1.5 | 1.7 | 1.7 |
| United States | 1.6 | 3.1 | 2.1 | 1.5 | 1.6 | 0.1 | 1.3 | 2.1 | 2.4 | 2.1 |
| Japan | -0.7 | -0.3 | -0.1 | 0.3 | 2.8 | 0.8 | -0.1 | 0.5 | 1.0 | 1.3 |
| United Kingdom | 3.3 | 4.5 | 2.8 | 2.6 | 1.5 | 0.0 | 0.7 | 2.7 | 2.5 | 2.2 |
| Emerging and dev. economies | 5.6 | 7.1 | 5.8 | 5.5 | 4.7 | 4.7 | 4.2 | 4.3 | 4.9 | 5.1 |
| China | 3.3 | 5.4 | 2.6 | 2.6 | 2.0 | 1.4 | 2.0 | 1.6 | 2.1 | 2.4 |
| India | 9.5 | 9.5 | 10.0 | 9.4 | 5.8 | 4.9 | 4.5 | 3.6 | 4.7 | 4.9 |
| Sub-Saharan Africa | 8.1 | 9.3 | 9.2 | 6.5 | 6.3 | 6.9 | 11.2 | 11.0 | 8.6 | 8.5 |

Source: IMF, October, 2018 & and Official numbers from countries

In the US, annual headline inflation increased to 2.4 percent in 2018 from 2.1 percent in 2017. The Eurozone inflation rose to 1.7 percent in 2018 from 1.5

percent in 2017. This, points to the expectation that the ECB may continue to maintain an accommodative monetary policy stance in 2019.

The inflation rate in UK declined to 2.5 percent in 2018 from 2.7 percent in 2017, while in Japan it rose to 1.0 percent in 2018 after 0.5 percent in 2017, mainly due to rising food, housing and transport prices.

In emerging market and developing economies, inflation rose from 4.3 percent in 2017 to 4.9 percent in 2018 and projected to increase to 5.1 percent in 2019.

In Sub-Saharan Africa, headline inflation is expected to fall to 8.6 percent in 2018 and to 8.5 percent in 2019 from 11.0 percent in 2017. In EAC, annual average inflation rate is projected at 4.2 percent in 2018 and 5.0 percent in 2019 from 6.5 percent in 2017. Despite the rise in oil prices, inflation remained benign throughout the year 2018 following rising agriculture production on account of favorable weather conditions.

Table 5: Annual Headline Inflation in EAC Countries (p.a)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| EAC | 5.1 | 13.2 | 12.3 | 6.3 | 5.5 | 5.7 | 5.7 | 6.5 | 4.2 | 5.0 |
| Burundi | 6.5 | 9.6 | 18.2 | 7.9 | 4.4 | 5.6 | 5.5 | 16.6 | -2.6 | 7.3 |
| Kenya | 4.3 | 14.0 | 9.4 | 5.7 | 6.9 | 6.6 | 6.3 | 8.0 | 4.7 | 5.6 |
| Rwanda | 2.3 | 5.7 | 6.3 | 4.2 | 1.8 | 2.5 | 5.7 | 4.9 | 1.4 | 2.8* |
| Tanzania | 7.2 | 12.7 | 16.0 | 7.9 | 6.1 | 5.6 | 5.2 | 5.3 | 3.5 | 4.7 |
| Uganda | 3.7 | 15.0 | 12.7 | 4.9 | 3.1 | 5.4 | 5.5 | 5.5 | 2.6 | 4.2 |

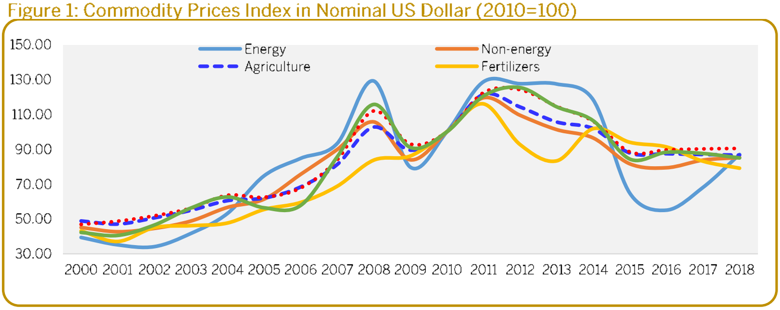
Source: IMF, October 2018
*NBR staff projections

The annual average inflation rate in Kenya eased to 4.7 percent in 2018 compared to 8.0 percent in 2017, and projected at 5.6 percent in 2019. In Rwanda, the annual headline inflation rate decelerated to 1.4 percent in 2018, from 4.9 percent in 2017, and is projected to increase to 2.8 percent in 2019. In Tanzania, headline inflation rate was at 3.5 percent, down from 5.3 percent in 2017, and projected to increase to 4.7 percent in 2019. The annual average inflation in Uganda reached 2.6 percent, after 5.5 percent in 2017, and projected at 4.2 percent in 2019. In Burundi, the inflation reached to -2.6 percent after an inflation rate of 16.6 percent in 2017.

### 1.2.2 Commodity Prices

The global commodity prices increased in 2018, reflecting improving global demand and supply constraints for a number of commodities. Global energy prices rose by 27.8 percent in 2018 compared to 23.7 percent the previous year, while non-energy commodity prices slightly increased by 1.8 percent, following an increase in prices of fertilizers (+11.1 percent) and metals & minerals (+5.5 percent).

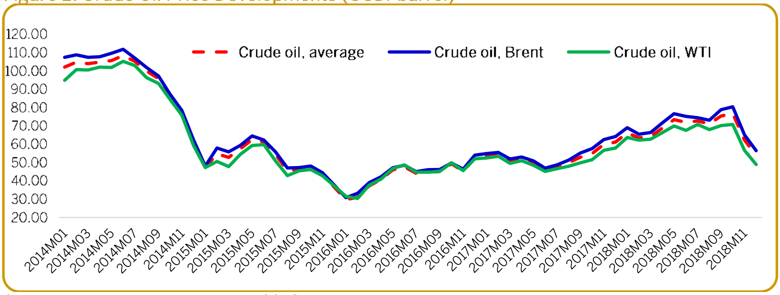
Figure 1: Commodity Prices Index in Nominal US Dollar (2010=100)




Source: World Bank, December 2018

Crude oil prices rose by 29.9 percent on average in 2018 compared to 23.3 percent in 2017 on the back of increasing demand coupled with concerns about supply. However, oil prices have been volatile since August 2018, reflecting geo-politically driven supply shocks, with crude oil prices dropping by more than 30 percent over the last two months of 2018.

Figure 2: Crude Oil Price Developments (USD/barrel)




Source: World Bank, December 2018

Going forward, crude oil prices are expected to decrease by 14.1 percent in 2019 and by 0.4 percent in 2020. The increase in non-energy commodities was driven by fertilizers and metals & minerals prices. Prices for fertilizers went up by 11.1 percent in 2018 compared to a decrease of 4.5 percent in 2017, on strong import demand, notably from Brazil and India. However, prices of fertilizers are projected to rise by 2.1 percent in both 2019 and 2020, due to modest global demand growth.

From a high increase of 24.2 percent in 2017, metals & mineral prices moderately rose by 5.5 percent in 2018, following a softening global demand, a strengthening US dollar as well as growing trade tensions between US and China. Metals prices are expected to decrease by 7.4 percent in 2019.

Average prices decreased for agriculture commodities in 2018, following the falling prices of beverages by 4.8 percent; of which Arabica coffee (-12.0 percent), Robusta coffee (-16.0 percent) and tea (-9.5 percent). During the same period, food crop prices slightly increased by 0.3 percent, because of unfavorable weather conditions.

Agricultural commodity prices are expected to increase by 1.6 percent in 2019, attributed mainly to rising prices of beverages by 1.5 percent; with coffee Arabic, coffee Robust and tea auction prices expected to increase by 1.4 percent, 1.6 percent and 1.1 percent, respectively.

Table 6: Commodity Prices (p.a)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Crude oil, average | 28.0 | 31.6 | 1.0 | -0.9 | -7.5 | -47.3 | -15.7 | 23.3 | 29.9 | -14.1 |
| Agricultural comm. | 11.7 | 21.5 | -6.0 | -7.5 | -3.6 | -13.8 | -0.5 | -0.5 | -0.3 | 1.6 |
| Beverages | 16.2 | 16.0 | -20.1 | -10.1 | 22.2 | -7.7 | -2.8 | -9.0 | -4.8 | 1.5 |
| Coffee, Arabica | 36.2 | 38.3 | -31.2 | -25.2 | 43.8 | -20.3 | 2.4 | -8.0 | -12.0 | 1.4 |
| Coffee, Robusta | 5.6 | 38.7 | -5.9 | -8.4 | 6.8 | -12.4 | 0.6 | 14.0 | -16.0 | 1.6 |
| Tea, Avg. 3 | 5.9 | 1.2 | -0.8 | -1.2 | -4.9 | 2.1 | -3.3 | 17.3 | -9.5 | 1.1 |
| Food | 7.5 | 22.5 | 1.4 | -7.7 | -7.5 | -16.6 | 1.3 | 0.6 | 0.3 | 1.4 |
| Cereals | 1.1 | 36.2 | 2.3 | -9.3 | -18.9 | -16.4 | -7.3 | -0.2 | 10.2 | 1.4 |
| Metals & Minerals | 46.2 | 13.5 | -15.3 | -5.5 | -6.6 | -21.1 | -5.9 | 24.2 | 5.5 | -7.4 |
| Tin | 50.3 | 27.7 | -18.9 | 5.5 | -1.7 | -26.6 | 11.6 | 11.9 | 0.4 | 1.1 |
| Fertilizers | -16.7 | 37.6 | 2.5 | -18.9 | -11.3 | -3.0 | -21.0 | -4.5 | 11.1 | 2.1 |

Source: World Bank, December 2018 & IMF, January 2019

## 1.3 MONETARY POLICY AND FINANCIAL MARKETS

Monetary policy remained accommodative in most advanced economies with central bank rates remaining unchanged in the Eurozone and Japan. The European Central Bank rate (ECB) was maintained at zero percent, since March 2016, and the Bank of Japan continued to apply a negative interest rate (-0.100 percent), since February 2016.

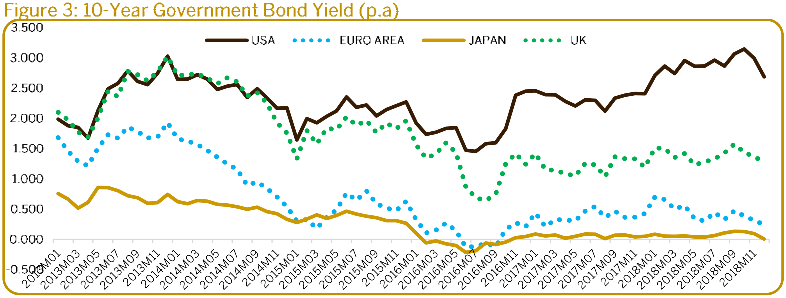
The ECB ended its net asset purchase in December 2018, but confirmed the continuation of an accommodative monetary policy until at least summer 2019. The Bank of England (BoE) increased its policy rate by 25 basis points to 0.75 percent on 2nd August 2018, following the last increase in November 2017.

The US Federal Reserve Bank (FED) increased the funds rate by 25 basis points on 19th December 2018, to the target range of 2.25 to 2.50 percent, following three other increases in September, June and March 2018.

In December 2018, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.325 percent and -0.110 percent, respectively. In USA and UK, three-month deposit rates increased to 2.8 percent and 0.9 percent in December 2018, respectively from 1.7 percent and 0.5 percent in December 2017.

The ten- year government bonds increased in USA, rising to 2.7 percent in December 2018 after 2.4 percent in December 2017, while it rose to 1.3 percent in UK compared to 1.2 percent in December 2017. The ten-year government bond declined in Japan and Eurozone to 0.003 percent and 0.2 percent in December 2018, respectively, after 0.05 percent and 0.4 percent in December 2017.

Figure 3: 10-Year Government Bond Yield (p.a)




Source: Bloomberg database, 2018

On the foreign exchange market, the US dollar appreciated by 5.9 percent against the British pound, and 4.7 percent against the Euro, while depreciating by 2.7 percent against the Japanese Yen, after respective depreciation of 8.6 percent, 12.4 percent and 3.7 percent in 2017.

Table 7: Units Currency per 1 US Dollar (p.a)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|
| USD/GBP | 0.5 | -4.4 | -1.9 | 6.3 | 5.7 | 19.4 | -8.6 | 5.9 |
| USD/EUR | 3.3 | -1.7 | -4.0 | 13.6 | 11.4 | 3.2 | -12.4 | 4.7 |
| USD/JPY | -5.2 | 12.8 | 21.4 | 13.7 | 0.4 | -2.7 | -3.7 | -2.7 |

Source: Bloomberg database, 2018

The euro has weakened amid slower growth, and the pound has depreciated as Brexit-related uncertainty increased.

# II. NATIONAL ECONOMIC PERFORMANCE

This section highlights the developments in the national economy, focusing on the drivers of economic growth in 2018 and the outlook for 2019. The chapter indicates that Rwandan economy recorded a good performance in 2018, with a growth expected to be higher than 7.2 percent initially projected. This good economic momentum is expected to continue in 2019.

## 2.1 ECONOMIC GROWTH

Rwandan economy performed well in 2018, recording an average growth of 8.3 percent in the first three quarters of 2018 against 4.6 percent in the same period of 2017. This growth resulted from good performance in agriculture sector (6.3 percent); service sector (8.0 percent) and industry sector (9.3 percent).

In the first three quarters of 2018, the services sector was mainly driven by the good performance of trade and transport services, which increased by 16.9 percent, recovering from a decline of 0.3 percent in the corresponding period of 2017. In particular, transport services were boosted by the recovery of land transportation, accounting 63.9 percent of the sector. During the first three quarters of 2018, land transportation increased by 18.1 percent against a decline of 1.4 percent in the corresponding period of 2017. In addition, air transportation continued to expand with a growth of 26.9 percent after 80.1 percent in the same period, on account of business expansion of RwandAir.

Table 8: Rwanda Real GDP growth (percent)

| | 2015 | 2016 | 2017 | 2018 Q1 | 2018 Q2 | 2018 Q3 | 2018 Proj | 2019 Proj |
|---|---|---|---|---|---|---|---|---|
| GDP | 8.9 | 6.0 | 6.1 | 10.4 | 6.7 | 7.7 | 7.2 | 7.8 |
| Agriculture | 5.0 | 4.0 | 7.0 | 8.0 | 6.0 | 5.0 | 5.6 | 4.5 |
| Food crops | 4.0 | 3.0 | 7.0 | 6.0 | 6.0 | 3.0 | 7.1 | 5.1 |
| Export crops | 14.0 | 2.0 | 2.0 | 46.0 | 6.0 | 6.0 | 4.3 | 8.3 |
| Livestock & livestock products | 9.0 | 10.0 | 11.0 | 12.0 | 13.0 | 14.0 | 11.0 | 9.2 |
| Forestry | 4.0 | 4.0 | 3.0 | 4.0 | 4.0 | 5.0 | -1.2 | -1.8 |
| Fishing | 3.0 | 3.0 | 5.0 | 7.0 | 6.0 | 4.0 | 3.7 | 3.9 |
| Industry | 9.0 | 7.0 | 4.0 | 6.0 | 10.0 | 12.0 | 8.3 | 13.1 |
| Mining & quarrying | -5.0 | 10.0 | 21.0 | -5.0 | 7.0 | 7.0 | 20.1 | 31.5 |
| Manufacturing | 8.0 | 7.0 | 6.0 | 7.0 | 12.0 | 10.0 | 6.1 | 7.6 |
| Electricity | 8.0 | 14.0 | 8.0 | 11.0 | 9.0 | 11.0 | 11.9 | 11.9 |
| Water & waste management | 1.0 | 5.0 | 2.0 | 2.0 | 0.0 | 4.0 | 6.6 | 6.6 |
| Construction | 15.0 | 5.0 | -3.0 | 8.0 | 11.0 | 17.0 | 5.2 | 10.1 |
| Services | 10.0 | 7.0 | 8.0 | 12.0 | 5.0 | 7.0 | 7.6 | 7.8 |
| Trade & transport | 11.0 | 7.0 | 4.0 | 26.0 | 11.0 | 14.0 | 6.1 | 6.8 |
| Maintenance and repair of motors | 5.0 | 7.0 | 4.0 | 6.0 | 7.0 | 8.0 | 5.5 | 4.8 |
| Wholesale & retail trade | 13.0 | 6.0 | 0.0 | 25.0 | 11.0 | 12.0 | 4.2 | 6.2 |
| Transport services | 10.0 | 8.0 | 11.0 | 28.0 | 13.0 | 17.0 | 9.5 | 8.0 |
| Other services | 10.0 | 7.0 | 9.0 | 8.0 | 3.0 | 5.0 | 8.1 | 8.1 |
| Hotels & restaurants | 9.0 | 11.0 | 10.0 | 6.0 | 9.0 | 13.0 | 14.4 | 14.3 |
| Information & communication | 18.0 | 9.0 | 12.0 | 24.0 | 18.0 | 17.0 | 10.5 | 10.3 |
| Financial services | 12.0 | 3.0 | 7.0 | 12.0 | 7.0 | 8.0 | 6.9 | 6.8 |
| Real estate activities | 5.0 | 6.0 | 5.0 | 3.0 | 4.0 | 6.0 | 5.2 | 5.4 |
| Professional, scientific and technical activities | 14.0 | 6.0 | 17.0 | 4.0 | -6.0 | 19.0 | 7.4 | 8.2 |
| Administrative and support service activities | 16.0 | 10.0 | 26.0 | 5.0 | -12.0 | -5.0 | 12.8 | 12.2 |
| Public administration and defense | 5.0 | 12.0 | 4.0 | 15.0 | 4.0 | -4.0 | 6.0 | 6.0 |
| Education | 2.0 | 4.0 | 4.0 | 2.0 | 2.0 | 2.0 | 6.2 | 5.8 |
| Human health and social work activities | 10.0 | 6.0 | 6.0 | 7.0 | -1.0 | -1.0 | 6.0 | 4.9 |
| Cultural, domestic & other services | 19.0 | 7.0 | 9.0 | 13.0 | 13.0 | 10.0 | 9.7 | 9.7 |
| Taxes less subsidies on products | 14.0 | 4.0 | -4.0 | 17.0 | 10.0 | 11.0 | 7.7 | 8.0 |

Source: MINECOFIN & NISR (2017)

The services sector's performance also resulted from telecommunication services (+21.3 percent vs +18.4 percent), hotels services (+11.5 percent vs +16.6 percent) and financial services (+9.2 percent vs +4.7 percent). Telecommunication services were boosted by investments done in network expansion and modernization as well as price segmentation strategy. Investments in Telecommunication in first three quarters of 2018 increased by 251.6 percent after 104.2 percent in the same period of 2017 and active mobile phone subscribers increased by 15.5 percent after a decline of 6.3 percent in the same period. In addition, internet subscribers rose by 12.8

percent in the first three quarters of 2018 on top of 25.3 percent increase recorded in the same period of 2017.

