NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

28th August 2020

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LIST OF ACRONYMS AND ABBREVIATIONS

ATM	: Automated Teller Machine
BDF	: Business Development Fund
BIF	: Burundian Franc
CAD	: Current Account Deficit
CAR	: Capital Adequacy Ratio
CIEA	: Composite Index for Economic Activities
CMA	: Capital Market Authority
CPS	: Credit to the Private Sector
CSD	: Central Securities Depository
DSIBs	: Domestic Systemically Important Banks
EAC	: East African Community
ECL	: Expected Credit Losses
ELFB	: Extended Lending Facility for Banks
ERF	: The Economic Recovery Fund
EUR	: Euro
FOB	: Freight on Board (or Free on Board)
FOREX	: Foreign Exchange
FRW	: Franc Rwandais
FSC	: Financial Stability Committee
FX	: Foreign Exchange
GBP	: Great British Pound
GDP	: Gross Domestic Product
IAIS	: International Association of Insurance Supervisors
IFRS9	: International Financial Reporting Standards
IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
LCR	: Liquidity Coverage Ratio
LTSS	: Long Term Savings Scheme

LTV	: Loan to Value
M3	: Broad money
MFIs	: Microfinance Institutions
MMI	: Military Medical Insurance
MNOs	: Mobile Network Operators
MPC	: Monetary Policy Committee
MPFSS	: Monetary Policy and Financial Stability Statement
NALs	: New Authorized Loans
NBR	: National Bank of Rwanda
NDA	: Net Domestic Assets
NFA	: Net Foreign Assets
NII	: Net Interest Income
NISR	: National Institute of Statistics of Rwanda
NPLs	: Non-Performing Loans
NSFR	: Net Stable Funding Ratio
OPEC	: Organization of the Petroleum Exporting Countries
PLCs	: Public Limited Companies
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
RSSB	: Rwanda Social Security Board
SACCOs	: Saving and Credit Cooperatives
SICR	: Significant Increase in Credit Risk
SMEs	: Small and Medium Enterprises

SMEs	: Small and Medium Enterprises
T- Bills	: Treasury Bills
TA	: Total Assets
TZS	: Tanzanian Shilling
UGS	: Ugandan Shilling
UK	: United Kingdom
US	: United States
USD	: American dollar
WEO	: World Economic Outlook

EXECUTIVE SUMMARY

The objective of this Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic developments for the first half of the year 2020 and give an outlook for the second half of the year and beyond. This statement first presents the global economic development to contextualize the domestic economic and financial performance before concluding with an outlook.

According to the International Monetary Fund's (IMF) projections published in June 2020, global economic growth is projected at -4.9 percent in 2020 from 2.9 percent recorded in 2019, worse than during the 2008-09 global financial crisis, owing to the impact of the COVID-19 pandemic outbreak. In 2021, the global economy is projected to recover by 5.4 percent as economic activities normalize, helped by policy support. This baseline scenario assumes that the pandemic fades in the second half of 2020 and containment efforts gradually unwound.

In Sub-Saharan Africa, growth is projected to contract to -3.2 percent in 2020 compared to 3.1 percent recorded in 2019, which makes it the first recession in the region for the last 25 years. According to April 2020 WEO update, the downward revision for 2020 growth reflects macroeconomic risks arising from a sharp decline in output growth amongst the region's key trading partners, including China and the euro area, the fall in commodity prices, reduced tourism activity in several countries, as well as the impacts from measures taken to contain the COVID-19 global pandemic.

Global commodity prices decreased in the first half of 2020, reflecting a slowdown in global demand. In the first half of 2020, energy prices fell by 36.6 percent from a decline of 8.7 percent in the same period of 2019 due to the economic impact of COVID-19 and the warm winter that reduced demand for heating fuels. As a result, monetary policy remained accommodative across *the world, in response to the decline in global demand & falling business confidence due to Covid-19 pandemic.*

In the domestic economy, real GDP growth decelerated to 3.6 percent in quarter one of 2020 compared to 6.1 percent recorded in same period of 2019. High-frequency indicators point to a negative impact of COVID-19 in the second quarter of 2020. The Composite Index of Economic Activities (CIEA) which is the Central Bank measure that provides an early direction of economic performance, decreased by 8.8 percent in quarter two of 2020 compared to an increase of 16.5% recorded in the same period of 2019. With the opening of more economic activities in the country, supported by several government economic initiatives as well as opening up of other economies across the world, the Rwandan economy is expected to pick up in the second half of 2020, compared to the performance of the 1st half of the year. This is evidenced by an upward trend of CIEA, with an increase of 8.4 percent in June.

Rwanda's exports receipts rose by 9.1 percent in the first half of 2020, owing to increased exports in gold. The revenues from other exports categories contracted as the COVID-19 pandemic hit global demand, weighing down commodity prices and domestic economic activities. During the same period, imports of goods went up by 11.0 percent, y-o-y, as a result of rising demand of food products, medical supplies and gold for refinery. As a result, Rwanda's trade deficit widened by 12.1 percent, y-o-y, in the first half of 2020.

In the second quarter of 2020, headline inflation stood at 8.7 percent (year-on-year) from 8.2 percent in quarter one of 2020. The uptick in headline inflation was mainly driven by the upward revision of public transport fares. However, baseline projections of inflation suggest that headline inflation is projected to start reducing gradually to below the NBR benchmark of 5.0 percent in the last quarter of 2020. As a result of the aforementioned increase *in transport inflation, the average inflation for 2020 is revised to 6.9 percent, from 6.2 percent projected in February 2020.*

On the monetary sector side, the continuing accommodative monetary policy stance has contributed to a further reduction in market interest rates in the economy. In the first half of 2020, the lending rate reduced to 16.14 percent from 16.64 percent in the same period of 2019, and this is expected to support the economic recovery.

The FRW depreciated by 2.3 percent against the USD by end July 2020, slightly lower than 2.6 percent recorded in the same period of 2019. The foreign exchange market is expected to remain stable, with adequate foreign exchange reserves covering 6.3 months of imports as of end July 2020.

The outbreak of COVID-19 and the necessary measures taken by Government to contain its spread posed a significant toll on the economy and financial conditions. The pandemic weighed down performance of firms and households in sectors primarily financed by the financial sector like hotels, commercial real estate, public transporters, traders, and manufacturing. To the financial sector, the economic downturn increases the credit risk, liquidity risk and ultimately depresses profits. As at June 2020, however, three months since the first COVID-19 case was registered in Rwanda, the financial sector remained resilient as capital and liquidity buffers held in the past have supported financial institutions to absorb losses. The solvency and liquidity position of the banking, microfinance and insurance sub-sectors remained above prudential requirements.

The impact of the COVID-19 shock so far is seen in loan restructurings in banks and MFIs. Banks restructured 39 percent of their loan portfolio, while MFIs restructured 23 percent of their loan portfolio due to COVID-19. In most cases this was payment moratorium for 3-6 months, with the assumption that activities with restructured loans will make a turnaround in that period. The focus of NBR in the next 6 months is to closely work with banks and MFIs *to monitor performance of these restructured loans, assess the impact of their performance on solvency and liquidity of regulated financial institutions, with overall objective of ensuring that potential risks are identified and measures to safeguard stability of the financial sector are implemented in a proactive manner.*

The impact of the COVID-19 outbreak on insurance and pension has been limited so far. On insurance, the limited impact is largely linked to: (1) the nature of insurers' investment mix- with large portions in less risky assets like Government securities and placements in banks; (2) the high proportion of mandatory products like motor insurance and medical, that are less quickly sensitive to changes in economic conditions; (3) insurance policies don't cover pandemic risks like COVID-19. Due to these 3 factors, the impact of the pandemic on the insurance sector has been limited (solvency and liquidity positions of the sector remained above prudential requirements, while profit also increased in H1 2020). Nevertheless, premium receivables, although still low at 2.2 percent of insurers assets, has increased due to the economic downturn and NBR will continue monitoring its evolution and impact on the liquidity position of the sector. The pension sector assets continued to grow through contributions, despite a slight reduction of investment income on their equity investments.

The primary supervisory objective of NBR during this shock is that the financial sector continues to play the catalyst role of economic growth by intermediating funds between economic agents, pool risks to support trade and investment, ensure the operational resilience of financial institutions and financial market infrastructure, but most importantly sustain financial stability.

I. GLOBAL ECONOMIC ENVIRONMENT

This section presents recent macroeconomic development 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 Rwanda's economic performance within the global economic environment and helps to draw economic prospects for the near and medium-term.

1.1 ECONOMIC GROWTH AND OUTLOOK

According to the International Monetary Fund's (IMF) projections published in June 2020, global economic growth is projected at -4.9 percent in 2020 from 2.9 percent recorded in 2019, worse than during the 2008-09 global financial crisis, owing to the COVID-19 pandemic outbreak. The growth projection was marked down by 1.9 percentage points relative to April 2020 projections, an extraordinary revision over such a short period of time and 6.5 percentage points lower than the pre-COVID-19 projections of January 2020. In 2021, the global economy is projected to recover by 5.4 percent as economic activities normalize, helped by policy support. This baseline scenario assumes that the pandemic fades in the second half of 2020 and containment efforts gradually unwound. Projected growth in 2021 has also been revised down by 0.4 percentage points relative to April 2020 projections.

In advanced economies, growth is projected at -8.0 percent in 2020 from 1.7 percent in 2019, mostly reflecting contraction in all economies including the United States (-8.0 percent), Eurozone (-10.2 percent), United Kingdom (-10.2 percent), Japan (-5.8 percent), Germany (-7.8 percent), France (-12.5 percent), Italy (-12.8 percent) and Spain (-12.8 percent).

Table 1: Global GDP Growth (p.a)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj	2021 proj
World	3.5	3.5	3.6	3.4	3.4	3.8	3.6	2.9	-4.9	5.4
Advanced economies	1.2	1.4	2.1	2.3	1.7	2.4	2.2	1.7	-8.0	4.8
United States	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.3	-8.0	4.5
Euro area	-0.9	-0.2	1.4	2.1	2.0	2.4	1.9	1.3	-10.2	6.0
Japan	1.5	2.0	0.4	1.2	0.6	1.9	0.3	0.7	-5.8	2.4
United Kingdom	1.4	2.0	2.9	2.3	1.8	1.8	1.3	1.4	-10.2	6.3
Emerg.& developing	5.4	5.1	4.7	4.3	4.6	4.8	4.5	3.7	-3.0	5.9
China	7.9	7.8	7.3	6.9	6.7	6.8	6.7	6.1	1.0	8.2
India	5.5	6.4	7.4	8.0	8.2	7.2	6.1	4.2	-4.5	6.0
Sub-Saharan Africa	4.7	5.2	5.1	3.2	1.4	2.9	3.2	3.1	-3.2	3.4

Source: IMF, June 2020

Following COVID-19 containment measures across the world, in 2020Q1, GDP in the G20 area decreased by 3.4%, the largest contraction since 1998. The decline was deeper in the second quarter in countries that were mostly affected by the outbreak. In USA, GDP declined by 9.5 percent year-on-year from -5.0 percent in 2020Q1 reflecting the response to COVID-19, as "stay-at-home" orders were issued in March and April to contain the spread of the virus.

In the Euro area, preliminary estimates showed that growth contracted by 15.0 percent in 2020Q2, the sharpest decline since 1995, after -3.1% in 2020Q1. Most affected member countries included Spain (-22.1 percent after -4.1 percent in 2020Q1), Italy (-17.3 percent after -5.5 percent), Portugal (-16.5 percent after -2.3 percent), France (-19.0 percent from -5.7 percent), Belgium (-14.5 percent after -2.4 percent), German (-11.7 percent after -2.2 percent), Austria (-13.3 percent against -2.8 percent), among others.

In United Kingdom, GDP fell, for the second straight quarter, by 21.7 percent year-on-year in 2020Q2, reflecting the direct impact of the COVID-19 after a slowdown of 1.7 percent in 2020Q1. During this quarter, service, production and construction sectors were severely affected and this negatively impacted output, with the services output falling by 19.9% following a decline of 2.3% in the 2020Q1.

In Japan, the contraction was less pronounced in 2020Q1 reaching -1.7 percent year-on-year but deteriorated to -9.9 percent in the following quarter as economic activity was restricted under a state of emergency during the coronavirus outbreak.

In emerging markets and developing economies, growth is projected to contract by -3.0 percent in 2020, from 3.7 percent in 2019, but projected to recover by 5.9 percent in 2021.

In China, GDP is projected to slightly increase by 1.0 percent in 2020, from 6.1 percent in 2019, and is expected to recover at 8.2 percent in 2021. The slowdown in the Chinese economy, the top global consumer of raw materials and top exporter to the rest of the world, is anticipated to trigger further downward risks worldwide given its share in global GDP (currently closer to 15.5 percent, based on IMF, WEO, Oct. 2019 database) and its role in supply chains and commodity markets. Due to stringent lockdown measures introduced to curb the transmission of the virus, Chinese GDP sharply fell by 6.8 percent in the 2020Q1 but quickly recovered by 3.2 percent in the following quarter as economic activities resumed and lockdown measures eased.

India and Turkey were the only G20 countries to report positive growth in the 2020Q1. India's GDP increased by 4.1 and 3.1 percent respectively in 2020Q1 and 2020Q2. It is however expected to decline by 4.5 percent in 2020 from 4.2 percent in 2019, following a longer period of lockdown and slower recovery than anticipated in April. However, in 2021, growth is expected to improve to 6.0 percent though, the speed of recovery in 2021, will depend on several factors, including, the impact of the pandemic on local health systems, effectiveness of national containment efforts, and support from the international community.

In Sub-Saharan Africa, growth is projected to contract to -3.2 percent in 2020 compared to 3.1 percent recorded in 2019, which makes it the first recession in the region for the last 25 years. According to April 2020 WEO update, the downward revision for 2020 growth reflects macroeconomic risks arising from a sharp decline in output growth amongst the region's key trading partners, including China and the euro area, the fall in commodity prices, reduced tourism activity in several countries, as well as the impacts from measures taken to contain the COVID-19 global pandemic. The region's three largest economies, Nigeria, South Africa, and Angola (representing 51 percent of the regional output in 2019), are being hit by the COVID-19 shock in a context of persistent weak growth, investments, and declining commodity prices. The region's growth is however projected to recover to 3.4 percent in 2021, downward revised slightly by 0.6 percentage points compared to April 2020 WEO update.

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj.	2021 proj.
SSA	4.7	5.2	5.1	3.2	1.4	2.9	3.2	3.1	-3.2	3.4
Angola	8.5	5.0	4.8	0.9	-2.6	-0.2	-1.2	-0.9	-4.0	3.2
Nigeria	4.3	5.4	6.3	2.7	-1.6	0.8	1.9	2.2	-5.4	2.6
South Africa	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.2	-8.0	3.5
South Sudan	-52.4	29.3	2.9	-0.2	-16.7	-5.5	-1.1	11.3	4.7	-1.0
Egypt	2.2	3.3	2.9	4.4	4.3	4.1	5.3	5.6	2.0	2.8
Libya	124.7	-36.8	-53.0	-13.0	-7.4	64.0	17.9	9.9	-58.7	80.7

Source: IMF, April 2020 & REO June 2020

The economic performance in the East African Community (EAC) countries is projected at 1.0 percent in 2020 from 5.7 percent recorded in 2019, following a projected slowdown in growth for all member countries, except Burundi which is projected to go into a recession. The projected deceleration in growth is mainly due to a weak external demand and disruption to supply chains and domestic production. In addition, activity in countries that depend mostly on tourism receipts is expected to contract sharply in response to severe disruption to travel and tourism activities.

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj.	2021 proj.
EAC	4.5	6.1	5.9	6.1	5.4	5.6	6.6	5.7	1.0	3.7
Burundi	4.4	5.9	4.5	-3.9	-0.6	0.5	1.6	1.8	-5.5	4.2
Kenya	4.6	5.9	5.4	5.7	5.9	4.9	6.3	5.4	-0.3	4.0
Rwanda	8.6	4.7	6.2	8.9	6.0	4.0	8.6	9.4	2.0	6.3
Tanzania	5.1	6.8	6.7	6.2	6.9	6.8	7.0	6.3	1.9	3.6
Uganda	2.2	4.7	4.6	5.7	2.3	5.0	6.3	4.5	1.8	2.6

Source: IMF, Regional Economic Outlook June 2020

Particularly in Kenya, where the tourism constitutes the second-largest source of foreign exchange revenue, real GDP is projected to contract by 0.3 percent in 2020. The decline in Kenya's real GDP, which accounts for more than 40 percent of the total community's output, will negatively affect the growth of EAC in general.

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is projected to decelerate to 3.0 percent in 2020, from 3.6 percent in 2019, following a sharp drop in global demand and falling commodity prices, while projected to increase to 3.3 percent in 2021.

In advanced economies, consumer price inflation is projected to ease to 0.3 percent in 2020 reflecting weaker economic activity and lower commodity prices from 1.4 percent in 2019, and to later pickup to 1.3 percent in 2021 in line with expected recovery in economic activities.

Inflation is projected to decrease in the United States (0.6 percent in 2020 from 1.8 percent in 2019), Eurozone (0.2 percent from 1.2 percent), and United Kingdom (1.2 percent after 1.8 percent), and Japan (0.2 percent compared to 0.5 percent) over the same period, giving room to Central Banks for further monetary easing.

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj	2021 proj
World	4.1	3.7	3.2	2.8	2.8	3.2	3.6	3.6	3.0	3.3
Advanced economies	2.0	1.4	1.4	0.3	0.8	1.7	2.0	1.4	0.3	1.1
United States	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	0.6	2.2
Euro area	2.5	1.3	0.4	0.2	0.2	1.5	1.8	1.2	0.2	1.1
Japan	-0.1	0.3	2.8	0.8	-0.1	0.5	1.0	0.5	0.2	0.4
United Kingdom	2.8	2.6	1.5	0.0	0.7	2.7	2.5	1.8	1.2	1.5
Emerging and dev. economies	5.8	5.5	4.7	4.7	4.3	4.3	4.8	5.1	4.4	4.5
China	2.6	2.6	2.0	1.4	2.0	1.6	2.1	2.9	3.0	2.6
India	10.0	9.4	5.8	4.9	4.5	3.6	3.4	4.5	3.3	3.6
Sub-Saharan Africa	9.1	6.5	6.3	6.9	10.7	10.7	8.3	8.4	9.3	7.6

Source: IMF, April 2020 & Official numbers from countries

In the emerging markets and developing economies, inflation is projected to ease to 4.4 percent in 2020 from 5.1 percent in 2019, and edge up to 4.5 percent in 2021. The Chinese annual average inflation is projected to gradually rise to 3.0 percent in 2020 from 2.9 percent in 2019 due to weak supply, due to the COVID-19 outbreak that led to the closure of and forced millions of consumers in a lockdown. However, in 2021, Inflation is foreseen to ease to 2.6 percent.

In Sub-Saharan Africa, annual headline inflation is projected to rise to 9.3 percent in 2020, from 8.4 percent in 2019, following projected high rising inflation rates in Nigeria (13.4 percent from 11.4 percent in 2019), Angola (20.7 percent from 17.1 percent), Democratic Republic of Congo (11.0 percent after 4.8 percent), and Zimbabwe (319.0 percent compared to 255.3 percent). In addition, countries in the SSA region have been facing multiple weather-related shocks, including cyclones, droughts in southern and eastern Africa (especially in Mozambique, Zambia, Lesotho and Zimbabwe), exchange rate pressures and severe locust swarms (particularly in Ethiopia, Kenya, South Sudan, and Uganda). However, headline inflation is projected to ease to 7.6 percent in 2021.

In the EAC countries, annual headline inflation is projected to average at 4.5 percent in 2020, from 3.8 percent in 2019, following projected rising inflation in Burundi (8.0 percent from -0.7 percent in 2019), Rwanda (6.9 percent from

2.4 percent), Tanzania (3.9 percent after 3.4 percent), and Uganda (3.9 percent compared to 2.9 percent). The stable and low inflation in the region is attributed to good agriculture production as a result of favorable weather conditions, and monetary policies implemented by their Central Banks.

