NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

25th February 2020

MPFSS, February 2020

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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LIST OF ACRONYMS AND ABBREVIATIONS

ATM	: Automated Teller Machine
BIF	: Burundian Franc
B2P	: Business to Person
BK	: Bank of Kigali
CAR	: Capital Adequacy Ratio
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
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
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
NALs	: New Authorized Loans
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
US	: United States
USD	: American dollar
WEO	: World Economic Outlook
YoY	: Year-on-year

EXECUTIVE SUMMARY

The International Monetary Fund estimates global growth to slow down from 3.6 percent in 2018 to 2.9 percent in 2019, and projected to pick up to 3.3 percent in 2020. In advanced economies, growth is projected to soften to 1.7 percent in 2019 from 2.2 percent in 2018, mostly reflecting a downward revision for all major advanced economies, and projected to decelerate to 1.6 percent in 2020.

Growth in emerging markets and developing economies is expected to slow down to 3.7 percent in 2019, from 4.5 percent in 2018, before improving to 4.4 percent in 2020, reflecting an upward revision in all major regions. In Sub-Saharan Africa, growth is expected to slightly rise to 3.3 percent in 2019, from 3.2 percent in 2018, and strengthen to 3.5 percent in 2020.

Monetary policy remained accommodative in most advanced economies in 2019, with Central Bank policy rates kept unchanged in the Eurozone, Japan, and UK. The US Federal Reserve cut the Federal Funds rate three times last year (July, September and October 2019) by 25 basis points each month.

Rwanda's real sector exhibited a notable growth in 2019 with an average growth of 10.9 percent in the first three quarters, higher than 8.3 percent registered in the same period of 2018. This high performance mainly resulted from the industry sector's growth of 17.7 percent followed by services and agriculture sectors which grew by 10.6 percent and 5.8 percent respectively. High frequency indicators show that overall, 2019 performance signals a strong growth that will surpass the projected 8.5 percent growth. The composite index of economic activities (CIEA) grew by 13.4 percent in 2019 compared to 10.9 percent recorded in the previous year. In addition, the total turnovers grew by 19.3 percent, up from a 16.2 percent growth in 2018. This good economic performance is expected to continue in 2020, supported by industrial activity (including ongoing large-scale construction projects and *their spillovers in the manufacturing sectors) as well as services (including international meetings as well as trade, engineering and transport services).*

Exports continue to grow, rising by 3.8 percent to USD 1,164.5 million in 2019 from USD 1,121.9 million in 2018. The recorded increase was mainly driven by good performance of re-exports (+22.4 percent) and non-traditional exports (+10.1 percent), albeit a fall in traditional exports (-15.9 percent). The decline in traditional exports resulted largerly from a weakening external demand of mineral exports due to a slowdown of global manufacturing activity and prolonged stall in the trade war between United States and China. On the other hand, imports grew by 10.6 percent mainly explained by high domestic demand of capital goods (+17.8 percent), linked to ongoing infrastructure projects, and intermediary goods (+16.0 percent) used by the growing manufacturing sector. As a result, Rwanda's trade deficit increased by USD 215.5 million (16.3 percent) to USD 1,538.9 million in 2019.

On average, headline inflation remained low, picking up to 2.4 percent in 2019 from 1.4 percent recorded in 2018. The uptick owes to lower inflation rates recorded in the previous year, coupled with domestic demand conditions, unfavorable weather conditions, and rising imported inflation. Following the upward trend in aggregate demand adding to the cost of domestic production, core inflation surged to 2.3 percent in 2019 from 1.6 percent recorded in 2018. With inflation remaining low, the National Bank of Rwanda maintained an accommodative monetary policy stance.

On monetary sector side, broad money increased by 15.4 percent in 2019, compared to 15.6 percent recorded in 2018. This growth was supported by the increase in the outstanding credit to the private sector, which grew by 12.6 percent in 2019, compared to 10.8 percent growth in 2018. New authorized loans grew by 20.1 percent in 2019, from 17.2 percent in 2018. The growth observed in new authorized loans was mainly reflected in four sectors:

manufacturing activities, public works and building, water and energy and personal loans.

Money market interest rates remained stable and converged around the Central Bank Rate (CBR), resulting from improved liquidity management. Commercial banks' lending rate decreased, standing at 16.49 percent in 2019 from 16.98 percent recorded in 2018. The spread between lending and deposit rate reduced by 63 basis points, reaching 8.85 percent on average in 2019, from 9.48 percent in 2018.

The Rwandan financial system remains resilient and its capacity to withstand shocks continues to improve. The sector continues to hold sufficient buffers of capital and liquidity relative to regulatory requirements. Asset quality of banks and MFIs steadily improved over the last three years due to robust economic performance (resulting in better repayment of loans as well as disbursement of new loans) and write-off of long outstanding NPLs. Banking sector profitability improved over the last three years due to improved asset quality, accelerated lending as well as improvements in operational efficiency. Profitability of private insurers continued to improve largely due to better pricing of risks, improved claims management as well as increasing investment income to mitigate underwriting losses.

INTRODUCTION

The objective of this first 2020 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic developments for the year 2019 and give an outlook for 2020. This statement first presents the global economic developments in Section 1, to contextualize the domestic economic and financial 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, emerging market and developing economies, Sub Saharan Africa and the East African Community. The section contextualizes the global economic environment within which the Rwandan economy performs and NBR conducts its monetary policy.

1.1 ECONOMIC GROWTH AND OUTLOOK

According to the International Monetary Fund's (IMF) estimates published in January 2020, global growth is estimated at 2.9 percent in 2019 from 3.6 percent recorded in 2018. The weakest growth since 2008-09 global financial crisis, following uncertainties of US-China trade tensions & Brexit, geopolitical tensions (US & Iran), effects from climate change, and slowed domestic demand in India. In 2020, global growth is expected to pick up to 3.3 percent.

Growth in advanced economies is estimated at 1.7 percent in 2019, and projected to soften to 1.6 percent in 2020, mostly reflecting downward revision for the United States, Euro area and United Kingdom.

Table 1: Global GDP Growth (p.a)

	2011	2012	2013	2014	2015	2016	2017	2018	2019 est.	2020 proj.
World	4.3	3.5	3.5	3.6	3.4	3.4	3.8	3.6	2.9	3.3
Advanced economies	1.7	1.2	1.4	2.1	2.3	1.7	2.4	2.2	1.7	1.6
United States	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.3	2.0
Euro area	1.6	-0.9	-0.2	1.4	2.1	2.0	2.4	1.9	1.2	1.3
Japan	-0.1	1.5	2.0	0.4	1.2	0.6	1.9	0.3	1.0	0.7
United Kingdom	1.6	1.4	2.0	2.9	2.3	1.8	1.8	1.3	1.3	1.4
Emerg.& developing economies	6.4	5.4	5.1	4.7	4.3	4.6	4.8	4.5	3.7	4.4
China	9.5	7.9	7.8	7.3	6.9	6.7	6.8	6.6	6.1	6.0
India	6.6	5.5	6.4	7.4	8.0	8.2	7.2	6.8	4.8	5.8
Sub-Saharan Africa	5.3	4.7	5.2	5.1	3.2	1.4	2.9	3.2	3.3	3.5

Source: IMF, January 2020

The United States (US) growth is expected to moderately decrease to 2.3 percent in 2019 from 2.9 percent in 2018, and decelerate further to 2.0 percent in 2020. This projected growth reflects a return to a neutral fiscal stance and anticipated waning from the further loosening of financial conditions.

GDP growth in the Eurozone is estimated at 1.2 percent in 2019 from 1.9 percent recorded in 2018, and projected to pick up to 1.3 percent in 2020. The United Kingdom's economy is estimated to stabilize at 1.3 percent in 2019, and projected at 1.4 percent in 2020. Relative to October 2019 forecast, projections were revised by 0.1 percentage point higher for 2019 and unchanged for 2020. This growth forecast assumes an orderly exit from the European Union at the end of January, followed by a gradual transition to a new economic relationship.

In emerging markets and developing economies, growth is estimated at 3.7 percent in 2019, from 4.5 percent in 2018, before improving to 4.4 percent in 2020, reflecting a recovery from deep downturns in underperforming emerging economies.

Growth in China is projected to inch down from an estimated 6.1 percent in 2019 to 6.0 percent in 2020. The envisaged partial rollback of past tariffs and pause in additional tariff hikes as part of "phase one" trade deal with the United States is likely to alleviate near-term cyclical weakness. However, unresolved disputes on broader US-China economic relations, needed domestic financial regulatory strengthening, as well as the outbreak of the coronavirus that is estimated to lower China's growth, are expected to weigh down the economic activity.

India's economic growth is estimated at 4.8 percent in 2019, from 6.8 percent in 2018, where domestic demand has slowed more sharply than expected amid stress in the non-bank financial sector and a decline in credit growth. In 2020, growth is projected at 5.8 percent (1.2 percentage point lower than the

October 2019 forecast), supported by monetary and fiscal stimulus as well as subdued oil prices.

In Sub-Saharan Africa, growth is expected to slightly increase to 3.3 percent in 2019, from 3.2 percent in 2018, and strengthen to 3.5 percent in 2020 (0.1 percentage point lower than October 2019 forecasts), reflecting a downward revision for South Africa, where structural constraints and deteriorating public finances are holding back business confidence and private investment.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019 est.	2020 proj.
Angola	3.5	8.5	5.0	4.8	0.9	-2.6	-0.2	-1.2	-0.3	1.2
Nigeria	4.9	4.3	5.4	6.3	2.7	-1.6	0.8	1.9	2.3	2.5
South Africa	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.4	0.8
South Sudan	-	-52.4	29.3	2.9	-0.2	-16.7	-5.5	-1.1	7.9	8.2
Egypt	1.8	2.2	3.3	2.9	4.4	4.3	4.1	5.3	5.5	5.9
Libya	-66.7	124.7	-36.8	-53.0	-13.0	-7.4	64.0	17.9	-19.1	0.0

Source: IMF, October 2019 & January 2020

The economic performance in the East Africa community countries (EAC) is expected to decelerate in 2019. Real GDP growth is estimated at 5.6 percent in 2019 from 6.5 percent in 2018, following projected slowdown for some EAC countries compared to the previous year. However, Real GDP growth is projected to pick up to 6.0 percent in 2020, following a high estimated growth for Rwanda, Kenya and Tanzania.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EAC	6.9	4.5	6.1	5.9	6.1	5.4	5.6	6.5	5.6	6.0
Burundi	4.0	4.4	5.9	4.5	-4.0	-1.0	0.0	0.1	0.4	0.5
Kenya	6.1	4.6	5.9	5.4	5.7	5.9	4.9	6.3	5.6	6.0
Rwanda	7.8	8.8	4.7	7.6	8.9	6.0	6.1	8.6	8.5	8.0
Tanzania	7.9	5.1	6.8	6.7	6.2	6.9	6.8	7.0	5.2	5.7
Uganda	6.8	2.2	4.7	4.6	5.7	2.3	5.0	6.1	6.2	6.2

Source: IMF, October 2019

Kenya's economy is expected to grow by 5.6 percent in 2019, from 6.3 percent in the previous year, and projected to pick up to 6.0 percent in 2020. Rwanda's economy grew by 10.9 percent in the first three quarters of 2019 from 8.3 percent in the corresponding period of 2018. According to IMF January projections, Rwanda's economy is expected to grow by 8.5 percent in 2019. Following double-digit growth in the first three quarters of 2019, growth is expected to surpass the IMF projections and remain strong in 2020.

In Uganda, GDP growth is expected at 6.2 percent in 2019 after 6.1 percent recorded in 2018, and projected to remain stable in 2020. Tanzania's economy is expected to grow by 5.2 percent in 2019, lower than 7.0 percent recorded in 2018, and projected to pick up to 5.7 percent in 2020. In Burundi, growth is projected to remain subdued at 0.4 percent in 2019 and slightly pick up to 0.5 percent in 2020, from 0.1 percent in 2018.

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is expected at 3.4 percent in 2019 from 3.6 percent in 2018, in line with falling commodity prices and softening global demand, and projected to increase at 3.6 percent in 2020.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj.
World	5.1	4.1	3.7	3.2	2.8	2.8	3.2	3.6	3.4	3.6
Advanced economies	2.7	2.0	1.4	1.4	0.3	0.8	1.7	2.0	1.4	1.7
United States	3.1	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	2.3
Euro area	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	1.4
Japan	-0.3	-0.1	0.3	2.8	0.8	-0.1	0.5	1.0	1.0	1.3
United Kingdom	4.5	2.8	2.6	1.5	0.0	0.7	2.7	2.5	1.8	1.9
Emerging and dev. economies	7.1	5.8	5.5	4.7	4.7	4.3	4.3	4.8	5.1	4.6
China	5.4	2.6	2.6	2.0	1.4	2.0	1.6	2.1	2.9	2.4
India	9.5	10.0	9.4	5.8	4.9	4.5	3.6	3.4	3.4	4.1
Sub-Saharan Africa	9.3	9.2	6.6	6.4	6.9	10.8	10.9	8.5	8.4	8.0

Source: IMF, October 2019 & Official numbers from countries

In advanced economies, consumer price inflation is expected to average 1.4 percent in 2019 and projected to rise to 1.7 percent in 2020, from 2.0 percent in 2018, consistent with the softening of energy prices and the decline in the economic growth.

The US annual average inflation eased to 1.8 percent in 2019, from 2.4 percent in the previous year, and projected at 2.3 percent in 2020. With the US economy operating above potential, core consumer price inflation is projected at about 2.6 percent in 2020-2021, higher than its medium-term level of 2.2 percent (consistent with the medium-term target of 2.0 percent for personal consumption expenditure inflation).

The annual average inflation in the Eurozone eased to 1.2 percent in 2019, from 1.8 percent in 2018, and expected to rise gradually to 1.4 percent in 2020. The annual average inflation in the United Kingdom eased to 1.8 percent in 2019, from 2.5 percent in the previous year, and projected to slightly increase to 1.9 percent in 2020.

In the emerging market and developing economies, inflation is expected to increase to 5.1 percent in 2019 from 4.8 percent in 2018, and edge down to 4.6 percent in 2020. In China, annual average inflation rose to 2.9 percent in 2019, from 2.1 percent in the previous year, but projected to ease to 2.4 percent in 2020.

In Sub-Saharan Africa, annual average inflation is projected to ease to 8.4 percent in 2019, and 8.0 percent in 2020, from 8.5 percent in 2018, reflecting a large decline in global energy prices.

In EAC, annual average inflation is estimated at 4.3 percent in 2019 and 4.6 percent in 2020, from 3.6 percent in 2018. The stable and low inflation in the region is attributed to good agriculture production due to favorable weather conditions, and monetary policies implemented by Central Banks.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Proj.
EAC	13.2	12.3	6.3	5.5	5.7	5.7	6.5	3.6	4.3	4.6
Burundi	9.6	18.2	7.9	4.4	5.6	5.5	16.6	1.2	-0.7	9.0
Kenya	14.0	9.4	5.7	6.9	6.6	6.3	8.0	4.7	5.2	5.3
Rwanda	5.7	6.3	4.2	1.8	2.5	5.7	4.8	1.4	2.4	6.2*
Tanzania	12.7	16.0	7.9	6.1	5.6	5.2	5.3	3.5	3.5	4.2
Uganda	15.0	12.7	4.9	3.1	5.4	5.5	5.6	2.6	2.9	3.8

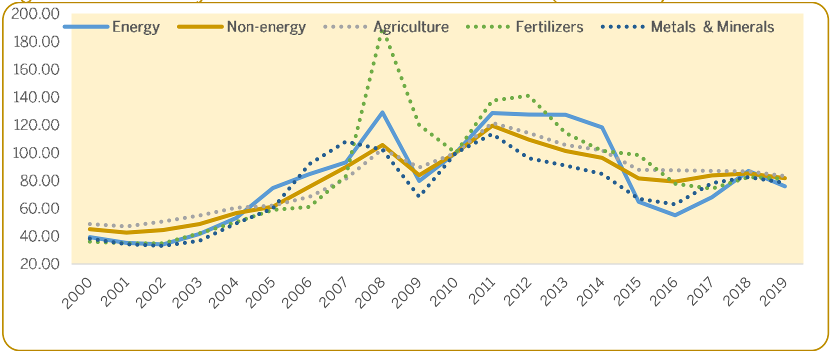
Source: IMF, Regional Economic Outlook, October 2019
*NBR staff projections

The annual average inflation in Kenya rose to 5.2 percent in 2019 from 4.7 percent in 2018, and projected to rise further to 5.3 percent in 2020. In Rwanda, the annual average inflation rose to 2.4 percent in 2019, from 1.4 percent in 2018, and projected to increase around 6.0 percent in 2020. In Tanzania, annual average inflation remained stable at 3.5 percent in 2019, and projected to increase to 4.2 percent in 2020. The annual average inflation in Uganda rose to 2.9 percent in 2019, from 2.6 percent in 2018, and projected to increase to 3.8 percent in 2020. The annual average inflation in Burundi was -0.7 percent in 2019 from 1.2 percent in 2018, and projected to rise to 9.0 percent in 2020.

1.2.2 Commodity Prices

In 2019, global commodity prices decreased, reflecting supply influences and softening global demand and projected to continue falling in 2020. Energy prices fell by 12.7 percent in 2019 compared to an increase of 27.8 percent in 2018, and non-energy commodity prices decreased by 4.1 percent after an increase of 1.7 percent in 2018. Non-energy prices decreased following a decline in all three major components, namely agriculture, metals & minerals and fertilizers.