The agriculture sector recorded good performance, supported by favorable weather conditions. During the first three quarters of 2018, food crop production increased by 5.0 percent after 6.3 percent in the corresponding period of 2017, while exports crops grew by 19.3 percent against a decline of 2.3 percent in the same period of 2017.

The industry sector's performance was mainly led by the recovery of construction sector, which increased by 12.0 percent in the first three quarters of 2018 after declining by 4.0 percent in the same period of 2017. Construction sector recovery was led by construction projects, which included Bugesera International Airport, rehabilitation of roads network across the country, new stadiums (Nyagatare, Ngoma and Bugesera) and the rehabilitation of Amahoro stadium. In addition, the industry sector was boosted by manufacturing activities, which grew by 9.7 percent in the first three quarters of 2018 against 6.3 percent in the same period of 2017. Manufacturing activities were led by Metal Products, machinery & equipment (+27.9 percent vs +1.6 Percent), Textiles, clothing & leather goods (+17.9 percent vs +23.7 percent), Non-metallic minerals (+10.4 percent vs +9.1 percent), Food processing (+ 9.0 percent vs +13.6 percent) and beverages industries (+7.1 percent vs -8.0 percent).

The good performance of the Rwandan economy observed in the first three quarters of 2018 continued in 2018Q4 as evidenced by the leading indicators of economic activities, evolving towards surpassing the projected annual growth of 7.2 percent by end 2018. The composite index of economic activities (CIEA) increased, in real terms, by 13.1 percent in 2018Q4 from 16.5 percent recorded in the same period of 2017, and by 14.4 percent in 2018 after 11.2 percent recorded in 2017.

Table 9: CIEA (p.a)

| CIEA | Real | | Nominal | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Q1 | 6.2 | 17.5 | 10.1 | 16.9 |
| Q2 | 9.3 | 13.7 | 14.1 | 8.8 |
| Q3 | 12.5 | 13.8 | 14.3 | 10.3 |
| Q4 | 16.5 | 13.1 | 18.2 | 8.7 |
| Annual | 11.2 | 14.4 | 14.3 | 11.0 |

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

The good performance recorded in 2018 is reflected in the favorable business developments, as indicated by the total turnovers of industry and services sectors that increased by 16.7 percent after 15.8 percent in 2017. The services sector was leading, with a share of 75.3 percent and a growth of 18.5 percent while the industry sector grew by 11.5 percent from 12.0 percent.

Table 10: Turnovers of industry & services (p.a)

| | 2016 | | | 2017 | | | 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Annual | Q3 | Q4 | Annual | Q3 | Q4 | Annual |
| Total turnovers | 11.5 | 6.9 | 10.0 | 13.0 | 19.3 | 15.8 | 15.9 | 19.3 | 16.7 |
| Industries | 18.2 | -3.0 | 7.7 | 4.7 | 21.0 | 12.0 | 6.1 | 10.0 | 11.5 |
| Mining & Quarrying | -11.4 | -19.3 | -26.7 | 23.6 | 58.4 | 26.0 | 7.4 | -16.6 | 18.2 |
| Manufacturing | 9.5 | 5.6 | 10.7 | 11.8 | 18.2 | 16.4 | 12.2 | 6.5 | 11.0 |
| Energy Sector | 57.1 | 27.8 | 52.6 | 13.2 | 20.1 | 14.2 | 9.2 | 21.9 | 9.4 |
| Construction | 31.0 | -18.1 | 0.9 | -12.6 | 18.9 | 1.6 | -7.6 | 18.0 | 12.0 |
| Services | 9.1 | 10.9 | 11.0 | 16.3 | 18.7 | 17.2 | 19.3 | 22.7 | 18.5 |
| Wholesale & Retail trade | 4.7 | 9.6 | 6.9 | 29.3 | 30.4 | 26.1 | 14.4 | 14.6 | 17.2 |
| Petroleum distributors | 14.4 | 17.7 | 14.3 | 4.2 | 5.7 | 15.4 | 15.8 | 29.4 | 15.5 |
| Transport & Storage | 23.2 | 28.3 | 22.7 | 22.1 | 15.7 | 16.7 | 26.4 | 19.5 | 22.9 |
| Hotels & Restaurants | 17.7 | 15.0 | 16.2 | -6.4 | -2.7 | -1.3 | 29.4 | 25.8 | 21.6 |
| Hotels | 12.2 | 14.3 | 12.4 | 4.8 | 4.8 | 5.6 | 34.1 | 29.7 | 27.1 |
| Restaurants | 37.4 | 17.7 | 31.1 | -39.7 | -30.9 | -24.5 | 5.2 | 3.2 | -3.7 |
| Information & Comm. | -0.3 | 7.9 | 11.7 | 0.1 | 3.1 | -0.3 | 5.1 | 6.2 | 6.7 |
| Financial & insurance | 20.2 | 9.1 | 21.6 | 8.4 | 15.6 | 11.1 | 19.5 | 17.9 | 15.9 |
| Banks | 19.8 | 11.0 | 14.4 | 4.7 | 12.7 | 9.8 | 22.3 | 17.5 | 16.2 |
| Real Estate Activities | 3.5 | 39.9 | 9.2 | -44.8 | -29.4 | -22.1 | 19.4 | 70.8 | 27.9 |

**Source:** NBR, Statistics Department

The services sector's good performance resulted from an improvement in wholesale and retail trade (+17.2 percent) as well as transport and storage services (+22.9 percent). As aforementioned, transport and storage services have been mainly supported by air transportation on account of business expansion of RwandAir as well as land transportation. Moreover, services sector was backed by good performance of hotels (+27.1 percent), information and communication (+6.7 percent), banks (+16.2 percent), and the recovery of real estates (+27.9 percent).

The improvement in the tourism industry, of which MICE, contributed to boost Hotels' business. Sales of five and four stars hotels, representing 57.1 percent of total turnovers of hotels, increased by 38.3 percent in 2018. Information and communication services were mainly boosted by telecommunication services due to a significant increase (10 percent) of active mobile phones subscribers in 2018 after dropping by 1.1 percent in 2017.

The industry sector, which sales accounted for 24.7 percent of the total sales in 2018, grew by 11.5 percent after 12.0 percent in the previous year, mainly supported by construction sector (+12.0 percent) and manufacturing sector (11.0 percent). The construction subsector was boosted by on-going construction projects. In addition, the good performance in the construction sector is reflected in the domestic demand of cement which increased by 19.9 percent in 2018 against 0.5 percent in 2017.

The manufacturing subsector's good performance followed the increase in turnovers of tea and coffee companies (+339.6 percent), sugar industry (+46.5 percent), metals industries (39.9 percent) and breweries (+13.9 percent). Brewery sector expanded, thanks to BRALIRWA Ltd which introduced two new brands of beers in 2018 and invested in expanding Rubavu and Kicukiro plants. SKOL Brewery also introduced one new brand of beer towards the end of 2018. The good performance of tea and coffee companies was linked to good harvest, following favorable weather conditions, while the sugar industry was supported by good harvest of sugar cane plantation.

The good economic performance observed in 2018 is set to continue in 2019, to reach the initial growth projection of 7.8 percent. Agriculture sector is expected to continue performing well in 2019.

Non-agriculture activities are expected to be driven by trade and transport services, improvement in tourism industry, information and communication as well as construction sector. Transport services will be thrived by air transport, supported by planned Rwandair business expansion. Improvement in tourism industry is expected to boost Hotel services, while investments by leading Rwandan telecommunication companies will continue lead developments in information and communication sector. The industry sector will be driven mainly by the good performance in the construction sector, to result from on-going construction projects.

## 2.2 EXTERNAL TRADE PERFORMANCE

In 2018, Rwanda's formal trade deficit increased by 12.4 percent, resulting from the rise of import bill by 9.5 percent that outweighed the 5.5 percent increase in export earnings. High increase in imports is on account of ongoing infrastructure projects, including the construction of a Peat power plant in Southern province, Bugesera Airport and different roads as well as demand for intermediary goods for industrial production. Imports of capital goods increased by 10.4 percent while the imports of intermediary goods increased by 12.4 percent.

As a result, formal exports cover of imports slightly declined to 41.1 percent in 2018, from 42.6 percent recorded in 2017.

Table 11: Developments in Trade Balance (Value in millions of USD, Volume in 000' tons)

| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | % Change 2018/2017 |
|---|---|---|---|---|---|---|---|---|
| Exports | Value | 573.0 | 599.8 | 558.7 | 598.7 | 943.5 | 995.7 | **5.5** |
| | Volume | 308.4 | 324.1 | 390.6 | 466.0 | 634.6 | 742.3 | 17.0 |
| Imports | Value | 2247.4 | 2386.9 | 2311.2 | 2223.3 | 2215.4 | 2425.0 | **9.5** |
| | Volume | 1781.9 | 1846.6 | 2068.1 | 1965.2 | 2093.1 | 2314.8 | 10.6 |
| Formal Trade balance | $ million | -1674.4 | -1787.1 | -1752.5 | -1624.6 | -1271.8 | -1429.3 | **12.4** |
| % Exports/Imports | % | **25.5** | **25.1** | **24.2** | **26.9** | **42.6** | **41.1** | **-1.5** |
| Including ICBT | | | | | | | | |
| ICBT exports | Value | 109.3 | 107.5 | 108.7 | 132.7 | 98.4 | 125.3 | 27.3 |
| ICBT imports | Value | 17.6 | 19.2 | 21.8 | 30.5 | 22.6 | 20.3 | -10.2 |
| Overall Trade balance | $ million | -1582.6 | -1698.9 | -1665.6 | -1522.4 | -1196.0 | -1324.3 | **10.7** |
| % Exports/Imports | % | 30.1 | 29.4 | 28.6 | 32.5 | 46.6 | 45.8 | -0.8 |

**Source:** NBR, Statistics Department

### 2.2.1 Formal Exports Developments

Rwanda's exports are composed of traditional exports; non-traditional exports and re-exports that account for 31.4 percent, 36.0 percent and 32.6 percent shares of the total export earnings in 2018, respectively. The export base has continued to progressively diversify as the share of traditional exports to total exports dropped from 62.1 percent in 2013 to 32.7 percent on average over the last three years.

The growing share of non-traditional exports (36.0 percent) is mainly driven by increasing share of milling products, flowers, other minerals, cement, mattresses, milk products, textiles as well as iron and steel which are in line with the "Made in Rwanda" program.

Table 12: Evolution of percent share of exports: 2013–2018

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Total exports | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Traditional exports | 62.1 | 55.2 | 47.5 | 36.6 | 30.1 | 31.4 |
| Coffee | 9.6 | 10.0 | 11.1 | 9.8 | 6.8 | 6.9 |
| Tea | 9.7 | 8.6 | 13 | 10.6 | 8.9 | 9.1 |
| Cassiterite | 10.7 | 12 | 6.1 | 5.8 | 5.3 | 5.0 |
| Coltan | 23.5 | 17.5 | 11.8 | 6.6 | 6.6 | 7.2 |
| Wolfram | 5.2 | 4.4 | 3.1 | 2 | 1.3 | 2.1 |
| Hides and Skins | 2.8 | 2.4 | 1.9 | 1.2 | 0.8 | 0.7 |
| Pyrethrum | 0.7 | 0.3 | 0.4 | 0.6 | 0.3 | 0.5 |
| Re - exports | 23.6 | 27.6 | 31.8 | 37.5 | 31.0 | 32.6 |
| Non - traditional exports | 14.3 | 17.3 | 20.7 | 25.9 | 38.9 | 36.0 |

Source: NBR, Statistics Department

Rwanda's total exports receipts increased by 5.5 percent to USD 995.7 million from USD 943.5 million in 2017, while its volume increased by 17.0 percent. The increase in exports value is attributable to good performance in traditional exports that rose by 10.1 percent as well as re-exports (11.2 percent), offsetting the decline in non-traditional exports (-2.5 percent).

Table 13: Major Exports Development (Value FOB in USD millions, Volume 000' tons)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Percent change |
|---|---|---|---|---|---|---|---|
| Coffee | | | | | | | |
| - Value | 54.9 | 59.7 | 62.0 | 58.5 | 64.1 | 68.7 | 7.2 |
| - Volume | 20.0 | 16.0 | 18.8 | 18.6 | 18.7 | 21.0 | 12.6 |
| - Price USD/KG | 2.8 | 3.7 | 3.3 | 3.1 | 3.4 | 3.3 | -4.8 |
| Tea | | | | | | | |
| - Value | 55.5 | 51.8 | 72.5 | 63.4 | 84.3 | 90.5 | 7.4 |
| - Volume | 21.0 | 22.7 | 24.7 | 24.4 | 26.2 | 30.9 | 17.8 |
| - Price USD/KG | 2.6 | 2.3 | 2.9 | 2.6 | 3.2 | 2.9 | -8.6 |
| Mining | | | | | | | |
| - Value | 225.7 | 203.3 | 117.8 | 86.4 | 125.0 | 142.2 | 13.8 |
| - Volume | 9.6 | 10.5 | 7.3 | 6.5 | 8.0 | 8.3 | 3.8 |
| Cassiterite | | | | | | | |
| - Value | 61.1 | 72.0 | 34.3 | 34.8 | 50.2 | 49.4 | -1.6 |
| - Volume | 4.9 | 6.0 | 3.9 | 3.6 | 4.8 | 4.7 | -0.7 |
| - Price USD/KG | 12.5 | 12.1 | 8.9 | 9.8 | 10.5 | 10.4 | -1.0 |
| Coltan | | | | | | | |
| - Value | 134.6 | 104.8 | 66.2 | 39.7 | 62.2 | 71.5 | 14.9 |
| - Volume | 2.5 | 2.3 | 1.7 | 1.3 | 1.7 | 1.6 | -4.8 |
| - Price USD/KG | 54.6 | 45.5 | 40.1 | 31.3 | 36.1 | 43.5 | 20.7 |
| Wolfram | | | | | | | |
| - Value | 30.1 | 26.6 | 17.3 | 11.9 | 12.6 | 21.4 | 69.4 |
| - Volume | 2.2 | 2.2 | 1.8 | 1.7 | 1.5 | 1.9 | 27.6 |
| - Price USD/KG | 13.6 | 12.0 | 9.7 | 6.9 | 8.3 | 11.0 | 32.8 |
| Hides and Skin | | | | | | | |
| - Value | 16.0 | 14.2 | 10.4 | 7.4 | 7.5 | 6.7 | -10.7 |
| - Volume | 10.3 | 9.6 | 8.3 | 6.2 | 5.4 | 5.9 | 8.7 |
| - Price USD/KG | 1.6 | 1.5 | 1.3 | 1.2 | 1.4 | 1.1 | -17.9 |
| Pyrethrum | | | | | | | |
| - Value | 4.0 | 1.8 | 2.5 | 3.4 | 3.1 | 4.7 | 50.4 |
| - Volume | 0.02 | 0.01 | 0.01 | 0.02 | 0.03 | 0.03 | 16.6 |
| - Price USD/KG | 238.9 | 171.2 | 177.2 | 188.3 | 120.9 | 156.0 | 29.0 |
| I. Traditional exports | | | | | | | |
| - Value | 356.1 | 330.8 | 265.2 | 219.1 | 284.0 | 312.7 | 10.1 |
| - Volume | 60.9 | 58.7 | 59.0 | 55.8 | 58.3 | 66.1 | 13.4 |
| II. Re-exports | | | | | | | |
| - Value | 135.0 | 165.4 | 177.9 | 224.3 | 292.2 | 324.9 | 11.2 |
| - Volume | 97.6 | 105.7 | 159.2 | 230.4 | 323.8 | 364.0 | 12.4 |
| III. Non-traditional exports | | | | | | | |
| - Value | 81.9 | 103.6 | 115.7 | 155.3 | 367.4 | 358.1 | -2.5 |
| - Volume | 149.9 | 159.6 | 172.4 | 179.9 | 252.5 | 312.2 | 23.7 |
| TOTAL EXPORTS | | | | | | | |
| - Value | 573.0 | 599.8 | 558.8 | 598.7 | 943.5 | 995.7 | 5.5 |
| - Volume | 308.4 | 324.1 | 390.6 | 466.0 | 634.6 | 742.3 | 17.0 |

**Source:** NBR, Statistics Department

Traditional exports, composed of; coffee, tea, minerals, pyrethrum as well as hides and skins, grew by 10.1 percent, amounting to USD 312.7 million from USD 284.0 million in 2017. The growth is driven by increased receipts from mineral exports (+13.8 percent) and agricultural exports, namely tea (+7.4 percent), coffee (+7.2 percent) and pyrethrum (+50.4 percent).

In 2018, coffee exports amounted to USD 68.7 million from 64.1 million in 2017, while its volume rose by 12.6 percent from 18,671 tons in 2017 to 21,022 tons in 2018. The increase in value is attributed to an increase in volume, which compensated the reduction in coffee prices by -4.8 percent from 3.43 USD/Kg in 2017 to 3.27 USD/Kg in 2018, due to increased global coffee production.

Despite the 8.6 percent decline in tea prices, tea exports increased in value by 7.4 percent, from USD 84.27 million in 2017 to USD 90.5 million in 2018, on account of increased volume (+17.8 percent) from 26,243 tons in 2017 to 30,903 tons in 2018.

The mining sector performed well in 2018 driven by increase in both prices and volume. The exports' value of the main minerals (Coltan, Cassiterite and Wolfram) increased by 13.6 percent in 2018, from USD 125.0 million in 2017 to USD 142.2 million in 2018, led by coltan (+14.9 percent) and wolfram (+69.4 percent) driven by the increase in unit prices by 20.7 percent and 32.8 percent respectively, amid strengthening global demand.

Receipts from hides and skin decreased by 10.7 percent, from USD 7.5 million to USD 6.7 million driven by falling prices (-17.9 percent) from 1.4 USD/KG to 1.1 USD/KG following weak demand from regional industries.