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

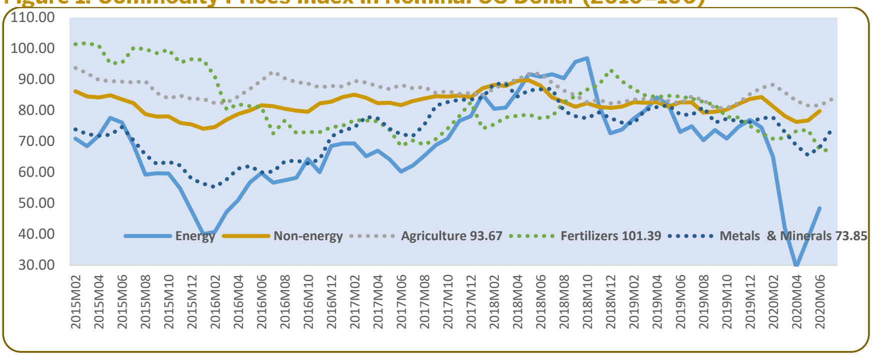
	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj	2021 proj.
EAC	12.3	6.3	5.5	5.7	5.7	6.5	3.5	3.8	4.5	4.7
Burundi	18.2	7.9	4.4	5.6	5.5	16.6	-2.8	-0.7	8.0	6.0
Kenya	9.4	5.7	6.9	6.6	6.3	8.0	4.7	5.2	5.1	5.0
Rwanda	6.3	4.2	1.8	2.5	5.7	4.8	1.4	2.4	6.9*	5.4
Tanzania	16.0	7.9	6.1	5.6	5.2	5.3	3.5	3.4	3.9	4.3
Uganda	12.7	4.9	3.1	5.4	5.5	5.6	2.6	2.9	3.9	4.8

Source: IMF, Regional Economic Outlook, April 2020
*NBR staff projections

1.2.2 Commodity Prices

Global commodity prices decreased in the first half of 2020, reflecting a slowdown in global demand. In the first half of 2020, energy prices fell by 36.6 percent from a decline of 8.7 percent in the same period of 2019 due to the economic impact of COVID-19 and the warm winter that reduced demand for heating fuels.

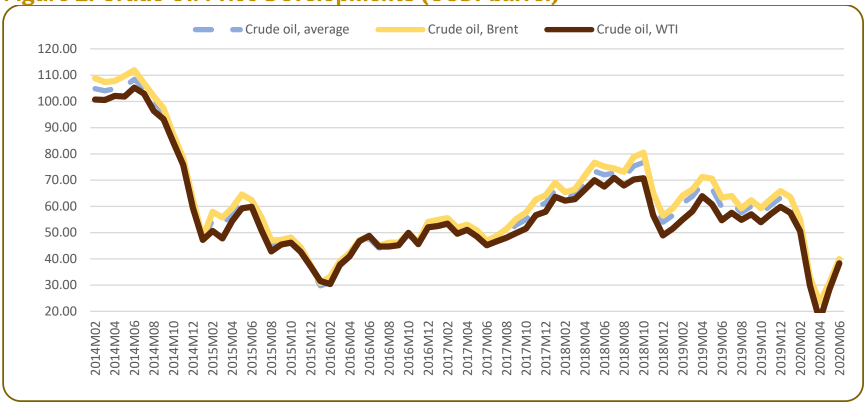
Figure 1: Commodity Prices Index in Nominal US Dollar (2010=100)



Source: World Bank, April 2020

In 2020H1, crude oil prices decreased by 36.8 percent on average compared to a slowdown of 7.7 percent in the same period of 2019. In June 2020, crude oil prices fell by 34.0 percent compared to a decline of 17.0 percent in June 2019, reflecting the impact of the COVID-19 pandemic on the global demand. In addition to low demand caused by COVID-19 pandemic, oil prices were also impacted negatively by the collapse of the OPEC and non-OPEC agreement that led to high supplies in the beginning of 2020H1. In June 2020, IMF projects oil prices to decrease further by 41.1 percent, from USD 61.4/barrel in 2019 to USD 36.1/barrel in 2020.

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



Source: World Bank commodity prices, June 2020

Non-energy commodity prices slightly decreased by 3.3 percent on average for the first half of 2020 reflecting falling prices of fertilizers, and metals & mineral commodities. In the period under review, metals & mineral prices decreased by 10.3 percent after a decrease of 8.8 percent in the same period of 2019, reflecting the impact of the measures undertaken by governments to control the COVID-19 pandemic outbreak that limited industrial production activities. However, prices increased for precious metals presumed to be safe heaven, with gold prices rising by 26.0 percent after a decline of 0.8 percent in the same period of 2019, amid expectation that the ongoing virus outbreak will result into lower US interest rates. Metals & mineral prices are projected to further decrease by 13.3 percent in 2020, but later increase by 4.1 percent in 2021.

Average prices for agriculture commodities slightly increased by 0.7 percent in 2020H1, owing to the rising prices of beverages (4.5 percent); of which Coffee Arabica and cocoa prices increased by 15.9 percent and 5.1 percent respectively. Inversely, prices declined for coffee Robusta (-11.7 percent) and for tea average prices (-3.6 percent). During the same period, prices increased by 2.3 percent for food; of which grains (2.3 percent) and oils & meals (5.9 percent). In 2020, agricultural commodity prices are projected to decline by 1.1 percent, attributed mainly to the projected fall in prices of beverages (-5.4 percent); with Coffee Arabica, Coffee Robusta and Tea average auction prices projected to fall by 2.8 percent, 7.4 percent and 10.5 percent, respectively.

Table 6: Commodity Prices (p.a)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 proj.	2021 proj.
Energy	-0.9	-0.1	-7.1	-45.2	-15.0	23.7	27.8	-12.6	-40.4	19.0
Crude oil, average	1.0	-0.9	-7.5	-47.3	-15.7	23.3	29.4	-10.2	-41.1*	3.8*
Non energy	-8.4	-7.5	-4.8	-15.4	-2.8	5.5	1.8	-4.1	-5.1	2.5
Agricultural comm.	-6.0	-7.5	-3.6	-13.8	-0.5	-0.5	-0.3	-3.9	-1.1	1.8
Beverages	-20.1	-10.1	22.2	-7.7	-2.8	-9.0	-4.8	-3.7	-5.4	2.4
Coffee, Arabica	-31.2	-25.2	43.8	-20.3	2.4	-8.0	-11.7	-1.7	-2.8	1.8
Coffee, Robusta	-5.8	-8.4	6.8	-12.4	0.6	13.9	-16.1	-13.4	-7.4	2.7
Tea, Avg. 3	-0.8	-1.2	-4.9	2.1	-3.3	17.3	-9.5	-9.8	-10.5	2.6
Food	1.4	-7.7	-7.5	-16.6	1.3	0.6	0.2	-14.3	0.0	2.8
Cereals	2.3	-9.3	-18.8	-16.4	-7.3	-0.2	10.3	0.2	-1.5	1.8
Metals & Minerals	-15.3	-5.5	-6.6	-21.1	-5.9	24.2	5.5	-5.0	-13.3	4.1
Tin	-18.9	5.5	-1.7	-26.6	11.6	11.9	-4.0	-5.2	-15.5	-0.3
Fertilizers	2.5	-18.9	-11.3	-3.0	-21.0	-4.5	11.0	-1.3	-10.0	3.1

Source: World Bank, April 2020 & IMF, June 2020

*IMF, June 2020 projections

Prices for fertilizers declined by 16.8 percent in the first half of 2020 compared to an increase of 9.3 percent in the same period of 2019, and are projected to drop by 10.0 percent in 2020, before increasing by 3.1 percent in 2021.

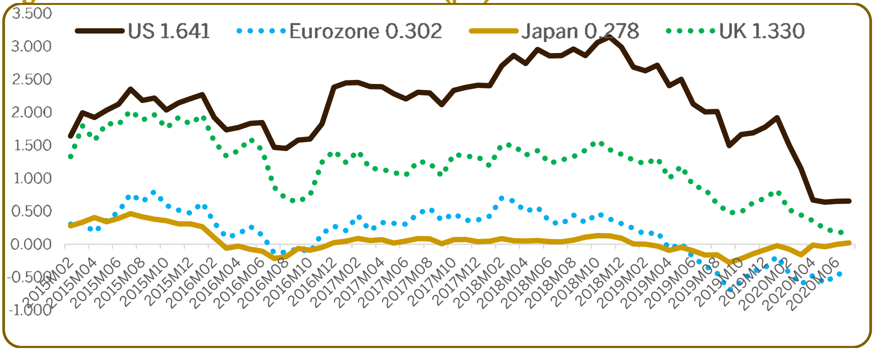
1.3 MONETARY POLICY AND FINANCIAL MARKETS

Monetary policy remained accommodative across the world, in response to the decline in global demand & falling business confidence due to Covid-19 pandemic. Moreover, many Central Banks and Governments across the World, undertook unprecedented policy measures to limit the economic impact of the COVID-19 pandemic and restore the business confidence. Central banks measures include the use of unconventional monetary policy tools as well as enhanced asset purchase programs and targeted interventions in financial market segments under extreme stress.

The US Federal reserve cut the Federal Funds rate two times in March 2020, (3rd and 11th March by 50 and 100 basis points, respectively), while the Bank of England also cut its policy rate twice in March (11th and 19th by 50 and 15 basis points, respectively). They further eased monetary policies and started implementing other quantitative easing measures to restore confidence and support their economies. The European Central Bank rate was unchanged at zero percent since March 2016, and the Bank of Japan continued to apply a negative interest rate since January 2016.

In June 2020, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.445 percent and -0.080 percent in June 2020, respectively, affecting banks' deposits in the Central Bank and encouraging economic financing. In the US deposit rate decreased to 0.237 percent from 1.855 percent, and decreased for UK to 0.125 percent from 0.822 percent in December 2019.

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



Source: Bloomberg database, June 2020

The ten- year government bond rate decreased in US, Eurozone and UK to 0.656 percent, -0.456 percent, and 0.172 percent, respectively, from 1.918 percent, -0.185 percent, and 0.822 percent in December 2019. However, the 10-year bond increased for Japan to 0.020 percent in June 2020 from -0.020 percent in December 2019.

On the foreign exchange market, the US dollar is appreciating against major currencies, notably the British Pound and Chinese Yuan, while weakening against the Euro and Japanese Yen. The dollar fell following growing impression that the rest of the world was handling the coronavirus pandemic better than the United States and growth expectations in Europe have started to outperform the U.S.

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

	2019					2020		
	Jan	Mar	Jun	Sept	Dec	Jan	Mar	Jun
USD/GBP	0.763	0.767	0.788	0.814	0.754	0.757	0.806	0.806
USD/EUR	0.874	0.891	0.879	0.918	0.892	0.902	0.906	0.890
USD/JPY	108.89	110.86	107.85	108.08	108.61	108.35	107.54	107.93
USD/CNY	6.709	6.723	6.868	7.141	6.962	6.998	6.999	7.065

Source: Bloomberg database, 2020

Compared to December 2019, the US dollar appreciated by 6.91 percent against the British Pound and by 1.47 percent against the Chinese Yuan in June 2020. However, the dollar depreciated by 0.63 percent against the Japanese Yen and by 0.19 percent against the Euro.

II. NATIONAL ECONOMIC PERFORMANCE

This section discusses Rwanda's economic growth and external sector performance during the first half of 2020. Like other countries, the Rwandan economy has been adversely impacted by the pandemic; real GDP growth decelerated to 3.6 percent in 2020Q1 from a growth of 6.1 percent recorded in 2019Q1. On average in 2020, GDP growth is projected to slowdown to 2 percent from 9.4 percentrecoded in 2019.

2.1. ECONOMIC GROWTH

2.1.1 GDP Growth in 2019Q1

Rwanda's economic growth averaged 7.4 percent in the last five years. However, for the year 2020, the economy is expected to perform well below this average due to the adverse effects from the COVID-19 pandemic, in addition to the poor performance of agriculture sector.

In 2020Q1, real GDP growth stood at 3.6 percent as a result of the poor performance in agriculture and industry sectors. Agricultural production fell by 0.5 percent against an increase of 4.0 percent in 2019Q1 due to unfavorable weather conditions that led to low harvest of food crops (-1.8 percent from +3.7 percent), which represented 64.6 percent of 2020Q1 agriculture's value added. Furthermore, export crops fell by 15.7 percent on top of the previous year's decrease of 6.8 percent and livestock growth decelerated to 8.0 percent from 11.8 percent.

Table 8: Rwanda Real GDP growth (percent)

	2017	2018	2019	2019				2020
				Q1	Q2	Q3	Q4	Q1
GDP	**4.0**	**8.6**	**9.4**	**6.1**	**12.3**	**10.9**	**8.4**	**3.6**
Agriculture	**4.7**	**6.1**	**5.0**	**4.0**	**5.1**	**6.6**	**4.5**	**-0.5**
Food crops	5.0	5.9	4.0	3.7	3.7	4.4	4.4	-1.8
Export crops	1.6	6.9	4.5	-6.8	7.9	22.6	-4.3	-15.7
Livestock & livestock products	8.9	10.7	11.2	11.8	11.4	10.7	10.8	8.0
Forestry	3.2	4.3	5.6	5.3	6.2	5.7	5.4	3.9
Fishing	5.2	5.4	3.7	2.2	3.1	4.3	5.1	4.8
Industry	**1.5**	**8.7**	**16.5**	**14.8**	**21.4**	**16.2**	**14.2**	**1.9**
Mining & quarrying	20.0	3.1	-0.3	15.9	14.5	-13.0	-12.2	-26.3
Manufacturing	6.4	13.4	11.0	7.0	15.5	13.2	9.2	5.5
Electricity	7.9	9.8	7.2	7.6	8.8	6.5	6.1	3.8
Water & waste management	1.8	2.1	2.1	2.9	2.9	1.8	0.8	2.1
Construction	-9.8	4.8	32.8	28.2	36.6	33.7	32.5	5.3
Services	**5.6**	**9.7**	**8.2**	**3.9**	**11.0**	**10.3**	**7.6**	**5.6**
Trade & transport	6.6	18.2	14.1	5.9	18.5	19.4	12.9	7.0
Maintenance and repair of motors	5.0	5.4	6.6	5.3	5.3	6.8	8.8	0.2
Wholesale & retail trade	2.2	18.1	15.6	4.6	23.9	21.2	13.7	11.4
Transport services	15.2	19.7	12.3	8.2	11.0	17.8	11.9	0.2
Other services	5.3	6.6	5.8	3.1	8.0	6.5	5.3	5.0
Hotels & restaurants	7.4	7.3	9.7	6.5	8.6	11.3	12.3	3.3
Information & communication	10.5	14.2	9.1	2.2	9.3	-1.2	25.4	33.7
Financial services	6.7	10.0	8.4	6.1	10.3	4.7	12.8	-5.0
Real estate activities	7.0	4.8	3.9	4.1	10.0	1.9	-0.1	-0.1
Professional, scientific & technical activities	7.9	9.5	9.8	10.6	13.3	6.2	9.4	-0.8
Administrative & support service activities	4.4	4.2	4.8	2.4	3.4	5.7	7.2	0.5
Public administration & defense; compulsory social security	2.2	7.2	4.7	-3.5	8.5	12.0	1.4	14.5
Education	2.3	3.6	1.1	1.1	1.1	1.1	1.1	-3.9
Human health & social work activities	5.1	-0.2	3.4	-3.9	5.0	14.0	-0.7	31.6
Cultural, domestic & other services	4.8	9.3	8.2	8.2	9.3	10.3	5.2	-0.5
Taxes less subsidies on products	**-1.9**	**9.5**	**15.2**	**8.6**	**23.8**	**16.0**	**12.4**	**8.9**

Source: Rwanda National Institute of Statistics (NISR)

The industry sector recorded a slowdown, growing by 1.9 percent in 2020Q1 against 14.8 percent in 2019Q1, following weak performance in all its sub-sectors. Construction subsector's growth slid (+5.3 percent from +28.2 percent), after the completion of mega projects including Kigali Arena. This had spillover effects on manufacturing subsector, hence the decline in the production of construction materials. Cement production fell by 9.4 percent against a previous increase of 32.5 percent, metal products fell by 1.6 percent from an increase of 19.1 percent, and paints and varnishes dropped by 3.3 percent after growing by 18.2 percent. Manufacturing industries were also affected by supply chain disruptions caused by the spread of COVID-19 around the world, which constrained the import of inputs, specifically from

China. However, this downward trend was offset by positive outcomes in food processing (+11.1 percent), beverages (+5.8 percent) and textiles and clothing (+11.3 percent). As a result, the manufacturing subsector recorded a growth of 5.5 percent from 7.0 percent.

The slack in the industry sector also resulted from the fall in mining and quarrying's production by 26.3 percent due to the decrease of commodity prices on the international markets. Prices of metals and minerals fell by 7.4 percent in 2020Q1 in addition to the decrease of 9.4 percent recorded in the same period of 2019. Additionally, electricity as well as water and waste management registered a growth of 3.8 percent and 2.1 percent respectively, lower than 7.6 percent and 2.9 percent recorded in 2019Q1.

The services sector, representing 48.1 percent of real GDP, grew by 5.6 percent in 2020Q1 from 3.9 percent in 2019Q1, mainly supported by wholesale & retail trade (+11.4 percent from +4.6 percent), Information & communication (+33.7 percent from +2.2 percent) and Public administration (+14.5 percent from -3.5 percent). Other sub-sectors slowed down , notably transport (+0.2 percent from 8.2 percent),and hotel and restaurant (+3.3 percent from 6.5 percent) while financial servicies fell (-5.0 percent from 6.1 percent). The slowdown in transport and hotel and restaurant services was partly due to travel and tourism restrictions meant to contain the spread of the COVID-19 virus.

Consequently, air transport fell by 15.3 percent in 2020Q1 from an increase of 21.1 percent in 2019Q1 while accommodation services declined by 0.7 percent from an increase of 2.4 percent in the same periods.

2.1.2 High Frequency Economic Indicators

The leading indicators of economic activities indicate that the slow down in economic activities worsened further during the second quarter of 2020. This period was marked by policies and measures to curb the spread of COVID-19 after its first appearance in Rwanda in mid-March 2020. These measures included a full lockdown of majority of businesses from Mid-March 2020 to the end of April and the partial lockdown that started in May 2020.

The composite index of economic activities (CIEA) decreased by 8.8 percent in 2020Q2, against an increase of 16.5 percent in the corresponding period of 2019, pointing to a contraction of economic activities. Starting with May, there are signs of recovery; the index rose from negative 19.1 percent in April to negative 15.1 percent end May, before it increased by 8.4 percent in June 2020.

Table 9: CIEA (Percent change, y-o-y)

CIEA	Real		Nominal	
	2019	2020	2019	2020
April	18.7	-19.1	24.3	-11.1
May	20.4	-15.1	21.7	-8.3
June	10.5	8.4	9.0	10.5
Q2	16.5	-8.8	18.1	-3.2
H1	14.2	-1.8	14.0	4.6

Source: NBR, Monetary Policy and Research Directorate

The recovery is evidenced also by gradually improving total turnovers of industry and service sectors, whose performance was less negative at -1.2 percent in June 2020 from -36.8 percent in April and -23.7 percent in May 2020.

Table 10: Turnovers of industry & services (Real percent change, y-o-y)

	2019	2020				2019	2010
	Q2	April	May	June	Q2	H1	H1
Total turnovers	20.0	-36.8	-23.7	-1.2	-21.4	20.1	-13.4
Industries	14.6	-25.9	-0.6	24.1	-1.6	16.4	3.7
Mining and Quarrying	-15.6	-70.1	-66.2	83.4	-41.3	-2.8	-23.0
Manufacturing	26.1	-28.2	15.8	34.2	7.5	20.3	13.6
Energy, water & Sanitation	-7.5	-23.3	-19.4	3.9	-13.3	-8.5	0.4
Construction Sector	11.1	-14.4	-11.1	4.4	-8.1	22.9	-6.7
Services	21.4	-40.5	-30.4	-8.7	-26.8	21.3	-18.6
Trade services	19.0	-44.2	-29.8	-1.7	-25.9	18.9	-20.1
Transport and Storage	-1.1	-54.7	-36.9	-56.5	-49.6	7.7	-13.1
Hotels and Restaurants	5.9	-68.7	-52.9	-52.4	-57.1	8.0	-25.3
Information and Communication	22.5	7.1	6.3	-7.7	0.9	15.5	8.0
Financial and insurance activities	15.2	-25.3	-24.5	-5.4	-18.7	14.0	-15.5

Source: NBR, Monetary Policy and Research Department

The service sector was most affected by the Covid-19 pandemic through its negative effect on on trade services, passenger transport services and tourism services, which also had negative spillover on financial services. Trade services fell by 20.1 percent in the first half of 2020 from an increase of 18.9 percent during the same period of 2019, transport and storage dropped by 13.1 percent from a rise of 7.7 percent, Hotels and Restaurants fell by 25.3 percent from 8.0 percent and turnovers in financial services declined by 15.5 percent against a growth of 14.0 percent in the corresponding period of last year.