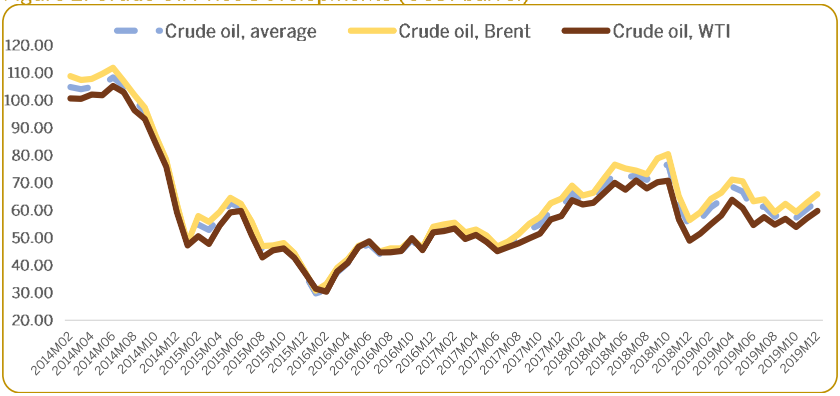
Figure 1: Commodity Prices Index in Nominal US Dollar (2010=100)



Source: World Bank, December 2019

On the back of softening global demand, crude oil prices decreased by 11.3 percent on average in 2019, compared to an increase of 29.4 percent in 2018. In 2020, crude oil prices will continue to decrease, but deceleration rate will be lower than in the previous year, as oil consumption is expected to increase slightly. According to the IMF January projections, crude oil prices are projected to decrease further by 4.3 percent in 2020.

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



Source: World Bank, December 2019

In 2019, average prices for agriculture commodities declined (-3.8 percent) due to the falling prices of beverages (-3.7 percent); Coffee Arabica (-1.6 percent), Coffee Robusta (-13.2 percent), and Tea (-9.8 percent). During the same year, food prices decreased by 3.8 percent; oils & meals (-8.9 percent) and other foods (-1.4 percent). In 2020, prices are projected to slightly increase by 0.6 percent, mainly attributed to the projected rising prices of beverages by 2.3 percent; Coffee Arabica, Coffee Robusta and Tea prices increasing by 1.8 percent, 3.1 percent and 2.0 percent, respectively.

In 2019, metals & mineral prices decreased by 5.0 percent, compared to an increase of 5.5 percent in 2018, attributed to softening global demand. Metals & mineral prices are projected to further decline by 1.4 percent in 2020, on expectations of subdued global industrial demand.

Prices for fertilizers declined by 1.4 percent in 2019 compared to an increase of 11.1 percent in 2018, and projected to increase by 2.2 percent in 2020, on continued acreage expansion.

Table 6: Commodity Prices (p.a)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj.
Energy	28.7	-0.9	-0.1	-7.1	-45.2	-15.0	23.7	27.8	-12.7	-3.1
Crude oil, average	31.6	1.0	-0.9	-7.5	-47.3	-15.7	23.3	29.4	-11.3	-4.3
Non energy	19.6	-8.4	-7.5	-4.8	-15.4	-2.8	5.5	1.7	-4.1	0.1
Agricultural comm.	21.5	-6.0	-7.5	-3.6	-13.8	-0.5	-0.5	-0.4	-3.8	0.6
Beverages	16.0	-20.1	-10.1	22.2	-7.7	-2.8	-9.0	-4.8	-3.7	2.3
Coffee, Arabica	38.3	-31.2	-25.2	43.8	-20.3	2.4	-8.0	-12.0	-1.6	1.8
Coffee, Robusta	38.7	-5.8	-8.4	6.8	-12.4	0.6	13.9	-16.0	-13.2	3.1
Tea, Avg. 3 auctions	1.2	-0.8	-1.2	-4.9	2.1	-3.3	17.3	-9.5	-9.8	2.0
Food	22.5	1.4	-7.7	-7.5	-16.6	1.3	0.6	0.3	-3.8	-10.5
Cereals	38.2	2.3	-9.3	-18.8	-16.4	-7.3	-0.2	10.2	0.2	1.5
Metals & Minerals	13.5	-15.3	-5.5	-6.6	-21.1	-5.9	24.2	5.5	-5.0	-1.4
Tin	27.7	-18.9	5.5	-1.7	-26.6	11.6	11.9	0.4	-7.4	0.4
Fertilizers	37.6	2.5	-18.9	-11.3	-3.0	-21.0	-4.5	11.1	-1.4	2.2

Source: World Bank, December 2019 & IMF, January 2020

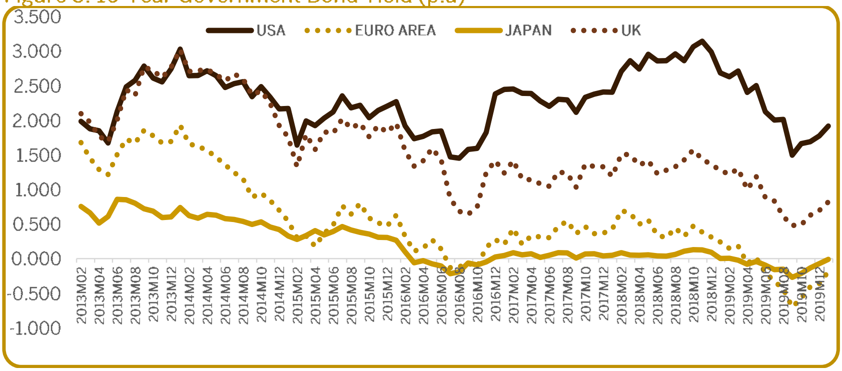
1.3 MONETARY POLICY AND FINANCIAL MARKETS

Monetary policy remained accommodative in most advanced economies. The US Federal reserve cut the Federal Funds rate three times in 2019, while the Bank of England (BoE) has maintained its policy rate at 0.75 percent, following the last increase by 25 basis points in August 2018. 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 since January 2016.

In December 2019, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.420 percent and -0.115 percent, respectively. In the US and UK, deposit rates decreased to 1.855 percent and 0.765 percent, respectively, from 2.770 percent and 0.900 percent in December 2018.

The ten- year government bond rate decreased in US, Eurozone, UK and Japan to 1.918 percent, -0.185 percent, 0.822 percent and -0.011 percent, respectively, from 2.685 percent, 0.242 percent, 1.277 percent and 0.003 percent in December 2018.

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



Source: Bloomberg database, 2019

On the foreign exchange market, the US dollar is weakening against major currencies, notably the British Pound and Japanese Yen, mainly due to the slowdown in the US economy, while appreciating against the Euro.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019
USD/GBP	0.5	-4.4	-1.9	6.3	5.7	19.4	-8.6	5.9	-3.8
USD/EUR	3.3	-1.7	-4.0	13.6	11.4	3.2	-12.4	4.7	2.3
USD/JPY	-5.2	12.8	21.4	13.7	0.4	-2.7	-3.7	-2.7	-0.1

Source: Bloomberg database, 2020

In December 2019, the US dollar depreciated by 3.8 percent against the British Pound, and by 0.1 percent against the Japanese Yen, from an appreciation of 5.9 percent and a depreciation of 2.70 percent in December 2018, respectively. However, the dollar appreciated by 2.3 percent against the Euro, compared to an appreciation of 4.7 percent in December 2018.

II. NATIONAL ECONOMIC PERFORMANCE

This section presents the developments in the national economy, focusing on the drivers of economic growth in 2019 and the outlook for 2020. It indicates that the Rwandan GDP recorded a growth higher than 8.5 percent that was initially projected. This good economic momentum is expected to continue in 2020.

2.1 ECONOMIC GROWTH

In 2019, the Rwandan economy is expected to record a double-digit growth; surpassing the initially projected growth of 8.5 percent. For the first three quarters of 2019, economic growth averaged 10.9 percent compared to 8.3 percent registered in the same period of 2018.

Table 8: Rwanda Real GDP growth (percent)

	2015	2016	2017	2018	2019				2020
					Q1	Q2	Q3	Annual Proj.	Proj.
GDP	8.9	6.0	6.1	8.6	8.4	12.2	11.9	8.5	8.0
Agriculture	5.0	3.9	6.6	5.9	4.4	5.4	7.7	5.6	5.3
Food crops	3.6	3.0	7.4	4.3	3.6	3.6	5.4	3.6	5.1
Export crops	14.4	2.4	2.3	9.7	-8.7	5.6	21.9	8.6	2.1
Livestock & livestock products	9.1	9.6	11.4	13.3	14.4	14.1	13.7	14.0	9.1
Forestry	3.7	3.7	3.2	4.3	5.2	5.2	4.9	5.0	4.1
Fishing	3.2	2.6	4.8	4.8	2.4	3.2	4.0	2.5	4.0
Industry	8.9	6.7	4.5	10.3	18.0	21.3	13.8	11.8	11.9
Mining & quarrying	-5.0	10.4	22.6	1.9	12.2	13.0	-16.2	10.4	14.9
Manufacturing	8.4	6.6	6.5	10.7	8.1	15.9	13.4	9.3	7.2
Electricity	8.0	13.7	7.9	9.8	7.6	8.8	6.5	8.3	11.9
Water & waste management	0.8	5.3	2.0	2.7	4.3	4.5	2.0	10.5	6.6
Construction	15.4	4.9	-3.1	14.1	30.5	31.6	29.4	15.1	14.8
Services	10.4	7.2	7.9	8.8	7.6	11.6	12.7	8.8	8.3
Trade & transport	11.5	6.7	3.8	16.0	8.8	20.4	22.0	12.4	7.7
Maintenance and repair of motors	5.1	6.8	4.1	7.2	7.6	7.9	8.8	7.1	7.1
Wholesale & retail trade	12.7	6.1	0.1	15.2	7.4	23.1	24.9	13.5	6.5
Transport services	9.7	8.0	11.1	18.3	11.3	16.6	18.2	10.9	10.0
Other services	10.1	7.3	9.3	6.5	7.1	8.6	9.3	7.6	8.5
Hotels & restaurants	9.3	11.3	9.9	9.5	6.8	13.4	14.8	7.1	11.7
Information & communication	17.9	8.6	12.4	17.9	-2.5	1.2	-4.9	6.7	11.4
Financial services	12.2	3.4	7.1	9.9	13.7	13.3	9.1	10.2	8.7
Real estate activities	4.5	6.2	4.9	5.4	2.4	5.9	4.7	5.4	5.2
Professional, scientific and technical activities	14.2	6.3	17.4	5.9	25.4	12.6	10.2	10.7	10.1
Administrative and support services	16.1	9.8	26.2	-2.8	15.2	11.1	5.9	13.0	11.6
Public administration and defense	5.5	11.6	4.1	9.2	-3.4	11.7	15.4	4.5	7.0
Education	1.7	3.7	2.0	3.7	3.8	3.8	3.8	5.8	5.5
Human health and social work activities	10.1	6.2	6.2	0.0	-3.8	10.8	14.1	3.5	4.9
Cultural, domestic & other services	19.2	7.0	8.6	12.5	13.2	5.4	16.8	9.0	11.3
Taxes less subsidies on products	14.1	4.4	-4.1	14.1	8.5	21.5	17.9	9.0	6.5

Source: MINECOFIN & NISR (2019)

The high performance mainly resulted from the industry sector that grew by 17.7 percent followed by the services sector (10.6 percent) and agriculture sector (5.8 percent).

Despite having the lowest share in GDP (18.2 percent) compared to agriculture (25.7 percent) and services sector (49.1 percent), the industry sector grew the fastest in 2019, mainly buoyed by construction and manufacturing sub-sectors representing 46.0 percent and 33.9 percent of the sector, respectively. Booming construction activities, that included Kigali Arena, Gisagara peat power plant, and roads network upgrade across the country, led the construction sub-sector to an increase of 30.5 percent during the first three quarters of 2019 from 11.9 percent in the same period of 2018. These construction activities generated positive spillover effects to the manufacturing subsector (which increased by 12.5 percent from 10.0 percent) mainly through the construction material industries. These effects also contributed to the good performance of the services sector, through trade services (18.5 percent) and architectural & engineering activities (29.1 percent).

The services sector was further supported by the good performance in transport services (15.4 percent), hotel industry (11.6 percent) as well as financial services (12.1 percent). Transport services were boosted by land transportation (13.0 percent) and air transportation (16.2 percent) on account of business expansion of RwandAir. The good performance of financial services was mainly led by commercial banks which grew by 13.9 percent in the first three quarters of 2019, from 6.6 percent in the same period of 2018 and represent 73.5 percent of the Rwandan financial sector's added value. This growth is reflected in the expansion of new credit to private sector, by 41.1 percent from 0.3 percent during the same period.

Rwanda continued to successfully position itself as an emerging destination for international conferences and exhibitions. By the end of 2019, Rwanda hosted 220 international events attended by 45,640 delegates, up from about 201 events with 20,954 delegates in 2018. Consequently, the value added of the hotel industry increased by 11.6 percent in the first three quarters of 2019 from 9.1 percent recorded during the corresponding period of 2018.

The agriculture sector's performance was mainly driven by food crop production, accounting for 57.6 percent of the sector, which increased by 4.5 percent in 2019 from 4.3 percent in 2018, followed by livestock & livestock products (14.1 percent from 13.0 percent). However, the production growth of export crops slowed down by 6.2 percent from 19.3 percent, as some tea plantations were cut for rejuvenation purposes, and this negative effect was exacerbated by low international coffee prices that discouraged coffee farmers.

High frequency indicators show an overall good performance for the year 2019 compared to 2018. The composite index of economic activities (CIEA) grew by 13.4 percent compared to 10.9 percent recorded in the previous year.

Table 9: Composite index of economic activities (p.a)

CIEA	Real		Nominal	
	2018	2019	2018	2019
Q1	11.8	11.9	16.3	9.6
Q2	9.3	16.5	8.6	18.2
Q3	10.8	15.6	10.3	14.8
Q4	11.6	9.9	8.9	12.2
Annual	10.9	13.4	10.9	13.7

Source: NBR, Monetary Policy and Research Department

The good performance recorded in 2019 is reflected in the notable business developments, as indicated by the total turnovers of industry and services sectors that increased by 19.3 percent, from a 16.2 percent increase in 2018.

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

	2017			2018			2019		
	Q3	Q4	Annual	Q3	Q4	Annual	Q3	Q4	Annual
Total turnovers	13.0	19.3	15.8	16.0	17.2	16.2	19.6	16.2	19.3
Industries	4.7	21.0	12.0	6.1	7.2	10.8	20.3	17.5	17.8
Mining & Quarrying	23.6	58.4	26.0	7.4	-19.9	17.1	-23.6	-2.3	-11.9
Manufacturing	11.8	18.2	16.4	12.2	5.7	10.8	18.0	24.8	18.2
Energy Sector	13.2	20.1	14.2	9.2	20.9	9.2	26.7	12.4	22.0
Construction	-12.6	18.9	1.6	-7.6	11.5	10.2	35.1	11.8	22.5
Services	16.2	18.7	17.2	19.4	20.8	18.0	19.4	15.8	19.8
Wholesale & Retail trade	29.1	30.4	26.1	14.6	11.9	16.5	17.2	23.6	16.1
Petroleum distributors	4.2	5.7	15.4	15.8	29.3	15.4	27.0	-0.6	31.2
Transport & Storage	22.1	15.7	16.7	26.4	19.5	22.9	33.5	31.4	23.9
Hotels & Restaurants	-6.4	-2.7	-1.3	29.4	25.1	21.5	17.4	22.6	14.9
Hotels	4.8	4.8	5.6	34.1	29.2	26.9	19.3	23.2	16.7
Restaurants	-39.7	-30.9	-24.5	5.2	1.9	-4.0	4.8	17.8	3.6
Information & Comm.	0.1	3.1	-0.3	5.1	5.4	6.5	17.2	14.8	15.7
Financial & insurance	8.4	15.6	11.1	19.5	16.9	15.6	-4.8	-3.7	4.7
Banks	4.7	12.7	9.8	22.3	17.5	16.2	-0.1	9.9	9.2
Real Estate Activities	-44.8	-29.4	-22.1	19.4	69.8	27.7	120.6	69.9	77.3
Professional, Scientific and Technical Activities	-1.9	20.1	13.2	177.7	149.9	92.3	23.1	-9.7	45.9
Administrative and Support Services Activities	-25.5	-28.2	-12.8	7.4	19.0	-0.8	44.4	66.9	39.8

Source: NBR, Statistics Department

The service sector, with a share of 75.6 percent in total turnovers, grew by 19.8 percent. This resulted from positive developments in wholesale and retail trade (16.1 percent), petroleum distributors (31.2 percent), transport and storage services (23.9 percent), hotels (16.7 percent), information and communication (15.7 percent), real estates (77.3 percent) as well as Professional, Scientific and Technical Activities (45.9 percent).

Turnovers in the industry sector increased by 17.8 percent in 2019 from 10.8 in 2018; mainly steered by the construction and manufacturing subsectors. The construction subsector grew by 22.5 percent from 10.2 percent, while the manufacturing subsector increased by 18.2 percent from 10.8 percent, thanks to the good performance in food processing (13.2 percent from 10.4 percent) and construction material industries (14.8 percent from 15.6 percent).

2.2 EXTERNAL TRADE PERFORMANCE

Rwanda's exports grew moderately, rising by 3.8 percent to USD 1,164.5 million in 2019 from USD 1,121.9 million in 2018. The recorded increase was mainly driven by good performance of re-exports (+22.4 percent) and non-traditional exports (+10.1 percent), albeit a fall in traditional exports (-15.9 percent). The decline in traditional exports resulted largerly from a weakening external demand of mineral exports due to a slowdown of global manufacturing activity and prolonged stall in the trade war between United States and China. On the other hand, imports grew by 10.6 percent mainly explained by high domestic demand of capital goods (+17.8 percent), linked to ongoing developmental projects and intermediary goods (+16.0 percent) on the back of a booming construction sector and increasing activities in manufacturing sector.

As a result, Rwanda's trade deficit increased by USD 215.5 million (16.3 percent) to USD 1,538.9 million in 2019.