Pyrethrum exports performed well in both value and volume. Exports receipts from pyrethrum amounted to USD 4.7 million from USD 3.1 million in 2017, an increase of 50.4 percent and 16.6 percent in value and volume respectively. The growth in pyrethrum exports is explained by increased demand mainly from US and EU.

Non-traditional exports (other ordinary exports) which are dominated by other minerals, products of milling industry and other manufactured products fell by 2.5 percent, amounting to USD 358.1 million in 2018 from USD 367.4 million in 2017. This fall was mainly driven by the drop in receipts from cement and other minerals (composed of beryllium and unwrought lead, iron ore and gemstones), which reduced by 38.6 percent and 17.7 percent, respectively.

Despite the decline in other minerals, other non-traditional exports products registered positive performance; flowers (+52.0 percent), products of the milling products (+3.2 percent), textiles (+46.9 percent), iron and steel (+81.6 percent), milk products (+134.8 percent) and edible vegetables and roots (+128.6 percent) following increased domestic production. This improvement is partly attributable to the "Made in Rwanda" initiatives, and whose prospects remain promising ahead.

Table 14: Non-traditional exports attributed to made in Rwanda (USD million)

| Products | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Percent Change 2018/2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Textiles and text. articles | 2.08 | 3.99 | 1.27 | 7.14 | 3.25 | 4.42 | 3.34 | 4.28 | 6.28 | **46.9** |
| Iron and steel iron | 1.64 | 2.44 | 5.08 | 5.01 | 11.2 | 1.37 | 2.28 | 5.13 | 9.31 | **81.6** |
| Mattresses | 0.33 | 0.34 | 0.64 | 3.02 | 2.67 | 2.79 | 2.11 | 2.46 | 3.24 | **31.8** |
| Flowers | 0 | 0 | 0 | 0 | 0.05 | 0 | 2.5 | 2.56 | 3.89 | **52.0** |
| Edible vegetables, roots and tubers | 1.61 | 2.8 | 2.97 | 4.33 | 3.17 | 6.84 | 3.97 | 8.14 | 18.61 | **128.6** |
| Products of the milling industry | 2.94 | 8.4 | 18.77 | 20.77 | 30.23 | 24.05 | 24.86 | 51.27 | 52.98 | **3.2** |

Source: NBR, Statistics Department

Re-exports mainly composed of; petroleum products, foodstuffs, vehicles, machines and engines, rose by 11.2 percent reaching USD 324.9 million in 2018 from USD 292.2 million in 2017. The growth in receipts from re-exports is explained by high demand from regional countries especially DRC, which accounts for 86.8 percent and 91.1 percent of the total re-exports value and volume, respectively.

### 2.2.2 Formal Imports Developments

Rwanda's formal imports are composed of; consumer goods, capital goods, intermediary goods as well as energy and lubricants. In 2018, formal imports rose to USD 2,425.0 million from USD 2,215.4 million in 2017, an increase of

9.5 percent. In terms of volume, it increased by 10.6 percent to 2,314.8 thousand tons in 2018 from 2,093.1 thousand tons in 2017. The growth in formal imports value was driven by increased imports bill on all imports categories notably consumer goods (+2.1 percent), capital goods (+10.4 percent), intermediary goods (+12.4 percent) and energy and lubricants (+22.0 percent). In terms of volume these imports categories rose by 5.8 percent, 25.2 percent, 12.6 percent and 14.1 percent, respectively.

Table 15: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Percent change |
|---|---|---|---|---|---|---|---|---|
| Total imports | Value | 2,247.4 | 2,386.9 | 2,311.2 | 2,248.5 | 2,215.4 | 2,425.0 | 9.5 |
| | Volume | 1,781.9 | 1,846.6 | 2,068.1 | 1,965.2 | 2,093.1 | 2,314.8 | 10.6 |
| Consumer goods | Value | 633.6 | 656.2 | 694.1 | 728.3 | 746.7 | 762.4 | 2.1 |
| | Volume | 574.4 | 592.4 | 695.9 | 763.2 | 805.4 | 852.0 | 5.8 |
| Capital goods | Value | 596.3 | 642.2 | 652.6 | 713.0 | 620.2 | 684.8 | 10.4 |
| | Volume | 59.0 | 60.6 | 70.2 | 69.1 | 62.6 | 78.4 | 25.2 |
| Intermediary goods | Value | 632.9 | 720.0 | 682.5 | 569.5 | 596.2 | 670.0 | 12.4 |
| | Volume | 878.9 | 914.7 | 992.2 | 821.9 | 902.6 | 1,016.2 | 12.6 |
| Energy and lubricants | Value | 384.6 | 368.5 | 282.1 | 237.7 | 252.3 | 307.8 | 22.0 |
| | Volume | 269.7 | 278.9 | 309.8 | 311.0 | 322.6 | 368.2 | 14.1 |

Source: NBR, Statistics Department

In 2018, the imports value was dominated by consumer goods accounting for 31.4 percent share of total import, followed by capital goods (28.0 percent), intermediary goods (27.6 percent) and energy & lubricants (12.7 percent). In volume terms, intermediary goods dominate with 43.9 percent of the total formal import volume, followed by consumer goods (36.8 percent), energy & lubricants (15.9 percent) and capital goods (3.4 percent).

Imports of consumer goods were dominated by non-food products with a share of 55 percent in value and 18 percent in volume. Imported consumer goods increased by 2.1 percent in value, to USD 762.4 million from USD 746.7 million. The non-food products are mainly composed of; health and care (18.9 percent of the total consumer goods), article of clothing (9.5 percent), beverages and tobacco (5.3 percent), and domestic articles (4.7 percent).

Imports of capital goods, dominated by machines, devices and tools as well as transport materials, increased by 10.4 percent in value, standing at USD 684.8 million in 2018 from USD 620.2 million in 2017. This growth in imports of capital goods was mainly driven by machines, tools and devices, which account for 68 percent of the total capital goods value. These products' import bill rose by 23.1 percent from USD 380.3 million in 2017 to USD 468.2 million in 2018. In volume terms, capital goods rose by 25.2 percent to 78,372 tons in 2018 from 62,603 tons in 2017. Higher demand of these products is on account of ongoing infrastructure projects including construction of a peat power plant in Southern Province, real estate, roads and the Bugesera airport, among others.

Imports of intermediary goods, were dominated by industrial products (56 percent of total intermediary goods imports value), construction materials (26 percent), and fertilizers (6 percent). Imports of intermediary goods went up by 12.4 percent settling at USD 670.0 million in 2018 from USD 596.2 million in 2017. In volume terms, intermediary goods rose to 1,016.2 thousand tons in 2018 from 902.6 thousand tons in the previous year, that is an increase of 12.6 percent.

Import value of industrial products increased by 10.5 percent while their volume rose 5.5 percent, following increased domestic demand of raw materials by local industries for production purposes.

In addition, imports of construction materials mainly composed of cement, grew by 18.3 percent in value on the account of increased volume of cement by 41.1 percent. This growth is explained by increased domestic demand of cement, resulting from the rebounding construction sector in 2018 compared to 2017 as well as local supply disruptions in the second quarter of 2018.

Table 16: Domestic production and trade of cement (in tons)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Percent change |
|---|---|---|---|---|---|---|---|
| Domestic production | 104,997 | 119,083 | 181,050 | 293,091 | 322,391 | 364,864 | 13.2 |
| o/w CIMERWA | 86,634 | 106,120 | 172,848 | 290,437 | 322,253 | 364,864 | 13.2 |
| Imports of cement | 402,246 | 469,447 | 421,892 | 268,353 | 225,905 | 318,854 | 41.1 |
| Exports of cement | 13,657 | 16,160 | 25,258 | 29,793 | 71,725 | 43,263 | -39.7 |
| Domestic demand | 493,587 | 572,370 | 577,684 | 531,651 | 476,571 | 640,455 | 34.4 |

**Source:** NBR, Statistics Department

Imports of energy and lubricants, dominated by petroleum products that represent 93 percent of the total category value, rose by 22.0 percent, amounting to USD 307.8 million in 2018. The growth under this category is explained by raised global oil prices in 2018, following production cuts agreements in early 2017 by the Organization of the Petroleum Exporting Countries (OPEC) and the non-OPEC oil exporters (including Russia) to prop up prices. The collapse in production by major producers notably Venezuela also tightened the oil market, leading to upward pressures on oil prices.

## 2.3 FORMAL TRADE WITH OTHER EAC COUNTRIES

Rwanda trade deficit with East African Community (EAC) member countries widened by 20.7 percent to USD 357.0 million in 2018 from USD 299.6 million in 2017.

Rwanda's exports to EAC, that account for 17.6 percent of the total formal exports in 2018, increased by 5.1 percent in value to USD 175.3 million in 2018. The increase in export receipts was driven by exports to Uganda (+43.3 percent) and South Soudan (+231.3 percent). The growth in exports to Uganda is mainly due to the rise in demand for edible vegetables (+137 percent), hides and skin (+5 percent) as well as dairy products. High demand for vehicles, dairy products and coffee drove exports to South Soudan.

Imports from EAC countries, which represent 22.1 percent of total formal imports in 2018, rose by 15.5 percent from USD 466.4 million recorded in 2017 to USD 537.0 million in 2018. EAC imports rose on account of high imports from Tanzania (+25.1 percent), Uganda (+17.0 percent) and Kenya (+5.5 percent). This growth is mainly driven by the high demand of cement and food products notably rice, groundnuts, edible fruits and vegetables, paper products, iron and steel, ceramic products and footwear.

Table 17: Trade flows with EAC (USD million)

| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| Exports to EAC | Value in USD millions | 122.9 | 142.5 | 120.2 | 151.7 | 166.8 | 175.3 |
| | *percent change* | *6.4* | *15.9* | *-15.7* | *24.7* | *10.0* | *5.1* |
| | Share to total formal exports | 21.5 | 23.8 | 21.5 | 25.0 | 17.7 | *17.6* |
| Imports from EAC | Value in USD millions | 516.4 | 546.8 | 519.4 | 470.0 | 466.4 | 537.0 |
| | *percent change* | *-3* | *5.9* | *-5* | *-9.4* | *-0.8* | *15.1* |
| | Share to total formal imports | 23 | 22.9 | 22.5 | 20.9 | 21.1 | *22.1* |
| TRADE BALANCE | | -393.5 | -404.3 | -399.2 | -320.5 | -299.6 | -357.0 |

**Source:** NBR, Statistics Department

## 2.4 INFORMAL CROSS BORDER TRADE

Rwanda's informal cross-border trade (ICBT) exports, accounted for 12.6 percent of the total formal exports, amounting to USD 125.3 million in 2018 from USD 98.4 million in 2017. DRC remains the main destination of ICBT exports accounting for 86.9 percent of the total ICBT exports, followed by Uganda (+10.8 percent), Burundi (+2.2 percent) and Tanzania (0.01 percent).

The growth in ICBTs exports is explained by good agricultural production largely attributable to favorable weather conditions since agricultural products are predominant in this trade.

Table 18: Rwanda informal cross border trade (USD million)

| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| Exports | Value in USD millions | 110.7 | 107.5 | 108.3 | 121.9 | 98.4 | 125.3 |
| | *Percent change* | *8.7* | *-2.9* | *0.7* | *12.6* | *-19.3* | *27.3* |
| | Share of total formal exports | 19.3 | 17.9 | 19.4 | 20.4 | 10.4 | 12.6 |
| Imports | Value in USD millions | 17.6 | 19.2 | 21.8 | 30.5 | 22.6 | 20.3 |
| | *Percent change* | *-22.2* | *9.2* | *13.4* | *40* | *-25.9* | -10.2 |
| | Share of total formal imports | 0.8 | 0.8 | 0.9 | 1.4 | 1.0 | 0.8 |
| Trade balance | | 93.1 | 88.3 | 86.5 | 91.4 | 75.8 | 105.0 |

Source: NBR, Statistics Department

On the other hand, ICBT imports were largely dominated by Ugandan imports that account for 59.3 percent of the total ICBT imports, followed by Burundi (20.9 percent), DRC (10.3 percent) and Tanzania (9.5 percent).

ICBT imports declined by 10.2 percent, from USD 22.6 million to USD 20.3 million in 2018. The decline is attributable to slowdown of imports from Uganda (-16.4 percent) and DRC (-31.9 percent). The decrease in ICBT imports is driven by low imports of maize flour and modern beers.

As a result, ICBT trade surplus increased by 38.5 percent, standing at USD 105.0 million in 2018 from USD 75.8 million in 2017.

## 2.5 KEY FINANCIAL INFLOWS

Rwanda's balance of payments statistics indicate that foreign inflows continue to be the main source of financing the current account deficit. The current account deficit improved by 9.5 percent in the first nine months of 2018 compared to the same period of 2017. The improvement in the current account deficit mainly resulted from the rise in receipts from Peace Keeping Operations (+36.8 percent), remittances (+22.1 percent) and non-budgetary grants (+15.3 percent). On the other hand, the increase in FDI (+22.3 percent) and private borrowings (+133.5 percent) contributed to the financing of the current account deficit.

Total inflows, both public and private, increased by 12.8 percent, to USD 1,728.7 million, in the first nine months of 2018 compared to USD 1,532.2 million of the same period of 2017.

Total private inflows grew by 27.1 percent to USD 928.9 million in the first nine months of 2018 from USD 730.8 million of the corresponding period in 2017, driven by increased inflows from Foreign Direct Investment (FDI), both equity (+21 percent) and debts (+46 percent) and private borrowings (+133.5 percent).

Table 19: Key Financial Inflows (USD million)

| | 2013 | 2014 | 2015 | 2016 | 2017 | Jan-Sept 2017 | Jan-Sept 2018 | % 2018/ 2017 |
|---|---|---|---|---|---|---|---|---|
| Total Private Inflows | 883.1 | 931.0 | 882.3 | 1284.9 | 938.2 | 730.8 | 928.9 | 27.1 |
| Direct Investments | 257.6 | 314.7 | 223.3 | 266.3 | 270.7 | 208.3 | 254.9 | 22.3 |
| Portfolio Investments | 1.7 | 4.5 | 7.8 | 3.6 | 0.8 | 0.7 | 0.6 | -14.3 |
| Remittances | 161.8 | 174.9 | 153.2 | 167.3 | 207.6 | 151.9 | 185.5 | 22.1 |
| Private Foreign Borrowings LT | 168.4 | 133.2 | 160.0 | 484.7 | 89.6 | 89.6 | 209.1 | 133.5 |
| Tourism Receipts | 293.6 | 303.7 | 338.1 | 363.0 | 369.6 | 280.3 | 278.9 | -0.5 |
| Total Official Inflows | 1460.7 | 1170.5 | 1222.8 | 1113.3 | 1180.3 | 801.4 | 799.9 | -0.2 |
| Ordinary Budgetary Grants | 468.8 | 276.9 | 218.6 | 234.6 | 253.3 | 184.4 | 136.7 | -25.9 |
| Non-budgetary Grants | 112.8 | 143.3 | 172.9 | 131.1 | 156.2 | 103.7 | 119.5 | 15.3 |
| PKOs | 106.8 | 105.3 | 159.3 | 170.8 | 175.1 | 99.9 | 136.7 | 36.8 |
| Public Foreign borrowings | 537.8 | 307.9 | 372.1 | 386.7 | 406.0 | 273.4 | 235.0 | -14.1 |
| Capital Grants | 234.5 | 337.1 | 299.9 | 190.0 | 189.7 | 140.0 | 172.0 | 22.9 |

**Source:** NBR, Statistics Department

In addition, remittances inflows grew by 22.1 percent from USD 151.9 million in the first nine months of 2017 to USD 185.5 million of the corresponding period in 2018. This growth is supported by the good performance in the global economy, emergence of mobile network operators (MNOs) in addition to money transfer operators (MTOs) which have lowered transaction costs making it cheaper and efficient to send money across the borders.

Total official inflows fell slightly by 0.2 percent in the period under review on account of reduced official budgetary grants (-25.9 percent) and pubic borrowing (-14.1 percent), but the drop was lessened by soared inflows from Peace Keeping Operations (PKOs) by 36.8 percent, non-budgetary grants (+15.3 percent) as well as capital grants (+22.9 percent).

# III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

This section highlights the monetary policy stance adopted by the NBR and the outcomes thereof within the context of the global and domestic economic developments in 2018 mentioned in the previous sections.

## 3.1 MONETARY POLICY STANCE

In 2018, the NBR maintained an accommodative monetary policy stance, keeping the policy rate at 5.50 percent to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange rate pressures were projected to remain subdued.

Broad money (M3) grew by 15.6 percent in 2018 compared to 12.4 percent in 2017, mainly supported by increases in credit to the private sector, where new authorized loans increased by 17.2 percent from 4.6 percent in 2017.

## 3.2 INFLATION DEVELOPMENTS IN 2018

Headline inflation reached to 1.4 percent in 2018 from 4.9 percent in 2017 on average. This decline was mostly reflected in the decrease in food inflation to -1.4 percent in 2018 from 9.8 percent in 2017, as a result of good agricultural production.

The decrease in food prices outweighed the observed inflationary pressures in the transport and housing components (to 3.3 percent and 7.8 percent in 2018 from 2.0 percent and 4.5 percent in 2017). Prices in the housing component (including prices of water, electricity, gas, and other fuels) increased as a result of heavy rains that negatively affected the production and transport of solid fuels (charcoal and firewood) consumed by households. In 2018, inflation in the solid fuel component increased to 13.8 percent from 3.5 percent in 2017. The pick-up in transport inflation was consistent with upward revisions in local pump prices from 1042 FRW/liter in

January 2018 to 1132FRW/liter in December 2018, reflecting the rise in international oil prices in the first ten months of 2018.

Imported and domestic inflations decreased from 6.0 percent and 4.6 percent in 2017, to 4.4 percent and 0.5 percent in 2018, respectively. The aforementioned decrease in food prices was the main contributor to the downward trends in domestic inflation. The decline in imported inflation was a result of decreasing prices of some imported foodstuffs such as dry maize and rice, following favorable weather conditions in the region.

As a result of aggregate demand that remained non-inflationary, core inflation stood at 1.6 percent in 2018 from 3.9 percent in 2017.

