NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

February 2021

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

FEBRUARY 2021

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LIST OF ACRONYMS AND ABBREVIATIONS

ACH	: Automated Clearing House
AFR	: Access to Finance Rwanda
AML/CFT	: Anti Money Laundering and Combating the Financing of Terrorism
ATM	: Automated Teller Machine
BCM	: Business continuity management
BIF	: Burundian Franc
CAD	: Current Account Deficit
CAF	: Caisse des Affaires Financieres
CAR	: Capital Adequacy Ratio
CIEA	: Composite Index of Economic Activities
CPS	: Credit to the Private Sector
DGF	: Deposit Guarantee Fund
DSIBs	: Domestic Systemically Important Banks
EAC	: East African Community
ECL	: Expected Credit Losses
ELFB	: Extended Lending Facility for Banks
ERF	: Economic Recovery Fund
EUR	: Euro
FOB	: Freight on Board (or Free on Board)
FOREX	: Foreign Exchange
FRW	: Franc Rwandais
FSC	: Financial Stability Committee
FSCC	: Financial Sector Coordination Committee
FSIs	: Financial Soundness Indicators
FX	: Foreign Exchange
GBP	: Great British Pound
GDP	: Gross Domestic Product
H1	: Half 1
H2	: Half 2

IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
LCR	: Liquidity Coverage Ratio
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
MSMEs	: Micro, Medium and Small Enterprises
NALs	: New Authorized Loans
NBR	: National Bank of Rwanda
NDA	: Net Domestic Assets
NDFIs	: Non-Deposit Taking Lending Financial Institutions
NFA	: Net Foreign Assets
NFS	: Near Field Communication
NII	: Net Interest Income
NISR	: National Institute of Statistics of Rwanda
PCA	: Prompt Corrective Actions
NPLs	: Non-Performing Loans
NPISH	: Non-profit institutions serving households
NSFR	: Net Stable Funding Ratio
PSPs	: Payment Service Providers
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
ROA	: Return on Assets
RNPS	: Rwanda National Payments System
ROE	: Return on Equity
RTGS	: Real Time Gross Settlement
RSSB	: Rwanda Social Security Board
SMEs	: Small and Medium Enterprises
T- Bills	: Treasury Bills
TA	: Total Assets
TZS	: Tanzanian Shilling
UGS	: Ugandan Shilling
UK	: United Kingdom
US	: United States
U-SACCOs	: Umurenge SACCOs
USD	: United States Dollar
WEO	: World Economic Outlook

EXECUTIVE SUMMARY

The objective of this February 2021 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic developments of the year 2020 and give an outlook for the year 2021 and beyond. This statement first presents the global economic development to contextualize the domestic economic and financial performance before concluding with the outlook.

According to the International Monetary Fund's estimates published in January 2021, the global economy contracted by 3.5 percent in 2020 from 2.8 percent recorded in 2019, owing to a negative impact caused by the COVID-19 pandemic. However, global economic growth is projected to recover to 5.5 percent in 2021, bolstered by further policy support in some large economies including United States, Japan, and the European Union, together with growing hope from vaccine rollout.

Sub-Saharan Africa recorded the first recession in 25 years, with the economy for the sub-region contracting by 2.6 percent in 2020 compared to a growth of 3.2 percent recorded in 2019. The severe contraction in 2020 reflects sharp drop in tourism-dependent and oil-exporting economies. The Sub-Saharan economic growth is projected to recover to 3.2 percent in 2021, driven by a recovery in exports linked to an increase in commodity prices as the global demand gradually improves, together with a recovery in private consumption and investment, as well as the continued relaxation of the coronavirus pandemic containment measures.

In 2020, global commodity prices including energy decreased, reflecting the slowdown in global demand. The latter fell by 31.6 percent from a decline of 12.7 percent in 2019, due to the impact of COVID-19 and the warm winter that reduced demand for heating fuels. Non-energy commodity prices increased by 2.9 percent in 2020 after a decline of 4.1 percent in 2019, following an increase in prices of agricultural commodities and rising prices of precious metals & minerals. According to IMF's January 2021 projections, the non-

energy commodity price index is projected to increase by 12.8 percent in 2021.

Reflecting the subdued global demand and falling energy prices, World average inflation eased to 3.2 percent in 2020 while it is expected to slightly rise to 3.4 percent in 2021. As a result, Central Banks in most economies continued to implement accommodative monetary policies to support their economies during the COVID-19 crisis.

On the domestic front, the coronavirus pandemic depressed the Rwandan economic performance through induced demand and supply shocks, adding to the impact of adverse weather conditions on agriculture production. Real GDP contracted by 4.1 percent in the first three quarters of 2020 compared to an increase of 8.3 percent registered in the corresponding period of 2019. The 2020 economic decline was broad-based across all economic sectors. However, economic activities have been recovering gradually in the second half of 2020, helped by supportive fiscal and monetary policy measures in addition to easing coronavirus containment measures. The continued recovery is evidenced by the rising trend of the real Composite Index of Economic Activities (CIEA), which increased by 9.4 percent in the second half of 2020 from a contraction of 2.1 percent recorded in the first half of 2020. On average, GDP is estimated to record negative growth in 2020 but projected to recover in 2021, supported by the Government economic recovery plan and a continuous accommodative monetary policy stance.

Rwanda's exports continue to grow, rising by 13.6 percent, to USD 1,408.9 million in 2020 up from USD 1,240.1 million a year earlier, mainly owing to increased receipts from gold (+134.4 percent) offsetting the decline in receipts from other exports category. Non-gold exports declined by 21.0 percent as the coronavirus pandemic negatively affected both external demand and global trade. On the other hand, imports value grew by 10.6 percent, to USD 3,422.0 million in 2020, on the account of the surge in imports of gold for processing coupled with increased demand for consumer goods, following the government initiative to provide food to vulnerable *households during the lockdown period. Besides, imports value of intermediate goods rose by 4.3 percent y-o-y, partly reflecting the recovery in economic activities during the second half of 2020. In contrast, capital goods value contracted by 4.7 percent y-o-y in 2020, reflecting weak investment related with the coronavirus pandemic. As a result, Rwanda's trade deficit rose by 8.6 percent to USD 2,012.6 million in 2020 up from USD 1,854.0 million.*

In 2020, headline inflation increased to 7.7 percent on average, from 2.4 percent recorded in 2019. The rise in headline inflation was reflected in its main components, mostly as an outcome of supply shocks from agricultural production, supply shocks relating to COVID-19 that affected transport fares, and shocks from administered electricity tariffs and regulations for environmental protection. However, projections indicate that average headline inflation will decline and evolve below the benchmark of 5 percent in 2021.

The monetary policy stance remained accommodative in 2020. In the wake of the COVID-19 pandemic, the Monetary Policy Committee decided to cut the Central Bank Rate (CBR) from 5.0 percent to 4.5 percent in April 2020. This decision, along with other implemented policy measures in March, aimed at supporting commercial banks to continue financing the economy and to mitigate the COVID-19 shock on the Rwandan financial sector. Besides, the Government of Rwanda put in place the Economic Recovery Fund (ERF) of FRW 101 billion to cushion businesses affected by the COVID-19 pandemic to resume operations and safeguard employment. All these measures have contributed to increasing liquidity in the economy, which sustained the falling trend in the market lending rates like in recent years. The average lending rates fell by 14 basis points, to 16.35 percent in 2020 from 16.49 percent in 2019 and this fall was experienced for both individual and corporate loans.

Broad money (M3) grew by 18.0 percent in 2020 compared to 15.4 percent recorded in 2019. Credit to the Private Sector (CPS) was the main positive contributor to that growth in M3. The expansion in outstanding CPS (+21.8 *percent) was essentially driven by the restructuring of loans granted to borrowers with good records, whose activities have been negatively affected by the pandemic, and new authorized loans disbursed in 2020.*

End December 2020, the FRW depreciated by 5.4 percent y-o-y against the USD, from a depreciation of 4.9 percent in December 2019. Pressures on the Rwandan franc especially came during the second half of the year following the resumption of economic activities and the uptick in the demand for foreign currencies amid low foreign inflows. However, the foreign exchange market is expected to remain stable as foreign exchange reserves are foreseen to be adequate in 2021 and beyond.

Notwithstanding the COVID-19 pandemic and the associated containment measures, the financial sector continued to grow during 2020, supported by the higher growth of deposits, borrowings from other financial institutions as well as capital injection. Total assets increased by 19.8 percent to FRW 6,315 billion, higher than the growth of 13.8 percent registered in 2019.