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

		2013	2014	2015	2016	2017	2018	2019	% Change 19/18
Exports	Value	682.4	707.3	667.1	731.4	1041.9	1121.9	1164.5	3.8
	Volume	308.4	324.1	390.6	466.0	634.6	742.6	1043.9	40.6
Imports	Value	2265.0	2406.1	2333.0	2253.9	2238.6	2445.3	2703.3	10.6
	Volume	1781.9	1846.6	2068.1	1965.2	2093.1	2314.8	2376.2	2.7
Trade balance		-1582.6	-1698.9	-1665.9	-1522.5	-1196.7	-1323.4	-1538.9	16.3
% Exports/Imports	%	30.1	29.4	28.6	32.4	46.5	45.9	43.1	-2.8

Source: NBR, Statistics Department

2.2.1. Exports Developments

Rwanda's exports comprise of traditional exports, non-traditional exports, re-exports, as well as informal cross border trade (ICBT). In 2019, these categories represented 22.7 percent, 33.8 percent, 34.1 percent, and 9.4 percent share of the total export earnings, respectively.

The export base continue to be diversified.The share of traditional exports in total exports reduced to 27 percent on average during 2016-2019 from 51 percent over 2010-2015 while the share of non-traditional exports increased to 30.6 percent of the total exports over 2016-2019 from 13 percent during 2010-2015, thanks to policy plans to boost domestic output for local consumption and exports.

Table 12: Evolution of percent share of exports

	2013	2014	2015	2016	2017	2018	2019
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Traditional exports	52.2	46.8	39.7	30.0	27.3	27.9	22.7
Coffee	8.0	8.4	9.3	8.0	6.2	6.1	6.0
Tea	8.1	7.3	10.9	8.7	8.1	8.1	7.4
Cassiterite	9.0	10.2	5.1	4.8	4.8	4.4	3.1
Coltan	19.7	14.8	9.9	5.4	6.0	6.4	3.8
Wolfram	4.4	3.8	2.6	1.6	1.2	1.9	1.4
Hides and Skins	2.3	2.0	1.6	1.0	0.7	0.6	0.3
Pyrethrum	0.6	0.3	0.4	0.5	0.3	0.4	0.5
II. Re - exports	19.8	23.4	26.7	30.7	28.0	29.0	34.1
III. Non - traditional exports	12.0	14.6	17.3	21.2	35.3	31.9	33.8
IV. Informal cross-border trade	16.0	15.2	16.2	18.1	9.4	11.2	9.4

Source: NBR, Statistics Department

Rwanda's total export receipts increased by 3.8 percent to USD 1,164.5 million in 2019 (from USD 1,121.9 million in 2018), while its volume increased by 40.6 percent. This increase in exports value is attributable to good performance in non-traditional exports (+10.1 percent), as well as re-exports (+22.4 percent), which offset falling receipts from traditional exports (-15.9 percent).

Traditional exports , which include coffee, tea, minerals, pyrethrum, as well as hides and skins, decreased by 15.9 percent amounting to USD 263.9 million in 2019, largely driven by declining export receipts from minerals (-31.3 percent) due to the decline in global prices. In addition, lower growth in coffee (0.2 percent) and negative performance of tea (-4.6 percent) have added to the slowdown in traditional exports.

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

	2013	2014	2015	2016	2017	2018	2019	% change
Coffee								
- Value	54.9	59.7	62.0	58.5	64.1	68.7	69.8	0.2
- Volume	20.0	16.0	18.8	18.6	18.7	21.0	23.4	9.8
- Price USD/KG	2.7	3.7	3.3	3.1	3.4	3.3	3.0	-8.8
Tea								
- Value	55.5	51.8	72.5	63.4	84.3	90.5	86.3	-4.6
- Volume	21.0	22.7	24.7	24.4	26.2	30.9	31.0	0.2
- Price USD/KG	2.6	2.3	2.9	2.6	3.2	2.9	2.8	-4.8
Mining								
- Value	225.7	203.3	117.8	86.4	125.0	142.2	97.6	-31.3
- Volume	9.6	10.5	7.3	6.5	8.0	8.4	6.9	-17.1
Cassiterite								
- Value	61.1	71.9	34.3	34.8	50.2	49.4	36.1	-26.8
- Volume	4.9	6.0	3.8	3.5	4.8	4.7	3.7	-21.2
- Price USD/KG	12.5	12.1	8.9	9.8	10.5	10.4	9.7	-7.2
Coltan								
- Value	134.6	104.8	66.2	39.7	62.2	71.5	44.7	-37.4
- Volume	2.5	2.3	1.7	1.3	1.7	1.7	1.3	-21.8
- Price USD/KG	54.6	45.5	40.1	31.3	36.1	41.9	33.5	-20.0
Wolfram								
- Value	30.1	26.6	17.3	11.9	12.6	21.4	16.8	-21.3
- Volume	2.2	2.2	1.8	1.7	1.5	1.9	1.9	-3.1
- Price USD/KG	13.6	12.0	9.7	6.9	8.3	11.0	8.9	-18.8
Hides and Skin								
- Value	16.0	14.2	10.4	7.4	7.5	6.7	4.0	-39.9
- Volume	10.3	9.6	8.3	6.2	5.4	5.9	4.7	-20.6
- Price USD/KG	1.6	1.5	1.3	1.2	1.4	1.1	0.9	-24.3
Pyrethrum								
- Value	4.0	1.8	2.5	3.4	3.1	4.7	6.2	32.0
- Volume	0.02	0.01	0.01	0.02	0.03	0.03	0.1	219.5
- Price USD/KG	238.9	171.2	177.2	188.3	120.9	156.0	64.4	-58.7
I. Traditional exports								
- Value	356.1	330.8	265.2	219.1	284.0	312.7	263.9	-15.9
- Volume	60.9	58.7	59.0	55.8	58.3	66.2	66.1	-0.6
II. Re-exports								
- Value	135.0	165.4	177.9	224.3	292.2	324.9	397.6	22.4
- Volume	97.6	105.7	159.2	230.4	323.8	364.0	468.4	28.7
III. Non-traditional exports								
- Value	81.9	103.6	115.7	155.3	367.4	358.1	394.1	10.1
- Volume	149.9	159.6	172.4	179.9	252.5	312.2	509.4	63.2
IV. Informal cross-border trade	109.3	107.5	108.3	132.7	98.4	125.3	108.9	-13.1
TOTAL EXPORTS								
- Value	**682.4**	**707.3**	**667.1**	**731.4**	**1,041.9**	**1,121.0**	**1164.5**	**3.8**
- Volume	**308.4**	**324.1**	**390.6**	**466.0**	**634.6**	**742.3**	**1043.9**	**40.6**

Source: NBR, Statistics Department

Rwanda's coffee exports amounted to USD 69.8 million from USD 68.7 million in 2018 supported by high exports volume (+9.8 percent) amid falling international prices (-8.8 percent). On the other hand, tea export receipts dropped by 4.6 percent (to USD 86.3 million in 2019), partly due to the decline in prices (-4.8 percent). The decline in tea prices reflects a surge in global tea production due to favorable weather in key producing countries, including India and some east African producers, and weakening demand by several countries in the Middle East. In terms of volume, Rwanda exported 30,961 tons in 2019 (from 30,903 tons in 2018), an increase of 0.2 percent.

Rwanda's exports earnings from traditional minerals (Coltan, Cassiterite and Wolfram) fell by 31.3 percent (to USD 97.6 million in 2019 from USD 142.2 million in 2018), due to weakening external demand that weighed down prices. Prices for cassiterite, coltan and wolfram fell by 7.2 percent, 20.0 percent and 18.8 percent, respectively. The decrease in prices reflected a slowdown in global manufacturing activity and a prolonged stall in trade negotiations between China and the United States.

Receipts from exported hides and skins dropped by 39.9 percent to USD 4.0 million in 2019 from 6.7 million registered in 2018, due to a decrease in prices and exported quantities following a decline in regional demand and domestic supply. Over 80 percent of exports of hides and skins are exported to EAC. Exports earnings from pyrethrum rose by 32.0 percent (to 6.2 million in 2019), owing to increased exports quantities that offset falling prices. The growth in volume of pyrethrum exports is partly explained by new markets mostly in Asia and Europe, representing 68.7 percent and 27.6 percent respectively of total earnings.

Non-traditional exports increased by 10.1 percent mainly supported by demand from the region. Main products under this category include; other non-traditional minerals, products of milling industry, vegetables & fruits and other locally produced products (textile, iron and steel, cement, diary etc.). Export receipts from these products soared to USD 394.1 million in 2019 (from USD 358.1 million in 2018). This growth was largely driven by higher receipts from milling products (+147.7 percent), edible vegetables and legumes (+12.1 percent), cement (+12.1 percent) and textile (+4.0 percent) on the back of high regional demand amid rising domestic supply in line with the Made in Rwanda program.

Finally, re-exports that are mainly composed of; petroleum products, foodstuffs, vehicles, machinery and electronics, rose by 22.4 percent to USD 397.6 million in 2019 (from USD 324.9 million in 2018).

2.2.2. Imports Developments

Rwanda's imports are classified into consumer goods, capital goods, intermediary goods, energy and lubricants and ICBT. In terms of composition, the capital goods lead with 29.8 percent share of the imports bill, followed by consumer goods (29.3 percent), intermediary goods (28.7 percent), energy and lubricants (11.7 percent) and ICBT (0.4 percent). In volume terms, intermediary goods have the largest share with 49.2 percent of total imports volume, followed by consumer goods (30.2 percent), energy and lubricants (16.8 percent), and capital goods (3.8 percent).

Table 14: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

		2013	2014	2015	2016	2017	2018	2019	% change
Total imports	Value	2,265.0	2,406.1	2,333.0	2,253.9	2,238.6	2,445.3	2,703.3	10.6
	Volume	1,781.9	1,846.6	2,068.1	1,965.2	2,093.1	2,314.8	2,376.2	2.7
Consumer goods	Value	633.6	656.2	694.1	723.0	746.7	762.4	790.8	3.7
	Volume	574.4	592.4	695.9	763.2	805.4	852.0	717.4	-15.8
Capital goods	Value	596.3	642.2	652.6	707.9	620.2	684.8	806.5	17.8
	Volume	59.0	60.6	70.2	69.1	62.6	78.4	89.2	13.8
Intermediary goods	Value	632.9	720.0	682.5	566.0	596.2	670.0	777.1	16.0
	Volume	878.9	914.7	992.2	821.9	902.6	1,016.2	1,170.3	15.2
Energy and lubricants	Value	384.6	368.5	282.1	226.4	252.3	307.8	317.0	3.0
	Volume	269.7	278.9	309.8	311.0	322.6	368.2	399.4	8.5
Informal cross-border trade	Value	17.6	19.2	21.7	30.6	23.3	20.3	11.8	-41.7

Source: NBR, Statistics Department

In 2019, the import bill rose by 10.6 percent (y-o-y) to USD 2,703.3 million, mainly due to increasing domestic demand of capital and intermediary goods. On the other hand, import volume increased by 2.7 percent.

Import bill on consumer goods increased by 3.7 percent, while their volume decreased by 15.8 percent, partly reflecting the recorded good performance of agriculture sector in 2019. Imports of food products declined by 8.7 percent while their volume decreased by 19.9 percent. The decline in the imports value of food products was offset by rising imports of non-food products, mainly composed of medicaments (18.2 percent), article of clothing (21.6 percent) and domestic articles (78.2 percent).

Imports of capital goods combine machinery, electronics, and electrical apparatus as well as transport materials. The payments on capital goods increased by 17.8 percent amounting to USD 806.5 million in 2019 (from USD 684.6 million in 2018). This increase is due to on-going investments including the construction of the Gisagara peat power plant and road networks upgrade across the country.

Imports of intermediary goods include industrial products (52.3 percent of total intermediary goods imports value), construction materials (27.7 percent), and fertilizers (7.1 percent). The payments on imports of intermediary goods rose by 16.0 percent amounting to USD 777.1 million in 2019, while their volume increased by 15.2 percent. This increase was largely attributed to a rise in domestic demand of construction materials (25.2 percent) and industrial products (8.0 percent). Regarding the type of industries with higher demand of intermediate inputs: food, textile, wood and paper industries hold the highest share, partly explaining their good performance in the manufacturing sector.

Imports of energy and lubricants, dominated by petroleum products that represent over 83 percent of the total category value in 2019, rose by 3 percent amounting to USD 317.0 million from the USD 307.8 million recorded in 2018. The growth in import value of energy and lubricants is due to increased volume amidst lower global oil prices. In volume terms, energy imports rose to 399.4 thousand tons in 2019 from 368.2 thousand tons in 2018, an increase of 8.5 percent.

2.2.3. Formal trade with other EAC countries

Rwanda's exports to other East African Community (EAC) member countries, account for 16.8 percent of the total exports in 2019, increased by 137.3 percent in value to USD 195.1 million in 2019. On the other hand, imports from EAC reduced by 9.8 percent due to lower demand of food products amid increased domestic output. As a result, Rwanda's trade deficit with EAC narrowed by 36.4 percent to USD 289.1 million in 2019 (from 454.8 million in 2018).

Table 15: Trade flows with EAC (in USD millions)

		2013	2014	2015	2016	2017	2018	2019
Exports to EAC	Value in USD millions	61.5	82.5	53.4	77.5	80.5	82.2	195.1
	percent change	*14.4*	*34.2*	*-35.3*	*45.2*	*3.8*	*2.1*	137.3
	Share to total exports	9.0	11.7	8.0	10.6	7.7	7.3	16.8
Imports from EAC	Value in USD millions	516.4	546.8	519.4	470.0	466.4	537.0	484.1
	percent change	*-3*	*5.9*	*-5*	*-9.4*	*-0.8*	*15.1*	-9.8
	Share to total imports	22.8	22.7	22.3	20.9	20.8	22.0	17.9
TRADE BALANCE		-454.9	-464.3	-466.0	-392.5	-385.9	-454.8	-289.1

Source: NBR, Statistics Department

2.2.4. Informal cross border trade

Rwanda remains a net exporter in informal cross border trade (ICBT) with a trade surplus of USD 97.1 million recorded in 2019. The ICBT exports and imports accounted for 9.4 percent and 0.4 percent of total exports and imports respectively in the period under review. In 2019, ICBT exports declined by 13.1 percent to USD 108.9 million, while imports dropped by 41.7 percent to USD 11.8 million.

Table 16: Rwanda informal cross border trade (USD million)

		2013	2014	2015	2016	2017	2018	2019
Exports	Value in USD millions	109.3	107.5	108.3	132.7	98.4	125.3	108.9
	Percent change	*8.7*	*-2.9*	*0.7*	*12.6*	*-25.8*	*27.3*	-13.1
	Share of total exports	16.0	15.2	16.2	18.1	9.4	11.2	9.4
Imports	Value in USD millions	17.6	19.2	21.7	30.6	23.3	20.3	11.8
	Percent change	*-22.2*	*9.2*	*13.4*	*40.0*	*-23.9*	*-12.8*	-41.7
	Share of total imports	0.8	0.8	0.9	1.4	1.0	0.8	0.4
Trade balance		**93.1**	**88.3**	**86.5**	**91.4**	**75.1**	**105.0**	97.1

Source: NBR, Statistics Department

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

In 2019, the NBR continued to implement an accommodative monetary policy stance. Given that both inflationary and exchange rate pressures were projected to remain subdued, NBR cut the central bank rate (CBR) from 5.50 percent to 5.0 percent in May 2019, which remained unchanged throughout the rest of the year, to continue supporting the financing of the economy by the banking sector.

3.1 INFLATION DEVELOPMENTS

3.1.1. Introduction

In 2019, headline inflation increased to 2.4 percent on average from 1.4 percent recorded in 2018.The uptick in headline inflation was mainly attributed to the rise in food inflation since the second half of 2019. During the same period, core inflation rose to 2.3 percent from 1.6 percent on the back of increasing cost of production.

Table 17: Inflation developments for key items (annual average, percent)

	2017		2018		2019		Annual average		
	H1	H2	H1	H2	H1	H2	2017	2018	2019
Headline	7.0	2.8	1.8	1.0	0.7	4.2	4.9	1.4	2.4
Domestic:	6.7	2.4	0.9	0.1	0.1	4.1	4.6	0.5	2.1
-Food	15.0	4.6	-0.6	-4.6	-3.1	8.5	9.8	-2.6	2.7
-Vegetables	17.2	1.9	-1.5	-8.1	-7.9	10.9	9.5	-4.8	1.5
-Meat	1.8	0.9	1.5	4.3	10.4	16.3	1.4	2.9	13.4
-Fruits	35.2	9.2	-6.1	-11.5	-11.4	8.4	22.2	-8.8	-1.5
-Bread & Cereal	8.7	8.3	3.1	-2.1	0.5	7.0	8.5	0.5	3.7
Housing	1.9	2.0	3.4	3.3	0.6	0.9	2.0	3.3	0.8
Transport	6.9	2.1	5.6	10.0	5.5	1.6	4.5	7.8	3.5
Imported	7.8	4.3	4.7	4.1	2.6	4.5	6.0	4.4	3.5
Core	5.0	2.8	1.8	1.4	1.6	3.0	3.9	1.6	2.3
Energy	4.7	5.0	10.0	9.7	-1.0	-0.6	4.8	9.8	-0.8

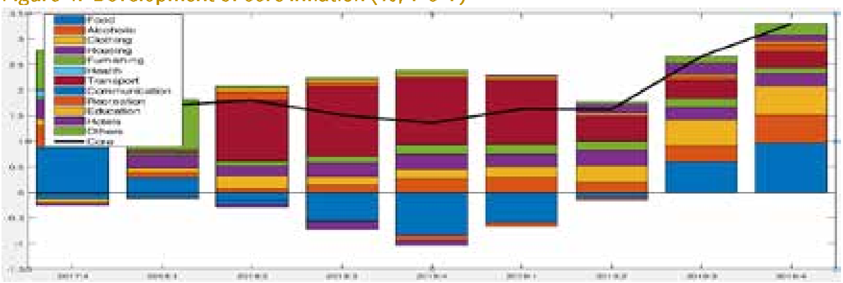
Source: NBR, Statistics Department

3.1.2. Contributors to headline inflation

a. Core inflation

The increase in core inflation was reflected in core food, alcoholic beverages & tobacco and clothing inflations that outweighed a decrease in transport services inflation. Core food inflation picked to 1.3 percent from -1.9 percent, following the increase in international prices of some imported food products such as rice and sugar. Clothing inflation surged to 5.9 percent from 2.6 percent resulting from the increase in import prices of clothes. Alcoholic beverages and tobacco inflation hiked to 7.0 percent from 3.1 percent, in line with an increase in excise duty on tobacco. In addition, the law enforcement in terms of fighting tax evasion resulted in increased prices for imported wines and liquors that shifted alcoholic beverages inflation. Transport services inflation decelerated to 4.4 percent from 7.0 percent during the same period, this was attributed to the phasing out of the increase in public transport fares recorded in April 2018.