The decline of hotel and restaurants' turnovers reflects the cancellation of Meetings, Incentives, Conventions and Exhibitions (MICE) tourism, due to travel restrictions as part of COVID-19 containment measures. According to Rwanda Convention Bureau, losses related to MICE tourism were estimated around USD 15 million between March and May 2020 and to more than USD 80 million for events that would have been hosted between March and November 2020.

Total turnovers of industry slowed down, growing by 3.7 percent in the first half of 2020 against 16.4 percent growth recorded in the corresponding period of 2019 due to a decline in construction (-6.7 percent from +22.9 percent), which represented 30.3 percent of turnovers of the industry sector in the the first half of 2020 and mining and quarrying, which fell by 23.0 percent from a decline of 2.8 percent, because of the decrease of commodity prices on the international market and lockdown measures that put on hold extraction activities. Prices of metals and minerals continued to decline in the first half of 2020 (-10.3 percent), from a decline of 8.8 percent during the first half of 2019.

The above mentioned decline in construction as well as mining & quarrying were counteracted by positive developments in manufacturing industries, which grew by 13.6 percent from 20.3 percent. This improvement is attributed to the good performance of food processing (+15.8 percent from +8.3 percent) and tea companies (+14.2 percent from -5.6 percent). These industries were among a few companies that were allowed to continue operating during the lockdown. Furthermore, tea industries gained from increased production after the tea plants were cut last year for rejuvenation purpose adding to increased tea exports backed by sustained external demand.

However, despite producing during the lockdown, breweries and coffee companies performed poorly. Breweries (-4.9 percent from +9.0 percent) were affected by low demand mainly as events and entertainment were canceled and bars were closed due to containment measures. Coffee companies (-8.0 percent from -38.1 percent) were affected by Covid-19 induced trade channel disruptions, worsening the impact of low international prices recorded last year.

Although the current economic momentum is fragile compared to 2019, the economy is expected to continue recovering with easing of COVID-19 lockdown measures. The recovery of economic activities will also be supported by resumption of tourism and commercial flights starting with August 2020, along with the support of the Economic Recovery Fund and other government interventions to revive business activities.

2.2. EXTERNAL TRADE PERFORMANCE

Rwanda's exports receipts rose by 9.1 percent in the first half of 2020, amounting to USD 591.9 million up from USD 542.3 million a year earlier, owing to increased exports in gold. The revenues from other exports categories contracted as the COVID-19 pandemic hit global demand, weighing down commodity prices and domestic economic activities.

Similarly, in the first half of 2020, imports of goods went up by 11.0 percent, y-o-y, to settle at USD 1,561.4 million as a result of rising demand of food products and increase in imports of gold for refinery. Imports related to intermediate and capital goods fell by 6.2 percent and 16.3 percent, respectively, reflecting slowing domestic economic activities due to containment measures taken to reduce the spread of COVID-19.

As a result, Rwanda's trade deficit widened by 12.1 percent, y-o-y, in the first half of 2020, amounting to USD 969.6 million, from USD 864.7 million in the corresponding period of 2019.

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

		2015	2016	2017	2018	2019	2019H1	2020H1	% Change 20/19
Exports	Value	667.1	731.4	1037.1	1120.9	1239.7	542.3	591.9	9.1
	Volume	513.5	649.7	799.5	973.6	1127.2	637.6	421.3	-33.9
Imports	Value	2333.0	2253.9	2348.6	2636.2	3119.3	1407.0	1561.4	11.0
	Volume	2068.1	1965.2	2716.6	3026.8	8369.4	1431.4	1375.1	-3.8
Trade balance		-1665.9	-1522.5	-1311.6	-1515.3	-1879.6	-864.7	-969.6	12.1
% Exports/Imports	%	28.6	32.4	44.2	42.5	39.7	38.5	37.9	-0.6

Source: NBR, Statistics Department

2.2.1 Exports Developments

Rwanda's total exports receipts increased by 9.1 percent, standing at USD 591.9 million in the first half of 2020 (from USD 542.3 million in 2019H1), while its volume decreased by 33.9 percent. The increase in exports value is attributable to high receipts from gold, since all other exports categories dropped sharply due to trade disruptions caused by the coronavirus pandemic.

Table 12: Major Exports Developments (Value FOB in USD millions, Volume 000' tons)

	2015	2016	2017	2018	2019	2019H1	2020H1	Percent change
Coffee								
- Value	62.0	58.5	64.1	68.7	69.8	20.2	10.9	-46.2
- Volume	18.8	18.6	18.7	21.0	23.4	8.0	4.3	-46.1
- Price USD/KG	3.3	3.1	3.4	3.3	3.0	2.5	2.5	-0.3
Tea								
- Value	72.5	63.4	84.3	90.5	86.3	44.4	51.1	15.2
- Volume	24.7	24.4	26.2	30.9	31.0	16.4	17.8	8.8
- Price USD/KG	2.9	2.6	3.2	2.9	2.8	2.7	2.9	5.9
Mining								
- Value	117.8	86.4	123.7	143.0	99.2	56.6	31.6	-44.1
- Volume	7.3	6.5	8.0	8.4	7.0	3.8	2.2	-42.1
Cassiterite								
- Value	34.3	34.8	50.2	49.9	36.8	21.7	8.6	-60.1
- Volume	3.8	3.5	4.8	4.8	3.8	2.0	1.0	-50.8
- Price USD/KG	8.9	9.8	10.5	10.4	9.7	10.7	8.6	-18.8
Coltan								
- Value	66.2	39.7	60.9	71.6	45.6	24.8	15.7	-36.6
- Volume	1.7	1.3	1.7	1.6	1.4	0.7	0.4	-36.1
- Price USD/KG	40.1	31.3	35.9	43.6	33.7	35.8	35.6	-0.7
Wolfram								
- Value	17.3	11.9	12.6	21.5	16.8	10.2	7.3	-28.5
- Volume	1.8	1.7	1.5	2.0	1.9	1.0	0.7	-29.2
- Price USD/KG	9.7	6.9	8.3	10.9	8.9	9.7	9.8	0.9
Hides and Skin								
- Value	10.4	7.4	7.5	3.1	2.5	2.2	0.5	-76.2
- Volume	8.3	6.2	7.0	5.5	3.9	3.4	0.9	-74.0
- Price USD/KG	1.3	1.2	1.1	0.6	0.6	0.6	0.6	-8.5
Pyrethrum								
- Value	2.5	3.4	3.2	4.7	6.2	3.6	3.0	-16.3
- Volume	0.01	0.02	0.07	0.1	0.1	0.0	0.0	-12.0
- Price USD/KG	177.2	188.3	48.1	54.5	64.4	155.1	147.4	-5.0
I. Traditional exports								
- Value	265.2	219.1	282.7	310.0	263.9	127.0	97.2	-23.5
- Volume	59.0	55.8	59.9	65.9	65.3	31.5	25.2	-20.1
II. Re-exports								
- Value	177.9	224.3	267.3	313.4	351.9	173.9	144.8	-16.7
- Volume	159.2	230.4	299.5	350.8	412.2	202.0	174.3	-13.7
III. Non-traditional exports								
- Value	115.7	155.3	298.0	298.6	238.6	161.7	79.6	-50.8
- Volume	172.4	179.9	264.2	298.4	329.5	219.9	129.5	-41.1
IV. Informal cross-border trade								
- Value	108.3	132.7	98.4	125.3	108.9	58.0	26.1	-55.1
- Volume	122.9	183.6	175.9	258.6	320.2	184.2	92.3	-49.9
V. Gold								
- Value			90.6	73.6	276.4	21.7	244.3	1027.6
- Volume			0.002	0.002	0.006	0.0005	0.005	953.0
TOTAL EXPORTS								
- Value	**667.1**	**731.4**	**1,037.1**	**1,120.9**	**1,239.7**	**542.3**	**591.9**	**9.1**
- Volume	**513.5**	**649.7**	**799.5**	**973.6**	**1,127.2**	**637.6**	**421.3**	**-33.9**

Source: NBR, Statistics Department

Traditional exports which comprise of coffee, tea, minerals, pyrethrum as well as hides and skins, fell by 23.5 percent y-o-y, amounting to USD 97.2 million in 2020H1. The decline is on account of falling revenues from mineral exports (-44.1 percent), coffee (-46.2 percent), hides and skins (-76.2

percent), as well as pyrethrum (-16.3 percent) despite an increase in exports of tea by 15.2 percent.

During the period under review, Rwanda's receipts from coffee exports stood at USD 10.9 million, from USD 20.2 million in the corresponding period of 2019, representing a decline of 46.2 percent. In addition, exports of coffee volume declined by nearly a half, to 4.3 thousand tons in 2020H1 from 8.0 thousand tons in 2019H1 due in part to lower production and sluggish demand driven by the COVID-19 pandemic.

In contrast, tea exports in the first half of 2020 amounted to USD 51.1 million, 15.2 percent higher than USD 44.4 million registered in the same period of 2019 driven by higher exports volume, due in part to increased production, and rising prices as demand on the Mombasa auction, where over two-third of Rwandan tea is traded, remained stable. In terms of volume, tea exports rose to 17.8 thousand tons in 2020H1, 8.8 percent higher than 16.4 thousand tons recorded in 2019H1.

Furthermore, receipts from hides and skins dropped by 76.2 percent, y-o-y, to USD 0.5 million in 2020H1, much lower than USD 2.2 million registered in 2019H1, partly due to lower production. Lastly, exports earnings from pyrethrum fell by 16.3 percent to USD 3.0 million in 2020H1, while the volume decreased by 12.0 percent.

Non-traditional exports (other ordinary exports) which comprises other minerals, flowers, fruits and vegetables, agro-processing, and locally manufactured products, fell by 50.8 percent, amounting to USD 79.6 million in 2020H1, down from USD 161.7 million in the same period of 2019. Trade and supply chains disruptions caused by COVID-19 reversed the upward trend from non-traditional exports registered over the last few years thanks to the "Made in Rwanda" program, as the containment measures reduced production hence lower exports.

Finally, re-exports that are mainly composed of petroleum products, foodstuffs, vehicles, machinery and electronics, dropped by 16.7 percent to USD 144.8 million in the first six months of 2020. Global oil prices slump and weakening regional demand caused by the coronavirus pandemic, drove the decline in re-exports. In the first half of 2020, re-exports of petroleum products fell to USD 41.4 million, a 39.4 percent decline from USD 68.2 million recorded in 2019.

2.2.2 Imports Developments

In the first half of 2020, imports bill rose by 11.0 percent, y-o-y, to USD 1561.4 million, owing to an increase in domestic demand of food products, health products and gold.

Imports value (and volume) of consumer goods rose by 3.8 percent (+10.2 percent), while imports of capital goods, intermediate goods and energy dropped by 16.2 percent (-15.2 percent), 8.5 percent (-6.8 percent) and 15.4 percent (-14.0 percent) respectively. In addition, informal cross border trade (ICBT) imports fell by 68.7 percent. The decline in imports of capital and intermediate goods largely reflects subdued domestic economic activities on account of the COVID-19 pandemic that has disrupted global trade and supply chains.

In terms of share to total imports value, consumer goods lead with 22.3 percent, followed by intermediate goods (21.0 percent), capital goods (19.9 percent), gold (17.1 percent), energy and lubricants (13.8 percent), imports for re-exports (5.8 percent) and ICBT (0.1 percent).

Table 13: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

		2015	2016	2017	2018	2019	2019H1	2020H1	Percent change
Total imports	Value	2,333.0	2,253.9	2,348.6	2,636.2	3,119.3	1,407.0	1,561.4	11.0
	Volume	2,068.1	1,965.2	2,716.6	3,026.8	8,369.4	1,431.4	1,375.1	-3.9
Consumer goods	Value	694.1	723.0	656.9	690.0	714.6	336.2	349.0	3.8
	Volume	695.9	763.2	793.9	843.6	715.2	315.9	348.2	10.2
Capital goods	Value	652.6	707.9	504.1	583.7	692.5	370.3	310.1	-16.3
	Volume	70.2	69.1	60.2	67.9	88.0	41.8	35.4	-15.2
Intermediary goods	Value	682.5	566.0	563.6	628.5	730.6	349.7	328.1	-6.2
	Volume	992.2	821.9	914.3	1,023.9	1,175.1	522.9	506.7	-3.1
Energy and lubricants	Value	282.1	226.4	487.1	562.3	521.5	254.2	215.0	-15.4
	Volume	309.8	311.0	782.4	881.8	902.3	437.5	376.4	-14.0
Informal cross-border trade	Value	21.7	30.6	23.3	20.3	11.8	6.8	2.1	-68.7
	Volume	39.9	45.1	38.1	34.6	18.5	10.0	3.4	-65.8
Gold	Value	0.0	0.0	0.0	0.0	239.3	0.0	266.9	0.0
	Volume	0.0	0.0	0.0	0.0	5,256.8	0.0	0.1	0.0
Imports for re-exports	Value	0.0	0.0	113.5	151.5	208.9	89.8	90.2	0.5
	Volume	0.0	0.0	127.7	175.1	213.7	103.3	105.0	1.6

Source: NBR, Statistics Department

The above mentioned increase in imported consumer goods (+3.8 percent in value and +10.2 percent in volume) was in part driven by high demand of food products following Government and private sector initiatives to provide food-relief to hard-hit households by coronavirus across the country. Imports of food products mainly comprised of rice, cooking oil and other basic foods rose by 12.8 percent y-o-y in volume terms, and by 11.0 percent in value to stand at USD 153.2 million in the period under review. In addition, imports volume of health related products soared by 37.4 percent y.o.y , reflecting high demand of critical medical supplies to deal with the pandemic.

Imports of intermediary goods, categorized into industrial products, construction materials and fertilizers, decreased by 6.2 percent in value to USD 328.1 million in 2020H1, while their volume fell by 3.1 percent, on lower demand of construction materials. Imports volume of construction materials dropped by 7.5 percent mainly on reduction of cement imports. Imports volume of cement dropped by 16.4 percent, reflecting lower domestic demand as local production also decreased. This downward trend in the labor-intensive sectors resulted from containment measures, such as lockdowns and social distancing, taken to reduce the spread of COVID-19.

Table 14: Domestic production and trade of cement (in tons)

	2015	2016	2017	2018	2019	2019H1	2020H1	Percent change
Domestic production	**181,050**	**293,091**	**322,391**	**364,864**	**415,371**	210,501	194,406	-7.6
o/w CIMERWA	172,848	290,437	352,979	364,864	415,371	210,501	194,406	-7.6
Imports of cement	421,892	268,353	249,643	318,795	377,897	161,352	134,324	-16.8
Exports of cement	25,258	29,793	71,805	43,298	48,120	23,555	30,323	**28.7**
Domestic demand	577,684	531,651	500,229	640,361	745,148	348,298	298,406	-14.3

Source: BNR, Statistics Department

Imports of energy and lubricants, dominated by petroleum products, which represent over 94 percent of the total category value in 2020H1, fell by 15.4 percent amounting to USD 215.0 million. The downward trend on import bill for energy is on account of reduced global oil prices due to weakening global demand. In volume terms, energy imports declined by 14.0 percent to 376.4 thousand tons in 2020H1, down from 437.5 thousand tons a year ago.

2.3 FORMAL TRADE WITH OTHER EAC COUNTRIES

Rwanda's exports to other EAC member countries, which represent 5.6 percent of the total exports in the first half of 2020, dropped by 65.1 percent in value, standing at USD 33.1 million. On the other hand, imports from EAC went up by 23.3 percent, owing to high demand of food products. As a result, Rwanda's trade deficit with EAC expanded to USD 236.8 million in 2020H1, from USD 124.0 million a year earlier.

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

		2015	2016	2017	2018	2019	2019H1	2020H1
Exports to EAC	Value in USD millions	53.4	77.5	97.8	86.4	145.8	94.9	33.1
	percent change	*-35.3*	*45.2*	*26.1*	*-11.6*	*68.7*	56.3	-65.1
	Share to total exports	8.0	10.6	9.4	7.7	11.8	17.5	5.6
Imports from EAC	Value in USD millions	519.4	470.0	429.3	522.2	560.4	218.9	269.9
	percent change	*-5*	*-9.4*	*-8.7*	*21.6*	*7.3*	-8.3	23.3
	Share to total imports	22.3	20.9	18.3	19.8	18.0	15.6	17.4
TRADE BALANCE		-466.0	-392.5	-331.5	-435.8	-414.6	-124.0	-236.8

Source: NBR, Statistics Department

2.4 INFORMAL CROSS BORDER TRADE

Rwanda remains a net exporter in informal cross border trade (ICBT), recording a surplus of USD 24.0 million in 2020H1, 53.3 percent lower than USD 51.3 million recorded in 2019H1. During the period under review, ICBT exports and imports accounted for 4.4 percent and 0.1 percent share of total exports and imports respectively. In the first half of 2020, ICBT exports and imports dropped by 55.1 percent and 68.7 percent respectively, as a result of COVID-19 containment measures which reduced cross-border movements

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

		2015	2016	2017	2018	2019	2019H1	2020H1
Exports	**Value in USD millions**	108.3	132.7	98.4	125.3	108.9	58.0	26.1
	Percent change	*0.7*	*12.6*	*-25.8*	*27.3*	*-13.1*	-8.1	-55.1
	Share of total exports	16.2	18.1	9.5	11.2	8.8	10.7	4.4
Imports	**Value in USD millions**	21.7	30.6	23.3	20.3	11.8	6.8	2.1
	Percent change	*13.4*	*40.0*	*-23.9*	*-12.8*	*-41.7*	-40.0	-68.7
	Share of total imports	0.9	1.4	1.0	0.8	0.4	0.5	0.1
	Trade balance	**86.5**	**91.4**	**75.1**	**105.0**	**97.1**	**51.3**	**24.0**

Source: NBR, Statistics Department

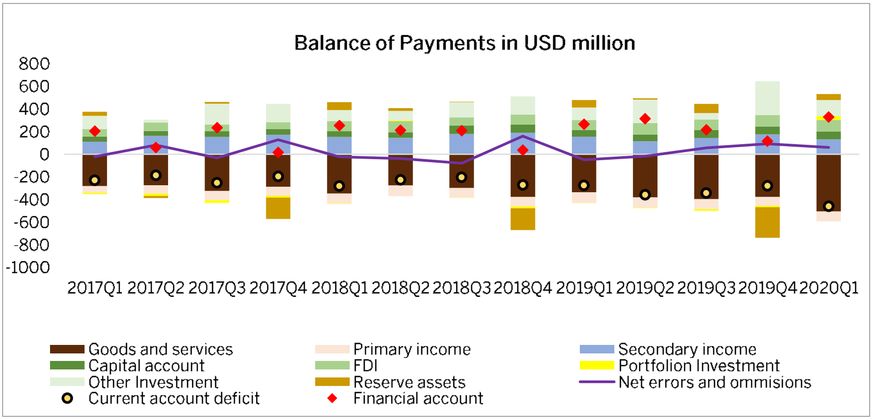
2.5. BALANCE OF PAYMENTS AND EXTERNAL SECTOR OUTLOOK

Rwanda's balance of payments (BOP) recorded a deficit of USD 52.9 million, as the financial account inflows were insufficient to finance the Current Account Deficit (CAD). The CAD widened to USD 459.7 million (17.4 percent of GDP) in the first quarter of 2020. This upward trend of the CAD was driven by an increase in deficit of goods and services and a reduction in current transfers.

The trade deficit worsened in the first quarter of 2020 driven by an increase in imports and a reduction in exports revenues. Imports of goods and services grew by 20.8 percent to USD 981.8 million (37.1 percent of GDP) while exports reduced by 1.0 percent to USD 476.4 million (18 percent of GDP). Exports revenues reduced on account of slowdown of inflows from merchandise goods (-13.6 percent), travel, lower inbound international arrivals for holidays, meetings and conferences, government goods and services and, delayed disbursement from Peace Keeping Operations (PKOs).

Inflows from secondary income fell by 17.9 percent y.o.y in 2020Q1 to USD 143.3 million (5.4 percent of GDP) from USD 174.4 million in 2019Q1 due to a reduction in private and official current transfers. Private transfers fell by 13.1 percent, y-o-y, on account of a decrease in workers' remittances and transfers to non-government organizations (NGOs).

Figure 4: Rwanda Balance of payments (USD million)



Source: BNR, Statistics Department

During the first three months of 2020, the financial account surplus increased to USD 328.8 million (12.4 percent of GDP) compared to USD 265.7 million a year earlier. The increase in the financial account was mainly attributed to a rise in portfolio investment, higher inflows from government T-bonds, and other investments. However, the stock of official reserves remain adequate covering more than 5 months of next year imports of goods and services as of March 2020.