Despite the expansion of assets, the pandemic has had a negative impact of the performance of the financial sector. The pandemic negatively affected household and business incomes. The financial sector has been particularly impacted through increased credit risk, weak demand for credit and non-mandatory insurance policies as well as an elevated level of loan and insurance policy restructuring.

Although these risks had started to abate in H2 2020 following the lifting of the lockdown that in turn boosted the income generation to support loan servicing, the reinstatement of tighter containment measures in Q1 2021 including the three-week lockdown in Kigali, and the global emergence of new COVID 19 strains could exacerbate the risks. The recently announced Government COVID-19 vaccination program, continued improvements in treatments, increased availability of cheap, accurate, reliable and rapid tests, and continued containment measures (masks, hand washing and social *distancing) are expected to pave the way for a sustainable reopening of the economy and enhanced performance of the financial sector.*

Amidst the heightened risks mentioned above, the financial sector maintained adequate capital and liquidity buffers above prudential requirements as at end December 2020. Although NPLs are expected to increase in 2021 considering the high level of watch and restructured loans as well as sluggish economic performance, the financial sector is expected to remain adequately capitalized and liquid.

From the supervision point of view, the NBR will continue engaging supervised institutions on asset quality and assumptions underlying the current levels of provisions with the ultimate aim of ensuring the provisions are commensurate with that risk in the short-term horizon.

INTRODUCTION

The objective of this February 2021 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic and financial developments of the year 2020 and give an outlook for the year 2021 and beyond. This statement first presents the global economic development to contextualize the domestic economic and financial performance before concluding with the outlook.

I. GLOBAL ECONOMIC ENVIRONMENT

1.1 ECONOMIC GROWTH AND OUTLOOK

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) update published in January 2021, the world economic growth is estimated at -3.5 percent in 2020 from 2.8 percent recorded in 2019, the worst contraction since the global financial crisis, owing to the COVID-19 pandemic outbreak. This economic contraction in 2020 was 0.9 percentage points less relative to October 2020 projections, generally reflecting a stronger than expected recovery in the second half of 2020.

In 2021, the global economy is projected to recover growing by 5.5 percent, a 0.3 percentage point increase relative to the October 2020 projections, reflecting additional policy support in a few large economies and expectations of a vaccine-powered strengthening of activity later in 2021, outweighing the effect of rising infections. However, the magnitude of the recovery is projected to vary significantly across countries. That will depend on the access to medical interventions, the effectiveness of policy support, exposure to foreign spillovers, and structural characteristics of the economy.

Table 1: Global GDP Growth (p.a)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 est	2021 proj
World	**3.5**	**3.5**	**3.6**	**3.4**	**3.4**	**3.8**	**3.5**	**2.8**	**-3.5**	**5.5**
Advanced economies	**1.2**	**1.4**	**2.1**	**2.3**	**1.7**	**2.4**	**2.2**	**1.6**	**-4.9**	**4.3**
United States	2.2	1.8	2.5	2.9	1.6	2.2	3.0	2.2	-3.4	5.1
Euro area	-0.9	-0.2	1.4	2.1	2.0	2.4	1.8	1.3	-7.2	4.2
Germany	0.4	0.4	2.2	1.5	2.2	2.6	1.3	0.6	-5.4	3.5
France	0.3	0.6	1.0	1.1	1.1	2.3	1.8	1.5	-9.0	5.5
Italy	-3.0	-1.8	0.0	0.8	1.3	1.7	0.8	0.3	-9.2	3.0
Spain	-3.0	-1.4	1.4	3.8	3.0	2.9	2.4	2.0	-11.1	5.9
Japan	1.5	2.0	0.4	1.2	0.6	1.9	0.3	0.3	-5.1	3.1
United Kingdom	1.4	2.0	2.9	2.3	1.8	1.8	1.3	1.4	--9.9	4.5
Emerg.& developing economies	**5.4**	**5.1**	**4.7**	**4.3**	**4.6**	**4.8**	**4.5**	**3.6**	**-2.4**	**6.3**
China	7.9	7.8	7.3	6.9	6.7	6.8	6.7	6.0	2.3	8.1
India	5.5	6.4	7.4	8.0	8.2	7.2	6.1	4.2	-8.0	11.5
Sub-Saharan Africa	**4.7**	**5.2**	**5.1**	**3.2**	**1.4**	**2.9**	**3.3**	**3.2**	**-2.6**	**3.2**

Source: IMF, January 2021

In advanced economies, growth is estimated at -4.9 percent in 2020 from 1.6 percent recorded in 2019, mostly reflecting contraction in all major economies. These economies include the United States (-3.4 percent), Eurozone (-7.2 percent), United Kingdom (-9.9 percent), Japan (-5.1 percent), Germany (-5.4 percent), France (-9.0 percent), Italy (-9.2 percent) and Spain (-11.1 percent).

In 2021, economic growth in advanced economies is projected to recover to 4.3 percent, following the expected revamp in all major economies. The sizable fiscal support announced for 2021 in some countries, including most recently in the US and Japan, together with the unlocking of Next Generation EU funds, will help lift economic activity in this group with favorable spillovers to trading partners. Projections for most countries point to a decline of fiscal deficit in 2021, as revenues rise and expenditures decline during the recovery period.

Relative to the IMF forecasts of October 2020, the US growth projections for 2021 is revised up by two percentage points, reflecting carryover from the strong momentum in the second half of 2020 and the fiscal package of December 2020. Similarly, the 0.8 percentage points upward revision to Japan's 2021 projections mostly reflects the additional fiscal measures introduced at the end of 2020. However, these forecasts for 2021 are partially offset by downward revisions for the Euro area (one percentage point), reflecting an observed softening of activity towards the end of 2020, which is anticipated to continue in early 2021 amid rising infections and renewed lockdowns.

Emerging market and developing economies are estimated to contract by 2.4 percent in 2020, from 3.6 percent growth recorded in 2019, but projected to grow by 6.3 percent in 2021. Oil exporters and tourism-based economies within the group face particular difficult prospects considering the expected slow normalization of cross-border travel and the subdued outlook for oil prices.

In China, GDP growth is estimated at 2.3 percent in 2020, from 6.0 percent recorded in 2019. Compared to the projected growth of 1.9 percent in October 2020, the estimated growth for 2020 reflects the effective containment measures, a significant public investment response, and central bank liquidity support. In 2021, the Chinese economic growth is projected to recover to 8.1 percent.

According to the IMF estimates, India's economy contracted by 8.0 percent in 2020, from a growth of 4.2 percent recorded in 2019, and is expected to grow by 11.5 percent in 2021. The projections for 2021 have been revised up by 2.7 percentage points, reflecting carryover from a stronger than expected recovery after the ease of lockdowns.

On aggregate, the economy for Sub-Saharan Africa contracted by 2.6 percent in 2020 compared to 3.2 percent growth recorded in 2019, the first recession in the region in the last 25 years. The severe contraction in 2020 reflects macroeconomic risks arising from the sharp decline in output growth among the region's key trading partners, including the euro area; the fall in commodity prices; reduced tourism activity in several countries; as well as the effects of measures taken to contain the COVID-19 global pandemic.

In the Sub-Saharan region, the pandemic shock has mostly hit the region's three largest economies; notably Nigeria, South Africa, and Angola, in a context of already weak growth and declining commodity prices. However, economic growth for the region is projected to recover to 3.2 percent in 2021, reflecting economic recovery mainly in Nigeria (1.5 percent) and South Africa (2.8 percent).