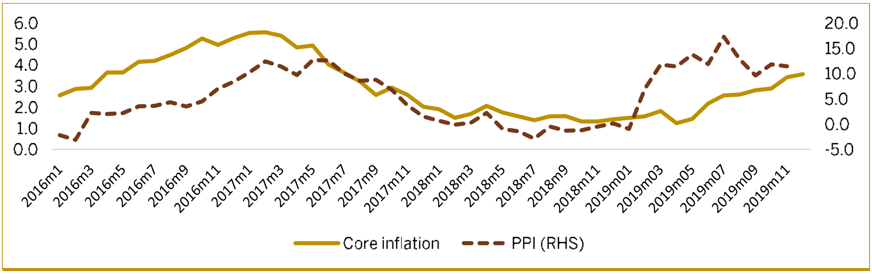
Figure 4: Development of core inflation (%, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

The aforementioned rise in core inflation is also evidenced by the upward trend observed in producer price index over 2019, which is an indicator of domestic cost of production. Recently, the general producer price index increased by 11.44 percent, on the back of the rise in manufacturing of furniture (1.3 percent) especially mattresses, manufacturing of metals (16.9 percent), and manufacturing of food products (1.6 percent).

Figure 5: Development of core inflation and PPI

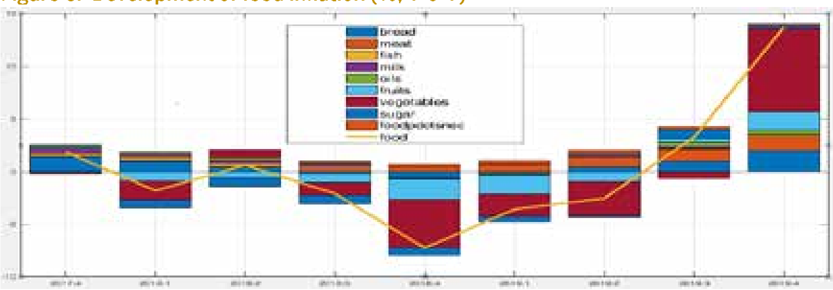


Source: NBR, Monetary Policy and Research Directorate

b. Food inflation

In 2019, food inflation accelerated to 2.7 percent on average, from a deflation of 2.6 percent in 2018. This upsurge in food inflation was reflected in different components notably: vegetables inflation that surged to 1.5 percent from -4.8 percent and bread & cereals inflation that pick up to 3.7 percent from 0.5 percent during the same period.

Figure 6: Development of food inflation (%, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

These upward pressures on food inflation were observed mainly since the second half of 2019 due to the lower food prices recorded the same period in

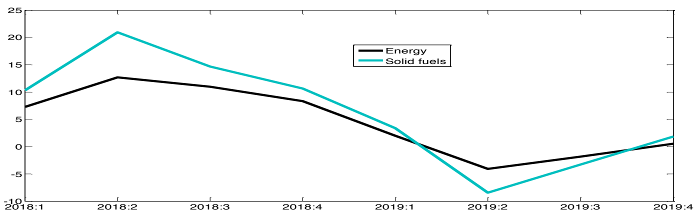
2018 (base effect) as well as upward pressures resulting from unfavorable weather conditions in season A 2019/2020 in some regions of the country.

c. Energy inflation

Energy inflation decelerated to -0.8 percent in 2019 from 9.8 percent in 2018, reflecting a drop in solid fuels inflation from 13.8 percent to -1.5 percent. However, in November and December 2019, solid fuels inflation jumped to 4.2 percent and 5.7 percent respectively, resulting from the heavy rains that disturbed charcoals and firewood production and transportation.

Other mild pressures came from global oil prices. Following the trend in international prices, the local pump prices reduced in 2019Q1 averaging 1013 FRW per liter but picked up to 1096 FRW per liter since 2019Q2.

Figure 7: Energy inflation (%,Y-o-Y)



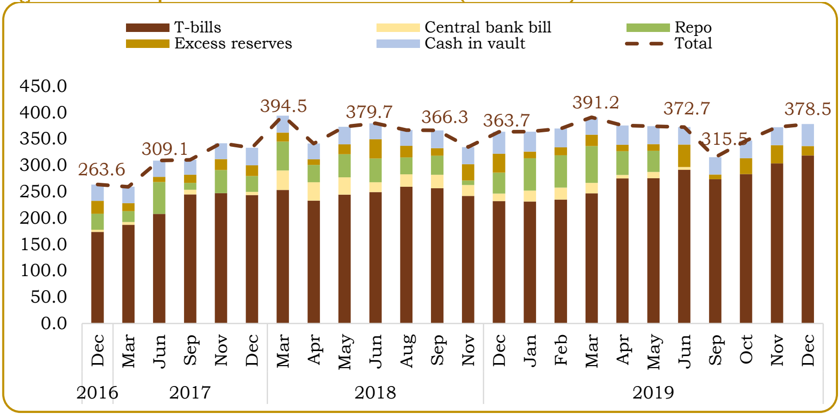
Source: NBR, Monetary Policy and Research Directorate

3.2 MONETARY SECTOR DEVELOPMENTS

3.2.1. Banking System Liquidity Conditions

In 2019, the most-liquid assets of the banking sector grew at a slow pace by 4.0 percent, to FRW 378.5 billion from FRW 363.7 billion in 2018, compared to the growth of 9.1 percent in 2018. This slow growth was explained by the synergy of more loans to the private sector as new approved loans increased by 20.1 percent from 17.2 percent in 2018 and interbank market development that waved away the need of keeping huge amount of excess reserves for banks.

Figure 8: Most liquid assets of commercial banks (FRW billion)



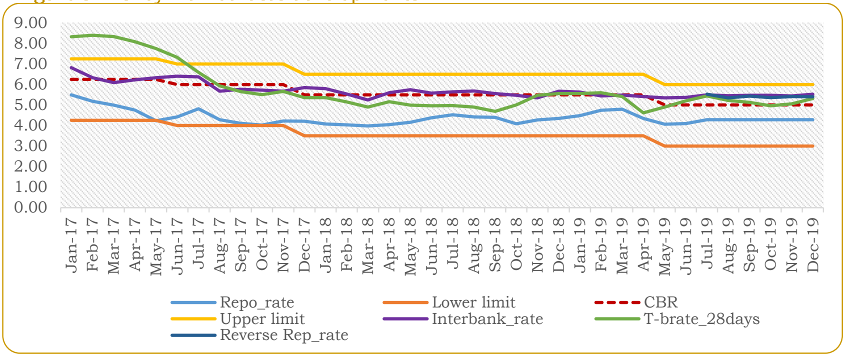
Source: NBR, Financial Markets Department

3.2.2 Monetary Policy and Interest Rates

In 2019, Monetary Policy Committee revised the central bank rate from 5.5 percent to 5.0 percent in May, and kept it unchanged during the August and November meetings. During that period, money market interest rates continued to evolve closely to the CBR.

Money market interest rates were steered around the central bank rate, in the corridor of + 1 /- 2 percent. Interbank rate averaged to 5.46 percent in 2019, from 5.57 percent in 2018. Similarly, repo and 28 days T- bill rates stood at 4.40 percent and 5.22 percent on average in 2019, from 4.22 percent and 5.09 percent in 2018 respectively. In addition, reverse repo rate averaged 5.41 percent in the last six months of 2019 as the central bank injected money to support commercial banks in their management of short-term liquidity.

Figure 9: Money market rates developments

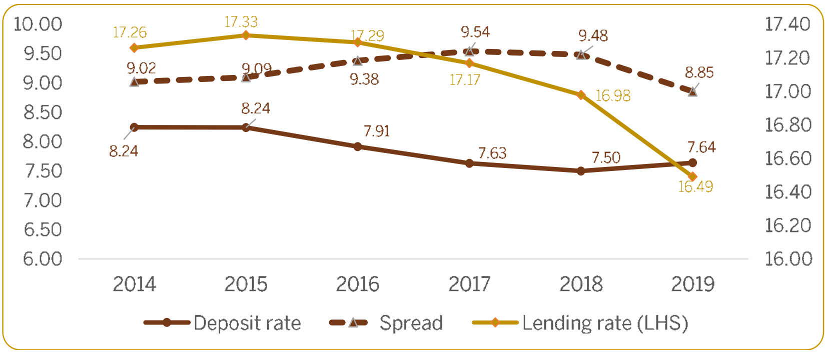


Source: NBR, Financial Markets Department

Compared to 2018, lending rate declined by 49 basis points in 2019 to stand at 16.49 percent on average, while deposit rate increased by 14 basis points, standing at 7.64 percent on average.

As a result, the spread between lending rate and deposit rate dropped by 63 basis points to reach 8.85 percent on average in 2019, thanks to increased competition and improved efficiency in the banking sector.

Figure 10: Market interest rates (percent average)

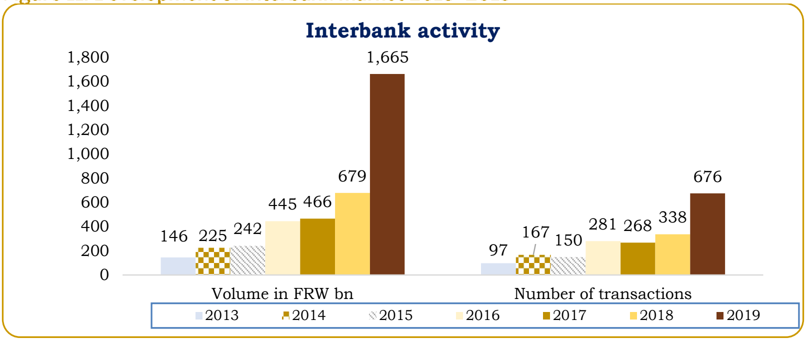


Source: Financial Markets Department

3.2.3 Money market developments

In 2019, the interbank market recorded significant increase both in number of transactions and amount exchanged as compared to 2018. In volume, the market recorded Frw 1,665 billion versus Frw 679 billion in 2018; which is an increase of 145 percent while the number of transactions doubled to 676 from 338 in 2018.

Figure 11: Development of interbank market 2013- 2019



Source: Financial Markets Department

The significant increase in volume and number of transactions in the interbank market is explained by the continuous improvement in liquidity forecasting and management by NBR in the wake of a price-based monetary policy framework adopted since January 2019. Moreover, regular awareness meetings between NBR and commercial bank treasurers have played a role to increase trust among banks, hence an improvement of interbank market activities. This interconnectedness through interbank market is key for an effective transmission of monetary policy impulse and makes financial institutions more capable of absorbing idiosyncratic shocks.

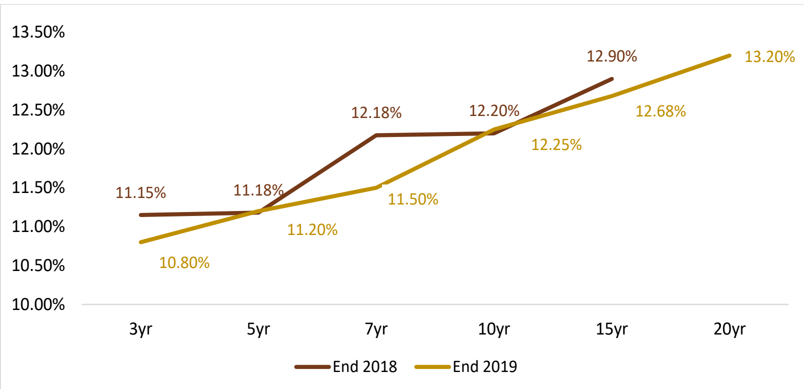
3.2.4 Bond primary market development

In 2019, the Government of Rwanda through the National Bank of Rwanda successfully issued five new bonds; among them, a 20-year bond, the longest tenor ever issued in the country. During the same year, seven existing bonds were also reopened.

Moreover, multiple bond issuance was successfully tested; whereby a 3-year and 7-year bond were simultaneously issued in November 2019. The objective of multiple issuance was to provide investors with different investment options; a relatively short tenor and long-tenor bond to choose from.

In 2019, new issuances and reopening yields on 3-year, 7-year and 15-year bonds recorded a downward trend, while 5-year and 10-year slightly increased. The change in the bond yield curve is due to a better pricing mechanism from increased knowledge of investors in bond instrument and an improving secondary market, which gives an alternative exit strategy to investors.

Figure 12: T-Bonds yield curves

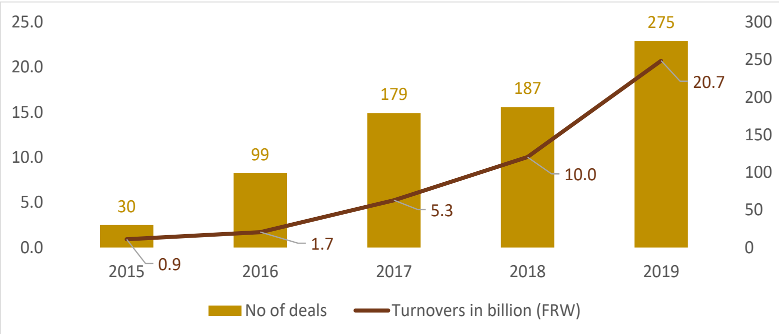


Source: NBR, Financial Markets Department

3.2.5 Secondary market development

In 2019, the secondary bond market was very active compared to the year 2018. The number of deals and turnovers increased by 47.0 percent and 106.5 percent respectively, supported by the ongoing awareness campaign across the country, coupled with increased number of products (increased bond issuances and reopening) available on the secondary market.

Figure 13: Bond trading activities on the Rwanda Stock Exchange 2015-2019



Source: Rwanda Stock Exchange

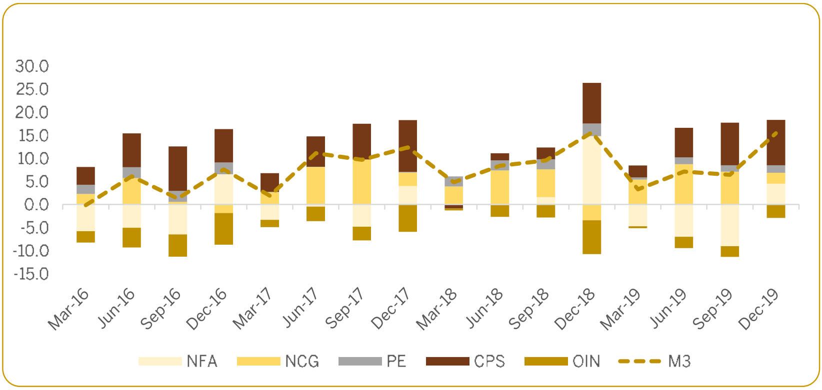
3.2.6 Money Supply

In 2019, broad money M3 grew by 15.4 percent versus 15.6 percent recorded in 2018. The growth was predominantly driven by credit to the private sector with a contribution of 9.8 percent, followed by net foreign assets (+4.5 percent), net credit to government (+2.4 percent) and credit to public enterprises (+1.6 percent). However, other items net (OIN) partially weighed down on M3 growth, with negative contributions of -2.9 percent.

The growth in the stock of credit to the private sector was attributed to increased new authorized loans in 2019, thanks to high demand for loans in line with increased economic activities and a decline in loan rejection. The demand for loans increased by 20.4 percent in 2019 in value from an increase of 3.4 percent recorded in 2018, and the overall loan rejection rate in volume declined to 3.9 percent in 2019 from 7.2 percent in 2018.

The increase in net foreign assets mainly came from an expansion of NBR's NFAs by 15.4 percent in 2019, from 20.3 percent in 2018, owing to an accumulation of inflows, which outweighed the outflows. However, NFAs of commercial banks reduced by 27.3 percent in 2019 standing at FRW 278.5 billion from FRW 324.6 billion.

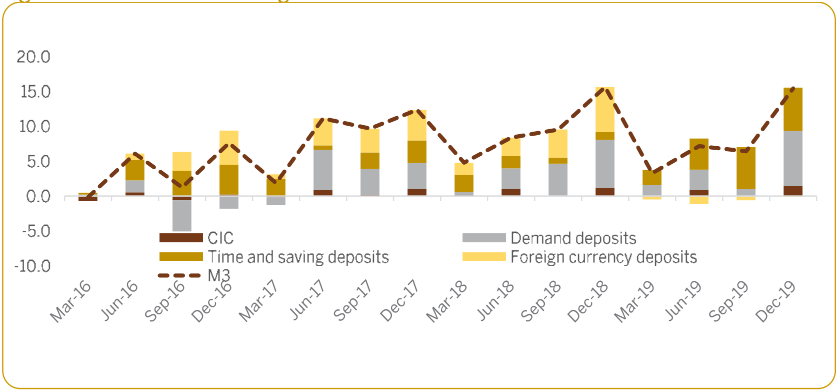
Figure 14: Contributors to M3 growth on assets side



Source: NBR, Monetary Policy and Research Directorate

From the liabilities side, M3 growth was mainly driven by demand deposits, which contributed 7.8 percent in 2019 from 6.9 percent in 2018, followed by time and saving deposits with 6.2 percent from 1.1 percent, and currency in circulation with 1.5 percent from 1.2 percent. The high uptick in time and saving deposits reflects increased term deposits by big depositors. Nevertheless, foreign currency deposits pulled back the growth with a negative contribution of 0.1 percent from a positive contribution of 6.4 percent in 2018. This negative contribution resulted from an increase in import bill amid low growth in export receipts.