Table 20: Inflation developments for key items (annual average, percent)

| | 2016 | | 2017 | | 2018 | | Annual average | |
|---|---|---|---|---|---|---|---|---|
| | 2016H1 | 2016H2 | 2017H1 | 2017H2 | 2018H1 | 2018H2 | 2017 | 2018 |
| Headline | 4.7 | 6.7 | 7.0 | 2.8 | 1.8 | 1.0 | 4.9 | 1.4 |
| Domestic | 5.3 | 6.9 | 6.7 | 2.4 | 0.9 | 0.1 | 4.6 | 0.5 |
| Food | 7.6 | 13.9 | 15.0 | 4.6 | -0.6 | -4.6 | 9.8 | -1.4 |
| Vegetables | 16.7 | 23.6 | 17.2 | 1.9 | -1.5 | -8.1 | 9.5 | -4.8 |
| Bread | 0.0 | 4.3 | 8.7 | 8.3 | 3.1 | -2.1 | 8.5 | -4.9 |
| Housing | 3.1 | 1.7 | 1.9 | 2.0 | 3.4 | 3.3 | 2.0 | 3.3 |
| Transport | 6.0 | 8.2 | 6.9 | 2.1 | 5.6 | 10 | 4.5 | 7.8 |
| Imported | 3.1 | 6.4 | 7.8 | 4.3 | 4.7 | 4.1 | 6.0 | 4.4 |
| Core | 3.3 | 4.8 | 5.0 | 2.8 | 1.8 | 1.4 | 3.9 | 1.6 |
| Energy | 5.2 | 2.8 | 4.7 | 5.0 | 10 | 9.7 | 4.8 | 9.8 |

Source: NBR, Statistics Department

## 3.3 MONETARY AGGREGATES DEVELOPMENTS

This section assesses key developments in monetary aggregates, banking liquidity conditions and interest rates.

### 3.3.1 Money Supply

In 2018, broad money grew by 15.6 percent compared to 12.4 percent in 2017, mainly driven by high growth in net foreign assets (+32.9 percent) compared to 8.6 percent in 2017, while net domestic assets (NDA) recorded a slight increase by 1.6 percent from 15.6 percent in the same period. The deceleration in NDA followed the increased government receipts (as shown by increased government deposits by 23.0 percent in 2018 from 17.9 percent in 2017) and decelerated government borrowing (from 33.3 percent in 2017 to 3.5 percent in 2018).

Table 21: Monetary aggregates developments (percent change)

| | 2014 | 2015 | 2016 | 2017 | 2018 | % change | |
|---|---|---|---|---|---|---|---|
| | | | | | | 2017/ 2016 | 2018/ 2017 |
| **Net foreign assets** | 690.4 | 642.6 | 739.5 | 803.3 | 1067.7 | 8.6 | 32.9 |
| Foreign assets | 890.9 | 860.8 | 1,078.2 | 1,204.4 | 1,483.2 | 11.7 | 23.2 |
| Foreign liabilities | 200.5 | 218.1 | 338.7 | 401.1 | 415.5 | 18.4 | 3.6 |
| **Net domestic assets** | 533.5 | 839.5 | 855.2 | 988.4 | 1004.0 | 15.6 | 1.6 |
| Domestic credit | 897.0 | 1,223.1 | 1,340.9 | 1,568.7 | 1,715.1 | 17.0 | 9.3 |
| Central government (net) | -21.2 | 39.5 | 12.2 | 58.4 | -1.9 | 378.8 | -103.3 |
| Credit | 222.3 | 304.1 | 284.5 | 379.4 | 392.8 | 33.3 | 3.5 |
| Deposits | 243.6 | 264.6 | 272.3 | 321.0 | 394.7 | 17.9 | 23.0 |
| Public enterprises | 11.9 | 5.1 | 43.3 | 46.1 | 95.2 | 6.5 | 106.4 |
| Private sector | 906.3 | 1178.6 | 1285.4 | 1464.2 | 1621.9 | 13.9 | 10.8 |
| Other items net (Assets: + Liab: -) | -363.5 | -383.7 | -485.7 | -580.3 | -711.1 | -19.5 | -22.5 |
| **Broad money M3** | 1223.9 | 1482.1 | 1594.7 | 1791.7 | 2071.7 | 12.4 | 15.6 |
| Currency in circulation | 118.5 | 142.6 | 145.9 | 162.7 | 183.6 | 11.6 | 12.8 |
| Deposits | 1,105.3 | 1,339.5 | 1,448.8 | 1,628.9 | 1,888.2 | 12.4 | 15.9 |
| o/w: Demand deposits | 456.2 | 614.6 | 587.9 | 647.3 | 770.9 | 10.1 | 19.1 |
| Time and saving deposits | 407.3 | 469.0 | 532.4 | 583.1 | 603.3 | 9.5 | 3.5 |
| Foreign currency deposits | 241.8 | 255.9 | 328.5 | 398.5 | 514.0 | 21.3 | 29.0 |

Source: NBR, Statistics Department

In 2018, outstanding credit to private sector grew by 10.8 percent from 13.9 percent in 2017, amounting to FRW 1,621.9 billion from FRW 1,464.2 billion in 2017. The value of new authorized loans grew by 17.2 percent compared to 4.6 percent recorded in 2017. This growth is explained by loans authorized to big projects in some sectors, such as transport, warehousing and communication, as well as public works and buildings.

Table 22: New authorized loans by sector (FRW billion, unless otherwise indicated)

| Branch of Activity | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Contribution (%) 2018/2017 |
|---|---|---|---|---|---|---|---|
| Non classified activities | 56.5 | 62.6 | 67.1 | 77.7 | 90.6 | 106.6 | 1.9 |
| Agricultural, fisheries& livestock | 8.8 | 8.8 | 13.9 | 11.5 | 8.8 | 11.2 | 0.3 |
| Mining activities | 0.2 | 0.2 | 0.3 | 1.8 | 0.8 | 0.4 | 0.0 |
| Manufacturing activities | 43.9 | 72.5 | 51.2 | 63.9 | 60.3 | 70.6 | 1.3 |
| Water & energy activities | 5.6 | 25.6 | 1.3 | 24.7 | 20.2 | 15.5 | -0.6 |
| Public works and building | 93.2 | 138.4 | 237.3 | 195.1 | 230.8 | 253.0 | 2.7 |
| Commerce restaurant and hotel | 216.2 | 272.1 | 279.7 | 348.3 | 310.9 | 333.9 | 2.8 |
| Transport & warehousing & communication | 29.5 | 42.2 | 53.8 | 37.7 | 73.6 | 141.1 | 8.2 |
| OFI &Insurances and other non-financial services | 6.1 | 4.5 | 14.8 | 5.8 | 9.4 | 4.7 | -0.6 |
| Services provided to the community | 12.5 | 26.1 | 22.6 | 21.8 | 19.5 | 29.5 | 1.2 |
| Total | 472.5 | 653.0 | 742.1 | 788.3 | 824.9 | 966.5 | 17.2 |
| % change | -5.3 | 38.2 | 13.7 | 6.2 | 4.6 | 17.2 | |

**Source:** NBR, Financial Stability Directorate

Commerce, Restaurants and Hotels remains the leading sector with a share of 34.5 percent of total loans, followed by Public Works and Building (26.2 percent) and Transport, Warehousing and Communication (14.6 percent).

### 3.3.2 Money Demand

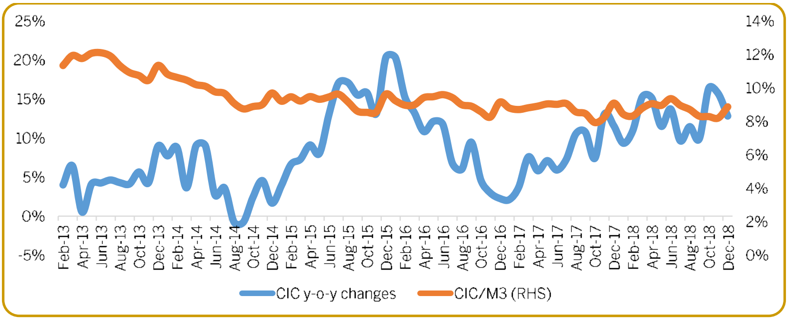
In 2018, components of M3, namely currency in circulation and deposits increased significantly.

#### a. Currency in circulation out of banking system

Compared to December 2017, currency in circulation (CIC) grew by 12.8 percent in 2018 against 11.6 percent in 2017. The increase in CIC reflects good development in economic activities and increased monetization of the economy in recent years, with the ratio of broad money to GDP standing at 23.4 percent in 2017 from 15.4 percent in 2013.

Currency in circulation to broad money ratio remained low, standing at 8.9 percent in 2018 against 9.1 percent in 2017. This downward trend is explained by improvement in financial sector expansion and payment systems modernization.

Figure 4: Currency to broad money M3 ratio and CIC growth (percent, y-o-y)




**Source:** NBR, Statistics Department

## b. Deposits

In 2018, total deposits grew by 15.9 percent against 12.4 percent recorded in 2017, resulting from a sustained good performance in economic activities. Demand deposits grew by 19.1 percent compared to 10.1 percent, while foreign currency deposits rose by 29.0 percent against 21.3 percent in the same period. Time and saving deposits increased by 3.5 percent in 2018, from 21.3 percent in 2017, reflecting a diversification of saving opportunities including government securities. In 2018, retail investments in T-bonds represented 9.9 percent of total investments in those debt instruments, from 5.5 percent in 2017.

In 2018, the share of demand deposits in total deposits remained high, averaging 39.3 percent, followed by time and saving deposits with a share of 34.9 percent and foreign currency deposits representing 25.8 percent.

Deposits from households and non-profit institutions serving households (NPISHs) increased by 9.3 percent in 2018, compared to 7.3 percent the year before, while deposits from other financial institutions increased by 36.9 percent against 22.6 percent in the same period. Deposits from other non-financial corporations and public enterprises rose by 29.1 percent and 42.5 percent, respectively, from 13.4 percent and -14.7 percent recorded in the previous year. In contrast, social security fund deposits decreased by 0.5 percent in 2018, from an increase of 30.0 percent in 2017.

Table 23: Deposits by category of depositors (percent share)

| Depositors | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Other financial institutions | 7.2 | 6.5 | 9.3 | 7.0 | 7.6 | 9.0 |
| Social Security Funds | 15.1 | 15.2 | 15.8 | 15.0 | 17.3 | 14.9 |
| Public enterprises | 2.4 | 2.8 | 4.2 | 3.8 | 2.9 | 3.5 |
| Other non-financial corporations | 27.3 | 29.8 | 25.9 | 26.4 | 26.6 | 29.6 |
| Households and NPISH | 48.0 | 45.7 | 44.9 | 47.8 | 45.6 | 43.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: NBR, Statistics Department

In terms of share, NPISHs continued to dominate with 43.0 percent in 2018, followed by other non-financial corporations (29.6 percent), social security funds (14.9 percent), other financial institutions (9.0 percent) and public enterprises (3.5 percent).

## 3.4 BANKING SYSTEM LIQUIDITY CONDITIONS

In 2018, banking system liquidity conditions remained satisfactory, as commercial banks' most liquid assets grew by 16.5 percent to stand at FRW 388.5 billion compared to FRW 333.3 billion in 2017. T-bills operations expanded by 5.4 percent compared to 40.2 percent recorded in 2017, while investment in central bank bills and repo grew by 138.3 percent and 33.3 percent, respectively.

Table 24: Most liquid assets of commercial banks (FRW billion)

| | 2016 | 2017 | | | | | 2018 | | | | | % change | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Mar | Jun | Sep | Nov | Dec | Mar | Jun | Sep | Nov | Dec | Dec-17/ Dec-16 | Dec-18/ Dec-17 |
| T-bills | 173.7 | 187.3 | 207.9 | 245.0 | 247.4 | 243.6 | 253.5 | 249.5 | 256.8 | 242.2 | 256.8 | 40.2 | 5.4 |
| Central bank bill | 4.0 | 5.0 | 0.0 | 9.0 | - | 6.0 | 37.0 | 18.5 | 25.5 | 20.5 | 14.3 | 50.0 | 138.3 |
| Repo | 30.5 | 21.0 | 60.4 | 13.0 | 44.0 | 30.0 | 54.7 | 45.0 | 36.0 | 8.5 | 40.0 | -1.6 | 33.3 |
| Excess reserves | 24.5 | 14.8 | 9.9 | 15.2 | 20.4 | 20.6 | 17.2 | 36.8 | 14.2 | 30.9 | 35.7 | -16.0 | 73.2 |
| Cash in vault | 30.8 | 31.4 | 30.9 | 28.4 | 30.3 | 33.1 | 32.1 | 29.9 | 33.9 | 32.6 | 41.6 | 7.4 | 25.7 |
| Total | 263.6 | 259.5 | 309.1 | 310.6 | 342.0 | 333.3 | 394.5 | 379.7 | 366.3 | 334.7 | 388.5 | 26.5 | 16.5 |

Source: NBR, Monetary Policy Department

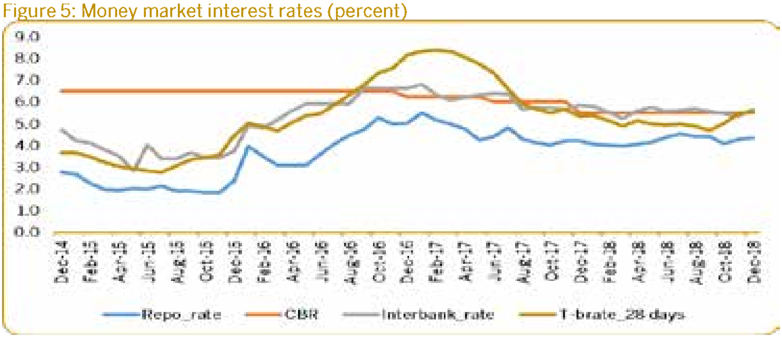
The aforementioned growth in liquid assets was mainly explained by reduced sales of foreign currency to banks which amounted to USD 217.5 million (FRW 187.6 billion) in 2018, compared to USD 276.3 million (FRW 229.9 billion) in 2017. In addition, fiscal net injection increased by 7.2 percent, standing at FRW 151.3 billion against FRW 141.1 billion in 2017.

However, liquidity creation was partially offset by SWAP repayments of USD 34.4 million (equivalent to FRW 28.2 billion) versus USD 5.6 million (equivalent to FRW 4.2 billion) repaid in 2017.

## 3.5 INTEREST RATES DEVELOPMENTS

Money market interest rates have been converging towards the central bank rate and less volatile as a result of good liquidity forecasts and management by NBR. In 2018, the central bank rate remained unchanged at 5.5 percent, after cutting the policy rate 3 times since 2016. Money market interest rates followed the trend in central bank rate with average repo rate, T-bills and interbank interest rates declining to 4.22 percent, 5.09 percent and 5.57 percent in 2018, respectively, from average 4.56 percent, 6.91 percent and 6.11 percent in 2017.

Figure 5: Money market interest rates (percent)




Source: NBR, Monetary Policy Department

Both commercial banks' lending and deposit rates decreased by 21 basis points in 2018, respectively standing at 16.96 percent and 7.51 percent, indicating positive developments in monetary policy transmission mechanism.

Table 25: Market interest rates (percent average)

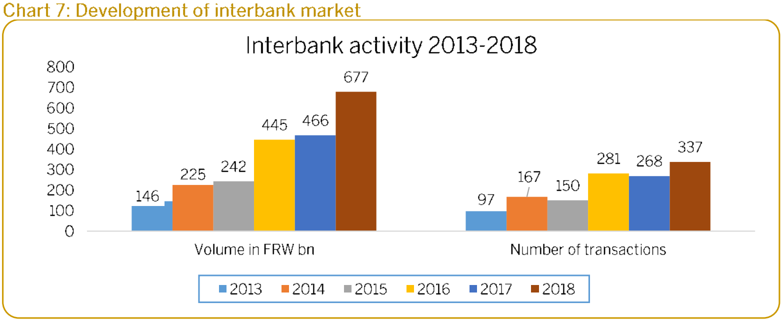
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Lending rate | 17.32 | 17.26 | 17.33 | 17.29 | 17.17 | 16.96 |
| Deposit rate | 9.93 | 8.24 | 8.24 | 7.91 | 7.72 | 7.51 |
| Spread | 7.39 | 9.02 | 9.09 | 9.38 | 9.45 | 9.45 |

**Source:** NBR, Statistics Department

## 3.6 MONEY MARKET DEVELOPMENTS

In 2018, the interbank market recorded good developments, both in number of transactions and volume exchanged compared to 2017. In terms of volume transacted, the market recorded FRW 677 billion in 2018 against FRW 466 billion, that is an increase of 45.3 percent while the number of transactions increased by 25.7 percent to 337 from 268 transactions in the same period.

Chart 7: Development of interbank market




**Source:** Financial Market Department

## 3.7 BOND PRIMARY MARKET DEVELOPMENTS

In 2018, the Government through the National Bank of Rwanda and the Ministry of Finance and Economic Planning has continued the quarterly bond issuance program. During the period, four bonds were successfully issued: 3-year, 5-year, 10-year and 15-year bond with an average oversubscription level of 227.8 percent.

Moreover, during the year, a program of bond reopening started for the first time and two bonds were successfully reopened: 7-year bond and 10-year bond with an average oversubscription level of 253.9 percent. The NBR introduced the reopening mechanism with the aim to develop the bond market by facilitating the price discovery in the financial markets; and avail benchmark bonds which are seen as a compass in the market.

In line with monetary policy stance, liquidity conditions and favourable macro-economic environment in general, yields of new issued and reopened bonds in 2018 trended down. The yields on T- bonds for 3 years, 5 years, 7 years, 10 years and 15 years maturities reduced from 12.00 percent, 12.20 percent, 12.40 percent, 13.00 percent and 13.50 percent to 11.15 percent, 11.80 percent, 12.175 percent, 12.20 percent and 12.90 percent respectively. The same trend was observed in money market rates, banks' lending and deposit rates confirming positive developments in monetary policy transmission mechanism.

As a result, outstanding T-Bond increased by 27.8 percent from FRW 180.0 billion end 2017, to FRW 230.0 billion in December 2018.

Table 26: T-Bonds Outstanding 2014- 2018 (FRW billion, unless otherwise indicated)

| Year | Banks | | Institutional investors | | Retail investors | | Total |
|---|---|---|---|---|---|---|---|
| | FRW billion | Percent | FRW billion | Percent | FRW billion | Percent | FRW billion |
| 2014 | 24.3 | 50.1 | 23.4 | 48.3 | 0.8 | 1.6 | 48.5 |
| 2015 | 46.2 | 46.2 | 51.5 | 51.5 | 2.3 | 2.3 | 100.0 |
| 2016 | 60.9 | 39.9 | 86.5 | 56.7 | 5.1 | 3.3 | 152.5 |
| 2017 | 65.8 | 36.6 | 103.7 | 57.6 | 10.5 | 5.8 | 180.0 |
| 2018 | 84.2 | 36.6 | 123.1 | 53.5 | 22.7 | 9.9 | 230.0 |

Source: NBR, Financial Market Department

In all these issuances, there was an increased participation for both retail investors and institutional investors. The share of retail investors increased from 0.8 percent by end 2014 to 9.9 percent by the end 2018 while the share of institutional investors increased from 48.3 percent to 53.5 percent in the same period. As a result, the share of banks in government bonds declined from 50.1 percent end December 2014 to 36.6 percent end 2018.