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

	2012	2013	2014	2015	2016	2017	2018	2019	2010 est	2021 proj
Sub-Saharan Africa	4.7	5.2	5.1	3.2	1.4	2.9	3.3	3.2	-2.6	3.2
Angola	8.5	5.0	4.8	0.9	-2.6	-0.2	-1.2	-0.9	-4.0	-4.0
Nigeria	4.3	5.4	6.3	2.7	-1.6	0.8	1.9	2.2	-3.2	1.5
South Africa	2.2	2.5	1.8	1.2	0.4	0.4	0.8	0.2	-7.5	2.8
South Sudan	-52.4	29.3	2.9	-0.2	-16.7	-5.5	-1.9	0.9	4.1	4.1
Egypt	2.2	3.3	2.9	4.4	4.3	4.1	5.3	5.6	3.5	3.5
Libya	124.7	-36.8	-53.0	-13.0	-7.4	64.0	17.9	9.9	-66.7	-66.7

Source: IMF, January 2021 & October 2020

The economic performance in the East African Community (EAC) countries is projected at 1.0 percent in 2020 from 6.2 percent recorded in 2019, following a projected slowdown in all member countries compared to the previous year, with expected recessions in Uganda and Burundi. The projected deceleration in growth is mainly due to the weak external demand and disruptions to supply chains and domestic production. Activity in tourist-dependent countries is expected to contract sharply in response to severe disruptions in 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**	**6.5**	**6.2**	**1.0**	**4.5**
Burundi	4.4	5.9	4.5	-3.9	-0.6	0.5	1.6	1.8	-3.2	3.1
Kenya	4.6	5.9	5.4	5.7	5.9	4.9	6.3	5.4	1.0	4.7
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	7.0	1.9	3.6
Uganda	2.2	4.7	4.6	5.7	2.3	5.0	6.1	6.7	-0.3	4.9

Source: IMF, Regional Economic Outlook October 2020
*Rwanda-IMF country report October 2020

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is estimated at 3.2 percent in 2020 from 3.5 percent in 2019, following a sharp drop in global demand and falling commodity prices, though projected to increase to 3.4 percent in 2021. Consistent with persistent negative output gaps, inflation is expected to remain subdued until 2022.

In advanced economies, consumer price inflation is estimated to ease to 0.7 percent in 2020 from 1.4 percent in 2019, reflecting weaker economic activities and lower commodity prices. In line with the expected modest recovery in economic activities, inflation is projected to slightly increase to 1.3 percent in 2021 and 1.5 percent in 2022, albeit remain below the central bank targets.

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020 est	2021 proj
World	4.1	3.7	3.2	2.8	2.8	3.2	3.6	3.5	3.2	3.4
Advanced economies	2.0	1.4	1.4	0.3	0.8	1.7	2.0	1.4	0.7	1.3
United States	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.2	2.8
Euro area	2.5	1.3	0.4	0.2	0.2	1.5	1.8	1.2	0.3	0.9
Japan	-0.1	0.3	2.8	0.8	-0.1	0.5	1.0	0.5	0.0	0.3
United Kingdom	2.8	2.6	1.5	0.0	0.7	2.7	2.5	1.8	0.9	1.2
Emerging and dev. economies	5.8	5.5	4.7	4.7	4.3	4.3	4.9	5.1	5.0	4.2
China	2.6	2.6	2.0	1.4	2.0	1.6	2.1	2.9	2.7	2.7
India	10.0	9.4	5.8	4.9	4.5	3.6	3.4	4.8	6.6	3.7
Sub-Saharan Africa	9.1	6.5	6.3	6.9	10.7	10.7	8.4	8.5	10.6	7.9

Source: IMF, October 2020 & Official numbers from countries

The annual average inflation is estimated at 1.2 percent in 2020 from 1.8 percent in 2019 in the United States, at 0.3 percent from 1.2 percent in the Euro zone, and at 0.9 percent after 1.8 percent in the United Kingdom, over the same period, giving room to Central Banks for further monetary easing.

In the emerging market and developing economies, inflation is estimated to slightly ease to 5.0 percent in 2020 from 5.1 percent in 2019. In 2021, it is projected to decelerate at a historical low level of 4.2 percent. The Chinese annual average inflation is estimated at 2.7 percent in 2020, from 2.9 percent in 2019, and projected to stabilize at 2.7 percent in 2021.

In Sub-Saharan Africa (SSA), annual headline inflation is projected to rise to 10.6 percent in 2020, from 8.5 percent in 2019, driven by projected rising inflation rates in Nigeria (12.9 percent from 11.4 percent in 2019), Angola (21.0 percent from 17.1 percent), DRC (11.5 percent after 4.7 percent), and Zimbabwe (622.8 percent compared to 255.8 percent). Headline inflation is projected to ease to 7.9 percent in 2021. The SSA region has been facing multiple 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) as well as COVID-19 related disruptions to the local and imported food supply.

In the East African Community (EAC) countries, annual headline inflation is estimated to rise at 5.5 percent in 2020, from 4.0 percent in 2019, reflecting higher inflation in Burundi (7.5 percent from -0.7 percent in 2019), Rwanda (7.7 percent from 2.4 percent), and Uganda (3.8 percent compared to 2.9 percent). The EAC stable and low inflation is attributed to good agriculture production owing to favorable weather conditions, and effective monetary policies implemented by Central Banks.

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

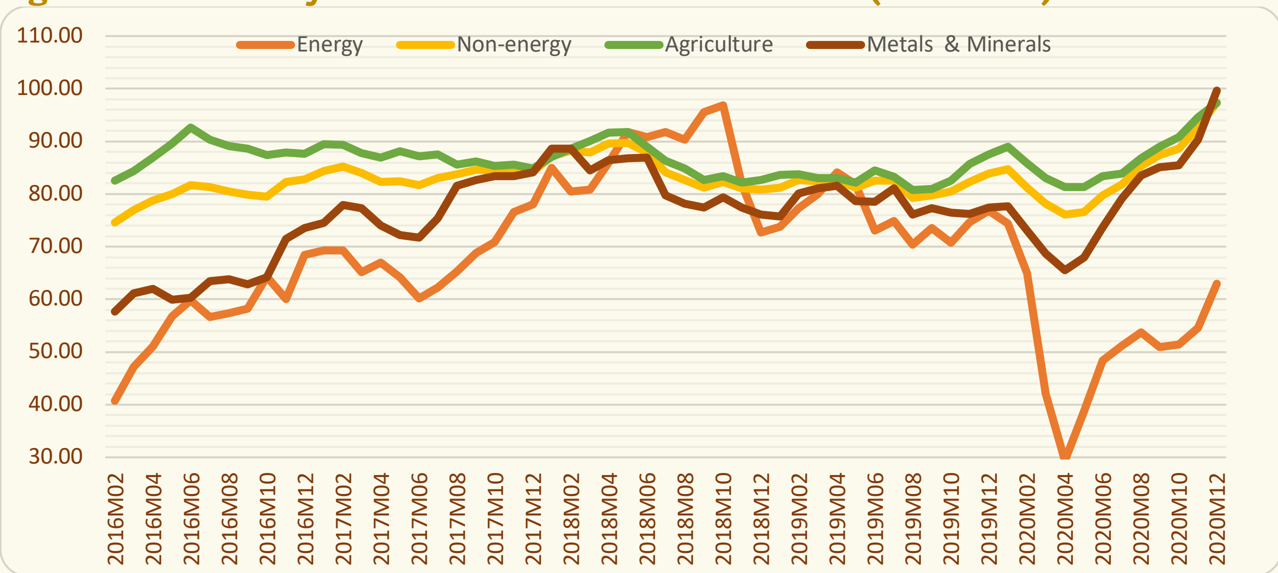
	2012	2013	2014	2015	2016	2017	2018	2019	2020 est	2021 proj
EAC	12.3	6.3	5.5	5.7	5.7	6.7	3.6	4.0	5.5**	4.3
Burundi	18.2	7.9	4.4	5.6	5.5	16.6	-2.8	-0.7	7.5	5.2
Kenya	9.4	5.7	6.9	6.6	6.3	8.0	4.7	5.2	5.2	5.0
Rwanda	6.3	4.2	1.8	2.5	5.7	4.8	1.4	2.4	7.7	1.4*
Tanzania	16.0	7.9	6.1	5.6	5.2	5.3	3.5	3.4	3.3	4.3
Uganda	12.7	4.9	3.1	5.4	5.5	5.6	2.6	2.9	3.8	4.8

Source: IMF, October 2020 & Official numbers from countries
**Annual average estimates for all EAC countries
*BNR staff projections

1.2.2 Commodity Prices

In 2020, global commodity prices decreased, reflecting a slowdown in global demand. Energy prices fell by 31.6 percent from a decline of 12.7 percent in 2019; due to uncertainties about the potential impact of COVID-19 and the warm winter that reduced demand for heating fuels. Non-energy commodity prices increased by 2.9 percent in 2020, after a decline of 4.1 percent in 2019, owing to higher prices for agricultural commodities; and metals & minerals.