The external position is projected to deteriorate further driven by the adverse consequences of the COVID-19 pandemic, which are foreseen to weigh on the flow of international trade, travel and tourism, air transport, remittances, official transfers and FDI as well as private loan disbursements as investors risks sentiments worsen. The CAD is projected to widen to 16.7 percent of GDP in 2020, up from 12.4 percent of GDP registered in 2019. Despite the expected reduction in financial inflows to finance the widening CAD, Rwanda's external vulnerability remains marginal due in part to increase in international official reserves in preceding periods. As of end July 2020, foreign exchange reserves covered 6.3 months of future imports and they are projected to remain adequate throughout 2020.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

In the first half of 2020, the NBR continued to implement an accommodative monetary policy stance and took various measures to support the financial sector in the wake of global and domestic economic challenges caused by the Covid-19 pandemic.

Considering that inflation was projected to decelerate in the second half of 2020, owed to a significant drop in aggregate demand, the MPC decided to cut the Central Bank Rate (CBR) from 5.0 percent to 4.5 percent on April 29th 2020. This decision, along with other implemented policy measures in March, aimed to support commercial banks to continue financing the economy and to mitigate the COVID-19 shock on the Rwandan financial sector.

In addition, the Government of Rwanda has put in place an Economic Recovery Fund (ERF) of FRW 101 billion to cushion businesses affected by the COVID-19 pandemic to resume operation and safeguard employment. All these measures have contributed to increasing liquidity in the economy.

3.1 INFLATION DEVELOPMENTS

3.1.1. Introduction

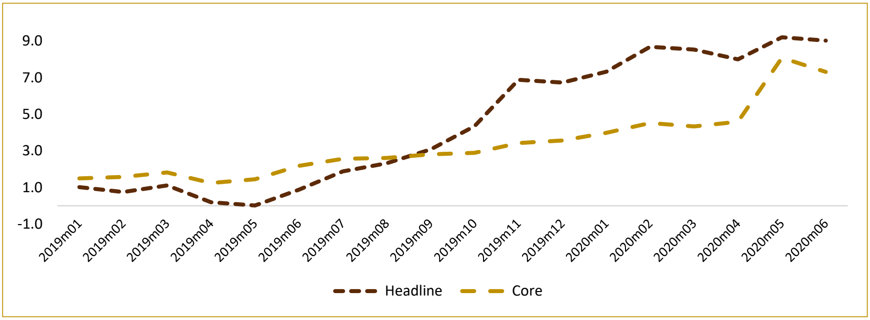
In 2020H1, headline inflation increased to 8.5 percent on average from 0.7 percent and 4.2 percent recorded in 2019H1 and 2019H2, respectively. The uptick in headline inflation was reflected in its main components including food inflation that hiked from -3.1 percent to 15.5 percent, core inflation that surged from 1.6 percent to 5.5 percent, and energy inflation that picked from -1.0 percent to 10.2 percent, during the same period of 2019.

Table 17-Developments in Inflation (Y-o-Y, % change)

	2019		2020						
	2019H1	2019H2	Jan	Feb	Mar	Apr	May	Jun	2020H1
Headline	0.7	4.2	7.3	8.7	8.5	8.0	9.2	9.0	8.5
Domestic:	0.1	4.1	7.8	9.5	9.3	8.5	9.7	9.8	9.1
-Food	-3.1	8.5	15.8	19.9	18.8	15.8	11.5	11.2	15.5
-Vegetables	-7.9	10.9	25.0	35.1	33.9	26.5	20.1	23.7	27.4
-Meat	10.4	16.3	20.5	19.7	20.4	22.2	18.0	17.7	19.7
-Fruits	-11.4	8.4	23.4	21.0	18.2	7.8	-0.3	-2.2	11.3
-Bread & Cereal	0.5	7.0	12.0	14.0	12.1	13.6	10.7	8.7	11.8
Housing	0.6	0.9	2.4	4.1	4.8	6.5	5.1	4.8	4.6
Transport	5.5	1.6	2.8	2.8	2.8	2.5	23.9	23.2	9.7
Imported	2.6	4.5	5.7	6.0	5.9	6.3	7.5	6.6	6.3
Core	1.6	3.0	4.0	4.5	4.3	4.6	8.1	7.3	5.5
Energy	-1.0	-0.6	5.5	10.0	12.0	16.5	8.8	8.0	10.2

Source: NBR, Research Department

Figure 5: Headline and core Inflation developments (Y-o-Y, % change)



Source: NBR, Research Department

3.1.2. Contributors to headline inflation

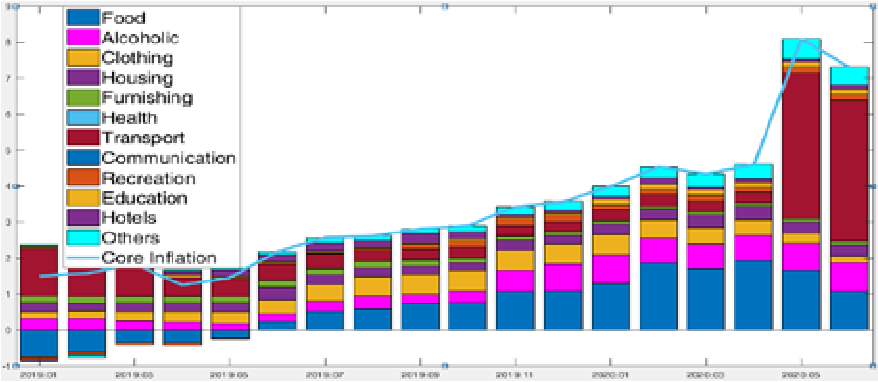
1. Core inflation

The surge observed in core inflation in 2020H1, was mostly reflected in core transport inflation and in core food inflation. Core transport inflation increased to 11.1 percent from 6.3 percent, mostly following the upward revision of public transport fares that took effect in May 2020, as part of measures to open public transportation with limited passenger turnovers to continue fighting the spread of Covid-19. In addition, purchase of vehicles inflation increased to 8.2 percent from 5.2 percent, during the same period. The upward reflects the surge in prices of imported vehicles as a result of

Covid-19 effects that include the increase in the costs of shipments, coupled with exchange rate depreciations (USD/Yen).

Core food inflation hiked, on the back of the increase in prices of some imported foodstuffs, such as rice and sugar, especially in 2020Q1, following the increase in international food inflation that surged to 4.55 percent in 2020Q1 from a deflation of 6.08 percent recorded in 2019Q1. In addition, the poor performance in domestic agricultural production pushed up the costs of inputs for processed food and resulted in increased prices for some food products such as flours.

Figure 6: Core inflation (%, Y-o-Y)



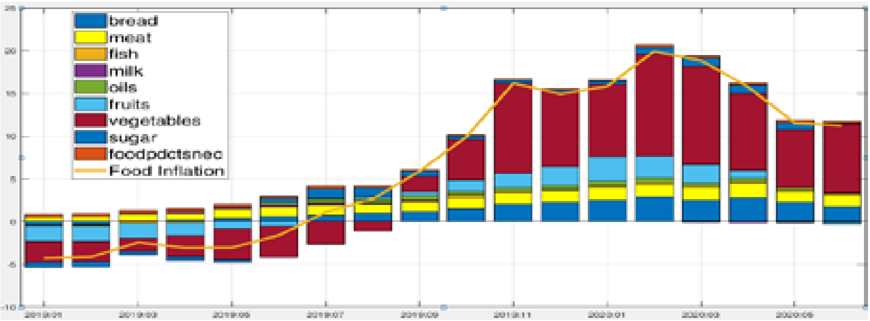
Source: NBR, Research Department

2. Food inflation

The increasing trend observed in food inflation was attributed to the decreased supply of some fresh food products, following a poor performance of agricultural production of Season A, affected by unfavorable weather conditions.

The acceleration in food inflation, originated from the surge in vegetables and fruit inflations. Vegetables inflation increased to 27.4 percent from a deflation of 7.9 percent, and fruits inflation rose to 11.3 percent from a deflation of 11.4 percent.

Figure 7: Development of food inflation (%, Y-o-Y)

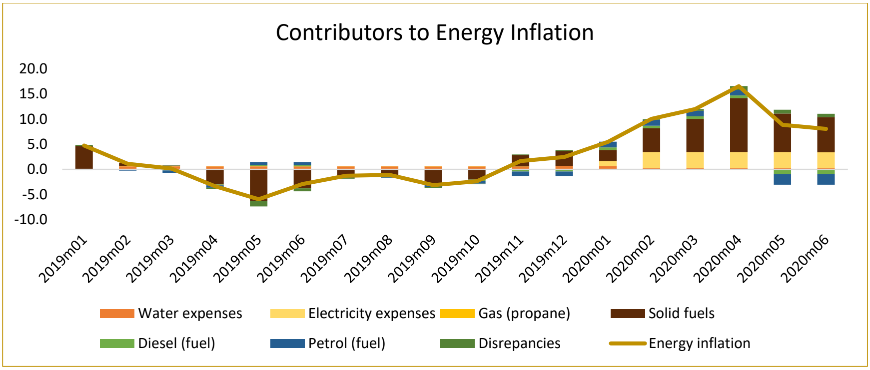


Source: NBR, Research Department

3. Energy inflation

Energy inflation edged up, mainly reflecting electricity expenses inflation and solid fuels inflation that increased from zero percent in 2019H1 to 22.6 percent in 2020H1 and from -2.4 percent in 2019H1 to 12.6 percent in 2020H1 respectively. The surge in electricity expenses inflation, followed the upward revision in electricity tariffs. Solid fuels inflation increased on the back of the uptick in charcoal and firewood prices, originating from the disruptions in supply chains related to COVID-19, and some environmental regulations that affect the production.

Figure 8: Energy inflation (%,Y-o-Y)



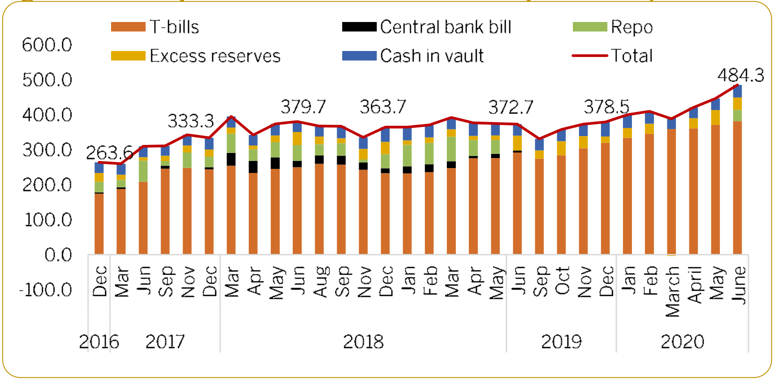
Source: NBR, Research Department

3.2 MONETARY SECTOR DEVELOPMENTS

3.2.1. Banking System Liquidity Conditions

In June 2020, most liquid assets grew by 28.0 percent, to FRW 484.3 billion, from FRW 378.5 billion in December 2019, compared to a slow growth of 2.4 percent recorded in the corresponding period of the previous year. This reflects improvement in banking liquidity. The growth in most liquidity assets is entirely credited to the surge in T-bills investments and excess reserves. By the end of June 2020, investment in T-bills increased by FRW 89.5 billion, while it recorded an increase of 41.9 billion in June 2019.That growth is related to subdued demand in loans to the private sector during the period of COVID-19. In addition, excess reserves were nearly doubled to FRW 35.2 billion in June 2020 from FRW 18.2 billion in December 2019, partly because of increased net fiscal injection in 2020Q2.

Figure 9: Most liquid assets of commercial banks (FRW billion)



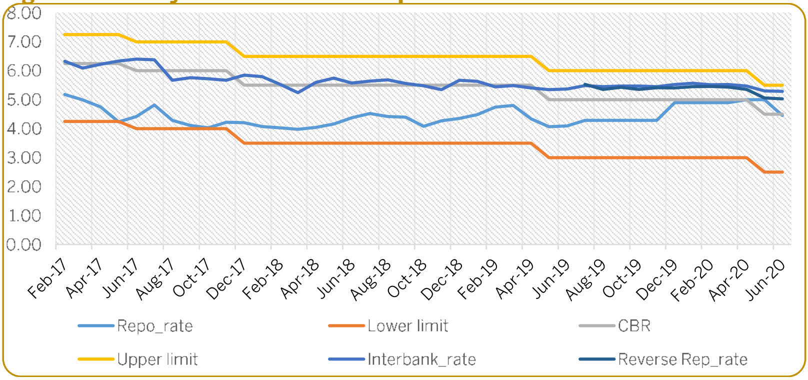
Source: NBR, Monetary Policy and Research Directorate

3.2.2 Monetary Policy and Interest Rates

On 29th April 2020, Monetary Policy Committee revised down the central bank rate to 4.5 percent from 5.0 percent, in order to continue supporting the economy during the period of COVID-19 pandemic. As result, interbank rates and repo rates remained within the interest rate corridor, pointing out a continuous improvement in liquidity management and in Monetary Policy Transmission Mechanism.

Interbank rates remained constant at 5.45 percent on average in 2020H1, compared to 2019H1. However, repo and 28 days T- bill rate slightly rose to 4.73 percent and 5.63 percent on average in 2020H1, from 4.42 percent and 5.22 percent in 2019H1 respectively. The increase in repo rates was explained by the improvement in liquidity management leading short-term interest rates to converge toward the CBR. The rise in 28 days T-bill rate similarly to other maturities mirrored a sharp increase in government borrowing. In addition, reverse repo stands at 5.30 percent on average in 2020H1.

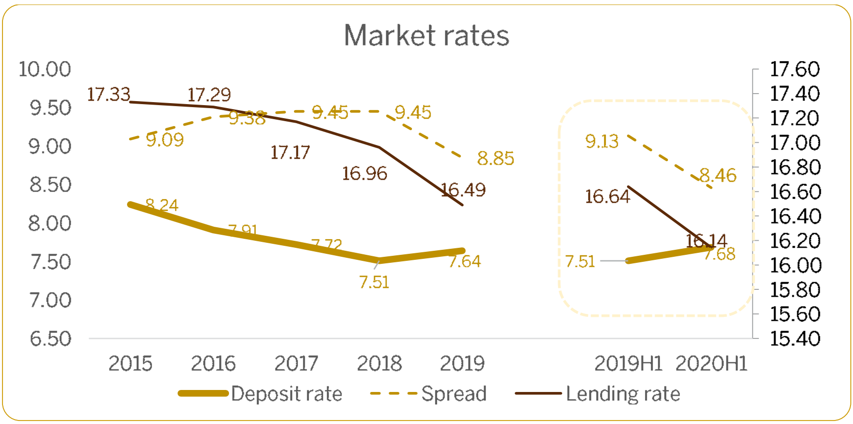
Figure 10: Money market rates developments



Source: NBR, Monetary Policy and Research Directorate

Deposit rate increased by 10 basis points to 7.6 percent on average in 2020H1 from 7.5 percent in 2019H1, mirroring the bargaining power of corporates as big depositors. Conversely, lending rate decreased by 40 basis points to 16.2 percent in 2020H1 from 16.6 percent in 2019H1 resulting from decline trend of lending rates in both corporates and individuals. As a result, the spread between lending rate and deposit rate dropped significantly by 50 basis points to reach 8.6 percent on average in 2020H1, from 9.1 percent in 2019H1, also pointing out how banks have been becoming more efficient.

Figure 11: Market interest rates - Monthly basis (percent average)

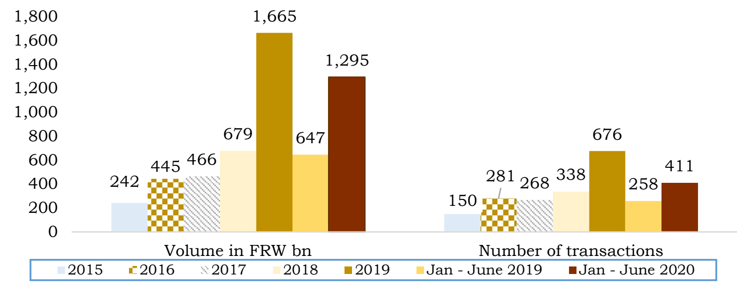


Source: NBR, Monetary Policy and Research Directorate

3.2.3 Money market developments

In the first semester of 2020, the interbank market recorded significant increase both in number of transactions and amount exchanged as compared to the same period of 2019. In terms of volume transacted, the market recorded Frw 1.3 trillion in 2020H1 from Frw 493 billion in 2019, which is an increase of 161.7%, while the number of transactions increased to 411 from 258 transactions in the same period.

Figure 12: Development of interbank market 2015- End June 2020



Source: Financial Markets Department

The increase in volume and number of transactions in the interbank market is explained by the continued effort in liquidity management by both commercial banks and the National Bank of Rwanda, as well as improving trust among banks.

The interbank market plays critical role by effectively channeling liquidity in the banking system, being a conduit for the transmission of monetary policy and price-discovery mechanism in the money market as a whole.

3.2.4 Bond primary market developments

During the first six months of 2020, the Government of Rwanda through the National Bank of Rwanda, has successfully issued four new bonds and reopened four existing bonds. As result, T-Bond outstanding increased by

43.8% from Frw 399.3 billion at end 2019 to Frw 574.3billion at end June 2020.

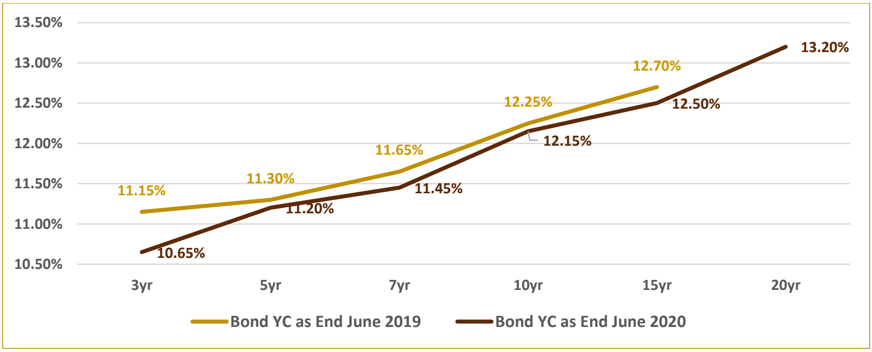
Table 18: T-Bonds Outstanding 2014- June, 2020 (in FW billion and %)

Year	Banks	in percent	Institutional investors	in percent	Retail investors	in percent	Total
2014	24.3	50.1%	23.4	48.3%	0.8	1.60%	48.5
2015	46.2	46.2%	51.5	51.5%	2.3	2.30%	100.0
2016	60.9	40.0%	86.5	56.7%	5.1	3.30%	152.5
2017	65.8	36.6%	103.7	57.6%	10.5	5.80%	180.0
2018	84.2	34.4%	138.1	56.4%	22.7	9.30%	245.0
2019	134.5	33.7%	228.7	57.3%	36.1	9.00%	399.3
End June 2020	212.2	37.0%	316.3	55.1%	45.8	7.9%	574.3

Source: BNR, Financial Markets Department

Following high demand for Government bond, demonstrated by an oversubscription for each issuance (subscription level averaged at 138% between July 2019 – June 2020), yields of government bonds on the primary market decreased for all maturities.

Figure 13: T-Bonds yield curve as of End June 2019 vs End June 2020 (%)



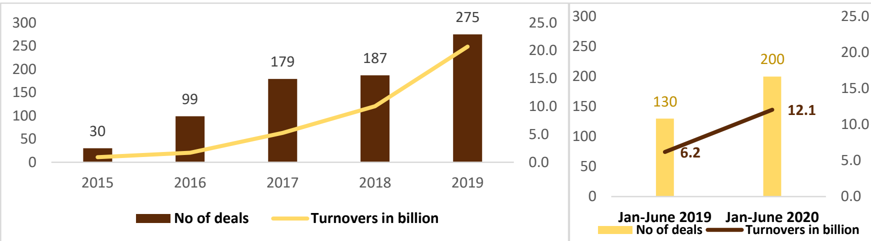
Source: NBR, Financial Markets Department

The successful issuance despite the COVID-19 outbreak is attributed to the increased knowledge of investors in the bond instrument, an improvement in bond trading activities on the exchange, which gives assurance to investors for an alternative exit strategy and more importantly, shows the confidence in Rwanda's stable macroeconomic fundamentals, as well as the Government of Rwanda, the only issuer on the market.

3.2.5 Secondary market development for government bonds

In the first half of 2020, the secondary bond market was very active compared to the same period of 2019. The graph below shows that the number of deals increased from by 53.8 percent, from 130 in 2019 to 200 in 2020. Moreover, bond turnovers traded on the exchange, increased by 94.7 percent from Frw 6.2billion to Frw 12.1billion during the same period.