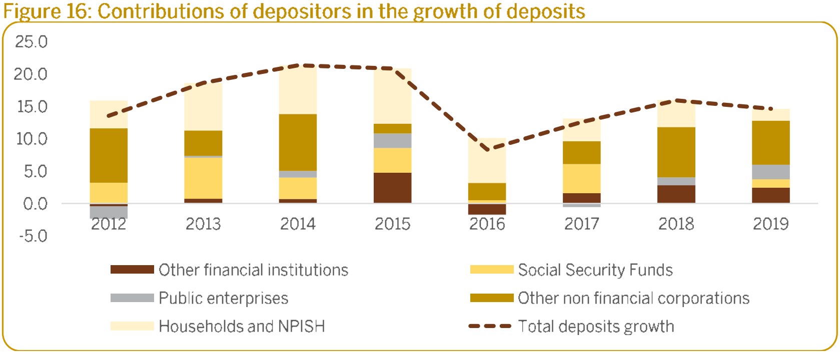
Figure 15: Contributors to M3 growth on liabilities side



Source: NBR, Monetary Policy and Research Directorate

Banks' deposits - the main component of M3 rose by 14.6 percent in 2019, down from 15.9 percent in 2018. The primary contribution to the growth in deposits was from other non-financial corporations with 6.8 percent, followed by other financial institutions (2.4 percent), public enterprises (2.3 percent), households and NPISH (1.8 percent), and social security fund (1.3 percent).

Figure 16: Contributions of depositors in the growth of deposits



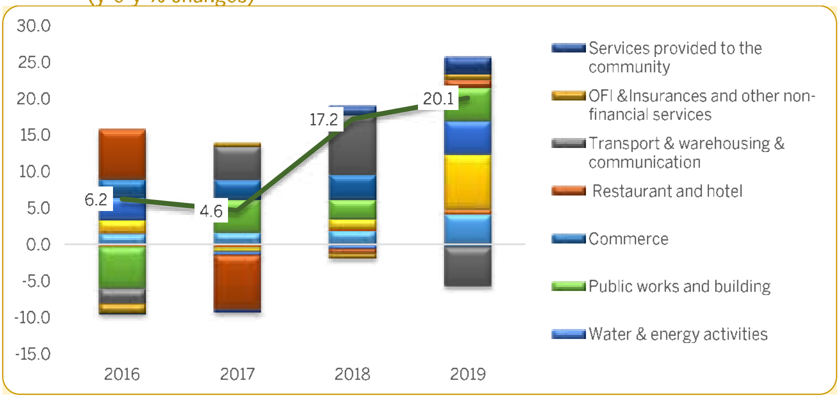
Source: NBR, Monetary Policy and Research Directorate

3.2.7 Credit

The outstanding credit to the private sector rose by 12.6 percent in 2019, compared to 10.8 percent growth in 2018, resulting from a high increase in New authorized loans (20.1 percent in 2019, from 17.2 percent in 2018) amounting to FRW 1.1 trillion FRW in 2019 compared with FRW 966.5 billion in 2018.

The main sectors which highly contributed to this growth were manufacturing activities (7.5 percent), Public works & building (4.6 percent), water & energy (4.6 percent), and personal loans (4.2 percent).

Figure 17: Contributions of sectors of activity to the growth of new authorized loans (y-o-y % changes)



Source: NBR, Monetary Policy and Research Directorate

With regard to share by sector, the more financed sectors remained commerce (27.2 percent), public works & building (25.6 percent), personal loans (12.7 percent), and manufacturing activities (12.4 percent).

Table 18: Distribution of NAL by economic sector in % share

Economic Sector	2015	2016	2017	2018	2019
Commerce	33.8	34.1	35.2	32.9	27.2
Public works and building	32.0	24.7	28.0	26.2	25.6
Personal loans	9.0	9.9	11.0	11.0	12.7
Manufacturing activities	6.9	8.1	7.3	7.3	12.4
Transport & warehousing & communication	7.3	4.8	8.9	14.6	7.7
Water & energy activities	0.2	3.1	2.4	1.6	5.2
Services provided to the community	3.0	2.8	2.4	3.1	4.5
Restaurants and hotels	3.9	10.1	2.5	1.6	2.2
Agricultural, fisheries& livestock	1.9	1.5	1.1	1.2	1.5
OFI &Insurances and other non-financial services	2.0	0.7	1.1	0.5	1.1
Mining activities	0.0	0.2	0.1	0.0	0.0
TOTAL	**100**	**100**	**100**	**100**	**100**

Source: NBR, Monetary Policy and Research Directorate

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section shows exchange rate developments for the year 2019, taking into consideration that the demand for the USD continued to be higher than the supply.

4.1 EXCHANGE RATE DEVELOPMENTS

Relative to December 2018, the FRW depreciated by 4.9 percent against the USD by end December 2019, higher than 4.0 percent recorded in 2018, mostly owing to high import bill for capital and intermediary goods, respectively in line with big infrastructure projects and rising manufacturing sub-sector.

Table 19: Appreciation/Depreciation rate of FRW against selected currencies

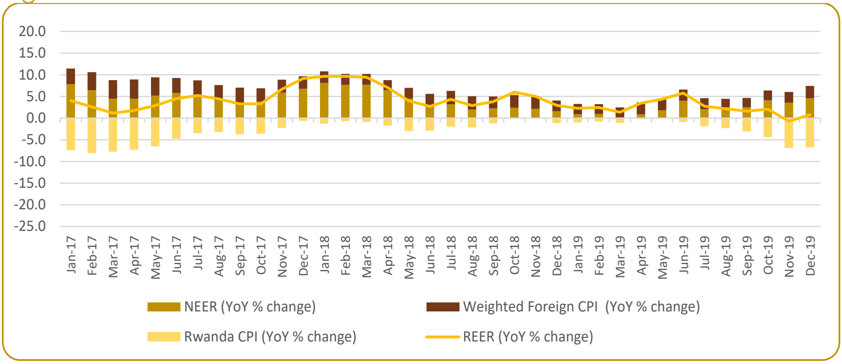
	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
Dec-2011	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-2012	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-2013	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-2014	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Dec-2015	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Dec-2016	9.7	-9.2	5.3	13.4	9.6	8.6	2.3	-0.2
Dec-2017	3.1	13.2	16.9	6.6	2.3	0.4	2.7	-1.0
Dec-2018	4.0	-2.0	-0.1	6.2	5.5	1.2	1.8	1.9
Dec-2019	4.9	8.5	2.8	6.3	4.5	3.7	5.1	-0.2

Source: NBR, Monetary Policy and Research Department

Compared to USD, the British pound, Euro and Japanese yen, the FRW depreciated by 4.9 percent, 8.5 percent, 2.8 percent and 6.3 percent respectively. Compared to regional currencies, the FRW depreciated by 4.5 percent, 3.7 percent and 5.1 percent, against the Kenyan, Tanzanian and Ugandan shillings respectively, while it appreciated by 0.2 percent against the Burundian franc.

The FRW real effective exchange rate depreciated by 0.8 percent (y-o-y) end December 2019, against 3.0 percent recorded during the corresponding period in 2018. This was mostly attributable to the depreciation of the nominal value of the FRW against currencies of some of the major trading partners. In nominal effective terms, the FRW depreciated by 4.6 percent compared to a depreciation of 1.6 percent at the end of December 2018.

Figure 18: Drivers of REER movement

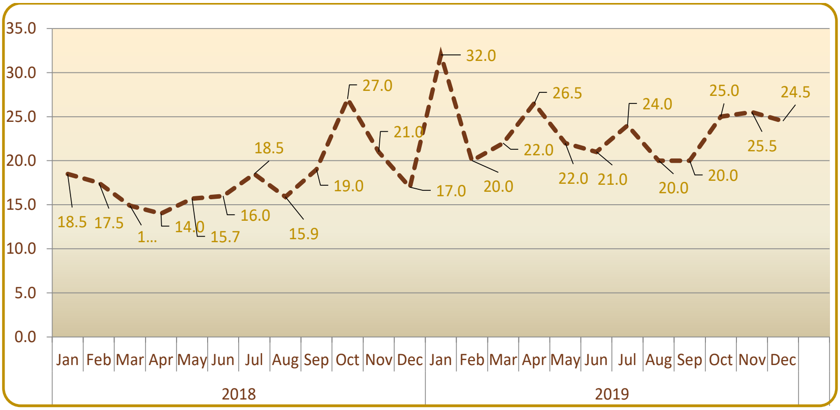


Source: NBR, Monetary Policy and Research Department

4.2 FOREIGN EXCHANGE MARKET DEVELOPMENTS

By end December 2019, net foreign assets of commercial banks decreased by FRW 45.6 billion, to a stock of FRW 121.3 billion from FRW 166.9 billion accumulated end December 2018. The decrease in net foreign assets is mainly explained by a decline in foreign assets of commercial banks, which lessened by FRW 46.1 billion, to a stock of FRW 278.5 billion from FRW 324.6 billion. Hence, forex sales to commercial banks increased by 31.4% in 2019, from USD 215.0 million end December 2018 to USD 282.5 million end December 2019.

Figure 19: NBR Forex Sales to banks in millions of USD



Source: BNR, Monetary Policy and Research Department

V. THE STABILITY OF THE FINANCIAL SYSTEM

5.1 INTRODUCTION

The financial system underpins the health of the economy. A properly functioning financial system allows households and firms to invest or consume, by intermediating funds from savers to borrowers. It also allows for the efficient distribution of risks through time, across people, and across borders. The NBR holds a mandate of ensuring a sound financial system and achieves this mandate by regulating and supervising the financial sector (institutions and the payments infrastructure). The sections below provide key messages on the performance of the financial sector (Banks, MFIs, Insurers, Pension and the Payment System) based on the analysis of financial sector returns for the period ended December 2019. The last section summarizes the key policy reforms implemented by NBR during 2019 H2 (having covered 2019H1 reforms in the August 2019 MPFSS) as well as recent gains on access and usage of financial services.

5.2 STRUCTURE OF THE FINANCIAL SYSTEM

The financial sector continued to grow during the year ended December 2019 in line with improved economic performance. During the period under review, total assets of the financial sector increased by 13.2 percent to FRW 5,271 billion. The Banking sector continues to dominate the financial sector with a share of 65.9 percent of total financial sector's assets. The pension sector follows with a share of 17.8 percent, insurance and microfinance sectors constitute 9.7 percent and 6.1 percent respectively, while other financial institutions that include credit-only institutions account for 0.5 percent.

During the period under review, the number of financial institutions reduced from 607 in December 2018 to 601. The reduction of the number of financial institutions is explained by: i) merger of SAHAM General Insurance and SAHAM Life with Sanlam General Insurance and Sanlam Life (former SORAS General Insurance and SORAS Life), ii) liquidation of 2 microfinance institutions and iii) the revocation of license of 2 foreign exchange bureaus due to non-compliance (Table 20).

Table 20: Structure of the Financial System

Regulated Financial Institutions	December 2018			December 2019		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Banks	16	3,091	**66.4%**	16	3,476	**65.9%**
Commercial Banks	11	2,496	53.6%	11	2807	53.3%
Microfinance Banks	3	71	1.5%	3	68	1.3%
Development Banks	1	238	5.1%	1	262	5.0%
Cooperative Banks	1	286	6.1%	1	340	6.5%
Pension Schemes	13	808	**17.4%**	13	936	**17.8%**
Public	1	773	16.6%	1	891	16.9%
Private	12	35	0.8%	12	45	0.9%
Insurers	16	452	**9.7%**	14	510	**9.7%**
Life	4	48	1.0%	3	52	1.0%
Non-Life	12	404	8.7%	11	458	8.7%
Microfinances	459	280	**6.0%**	457	321	**6.1%**
U-SACCOs	416	122	2.6%	416	134	2.5%
Other SACCOs	24	81	1.7%	22	92	1.7%
Limited Companies	19	77	1.7%	19	94	1.8%
Foreign Currency Dealers & Remittances	99	7	**0.2%**	97	8	**0.2%**
Forex Bureau	85	7	0.2%	83	8	0.2%
Remittance Companies	8	-		8	-	
Money Transfer Agencies	6	-		6	-	
Lending only Institutions	4	17	**0.4%**	4	20	**0.5%**
Grand Total	607	4,655	100.0%	601	5,271	100.0%

Source: Financial Stability Directorate

5.3. BANKING SECTOR

5.3.1.Structure of the Banking Sector

The banking sector is the largest component of the financial system and accounted for 65.9 percent of total assets as at end December 2019. It is comprised of 16 banks - 11 commercial banks, 3 microfinance banks, 1 cooperative bank and 1 development bank. Of these, 2 are domestic public banks, 3 domestic private banks and 11 are subsidiaries of foreign groups (mainly Pan-African).These banks operate a network of 258 branches, 63 sub branches and 172 outlets. Since 2017, the number of bank branches continued to decline as banks embarked on provision of digital services through agencies, internet and mobile banking in order to rationalize operating expenses and improve efficiency. The banking sector remains concentrated with the share of the three largest banks' assets to total banking sector assets increasing from 46.5 percent in December 2018 to 48.4 percent in December 2019.

5.3.2. Performance of the Banking Sector

Consistent with improved economic performance, the banking sector assets increased from FRW 3,091 billion as at December 2018 to FRW 3,476 billion as at December 2019 –a 12.5 percent increase – albeit lower than the 15.1 percent increase recorded as at end December 2018. With the exception of banks' foreign placements that reduced by 25 percent, as banks increased lending, all other major components of the banking sector assets increased as follows: cash and reserves increased by 18.2 percent, balances with domestic banks 5.3 percent, government securities 31.2 percent, other market securities 30.7 percent, net loans and overdrafts 12.2 percent (driven by an 11.4 percent increase in gross outstanding loans and a 3.8 percent reduction in provisions for non-performing loans), fixed assets 27.9 percent and other assets 23.3 percent.

Lending continued to be the main business of banks with around 57.4 percentage share of total assets of banks as at end December 2019. Government and investment securities represented 15.6 percent of total assets while dues from financial institutions in Rwanda and abroad represented 11.6 percent, cash and balances with the Central Bank 8.5 percent, fixed assets 4.8 percent and other assets 2.1 percent.

Outstanding loans increased from FRW 1,871 billion as at end December 2018 to FRW 2,084 billion as at end December 2019. The annual growth rate of gross loans moderated from 13.6 percent registered in 2018 to 11.4 percent in 2019. The high proportion of short-term loans granted in 2019 that matured before the reporting period (end December 2019), combined with increased write-offs, partly offset the robust growth of new loans and led to slower growth in the sector's loan book in 2019. In 2019, banks wrote off loans amounting to FRW 57 billion compared to FRW 50 billion in 2018.

Banks' loans are mainly to residents and denominated in local currency. Loans to residents accounted for 99.8 percent of total outstanding loans of banks. Further, the proportion of foreign currency denominated loans in total loans remained low at 12 percent as at end December 2019, the same level it was as at end December 2018.This implies that banks' exposures to credit risks that could emanate from clients defaults due to fluctuation of foreign exchange are minimal. In addition to this, NBR requires banks to extend forex loans to businesses earning in foreign currency, hence hedging from currency risks.

Banks are gradually diversifying their lending portfolio. In 2019, banks increased lending to manufacturing (Table 21). This is contrary to the trend observed in the last five years where notable growth of credit was observed in commercial real estate and hotels. It is important to note that banks are reducing this concentration risk by diversifying their lending to other economic sectors. Increased lending to manufacturing is more broad based and reflects increased appetite to finance Made in Rwanda manufacturing projects. For example, in 2019, banks approved 419 new loans to manufacturing worth FRW 144 billion, compared to 311 new loans worth FRW 71 billion in 2018. This increase made manufacturing the fifth most financed sector (with 11.3 percentage share) after mortgage (35.2 percent), trade (16.2 percent), consumer loans (13.1 percent) and transport and communication (12.9 percent).

Banks' lending to hotel and restaurant as well as water and energy sectors also picked-up in 2019. The uptick of loans to these sectors was due to two large loans approved in each of the sectors. In the hotel sector, banks approved two new facilities amounting to FRW 7.5 billion. Overall, banks' hotel financing remained stable since 2016, following the completion of large hotel projects. In the water and energy sector, banks also approved two new loans of FRW 40 billion – One loan of FRW 17.5 billion financed the construction of a new water plant in Bugesera district, while another of FRW 22.5 financed the construction of a peat energy plant in Gisagara district.

Banks' exposure to the mortgage sector has moderated, although it remains a risk to the banking sector (Table 21). The pace of lending to the mortgage sector moderated in 2019 with the stock of mortgage loans increasing by 4 percent (y-o-y) to FRW 694 billion, the lowest growth in last 5 years. Although lending to mortgage sector is slowing down, it remains the most financed sector accounting for 35.2 percent of total banking sector loans. The breakdown of mortgage loans indicates that residential houses hold the largest share of mortgage loans (44.9 percent), followed by commercial real estate (36.4 percent) and public works (18.7 percent).

The slowdown of mortgage loans reflects the prudent lending standards of banks. Banks are required to comply with the Loan to Value (LTV) limits established by NBR in the first half of 2019. Through Directive no 2600/2019-00015, NBR established LTV limits at 80 percent for all commercial real estate loans implying that borrowers should contribute 20 percent of the value of the construction projects, before the bank contributes the remaining 80 percent. This policy aimed at containing risks related to high exposure of banks to commercial real estate. Data for the fourth quarter of 2019 indicated that some banks are even more conservative by requiring LTV of less than the regulatory 80 percent. Although NPLs in the mortgage sector remain within the banking sector average, the NBR monitors mortgage sector risks through regular assessment of occupancy rate in large commercial buildings financed by banks.