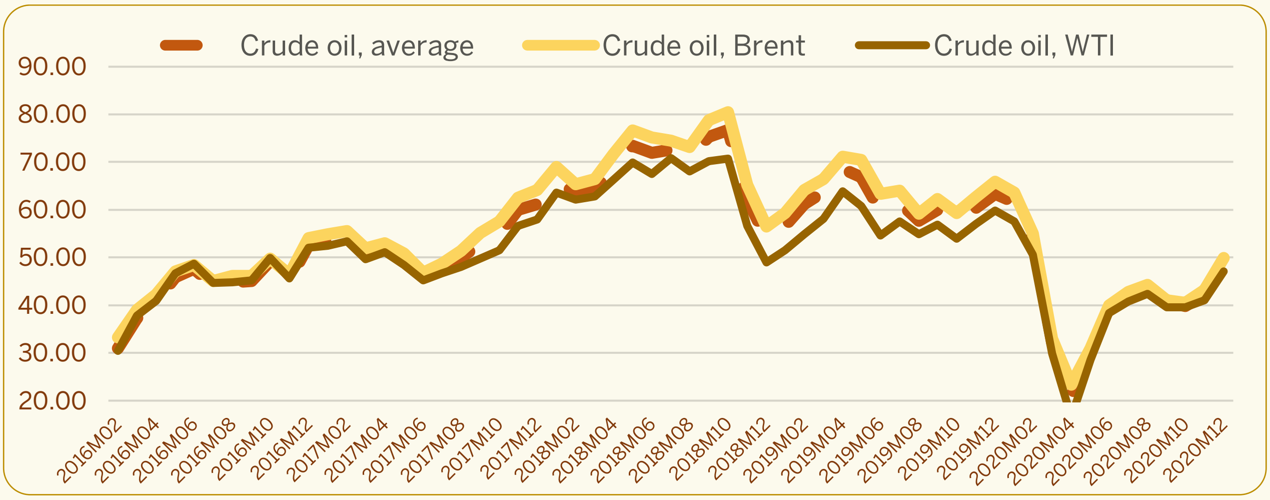
Figure 1: Commodity Prices Index in Nominal US Dollar (2010=100)



Source: World Bank, February 2021

In 2020, crude oil prices decreased by 32.8 percent on average compared to a decline of 10.2 percent in 2019, following the impact of the COVID-19 pandemic on the global demand. In 2021, IMF projects oil prices to increase by 21.2 percent, from USD 41.26/barrel in 2020 to USD 50.02/barrel in 2021, reflecting an expected rise in oil consumption.

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



Source: World Bank commodity prices, February 20201

In 2020, average prices for agricultural commodities increased by 4.5 percent after a decrease of 3.8 percent in 2019, driven by supply shortfalls and stronger-than-expected demand in some oils and meals, as well as the depreciation of the US dollar.

Prices increased in 2020 for beverages (5.5 percent), of which Arabic coffee (15.4 percent) and tea prices (5.1 percent) as prospects for consumption improved after declines recorded earlier in the year as a result of the pandemic. During the same year, prices increased by 6.4 percent for food, including cereals (4.6 percent) and oils & meals (16.1 percent). In 2021, agricultural commodity prices are projected to increase by 1.4 percent, attributed mainly to the projected rising prices of beverages (1.0 percent), with Robusta coffee prices projected to increase by 1.3 percent.

Metals & mineral prices significantly improved, rising by 1.0 percent in 2020, compared to a contraction of 5.0 percent in 2019, reflecting the impact of the COVID-19 pandemic outbreak that limited industrial production activities. Prices increased for precious metals as uncertainties overshadowed prospects for the global economy and increased the demand for safe-haven assets. Gold prices rose by 27.1 percent after an increase of 9.7 percent in

2019. Metals & mineral prices are projected to increase by 2.1 percent in 2021 and by 1.3 percent in 2022.

Prices for fertilizers went down by 10.1 percent in 2020 from a decrease of 1.4 percent in 2019. The World Bank projects an increase of 3.2 percent for the next two consecutive years.

Table 6: Commodity Prices (p.a)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 proj.	2022 proj.
Energy	-0.1	-7.1	-45.2	-15.0	23.7	27.8	-12.7	-31.6	9.4	12.0
Crude oil, average	-0.9	-7.5	-47.3	-15.7	23.3	29.4	-10.2	-32.8	21.2*	-2.4*
Non energy	-7.5	-4.8	-15.4	-2.8	5.5	1.8	-4.2	2.9	12.8*	-1.5*
Agricultural comm.	-7.5	-3.6	-13.8	-0.5	-0.5	-0.3	-3.9	4.5	1.4	1.5
Beverages	-10.1	22.2	-7.7	-2.8	-9.0	-4.8	-3.7	5.5	1.0	1.1
Coffee, Arabica	-25.2	43.8	-20.3	2.4	-8.0	-11.7	-1.6	15.4	-1.2	-1.5
Coffee, Robusta	-8.4	6.8	-12.4	0.6	13.9	-16.1	-13.2	-6.5	1.3	0.6
Tea, Avg. 3 quotations	-1.2	-4.9	2.1	-3.3	17.3	-9.5	-10.0	5.1	-0.7	-0.7
Food	-7.7	-7.5	-16.6	1.3	0.6	0.2	-3.8	6.4	1.4	1.4
Cereals	-9.3	-18.8	-16.4	-7.3	-0.2	10.3	0.2	4.6	1.6	1.4
Oils & meals	-8.8	-7.0	-20.7	4.6	-0.8	-2.9	-8.9	16.1	1.8	1.8
Metals & Minerals	-5.5	-6.6	-21.1	-5.9	24.2	5.5	-5.0	1.0	2.1	1.3
Tin	5.5	-1.7	-26.6	11.6	11.9	-4.0	-7.4	-8.2	0.6	0.0
Gold	-15.5	-10.3	-8.3	7.6	0.7	0.9	9.7	27.1	-2.0	-2.4
Fertilizers	-18.9	-11.3	-3.0	-21.0	-4.5	11.0	-1.4	-10.1	3.2	3.2

Source: World Bank, February 2021, & October 2020 forecasts

*IMF, January 2021 projections

1.3 MONETARY POLICY AND FINANCIAL MARKETS

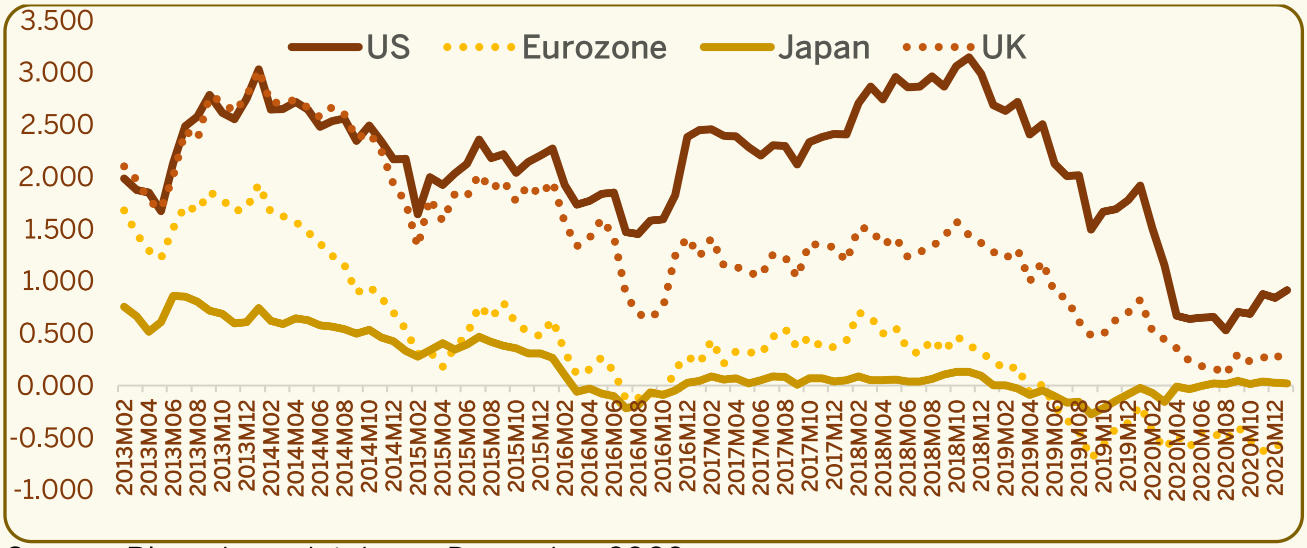
Many Central Banks and Governments across the World took targeted policy measures to support their economies in response to the decline in global demand & falling business confidence caused by the Covid-19 pandemic.

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 also implemented Quantitative Easing (QE) to restore confidence and support their economies. The European Central Bank maintained its policy rate at zero percent since March 2016, and the Bank of Japan continued to apply a negative interest rate since January 2016.