Figure 14: Bond trading activities on the Rwanda Stock Exchange: 2015- End June 2020



Source: Rwanda Stock Exchange

The increase in number of deals and volume traded on the exchange is a result of improving awareness and knowledge of the product across the country, coupled with increased frequency of bond issuances and reopening that have availed more products on the secondary market.

3.2.6 Money Supply

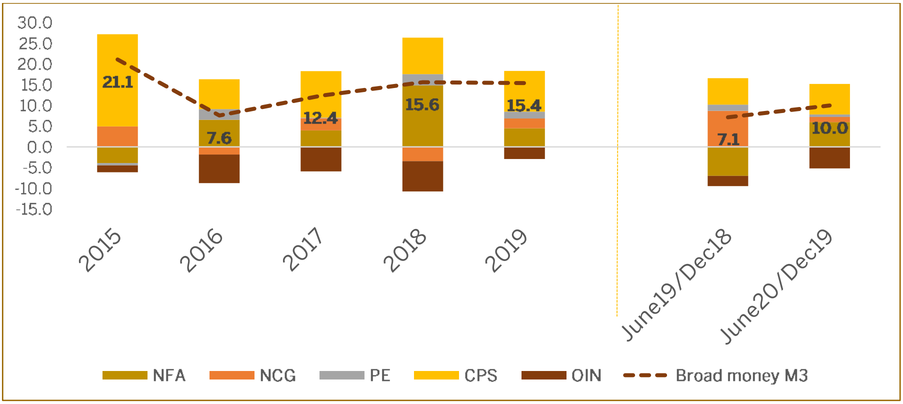
In the first half of 2020, Broad money M3 picked up by 10.0 percent against a growth of 7.1 percent recorded in the same period of the year before. Credit to private sector mostly contributed to that growth in M3, with a contribution of 7.4 percent, followed by net foreign assets (+6.0 percent), net credit to government (1.3 percent) and public enterprises (+0.6 percent). However, other items net pulled down the growth of M3 with a negative contribution of 5.2 percent.

The increase in outstanding credit to the private sector was mainly driven by the restructuring of loans granted to some borrowers facing the problems caused by COVID-19 pandemic, and new authorized credit distributed in the first half of 2020. The NBR's NFA have been the driver of the growth of total net foreign assets, resulting from accumulated budget loans in 2020H1 worth USD 389.0 million (especially IMF disbursement of RCF for covid-19, World Bank loans and AFD) from USD 70.3 million recorded in 2019H1.

The growth in net credit to government was attributed to increased government domestic borrowing despite the accumulation of deposits. In this respect, credit to government from the banking system increased by 31.6 percent in the first half of 2020 from a rise of 23.0 percent in the corresponding period of the previous year. Government deposits grew by 28.4 percent in 2020H1 (high accumulation was experienced in June 2020) from a contraction of 22.9 percent in 2019H1.

The negative contribution of other items net was attributed to the increase in equity in both NBR and Commercial banks and suspense accounts, which increased especially in June 2020.

Figure 15: Contributors to M3 growth on assets side



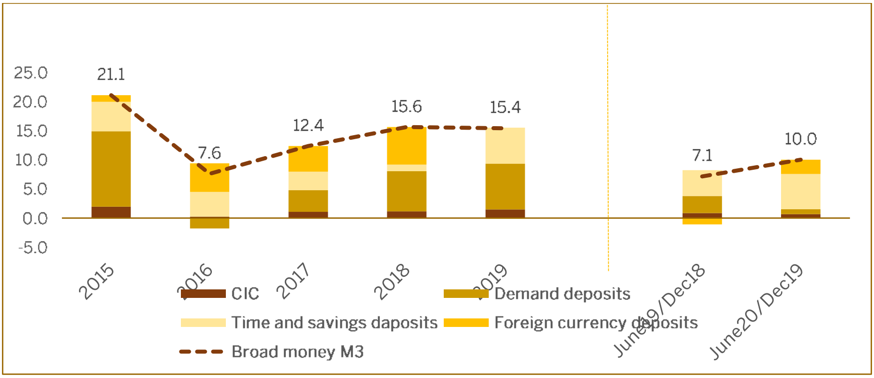
Source: NBR, Monetary Policy and Research Department

From the liabilities side, M3 growth was mainly attributed to the time and saving deposits that contributed 6.1 percent in the first half of 2020 from 4.4 percent recorded in the corresponding period of the year earlier. Foreign currency deposits followed with 2.4 percent from – 1.1 percent, demand deposits with 0.8 percent from 2.9 percent and currency in circulation with 0.7 percent from 0.9 percent.

The high increase in time and saving deposits reflects increased term deposits for some big depositors such as RSSB, BDF, Agaciro Development Fund and Ultimate Developers limited. The rise in foreign currency deposits was driven by foreign exchange inflows accumulated by private corporations, NGO and individuals.

A low contribution in currency in circulation is witnessed over the period under review, due to extension of the banking industry across the country and the development of Micro finance institutions. In addition, measures taken during the COVID-19 pandemic lockdown to use digital payments explain the low contribution of currency in circulation during 2020H1.

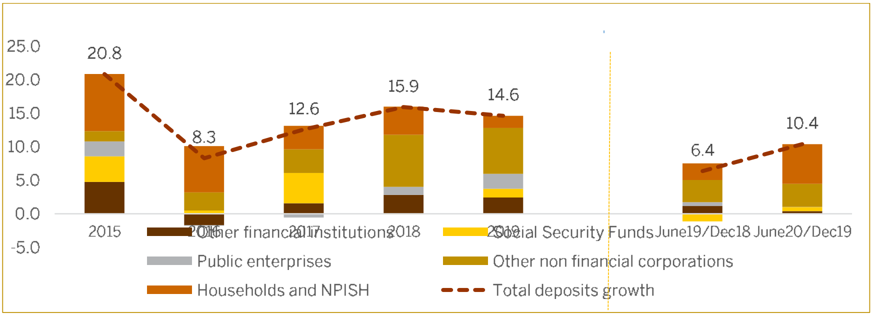
Figure 16: Contributors to M3 growth on liabilities side



Source: NBR, Monetary Policy and Research Directorate

Banks' deposits constitute the main component of M3. They grew by 10.3 percent between December 2019 and June 2020, from 6.9 percent in the same period of the previous year. The primary contribution to that growth was from households and NPISH (5.9 percent), followed by other non -financial corporations (3.4 percent), social security fund (0.6 percent) and other financial institutions (0.4 percent) and public enterprises (0.04 percent).

Figure 17: Contributions of depositors in the growth of deposits



Source: NBR, Monetary Policy and Research Directorate

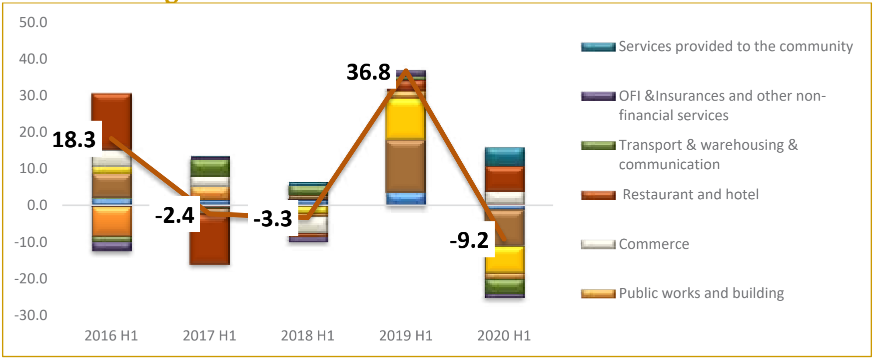
3.2.7 Credit

Outstanding credit to the private sector rose by 9.7 percent in June 2020 cumulatively from December 2019, up from a growth of 8.2 percent in the same period of the year before. That growth in outstanding CPS reflects the restructured loans for some sectors affected by Covid-19 (principal not paid amounting to FRW 34.9 billion) in addition to new authorized loans (NALs) equivalent to FRW 500.1 billion distributed in 2020H1.

In the first half of 2020, new authorized loans reduced by 9.2 percent, compared to the high growth of 36.8 percent recorded in the first half of 2019. The major sectors that contributed to the contraction in NALs in 2020H1, are manufacturing activities (-9.8 percent), water and energy (-7.5 percent), transport warehousing and communication (-4.0 percent) and public works and buildings (-1.6 percent).

It is worth noting that the experienced contraction in NALs mainly occurred in March, April and May of 2020 due to the lockdown, while a recovery was registered in June 2020 where banks authorized FRW 155.0 billion equivalent to 30.9 percent of total NALs in 2020H1.

Figure 18: Contributions of sectors to the growth of new authorized loans in % changes



Source: NBR, Financial Stability Directorate

Considering the share of each sector in total NALs, commerce, public works and building, personal loans and restaurant and hotel are the most financed sectors with a share of 32.4 percent, 20.3 percent, 11.9 percent and 10.7 percent respectively, all totaling 75.3 percent of total NALs in 2020H1.

The hotel and restaurant sector received more loans especially in June 2020 after economic activities resumed in a bid to help it recover from covid-19 effects.

Table 19: Distribution of NAL by sector in % share

Economic sector	Amount in FRW billion			% share		
	2018 H1	2019 H1	2020 H1	2018 H1	2019 H1	2020 H1
Commerce	143.2	143.2	162.1	35.5	26.0	32.4
Public works and building	101.8	110.1	101.3	25.3	20.0	20.3
Personal loans	51.4	65.8	59.4	12.8	11.9	11.9
Transport & warehousing & communication	48.4	52.5	30.5	12.0	9.5	6.1
Manufacturing activities	33.1	91.5	37.6	8.2	16.6	7.5
Services provided to the community	14.7	14.8	42.1	3.7	2.7	8.4
Agricultural, fisheries& livestock	5.7	5.2	8.1	1.4	0.9	1.6
Restaurant and hotel	3.1	14.9	53.5	0.8	2.7	10.7
OFI &Insurances and other non-financial services	1.0	7.1	1.0	0.2	1.3	0.2
Mining activities	0.3	0.0	0.0	0.1	0.0	0.0
Water & energy activities	0.2	45.8	4.5	0.0	8.3	0.9
Total	402.7	550.8	500.1	100.0	100.0	100.0

Source: NBR, Financial Stability Directorate

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section shows exchange rate developments for the first half of 2020. Compared to the same period of last year, the depreciation of the FRW was relatively muted in 2020H1, owing to lower economic activities during the COVID-19 crisis.

4.1 EXCHANGE RATE DEVELOPMENTS

The Rwandan franc depreciation was relatively subdued in the beginning of 2020, compared to the corresponding period of last year due to lower economic activities caused by COVID-19. In June 2020, compared to the US dollar, the franc weakened by 1.6 percent, slower than 2.2 percent depreciation recorded in June last year. The local currency depreciated by 1.9 percent and 2.8 percent against the Euro and the Yen while it appreciated by 4.7 percent versus the British pound, compared to previous falls of 1.6 percent, 4.8 percent and 2.0 percent respectively in the same period last year.

Table 20: 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-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
Jan-20	0.4	-0.1	-1.2	0.6	1.1	0.4	0.2	-1.5
Feb-20	0.7	-1.0	-1.0	0.9	2.0	1.7	0.5	0.8
Mar-20	0.9	-5.1	-0.8	1.6	-1.5	1.4	-1.5	0.7
Apr-20	1.0	-4.1	-2.1	3.4	-3.7	1.5	-1.8	0.8
May-20	1.2	-4.8	0.2	2.9	-3.3	1.7	-0.5	0.8
Jun-20	1.6	-4.7	1.9	2.8	-2.5	1.8	0.6	0.2
Jun-19	**2.2**	**2.0**	**1.6**	**4.8**	**1.8**	**2.2**	**2.6**	**-0.2**

Source: NBR, Monetary Policy Department

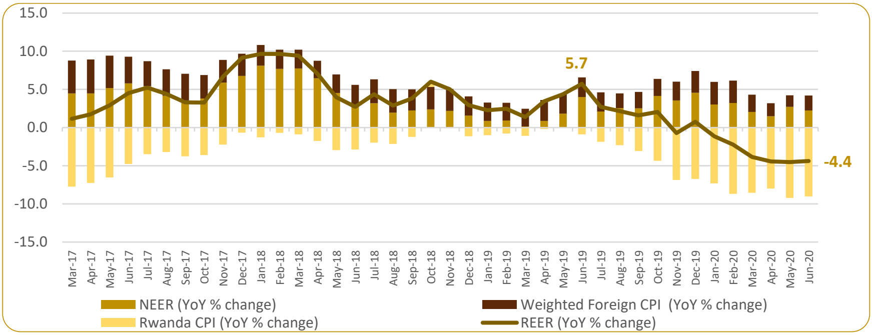
In June 2020, the FRW strengthened by 2.5 percent versus the KES against a depreciation of 1.8 percent in the corresponding period last year. Compared to the TZS, the UGS and the BIF, the FRW depreciated by 1.8 percent, 0.6

percent and 0.2 percent from previous slips of 2.2 percent, 2.6 percent and a slight appreciation of 0.2 percent in June 2019 respectively.

Compared to a basket of currencies of Rwanda's main trading partners, the FRW appreciated in real terms by 4.4 percent (y-o-y) end June 2020, against a 5.7 percent depreciation recorded during the corresponding period in 2019.

This was mostly attributable to higher domestic inflation relative to foreign inflation and a lower nominal depreciation of the FRW against currencies of some of the major trading partners. In nominal effective terms, the FRW depreciated by 2.2 percent, compared to a depreciation of 4.0 percent end June 2019.

Figure 19: Drivers of REER movement



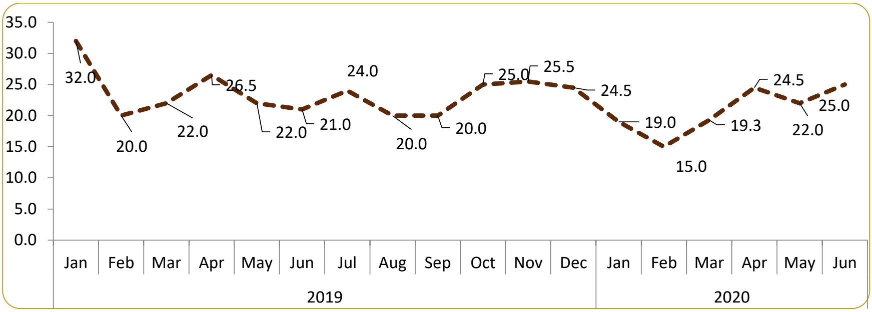
Source: NBR, Monetary Policy Department

4.2 FOREIGN EXCHANGE MARKET DEVELOPMENTS

In June 2020, net foreign assets of commercial banks decreased by 66.7 percent and stood at Frw 26.9 billion down from Frw 80.6 billion achieved in June 2019. This decline was driven by the increase in foreign liabilities (+58.6 percent) amid a slight increase in foreign assets (+13.8 percent), following an accumulation of foreign borrowing and an increase in nonresident deposits.

With regard to NBR's interventions, foreign exchange sales to banks decreased by 13.0% to USD 124.8 million in the first half of 2020, from USD 143.5 million in the corresponding period last year, reflecting lower forex transactions due to the COVID-19 impact, and therefore less pressures to the FRW exchange rate.

Figure 20: NBR Forex Sales to banks in millions of USD



Source: BNR, Monetary Policy Department

V. THE STABILITY OF THE FINANCIAL SYSTEM

5.1 INTRODUCTION

The coronavirus (COVID-19) pandemic has caused unprecedented and tremendous health and economic challenges around the globe. In Rwanda, the outbreak of the pandemic in March 2020 and the necessary measures taken by the Government to contain its spread posed a significant toll on the economy and financial conditions. The lockdown and social distancing measures weighed down the performance of firms and households in sectors primarily financed by the financial sector like hotels, commercial real estate, public transporters, traders, and manufacturing. Despite the re-opening of the economy since May 2020, several sectors are still performing below their potential. To the financial sector, the economic downturn increases credit risk and liquidity risks, ultimately depressing profits. In economic downtowns like this, a sound and stable financial sector is required to absorb losses thereby continuing to support households and firms facing temporary losses of income, and to continue meeting liability obligations. In order to play this loss-absorption role, however, the financial sector should have built sufficient capital and liquidity buffers during good economic times. As portrayed in previous editions of the Monetary Policy and Financial Stability Statements (MPFSS), Rwanda's financial sector has held sufficient capital and liquidity buffers over the recent past, reflecting effects of robust economic performance and the adoption of post crisis financial regulatory reforms such as Basel II capital accord and Basel III liquidity standards for banking sector. These buffers have been critical for the financial sector's resilience following the economic disruptions related to the COVID-19 pandemic.

Coordinated monetary and supervisory measures have also supported the financial sector to absorb COVID-19 shocks in the first six months of 2020. Monetary policy was accommodative and the reduction of reserve requirement (from 5 percent to 4 percent) released FRW 23 billion into the system providing additional liquidity for banks to lend and meet their customers' deposit withdrawal needs. The Extended Lending Facility for Banks announced by the NBR in March 2020 provided an additional FRW 5 billion in liquidity to the banking system. The NBR decision requiring financial institutions to hold dividend distribution due in 2020 was aimed at bolstering their capital and liquidity positions during current difficult times. In addition, the NBR issued guidelines for the treatment of the exceptional loan repayment deferrals and restructures in assessing and reporting credit risk as well as for purposes of meeting prudential requirements.

The financial sector has played a crucial role in supporting households and firms during this period, first by activating remote non face-to-face mechanisms of serving their customers even during the total lockdown period. In addition, banks deferred loan repayments for borrowers in cognisance of the financial strains they were facing. Similarly, insurers adopted temporary flexible premium payment arrangements in order to better support their customers. These measures, in addition to fiscal and other measures taken by the relevant authorities are expected to help restart and boost economic activity going forward.

Sections below summarize performance of the financial sector as at end June 2020 - three months after the first corona virus case was registered in Rwanda and the two-month lockdown implemented. The first section recaps on the financial sector landscape with emphasis on the recent changes. The second section focuses on the performance of different financial sector sub-sectors (banking, microfinance, insurance, pension, and market infrastructure). In conclusion, the statement elaborates on the policy reforms implemented by NBR over the last six months (since the last MPFSS in February 2020) and projected near-term outlook of financial sector performance.

5.2 STRUCTURE OF THE FINANCIAL SECTOR

The Rwandan financial sector is composed of a range of institutions, market and financial infrastructure. NBR currently regulates 603 institutions, including 16 banks (i.e., 11 commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank); 14 insurance companies (i.e., 3 life and 11 non-life insurers of which 2 are public institutions and 9 private); 459 microfinance institutions (i.e., 416 Umurenge SACCOs; 19 limited liability MFIs and; 24 other SACCOs); 13 pension schemes; 97 foreign currency dealers and remittance companies; and 4 registered lending-only institutions. Total assets of these institutions amounted to FRW 5,747 billion at end June 2020 (equivalent to 63 percent of GDP). Total assets of mainstream financial institutions (Banks; MFIs; Insurance; and Pension) stood at FRW 5,718 billion (62 percent of GDP). The capital market, regulated by the Capital Market Authority (CMA), is also an integral component of the Rwandan financial system.

The financial sector remains dominated by the banking sector which accounts for 67.0 percent of the total financial sector assets as at end June 2020 (Table 21). The banking sector is not only the largest but also a systemically important sector based on its interconnectedness with the rest of the sub-sectors; combined deposits of microfinance, insurance and pension funds accounted for 23 percent of banking sector deposits as at end June 2020. The pension sector comes in second place with 17.2 percentage share the financial sector assets. The pension sector is dominated by the mandatory public-defined benefit pension scheme (RSSB) with 95 percent of the pension sector assets (the 12 private pension schemes account for 5 percent of pension sector assets). The insurance and microfinance sectors account for 9.5 percent and 5.7 percent, respectively, of the financial sector assets, while the rest (foreign currency dealers, remittance companies and lending-only institutions) account for the remaining 0.5 percent.

The financial sector is becoming more inclusive as revealed by the recent FinScope survey (2020). This survey done every 4 years, indicated that the percentage of adult population in Rwanda served by the formal financial sector (i.e., regulated sector) increased from 69 percent in 2016 to 77 percent (5.5 million adults) in 2020. These are adults that have or use formal financial products and services, including banking sector and other formal (non-bank) financial products/services from insurance firms, Mobile Network Operators (MNOs). The target of the Government of Rwanda is to increase the proportion of formally served adults to 100 percent by 2024 as elaborated in the National Strategy for Transformation (NST 1). The formal inclusion gains in the last four years (2016-2020) was driven by increase of bank account holders (from 1.1 million in 2016 to 2.6 million in 2020); increased uptake of mobile money (4.4 million in 2020, against 2.3 million in 2016); U-SACCOs (2.4 million account holders in 2020, against 2 million in 2016); more insured adults (1.2 million in 2020, from 0.5 million in 2016) and; increased account holders in other MFIs (0.7 million in 2020, from 0.3 million in 2016). Further formal financial inclusion gains are expected to be supported by the recent increased uptake of mobile and contactless transactions to limit the spread of Coronavirus.