The successful issuance is attributed to conducive market conditions and continued joint efforts in the public awareness campaign across the country.

## 3.8 SECONDARY MARKET DEVELOPMENTS

In the year 2018, the Government bond recorded a good development on secondary market. The turnover, as well as volume traded went up by 91.1 percent and 90.20 percent respectively. The turnover stood at FRW 10.034 billion in 2018 from FRW 5.25 billion traded in 2017. The number of issuance increased from four in 2017 to six in 2018 and is expected at eight in 2019, thanks to bond reopening mechanism.

# IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section shows recent Franc Rwandais exchange rate developments, taking note of the fact that in 2018 pressures on exchange rate remained moderate.

## 4.1 EXCHANGE RATE DEVELOPMENTS

Relative to December 2017, the FRW depreciated by 4.0 percent against the USD in 2018, compared to a depreciation of 3.1 percent registered in 2017, following the relatively increased demand for dollars to finance imports.

Table 27: Appreciation/Depreciation rate of FRW against selected currencies

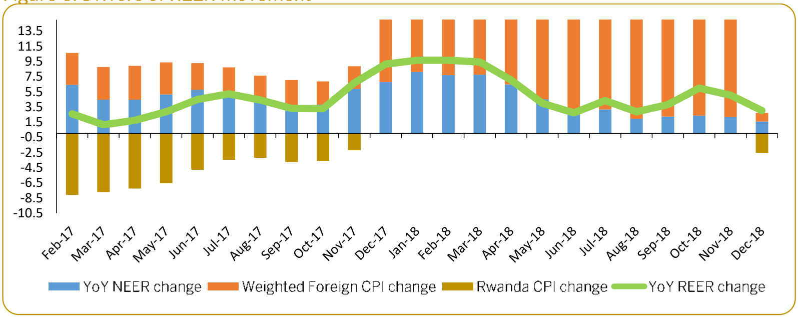
| | FRW/USD | FRW/GBP | FRW/EUR | FRW/JPY | FRW/KES | FRW/TZS | FRW/UGS | FRW/BIF |
|---|---|---|---|---|---|---|---|---|
| Dec-2011 | 1.6 | 1.5 | -0.4 | 7.3 | -2.0 | -5.8 | -3.9 | -2.2 |
| Dec-2012 | 4.5 | 10.0 | 7.7 | -5.2 | 3.4 | 4.7 | -2.6 | -11.5 |
| Dec-2013 | 6.1 | 8.0 | 10.2 | -13.4 | 5.3 | 6.2 | 11.7 | 4.9 |
| Dec-2014 | 3.6 | -2.4 | -8.5 | -9.7 | -2.8 | -7.0 | -6.7 | 1.0 |
| Dec-2015 | 7.6 | 2.8 | -3.2 | 7.8 | -4.6 | -13.5 | -11.6 | 10.0 |
| Dec-2016 | 9.7 | -9.2 | 5.3 | 13.4 | 9.6 | 8.6 | 2.3 | -0.2 |
| Jun-2017 | 1.3 | 7.5 | 10.4 | 5.4 | 0.0 | -1.4 | 2.0 | -1.0 |
| Dec-2017 | 3.1 | 13.2 | 16.9 | 6.6 | 2.3 | 0.4 | 2.7 | -1.0 |
| Jun-2018 | 1.7 | -0.9 | -0.4 | 3.6 | 4.0 | -0.1 | -4.7 | 1.5 |
| Sep-18 | 2.9 | -0.1 | 0.6 | 2.1 | 5.2 | 0.6 | -2.4 | 2.0 |
| Dec-18 | 4.0 | -2.0 | -0.1 | 6.2 | 5.5 | 1.2 | 1.8 | 1.9 |

Source: NBR, Monetary Policy and Research Department

Compared to the British pound and Euro, the FRW appreciated by 2.0 percent and 0.1 percent respectively, while it depreciated by 6.2 percent against the Japanese yen. Compared to regional currencies, the FRW depreciated by 5.5 percent, 1.2 percent, and 1.8 percent respectively against the Kenyan, Tanzanian and Ugandan shillings.

Looking at the currency basket for Rwanda's main trading partners, the FRW real effective exchange rate depreciated by 3.0 percent (y-o-y) end December 2018 against 9.1 percent recorded during the corresponding period in 2017. This was mostly attributable to the depreciation of the nominal value of the FRW against currencies of some of the major trading partners as inflation remains low in Rwanda. In nominal effective terms, it depreciated by 1.6 percent compared to a depreciation of 6.8 percent at the end December 2017.

Figure 6: Drivers of REER movement

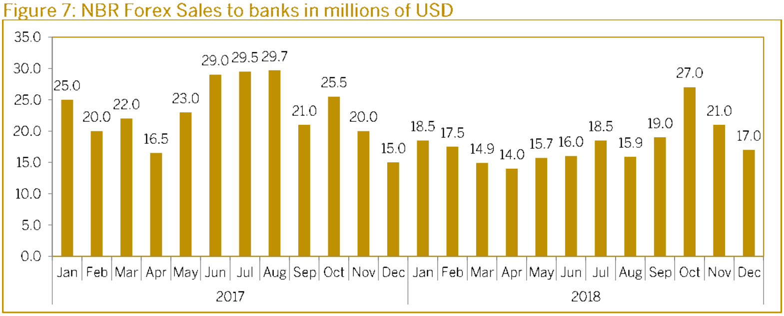



Source: NBR, Monetary Policy and Research Department

## 4.2 FOREIGN EXCHANGE MARKET DEVELOPMENTS

By end December 2018, net foreign assets of commercial banks increased by FRW 112.0 billion, to a stock of FRW 165.9 billion from FRW 53.8 billion accumulated in 2017. The increase in net foreign assets is mainly explained by higher increase in foreign assets coupled with the decline in foreign liabilities of commercial banks. As a result, forex sales to commercial banks reduced by 22.2 percent in 2018, to USD 215 million in 2018 from USD 276.2 million in 2017.

Figure 7: NBR Forex Sales to banks in millions of USD




Source: NBR, Monetary Policy and Research Department

# V. FINANCIAL SECTOR STABILITY

## 5.1 INTRODUCTION

During 2018, the financial sector continued to develop and support economic growth through the collection of funds and allocating them to productive investments (financial intermediation). The financial sector also supported investors and traders through providing risk sharing or copying mechanisms. Through Pension Schemes (public and voluntary), the financial sector also continued to enable economic agents to save for their retirement. The national payment system also facilitated business transactions both domestically and cross-border.

The National Bank of Rwanda regulates and supervises the financial sector (Banks, Insurers, Microfinance Institutions, Pension, as well as the Payment and Credit Information Systems) to ensure its stability and continued delivery of the above mentioned benefits to the economy. Regulation and supervision of the sector aims at mitigating and containing risks that may disrupt the performance of the financial system and ultimately, the real economy. This section provides an assessment of the financial sector performance in 2018, policy reforms implemented to uphold stability of the financial sector as well as the outlook.

## 5.2 STRUCTURE AND PERFORMANCE OF THE FINANCIAL SECTOR

As at end December 2018, the Banking sub-sector dominated the financial sector with a market share of 66.7 percent (percentage of total assets) followed by the Pension sector with a market share of 16.7 percent while the Insurance and Microfinance sectors held 9.8 percent and 6 percent, respectively (Table 28). In terms of number of institutions, as at end December 2018, the financial sector consisted of 504 institutions (Table 28):

16 Banks, 459 MFIs, 16 Insurers and 13 Pension Schemes (these include 1 mandatory Pension scheme and 12 Voluntary Pension Schemes).

The growth of the financial sector's assets improved in 2018 on the back of favorable macroeconomic conditions. As at end December 2018, total assets of the financial sector increased by 14.4 percent (y-o-y) to FRW 4,632 billion, against 13.8 percent registered the previous year. As a percentage of GDP, total assets of the financial sector increased from 54 percent to 56.3 percent, despite the strong growth of GDP. The uptick in growth of financial sector assets benefited from the conducive macroeconomic environment registered in 2018. Improved economic activities increased the debt servicing capacity of borrowers, which subsequently improved the quality of financial sector assets.

Table 28: The Structure of the Financial Sector

| Financial Sector | Dec-10 | | Dec-17 | | Dec-18 | | Assets/GDP[1] | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | % Share of TA | Number | % Share of TA | Number | % Share of TA | Dec-10 | Dec-17 | Dec-18 |
| Banking sector | 14 | 71.5 | 17 | 66.4 | 16 | 66.7 | 21.6 | 36.1 | 37.9 |
| Insurance | 8 | 11.1 | 16 | 9.9 | 16 | 9.8 | 3.2 | 5.1 | 5.5 |
| Public Pension Fund | 1 | 13.8 | 1 | 17.7 | 1 | 16.7 | 6.4 | 9.3 | 9.5 |
| Private Pension Schemes | - | - | - | - | 12 | 0.8 | - | - | 0.0 |
| MFIs | 524 | 3.6 | 473 | 6.0 | 459 | 6.0 | 2.6 | 3.5 | 3.4 |
| Total | 547 | 100 | 507 | 100 | 504 | 100 | 33.8 | 54.0 | 56.3 |

**Source:** NBR, Financial Stability Directorate

### 5.2.1 Banking Sub-Sector

The Banking sector remains the largest component of the financial sector with around 66.7 percent of total financial sector assets. As at end December 2018, the Banking sector was composed of 11 Commercial Banks (Crane

[1] GDP of Quarter 4, 2018 is estimated.

Bank was taken over by CBA), 3 Microfinance Banks, 1 Development Bank and, 1 Cooperative Bank. The Banking sector operates a network of 189 branches, 175 sub-branches and 153 outlets across the country.

During the period under review, the Banking sector assets increased by 15.1 percent (year-on-year) to FRW 3,091 billion, higher than 12.9 percent registered the previous year (table 29). The improved growth of Banking sector last year reflects higher growth of loans, the main component of banks' assets. As at end December 2018, total Banking sector loan book (outstanding loans)[2] increased by 13.6 percent (year-on-year) to FRW 1,871 billion, compared to 12.9 percent growth registered in the same period of 2017.

Table 29: Key Banking Financial Highlights (FRW billion)

| Indicators | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 |
|---|---|---|---|---|---|
| Total Assets (net) | 1,803 | 2,133 | 2,380 | 2,685 | 3,091 |
| Loans & Overdrafts (Gross) | 1,051 | 1,269 | 1,457 | 1,646 | 1,871 |
| Total Liabilities | 1,471 | 1,735 | 1,938 | 2,227 | 2,576 |
| Deposits | 1,042 | 1,418 | 1,530 | 1,723 | 1,965 |
| Profits (Net After Tax) | 34 | 43 | 38 | 29 | 57 |
| Total Shareholders' Funds | 331 | 397 | 441 | 459 | 514 |

Source: NBR, Financial Stability Directorate

Banks increased their lending in 2018. New loans approved by Banks increased by 17.2 percent (year-on-year) as at December 2018 (from FRW 824.9 billion to FRW 966.5 billion), higher than the 4.6 percent growth registered the previous year. The increased pace of lending in 2018 was underpinned by increased Banks appetite to lend, especially in the second half of 2018. Based on NBR's credit survey, the approval rate of loans increased to 78 percent from 68.9 percent in 2017. This implies that loans rejection decreased from 31 percent as at December 2017 to 21.9 percent as at December 2018. However, credit demand remained weak in 2018. Total loans application increased by 3.4 percent (in value) against 30 percent

[2] These include loans to private sector and government institutions

registered in 2017. Loan application particularly dropped in hotels by 34 percent. In terms of volume, credit demand increased by 18.3 percent (from 318,166 in 2017 to 376,383 in 2018), higher than 13 percent growth registered in 2017. The higher growth of the volume of loans application relates to small micro-digital loans offered by 4 Banks (CBA, Bank of Kigali, KCB Rwanda and Equity Bank Rwanda).

Improved growth of loans was registered in "trade", "other services", "transport, communication and warehouse" and, "consumer" loans. On the other hand, growth of loans decelerated in manufacturing and in mortgage (Table 30). The deceleration of mortgage loans was more pronounced in "commercial real estate" and "public works", while growth of residential loans remained stable. The slowdown of growth in commercial real estate loans reflects the risk perception of Banks on this sub-sector. Banks' risk perception on commercial real estate relates to currently low occupancy rates in some commercial buildings. Loans to restaurants and hotels continued to decline. Following the completion of larger hotels in 2016 and 2017 that required sizeable financing, new lending to this sector has reduced. Sectoral lending patterns in 2018 indicate a shift from traditionally financed sectors (mortgage, hotels) to other sectors like "other services", and "transport, communication and warehouse".

Despite the growth patterns mentioned above, the structure of the Banking sector loan book changed only marginally in 2018. The mortgage sector continued to hold the largest share of loans in 2018– at 36.7 percent (from 37.6 percent in 2017), followed by trade at 17.2 percent (from 18 percent in 2017), and manufacturing with 10.1 percent, the same level as in 2017. Consumer loans comes fourth with 8 percent share of total loans while the share of loans to restaurants and hotels reduced from 8.2 percent in 2017 to 7.2 percent. The share of loans to other services (this includes schools and hospitals) marginally increased from 3.1 percent to 3.2 percent. The share of loans to agriculture remains low and marginally declined from 1.5 percent to 1.4 percent (Table 30).

Table 30: Sectoral Distribution of Loans (percent)

| Activity Sector | % of total loans | | | % Change | |
|---|---|---|---|---|---|
| | Dec-16 | Dec-17 | Dec-18 | Dec-17/16 | Dec-18/17 |
| Personal loans | 8.4 | 7.9 | 8.0 | 6.9 | 13.7 |
| Agricultural | 2.1 | 1.5 | 1.4 | -18.6 | 3.4 |
| Mining | 0.1 | 0.2 | 0.2 | 149.6 | 1.3 |
| Manufacturing | 9.8 | 10.1 | 10.1 | 16.8 | 12.7 |
| Water & energy | 2.2 | 2.7 | 2.9 | 40.2 | 24.0 |
| Mortgage | 34.0 | 37.6 | 36.7 | 24.5 | 10.5 |
| Public works | 4.7 | 6.6 | 6.9 | 57.7 | 18.8 |
| Residential houses | 16.7 | 16.3 | 15.9 | 10 | 10 |
| Commercial houses | 12.6 | 14.7 | 13.9 | 31.4 | 7.5 |
| Trade | 20.5 | 18 | 17.2 | -1.1 | 7.9 |
| Restaurants & Hotels | 10.2 | 8.2 | 7.2 | -9.8 | -0.6 |
| Transport, Communication &warehousing | 7.6 | 9.0 | 12.1 | 32.3 | 51.9 |
| OFI &Insurance | 1.7 | 1.6 | 1.2 | 10.7 | -19.9 |
| Other services | 3.5 | 3.1 | 3.2 | -0.2 | 15.8 |

Source: NBR, Financial Stability Directorate

With regard to Banks' funding patterns, customer deposits continue to provide the most significant funding base representing 76.3 percent of total liabilities, 64 percent of total liabilities and shareholders' funds (i.e, financing 64 percent of Banks' assets or balance sheet) as at end December 2018.

As at end December 2018, total deposits of Banks increased by 14.1 percent (year-on-year) to FRW 1,965 billion, higher than 12.6 percent registered last year. A breakdown of deposits by maturity suggests that demand deposits increased by 22 percent to FRW 1,208 billion while term deposits increased by 3 percent to FRW 755 billion. The share of term deposits in total deposits dropped from 42 percent in December 2017 to 38 percent in December 2018. The slowdown of growth in term deposits was due to a couple of matured term deposits that are yet to be re-invested. The higher growth of deposits (compared to loans) led to the slight decline of loan-to-deposit ratio— from 95.6 percent in December 2017 to 95.2 percent in December 2018.

## Financial Soundness Indicators of Banks

The Banking sector is solvent and holds sufficient capital buffers above the minimum regulatory requirement (Table 31). The system wide total Capital Adequacy Ratio (CAR) increased to 25.5 percent in December 2018, higher than the 21.4 percent registered in December 2017 and the 15 percent prudential requirement. The core capital ratio stood at 23.8 percent, higher than 20 percent registered last year and the 12.5 percent required minimum prudential requirement, including capital conservation buffers. Common Equity Tier 1 (CET1), the finest category of capital continued to account for the largest portion of Banking sector total capital, at 93 percent. Banks' CET1 is mainly composed of paid-up capital, retained earnings and share premium.

NBR's Regulation N°06/2017 of 19/05/2017 requires Banks to operate with a minimum total capital of not less than twelve point five percent (12.5%) of total risk-weighted assets of which ten percent (10%) is core capital. Banks are also supposed to hold a capital conservation buffer of 2.5 percent leading to the 15 percent minimum required Capital Adequacy Ratio (CAR). Overall, for a long period the Banking sector has met this capital requirement. More important to note also is that large Banks or Systemically Important Banks (SIBs) have maintained adequate capital buffers. The recent stress test performed by NBR suggested that Banks have sufficient capital to withstand shocks.

The Banking system also holds sufficient liquid assets (Table 31). As at end December 2018, the industry-wide Liquidity Coverage Ratio stood at 637.4 percent, higher than minimum prudential limit of 100 percent. The higher Liquidity Coverage Ratio (LCR) suggests that Banks have sufficient eligible liquid assets to meet estimated net cash outflows during one-month period of stress. High Quality Liquid Assets (HQLA) include cash, reserves with the Central Bank and securities that are eligible and subjected to relevant discount depending on the readiness of these assets. Additionally, the Net Stable Funding Ratio (NSFR) for the banking sector stood at 221.8 percent in December 2018, higher than 100 percent minimum requirement. The NSFR aims to promote resilience over a longer time horizon by creating incentives for Banks to fund their activities with more stable sources of funding on an ongoing basis. From a micro perspective, as at December 2018 all banks met the prudential liquidity requirements.