In December 2020, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.525 percent and -0.155 percent, respectively, affecting banks' deposits in the Central Bank and encouraging economic financing. In the US and UK, deposit rates decreased to 0.340 percent and 0.101 percent in December 2020, respectively, from 1.855 and 0.765 percent in December 2019.

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



Source: Bloomberg database, December 2020

The ten-year government bond rate decreased in the US, Eurozone, and UK to 0.913 percent, -0.569 percent, and 0.197 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 0.017 percent in December 2020 from -0.020 percent in December 2019.

On the foreign exchange market, the US dollar has depreciated against all major currencies, notably the British Pound, the Euro, and the Japanese Yen.

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020
USD/GBP	-4.4	-1.9	6.3	5.7	19.4	-8.6	5.9	-3.8	-3.0
USD/EUR	-1.7	-4.0	13.6	11.4	3.2	-12.4	4.7	2.3	-8.2
USD/JPY	12.8	21.4	13.7	0.4	-2.7	-3.7	-2.7	-0.1	-4.9

Source: Bloomberg database, 2020

End December 2020, y-o-y, the US dollar depreciated by 3.0 percent against the British Pound, by 8.2 percent against the Euro and by 4.9 percent against the Japanese Yen.

II. NATIONAL ECONOMIC PERFORMANCE

This section presents the developments in the national economy, focusing on the drivers of economic growth in 2020 and the outlook for 2021. According to available estimates, the Rwandan economy has been severely affected by the COVID-19 pandemic. Economic performance was mixed in 2020, with the economy contracting in the first half and gradually recovering in the second half as a result of the government fiscal stimulus and the NBR accommodative monetary policy amid easing COVID-19 containment measures.

In 2021, Rwanda's economy is expected to recover from the 2020 recession, as the ongoing partial lockdown may not last for long. In addition to economic measures put in place by the Government of Rwanda, the expected roll-out of the COVID-19 vaccine in the country will help to limit the infection rate of the pandemic and therefore curb its negative impact.

2.1 ECONOMIC GROWTH

The COVID-19 pandemic has adversely affected the Rwandan economic performance through induced demand and supply shocks. Real GDP contracted by 4.1 percent in the first three quarters of 2020 compared to a growth of 9.8 percent registered in the same period of 2019. The 2020 economic downturn was broad-based across all economic sectors.

The services sector, representing 49 percent of GDP, recorded a decrease of 6.0 percent during the first three quarters of 2020, from an increase of 8.5 percent in the corresponding period of 2019. The pandemic containment measures across the world caused significant contractions in tourism-related services such as transport (-24.5 percent from +12.4 percent) and hotels and restaurants (-38.0 percent from +8.8 percent). It also caused underperformance in wholesale and retail trade services (-3.5 percent from +16.6 percent) and financial services (-5.3 percent from +7.0 percent). Exceptionally, the information and communication sub-sector benefited from these economic conditions following increased demand for these services to facilitate remote work and ,telecommuting. Thus, the sub-sector recorded high growth of 36.6 percent from 3.4 percent in the corresponding period of 2019.

Table 8: Rwanda Real GDP growth (percent)

	2016	2017	2018	2019		2020					2021
				Average Q1-Q3	Annual	Q1	Q2	Q3	Average Q1-Q3	Annual Proj.	Proj.
GDP	6.0	4.0	8.6	9.8	9.4	3.7	-12.4	-3.6	-4.1	-0.2	5.7
Agriculture	3.9	4.7	6.1	5.2	5.0	-0.5	-1.6	2.2	0.0	1.2	5.5
Food crops	3.0	5.0	5.9	3.9	4.0	-1.8	-1.8	2.6	-0.3	0.6	5.1
Export crops	2.4	1.6	6.9	7.9	4.5	-15.7	-18.7	-8.3	-14.3	-8.0	6.6
Livestock & livestock products	9.6	8.9	10.7	11.3	11.2	8.0	7.8	8.3	8.0	7.9	8.5
Forestry	3.7	3.2	4.3	5.7	5.6	3.9	2.5	3.9	3.5	4.2	4.3
Fishing	2.6	5.2	5.4	3.2	3.7	4.8	-48.0	-20.0	-21.1	-12.6	9.8
Industry	6.7	1.5	8.7	17.4	16.5	1.9	-18.9	-1.4	-6.1	-0.1	9.4
Mining & quarrying	10.4	20.0	3.1	5.8	-0.3	-26.3	-52.8	-24.3	-34.5	-14.7	3.5
Manufacturing	6.6	6.4	13.4	11.9	11.0	5.5	-12.7	6.5	-0.2	2.8	8.1
Electricity	13.7	7.9	9.8	7.6	7.2	3.8	-5.9	1.7	-0.1	2.5	6.9
Water & waste management	5.3	1.8	2.1	2.5	2.1	2.1	1.2	2.8	2.0	2.1	1.6
Construction	4.9	-9.8	4.8	32.9	32.8	5.3	-19.9	-5.5	-6.7	-0.2	13.1
Services	7.2	5.6	9.7	8.5	8.2	5.6	-16.3	-7.4	-6.0	-1.1	4.3
Trade & transport	6.7	6.6	18.2	14.6	14.1	7.0	-29.0	-11.6	-11.2	-4.2	6.0
Maintenance and repair of motors	6.8	5.0	5.4	6.3	6.6	0.6	-42.8	14.1	-9.4	-5.6	0.5
Wholesale & retail trade	6.1	2.2	18.1	16.6	15.6	11.4	-21.7	0.0	-3.5	1.5	7.4
Transport services	8.0	15.2	19.7	12.4	12.3	0.2	-41.0	-32.6	-24.5	-13.8	3.8
Other services	7.3	5.3	6.6	6.0	5.8	5.1	-10.8	-5.4	-3.7	0.2	3.5
Hotels & restaurants	11.3	7.4	7.3	8.8	9.7	3.3	-62.5	-54.7	-38.0	-28.1	-7.8
Information & communication	8.6	10.5	14.2	3.4	9.1	33.7	33.4	42.7	36.6	33.6	4.9
Financial services	3.4	6.7	10.0	7.0	8.4	-5.0	-8.4	-2.5	-5.3	0.9	5.5
Real estate activities	6.2	7.0	4.8	5.3	3.9	-0.1	-7.5	1.5	-2.0	1.6	3.4
Professional, scientific and technical activities	6.3	7.9	9.5	10.0	9.8	-0.8	-5.9	2.2	-1.5	-0.4	4.7
Administrative and support services	9.8	4.4	4.2	3.8	4.8	0.5	-7.5	-9.4	-5.5	-2.4	2.2
Public administration and defense	11.6	2.2	7.2	5.7	4.7	14.5	-3.0	0.9	4.1	7.4	6.0
Education	3.7	2.3	3.6	2.2	1.1	-2.9	-66.6	-57.5	-42.3	-25.0	5.2
Human health and social work activities	6.2	5.1	-0.2	5.1	3.4	31.6	4.8	5.5	14.0	14.2	4.9
Cultural, domestic & other services	7.0	4.8	9.3	9.3	8.2	-0.5	-3.6	0.9	-1.1	-1.6	1.0
Taxes less subsidies on products	4.5	-1.9	9.5	16.1	15.2	9.1	-8.9	-3.6	-1.1	0.8	6.2

Source: MINECOFIN & NISR (2019)

On average, in the three quarters of 2020, the industry sector fell by 6.1 percent, from a growth of 17.4 percent in the same period of 2019, owing to the weak performance of: construction (-6.7 percent from +32.9 percent), manufacturing (-0.2 percent from +11.9 percent), mining & quarrying (-34.5 percent from +5.8 percent), and electricity (-0.1 percent from +7.6 percent).

The performance of the agriculture sector decelerated from a growth of 5.2 percent in the first three quarters of 2019 to 0.0 percent in the same period of 2020. Food crop production decreased by 0.3 percent compared to an increase of 3.9 percent in the corresponding period of 2019, mainly owing to unfavorable weather conditions. Other agriculture sub-sectors also recorded poor performance, reflecting disruptions in supply chains and weak demand caused by the pandemic. Export crops and fish farming dropped by 14.3 percent and 21.1 percent, respectively, from an increase of 7.9 percent and 3.2 percent in the corresponding period of 2019. A slowdown was recorded in the growth of livestock and livestock products (+8.0 percent from +11.3 percent) and forestry (+3.5 percent from +5.7 percent).