Table 21: Banks' Outstanding Loans by Sector

Activity Sector	Loans (In FRW Billion)			Annual Change	
	Dec-17	Dec-18	Dec-19	% change 17/18	% change 18/19
Consumer loans	166.7	196.4	258.5	17.8	31.6
Agricultural & livestock	24.1	25.0	24.1	3.4	-3.5
Mining	3.1	3.1	2.7	1.3	-11.6
Manufacturing	162.8	183.4	223.5	12.7	21.8
Water & energy	43.2	53.5	83.3	24.0	55.7
Mortgage	604.3	667.5	694.4	10.5	4.0
Public works	*105.7*	*125.5*	*129.3*	*18.8*	*3.0*
Residential houses	*262.6*	*288.5*	*312.2*	*9.8*	*8.2*
Commercial houses	*236.0*	*253.6*	*252.9*	*7.5*	*-0.3*
Trade	289.3	312.2	319.4	7.9	2.3
Hotels	131.7	130.9	143.3	-0.6	9.5
Transport & communication	144.4	219.3	255.5	51.9	16.5
Financial services	26.2	21.0	22.6	-19.9	7.9
Other services	50.3	58.3	56.7	15.8	-2.7

Source: NBR, Financial Stability Directorate

The banking sector's primary source of funding, deposits, increased from FRW 1,965 billion to FRW 2,190 billion during the period under review. However, on a year-on-year basis, deposit growth moderated to 11.4 percent in December 2019 compared to 14.1 percent growth in December 2018. The slowdown of deposits largely mirrors the reduction of deposits of institutional depositors mainly Pension Fund balances– from FRW 179.4 billion in December 2018 to FRW 150.5 billion in December 2019.

Banks remain reliant on stable funds (customers' deposits), although most of it is short-term. Customer deposits accounted for 76.6 percent of total liabilities of banks as at end December 2019. The other secondary sources of funds for banks include foreign borrowings (at 2.4 percent of total liabilities) and domestic interbank (15.8 percent of total liabilities). Banks' interbank borrowings are mainly short-term and for liquidity management. Predominance of deposits in the funding profile of banks is important as such funds are predictable and stable compared to wholesale or market funding, that is very sensitive to fluctuation in market sentiments. As at end December 2019, the share of term deposits in total deposits of banks stood at 40 percent, up from 38 percent in December 2018. Further to this, up to 90 percent of these term deposits hold a maturity of less than 1 year.

Table 22: Structure of Banks Liabilities

FRW Billion	Dec-17	Dec-18	Dec-19
Liabilities	2,227	2,576	2,856
Deposits	1,723	1,965	2,190
Other liabilities	504	611	666
Shareholders' funds	459	514	620

Source: NBR, Financial Stability Directorate

5.3.3. Financial Soundness Indicators of Banks

Banks continue to meet the minimum regulatory capital requirements and maintain high quality capital. As at end December 2019, the banking sector total Capital Adequacy Ratio (CAR), that compares the total qualifying capital of banks to their risk-weighted assets, stood at 24.1 percent, higher than the minimum regulatory requirement of 15 percent. All banks have capital in excess of the current regulatory minima. Banks hold high quality capital as Tier 1 CAR stood at 22.6 percent, above the minimum regulatory requirement of 12.5 percent. In the context of Rwandan banks, Tier 1 capital is largely composed of paid up capital and retained earnings to the tune of 60 percent and 15.8 percent respectively. The high capital buffer indicates the capacity of the banking sector to withstand shocks.

Further, the high leverage ratio of banks, at 14.4 percent as at end December 2019, compared to 6 percent minimum prudential requirement indicates that the banking sector is adequately solvent. The leverage ratio measures a bank's core capital to its total assets (including off-balance sheet assets). It is one of the Basel III instruments aimed at limiting the overleveraging tendencies of financial institutions.

Domestic Systemically Important Banks (DSIBs) continue to maintain high capital buffers. The NBR established a framework for identifying and supervising DSIBs during 2019. These are systemic banks based on their size, complexity, connectedness, substitutability and cross-border relationships. Based on audited financial statements of banks for 2018, the NBR classified six banks as DSIBs – 5 in the first bucket (category) with a requirement for a 0.5 percent capital surcharge and 1 bank in the second bucket with a 0.8 percent surcharge. This capital is a top-up on the 12.5 percent minimum core capital requirement for all banks. As at end December 2019, all the six DSIBs met the additional capital charge and the aggregate core CAR for DSIBs stood at 24.3 percent, higher than their minimum requirements.

The non-performing loans in the banking sector reduced on the back of robust economic performance and increased loan write-offs. The NPLs ratio, the main indicator of asset quality, dropped from 6.4 percent in December 2018 to 4.9 percent in December 2019 (Table 23). In absolute amounts, the stock of NPLs reduced by FRW 26 billion (from FRW 135 billion in December 2018 to FRW 109 billion in December 2019). The reduction of NPLs is attributed to the robust economic performance in 2019 that enabled corporates and households to service their loans as well as write offs of long outstanding NPLs. Total write-offs of loans amounted to FRW 57 billion in 2019 compared to FRW 50 billion in 2018. Notwithstanding, the stock of write offs reduced to FRW 362 billion as at end December 2019 from FRW 366 billion as at end December 2018 consistent with increased recoveries.

The NPLs ratio dropped in manufacturing, hotels, agriculture, other services[1] and in transport and communication sector (Table 23). In absolute terms, NPLs reduced by FRW 19 billion (from FRW 21 billion to FRW 2 billion) in manufacturing; in hotels by FRW 9 billion (from FRW 13 to FRW 4 billion); in transport and communication by FRW 8 billion (from FRW 11 billion to FRW 3 billion) and in trade by FRW 1 billion (from FRW 31 billion to FRW 30 billion).

Banks' asset quality deteriorated in mortgage and in mining (Table 23). The stock of NPLs in mortgage sector increased by FRW 5 billion (from FRW 25 billion in December 2018 to FRW 30 billion in December 2019). During the same period, the stock of NPLs in mining sector increased from FRW 40 million to FRW 2 billion. In the mortgage sector, the deterioration of assets quality is associated with the underperformance of one large project. In mining, the deterioration mirrors the moderation of mineral prices on international commodity market that affected the exports revenues of business operators in the mining sector.

[1] Other services include health, education, recreation and professional activities

Table 23: NPLs Ratio by Economic Sector (percent)

Activity Sectors	NPLs Ratio (Percent)				Percent share in total NPLs
	Dec-16	Dec-17	Dec-18	Dec-19	
Personal loans	6.6	5.7	6.3	6.9	11.9
Agricultural & livestock	22.1	10.0	6.6	4.4	1.2
Mining	-	0.7	1.3	78.0	2.5
Manufacturing	9.6	13.8	11.7	0.8	2.2
Water & energy	0.2	0.0	1.3	0.0	0.0
Mortgage	5.6	4.5	3.7	4.3	35.0
Trade	10.8	12.0	10.1	9.5	35.4
Hotels	7.8	12.1	9.9	2.8	4.7
Transport & communication	3.1	2.4	4.9	1.2	3.4
Financial services	0.4	0.2	4.1	0.7	0.2
Other services	10.3	11.3	10.2	5.3	3.5

Source: NBR, Financial Stability Directorate

The banking sector continued to hold liquidity buffers above the minimum prudential requirements. The Liquidity Coverage Ratio (LCR) that indicates the proportion of Banks' High Quality Liquid Assets (HQLA) to their short-term obligation on a 30-day horizon stood at 215 percent as at end December 2019, higher than the 100 minimum prudential requirement. High quality liquid assets for banks include cash and reserves at the NBR, government securities, corporate debt securities and other marketable securities. Banks also continued to finance their long-term assets using stable resources. The aggregate Net Stable Funding Ratio (NSFR), which compares the long-term assets of banks to their long-term liabilities, stood at 111 percent as at end December 2019, above the 100 percent regulatory requirement.

The banking sector exposure to exchange rate risks remained low. The Net Open Position (NOP), which shows the vulnerability of the banking sector's capital position to exchange rate movements, continued to be within the regulatory limits. The regulation on foreign exchange exposure limit requires banks to maintain their Net Open position (NOP) within a band of +/-20 percent. As at end December 2019, the aggregate NOP stood at -4.8 percent and all banks observed this requirement. Additionally, the share of foreign currency liabilities in total liabilities reduced to 27.3 percent in December

2019 from 29.7 percent in December 2018, therefore minimizing foreign exchange risk.

Profitability of the banking sector steadily improved predominantly due to increased lending and loan recovery. The aggregate banking sector net profits increased from FRW 29 billion in 2017 to FRW 57 billion in 2018 and FRW 76 billion in 2019. During this period, banking sector average Return on Equity (ROE) increased from 6.2 percent in 2017 to 11.2 percent in 2018 and to 12.5 percent in 2019. Bank profitability provides a buffer against risks as it provides significant loss-absorbency during periods of stress.

Interest income represented 73.4 percent of Banks' total income and grew by 17.1 percent in 2019 compared to the 12.9 percent growth noted in 2018 and 9.9 percent in 2017(Table 24). Interest on loans represented 62.3 percent of total income and increased by 17.2 percent driven by accelerated lending in 2019. The strong growth of new loans offset the price effect that saw the average lending interest rate drop by 49 basis points (from 16.98 percent in 2018 to 16.49 percent in 2019). Interest from government securities represented 7 percent of total income and increased by 23 percent while interest on placements and other investments represented 4 percent and increased by 6 percent on the back of increasing investments in these asset categories. On the other hand, non-interest income increased by FRW 17.6 billion (16 percent increase) mainly due to recoveries from NPLs and written-off loans which increased from FRW 14.2 billion in 2017 to FRW 26.6 billion in 2018 and FRW 35.6 billion in 2019. This income structure indicates that in the near-term, banks' profits will largely depend on the demand for loans and quality of those loans. As interest margins narrow, this may pose a threat to banks' profitability thereby reinforcing the need to diversify income-generating activities primarily through growth of non-interest income.

Table 24: Breakdown of Banking Sector Income (2016-2019)

	2016	2017	2018	2019
Banks' total income (Billions, FRW)	335	362.2	414.1	483.4
Growth of Total Income (Billions, FRW)	*32.4*	*27.2*	*51.9*	*69.3*
Growth of Total Income (%)	*10.7*	*8.1*	*14.3*	*16.7*
Interest Income (Billions, FRW)	244.3	268.6	303.1	354.9
Growth of Interest Income (In Billions, FRW)	*36.2*	*24.3*	*34.6*	*51.8*
Growth of Interest Income (%)	*17.4*	*9.9*	*12.9*	*17.1*
Non-Interest Income (Billions, FRW)	90.7	93.6	110.9	128.5
Growth of Non-Interest Income (Billions, FRW)	*-3.9*	*2.9*	*17.3*	*17.6*
Growth of Non-Interest Income (%)	*-4.1*	*3.2*	*18.5*	*15.8*

Source: NBR, Financial Stability Directorate

Improving profitability of banks also reflects cost efficiencies in the sector. The aggregate costs-to-income ratio for banks dropped from 85.1 in 2017 to 78.4 percent in 2018 and to 77.1 percent in 2019. This reduction in cost-to-income ratio indicates that banks' incomes continue to grow faster than expenses. Salaries and wages represent a significant share of banking sector expenses representing 44.5 percent of total operating expenses. The component of "other expenses" mainly include administrative and IT expenses with a share of 38.6 percent while premises and transport constitute 16.9 percent of total operating expenses.

Table 25: Breakdown of Banking Sector Expenses (2016-2019)

	2016	2017	2018	2019
Total Banks Expenses (Billions, FRW)	278.4	308.1	324.6	372.5
Growth of Total expenses (Billions, FRW)	*32.9*	*29.8*	*16.5*	*47.9*
Growth of Total expenses (%)	*13.4*	*10.7*	*5.4*	*14.8*
Interest Expenses (Billions, FRW)	69.3	79.7	92.2	105.56
Growth of Interest Expenses (Billions, FRW)	*8.6*	*10.4*	*12.5*	*13.36*
Growth of Interest Expenses (%)	*14.2*	*15.0*	*15.7*	*14.5*
Provision for bad debts (Billions, FRW)	41.99	53.08	46.30	67.77
Growth of provisions (Billions, FRW)	*-1.08*	*11.10*	*-6.79*	*21.47*
Growth of provisions (%)	*-2.5*	*26.4*	*-12.8*	*46.4*
Salaries, Wages (Billions, FRW)	69.75	77.02	80.82	88.63
Growth of salaries & wages (Billions, FRW)	*4.34*	*7.27*	*3.80*	*7.82*
Growth of salaries & wages (%)	*6.6*	*10.4*	*4.9*	*9.7*
Premises and transport (Billions, FRW)	28.6	30.3	30.9	33.7
Growth Premises & transport (Billions, FRW)	*3.0*	*1.7*	*0.6*	*2.8*
Growth Premises & transport (%)	*11.7*	*6.1*	*1.9*	*9.0*
Other expenses	68.7	68.0	74.4	76.9
Growth of other expenses (Billions, FRW)	*18.1*	*-0.7*	*6.4*	*2.5*
Growth of other expenses (%)	*35.7*	*-1.1*	*9.4*	*3.3*

Source: NBR, Financial Stability Directorate

Provisions for bad debts which represented 18.2 percent of total bank expenses, increased by FRW 21.5 billion from FRW 46.3 billion in 2018 to FRW 67.8 billion in 2019 – a 46.4 percentage increase (Table 25). As a result, the provision coverage ratio, that relates banks' provisions to non-performing loans, increased from 68.2 percent as at end December 2018 to 81.5 percent as at end December 2019. The increase of provisions is attributed to: First, increased write-offs performed by banks in 2019 —from FRW 50 billion in 2018 to FRW 57 billion in 2019. Regulation 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. More write-offs increase provision expenses as banks are expected to make 100 percent provisions on written-off facilities without deducting the value of collaterals.

The second factor that increased banks' provision expenses relate to implementation of IFRS9. Banks started the implementation of IFRS 9 in

2018. This new standard requires banks to shift from an incurred loss approach to an expected credit loss (ECL) approach while measuring impairment allowances. The new approach is forward looking and enables banks to pursue a fuller and timelier recognition of credit losses. It benefits banks by improving their internal credit risk monitoring systems.

Banks' interest expenses picked-up from FRW 92.2 billion in 2018 to FRW 105.6 billion in 2019 due to the increased proportion of remunerated deposits in total bank deposits and the slight pick-up in the average deposit rate. The percentage share of banks' term deposit increased from 38 percent in December 2018 to 40 percent in December 2019, fostering banks to incur additional interest expenses. The other aspect that contributed to this increase in banks' interest expenses is the slight uptick in average deposit rate—from 7.5 percent in 2018 to 7.6 percent in 2019.

Table 26: Key Financial Soundness Indicators for Banks (Percent)

Indicators	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Total CAR (min 15 %)	22.5	21.9	21.4	25.5	24.1
Core Capital Tier 1 (min 12.5%)	19.9	20.0	20.0	23.8	22.6
NPLs Ratio	6.2	7.6	7.6	6.4	4.9
Provisions / NPLs	46.2	42.7	46.7	68.2	81.5
Return on Average Assets	2.1	1.7	1.1	1.9	2.2
Return on Average Equity	11.2	8.8	6.2	11.2	12.5
LCR (min 100%)	-	-	-	299	215
NSFR (min 100%)	-	-	-	222	111
FX Exposure/Core Capital (± 20%)	-5.7	-7.0	-7.8	-5.6	-4.8

Source: NBR, Financial Stability Directorate

5.4 MICROFINANCE SECTOR

5.4.1. Structure of the Microfinance Sector

The Microfinance sector (MFI) is composed of a wide array of institutions spread across the country. The number of MFIs reduced from 459 in December 2018 to 457 in December 2019 following the liquidation of 2 MFIs. As at December 2019, the MFI sector was composed of 416 Umurenge SACCOs (U-SACCOs), 22 non-Umurenge SACCOs and 19 Public Limited

Companies (PLCs). The MFIs are more distributed across the country than banks, enabling easy accessibility to rural households. Usage of MFI services continue to increase – the number of account holders in MFIs increased from 3,681,313 in December 2018 to 3,907,518 in December 2019, while the number of outstanding volume of loans increased from 281,083 in December 2018 to 509,724 in December 2019.

5.4.2. Performance of the Microfinance Sector

Total assets of MFIs increased by FRW 41 billion (from FRW 280 billion in December 2018 to FRW 321 billion in December 2019), higher than the increment of FRW 35 billion registered in 2018. The improved growth of assets of MFIs mainly reflects increased growth of deposits (+17.8 percent) and equity (+16.6 percent). In terms of composition of assets, loans and placements in banks remained the main components of the MFIs' assets accounting for 55.6 percent and 31.7 percent of the total assets respectively. Other assets of MFIs include fixed assets (9.6 percent), government securities (1.6 percent) and cash (1.5 percent).

On the liability side, customers' deposits remained the main source of funding for MFIs and constituted 82.5 percent of total liabilities as at end December 2019. Deposits grew by 17.8 percent, from FRW 144 billion in December 2018 to FRW 170 billion in December 2019, higher than the growth of 16.4 percent observed during the previous year. Regarding the maturity structure, demand deposits dominate the composition of deposits with a share of 65.3 percent as at end December 2019. Saving account deposits account for 28.5 percent while short-term and long-term deposits constitute 5.1 percent and 1.2 percent respectively. With this structure of deposits, MFIs like banks, face a risk of effectively managing the maturity mismatch between their assets and liabilities.

Lending remained the main business of MFIs but grew at slower pace relative to the previous year. As at December 2019, the total outstanding credit expanded by 11.9 percent, from FRW 164 billion in December 2018 to FRW 184 billion in December 2019, compared to the growth of 18.6 percent registered during the previous year. The deceleration of lending in MFIs mirrors the strategic change by MFIs, especially SACCOs, to focus on intensification of recovery activities as opposed to lending, a move aimed at improving assets quality and building a strong base for future credit delivery.