The asset quality of the Banking system improved last year driven by improved economic performance. The Non-Performing Loan (NPLs) ratio[3], the main indicator of asset quality for the Banking sector reduced from 7.6 percent in December 2017 to 6.4 percent in December 2018 (Table 31). The reduction in NPLs was broad based across sectors as follows: The NPLs ratio dropped in Trade (from 12 percent to 10.1 percent), in Mortgage (from 4.5 percent to 3.7 percent), in Manufacturing (from 13.8 percent to 11.7 percent), in Restaurants and Hotels (from 12.1 percent to 9.9 percent), in Agriculture (from 10 percent to 6.6 percent), in other services (from 11.3 percent to 10.2 percent).

[3]In the NBR regulation, a credit facility is classified as "non-performing" if the principal or interest is due and unpaid for at least ninety days. To compute the NPLs ratio, we compare total amount of NPLs in the banking industry to total outstanding loans.

Table 31: Key Soundness Indicators (percent)

| Indicators | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 |
|---|---|---|---|---|---|
| Capital Adequacy Ratio (total capital) (min 15%) | 24.0 | 22.5 | 21.9 | 21.4 | 25.5 |
| Leverage ratio (min 6%) | | | | | 15.3 |
| NPLs / Gross Loans | 6.0 | 6.2 | 7.6 | 7.6 | 6.4 |
| NPLs net/Gross loans | 5.1 | 5.2 | 5.7 | 6.6 | 5.5 |
| Provisions / NPLs | 56.9 | 46.2 | 42.7 | 46.7 | 68.2 |
| Return on Average Assets | 1.9 | 2.1 | 1.7 | 1.1 | 1.9 |
| Return on Average Equity | 10.5 | 11.2 | 8.8 | 6.2 | 11.2 |
| LCR (min 100%) | | | | | 637.4 |
| NSFR (min 100%) | | | | | 221.8 |
| FX exposure/core capital (min/max 20%) | -1.8 | -5.7 | -7.0 | -7.8 | -5.6 |

**Source:** NBR, Financial Stability Directorate

Improved asset quality was largely driven by the stronger economic performance in the last three quarters of 2018. The improved agriculture performance supported farmers to service their loans. Further to improved economic activities, Banks NPLs were also reduced by write-offs performed by some Banks. During the period under review, FRW 49 billion bad loans were written-off by Banks and impairment provisions provided. In compliance with international accounting and regulatory standard, the NBR directive N°12/2017 of 23/11/2017 on credit classification and provisioning requires Banks to "write off" loans that have been classified "Loss" for more than 360 days. However, a Bank may continue the recovery process after writing off the loan in line with other applicable laws and cash collected from these recoveries are captured in income statements of Banks.

Banks loan-loss coverage ratio increased to 68.2 percent as at December 2018 from 46.7 percent in December 2017, due to the implementation of IFRS 9. The loan-loss coverage ratio measures the extent of Banks' preparedness to absorb losses related to existing non-performing loans and anticipated future losses. To mitigate credit risk in Banks, the NBR requires Banks to maintain specific provisions for all non-performing credit facilities in varying proportions depending on category (i.e., 20 percent for loans in Substandard, 50 percent for doubtful and 100 percent for loans in loss category). Further to specific provisions, in 2017, NBR introduced general provisions for performing loans (normal loans and watch loans). In this respect, Banks are required to maintain general provisions of 1 percent of loans in "normal category" and 3 percent of loans in "watch category". In computing the provisions, Banks are allowed to deduct the value of outstanding collateral, except on normal category. Banks' provisions in 2018 were weighed up by the implementation of IFRS 9 that started in January 2018. With IFRS9, Banks are required to recognize and provision for expected credit loss at all times by taking into account past events, current conditions and forecast information.

Profits of the Banking industry improved, with income increasing more than expenses. After tax profits for the Banking industry increased from FRW 28.5 billion in 2017 to Frw 56.6 billion in 2018. As a result, Return on Assets (ROA) increased from 1.1 percent to 1.9 percent, while Return on Equity (ROE) increased from 6.2 percent to 11.2 percent. During the period under review, Banks' total income increased by FRW 52 billion (from FRW 362 billion to FRW 414 billion), while total expenses increased by FRW 17 billion (from FRW 308 billion to 325 billion).

Banks' Net Interest Income and non-interest income edged-up in 2018. Net Interest Income, the main source of income for Banks, increased by FRW 22 billion (from FRW 189 billion in 2017 to FRW 211 billion in 2018). Banks generate interest income from outstanding loans, government securities and, other market securities. The reduction of non-performing loans during the period under review contributed to this growth of net interest income. There was no price effect as average interest rate spread remained stable at around 9.5 percent in 2017 and 2018. Profits of Banks were also weighed-up by higher non-interest income — that increased from FRW 93.6 billion in 2017 to FRW 110.8 billion in 2018. Banks' non-interest income is composed of *fees and commissions*, *recoveries* and, foreign *exchange income, incomes*. In 2018, high growth of non-interest income came from recoveries (from FRW

27 billion in 2017 to 37 billion in 2018). Fees and commissions increased from FRW 46.3 billion to FRW 49.9 billion, while foreign exchange increased from FRW 20.3 billion to FRW 23.9 billion.

### 5.2.2 Microfinance Sub-Sector

The Microfinance sub-sector, which constitutes of MFIs with Limited Liability status as well as Saving and Credit Cooperatives (SACCOs), remains an important component of the financial sector especially through its role of driving financial inclusion. The presence of Microfinance Institutions in all administrative sectors (Imirenge) of the country reduces the distance to a formal financial institution thereby eliminating the access barrier to financial inclusion. According to the Financial Inclusion Survey (FinScope 2016), around 2 million adults had/used Umurenge SACCO accounts for saving or borrowing in 2016.

The total number of microfinance institutions reduced from 473 as at end December 2017 to 459 as at end December 2018. This decline resulted from two acquisitions– CLECAM Ejoheza acquired a network of 6 CLECAMs, while UMUTANGUHA Ltd acquired CLECAMs WISIGARA, INZIRA BUTARE Ltd and CT-MURAMBI Ltd. Out of the 459 microfinance institutions operating in Rwanda, 20 are microfinance institutions with limited liability company status; 439 are Savings and Credits Cooperatives (SACCOs) composed of 416 UMURENGE-SACCOs and 23 non-UMURENGE-SACCOs.

The Microfinance balance sheet strengthened in 2018. Total assets of MFIs stood at FRW 279.5 billion as at the end of December 2018, indicating a year-on-year growth of 14 percent, compared to 10 percent growth registered in the corresponding period of last year. Strong growth of MFI assets in 2018 mirrored improved growth of deposits –MFIs deposits increased by 16 percent (from FRW 124.1 to FRW 144.4 billion), up from 8 percent growth registered in 2017 (Table 32). Customer deposits remain the main source of funds for MFIs. As at end December 2018, deposits accounted for 80 percent of total liabilities of MFIs, and 52 percent of total assets. Because the MFI sector largely serves the rural population of which more than 70 percent is involved in agriculture, the performance of this sector significantly impacts the performance of the Microfinance sector as well. The strong growth of deposits in MFIs is therefore reflective of the good performance of the agriculture sector in 2018. With better agriculture harvest, farmers can trade their produce and save generated revenues with nearest MFI.

Lending improved in the microfinance sector (Table 32). The total outstanding loans by MFIs increased by 19 percent (y-o-y) as at December 2018, compared to 3 percent registered in December 2017. The MFIs sector increased their asset holding in loans from 54 percent in December 2017 to 57 percent in December 2018, reflecting increased lending. The other components of MFIs assets include cash in Banks (31 percent of total assets); investment in treasury bills (1.2 percent); cash in vault (1.5 percent) and other assets (9.6 percent).

Financial intermediation improved across all MFIs, especially among non-Umurenge MFIs. The loan-to-deposit (plus borrowings) ratio for the MFI sector increased from 96 percent in December 2017 to 99 percent in December 2018. A breakdown of this ratio, however, indicates that the level of financial intermediation remains low for U-SACCOs at 65 percent in 2018, although it increased from 62 percent in December 2017. The loan-to-deposit indicates how financial institutions lend resources they mobilize. The loan to deposit ratio of 99 percent in December 2018 indicates that, on average, for every Franc that the MFI sector collects from deposits and borrowings, it lends out 0.9 cents. International best practice is for loan-to-deposit ratio to range between 80 percent and 90 percent. The relatively low loan-to-deposit ratio among U-SACCOs constrains their profits. On-going rural economic transformation and agriculture de-risking initiatives are expected to broaden lending opportunities of U-SACCOs.

Nevertheless, the MFI sector remained constrained with the short maturity of deposits. As at December 2018, short term deposits – of less than one year of maturity, accounted for 72 percent of total MFIs deposits. Of these short-term deposits, 90.5 percent are demand deposits. In U-SACCOs, short-term deposits constituted 91 percent of total deposits. MFIs need to create incentives for long term funding, although this is a structural challenge for all deposit taking institutions. Recent initiatives to improve the level of savings in Rwanda include: (1) tax incentive of term deposits of over 1 year maturity, (2) awareness campaign on the importance of savings.

The MFIs sub-sector remained solvent and liquid as at December 2018 (Table 32). The CAR[4] stood at 35.1 percent in December 2018, above the minimum regulatory requirement of 15 percent. Similarly, MFIs assets are liquid and liquidity risk is generally low on a consolidated basis. The liquidity ratio of MFIs stood at 100.3 percent at end December 2018, significantly above the prudential limit of 30 percent. As stated, MFIs are required to keep higher liquid assets in the face of demand deposits, thus affecting on their ability to lend.

Asset quality of MFIs improved in both Limited Liability Companies and SACCOs during the year of 2018. The total NPLs ratio (non-performing loans to total loans) of MFIs reduced to 6.5 percent as at December 2018, lower than the 8.2 percent registered in December 2017. Higher reduction of NPLs ratio was observed in Limited Liability Companies (from 8 percent to 4.9 percent), while in U-SACCOs, NPLs ratio reduced to 11.8 percent in December 2018 from 12.9 percent December 2018. The reduction in NPLs during the year of 2018 is due to write-offs of bad loans, especially in U-SACCOs and the improved economic performance, especially in agriculture sector.

[4] CAR for MFIs is defined as the percent relationship between the equity and the total assets.

Profits of MFIs improved significantly, especially in Limited Liability MFIs. As at December 2018, total profits of MFIs increased by 201 percent from FRW 2.4 billion to FRW 7.3 billion. This growth in profits resulted in Return on Assets (ROA) increasing from 1.0 percent to 2.6 percent, while Return on Equity (ROE) increased from 2.9 percent to 7.7 percent. This rebound of profits is generally attributable to increased income on loans and other incomes from recoveries that outweighed expenses. Net interest income of MFIs increased by 8.5 percent in December 2018, higher than 5 percent recorded in December 2017. This reflected improved assets quality during the period under review. In addition, recoveries were also important for the MFIs profits pick up. During the year 2018, MFIs were able to recover FRW 2 billion, 76 percent higher than their recoveries in 2017.

The recent enhancement of the small claims courts is expected to have a positive impact on the loan recovery process going forward. In the past, loan recovery has been a challenge in MFIs (especially, SACCOs). In some instances, the cost of recovering small micro loans was reportedly too high and the process deemed too long.

Table 32: MFIs Performance Indicators (U-SACCOs included)

| Indicators | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 |
|---|---|---|---|---|---|
| Assets (FRW billion) | 159.3 | 209.0 | 222.7 | 244.3 | 279.5 |
| Loans (FRW billion) | 90.0 | 116.6 | 134.1 | 138.3 | 164.0 |
| Deposits (FRW billion) | 86.1 | 117.3 | 114.5 | 124.1 | 144.5 |
| Equity (FRW billion) | 52.8 | 65.0 | 78.5 | 87.5 | 98.1 |
| Net profit/Loss (FRW billion) | 5.0 | 6.8 | 9.8 | 2.4 | 7.3 |
| Capital Adequacy Ratio (%) | 33.2 | 31.1 | 35.2 | 35.8 | 35.1 |
| NPLs / Gross Loans (%) | 7.0 | 7.9 | 9.0 | 8.2 | 6.5 |
| ROA (%) | 3.2 | 3.4 | 4.4 | 1.0 | 2.6 |
| ROE (%) | 10.3 | 11.4 | 13.7 | 2.9 | 7.7 |
| Liquidity ratio (%) | 87.0 | 89.6 | 88.8 | 102.0 | 100.4 |

Source: NBR, Financial Stability Directorate

### 5.2.3 Insurance sub-sector

The Insurance sector performs important economic functions of enabling economic agents to diversify different risks, thereby supplying the necessary preconditions for business continuity. After Banks and Pensions, the insurance industry is the third key source of long-term capital to the real economy. They avail long-term funding to the Banking sector that is ultimately lent to the private sector. As at end December 2018, the Insurance sector held 42 percent assets as deposit in Banks, out of which 72 percent are term deposits.

#### A. Structure of Insurance Sector

The Insurance sector is regulated and supervised under the provisions of the Insurance Law of 2008 (Law no. 52/2008 of 10/09/2008). As at end December 2018, the insurance sector consisted of 16 Insurers, the same number as in 2017, of which 14 are private Insurers and 2 are public Insurers (former RAMA and MMI). Private insurance is composed of 10 non-life Insurers and 4 life Insurers. Other insurance intermediaries consisted of more than 600 agents, 17 brokers, and 18 loss adjusters. The number of brokers and loss adjusters increased from 16 and 13 respectively as at December 2017.

Insurance products and services in Rwanda are delivered through two main insurance classes: Life and non-life insurance. As at end December 2018, among private Insurers, life insurance represented 17 percent of gross premiums while non-life/general insurance represented 83 percent of gross premiums. For non-life insurance, motor and medical insurance had the largest share in terms of their contribution to gross premiums accounting for 46% and 29% respectively as at December 2018. Both motor and medical account for 75 percent of total premiums of the private non-life Insurers. The other private non-life insurance products include: property (9 percent); guarantees (5 percent); engineering (3 percent); liability (2 percent);

accident and health (1 percent); transportation (2 percent) and, other miscellaneous products (4 percent). The high concentration within motor and medical insurance can be explained by the fact that the two products are mandatory. Diversifying into other products and services remains a challenge to the insurance sector's development.

The Insurance sector continued to grow during the year under review. As at end December 2018, total assets of the sector (public and private) increased by 13 percent (year-on-year) to FRW 452.4 billion, and gross premium also increased by 11 percent to FRW 134.8 billion. Assets of public Insurers increased by 14 percent to FRW 283.5 billion, while assets of private Insurers increased by 12 percent to FRW 169.2 billion. Despite this growth, the low insurance density at FRW 19,402 and penetration at 1.7 percent indicate that there is still a lot of room for growth of the Insurance sector in Rwanda.

Table 33: Key Financial Performance Highlights of the Insurance Sector

| Description (In FRW billion) | Period | | | | | %Change Dec-17/16 | %Change Dec-18/17 |
|---|---|---|---|---|---|---|---|
| Insurance sector (Public & Private) | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | | |
| Gross written premiums | 82.8 | 91.4 | 104.2 | 120.9 | 134.8 | 16 | 11 |
| Net written premiums | 72.3 | 81.0 | 95.0 | 109.1 | 116.9 | 15 | 7 |
| Total Claims | 41.8 | 45.8 | 54.7 | 60.3 | 68.1 | 10 | 13 |
| Management expenses | 26.6 | 31.5 | 35.9 | 32.4 | 33.6 | -10 | 4 |
| Net underwriting returns | 3.9 | 3.8 | 4.3 | 16.4 | 15.2 | 280 | -7 |
| Investment Income | 20.4 | 18.5 | 20.8 | 25.8 | 31.3 | 24 | 21 |
| Net profit after taxes | 19.4 | 21.9 | 24.3 | 40.1 | 44.7 | 65 | 11 |
| Assets | 271.4 | 304.9 | 346.8 | 399.8 | 452.5 | 15 | 13 |
| Technical provisions | 57.4 | 66.2 | 69.5 | 78.0 | 89.1 | 12 | 14 |
| Liabilities | 19.9 | 19.3 | 24.3 | 27.4 | 27.5 | 13 | 0 |
| Capital and reserves | 194.1 | 219.5 | 252.9 | 294.3 | 335.9 | 16 | 14 |
| Private insurance | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | %Change Dec-17/16 | %Change Dec-18/17 |
| Gross written premiums | 44.7 | 52.3 | 57.6 | 66.3 | 78.8 | 15 | 19 |
| Net written premiums | 34.1 | 41.9 | 48.4 | 54.5 | 61.0 | 13 | 12 |
| Total Claims | 25.8 | 28.5 | 32.5 | 35.5 | 36.5 | 9 | 3 |
| Management expenses | 20.5 | 26.0 | 29.3 | 26.0 | 28.5 | -11 | 10 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net underwriting profit (loss) | (12.2) | (12.5) | (13.4) | (6.9) | (4.2) | -48 | -39 |
| Investment Income | 10.9 | 8.8 | 10.0 | 12.2 | 13 | 22 | 6 |
| Net profit after taxes | (6.2) | (4.1) | (4.7) | 3.3 | 7.0 | -169 | 116 |
| Assets | 108.1 | 114.8 | 133.6 | 150.8 | 169.2 | 13 | 12 |
| Technical provisions | 56.5 | 65.6 | 68.4 | 76.9 | 88.1 | 12 | 15 |
| Liabilities | 17.8 | 17.6 | 20.6 | 22.2 | 25.0 | 8 | 13 |
| Capital and reserves | 33.9 | 31.7 | 44.5 | 51.6 | 56.0 | 16 | 9 |
| Public insurance | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | %Change Dec-17/16 | %Change Dec-18/17 |
| Gross written premiums | 38.2 | 39.1 | 46.6 | 54.6 | 56.0 | 17 | 3 |
| Net written premiums | 38.2 | 39.1 | 46.6 | 54.6 | 56.0 | 17 | 3 |
| Total Claims | 16.0 | 17.3 | 22.3 | 24.8 | 31.5 | 11 | 27 |
| Management expenses | 6.1 | 5.5 | 6.6 | 6.4 | 5.1 | -3 | -21 |
| Net underwriting profit (loss) | 16.1 | 16.4 | 17.7 | 23.4 | 19.4 | 32 | -17 |
| Investment Income | 9.5 | 9.7 | 10.8 | 13.5 | 18.3 | 25 | 35 |
| Net profit after taxes | 25.6 | 26.0 | 29.0 | 36.9 | 37.7 | 27 | 2 |
| Assets | 163.3 | 190.1 | 213.2 | 249.0 | 283.2 | 17 | 14 |
| Technical provisions | 0.9 | 0.6 | 1.1 | 1.1 | 0.9 | -1 | -13 |
| Liabilities | 2.2 | 1.7 | 3.7 | 5.3 | 3.4 | 42 | -36 |
| Capital and reserves | 160.2 | 187.8 | 208.4 | 242.7 | 279.9 | 16 | 15 |

Source: NBR, Financial Stability Directorate

In 2018, Insurers adjusted their investment mix in search for diversification and better yields. On aggregate, Insurers increased their holdings of Government securities from 13 percent of their aggregate portfolio in December 2017 to 16 percent in December 2018. Insurers also increased their investment in equities from 5 percent to 12 percent– a level that still complies with the prudential maximum 30 percent. In contrast, during the period under review, Insurers reduced the share of their placements in Banks from 49 percent to 42 percent. More particularly, the reduction of the average deposit rates from 7.7 percent in 2017 to 7.5 percent in 2018 induced some insurance companies to reduce the share of their placements in Banks. However, the share of investment in properties remained constant at 10 percent in December 2017 and December 2018, lower than the 30 percent maximum prudential. Insurers' investment appetite in properties reduced in the last two years mainly due perceived risks in commercial real estate.