Despite the reduced economic performance, economic activities have been gradually recovering since May 2020, helped by supportive government measures in addition to easing COVID-19 containment measures. As a result, the economy contracted by only 3.6 percent in 2020Q3, recovering from a sharp decline of 12.4 percent in the previous quarter. The composite indicator of economic activities (CIEA) points to a continuous recovery in the last quarter of 2020.

The real CIEA, a high-frequency indicator of economic activities, grew by 9.4 percent in the second half of 2020, from a decrease of 2.1 percent in the first half. The main contributors to the growth were the credit to the private sector and the demand for cement, which rose by 21.8 percent and 55.8 percent, respectively. The expansion in credit to the private sector mainly reflects the loan restructuring for borrowers affected by the COVID-19 pandemic equivalent to FRW 799.9 billion and the rise in new authorized loans (+13.1 percent in the second half compared to the first half of 2020).

The high growth for cement reflects increased domestic demand amid government infrastructure projects, of which the construction of schools, roads upgrade, and rehabilitation of health facilities.

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

CIEA	Real		Nominal	
	2019	2020	2019	2020
Q1	11.6	5.4	16.3	9.6
Q2	16.3	-9.1	8.6	18.2
H1	14.0	-2.1	13.9	5.0
Q3	15.4	7.1	10.3	14.8
Q4	9.8	11.7	8.9	12.2
H2	12.5	9.4	13.7	13.5
Annual	13.2	3.9	13.8	9.4

Source: NBR, Monetary Policy and Research Department

Similarly, total turnovers started to improve in the second half of 2020. However, the service sector continued to outweigh the notable progress recorded in the industry sector. The Government infrastructure projects aimed at supporting the recovery program have boosted the industry sector following increased demand for construction materials manufactured locally and services from construction companies. Consistently, turnovers for the construction subsector grew by 12.7 percent in 2020H2 after a decline of 6.7 percent in 2020H1, and the turnovers for the manufacturing subsector increased by 35.8 percent after 13.6 percent. Furthermore, the mining and quarrying turnovers contributed to the good performance of the industry sector, owing to the rise in prices of metals and minerals on international markets.

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

	2019			2020		
	H1	H2	Annual	H1	H2	Annual
Total turnovers	**20.1**	**16.3**	**18.3**	**-13.4**	**-0.6**	**-7.4**
Industries	**16.4**	**17.8**	**17.1**	**3.7**	**25.5**	**14.8**
Mining and Quarrying	-2.8	4.9	0.6	-22.3	-3.3	-13.5
Manufacturing	20.3	24.8	22.4	13.6	35.8	24.2
Energy, water & Sanitation	-8.5	8.8	-0.9	0.4	15.7	7.8
Construction Sector	22.9	14.4	19.1	-6.7	12.7	1.7
Services	**21.3**	**15.5**	**18.5**	**-18.6**	**-8.1**	**-13.7**
Trade services	18.9	16.1	17.6	-20.2	-6.0	-13.5
Transport and Storage	7.7	34.2	20.5	-13.1	-24.8	-19.4
Hotels and Restaurants	8.0	14.4	11.1	-25.3	-44.8	-35.1
Hotels	10.2	15.7	12.9	-33.8	-54.0	-44.1
Information and Communication	15.5	16.0	15.7	8.0	27.2	16.6
Financial and insurance activities	14.0	-5.6	4.6	-15.6	0.8	-8.5

Source: NBR, Statistics Department

The service sector, with a share of 71.6 percent in total turnovers, recorded a decrease in turnovers by 8.1 percent in 2020H2, improving from a decline of 18.6 percent in 2020H1; mainly supported by information and communication (+27.2 percent from 8.0 percent), trade services (-6.0 percent from -20.2 percent) as well as financial and insurance services (0.8 percent from -15.6 percent). The latter benefited from the recovery of other sectors while the improvement in trade services reflected the boom in the construction sub-sector. However, the poor performance in hotels and transport services have continued to weigh on the tourism sector. According to UNWTO, the COVID-19 pandemic has ruined the tourism sector worldwide, and the return to pre-COVID performance is not expected before 2023.

The domestic economic recovery is expected to continue in 2021, supported by the Economic Recovery Fund and other government interventions to revive the business activities, despite the growing uncertainty around the recent surge in the infection of COVID-19 which led to more stringent measures. Moreover, the expected roll-out of the COVID-19 vaccine globally and in the country will revive private-sector optimism, hence stimulating the ongoing recovery in economic activities.

2.2 EXTERNAL TRADE PERFORMANCE

Rwanda's exports receipts rose by 13.6 percent in 2020, amounting to USD 1,408.9 million, up from USD 1,240.1 million a year earlier, owing to increased exports of refined gold[1]. The revenues from other export categories contracted as the COVID-19 pandemic hit global demand, weighing down commodity prices and domestic economic activities.

Similarly, in 2020, imports of goods went up by 10.6 percent, y-o-y, to settle at USD 3,421.5 million from USD 3,094.2 million in 2019.
The rise in imports reflected the increased demand for gold for processing and the rebound in economic activities recorded since the second half of the

[1] Rwanda acquired a gold refinery in 2019, which substantially increased the import of non-processed gold and the export of refined gold.

year as domestic COVID-19 containment measures eased. The rebound in economic activities also resulted in higher demand for intermediary goods and consumer goods.

As a result, Rwanda's trade deficit widened by 8.6 percent, y-o-y, in 2020, amounting to USD 2,012.6 million, from USD 1,854.0 million in 2019. The coverage of imports by exports increased to 41.2 percent in 2020 from 40.1 percent in 2019, with informal cross border trade included.

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

		2015	2016	2017	2018	2019	2020	% Change 20/19
Exports	Value	667.1	731.4	1037.1	1,121.8	1,240.1	1,408.9	13.6
	Volume	513.5	649.7	799.5	973.6	1127.5	859.4	-23.8
Imports	Value	2,333.0	2,253.9	2,348.6	2,636.2	3,094.1	3,421.5	10.6
	Volume	2,068.1	1,965.2	2,716.6	3,026.8	3,117.9	3,264.6	4.7
Trade balance	Value	-1,665.9	-1,522.5	-1,311.6	-1,515.3	-1,854.0	-2,012.6	8.6
% Exports/Imports	%	28.6	32.4	44.2	42.6	40.1	41.2	2.7

Source: NBR, Statistics Department

2.2.1 Exports Developments

The aforementioned increase in exports value is attributable to the increase in tea exports (+3.9 percent) and high receipts from processed gold (+134.4 percent), since all other exports categories dropped sharply due to weakening global demand and disruptions in global trade caused by the coronavirus pandemic.

Regarding the composition of Rwanda's export revenues, proceeds from processed gold lead with a share of 46.0 percent in 2020 from 22.3 percent in 2019 (a year in which the gold refinery was launched), followed by re-exports (22.3 percent from 28.4 percent), traditional exports (16.6 percent from 21.4 percent), non-traditional exports (12.5 percent from 19.1 percent), and informal cross border trade (2.6 percent from 8.8 percent).