Table 21: The Structure of the Financial System

Regulated Financial Institutions	Jun-19			June 2020		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Banks	16	3,252	65.7	16	3,854	67.0
Commercial Banks	11	2.622	53.0	11	3,142	54.7
Microfinance Banks	3	76	1.5	3	66	1.15
Development Banks	1	247	5.0	1	265	4.6
Cooperative Banks	1	307	6.2	1	381	6.6
Pension Schemes	13	877	17.7	13	990	17.2
Public	1	837	16.9	1	941	16.4
Private	12	40	0.8	12	49	0.8
Insurers	14	477	9.6	14	544	9.5
Life	3	49	0.9	3	52	0.9
Non-Life	11	428	8.6	11	492	8.6
Microfinances	457	313	6.3	459	330	5.7
U-SACCOs	416	138	2.8	416	139	2.4
Other SACCOs	22	89	1.8	24	97	1.7
Limited Companies	19	86	1.7	19	94	1.6
Foreign Currency Dealers & Remittances	99	8	0.2	97	9	0.2
Forex Bureau	85	8	0.2	83	9	0.2
Remittance Companies	8	-	0.0	8	-	0.0
Money Transfer Agencies	6	-	0.0	6	-	0.0
Lending only Institutions	4	18	0.4	4	20	0.3
Grand Total	603	4,945	100	603	5,747	100

Source: Financial Stability Directorate

5.3 THE BANKING SUB-SECTOR

The Rwandan Banking sector is composed of 11 commercial banks, 3 microfinance banks, 1 development bank and, 1 cooperative bank. The sector serves its clients through a network of 200 branches; 150 sub-branches and outlets as well as, 4,706 agents and digital platforms like internet banking and mobile banking. The banking sector is predominantly private and subsidiaries of foreign banks. 14 of 16 banks are private banks based on majority shareholdings. 11 out 16 banks are subsidiaries of foreign banks and holding companies (mainly from Africa).

Financial intermediation remains the core business of banks with 56.7 percent of their assets being loans as at end June 2020. The other two key earning assets for banks are Government securities- treasury bills and bonds (18 percent of total assets) and; placements in foreign financial institutions (4.7 percent). Other assets include cash and reserves at central bank (7.1 percent of total assets); due from other financial institutions in Rwanda (6.7 percent); fixed assets (4.2 percent) and other assets (2.4 percent). Bank lending is primarily to the private sector with around 95 percent of stock of loans to private entities- Public Enterprises account for 5 percent of total stock of banking loans. The predominance of loans in banking sector assets indicates the high exposure of the banking sector to performance of firms and households.

Banks maintain a stable funding profile with 76.8 percent of their liabilities being deposits. Interbank and foreign borrowings, the two secondary sources of funds for banks account for 18.1 percent and 0.7 percent, respectively. Other liabilities account for the remaining 4.3 percent of total liabilities. A stable funding profile is even more important during current global financial market distress due to COVID-19 global pandemic. Customer deposits are less sensitive to fluctuations in the global financial market investors' sentiments. Maturity of banks' deposits however remain short-term, which limits their long-term lending—the share of term deposits in total deposits was 41.5 percent as at end June 2020, compared to demand deposits at 58.5 percent.

5.3.1 Performance of the Banking Sub-Sector

Assets of the banking sector continued to grow in the period ended June 2020 on the back of strong economic performance especially in the second half of 2019.The system-wide total assets increased by 18.5 percent (y-o-y) as at end June 2020 to FRW 3,853 billion (42 percent of GDP), up against the 15.1 percent registered in June 2019 mainly driven by deposit mobilization, retained earnings, and capital injection. The high level of net profits earned in

2019 (FRW 75.7 billion) due to the robust economic performance and the decision to withhold dividend distribution supported growth of the banking sector assets. The other aspect that increased banks assets is paid-up capital; banks injected FRW 43 billion in the period ended June 2020, up from FRW 31 billion injected in corresponding previous period. The strong growth of deposits by 17.8 percent in June 2020, up from 13.2 percent in June 2019, also supported the growth of banking sector assets. Growth of deposits was largely supported by the Government net fiscal injection in 2020 Q2 (at FRW 99.5 billion in 2020 Q2, up from FRW 7.9 billion in 2019 Q2). It has been established that development in Government net fiscal injection (domestic spending) greatly influences growth of banking sector deposits.

Growth of the banking sector loan book slowed (outstanding loans), owing to reduced lending in the first half of 2020. Growth of Banks' stock of loans as at end June 2020 decelerated to 14.6 percent (y-o-y) to FRW 2,301 billion, compared to the 16.6 growth registered last year in June 2019. This moderation is largely attributable to weak lending in the first half of 2020, especially in the month of April (during lockdown) when most activities were closed. In total, banks approved FRW 500.1 billion new loans in 2020 H1, 50.1 billion less, compared to the FRW 550.8 billion approved in 2019 H1. As expected, due to economic lockdown in April and May as well as the post-lockdown sluggish business conditions, demand for loans (in value) from both households and firms in 2020 H1 dropped by 12.3 percent (y-oy) —i.e., from FRW 648.6 billion in 2019 H1 to FRW 568.8 billion in 2020 H1. In terms of volume, demand for loans during the same period declined by 37.9 percent (from 365,129 in 2019 H1 to 226,484 in 2020 H1).

The Banking sector direct exposure to sectors severely impacted by COVID-19 is sizeable and remains a key risk to the financial sector. Banks' share of loans to severely affected sectors (commercial real estate; restaurants and hotels; transport; tourism; education; mining) stood at 34.3 percent of the banking sector loan book as at end June 2020. Although business progressively resumed after the lockdown in May 2020, businesses in these sectors remain relatively constrained by existing border closures and international travel restrictions (these include hotel & tourism), while others like commercial real estate remain constrained by low trade activities. Although the banking sector exposure to the mining sector is still small (at 0.1 percent of total loans), the recent decline of mineral prices on international market puts stress on these loans. In respect to this, the balance sheet of the banking sector in the near-term, will very much depend on resumption of these sectors and risk management measures taken by the financial institutions against these risks. In this circumstance, banks will need to strike the right balance between growing their balance sheet through increased lending and containing the credit risk.

Monetary, supervisory/regulatory and fiscal policies taken in the last 3 months have been and will continue supporting banks and bank clients to navigate through this COVID-19 pandemic. At the early stages of the pandemic in March 2020, the NBR established an Extended Lending Facility of FRW 50 billion to support banks facing liquidity stress due to COVID-19 outbreak. Since its inception, two banks have benefited from this facility at a tune of FRW 5 billion. This facility will run up to October 2020, with the possibility to extend it if deemed necessary. The monetary policy stance in the last two quarters was also supportive to banks with the NBR reducing its Central Bank Rate (CBR) by 50 basis points in April 2020 from 5 percent to 4.5 percent. The NBR also reduced the Reserve Requirement (RR) by 100 basis points from 5 percent to 4 percent, a decision that released FRW 23 billion additional liquidity for banks to use for lending to the private sector as well as to meet their customers' deposit withdrawal obligations. The NBR's efforts to support banks is also reflected in the policy to suspend dividend distribution for profits generated in 2019— a decision aimed to beef-up banks' capital and liquidity position. The fiscal policy initiatives taken also directly and indirectly supported banks/or financial sector in general. In June 2020, Government launched the Economic Recovery Fund (ERF)[1] – a FRW 101 billion fund expected to support businesses most severely affected by the COVID-19 pandemic through low interest working capital loans, for Large (FRW 30 billion), Small and Medium (FRW 15 billion) and Microbusiness (FRW 3 billion), an SME guarantee scheme (FRW 3 billion) and a hotel refinancing facility (FRW 50 billion). This is also expected to pump additional liquidity in the system.

This pandemic emphasizes the need for banks to diversify their loan portfolio. Banks' loan concentration to sectors like mortgage and trade although recently declining still remains a major risk to banks (Table 22). As at end June 2020, the combined share of loans to mortgage and trade accounted for close to 49.3 percent of the entire loan book of the banking sector (mortgage industries at 34.3 percent and trade at 15.0 percent). Distribution of banking sector loans to other sectors was as follows as at end June 2020: manufacturing (11.8 percent); transport and communication (11.1 percent); restaurants and hotels (9 percent); personal loans (7.5 percent); water & energy (4.8 percent); other services (4 percent) agriculture (1.2 percent); mining (0.1 percent).

In March 2019, the NBR implemented Loan-to-Value (LTV) limits (80 percent for commercial real estate and secondary residential houses - this means that banks should finance at maximum 80 percent of the total cost or value of commercial building project/ or second residential house, and the borrower contributes 20 percent) in order to induce banks to diversify and reduce their exposure to mortgages. The Financial Stability Committee (FSC) of the Central Bank will regularly review this LTV limit based on developments in property prices and growth of mortgage loans.

[1] Details of the Economic Recovery Fund (ERF) are explained in the policy reform section of this report.

Table 22: Outstanding Loans by Activity Sector

Activity Sector	% Total Loans			
	Jun-17	Jun-18	Jun-19	Jun-20
Consumer loans	7.9	8.4	8.3	7.5
Agricultural & livestock	1.8	1.5	1.5	1.2
Mining activities	0.1	0.2	0.2	0.1
Manufacturing	9.7	10.5	11.5	11.8
Water & energy	2.6	2.6	4.3	4.8
Mortgage industries	34.5	37.1	36.7	34.3
Trade	19.4	17.2	15	15
Restaurant & hotel	10.2	8.1	7.6	9
Transport & communication	8.7	9.8	11.1	11.1
OFI &Insurance	1.7	1.3	1.2	1.2
Other Service sector	3.3	3.3	2.7	4

Source: NBR, Financial Stability Directorate

5.3.2 Financial Soundness Indicators of Banking Sector

Banks maintain sufficient capital buffers capable of absorbing losses. The system-wide total capital adequacy ratio stood at 23.7 percent as at end June 2020, against the 15 percent prudential minimum. Moreover, banks maintained high quality capital with core capital (shareholder's equity and retained earnings) ratio at 22.3 percent as at end June 2020, against the 10 percent prudential minimum. From a solo perspective, all banks continued to meet the minimum prudential capital requirement.

The leverage ratio for the banking sector averaged at 13.6 percent as at end June 2020, reflecting strong solvency of the sector from a broader on and off balance sheet consideration. During the current COVID-19 economic shock, these solvency buffers offer the first line of defense for the banking sector to absorb the credit losses to a certain extent while continuing to supply credit to the economy. In fact, the resilience of the banking sector since the outbreak of the virus early this year, is partly attributable to the adequate capital buffers held by the banking sector in the recent past. Capital buffers of banks in the recent past were beefed-up by the NBR's adoption of international regulatory standards (Basel II & Basel III) since 2018, which increased the quantity and quality of capital that banks should hold relative to their risks. To support banking sector capital position and its capacity to continue lending to the real economy during the current economic down turn induced by COVID-19, the NBR in March 2020 took a decision to suspend distribution of dividends from profits generated in 2019.

The significant loan restructurings done by banks in the second quarter of 2020 (39 percent of their loan portfolio) did not necessarily affect the capital levels of banks due to the NBR's guideline on treatment of restructured loans. The guideline stresses in computation of regulatory capital, the risk weights assigned to COVID-19 related restructured loans must be similar, and not better than, their weights before the restructuring. The same guideline also provided that restructured loans should not be classified as non-performing for the period of the provided moratorium. However, the guideline stresses that Banks continue considering loan loss provisions in accordance with IFRS9 principles, which will result in increased provisioning, 50 percent of which will be added back to Tier II capital.

Domestic Systemically Important Banks (DSIBs) hold adequate capital positions. These are banks whose failure might trigger a financial crisis given their size, complexity, connectedness, substitutability and cross boarder relationships. The NBR identified 6 DSIBs in its last assessment and all met the minimum capital requirement, including the DSIB capital surcharge. The average CAR for the 6 DSIBs stood at 23.2 percent as at end June 2020. The 6 identified DSIBs were categorized in buckets based on the extent of their systemic importance. In view of this, 5 banks were required 0.5 percent additional capital, while 1 bank was required 0.8 percent additional capital. All these banks exceeded these additional capital buffers as at end June 2020.

Banks hold substantial reserves of liquid assets to meet customers' funding needs. Liquidity buffers refer to banks' stocks of liquid assets such as cash, central bank reserves, or government debt, which can be easily used to meet unexpected cash outflows. Banks are inherently vulnerable to liquidity risk due to the maturity transformation role they play. To address this issue, the NBR requires banks to maintain sufficient un-encumbered liquid assets available to meet their projected outflows. As at end June 2020, banks maintained sufficient liquidity buffers as the Liquidity Coverage Ratios (LCRs) – which measure their holdings of liquid assets relative to the potential outflows of funding that could occur in 30 days stressed period was at 253 percent, well above the regulatory minimum of 100 per cent. On a solo basis, all banks met this liquidity requirement. Banks also finance their assets using stable resources as the Net Stable Funding Ratio that compares the banks' stable funds to their long-term assets stood at 164.3 percent as at end June 2020, against the 100 minimum prudential requirement. The Liquidity position of banks in the first half of 2020 was buoyed-up by the reduced cash-withdraws during and post lockdown, as well as a gradual increase of deposits since May after the government eased some of the lockdown restrictions.

Liquidity risks for banks so far relate to delayed cash inflows from restructured loans and the structural deposit concentration in banks. By restructuring 39 percent of their loan portfolio (i.e., FRW 978 billion), banks had to forego 28 percent of their monthly cash-inflows (i.e., FRW 46.5 billion) for the moratorium period which ranges from 3 to 6 months. As at end June 2020, banks' liquidity positions were not affected by this loss of cash flows as this was counterbalanced by the strong growth of deposits and slowdown of new lending. However, going forward, it's a risk, that banks have to manage in their liquidity planning. The other risk relates to deposit concentration where top 50 deposits in the banking sector account for 23.6 percent of total deposits in banks. The supervisory advice to banks is that they gradually diversify their deposit base to avoid any liquidity stress that would be caused by a few large depositors' decisions to move their funds. The National Bank of Rwanda will continue to monitor and measure these risks, as well engage banks on appropriate measures to address them. The NBR will also continue to offer short-term liquidity support to solvent banks facing short-term liquidity stress.

The Non-Performing Loans (NPLs) ratio in banks remained stable at 5.5 percent in June 2020, the same level it was in March 2020 when the COVID-19 outbreak started disrupting the economic activities. The stability of the NPLs ratio doesn't necessary reflect stability of credit risk as the stock of NPLs in banks increased from FRW 132 billion in March 2020 to FRW 142 billion in June 2020 (i.e., 10 billion increase). The NPLs ratio was stable largely because the increase in the NPLs (amounts) was outweighed by new loans approved by banks in May and June after the lockdown- new loans approved in 2020 Q2 amounted to FRW 180 billion.

The other aspect that contained growth of NPLs ratio in banks relates to the significant restructurings that banks did in 2020 Q2—FRW 978 billion (i.e., 39 percent of their loan portfolio). Most of these loans were performing loans in class 1 and 2, meaning that without the payment moratorium given, some of them would have jumped to NPLs category, hence driving up the NPLs ratio. The guideline provided by the NBR provides that Banks shouldn't necessarily classify restructured facilities as defaults/ non-performing at least for the period of the moratorium. Although not all restructured loans will default at the end of the payment moratorium, the extent of these restructured loans increased the credit risk in banks. Going forward, to preserve solvency and stability of the banking sector amidst this increased credit risk, the NBR will focus on effective monitoring of credit risk in banks, as well as ensure appropriate classification and provisioning.

From a sectoral perspective, the NPLs ratio remained high in four key sectors as at end June 2020 (Table 23): Trade (10.8 percent); mining (80.4 percent); other services[2] (8.2 percent) and personal loans (7.4 percent). The higher NPLs ratio in the mining sector reflects one facility for a mineral company that was affected by the slowdown of global mineral prices. Nevertheless, the banking sector exposure to mining remains small (at 0.1 percent of total loans). The high NPLs ratio in the trade sector is of particular importance since loans to this sector account for 15 percent the entire loan book of banks. On the other hand, the NPLs ratio remained low in the other 4 key sectors (Table 23): manufacturing (0.6 percent); mortgage (5.5 percent); restaurants and hotels (3.8 percent); and transport &communication (1.4 percent). The NPLs ratio persistently remained low in the manufacturing sector for the last 3 quarters in a row (0.8 percent in December 2019; 0.6 percent in March 2020; and 0.6 percent June 2020) indicating potential for banks to diversify lending to this sector, with minimal risks. On the other hand, however, the low NPLs ratio in restaurants and hotels reflects one large loan approved in 2020 Q2 (FRW 46 billion) that outweighed the amount of NPLs in this sector.

Table 23: NPLs Ratio by Economic Sector (percent)

Activity Sectors	NPLs Ratio (Percent)				Percent share in total NPLs
	Jun-17	Jun-18	Jun-19	Jun-20	
Personal loans	7.2	6.1	6	7.4	10.8
Agricultural & livestock	18.2	7.2	5	4.8	1.1
Mining	-	0.6	88.4	80.4	2.1
Manufacturing	9.1	13.9	1.4	0.6	1.5
Water & energy	0.1	0	0	0	0
Mortgage	6.6	5.3	3.8	5.5	36.8
Trade	12.6	11.5	15.6	10.8	31.4
Hotels	8.8	11	8.8	3.8	6.6
Transport & communication	3.2	2.6	2.3	1.4	3.1
Financial services	0.2	0.4	1.7	1	0.2
Other services	11.4	8.9	6.7	8.2	6.5

Source: NBR, Financial Stability Directorate

[2] Other services include loans to education, health sector and public administration

Profits of the banking sector increased from FRW 26.2 billion in the first half of 2019 to FRW 33.1 billion in the first half of 2020. During the same period, Return on Assets (ROA) increased from 1.6 percent to 1.8 percent, while Return on Equity (ROE) increased from 9.3 percent to 9.9 percent (Table 24). Banking sector profits was driven up by the accelerated lending in 2019 that drove up Net Interest Income (NII)— income that banks get from loans, from FRW 120.2 billion in the first half of 2019 to FRW 136.4 billion in the first half of 2020. On the other hand, interest expenses marginally increased from FRW 48.1 billion in the first half of 2019 to FRW 56.6 billion in the first half of 2020. Banks' non-interest income dropped from FRW 55.3 billion in 2019 H1 to FRW 53 billion in 2020 H1, largely due to low loan recovery during economic down turn and the zero fees policy on electronic payment channels introduced for 3 months since March 2020. Banks' profits are expected to contract at the end of the year, as banks make provisions for restructured loans that will not have improved at the end of the moratorium.

Table 24: Key Financial Soundness Indicators for Banks (Percent)

Indicators	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Total CAR (min 15 %)	23.3	20.8	21.9	23.3	23.6
Tier 1 CAR (Core CAR)	20.7	19.2	20.1	21.8	22.3
NPLs Ratio	7	8.2	6.9	5.6	5.5
Provisions / NPLs	42.7	44.9	67.4	80.2	82.6
Return on Average Assets	1.7	1.7	1.6	1.6	1.8
Return on Average Equity	9.2	9.6	9.5	9.3	9.9
LCR (min 100%)	-	-	299.5	180.5	253
NSFR (min 100%)	-	-	224.7	164.3	164.3
FX Exposure/Core Capital (± 20%)	-1.8	-6.1	-6.1	-8.6	-6.6

Source: NBR, Financial Stability Directorate

5.4 MICROFINANCE SUB-SECTOR

5.4.1 Structure of the Microfinance Sector

In terms of size, the microfinance sector is relatively small compared to the banking sector. As at end June 2020, microfinance sector constituted 5.7 percent of total assets of the financial sector, down from 6.3 percent in June

2019. It is comprised of 459 institutions licensed to carry out microfinance businesses of which 416 are Umurenge SACCOs (U-SACCOs), 22 non-Umurenge SACCOs and 21 Public Limited Companies (PLCs). The sections that follow summarize the performance and stability of microfinance sector during the year ended June 2020.