Profits of Insurers' increased from FRW 40.1 billion in 2017 to FRW 44.7 billion in 2018. Improved profits was supported by higher investment income that increased from FRW 25.8 billion in 2017 to FRW 31.3 billion in 2018 (Table 33). Improved yields on government securities helped to lift investment income of Insurers in 2018. On the other hand, however, the overall underwriting results of Insurers declined from FRW 16.4 billion in 2017 to FRW 15.2 billion in 2018 mainly affected by increased medical care tariffs in all RSSB medical service providers. In June 2018, RSSB agreed with its medical service providers to increase the medical care tariffs. Overall, the medical care tariffs increased by 27 percent between December 2017 and December 2018. In view of these tariffs increase, total claims of Insurers increased by 13 percent (year-on-year) to FRW 68.1 billion. Consequently, the claims ratio[5] for the insurance sector increased from 55 percent in December 2017 to 58 percent in December 2018.

Profits of private Insurers have steadily improved in the last three years. Private Insurers recovered from a loss of FRW 4.7billion in 2016, to profits of FRW 3.3 billion and FRW 7 billion in 2017 and 2018 respectively. Improved profit of private Insurers is attributable to increasing investment income and declining underwriting losses. Due to increased investment amount and favourable yields, private Insurers' investment income has increased from FRW10 billion in 2017 to FRW12.2 billion and to FRW13.3 billion in 2017 and 2018 respectively. Private Insurers underwriting losses are also declining– from 13.4 billion in 2016 to FRW 6.9 billion in 2017 and FRW 4.2 billion in 2018. As previously mentioned, underwriting losses of private Insurers emanate

5 The claims ratio is the percentage of claims costs incurred in relation to the premiums earned.

from the structure and competition of the private insurers. In the recent past, stiff competition of non-life insurers in motor and medical insurance products triggered price undercutting and business tendencies that hampered the insurance sector profits. Since the last quarter of 2016, the period marked by stead improvement, the NBR implemented a set of supervisory measures through a directive on conduct of insurance business (No. 06/2016 of 23/08/2016). Last year marked two years of implementing this directive and tangible results are evident– underwriting losses have declined during the last three years.

The underwriting returns on motor insurance product improved significantly in 2018, reflecting the revised premium rates (Table 34). In January 2018, following several years of protracted underwriting losses on motor insurance products that resulted from price undercutting; the association of insurance companies (ASSAR) in Rwanda resolved to increase motor insurance premium rates by 73 percent in two phase. The industry implemented 60 percent of this increase in 2018.  This increase supported to reduce underwriting losses on motor insurance product from FRW 4.3 billion in 2017 to FRW 1.5 billion in 2018. Due to this policy, motor insurance earned premiums increased from FRW 21.3 billion in 2017 to FRW 25.7 billion in 2018. Claims also reduced from FRW 15.9 billion in 2017 to FRW 15.3 billion in 2018. Despite this improvement, increasing operating expenses of the motor insurance business remains the main challenge of non-life Insurers, as this product accounts for 46 percent of premiums of non-life insurance. Going forward, improving the operational efficiency or containing growth of operational expenses should be the focus of non-life Insurers.  The other elements will include managing fraud in claim settlement, especially in garages, and automation of the business processes.

Table 34: Performance of Motor Insurance Business

| Description (FRW Billion) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Net earned Premiums | 13.4 | 19.3 | 19.2 | 21.3 | 25.7 |
| Claims Incurred | (8.2) | (12.1) | (12.5) | (15.9) | (15.3) |
| Expenses | (8.3) | (9.9) | (10.6) | (9.7) | (11.8) |
| Net underwriting profit/(loss) | -3.3 | -2.7 | -3.9 | -4.3 | -1.5 |
| Key financial ratios (%) | | | | | |
| Claims ratio (60% -70%) | 61 | 63 | 71 | 75 | 60 |
| Expenses ratio ( ≤30% ) | 56 | 45 | 52 | 40 | 46 |
| Combined Ratio (< 100%) | 117 | 108 | 123 | 115 | 106 |

Source: NBR, Financial Stability Directorate

## B. Financial Soundness Indicators of Insurers

Insurance sector's solvency level– a measure of the strength of Insurers' capital buffers held to cover all liabilities remained adequate in 2018 with sufficient capital buffers (Table 35). Aggregate solvency margins of private Insurers stood at 165 percent in December 2018, lower than 193 percent in December 2017, but above the 100 percent minimum prudential requirement.

Table 35: Key Financial Soundness Indicators of the Insurance Sector

| Description (In FRW billion)<br>Insurance sector | Dec-15 | Dec-16 | Dec-17 | Dec-18 |
|---|---|---|---|---|
| Solvency margin (Min. 100%) | 1,074 | 1,088 | 1,133 | 1,133 |
| Claims ratio (max.60%) | 57 | 58 | 55 | 58 |
| Expenses ratio (max. 30%) | 37 | 38 | 30 | 30 |
| Combined ratio (max.90%) | 91 | 96 | 85 | 87 |
| ROA (min. 4%) | 10 | 10 | 14 | 10 |
| ROE (min. 16%) | 7 | 7 | 10 | 13 |
| Liquidity ratio (min. 120%) | 252 | 321 | 349 | 383 |
| Private Insurers | Dec-15 | Dec-16 | Dec-17 | Dec-18 |
| Solvency margin (Min. 100%) | 116 | 78 | 193 | 165 |
| Claims ratio (max.60%) | 68 | 67 | 65 | 59 |
| Expenses ratio (max. 30%) | 59 | 60 | 48 | 48 |
| Combined ratio (max.90%) | 127 | 127 | 113 | 108 |
| ROA (min. 4%) | -13 | -11 | 6 | 4 |
| ROE (min. 16%) | -4 | -4 | 2 | 13 |
| Liquidity ratio (min. 120%) | 71 | 88 | 157 | 134 |
| Public Insurers | Dec-15 | Dec-16 | Dec-17 | Dec-18 |
| Solvency margin (Min. 100%) | 2,262 | 2,529 | 2,331 | 2,265 |
| Claims ratio (max.60%) | 56 | 48 | 45 | 56 |
| Expenses ratio (max. 30%) | 38 | 14 | 12 | 9 |
| Combined ratio (max.90%) | 94 | 62 | 57 | 65 |
| Return on Assets (min. 4%) | 14 | 13 | 15 | 13 |
| Return on Equity (min. 16%) | 14 | 13 | 15 | 13 |
| Liquidity ratio (min. 120%) | 4,796 | 3,158 | 2,594 | 3,982 |

Source: NBR, Financial Stability Directorate

On liquidity position, the insurance sub-sector maintained ample liquidity (Table 35). As at December 2018, the liquidity of insurance sector remains adequate, capable of catering for short-term liabilities. On a consolidated basis, the liquidity ratio of insurance sector, which compares current assets to current liabilities, improved from 349 percent in December 2017 to 383 percent in December 2018. However, the liquidity ratio of private Insurers stood 134 percent from 157 percent, above 120 percent of prudential requirements.

### 5.2.4 Mandatory Pension sector (RSSB)

Pension Fund provides financial safety with a stable and regular income during the retirement age of contributing members. It is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement. It further ensures that people live with pride and without compromising on their standard of living during their old age.

As at December 2018, the Pension Fund continued to grow and contribute to the development of the financial sector. Its assets accounts for 17.5 percent of total financial sector's assets as at December 2018. Total assets of the Pension Fund stood at FRW 773.2 billion at as December 2018, indicating a year-on-year growth of 8 percent, down compared to 18 percent period growth registered in the corresponding of 2017. The decelerated growth in Pension Fund's assets is mainly due to revaluation losses of some properties and lower growth of members' contributions.

The Fund also remains a key source of long-term funds to the financial sector, mostly to the Banking sector. As at end December 2018, 23 percent of the Fund's assets were deposits in Banks and 16 percent equity in local Banks. Further, it plays an active role in capital markets development with its growing equities investments, mostly in Banks. As at December 2018, RSSB holds equity investments traded on Rwanda Stock Exchange (RSE) equivalent to FRW 94.1 billion compared to FRW 74.1 billion the average of the last 5 years.

Between December 2017 and December 2018, total contributions grew by 1.2 percent (from FRW 44.6 billion to FRW 45.2 billion), compared the 22 percent registered in the corresponding period of last year (Table 36). The slow down growth of contributions was driven by high arrears recovered in December 2017 compared to December 2018. However, the investment income increased by 39 percent to FRW 17.5 billion, up from 26 percent registered in

December 2017. This growth reflects the increased income from term-deposits in Banks, and government securities earned during the year of 2018.

Table 36: Key Financial Performance Highlights

| DESCRIPTION (in FRW Billion) | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | %change Dec-17/16 | %change Dec-18/17 |
|---|---|---|---|---|---|---|---|
| Total assets | 480.7 | 546.3 | 609.8 | 717.9 | 773.2 | 18 | 8 |
| Total contributions | 28.7 | 37.4 | 36.7 | 44.6 | 45.2 | 22 | 1.2 |
| Total benefits paid | 7.2 | 7.6 | 8.8 | 9.8 | 13.0 | 12 | 32 |
| Operating expenses | 1.9 | 2.4 | 2.2 | 2.1 | 2.8 | -1 | 29 |
| Investment income | 8.1 | 9.0 | 10.0 | 12.6 | 17.5 | 26 | 39 |

Source: NBR, Financial Stability Directorate

The Fund continued to diversify its investment portfolio with more stake in government securities (Table 37). The total Pension Fund investment in Government securities increased from FRW 91.3 billion in December 2017 to 125.3 billion in December 2018, indicating 37 percent growth. Similarly, during the same period, investment in equities (both quoted and unquoted) that represent the largest portion of the Pension Fund's assets (35 percent in December 2018, the same in December 2017), grew by 5 percent (from FRW 249.3 billion in December 2017 to 262.3 billion in December 2018). Growth of equity investments is mainly driven by increased risk appetite of pension fund in quoted equities issued by local banks.

On other hand, placements in Banks are the second most significant asset category of the fund, representing 24 percent of the fund's assets reduced (from FRW 209.6 billion to FRW 179.4 billion) due to the allocation of some matured term deposits to long-term investments (i.e. government bonds, equities) in order to match the fund's assets and its long term liabilities. Currently, placements in Banks are largely constituted by term deposits at 66 percent as at December 2018 compared to 71 percent in December 2017. In same period, investment in properties continued to decrease from FRW 112.2 billion to FRW 101.1 billion, implying a 10 percent decline.

Table 37: The Investment Mix of Pension Funds

| Description (Billion FRW) | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | % Share | %change Dec-18/17 |
|---|---|---|---|---|---|---|---|
| Government Securities | 81.1 | 68.5 | 107.6 | 91.3 | 125.3 | 17 | 37 |
| Equities | 146.9 | 188.1 | 202.7 | 249.3 | 262.3 | 35 | 6 |
| Investment in properties | 109.7 | 117.2 | 117.2 | 112.2 | 101.1 | 13 | -10 |
| Placements in banks | 123.4 | 152.1 | 164.3 | 209.6 | 179.4 | 24 | -14 |
| Other investments and securities | 13.3 | 13.7 | 15.3 | 52.8 | 90.6 | 12 | 68 |
| TOTAL INVESTMENTS | **474.4** | **539.5** | **607.2** | **715.2** | **758.7** | **100** | 6 |

Source: NBR, Financial Stability Directorate

### 5.2.5 Private Pension Schemes

With the establishment of the Pension Law N° 05/2015 of 30/03/2015, the National Bank of Rwanda (NBR) is currently regulating and supervising private pension schemes. Total balance sheet of private pension schemes grew during the year of 2018, and stood at FRW 35 billion (Table 38). As at December 2018, total contributions collected by these schemes amount to FRW 5.6 billion. Currently, NBR licensed 12 voluntary pension schemes, of which 7 are complementary occupational pension schemes and 5 personal pension schemes. NBR has also licensed 16 pension service providers of which: 6 are administrators, 6 investment managers, 3 custodians, and 1 corporate trustee. These schemes have 38,878 contributing members of which 37,652 members are in complementary pension schemes and 1,226 members in personal pension schemes. With upcoming awareness programs on voluntary pension schemes, this sub-sector will continue to increase high public subscription rate to these schemes and mobilize more funds.

Table 38: Financial Highlights for Private Pension Schemes

| Description (FRW billion) | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|
| Assets | 17.6 | 32.0 | 33.9 | 35.0 |
| Liabilities | 0.1 | 0.0 | 0.1 | 0.1 |
| Technical Reserves | 17.6 | 31.9 | 33.9 | 34.9 |
| Contributions received | 1.1 | 3.3 | 4.0 | 5.6 |
| Benefits paid | 0.5 | 1.4 | 2.1 | 3.1 |
| Investment income | 0.3 | 1.0 | 1.8 | 2.9 |
| Operating expenses | 0.1 | 0.2 | 0.5 | 0.8 |
| Absolute | | | | |
| Number of contributors | 30,587 | 37,739 | 37,397 | 38,878 |
| Number of people took pension benefits | 74 | 1,159 | 3,064 | 3,683 |

Source: NBR, Financial Stability Directorate

### 5.2.6 Financial System Infrastructure

### Payment Systems

Payment Systems are key component of the financial system as they facilitate safe and timely completion of financial transactions. In Rwanda, the NBR holds a core responsibility of ensuring the safe and efficient functioning of the payment and settlement systems. The oversight of payment systems has, thus, become a crucial element in the NBR's mandate of maintaining stability of the domestic financial system.

The NBR maintains payment systems and promotes its soundness, safety and efficiency by assuming the role of operator, catalyst of development and overseer. The Rwanda Payment System has improved in the period under review as witnessed by the operations of Rwanda Integrated Payments Processing System (RIPPS). Significant progress has been observed in the retail payment system especially Mobile Financial Services (MFS) and internet banking services.

## Rwanda Integrated Payments Processing System

In 2018, the Rwanda Integrated Payments Processing System (RIPPS) performed smoothly, with increased transactions. The RIPPS is an integrated payments processing system, comprising an Automated Transfer System (ATS) and a Central Security Depository (CSD). The ATS is a hybrid system providing integrated facilities for clearing and settlement of all interbank electronic payments, irrespective of their value or level of urgency. During the year ended December 2018, customer transfers continued to dominate RIPPS activities with a share of 61 percent in value and 93 percent in volume. Customer transfers increased by 22 percent in value and by 11 percent in volume. During the same period, the value of interbank transfers and cheques transactions increased by 38 percent and 2 percent respectively, though in volume they increased by 3 percent and 6 percent respectively (Table 39).

Table 39: Transactions through RIPPS

| Mode of Payment | January - December 2017 | | | | January-December 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Volume | % Share | Value (FRW billion) | % Share | Volume | % Share | Value (FRW billion) | % Change | |
| | | | | | | | | Volume | Value |
| Customer transfers | 3,041,717 | 91.8 | 4,678 | 62 | 3,373,425 | 93 | 5,710 | 11 | 22 |
| Interbank transfers | 15,240 | 0.5 | 2,107 | 28 | 14,761 | 0.4 | 2,915 | -3 | 38 |
| Cheques | 254,293 | 7.7 | 727 | 10 | 239,250 | 6.6 | 741 | -6 | 2 |
| TOTAL | 3,311,250 | 100 | 7,511 | 100 | 3,627,436 | 100 | 9,366 | | |

Source: Financial Stability Directorate

## Mobile Financial Services

The uptake of mobile financial services continued to increase in 2018. The number of mobile money subscribers increased by 22 percent (from 9,079,983 in 2017 to 11,067,077 in 2018). During the same period, active subscribers[6] increased by 24 percent (from 3.7 million to 4.6million). With regard to mobile payment, the number of active agents increased by 28 percent from 60,494 to 77,512. The mobile transactions increased by 19 percent in volume from 251 million to 299.9 million, and by 31 percent in value from FRW 1,385 billion to FRW 1,808 billion.

Further, mobile phones as a medium for providing banking services continued to attain increased importance. Currently, 10 Banks and 1 microfinance institution operate mobile banking services. As at December 2018, the registered mobile banking users increased by 59 percent to 1,845,584. In addition, mobile banking transactions increased by 4 percent in volume from 3,082,828 to 3,206,474 and by 49 percent in value from FRW 36 Billion to FRW 53 Billion.

### Internet Banking Services

Internet banking is another convenient way that enables customers of a Bank or other financial institution to conduct a range of financial transactions through the financial institution's website by use of electronic gadget. Currently, there are 9 Banks that provide internet-banking services including checking bank balance, paying bills and transferring money to other accounts, etc. During the period under review, the internet banking transactions in value increased to FRW 2,040 billion in December 2018 from FRW 1,418 billion in December 2017, while in volume, internet banking transactions increased to 767,030 in December 2018 from 339,522 in December 2017, representing an increase of 44 percent and 126 percent in value and volume respectively.

[6] Subscribers who transacted at least once in the last three months.

## Card Based Payment System

The number of retail Point of Sale (POS) machines increased by 33 percent from 2,104 in December 2017 to 2,801 in December 2018 (Table 40). During the same period, the number of payment cards slightly increased by 17 percent from 758,485 in December 2017 to 887,393 in December 2018. In terms of usage, ATMs transactions remained almost the same with a slight increase of 2 percent in volume from 9,408,701 in December 2017 to 9,585,002 in December 2018, and 7 percent in value from FRW 493 Billion in December 2017 to FRW 530 Billion in December 2018. POSs transactions increased by 31 percent in volume from 1,213,853 in December 2017 to 1,588,639 in December 2018, while in value, POSs transactions increased by 24 percent from FRW 69 billion in December 2017 to FRW 85 billion in December 2018.