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

	2015	2016	2017	2018	2019	2020	%change
Coffee							
- Value	62.0	58.5	64.1	69.6	69.8	53.9	-22.7
- Volume	18.8	18.6	18.7	21.3	23.4	16.0	-31.5
- Price USD/KG	3.3	3.1	3.4	3.3	3.0	3.4	12.9
Tea							
- Value	72.5	63.4	84.3	90.5	86.9	90.3	3.9
- Volume	24.7	24.4	26.2	30.9	31.2	32.7	4.8
- Price USD/KG	2.9	2.6	3.2	2.9	2.8	2.8	-0.9
Mining							
- Value	117.8	86.4	123.7	143.0	100.3	83.1	-17.1
- Volume	7.3	6.5	8.0	8.4	7.1	5.7	-20.1
Cassiterite							
- Value	34.3	34.8	50.2	49.9	37.9	31.4	-17.3
- Volume	3.8	3.5	4.8	4.8	3.8	2.8	-26.6
- Price USD/KG	8.9	9.8	10.5	10.4	9.9	11.1	12.7
Coltan							
- Value	66.2	39.7	60.9	71.6	45.6	34.0	-25.4
- Volume	1.7	1.3	1.7	1.6	1.4	1.0	-24.0
- Price USD/KG	40.1	31.3	35.9	43.6	33.7	33.1	-1.7
Wolfram							
- Value	17.3	11.9	12.6	21.5	16.8	17.8	5.7
- Volume	1.8	1.7	1.5	2.0	1.9	1.8	-4.0
- Price USD/KG	9.7	6.9	8.3	10.9	8.9	9.8	10.1
Hides and Skin							
- Value	10.4	7.4	7.5	3.1	2.5	1.5	-39.3
- Volume	8.3	6.2	7.0	5.5	3.9	2.8	-28.6
- Price USD/KG	1.3	1.2	1.1	0.6	0.6	0.5	-15.1
Pyrethrum							
- Value	2.5	3.4	3.2	4.7	6.2	5.0	-18.4
- Volume	0.01	0.02	0.07	0.09	0.1	0.0	-64.8
- Price USD/KG	177.2	188.3	48.1	54.5	64.4	149.3	131.8
I. Traditional exports							
- Value	265.2	219.1	282.7	310.9	265.6	233.9	-11.9
- Volume	59.0	55.8	59.9	66.2	65.7	57.2	-12.9
II. Re-exports							
- Value	177.9	224.3	267.3	313.4	351.9	314.8	-10.5
- Volume	159.2	230.4	299.5	350.8	412.2	395.8	-4.0
III. Non-traditional exports							
- Value	115.7	155.3	388.6	298.6	237.5	176.0	-25.9
- Volume	172.4	179.9	264.2	298.4	329.4	303.8	-7.8
IV. Informal cross-border trade							
- Value	108.3	132.7	98.4	125.3	108.9	36.6	-66.4
- Volume	122.9	183.6	175.9	258.6	320.2	102.5	-68.0
V. Non-monetary gold							
- Value			90.6	73.6	276.3	647.6	134.4
- Volume			0.002	0.002	0.01	0.01	95.5
TOTAL EXPORTS							
- Value	**667.1**	**731.4**	**1,037.1**	**1,121.8**	**1,240.1**	**1408.9**	**13.6**
- Volume	**513.5**	**649.7**	**799.5**	**973.9**	**1,127.5**	**859.4**	**-23.8**

Source: NBR, Statistics Department

Traditional exports, comprising of coffee, tea, minerals, pyrethrum, and hides & skins, plunged by 11.9 percent y-o-y, to stand at USD 233.9 million in 2020. The decline was on account of falling revenues from mineral exports (-17.1

percent), coffee (-22.7 percent), hides and skins (-39.3 percent), as well as pyrethrum (-18.4 percent). By contrast, the export of tea increased by 3.9 percent in 2020, though this was not enough to offset contractions in other components of traditional exports.

Despite the increase in coffee prices to 3.4 USD/KG in 2020 from 3.0 in 2019, Rwanda's receipts from coffee exports fell to USD 53.9 million from USD 69.8 million in 2019, representing a decline of 22.7 percent. This drop is explained by the fall in the volume of coffee exports to 16.0 thousand tons in 2020, from 23.4 thousand tons in 2019, partly due to lower production and sluggish demand induced by the COVID-19 pandemic.

In contrast, tea exports amounted to USD 90.3 million, 3.9 percent higher than USD 86.9 million registered in 2019, mainly driven by stable demand at the Mombasa auction and higher export volume partly due to increased production. Tea export volumes rose to 32.7 thousand tons in 2020, 4.8 percent higher than 31.2 thousand tons recorded in 2019 while tea prices stabilized at 2.8 USD/KG.

Furthermore, receipts from hides and skins dropped by 39.3 percent y-o-y, to USD 1.5 million in 2020, much lower than USD 2.5 million registered in 2019, partly owing to lower production. Lastly, export earnings from pyrethrum fell by 18.4 percent to USD 5.0 million in 2020 from USD 6.2 million in 2019, while the volume decreased by 64.8 percent.

Non-traditional exports (other ordinary exports) comprising other minerals, flowers, fruits and vegetables, agro-processing, and locally manufactured products, fell by 25.9 percent, amounting to USD 176.0 million in 2020, down from USD 237.5 million in 2019. The upward trend from non-traditional exports registered over the last few years, thanks to the "Made in Rwanda" program, was temporarily reversed by the supply chain disruptions caused by the COVID-19 pandemic.

Finally, re-exports mainly composed of petroleum products, foodstuffs, vehicles, machinery, and electronics, dropped by 10.5 percent to USD 314.8

million in 2020, from USD 351.9 million the previous year. Global oil prices slump and weakening regional demand caused by the coronavirus pandemic drove the decline in re-exports. In 2020, re-exports of petroleum products fell by 44.0 percent, to stand at USD 75.9 million down from USD 135.7 million a year earlier.

2.2.2 Imports Developments

The import bill increased by 10.6 percent, y-o-y, to stand at USD 3,421.5 million, mainly owing to a rise in domestic demand for consumer goods (food products and health products), gold for the refinery and intermediary goods.

Imports value (and volume) of consumer goods and intermediary goods rose by 7.9 percent (+14.8 percent) and 4.3 percent (+21.5 percent), respectively, while imports of capital goods and energy dropped by 4.7 percent (-4.3 percent), and 33.1 percent (-23.4 percent), respectively. In addition, informal cross-border trade (ICBT) imports fell by 79.2 percent, mainly reflecting a reduction in cross-border movements due to COVID-19 containment measures.

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

		2015	2016	2017	2018	2019	2020	%change
Total imports	**Value**	**2,333.0**	**2,253.9**	**2,348.6**	**2,636.2**	**3,094.1**	**3,421.5**	**10.6**
	Volume	**2,068.1**	**1,965.2**	**2,716.6**	**3,026.8**	**3,117.9**	**3,264.6**	**4.7**
Consumer goods	Value	694.1	723.0	656.9	690.0	714.6	771.0	7.9
	Volume	695.9	763.2	793.9	843.6	715.2	821.3	14.8
Capital goods	Value	652.6	707.9	504.1	583.7	692.5	660.0	-4.7
	Volume	70.2	69.1	60.2	67.9	88.0	84.2	-4.3
Intermediary goods	Value	682.5	566.0	563.6	628.5	730.6	761.9	4.3
	Volume	992.2	821.9	914.3	1,023.9	1,175.1	1,428.0	21.5
Energy and lubricants	Value	282.1	226.4	487.1	562.3	521.5	348.7	-33.1
	Volume	309.8	311.0	782.4	881.8	902.3	691.4	-23.4
Non-monetary gold	Value	-	-	-	-	239.3	674.9	182.1
	Volume	-	-	-	-	0.005	0.01	-99.8
Imports of nonfuel re-exports	Value	-	-	113.5	151.5	183.8	202.5	10.2
	Volume	-	-	127.7	175.1	213.6	235.8	10.4
Informal cross-border trade	Value	21.7	30.6	23.3	20.3	11.8	2.5	-79.2

Source: NBR, Statistics Department

In terms of the share to total imports value in 2020, consumer goods lead with 22.5 percent, followed by intermediate goods (22.3 percent), gold (19.7

percent), capital goods (19.3 percent), energy and lubricants (10.2 percent), imports for re-exports (5.9 percent) and ICBT (0.1 percent).

The above-mentioned increase in imported consumer goods was due to the high demand for food products by the Government of Rwanda and the Private Sector Federation (PSF) to feed the needies households during the COVID-19 lockdown. Imports of food products, mainly rice, cooking oil, and other basic-foods, rose by 17.5 percent y-o-y in volume and by 15.9 percent in value to stand at USD 345.2 million. Besides, the import of health products rose by 5.6 percent in volume and 13.1 percent in value, reflecting the high demand for critical medical supplies to deal with the COVID-19 pandemic.

Imports of intermediary goods, categorized into industrial products, construction materials, and fertilizers, increased by 4.3 percent in value, to USD 761.9 million in 2020, and by 21.5 percent in volume, owing to increased demand for industrial products and construction materials. Imports of intermediate goods quickly rebounded in the second half of 2020, reflecting recovering economic activities owing to eased coronavirus containment measures. Imports volume of construction materials rose by 33.6 percent, mostly owing to increased construction of schools by the government, reflecting higher demand for cement and other construction materials. The demand for imported cement increased by 52.2 percent in volume despite rising local production by 9.6 percent in 2020 compared to a year earlier. Imports of industrial products also rebounded in the second half of the year, increasing by 13.2 percent in volume, partly reflecting a recovery of the manufacturing sector.

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

	2015	2016	2017	2018	2019	2020	% change
Domestic production	181,050	293,091	322,391	364,864	415,371	455,328	9.6
o/w CIMERWA	172,848	290,437	322,253	364,864	415,371	455,328	9.6
Imports of cement	421,892	268,353	225,905	318,854	377,897	575,116	52.2
Exports of cement	25,258	29,793	71,725	43,263	48,120	66,005	37.2
Domestic demand	577,684	531,651	476,571	640,455	745,148	964,439	29.4

Source: BNR, Statistics Department

Imports of capital goods decreased by 4.7 percent in value to USD 660.0 million in 2020, owing to the decline in imports of industrial machinery, electrical and electronics equipment, partly reflecting weak investment in 2020.