5.4.2 Performance of the Microfinance Sector

The growth of assets in Microfinance Institutions (MFIs) moderated during the period under review. Total assets of MFIs increased by 5.4 percent (y-o-y) —from FRW 313 billion in June 2019 to FRW 330 billion in June 2020, lower than 12.2 percent registered in the corresponding period of last year. The moderation of the growth of assets of MFIs mainly reflected the slowdown of the growth of deposits and shareholders' funds. As at June 2020, deposits grew by 7 percent compared to the growth of 9 percent registered in June 2019 while shareholders' funds moderated by 7.4 percent against 16.8 percent registered in June 2019 on account of reduced profits in June 2020.

The asset mix of the microfinance sector remained broadly unchanged. As at end June 2020, loans constituted the majority of assets of MFIs with a share of 52.0 percent, against 51.7 percentage share in June 2019. Placement in banks constituted 35.0 percent as at end June 2020 against 36.4 percent as at end June 2019. Other assets categories of MFIs include tangible assets (9.2 percent), cash (2.1 percent) and holding in government securities (1.6 percent).

The total outstanding credit of MFIs expanded by 8.3 percent year-on-year, from FRW 168 billion in June 2019 to FRW 182 billion in June 2020, compared to the growth of 12.3 percent registered during the previous year. The moderation of the growth of MFI sector loans is largely linked to two main factors: i) Increased credit risks due to COVID-19 pandemic and ii) weak credit demand associated with the disruption of businesses.

Looking at different categories of MFIs, the moderation of the growth of loans was more pronounced in U-SACCOs and PLCs, but improved in other SACCOs. Lending in U-SACCOs increased by 3.6 percent (from FRW 47 billion in June 2019 to FRW 49 billion in June 2020), against 11.3 percent growth registered in corresponding period of last year. Lending in PLCs expanded by 8.4 percent (from FRW 55.0 billion in June 2019 to FRW 60 billion in June 2020), down from 18.9 percent registered as at end June 2019. During the same period, lending in other SACCOs expanded by 11.5 percent (from FRW 65.4 billion in June 2019 to FRW 72.9 billion in June 2020), higher than the growth of 7.9 percent registered during the previous year. Stronger lending in other SACCOs is largely due to Umwarimu SACCOs (teachers saving and credit cooperative) that supported their members (teachers) with emergency loans (overdraft) to deal with the hardships caused by the COVID-19 pandemic.

With regards to funding, the emergency of COVID-19 pandemic has had an impact on funding sources of MFIs. The total deposits of MFIs grew by 7.0 percent (from FRW 167 billion in June 2019 to FRW 179 billion in June 2020), lower than 8.9 percent registered in the corresponding period of last year. The slowdown of the growth of deposits is explained by increased withdrawals by MFIs customers to meet the emergencies during economic downturn, as well as reduced new deposits from firms negatively affected by the COVID-19 pandemic. Shareholders' funds, the other key source of funds for microfinance institutions increased by 7.4 percent (from FRW 106 billion in June 2019 to FRW 114 billion in June 2020), lower than 16.8 percent registered last year. Moderation growth of shareholders' funds this year relates to the decline of profits. On the other hand, short term borrowings by MFIs contracted by 35.2 percent (from FRW 20.6 billion in June 2019 to FRW 13.4 billion in June 2020), against 6.5 percent registered last year, as MFIs scaled down borrowings in current context of limited investment opportunities- weak demand for loans.

5.4.3 The Soundness of Microfinance Sector

MFIs maintained sufficient capital and liquidity buffers to support the growth their business and absorb losses. The aggregate CAR of MFIs stood at 34.5 percent, higher than the minimum prudential requirement of 15 percent. The sector is also sufficiently liquid with the liquidity ratio (that compares high liquid assets to deposits) at 110 percent, against the 30 percent minimum prudential requirement. Large capital and liquidity buffers are expected to support this sector remain resilient to COVID-19 related losses.

Profits of the microfinance sector dropped from FRW 6.6 billion in the first half of 2019 to FRW 1.1 billion in the first half of 2020. The reduction of profits among MFIs relates to increased provisions (from FRW 122 million in 2019 H1 to FRW 5.4 billion 2020 H1) due to increased NPLs, from 6.5 percent in June 2019 to 12.8 percent in June 2020. Non-performing loan among MFIs largely reflects the impact of COVID-19 containment measures on firms financed by the MFIs sector.

Similar to banks, MFIs also provided payment relief to their borrowers negatively affected by COVID-19 by restructuring 23 percent of their loan portfolio (i.e., 29.5 billion) as at end June 2020. Most of this restructurings was in-form of payment moratorium of 3-4 months on the assumption that affected business will make a turn-around in that period. The NBR guideline to MFIs on COVID-19 loan restructurings is explained in the policy section of the MPFSS. Credit risks related to these restructured loans was identified as a key risk that would challenge the microfinance sector in near-term. To safeguard stability of these institutions, NBR will enforce proper classification and adequate provisioning for stressed loan facilities, and work with affected institutions, as well as, other Government agencies to address any identified capital shortfalls.

Table 25: MFIs Performance Indicators

Indicators	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Assets (FRW billion)	230.3	247.7	279	313.1	330.2
Loans (FRW billion)	119.5	127.4	149.3	167.6	181.5
Deposits (FRW billion)	126	133.4	153.6	167.2	178.9
Equity (FRW billion)	69.7	82.5	90.7	105.9	113.8
Net profit/Loss (FRW billion)	4.3	-0.1	3.2	6.6	1.1
Capital Adequacy Ratio (%)	30.3	33.3	32.5	33.8	34.5
NPLs Ratio (%)	7.5	12.3	8	6.7	12.8
ROA (%)	4	-0.1	1.2	4.3	0.7
ROE (%)	13.3	-0.3	3.7	12.8	1.9
Liquidity Ratio (%)	95.1	99.1	103.3	108.8	110.1

Source: NBR, Financial Stability Directorate

5.5 INSURANCE SUB-SECTOR

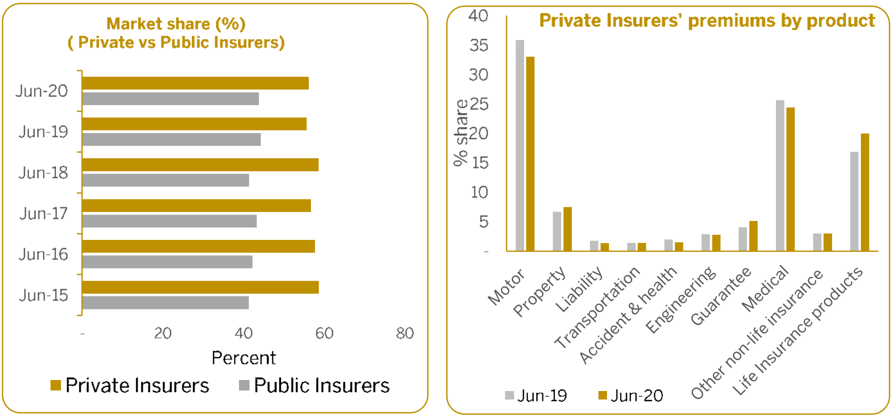
5.5.1 Structure of the Insurance Sector

The structure and composition of the sector remains the same since the last MPFSS in February 2020. The sector consisted of 14 insurance companies as at June 2020. This includes 12 private Insurers (9 non-life and 3 life Insurers) with combined market share of 56 percent of the insurance industry and 2 public health Insurers (RSSB Medical and MMI). Insurance intermediaries consisted of 776 agents, 14 brokers, and 19 loss adjusters as at June 2020 from 707 agents, 17 brokers and 19 loss adjusters as at June 2019. NBR licenses insurance brokers and loss adjusters, while insurance companies were authorized to license their agents since 2018.

Private Insurance business is composed of life insurance and non-life insurance business lines. Non-life insurance is the largest insurance business line, with around 80 percent of total premiums, while life insurance accounted for 20 percent. The non-life insurance business consists largely of motor and medical insurance products with combined share of 57.4 percent of total private Insurers premiums, reflecting the product concentration risk. The remaining 42.6 percent of private Insurers' premiums came from life insurance (20 percent); property (7.5 percent), guarantees (5.1 percent), engineering (2.8 percent), accident and health (1.5 percent), transportation

(1.4 percent), liability (1.3 percent), other non-life insurance products (3 percent).

Figure 21: Insurance Market Lanscape



Source: NBR, Financial Stability Directorate

5.5.2 Performance of Insurance Sector

Overall, there has been limited impact of the COVID-19 outbreak on the insurance sector due to three reasons: (1) Insurers' investment is largely concentrated in low risk/fixed income assets—deposits in Banks and Government securities account for 73.8 percent of insurance sector total investments; (2) Mandatory insurance products (motor & medical) account for 60% of total premiums; and (3) Insurance policies offered by our insurers don't cover pandemic risks (e.g., COVID-19). Due to these factors, assets of insurance sector continued to grow; and insurance companies continued to meet the prudential solvency and liquidity requirements.

During the period under review assets of the insurance sector increased by FRW 71.1 billion (FRW 477.3 billion in June 2019 to FRW 548.4 billion in June 2020), up against FRW 54.3 billion increase registered in the corresponding period of last year. Improved growth of assets was mainly underpinned by retained earnings (FRW 47.2 billion) and capital injections (FRW 3.1 billion).

The retained profits increased in 2020 H1 in line with the NBR policy that restricted dividend distribution for profits generated in 2019. The NBR decision aimed to support the solvency position of the sector amidst the COVID-19 induced financial stress. All the major components of Insurers' assets increased as follows: Placements in Banks (+ FRW 42.2 billion), government securities (+ FRW 10.9 billion), equities (+FRW 10.4 billion), properties (+3.4 billion), receivables (+FRW 2 billion), other assets (+2.1 billion).

Placements in Banks continued to be the main investment avenue of the Insurers with around 42 percent of total Insurers' assets as at June 2020, followed by Government securities (19 percent) equity investments (12 percent), properties (9 percent), receivables (11 percent) and other assets (7 percent). The investments distribution varies with the class of business (Life or non-life insurance business). Life Insurers, with long- term liabilities, continue to invest in assets with long-term maturities to meet their long-term liabilities. For instance, Life Insurers' total long term Investments (government securities and properties) represented around 64 percent of total assets as at end June 2020. On the other hand, non-life Insurers (short term Insurers) held most of their assets in short term maturities, to cater for their short term liabilities– placements in Banks with average one year maturity represented 44.2 percent of total assets , government securities— majority treasury bills (16 percent).

As at end June 2020, life Insurers reduced the share of their investments in properties from 27 percent in June 2019 to 22 percent in June 2020. This is a positive developments given risks related to falling property prices and fall in commercial property occupancy rated due to COVID-19 economic downturn. Life insurers reduced their exposure in properties in favor of less risky investments like Government securities and placements— the size (percentage share) of life insurers' investment in Government securities (largely treasury bonds) increased from 41 percent in June 2019 to 48 percent in June 2020, while the stock of placements in Banks increased from 18 percent to 20 percent during the same period. For non-life Insurance, Insurers increased their investment in placements in Banks from 41 percent in June 2019 to 44 percent of their total assets as at June 2020, government securities (from 17 percent to 16 percent), Investment in properties (from 8 percent to 7 percent), while equity investments stabilized at 13 percent during the period.

While the impact of COVID 19 pandemic was not observable on assets of the insurers, premiums collection was to some extent affected. The growth of Insurers' premiums decelerated to 7.2 percent (y-o-y) in June 2020, down from 14.4 percent registered last year. This moderated growth of premiums mainly emanated from public medical Insurers reflecting the unremitted premiums (FRW 19 billion) observed in second quarter of 2020, compared to the unremitted premiums (FRW 17 billion) in same period of last year. Growth of premiums of public medical Insurers was FRW 1.9 billion (from FRW 32.6 billion in June 2019 to FRW 34.5 billion in June 2020), much lower than FRW than 6 billion in June 2019. On the other hand, the growth of premiums in private Insurers (life and non-life) was 3.3 billion (from FRW 41 billion in June 2019 to 44.3 billion in June 2020), the same growth registered in June 2019. For Private Insurers (life and non-life), unchanging growth of premiums was attributed to the increased restructured, suspended and cancelled policies. In line with NBR's request to insurers to support policy holders, restructured policies increased from FRW 1.7 billion in June 2019 to FRW 3.9 billion in June 2020, suspended policies (from FRW 34 Million to FRW 407 Million), and cancelled policies (from FRW 319 Million to FRW 724 Million).

On consolidated basis, net profits of Insurance sector decreased in first half of 2020 mainly due to reduced underwriting returns and reduced growth of investment income. Net profits of Insurers (private and public) reduced from FRW 23.2 billion in June 2019 to FRW 21.1 billion in June 2020. Net profits of Insurance sector was largely weighed down by decline of profits in public

Insurers (from FRW 18.5 billion in June 2019 to FRW 15.1 billion in June 2020), while profits of private Insurers increased from FRW 4.7 billion to FRW 6 billion.

The underwriting returns (core business of insurers) of public Insurers reduced from FRW 11 billion in June 2019 to FRW 8 billion in June 2020, reflecting the impact of COVID-19 pandemic that weakened much the growth of premiums, despite growth of claims and expenses moderating (Table 26). The underwriting returns of private Insurers improved over the last 4 years – i.e. from loss of FRW 4.2 billion in June 2017; to FRW 3 billion in June 2018; to FRW 1 billion in June 2019; to a loss of 0.5 billion in June 2020. The steady reduction of underwriting losses in private insurers reflects the impact of revised motor premiums that led to improved motor insurance premiums and effective claims management among private Insurers.

Profits of the insurance sector was also weighed down by the reduction of investment income, arising from the unfavorable economic conditions in 2020 H1. For public Insurers, investment income reduced from FRW 7.4 billion in 2019 H1 to FRW 6.4 billion in 2020 H1, mainly linked to reduced dividends from their equity investments. For Private Insurers, the investment income increased at lesser pace, by FRW 500 million (from FRW 5.3 in 2019 H1 to FRW 5.9 billion in 2020 H1), lower than FRW 1 billion growth registered in June 2019.

Table 26: Key performance highlights of the insurance sector

Description (In FRW billion)	Private Insurers			Public Insurers			Insurance sector		
	Jun-18	Jun-19	Jun-20	Jun-18	Jun-19	Jun-20	Jun-18	Jun-19	Jun-20
Gross written premiums	37.7	41	44.3	26.6	32.6	34.6	64.3	73.6	78.9
Net written premiums	31.3	33.7	35.1	26.6	32.6	34.6	57.9	66.3	69.6
Total Claims	18.5	20.6	20.8	16	16.8	19	34.4	37.4	39.8
Management expenses	13.5	13.6	13.1	2.8	4.8	7.5	16.2	18.4	20.6
Net underwriting returns	-3	-0.9	-0.4	7.9	11	8	4.9	10.2	7.6
Investment Income	4.4	5.3	5.9	10	7.4	6.7	14.4	12.7	12.6
Other Income	1.7	1.9	2.1	0.2	0.1	0.3	1.9	2	2.4
Net profit after taxes	2.7	4.7	6	18.1	18.5	15.1	20.8	23.2	21.1
Assets	157.5	174.5	201.4	265.5	302.9	347	423	477.3	548.4
Technical provisions	84.4	95.9	104.8	1.1	1.3	1.4	85.5	97.2	106.3
Liabilities	21.5	23.9	31.2	4.7	2.3	5.9	26.2	26.2	37
Capital and reserves	51.6	55.5	65.4	259.7	299.2	339.7	311.3	354.8	405.1

Source: NBR, Financial Stability Directorate

5.5.3 Financial Soundness of the Insurance Sector

Insurers continued to meet the minimum regulatory capital requirements and remained solvent during the period under review. As at end June 2020, Private insurers' aggregate solvency ratio stood at 156 percent, compared to 100 percent minimum requirement. This solvency position reflects sufficient capital buffers to support growth of insurance businesses as well as withstanding adverse shocks like current COVID-19 pandemic. Public Insurers have for a long-time maintained significantly high solvency position- it stood at 2,463 percent as at end June 2020. High solvency position in public Insurers reflects the stable and profitable business of public Insurers over long period, while private Insurers' solvency level continued to be supported by capital injections and some growing profits during the period. During the period, paid up capital of private Insurers increased by FRW 3.1 billion (from FRW 53.8 billion in June 2019 to FRW 56.9 billion in June 2020), while retained profits (private and public) grew from FRW 44.1 billion to FRW 47.2 billion.

Private Insurers liquidity buffers remained satisfactory to cover short-term liabilities. The liquidity ratio that indicates the proportion of Insurers' liquid assets enough to cover their liabilities, increased from 124 percent in June 2019 to 134 percent in June 2020, and above 120 percent of prudential requirements. For public medical Insurers, liquidity positions remained quite high, above minimum requirements (Table 27). A high liquidity ratio indicates that the Insurers have sufficient liquid assets and don't dependent on new premiums to cover existing liabilities.

Insurance sector liquidity risks to closely monitor going forward relate to premiums receivables in private Insurers that doubled from FRW 2.2 billion in June 2019 to FRW 4.5 billion in June 2020. In line with NBR's guidance to insurers to support policy holders, insurers provided flexibility on premium payment schedules. Nevertheless, the level of premium receivables in private insurers relative to their assets remains small (2.2 percent as at end June 2020), indicating that liquidity risks related to this is still small. Nevertheless, NBR will continue monitoring the growth of these receivables, as well as, their impact on the liquidity position of insurers, and take necessary measures where risks are increasing.

Table 27: Key Financial Soundness Indicators of the Insurance sector

FSI (%)	Prudential Benchmark	Private Insurers			Public Insurers			Insurance sector		
		Jun-18	Jun-19	Jun-20	Jun-18	Jun-19	Jun-20	Jun-18	Jun-19	Jun-20
Solvency margin	Min 100%	149	174	156	2,195	2,297	2,463	1091	1190	1228
Claims ratio	(60% -70%)	64	62	62	55	52	55	59	57	59
Expenses ratio	Max 30%	46	41	39	10	15	22	27	28	30
Combined ratio	Max 90%	110	103	101	65	66	77	86	85	89
ROE	Min 16%	10	17	18	17	12	9	16	13	10
ROA	Min 4%	3	5	6	17	12	9	12	10	8
Liquidity ratio	Min.120%	121	125	134	3,481	4058	4,400	353	323	322

Source: NBR, Financial Stability Directorate

5.6 PENSION SECTOR

5.6.1 Structure of Pension Sub-sector

Pension Funds remain the largest institutional investors, providing long term financing to the financial sector (mainly in Banks). As at June 2020, Pension Funds invested FRW 279.9 billion in banking sector and its total assets account for 17.3 percent of total financial sector assets.

The pension sector is dominated by the mandatory public pension fund— the Rwanda Social Security Board (RSSB) that mainly covers formal sector employees as well as administer the Long Term Savings Scheme (LTSS-Ejo Heza) established under Prime Minister's Order No. 58/03 du 04/04/2018 to cover informal sector employees. These Public Pension Fund represented over 95 percent of pension sector's assets during the period. Private pension schemes remained 12 and represent around 5 percent of total pension sector's assets.

Public Pension Funds are managed as Defined Benefits scheme (DB), which provides pension benefits to retirees that were formally employed in public and private sector, and other benefits related to occupational hazards. Pension benefits are determined according to pension legislations and based on the age of insured; the period of contribution and his/her amount of salaries received during tenure in employment. On other hand, private pension schemes — voluntary based schemes are managed as Defined contribution scheme (DC), which provides pension benefits based on the contributions collected and the performance of the investment of those contributions.

5.6.2 Performance of Public Pension Fund

Assets of pension funds continued to grow, mainly supported by steady growth of members contributions during the period under review. Assets of Pension Funds grew by FRW 104 billion (from FRW 836.8 billion in June 2019 to FRW 940.8 billion in June 2020), compared to the growth of FRW 87.6 billion registered in the same period of 2019. The growth of assets was mainly supported by the contributions that improved from FRW 93.5 billion in June 2019 to FRW 102.6 billion in June 2020, indicating the increased number of employees (from 567,792 to 586,572).

Investment income, the other source of pension sector funds, reduced from FRW 35.2 billion in June 2019 to FRW 27.1 billion in June 2020, mainly reflecting the decline of their placement income in banks (from 14.7 billion to 7.6 billion). Income from government securities was the major component of total investment income to RSSB, accounting for 55.6 percent of total investment income, followed by placements in Banks (28 percent); rentals (7.7 percent); interests on Corporates Debt Securities (6.1 percent) and dividends (2.7 percent).

Pension fund's benefits payments increased by FRW 3 billion (from FRW 26.9 billion to FRW 29.9 billion), lower than FRW 5.8 billion in last year. Pension's benefits were mainly paid at tune of 90 percent to regular monthly pensioners; pension members of permanent incapacitation/invalidity. The other benefits were paid as lump sum payments, to members attaining the retirement age or deceased (with less than 15 years of contribution period). Other operating expenses slightly increased from FRW 7.4 billion to FRW 9.1 billion, mainly due to increased investment management and consultancy fees during the period.