Looking at different categories of MFIs, the pace of lending increased the most in PLCs. Lending in PLCs increased by 22.3 percent, from FRW 51 billion in December 2018 to FRW 62 billion in December 2019, higher than the growth of 17.4 percent registered during the previous year. In contrast, the growth of loans moderated in SACCOs. Lending in U-SACCOs increased by 8.4 percent, from FRW 48 billion in December 2018 to FRW 52 billion in December 2019, lower than the growth of 16.8 percent that was recorded a year earlier. During the same period, lending in non U-SACCOs increased by 6.4 percent, from FRW 65 billion to FRW 69 billion, compared to the growth of 20.9 percent that was registered during the previous year.

MFIs continued to increase lending to the agriculture and livestock sector. Loans to the agriculture sector increased by 158.3 percent, from FRW 25 billion in December 2018 to FRW to FRW 64 billion in December 2019, compared to the increase of 11.5 percent that was observed a year before. Subsequently, the share of agriculture loans in total MFIs loans increased from 15.2 percent in December 2018 to 35.1 percent in December 2019, making it the most financed sector by MFIs ahead of trade and mortgage with a share of 28.7 percent and 13.1 percent respectively. The uptick of MFIs' lending to the agriculture sector is linked to good agriculture performance that safeguarded the capability of farmers to service their debts and at the same time induced the uptick of credit demand.

The MFIs sector continues to maintain sufficient capital and liquidity buffers. On one hand, the aggregate CAR of MFIs stood at 35.7 percent as at end December 2019, compared to the minimum prudential requirement of 15 percent. The strong capital position of MFIs is linked to the increase of equity by FRW 16 billion (from FRW 98 billion in December 2018 to FRW 114 billion in December 2019). The upturn of equity of MFIs came from retained earnings, profits, and paid up capital. On the other hand, the aggregate liquidity ratio stood at 100.4 percent, against 30 percent minimum prudential requirement. The high liquidity levels reflects the composition of assets of MFIs as explained above, where cash and placements in banks account for 33.1 percent of total MFIs assets.

The NPLs ratio in MFIs dropped from 6.5 percent in December 2018 to 5.7 percent in December 2019. This reduction of NPLs ratio is attributed to improved economic performance and write offs of bad loans. As at December 2019, total write offs increased by FRW 600 million (from FRW 22.7 billion in December 2018 to FRW 23.3 billion in December 2019). Looking at different categories of MFIs, the reduction of the NPLs ratio was more pronounced in MFI with limited liability status (PLCs), from 4.9 percent in December 2018 to 3.6 percent in December 2019. The NPLs ratio marginally dropped in U-SACCOs from 11.8 percent to 11.3 percent and in non U-SACCOs, from 3.7 percent to 3.4 percent.

The MFIs sector remains profitable. Profits of the microfinance sector increased by FRW 5 billion, from FRW 7 billion in 2018 to FRW 12 billion in 2019. Profits improved in all categories of MFIs. Profits of PLCs increased from FRW 58 million in December 2018 to FRW 2.4 billion in December 2019. During the same period, profits of non U-SACCOs increased from FRW 4.4 billion to FRW 5.2 billion, while profits of U-SACCOs increased from FRW 2.8 billion to FRW 4.3 billion. The increase of profit reflects the improved assets quality and recoveries of overdue loans in SACCOs. Improved recoveries reflects gains from the national task force established last year to recover bad loans in SACCOs. Since its establishment, the taskforce has recovered FRW 4.9 billion (FRW 3.4 billion in phase one and FRW 1.5 billion in phase two). In addition, 3,909 defaulters have signed commitment forms to pay FRW 1.9 billion within three months after signing the commitment forms.

Table 27: MFIs Performance Indicators

Indicators	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Assets (FRW billion)	209	223	244	280	321
Loans (FRW billion)	117	134	138	164	184
Deposits (FRW billion)	117	115	124	144	170
Equity (FRW billion)	65	79	87	98	114
Net profit/Loss (FRW billion)	7	10	2	7	12
Capital Adequacy Ratio (%)	31.1	35.2	35.8	35.1	35.7
NPLs Ratio (%)	7.9	9.0	8.2	6.5	5.7
ROA (%)	3.4	4.4	1.0	2.6	3.8
ROE (%)	11.4	13.7	2.9	7.7	10.7
Liquidity Ratio (%)	89.6	88.8	102.0	100.3	100.4

Source: NBR, Financial Stability Directorate

5.5 INSURANCE SECTOR

5.5.1 Structure of the Insurance Sector

The insurance sector provides a valuable risk management function for both individuals and businesses by spreading risks. Its growth and performance is therefore critical for economic growth and development. It is the third largest component of the financial sector, after banking and pension. The NBR regulates and supervises the insurance sector to ensure its stability and soundness. Sections below summarize the performance of this sector as at end December 2019.

The number of insurers reduced from 16 in December 2018 to 14 in December 2019 following the merger of SAHAM General Insurance and SAHAM Life with Sanlam General Insurance and Sanlam Life (former SORAS General Insurance and SORAS Life). As at December 2019, the sector consisted of 12 private insurers (9 non-life and 3 life insurers) and 2 public health insurers

(RSSB Medical and MMI). Insurance intermediaries consisted of 804 agents, 17 brokers, and 20 loss adjusters as at December 2019 from 710 agents, 16 brokers and 13 loss adjusters as at December 2018.

General insurance is the largest insurance business line, with around 81 percent of total premiums while Life insurance represents 19 percent of the total premiums. The general insurance business is predominantly motor insurance – with 35.8 percent of total private insurers' premiums in 2019, followed by medical insurance, accounting for 23.7 percentage share. Motor and medical insurance products accounted for 59.5 percent of private insurers premiums. The rest of private insurers' premiums came from life insurance (18.7 percent), property (7.6 percent), guarantees (3.9 percent), engineering (3 percent), accident and health (1.8 percent), transportation (1.3 percent), liability (1.8 percent) and other non-life insurance products (2.4 percent).

Product concentration is among the key risks facing the insurance sector. Shock or underperformance of the two dominant products could weigh down the entire insurance sectors' performance.

5.5.2 Performance of the Insurance Sector

Total assets of the insurance sector increased by 13 percent (y-o-y) to FRW 509.7 billion in December 2019 supported by capital injections (FRW 4.3 billion) and retained earnings (FRW 46.6 billion). As at December 2019, the assets distribution of the insurance sector remained relatively unchanged, as compared to the corresponding period of 2018. Placements in banks accounted for the largest portion at 45 percent of total assets, followed by government securities (14 percent), equities (13 percent), properties (9 percent) and other assets (19 percent).

The investment mix of life and non-life insurers reflect their liability profiles. Life insurers, with long- term liabilities, continue to invest in assets with longer term maturities to meet their long-term liabilities. As at December 2019, Life insurers' total investments in government securities and properties accounted for 68 percent of total assets while General insurers (short term insurers) held most of their assets in short term maturities, to cater for their short term liabilities– placements in banks represented almost a half of all assets (48.3 percent), equities (13 percent), government securities (11 percent), investment in properties (7 percent) and other assets (including intangibles assets and receivables) at 20 percent.

In 2019, non-life insurers (short term) reduced their stock of government securities and increased their placements in banks. Non-life insurers' stock of placements in banks increased from 43 percent of their total investments in December 2018 to 48 percent in December 2019. On the other hand, non-life insurers educed their exposure to government securities (from 15 percent to 11 percent) and to properties (from 8 percent to 7 percent). Insurers changed their investment mix in search of higher yields as the average deposit rates increased from 7.5 percent in 2018 to 7.6 percent in 2019, while the average treasury bills rate reduced from 6.6 percent to 6.4 percent during the same period. On the contrary, life insurers increased their investment in government securities (largely treasury bonds) –from 18 percent of their total assets as at December 2018 to 44 percent in December 2019.

During the period under review, the insurance sector's premiums (public and private) increased by FRW 18.8 billion (from FRW 134.6 billion in December 2018 to FRW 153.4 billion in December 2019), higher than FRW 13.7 billion growth registered in 2018. Growth of premiums was slightly higher in public insurers compared to private insurers. Total premiums of public insurers increased by FRW 9.9 billion, while premiums of private insurers (life and non-life) increased by FRW 8.8 billion. For public insurers, the growth of premiums was mainly underpinned by increased number of RSSB medical scheme affiliates from 147,304 in December 2018 and 155,198 in December 2019, while in private insurers, growth of premiums was driven by the continued impact of upward revision of motor insurance premium rates.

On a consolidated basis, net profits of private insurers increased from FRW 7 billion in 2018 to 7.1 billion in 2019. The profitability of private insurers has been underpinned by strong investment returns and the improvement in risks underwriting. For example, investment income increased from FRW 9.1 billion in 2018 to FRW 10.6 billion in 2019. During the same period, underwriting losses dropped from FRW 4.2 billion in 2018 to FRW 3.5 billion in 2019. Private insurers underwriting losses have gradually dropped over the last 4 years– i.e., from FRW 13.4 billion in 2016 to FRW 6.9 billion in 2017, FRW 4.2 billion in 2018 and to FRW 3.5 billion in 2019. The steady reduction of underwriting losses reflects the impact of revised motor premiums rates that led to improved motor insurance premiums, the effective claims management among private insurers and better practices like stopping selling insurance products on credit.

Table 28: Key Performance Highlights of the Insurance Sector

Description (In FRW billion)	Private Insurers		Public Insurers		Insurance sector	
	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19
Gross written premiums	78.8	87.6	55.8	65.8	134.6	153.4
Net written premiums	60.9	67.6	55.8	65.8	116.7	133.4
Total Claims	36.6	42	32.4	33.8	69	75.8
Management expenses	28.6	29	5	7.9	33.6	36.9
Net underwriting profit (loss)	-4.2	-3.4	18.4	24.1	14.2	20.7
Investment Income	13	13.7	17.4	15.3	30.4	29
Net profit after taxes	7	7.1	35.8	39.5	42.8	46.6
Assets	169.2	187.4	283.2	322.4	452.4	509.8
Technical provisions	88.1	99.1	0.9	1.6	89	100.7
Liabilities	25	26.1	2.4	3.5	27.4	29.6
Capital and reserves	56	62.2	279.9	317.2	335.9	379.4

Source: NBR, Financial Stability Directorate

Product wise, other insurance products performed well except motor, guarantee, medical and other miscellaneous products which are still making underwriting losses (Table 29).

Table 29: Performance of Non-Life Insurance Products

Underwriting returns			
Description (In FRW Million)	Dec-17	Dec-18	Dec-19
Motor	-4,300	-1,500	-1,100
Property	682	-356	1,161
Liability	74	367	209
Transportation	-22	920	114
Accident & health	280	309	473
Engineering	-117	-676	174
Guarantee	728	-605	-495
Medical	-452	467	-780
Miscellaneous	-498	-1,237	-172

Source: NBR, Financial Stability Directorate

5.5.3 Financial Soundness of the Insurance Sector

The insurance sector remained solvent and maintained capital buffers above minimum prudential requirements. For private insurers, solvency ratio increased from 165 percent in December 2018 to 170 percent in December 2019, compared to 100 percent minimum prudential requirement. Public insurers have for a long-time maintained significantly high solvency position-it stood at 2,426 percent as at end December 2019. Higher solvency buffers indicate that the insurance sector is adequately capitalised and capable of withstanding adverse shocks. Private insurers' solvency in 2019 was weighed-up by capital injections and retained profits. During the period under review, paid up capital of private insurers increased by FRW 4.3 billion (from FRW 51 billion in December 2018 to FRW 55.3 billion in December 2019), while retained profits (private and public) grew from FRW 43.8 billion to FRW 46. 6 billion.

Private insurers' liquidity position is adequate to cover short-term liabilities. The current liquidity ratio, used to determine the amount of an insurance company's liabilities that can be covered with liquid assets, stood at 130 percent in December 2019, and above 120 percent prudential requirement. Insurers high liquid assets are predominantly placements in banks with maturity of 1 year and these accounted for 63 percent of total invested assets of all insurers. In line with their long-term liabilities, life insurers possess relatively low liquid assets – 20 percent of their total invested assets. For public medical insurers, liquidity positions remained quite high, above minimum requirements.

Table 30: Key Financial Soundness Indicators of the Insurance Sector

Description (Ratios %)	Private Insurers		Public Insurers		Insurance sector	
	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19
Solvency margin (Min. 100%)	165	170	2,265	2,426	1,133	1,266
Claims ratio (max.60%)	59	62	56	51	58	57
Expenses ratio (max. 30%)	48	43	9	12	30	28
Combined ratio (max.90%)	108	105	65	63	87	84
ROA (min. 4%)	4	4	13	24	10	9
ROE (min. 16%)	13	11	13	25	13	12
Liquidity ratio (min. 120%)	134	130	3,982	4,636	383	325

Source: NBR, Financial Stability Directorate

5.6 PENSION SECTOR

5.6.1 Structure

The Pension sub-sector is composed of one mandatory pension and occupational hazards scheme— the Rwanda Social Security Board (RSSB), accounting for 95 percent of the pension sector's assets as well as 12 licensed private pension schemes which account for 5 percent of total assets. RSSB Pension Fund is a Defined Benefits scheme (DB) which provides pension benefits to retirees that were formally employed in the public and private sector, and other benefits related to occupational hazards. Pension benefits are based on age of the insured, the period of contribution and his/her average salary of the last five years of employment. On the other hand, private pension schemes — voluntary based schemes are managed as Defined Contribution Schemes (DC), which provide pension benefits based on the contributions collected and the performance of the investment of those contributions.

5.6.2 Performance of Public Pension Fund-RSSB

Total assets of the Fund increased by FRW 118 billion (from FRW 773.2 billion in December 2018 to FRW 891.1 billion in December 2019), compared to the growth of FRW 55 billion registered in the same period of 2018. The growth of assets was mainly underpinned by increased contributions, investment income and other income. Contributions increased from FRW 45.2 billion in December 2018 to FRW 51 billion in December 2019, indicating the increased number of employees (from 478, 578 to 500,607) and some payment of contributions arrears. The fund's investment income increased from FRW 17.5 billion to FRW 20.2 billion mainly driven by increased interest income from government securities (from FRW 4.8 billion to FRW 8.6 billion).

During the period under review, income from government securities was the major component of total investment income to the fund, with a share of (43 percent) followed by placements in banks (27 percent), dividends (24 percent) and rentals (6 percent).

During the year ended December 2019, benefits payments increased by FRW 1.8 billion (from FRW 13 billion to FRW 14.8 billion), reflecting the increasing number of retirees (from 37,227 to 39,652). Around 93 percent of benefits paid were made on payments arising from members' permanent incapacitation/invalidity, and regular monthly pension for retirees. The remaining 7 percent of total benefits paid were lump sum payments, arising from members attaining the retirement age or deceased (with less than 15 years of contribution period). Other operating expenses slightly increased from FRW 1.5 billion to FRW 2.7 billion, on account of increased investment, management and consultancy fees during the period. This has led to pension fund cost to income ratio (expenses to investment income) picking up from 9 percent in December 2018 to 13 percent in December 2019.

Table 31: Key Financial Highlights of Public Pension Fund

DESCRIPTION (in FRW Billion)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	%change Dec-18/17	%change Dec-19/18
Total assets	546.3	609.8	717.9	773.2	891.1	8	15
Total contributions	37.4	36.7	44.6	45.2	51.0	1	13
Total benefits paid	7.6	8.8	9.8	13.0	14.8	32	15
Operating expenses	2.4	2.2	2.1	1.5	2.7	-26	71
Investment income	9.0	10.0	12.6	17.5	20.2	39	15
Other income	0.1	0.3	5.1	0.1	4.4	-99	8037

Source: NBR, Financial Stability Directorate

With regard to investment distribution, the largest portion of the Fund's investments are allocated in equities and account for 34 percent, followed by government securities (19 percent), placements in banks (17 percent), properties (16 percent) and other investments—including corporate bonds & commercial papers (14 percent). The major proportion of investments are invested locally at 88 percent, 3 percent in EAC region and 9 percent to the rest of world. Overall, total value of Fund's investment portfolio increased from FRW 755.3 billion to FRW 867.8 billion (97 percent of all assets) in December 2019.

With the exception of placements in banks that reduced by FRW 28.9 billion (from FRW 179.4 billion to FRW 150.5 billion) all other investment categories experienced growth. Investments in government securities increased by FRW 38 billion from FRW 122.8 billion to FRW 160.8 billion, higher than the growth of FRW 35 billion in the previous period of 2018, due to the increased yields on government securities (mainly treasury bonds with long maturity). Investment in equities increased by FRW 35 billion from FRW 262.3 billion to FRW 297.3 billion. Most of these investments are found in non-quoted corporations (70 percent of total equity investments). Similarly, property investments also increased by FRW 35 billion, from FRW 101.1 billion to FRW 135.8 billion.

Table 32: Investment Allocation of Public Pension Fund

Description (In FRW Billion)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	% Share	%Change Dec-18/17	%Change Dec-19/18
Government Securities	68.5	107.6	91.3	122.8	160.8	19	34	31
Equities	188.1	202.7	249.3	262.3	297.3	34	5	13
Investment in properties	117.2	117.2	112.2	101.1	135.8	16	-10	34
Placements in banks	152.1	164.3	209.6	179.4	150.5	17	-14	-16
Other investments and securities	13.7	15.3	52.8	89.7	123.4	14	70	38
TOTAL	539.5	607.2	715.2	755.3	867.8	100	6	15

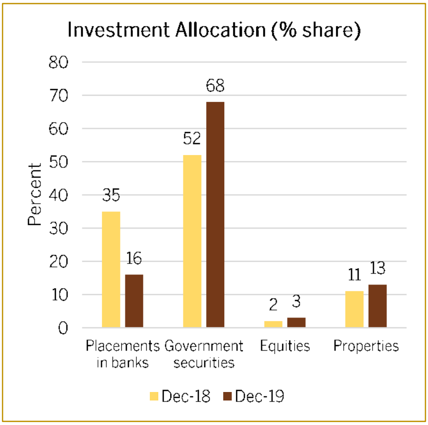
Source: NBR, Financial Stability Directorate

5.6.3 Private Pension schemes

During the period under review, private pension schemes remained 12 and altogether increased their assets by FRW 10.4 billion from FRW 35 billion in December 2018 to FRW 45.4 billion in December 2019. The growth of the assets is linked to the growing members' contributions to these schemes that increased from FRW 4 billion in December 2018 to FRW 8 billion in December 2019. Investment income also supported the growth of assets and increased from FRW 2.1 billion to FRW 3.7 billion (Table 33). With regard to the investment mix, the largest proportion of investments of private pension schemes are held in government securities (68 percent) followed by placements in banks (16 percent), properties (13 percent) and equities (3 percent). Like in the Public Pension Fund, it is important to note that investments made by these schemes as placements in banks reduced during the period under review while investments in government securities picked up. The share of government securities in total investments increased from 52 percent to 68 percent, while that of placements in Banks reduced from 35 percent to 16 percent. Increased investment in government securities (mainly on long term bonds) was connected to the higher yields gained on this investment class compared to yields on placements in Banks observed during the period.