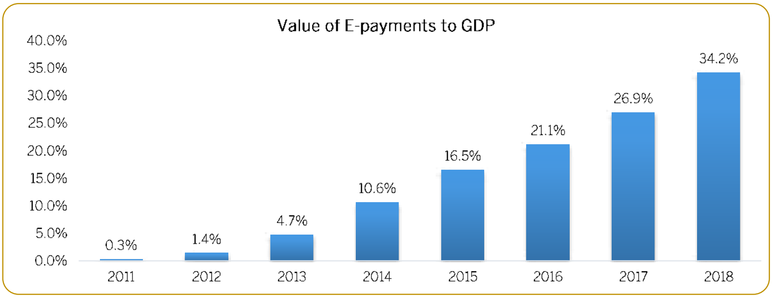
Table 40: Penetration of Touch Points per 100,000 Adult Population and Payment Usage per Capita (Percent)

| Penetration rates of cards usage | Dec-16 | Dec-17 | Dec-18 |
|---|---|---|---|
| Penetration rate of ATMs per 100,000 adult population | 6.0 | 5.9 | 5.4 |
| Penetration rate of POS per 100,000 adult population | 28.16 | 30.5 | 39.3 |
| Penetration rate of Cards per bank accounts | 31.7 | 33.5 | 25.8 |
| Average usage of card per ATM per year | 11.0 | 10.3 | 10.8 |
| Average usage of card per POS per year | 0.9 | 1.3 | 1.9 |

Source: NBR, Financial Stability Directorate

Based on the above highlighted statistical data and in line with increased payment infrastructure and acceptance, the ratio of retail electronic payments to GDP has improved over time to reach 34.2 percent of the total GDP as at end December 20018, from 26.9 percent in December 2017. The target is to reach 55 percent by 2020 and 80 percent by 2024 (Figure 8).

Figure 8: Value of E-payments to GDP




Source: NBR, Financial Stability Directorate

## Key Development in the Payment Systems

Three new types of POS (virtual POS, Near Field Communication and mobile POS) were introduced on market. These modern POSs allow mobile wallet payments and therefore are expected to amplify the usage of electronic payment given a growing usage of modern electronic gadgets. As at end December 2018, there were 11,537 new modern POSs and the latter settled 1,172,496 transactions worth FRW 21.8 billion (Table 41).

Table 41: Development of New POs

| | Virtual POS (QR Ecobank) | Mobile POS | | Total POS |
|---|---|---|---|---|
| | | Bank | MNO | |
| POS Number | 4,032 | 2,475 | 5,030 | 11,537 |
| Volume | 20,440 | 18,360 | 1,133,696 | 1,172,496 |
| Value (Million) | 84 | 398 | 21,402 | 21,884 |

Source: NBR, Financial Stability Directorate

There has been also a continuous mobilization of micro savings and micro loans issued though mobile MFS platforms and below are figures showing the performance of the services:

Table 42: Micro- Digital Savings and Loans

| Loans & Savings | | Jan-Dec 2017 | | Jan-Dec 18 | | Changes in % | |
|---|---|---|---|---|---|---|---|
| | | Volume | Value (Million) | Volume | Value (Million) | Volume | Value |
| Savings | Savings collected | 1,695,744 | 5,553 | 3,043,269 | 11,284 | 79% | 103% |
| | Savings Withdrawn | 1,147,752 | 5,016 | 2,304,014 | 10,915 | 101% | 118% |
| | Balance | 176,848 | 285 | 268,494 | 592 | 52% | 107% |
| Loans | | | | | | | |
| | Loan disbursement | 317,006 | 1,912 | 547,166 | 1,704 | 73% | -11% |
| | Loan repayment | 507,987 | 5,564 | 1,135,985 | 5,295 | 124% | -5% |

Source: NBR, Financial Stability Directorate

The Rwanda National Payment System Vision and Strategy was developed and adopted by the Cabinet in November 2018. This strategy aims at accelerating the cashless economy.

The Rwandan Payment Industry has agreed on the need for an interoperable retail payment system. It is in this context, the industry came together last year and achieved a consensus on the key design features of the interoperable retail payment system, called the **Rwanda National Digital Payment System** (R-NDPS). It is expected that this interoperability architecture will enable the introduction of instant payment, the adoption of international standards such as ISO 20022, and will enhance security and resilience among others.

At the same time the National Bank of Rwanda is upgrading the current interbank payment system (RIPPS) in order to expand operating hours to 24/7/365 days, open access to none bank payment service as well to enrich payment information through the adoption of ISO 20022.

### 5.2.7 Access to finance

Financial inclusion acts as an engine for economic development and remains critical in Rwanda's agenda of poverty alleviation. The FinScope survey of 2016 showed that more than 89 per cent of adult population have access to financial services in Rwanda. The rise in financial inclusion resulted from the increased uptake of innovative products courtesy of mobile money, credit and saving institutions such as SACCOs and non-Banking institutions, including the insurance sector.

#### Distribution of Physical Access Points

Generally, the total number of branches declined. The number of Bank branches reduced from 522 to 517, while insurance branches remained unchanged. The number of MFIs branches increased from 736 to 738. With regard to agents, the penetration rate increased by 23 percent from 83,531 to 102,725 agents between December 2017 and December 2018 (Table 43). The reduction in Banks' branches is mainly due to Banks embracing technology to deliver their services closer to the people especially through Agency and Mobile Financial Service. These initiatives are expected to make banking more convenient for customers while at the same time improving operational efficiency.

Table 43: Number of Branches and Agents

| Branches | Dec-17 | Dec-18 | % change |
|---|---|---|---|
| Banking | 522 | 517 | -0.96 |
| Microfinance | 736 | 738 | 0.27 |
| Insurance | 141 | 141 | 0 |
| Total | 1,399 | 1,396 | -0.21 |
| Agents | Dec-17 | Dec-18 | % change |
| Microfinance | 481 | 424 | -12 |
| Insurance | 581 | 724 | 24.6 |
| Mobile Financial service agents | 83,531 | 102,725 | 23 |

Source: NBR, Financial Stability Directorate

## Consumer Education and Empowerment

***"BNREngage program".*** After the launch of NBR economic clubs in Kigali, which are platforms through which NBR communicates to students the monetary and financial matters that are prevailing in the country, this program has been extend beyond Kigali City.

In September 2018, this program was launched in 35 more secondary schools located in 4 provinces (West, East, North and South). We believe that this initiative will contribute much towards building future financially literate society.

## Recent Trends in Financial Services Usage

The measure of frequent use of financial products and services is gauging the extent at which people deposit and borrow from financial institutions. Between December 2017 and December 2018, the number of depositors in Banks increased from 1,877,858 to 2,317,978 (23.4 percent increase).

The distribution of depositors by province in December 2018 revealed that 55.1 percent of total depositors are located in Kigali City, followed by Eastern Province (12.2 percent), Western province (11.7 percent), Southern Province (11.1 percent) and Northern Province (9.3 percent) (Table 44).

Table 44: Number of Depositors and Borrowers in Banks by Province

| | Kigali | North | East | West | South | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| Depositors | 1,277,335 | 216,355 | 295,625 | 270,451 | 258,212 | **2,317,978** | **1,877,858** |
| Borrowers | 199,466 | 21,791 | 35,717 | 25,746 | 25,485 | **308,206** | **243,380** |

Source: NBR, Conduct Supervision & Financial Inclusion Department

The number of borrowers increased from 243,380 to 308,206 in 2018 (26.6 percent increase). As with depositors, the City of Kigali has the largest number of borrowers (64.7 percent), followed by Eastern Province (11.6

percent) and the Northern province has the lowest number of borrowers (7.1 percent).

### 5.2.8 Financial Sector Policy Reforms Implemented

*Law governing credit reporting system credit reporting system*

The existing law on credit reporting system, which was enacted in 2008, was reviewed. The new law N° 73/2018 of 31/08/2018 was published in the official gazette n° 37 of 10/09/2018. The main reasons for this review was to extended the mandatory data providers to include telecommunication companies and public services utilities, in addition to Banks, insurance and microfinance. Further, the law set requirements to strengthen the data submission mechanism in the credit bureau (complete, accurate and timely credit information), require an operator of credit bureau to provider service that is secured, reliable, efficient, and having an IT solution capable of delivering credit reports. The law also establish a Credit Reporting Council as a forum of different stakeholders where issues related to credit reporting system will be discussed.

*Law on prevention and punishment of money laundering and terrorism financing (AML/CFT Law)*

This new law N° 69/2018 of 31/08/2018 published in the official gazette n° 37 of 10/09/2018 repealed the AML/CFT law that was enacted in 2008. The reasons of this review were to ensure that the current AML/CFT comply with the international standards, the Financial Task Force Recommendations (FATF 40 recommendations). The law also has addressed most of the gaps that were identified during the Mutual Evaluation report (MER) that was undertaken by the IMF and endorsed by Eastern and Southern Anti Money Laundering Group (ESAAMLG). Among gaps that were addressed by the new law are the review of the money laundering and financing of terrorism definitions, considering insurance companies, trusts, casinos as reporting persons, requiring supervisory authorities to monitor the compliance of the law by reporting persons as well as issuing administrative sanctions for non-compliance.

### *Regulation governing Non-Deposit Taking Financial Institutions (NDFIS)*

In December 2018, the NBR extended its regulatory perimeters to non-deposit taking credit institutions. The Bank issued a Regulation to govern non-deposit taking financial institutions (Regulation N° 2100 /2018 – 00011 [614] of 12/12/2018). This regulation establishes regulatory standards for non-Bank financial institutions that principally perform financial services in the form of non-deposit taking lending financial services or related financial services. These institutions include: credit services only, mortgage finance services, credit guarantees, refinancing services, factoring services, debt collection services and other financial services that the Central Bank may qualify as posing systemic risk to the financial sector stability. In establishing this regulation, the NBR aimed at containing systemic risks to the financial sector that might emanate from this unregulated section of the financial system, as well as protecting consumers of financial services in this segment of the market. By regulating non-deposit taking financial institution, NBR joined several global financial regulators. Experience from around the globe indicate that growth of unregulated financial service providers and their interdependence with traditional financial system pose great risk to the financial system. In containing these risks, financial regulatory bodies around the world are therefore extending their regulatory perimeters to these institutions. This NBR's regulation specifies licensing requirements for non-deposit taking financial institutions, minimum capital requirement, permissible funding sources, transparency requirements, accounting and financial reporting standards, governance standard and, reporting requirements to NBR.

### *DSIBs framework*

In line with global trends, and as part of reforms to foster financial stability, the NBR developed and issued a framework for regulation and supervision of Domestically Systemically Important Banks (DSIBs). The framework specifies the assessment methodology for identifying DISIBs and additional regulatory requirements for identified DSIBs. A systemically important Bank is defined as a Bank whose failure might largely disrupt the functioning of the entire financial system, with far reaching impact on the economy. By implementing this policy tool, the NBR aimed at creating stronger risk management practices that would reduce the systemic risk that SIBs pose to the financial system. The methodology adopted in defining SIBs follows the Basel guidance, but with adjustments to meet the local context. The methodology ranks banks based on 5 broad indicators: the size, interconnectedness, substitutability, complexity and cross-jurisdictional activities. In implementing this framework, every year, the NBR will identify and communicate DSIBs to the banking industry (in June every year). The assessment shall be based on annually audited financial statements of Banks, usually available in April. Identified DSIBs shall comply with specific requirements provided in the framework. Identified SIBs will be required to provide, among other things, specific recovery plans and shall be subjected to more on-site supervision.

### *Regulation on licensing conditions for Banks and Insurers*

The NBR revised the licensing requirements of Banks and insurance companies. For Banks, the NBR revised the licensing requirements by re-defining categorization of Banks and increasing the minimum capital requirement for different categories of Banks. Through the revised licensing regulation for Banks (Regulation N° 2310/2018 – 00013 of 27/12/2018), NBR established three categories– commercial Banks, development Banks, cooperative Banks and mortgage Banks. As per this Regulation, microfinance

Banks will shift from the banking regulatory framework to the Microfinance to ensure proportionality in regulation and supervision. Another element revised in the licensing requirements of Banks is minimum capital. The minimum paid up capital requirement of commercial Banks was increased from FRW 5 billion to FRW 20 billion. For development Banks, the minimum capital requirement was increased from FRW 3 billion to FRW 50 billion. The paid up capital for the new categories of Banks (Cooperative and Mortgage Banks) was set at FRW 10 Billion. Banks have a 5-year transition period to build up the capital to the new required levels. The overall basis for increasing capital requirement of Banks was to strengthen the resiliency of the banking sector and increase their capacity to expand their businesses. The initial minimum capital requirements were established 10 years back (2008). Since then, much has changed, the economy has developed, the financial sector has developed and risks have increased. Going forward, new Banks that apply for license will be required to meet the established capital requirements.

In the same spirit, through Regulation N° 2310/2018 - 00014[614] of 27/12/2018), the NBR revised the licensing requirements of insurance companies. For reasons similar to Banks, NBR increased the minimum paid up capital for general insurance from FRW 1 billion to FRW 3 Billion, and for life insurance from FRW 1 billion to FRW 2 Billion. Further to this, NBR also introduced two additional categories of insurance companies–Health Maintenance Organizations (HMOs) with a minimum paid capital requirement of FRW 500 million, and reinsurers with minimum paid up capital requirement of FRW 5 Billion. Insurance companies were also given a transitional period of 5 years to comply with this new capital requirements. Going forward, new insurance companies that apply for license will be required to meet the established capital requirements.

### *Regulation governing the micro-insurance organization*

In December 2018, the NBR issued a new regulation governing the micro insurance business (Regulation No 2100 /2018 – 00012[614] OF 12/12/2018). The purpose of this Regulation is to create conducive environment for micro-insurance business, regulate micro-insurers, protect micro insurance policyholders, promote and develop micro-insurance business in Rwanda. This regulation stipulates requirements for micro-insurance institutions and traditional Insurers that also offer micro-insurance products. According to this regulation, micro insurance refers to any financial arrangement aimed to protect low income people against specific perils through specific products in exchange of regular payment of premium proportionate to the likelihood and cost of the risk involved. This regulation stipulates among other things, licensing requirements, governance requirements, prudential requirements and, reporting requirements.

### *The directive on RBC requirements*

NBR is moving to a Risk Based Capital (RBC) regime. Since the enactment of the insurance law in 2008, NBR has been using the compliance based solvency approach. In order to align with the international supervisory practices, NBR is moving to a more sound and robust prudential supervision framework for insurance, RBC approach. It is based on the risk profile of each individual insurance company in order to promote comparability, transparency and competitiveness. The parallel run for the RBC implementation started in October 2018. This period will help Insurers to gauge their compliance level vis-à-vis the new prescribed capital adequacy requirements and allow shareholders to address any gaps identified during the prescribed transition period. It is also a period for the Insurers to build capacity and skills in their technical teams (underwriting, claims, and finance) for the full implementation of the new solvency regime.

# VI. MONETARY POLICY AND FINANCIAL SECTOR STABILITY OUTLOOK

## 6.1 MONETARY POLICY OUTLOOK

In 2019, Rwanda's economic growth is expected to remain high, in a context of low and stable inflation, subdued exchange rate pressures and non-inflationary aggregate demand. Inflation is projected to be around 3.0 percent, in line with the benchmark inflation band.  In this context, NBR's monetary policy is foreseen to remain accommodative in 2019 and will continue to ensure the financing of the economy by the banking sector.

The improvement in monetary transmission mechanism will continue to be one of key priorities of NBR.

On one side, strengthening of liquidity forecasting and management will contribute to further develop money market in Rwanda which is key for the effectiveness of the price-based monetary policy recently adopted by NBR as it improves interest rate pass-through. Through the conduct of open market operations, NBR will continue to impact on money market rates, which are expected to remain closer to the central bank rate.

On the other side, in collaboration with stakeholders, NBR will continue working towards the development of the corporate bond market, which will provide additional source of financing to the economy, while contributing to the improvement of the monetary transmission mechanism

The risks to the Rwandan economic outlook pertain mainly to uncertainties of the global prospects. Global growth is estimated to slow down to 3.7 percent in 2018 from 3.8 percent in 2017, and projected at 3.5 percent and 3.6 percent in 2019 and 2020, respectively. Nevertheless, NBR will continue to monitor developments in global and domestic economy and stands ready to take appropriate actions as required, to ensure Rwanda's macroeconomic stability.

## 6.2 FINANCIAL SECTOR OUTLOOK

The financial sector is projected to remain stable and sustain its growth momentum in 2019 as the outcome of improved economic growth and the reforms implemented in the financial sector. The projected stronger economic performance will continue to support growth of the financial sector, through increased resources and improved asset quality.

The NBR will continue working with MFIs on proper loan underwriting, classification and adequate provisioning for bad loans. On-going efforts to address the issues of bad loans in MFIs will support the sustainability of these institutions. In this regards, NBR has started sensitizing all MFIs on small claims procedures following the enactment of the new civil, commercial, labor and administrative law that refereed small claims (of less than FRW 5 million) to primary courts. The automation of U-SACCOs is also expected to improve service delivery and operational performance of U-SACCOs, thus boosting their profitability.

The implementation of new directive on risk based capital requirements will enhance risk management and operational efficiency of insurers. The NBR will continue to engage insurers to keep appropriate level of capital relative to risk profile, ensure adequate pricing of risks, as well as proper management of claims and operational expenses.

With the adoption of RNPS vision and strategy, the financial technology is expected to continue transforming the banks' payment service delivery. The ongoing RIPPS upgrade will lead to fundamental changes in payment industry and offers benefits including real time payment, accelerated clearing and settlement to reduce settlement risk and expansion of operating hours to allow completion of transaction out of business, among others.

The NBR will continue to review the legal and regulatory framework of the financial sector to enhance its stability but also ensure compliance with international best practice. In this end, the NBR anticipates to promulgate new regulatory instruments in 2019 including the revised Pension Law, Payment System Law, Insurance Law, Microfinance Law and the Financial Consumer Protection Law. The following regulations will also be enacted: Regulations on shareholding and amalgamation, regulation on place of business, regulation of internal controls for banks, regulation on consolidated supervision and the regulation on financial statements disclosures.

**National Bank of Rwanda**
KN 6 AV.4,
PO Box 531 Kigali, Rwanda
Tel:(+250) 788 199 000
Email:info@bnr.rw
Swiftcode:BNRWRWRW
Twitter:@CentralBankRw
Website:www.bnr.rw