Table 28: Key financial highlights of Public Pension Fund

DESCRIPTION (in FRW Billion)	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	%change Jun-19/18	%change Jun-20/19
Total assets	584.2	661.3	749.2	836.8	940.8	11.7	12.4
Total contributions	74.5	77.5	89	93.5	102.6	5.1	9.7
Total benefits paid	15.8	17.7	21.1	26.9	29.9	27.5	11.3
Operating expenses	4.7	4.5	5.9	7.4	9.1	25.9	22.6
Investment income	23.1	27.4	29.3	35.2	27.1	20.3	-23.2

Source: NBR, Financial Stability Directorate

Table 29: Investment allocation of Public Pension Fund

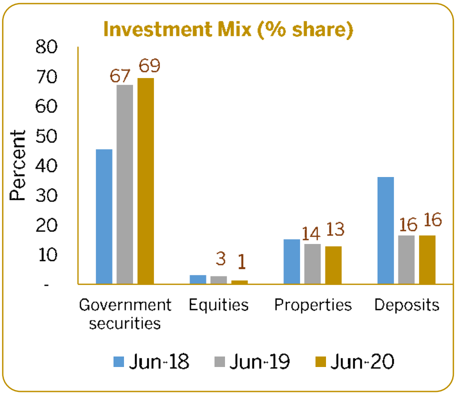
Description (Billion FRW)	Jun-17	Jun-18	Jun-19	Jun-20	% Share	%Change Jun-19/18	%Change Jun-20/19
Government Securities	98.4	92.8	154.1	184.5	20	66.1	19.7
Equities	217.2	264.7	289.3	293.6	32	9.3	1.5
Investment in properties	117.5	98.4	117.1	138.1	15	19.0	17.9
Placements in Banks	187	199.7	154.9	174.1	19	- 22.4	12.4
Other investments and securities	39.3	78.9	102.9	128.3	14	30.4	24.7
TOTAL	659.4	734.5	818.3	918.5		11.4	12.2

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 9.8 billion from FRW 39.8 billion in June 2019 to FRW 49 billion in June 2020. The growth of the assets is linked to the steady growth of contributions and investment income registered by these schemes. The contributions increased from 3.6 billion in June 2019 to 4.3 billion in June 2020, while investment income slightly grew from 1.6 billion to FRW 2 billion (Table 30). With regard to the investment distribution, Government securities remained the largest investment avenues and represent 69 percent of total assets of private pension schemes, followed by placements in Banks (16 percent); properties (13 percent); and equities (1 percent). The share of government securities in total investments slightly increased from 67 percent to 69 percent, while that of placements in Banks stabilized at 16 percent. Increased investment in government securities (mainly on long term bonds) was linked to the higher yields gained on this investment category (perceived as risk free securities), compared to unpredictable interests on placements in Banks that may happen during the period of pandemic. On the other hand, the share of equities and properties reduced during the period, mainly reflecting the risks associated with these two investments.

Figure 22: Highlight of Private pension scheme



Source: NBR, Financial Stability Directorate

Tab 30: Key financial highlights of Private Pension scheme.

Description (In Billion FRW)	Jun-18	Jun-19	Jun-20
Assets	32.0	39.8	49.0
Liabilities	0.0	0.1	0.1
Technical Reserves	31.9	39.8	48.9
Contributions received	3.3	3.6	4.3
Benefits paid	1.4	2.4	1.9
Investment income	1.0	1.6	2.0
Operating expenses	0.2	0.3	0.4

5.7 THE PAYMENT SYSTEM

The National Bank of Rwanda has a mandate of developing and ensuring a safe, reliable and efficient payment system. This mandate is founded on the importance of the payment system to the overall economy- facilitating the clearing and settlement of monetary transactions. To this end NBR regulates and supervises both the retail payment system and the wholesale payment system. Paragraphs below summarize development in the payment system in the first half of 2020.

5.7.1 Retail payment system

The availability of diverse payment tools is critical to the digital payment agenda as they offer different channels of non-cash payment mean for economic agents to use. In that regard, NBR monitors development of payment access point overtime. In the year to end June 2020, the number of POS (traditional and new POS) increased from 20,094 in June 2019 to 41,560 in June 2020—largely due to new POS. New POS include (virtual POS, Near Field Communication and mobile POS) and these allow mobile wallet payments and therefore are expected to amplify the usage of electronic payment given a growing usage of modern electronic gadgets. Mobile money agents also increased by 9,241 countrywide (i.e., from 102,182 in June 2019 to 111,422 in June 2020). The number of ATMs reduced to 331 in June 2019 from 390 in June 2020 as some banks have adopted agency banking and closed a number of ATMs. Agency banking is less costly than the ATMs.

Table 31: Development of Payment Access Points

Payment Access Points	Jun-16	Jun-17	Jun-18	Jun-19	Mar-20	Jun-20
Number of ATMs	398	405	382	390	352	331
Traditional POS terminals	1,707	2,031	2,198	3,046	3,707	3,731
New Types of POS	N/A	N/A	12,959	17,048	12,989	37,829
All POS (Traditional & new POS)				20,094	16,696	41,560
Mobile Payment Agents	52,081	83,550	94,672	102,181	103,408	111,422

Source: NBR, Financial Stability Directorate

There has been increased adoption of digital payment channels in 2020 H1, which is in line with the Government guideline to contain the spread of the virus. Since the outbreak of COVID-19, the Government has recommended people and businesses to use digital payment channels (or contactless payment)- to avoid the spread of the virus through exchange of cash. In fact, even before COVID-19, NBR has been running an awareness campaign on the use of digital payment channels. Data indicates good progress on increased adoption of digital payment channels in the first half of 2020. The volume and value of transactions in mobile payments; mobile banking and; internet banking all significantly increased during the first half of 2020.

The cost incentives offered by payment system service providers at the onset of the pandemic contributed to this increased adoption of digital payment channels. In March 2020, the payment industry agreed to: (1) Zero charges on all transactions between bank accounts and mobile wallets (push and pull), (2) Zero charges on all mobile transfers, (3) Zero merchant fees on payments for all contactless point of sale (mobile and virtual POS) transactions and; (4) Increasing the limit for individual transfers using mobile money wallets from FRW 500,000 to FRW 1,500,000 for Tier 1 customers and from FRW 1,000,000 to FRW 4,000,000 for Tier 2 customers. All these measures went a long way to incentivize people and business to adopt digital payment channels.

While reinstating the above fees, the industry players were engaged to review the pricing model that support a healthy usage digital payment by both merchants and consumers; in that regard mobile transfers fees paid by customers were reviewed downward while merchant payment remained free of charges as long as the money is kept digitally.

Table 32: Development in Digital Payment Transactions

		2019 H1	2020 H1	% Change
Mobile Payment	Volume	333,327,783	503,781,913	51.1
	Value (FRW Billion)	2,058	3,840	86.5
Mobile Banking	Volume	3,792,845	4,897,019	29.1
	Value (FRW Billion)	63	160	154.6
Internet Banking	Volume	1,089,376	1,864,732	71.2
	Value (FRW Billion)	2,032	3,024	48.8

Source: NBR, Financial Stability Directorate

5.7.2 Wholesale payment system

During the year to June 2020, The Rwanda Integrated Payment and Processing System (RIPPS) operated by the NBR, successfully settled all interbank transactions with no major disruptions- the system availability was at 99.7 percent, higher than the NBR target of at least 99 percent. The NBR is upgrading RIPPs, largely to comply with international standards (ISO 20022 swift standard), to enhance the security of the RIPPS system; fetch new functionalities and improve the existing ones. The upgrade will also enable RIPPS system to work 24/7, which will enable banks to transact 24 hours a day and 7/7 days. As part of the RIPPS upgrade, the Central Security Depository (CSD) - a RIPPS component that accommodates all securities issued in Rwanda- will also be upgraded and integrated with other depositories of the EAC countries and Stock exchanges of the region to facilitate the securities exchange and trade among member countries of the East African Community. The enhanced RIPPS is expected to be completed in the fourth quarter of 2020.

5.8 Policy reforms Implemented

The National Bank of Rwanda is determined to establish a robust legal and regulatory framework necessary for a stable and developed financial system. Over the last 6 months, NBR issued 3 Regulations, 4 Directives and 2 Guidelines. These legal instruments aim to support financial stability, and provide basis for financial innovation and product development, as well as promotion of financial integrity. Details of Regulations and Directives approved since the last MPFSS are explained in paragraphs below.

Regulation on Mortgage Refinance Companies

NBR established Regulation N° 33/2020 OF 08/06/2020 governing the licensing and operation of mortgage refinance companies. The regulation is a step towards the Government of Rwanda's goal of increasing decent and affordable housing to its citizens. Mortgage refinance companies are expected to support the housing market by providing long-term financing to mortgage lenders (Banks and microfinance institutions); offering secondary market for mortgage lenders and lowering the cost of mortgage loans for borrowers. This regulation lays foundation for regulating mortgage refinance companies. It stipulates the licensing conditions; the governance and risk management standards; the prudential requirements; as well as, permissible & non-permissible activities for mortgage refinance companies.

Regulation Determining Administrative Sanctions for non-compliance with AML/CFT requirements

In June 2020, NBR established a regulation determining administrative sanctions and fines for non-compliance with Ant-Money Laundering and Combating of the Financing of Terrorism (AML/CFT) requirements. This regulation comes to implement law N° 75/2019 OF 29/01/2020 on prevention and punishment of money laundering, financing terrorism and proliferation of weapons of mass destruction. This regulation comes also to support NBR to implement the recommendations of Financial Action Task Force (FATF) by sanctioning and fining financial institutions non-complaint with AML/CFT requirements. This regulation spells out conditions for imposition of the administrative sanctions; circumstances to determine sanctions to impose; types of administrative sanctions on Financial Institutions (FIs); nature of sanctions against FIs Management; disclosure of violations requirements by the Board of Directors and senior management of financial institutions; nature of sanctions against senior management of financial institutions and; the recovery process of the administrative fines.

Regulation governing change in Shareholding, Amalgamation and Transfer of Portfolio of Insurers and Re-Insurers

In June 2020, through regulation No 34/2020 of 08/06/2020, NBR revised the regulation governing the change of shareholding, amalgamation and transfer of portfolio of insurers and reinsurers. This new regulation will support the orderly transfer of insurance business (shareholding, portfolio transfer, amalgamation and demutualization). It replaces regulation No 14/2011 on mergers and acquisition of insurance companies. By reviewing this regulation, NBR addressed gaps identified in the previous regulation and aligned to the International Association of Insurance Supervisors (IAIS) Core Principle (ICP) - particularly ICP6 on changes in control and portfolio Transfers. The regulation sets limits on shareholding; stipulates regulators pre- approval assessment factors; details other specific requirements on the transfer of significant holding and controlling interests; instigates a requirement for public notice on any amalgamation between insurers and; stipulates the approval process, as well as, the pre and post approval requirements of any amalgamation and transfer of portfolio of insurers and reinsurers.

Directive operationalizing the Extended Lending Facility to Banks (ELFB)

In April 2020, through Directive No. 0025 of 9/4/202, NBR established an Extended Lending Facility for Banks (ELFB) worth FRW 50 billion to support banks facing liquidity shortfalls due to COVID-19 outbreak. This fund was designed to run for six months (April- October 2020) and for a bank to access this fund, it should demonstrate that it's facing transitory liquidity distress; that it's adequately capitalized as per NBR norms; and should have eligible collaterals acceptable by the central banks. The other provisions of this directive (ELFB) relate to tenure of this funding; application process; borrowing limits and collateral valuation; applicable interest rate; repayment obligation and; other requirements or restrictions for a beneficiary bank.

Directive on Economic Recovery Fund (ERF)

Following the Cabinet resolution of 30/04/2020 to establish the Economic Recovery Fund (ERF) to support businesses severely affected by COVID-19, NBR, designated as fund manager, established Directive No 0300/2020-00015[613] specifying the structure of the fund; the conditions for financial institutions to access this fund; eligibility requirements for borrowing firms, and; the operational process of the fund. The ERF managed by NBR is structured in four financing windows to support firms severely affected by COVID-19. These include: (1) the hotel financing window; (2) the working capital window for large corporates; (3) working capital for SMEs and; (4) working capital for micro-businesses. Lending under the first three windows is through banks, while the fourth one is through LTD MFIs and UMWALIMU-SACCO. Further to these NBR managed windows, the ERF has another financing window managed by BDF for micro-businesses that bank with SACCOs; and an SME guarantee scheme (to de-risk SME lending during current economic uncertainties caused by COVID-19.

Directive Determining the Characteristics of an Independent Director of a Financial Institution

The NBR established the directive n° 2600/2020 – 0017 [613] of 22/06/2020 determining the characteristics of an independent director of a financial institution. This directive sets characteristics of an independent director of a financial Institution. According to this directive, an independent director of a financial institution is one who fulfills the following four conditions: i) has no management relationship with the financial institution and its related parties, ii) has no business relationship with the financial institution or its related parties, iii) Is not connected to a significant shareholder and iv) Does not represent interests of any shareholder of a financial institution or its related companies. Further, the directive bestows the responsibility for assessing the criteria of an independent director to the Board Nomination and Remuneration Committee. For a financial institution without a Nomination and Remuneration Committee, the Board shall be responsible for the assessment.

Directive on underwriting requirements of large risks

In July 2020, NBR issued the Directive No 4230 of 15 /07/2020 governing the underwriting of large risks. This directive sets guidance on the underwriting of large risks in order to ensure that local Insurers exhaust local capacity through co-insurance arrangements; avoid unfair competition; and ensure the growth and development of the insurance market. The directive prohibits the fronting practices and stipulates the requirements of co-insurance arrangements and its claims settlement; responsibilities of the lead insurer in co-insurance arrangements; requirements on externalization of large risk to foreign re-insurers and Insurers. The directive further requires the establishment of large risk committee, specifying the members of the committee and its responsibilities.

Guideline to Banks on treatment of IFRS9 provisions, capital requirement and relief measures due to COVID-19 pandemic

As a follow-up to the NBR's request to banks to prudently restructure loans of businesses affected by the COVID-19 outbreak, the central bank issued a guideline to banks on the regulatory and accounting treatment of restructured loans due COVID-19. The guideline provides clarity or NBRs expectation on the responsibility and Governance of the loan restructuring processes; the IFSR9 estimation of Expected Credit Losses (ECL) and Significant Increase in Credit Risk (SICR) for restructured loans due to COVID-19 outbreak; classification of restructured loans due to COVID-19; treatment of regulatory capital for restructured loan facilities and treatment of write-offs for loans in class 5. Paragraphs below summarize key provisions on this guideline.

On loan classification, NBR stressed that restructured loans due to COVID-19 shouldn't automatically be classified as non-performing loans as per the directive on treatment of credit risk. Instead, banks are required to base their judgement on other factors that indicate the unlikeness to pay, taking into consideration the cause of the financial difficultly and whether it's short-term or long-term. NBR also provides that the payment moratorium period due the COVID-19 outbreak can be excluded from the number of past due or generate arrears as the directive on treatment of credit risk.

On IFRS9 implementation, given the high uncertainties of the forward looking information important for estimating the expected credit losses (ECL) and the determination of changes in Significant increases in Credit Risk (SICR) during the current COVID-19 outbreak, NBR provided guidance to banks on key considerations they should consider while calibrating their models. First, banks were advised to allow flexibility in their models to capture economic relief measures implemented by the Government and NBR to support economic resumption- in otherward models shouldn't be biased on the negative deterioration in credit risk and current economic conditions, also consider the economic stimulus measures implemented by the Government and NBR. Second, banks shouldn't consider the current economic downturn as permanent, but temporary and the lifetime probability of default of restructured loans due to COVID-19 shouldn't be based on current conditions, but long-term economic conditions.

Banks were also allowed to extend by 365 days the write-off date of credit facilities classified in loss category (class 5), provided that the write-off period fall due within the period of this guideline (i.e., end June 2021). Normally banks are supposed to write-off a loan facility after 365 days in the loss category. This flexibility is based on the fact that in context of prevailing economic condition and property prices, banks can't recover reasonable funds from foreclosing collaterals.

Guideline for Loan restructuring for MFIs/SACCOs

In the spirit of supporting clients of microfinance institutions who were also affected by the COVID-19 outbreak, In June 2020, NBR issued a guideline to MFIs and SACCOs, requesting them to prudently restructure loans of their customers negatively affected by the COVID-19 outbreak. The guideline issued by NBR specifies the eligibility criteria for this restructuring—borrowers who can demonstrate that their financed projects were negatively affected the COVID-19 outbreak. The other key provisions of this guideline include: the payment moratorium period of 4 months (i.e., from March to

June 2020); stresses that interest rate on restructured loans will continue to accrue during the moratorium period and will be capitalized; urges MFIs and SACCOs to ensure that the new repayment amount after restructuring is comparable to what customers paid before restructuring; provides that loans restructured due to COVID-19 will maintain the same class and provisions held before the pandemic(end February 2020); and stresses that no restructuring fees and penalties shall be charged to borrowers.

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 MONETARY POLICY OUTLOOK

IMF projections for the year 2020, point to a global economic recession by 4.9 percent, worse than during the 2008-09 global financial crisis, owing to the COVID-19 pandemic outbreak. The growth projection was marked down by 1.9 percentage points relative to April 2020 projections, an extraordinary revision over such a short period of time and 6.5 percentage points lower than the pre-COVID-19 projections of January 2020. In 2021, the global economy is projected to recover by 5.4 percent as economic activities normalize, helped by policy support. This baseline scenario assumes that the pandemic fades in the second half of 2020 and containment efforts gradually unwound. Projected growth in 2021 has also been revised down by 0.4 percentage points relative to April 2020 projections.

On the domestic economy, due to adverse effects from the COVID-19 pandemic, GDP growth is projected to decelarate to 2.0 percent for the year 2020, before picking up to 6.3 percent in 2021. The leading indicators of economic activities indicate that the deterioration in economic activities recorded in the second quarter of 2020, has started to improve. For instance, the Composite Index of Economic Activities (CIEA) is showing a recovery, with an upward trend starting with May, where the index rose from negative 19.1 percent in April to negative 15.1 percent end May, before reaching a positive growth of 8.4 percent in June 2020.

Rwanda's external position is projected to deteriorate in 2020, driven by the adverse consequences of the COVID-19 pandemic, which are foreseen to weigh on the flow of international trade, travel and tourism, air transports, remittances, official transfers and FDI as well as private loan disbursements as investors risks sentiments worsen. The Current Account Deficit (CAD) is projected to widen to 16.7 percent of GDP in 2020, up from 12.4 percent of GDP registered in 2019. Despite the expected reduction in financial inflows to finance the widening CAD, Rwanda's external vulnerability remains marginal due in part to increase in international official reserves in preceding periods. Reserves in terms of future months of imports are projected to remain adequate in 2020.

In the second quarter of 2020, headline inflation stood at 8.7 percent (year-on-year) from 8.2 percent in quarter one of 2020. The uptick in headline inflation was mainly driven by the upward revision of public transport fares, linked to social distancing in buses. As a result, the projected average headline inflation were revised up to 6.9 percent in 2020 from 6 percent projected in April. However, headline inflation is expected to reduce gradually to below the NBR benchmark of 5.0 percent starting in 2020Q4.

6.2 FINANCIAL SECTOR OUTLOOK

The outlook of the financial sector is dependent on the overall performance of the economy in the near and medium-term. The resumption of economic activities will support a turnaround for business and households whose loans have been restructured in banks and MFIs, which will support the solvency, liquidity and profitability of banks.

Supervisory focus over the near term will be on ensuring proper loan classification as well as ensuring adequate and timely provisioning for bad loans in order to identify any capital shortfall ahead of time and require timely recapitalization in order to avoid financial institution failure.

The National Bank of Rwanda will continue to use high frequency economic and financial indicators to inform proactive policy interventions. In periods of economic uncertainties like this one, using all early warning indicators to identify and measure emerging risks will be very important. In this regard, NBR refocused its supervisory priorities for next year to assessing credit risk and operational resiliency in supervised institutions.

NBR will continue to enhance the legal and regulatory framework in order to ensure compliance with international norms as well as safeguard soundness and stability of the financial sector. In the next 6 months, NBR expects to issue the following four new regulations: regulation on consolidated supervision for insurance (Group wide supervision); regulation on proportionality for banks; regulation for financial holding companies and; regulation on accreditation of actuaries. NBR also expects to review the following regulations: regulation on licensing of pension schemes and service providers; regulation governing the E- Money Issuer and; the regulation governing the organization of microfinance activities. The main reason to review these regulations is to consider new market trends.

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