As at December 2019, these schemes have 37,285 contributing members of which 32,833 members are in complementary occupational pension schemes and 4,452 members in personal pension schemes. Further, the number of licensed pension service providers remained 15, of which 6 are administrators, 5 investment managers, 3 custodians, and 1 corporate trustee.

Figure 20: Highlight of Private Pension Schemes



Source: NBR, Financial Stability Directorate

Table 33: Highlight of Private Pension Schemes

Description (In Billion FRW)	Dec-18	Dec-19
Assets	35.0	45.4
Liabilities (Payables)	0.1	0.1
Technical Reserves	34.9	45.3
Contributions received	4.8	8.0
Benefits paid	3.1	3.8
Investment income	2.1	3.7
Operating expenses	0.8	1.2

5.7 DEPOSIT GUARANTEE FUND

Rwanda's Deposit Guarantee Fund (DGF) was established by Law N° 31/2015 of 05/06/2015 determining the organization and functioning of a deposit guarantee fund for banks and microfinance institutions. The Fund's main objective is providing protection to depositors in case of failure of a bank or MFI thereby maintaining public confidence in the banking and financial system.

As of end December 2019, the DGF had accumulated premiums amounting to FRW 4,966 billion which represents 3.4 percent of insured deposits against a target of 20 percent. Contributions collected are invested in government securities and in 2019 generated investment income of FRW 297 million.

5.8 PAYMENT SYSTEMS INFRASTRUCTURE

Payment Systems are a 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 different financial market systems.

5.8.1 Wholesale Payment Systems

In Rwanda, the wholesale payment systems are embodied in the Rwanda Integrated Payment Processing System (RIPPS) which comprises of Automated Transfer System (ATS) and the Central Security System (CSD).

In 2019, the Rwanda Integrated Payments Processing System (RIPPS) performed smoothly, with increased transactions. The ATS is a hybrid system providing integrated facilities for clearing and settlement of all interbank electronic payments. During the year ended December 2019, customer transfers continued to dominate RIPPS activities with a share of 93.6 percent in volume and 48 percent in value. Customer transfers increased by 26 percent in volume and by 7.4 percent in value. Cheque transactions increased by 15 percent in volume and by 30.9 percent in value mainly due to cheque truncation system while interbank transfers increased by 17 percent in volume and 96.6 percent in value.

Table 34: Transactions through RIPPS

Particulars	Jan-Dec 2018				Jan-Dec 2019				% Change	
	Volume	Share%	Billions in FRW	Share %	Volume	Share%	Billions in FRW	Share%	Volum e	Value
Customer transactions	3,373,424	93.0%	5,710	61.0%	4,247,179	93.6%	6.133	48.2%	26%	7.40%
Cheques	239,346	6.6%	742	7.9%	274,125	6.0%	971	7.6%	15%	30.96%
Interbank transactions	14,761	0.4%	2,915	31.1%	17,339	0.4%	5,732	45.0%	17%	96.65%
Total	3,627,531	100%	9,367	100%	4,538,643	100%	12,734	101%	25%	35.95%

Source: NBR, Financial Stability Directorate

5.8.2 Retail Payment Services

(1) Mobile Financial Services and Internet Banking

The uptake of mobile financial services i.e mobile payment and mobile banking services continued to increase, supported by emerging mobile technology. The active subscribers slightly increased from 4,662,206 to 4,700,987. During 2019, the mobile payment transactions increased by 26.3 percent from 299.9 million worth FRW 1,808 billion in December 2018 to 378.8 million worth FRW 2,349 billion in December 2019. It is worth highlighting that volume of mobile payment transactions was still dominated by airtime purchase transactions (37 percent); followed by cash-in transactions (23 percent); cash-out (16 percent); P2P (9 percent); merchants payments (6 percent); Electricity (4 percent) and other transactions (5 percent). With regard to mobile agents, the number of agents decreased by 9 percent from 107,858 to 98,359.

Figure 21: Mobile Payment Services Usage in 2019

	Cash-in	Cash-out	Airtime	Electricity	Water	Merchant	Saving	Loan	Pull/Push	MNO/MNO	B2P	P2G	P2P	Int. inward	Reg. inward	Reg.outward
2019	23.1%	15.8%	36.7%	4.2%	0.1%	6.1%	0.7%	0.7%	1.8%	0.0%	1.2%	1.0%	8.4%	0.1%	0.1%	0.0%
2018	25.9%	17.0%	37.2%	5.3%	0.1%	1.8%	0.5%	0.6%	1.8%	0.0%	0.8%	0.8%	8.3%	0.0%	0.0%	0.0%

Source: NBR, Financial Stability Directorate

With regard to mobile banking services, mobile devices continued to support the delivery of some banking services during the period under review. As at December 2019, the number of mobile banking users increased by 12 percent from 1,845,584 to 2,065,624. Further, mobile banking transactions volume decreased by 38 percent from 3.2 million to 2 million of transactions due to disruptions from some changes in the systems. Currently, mobile banking services are operated by 10 banks.

Internet banking service is currently provided by 9 Banks. During the period under review, the internet banking transactions in volume increased by 77 percent to 1,355,188 in December 2019 from 767,030 in December 2018. This increase is mainly due to transfers between customers within the same bank or with other banks and payments of bills and services like tax.

(2) Card Based Payment Services

The number of retail Point of Sale (POS) machines increased from 2,801 in December 2018 to 3,477 in December 2019. During the period under review, POSs transactions increased by 53 percent in volume from 1,588,639 in

December 2018 to 2,426,456 in December 2019, while in value, POS transactions increased by 29 percent from FRW 85 billion in December 2018 to FRW 109 billion in December 2019. Automated Teller Machines (ATM) remained 383 in December 2019. In terms of usage, ATMs transactions slightly increased by 5 percent in volume from 9,585,002 in December 2018 to 10,061,164 in December 2019, and 9 percent in value from FRW 530 billion to FRW 578 billion during the period under review.

(3) New Products Development

Recently introduced types of POS (virtual POS, Near Field Communication (NFC) and mobile POS) improved the usage of electronic payments during the period under review. As at December 2019, the number of Virtual POS increased from 4,023 to 5,713. The number of NFC POS slightly decreased from 400 to reach 382 due to merchants shift to mobile POS which in turn increased from 7,505 to reach 13,675. With regard to transactions, mobile POS continued to increase both in volume and value compared to other types of POS. The mobile POS transactions increased significantly in volume from 576,028 to 7,377,293, while in value, they increased from FRW 10.9 billion to FRW 52.4 billion.

Table 35: 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	Dec-19
ATMs per 100,000 adult population	6	5.9	5.2	5.2
Trad. POS per 100,000 adult population	28.16	30.5	39.3	47.3
POS per 100,000 adult population	-	-	167.5	268.7

Source: NBR, Financial Stability Directorate

5.9 ACCESS TO FINANCE

Financial inclusion is among Rwanda's development priorities. The vision for financial inclusion in Rwanda is that adults and their enterprises have access *to, and regularly use a* ***broad range of affordable financial services*** *and products that they are willing to pay for and that meet their needs, helping* *them to be resilient, to manage cash effectively, and to invest. The services will be from a range of* ***formal and informal*** *providers, delivered in a* ***responsible and sustainable*** *way.* NBR is among institutions driving the financial inclusion agenda in Rwanda. NBR contributes to financial inclusion through its financial regulation function- particularly establishing the legal framework that support financial stability, but also allow for product development and competition in the sector. The bank also monitors financial inclusion through demand side surveys and more frequent supply side data submitted by regulated financial institutions.

Finscope survey 2016 indicated that Rwanda made significant progress on financial inclusion- with the percentage of adult population accessing formal financial services increasing from 42 percent in 2012 to 68 percent in 2016. The next finscope survey is ongoing and its findings are expected to be disseminated in March 2020. Apart from Finscope Survey, NBR monitors financial inclusion (access and usage of formal financial services) using quarterly supply side data from regulated financial institutions. The section below provides insights into recent trends on access and usage of formal financial services as at the end December 2019.

5.9.1 Growth of Client Accounts

Supply side data from regulated financial institutions indicates further progress on access. Having an account is a first step towards the financial inclusion journey since a transaction account allows people to make and receive payments. In 2019, the total number of bank and MFI accounts increased from 7.1 Million to 7.7 (8.9 percent increase). Bank accounts increased the most due to the increase of digital accounts– by 11.8 percent, compared to 6.2 percent in microfinance (Table 36). In the microfinance sector, with gender-disaggregated data, the female owned accounts increased more than male owned accounts (Table 36). The relatively high growth of female owned accounts contributes to lowering the gender gap in financial inclusion. In terms of composition, men still hold the largest portion of accounts (50.5 percent) compared to women 40.9 percent. One caveat to this indicator (number of accounts) is that it includes individuals with multiple accounts. Nevertheless, it is a proxy for access.

Table 36: Number of Client Accounts (In Thousands)

Sector	Dec-17	Dec-18	Dec-19	%change
Banking	2,262	3,443	3,850	11.8
Microfinance	3,457	3,680	3,907	6.2
Female	1,373	1,469	1,598	8.8
Male	1,797	1,896	1973	4.1
Group/entities	287	315	346	9.8
Total	5,719	7,123	7,757	8.9

Source: NBR, Conduct Supervision & Financial Inclusion Department

Usage of financial services increased as indicated by the number of borrowers from banks that increased from 308,206 in 2018 to 421,553 in 2019 (36.7 percent increase). This increase in number of borrowers reflects the impact of micro digital loans offered by four banks (BK, KCB, Equity and NCBA). As at end December 2019, digital loans had grown from RWF 12.70 Billion in December 2018 to RWF 25.41 Billion in December 2019. The short processing time and less requirements for these loans make them convenient to several low-income households. These micro-digital loans are for both investment and consumption purposes.

The number of bank depositors, however, reduced from 2,317,978 in 2018 to 2,263,861 in 2019 (Table 37). The distribution of depositors by province in December 2019 revealed that 59.3 percent of total depositors are located in Kigali City, followed by Eastern Province (10.8 percent), Southern province (10.4 percent), Western Province (11.1 percent) and Northern Province (8.3 percent).

Table 37: Number of Depositors and Borrowers in Banks by Province

	Kigali	North	East	West	South	Total 2019	Total 2018
Depositors	1,342,298	188,959	244,012	252,378	236,214	**2,263,861**	**2,317,978**
Borrowers	274,250	30,898	50,410	32,860	33,135	**421,553**	**308,206**

Source: NBR, Conduct Supervision & Financial Inclusion Department

5.10 POLICY REFORMS IMPLEMENTED

The NBR undertook a number of initiatives aimed at enhancing the stability and resilience of the financial sector. The NBR continued to strengthen the legal and regulatory framework through the issuance of new and revised instruments during the period under review. During the second half of the year 2019, the NBR enacted four Regulations. The purpose and provisions of these regulations are summarized below.

Regulations on Publication of Financial Statements and Other Disclosures by Banks and Insurers

The NBR established the Regulation n° 28/2019 of 09/09/2019 and the Regulation n° 30/2019 of 16/12/2019 relating to publication of financial statements and other disclosures by banks and insurers respectively. The purpose of these regulations is three fold: (i) ensuring that every bank and insurance company maintain a level of transparency adequate to enable all stakeholders to make informed decisions; (ii) promoting and maintaining public confidence in the two sectors; and (iii) enhancing market discipline in the banking and insurance sectors by providing adequate financial information covering inter-alia financial performance, financial position, types of risk to which a bank or an insurance company is exposed, nature and extent of risk exposure and an overview of other key aspects.

Regulation on Consolidated Supervision for Banks

The NBR established the Regulation n° 29/2019 of 09/09/2019 on consolidated supervision for banks following the review of the pre-existing Regulation n° 12/2011 on consolidated supervision. The purpose of this regulation is:

(i) to enable the Central Bank to evaluate the entire banking group to which a bank belongs, taking into account all risks which may affect the institution, regardless of whether the risks arise in the bank or a parent undertaking, a subsidiary company, affiliates, associates or other undertakings in which it has a relationship;

(ii) to establish reporting requirements for banks and their subsidiaries, the entities within financial groups and conglomerate groups, in order to provide the Central Bank with a full understanding of the structure of the banking or financial group, as well as the business conducted by each entity of the group, and the risk of environment in which they operate;

(iii) to prevent abuses by financial institutions using group structures to evade prudential limits or make multiple uses of capital;

(iv) to enable the Central Bank to monitor risks that arise outside the bank - such as the financial risk on intragroup lending, and reputational risk due to losses - or other problems that may arise in the group.

Regulation on Credit Reporting Systems

The NBR established the regulation n° 27/2019 of 09/09/2019 relating to credit reporting system. This regulation implements the law governing credit reporting system, sets standards for the effectiveness of credit reporting system and the enhancement of the consumers' right. In addition, this regulation establishes the licensing criteria, shareholding and governance structure of the operator of credit bureau.

Regarding the governance structure of the operator of credit bureau, the regulation requires the establishment of Board of Directors, which is composed of the board audit sub-committee and the board IT and operations sub-committee. It also put forward key responsibilities of the Board of Directors.

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 Monetary policy outlook

For Year 2020, IMF projections point to an increase in global growth to 3.3 percent from 2.9 percent in 2019. This positive outlook mainly reflects recoveries in manufacturing activities, global trade and accommodative monetary policies supported by favorable developments in US-China trade negotiations and diminished fears of a no-deal Brexit. As the growth rebounds in 2020, global annual average inflation is projected to pick up at 3.6 percent in 2020 from 3.4 percent in 2019. However, the recent outbreak of coronavirus in China, coupled with rising geopolitical tensions and climate-induced disasters pose downward risks to the interconnected global economy, which may result in revisions in global growth and inflation outlooks.

On the domestic economy, recent leading indicators of economic activities signal high economic growth for 2019, higher than the previous projection of 8.5 percent. The good economic performance is expected to continue in 2020, supported by industrial activity (including ongoing large-scale construction projects and their spillovers in the manufacturing sector) as well as services (including international meetings as well as trade, engineering and transport services). Potential downside risks are associated with the aforementioned risks to global economy, coupled with the effects of climatic variabilities on the performance of the agriculture sector.

Consistent with the global and domestic outlooks, Rwanda's external sector is expected to improve moderately. The positive outlook is driven by increasing inflows from services, remittances and decreasing trade deficit. The current account deficit is projected to ease. On the one hand, after a sharp drop observed in 2019, exports of goods are set to recover on the back of expected recovery of prices of traditional exports (minerals, coffee and tea). In addition, raising Rwanda's attractiveness to international meetings & conferences and tourism is expected to boost receipts from services, thereby contributing to an improvement in the current account deficit. On the other hand, increasing domestic demand for intermediate and capital goods (mainly to support the growing manufacturing sector and investment spending) will continue to weigh down on the improvement in current account deficit.

The financing of current account deficit by steady inflows of FDIs and other investments is expected to continue in 2020. The ease of doing business and stable domestic macroeconomic environment will continue to drive Rwanda's attractiveness as an FDI destination. Together with a gradual increase in financial flows, these current account improvements will support a continued growth in external buffers. Gross official reserves are projected to reach 4.6 months of prospective imports by 2020, contributing to reduce the exchange rate pass through to domestic prices.

With the positive outlook in the real and external sectors, headline inflation is projected to evolve slightly above the 5 percent benchmark. The projection partly reflects the effect of lower outturn of food inflation in 2019 and climatic variabilities observed since 2019. The increase in core inflation observed since 2019Q3 is projected to continue through 2020, but the outturn is expected to remain below 5 percent. The uptick reflects increasing prices of imported consumer goods, following increases in their international prices.

Based on the inflation outlook and risks associated to the global economy, NBR will continue to conduct a prudent monetary policy to ensure macroeconomic stability. Developments in domestic and global economic conditions will be closely monitored and NBR will stand ready to take appropriate monetary policy actions.

6.2 Financial sector stability outlook

The Rwandan financial system is expected to remain sound and stable in the near-term and medium-term. Banks and insurance capital is expected to remain strong as they comply with new capital requirements. The NBR will continue pursuing effective oversight of financial institutions and infrastructure and use appropriate instruments to contain risks.

Effective risk management practices in banks will be a key area of supervisory focus for the banking sector through review of annual Internal Capital Adequacy Assessment (ICAA) and Internal Liquidity Adequacy Assessment (ILAA). The aim of these assessments is for Boards to effectively analyze the bank's risks, sufficiency of mitigating actions as well as the amount of capital and liquidity required.

For the insurance sector, the implementation of Risk Based Capital (RBC) will be a key priority. Adequate preparation for the implementation of IFRS 17 – Insurance Contracts which will come into effect for the reporting periods beginning in January 2022 will be another key area of focus.

NBR will continue working with the payments industry and other Government agencies to implement an interoperable platform that will enable customers to make payments in an easy, fast, secure and affordable way regardless of the service provider or instrument (i.e bank to bank, bank to wallet, wallet to bank, MFI to bank and wallet and reverse).

The ongoing RIPPS upgrade will lead to fundamental changes in the 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.

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