Imports of energy and lubricants, dominated by petroleum products representing over 93 percent of the total category value, fell by 33.1 percent to stand at USD 348.7 million in 2020. The downward trend in the imported energy bill resulted from the reduced global oil prices linked to weak global demand. In volume, energy imports declined by 23.4 percent, to 691.4 thousand tons in 2020, down from 902.3 thousand tons recorded the previous year.

2.3 FORMAL TRADE WITH OTHER EAC COUNTRIES

Rwanda's exports to other EAC member countries, representing 3.9 percent of the total exports in 2020, dropped by 53.2 percent in value, standing at USD 54.4 million, mainly owing to decreasing domestic supply and disruptions in external trade caused by the coronavirus pandemic. In constrast, imports from EAC went up by 3.7 percent, reflecting the high demand for food products. As a result, Rwanda's trade deficit with EAC widened to USD 435.6 million in 2020, from USD 356.4 million a year earlier.

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

		2015	2016	2017	2018	2019	2020
Exports to EAC	Value in USD millions	53.4	77.5	90.3	80.3	116.2	54.4
	percent change	*-35.3*	*45.2*	16.4	-11.1	44.8	-53.2
	Share to total exports	8.0	10.6	8.7	7.2	9.4	3.9
Imports from EAC	Value in USD millions	519.4	470.0	429.3	522.2	472.6	490.0
	percent change	*-5.0*	*-9.4*	-8.7	21.6	-9.5	3.7
	Share to total imports	22.3	20.9	18.3	19.8	15.3	14.3
TRADE BALANCE		**-466.0**	**-392.5**	**-339.0**	**-441.9**	**-356.4**	**-435.6**

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 34.2 million in 2020, 64.8 percent lower than USD 97.1 million recorded in 2019. During the period under review, ICBT exports and imports accounted for a 2.6 percent and 0.1 percent share of total exports and imports, respectively. In the year 2020, ICBT exports and imports dropped by 66.4 percent and 79.2 percent, respectively, reflecting the COVID-19 containment measures that reduced cross-border movements. Informal cross border trade closed from mid-March 2020 up to 23rd November 2020 when some cross border points reopened.

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

		2015	2016	2017	2018	2019	2020
Exports	Value in USD millions	108.3	132.7	98.4	125.3	108.9	36.6
	Percent change	*0.8*	*22.5*	*-25.8*	*27.3*	-13.1	-66.4
	Share of total exports	16.2	18.1	9.5	11.2	8.8	2.6
Imports	Value in USD millions	21.7	30.6	23.3	20.3	11.8	2.5
	Percent change	*13.1*	*40.6*	*-23.9*	*-12.8*	-41.7	-79.2
	Share of total imports	0.9	1.4	1.0	0.8	0.4	0.1
Trade balance		86.5	91.4	75.1	105.0	97.1	34.2

Source: NBR, Statistics Department

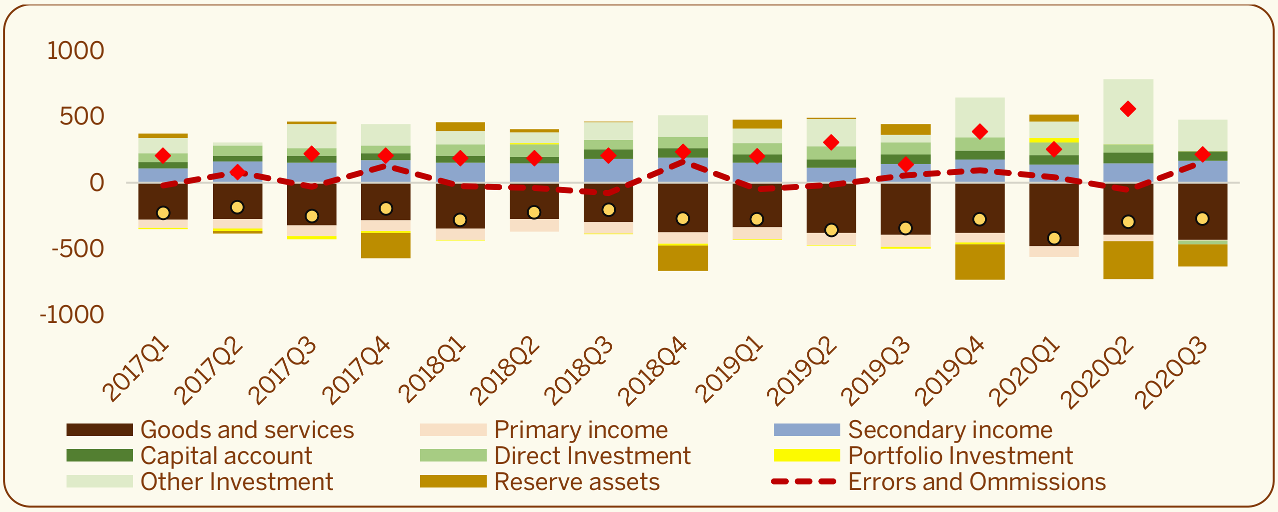
2.5. BALANCE OF PAYMENTS AND EXTERNAL SECTOR OUTLOOK

Rwanda's balance of payments (BOP) recorded a surplus of USD 402.3 million in the first nine months of 2020, owing to higher government inflows in terms of borrowing and grants. By contrast, disruptions caused by the COVID-19 pandemic weighed on exports of goods and services like travel and tourism.

The Current account deficit (CAD) widened by 1.5 percent to USD 989.5 million in the first nine months of 2020, up from USD 974.83 million recorded in the same period of 2019, mainly driven by widening trade deficit, which more than offset the improvements in secondary income and primary income. The trade deficit deterioration in the January-September period resulted from reduced receipts from services (-46.3 percent) and general merchandise exports (-25.4 percent). The decline of these receipts outweighed the decrease of 3.0 percent in general merchandise imports.

Looking at quarterly data, exports and imports rebounded in the third quarter of 2020 as domestic economic activities and global trade improved following the ease in lockdown measures. However, revenues from services exports, especially tourism, remained low despite the re-opening of international flights in August.

Figure 4: Rwanda Balance of payments (USD million)



Source: BNR, Statistics Department

The financial account surplus increased by 60.1 percent, y-o-y, to USD 1,024.4 million in the first nine months of 2020, driven by increased projects and budget support disbursements during the year.

Given the development in the financial account during the period under review, Rwanda received sufficient capital inflows to finance the widened current account deficit, leading to a build-up in reserve assets by US 402.3 million. The stock of foreign exchange reserves as of September 2020 covered 6.3 months of future imports of goods and services.

Projections for 2021 show that the external position will improve compared to last year, buoyed by the Rwandan plan to roll-out the vaccine for COVID-19 and improved therapies. However, renewed waves, virus mutations, and difficulties in accessing the vaccine in many developing countries may delay the recovery in trade, travel, and tourism. On the financing side, FDI and private borrowing are likely to remain subdued, but Rwanda could attract additional donor inflows and disbursements for the existing project loans, notably Bugesera airport. Projections indicate that the CAD will widen to 12.5 percent of GDP in 2021, up from 12.2 percent estimated in 2020. However, Rwanda's external vulnerability remains marginal, partly owing to the adequate international official reserves. The coverage of foreign reserves is estimated at 5.9 future months of imports in 2020, before decelerating towards 4.0 in the medium term.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

In the year 2020, the NBR reinforced the accommodative monetary policy stance and took various measures to support the financial sector amid global and domestic economic challenges caused by the COVID-19 pandemic.

In the wake of the pandemic, in April 2020, the Monetary Policy Committee decided to cut the Central Bank Rate (CBR) from 5.0 percent to 4.5 percent. 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.

Besides, 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 stabilize liquidity in the economy.

3.1 INFLATION DEVELOPMENTS

3.1.1. Introduction

In 2020, headline inflation increased to 7.7 percent on average from 2.4 percent recorded in 2019. The rise in headline inflation was reflected in its main components; food inflation picked to 12.1 percent from 2.7 percent, core inflation rose to 5.6 percent from 2.3 percent, while energy inflation surged to 7.8 percent from a deflation of 0.8 percent.

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

	2018		2019		2020		Annual average		
	H1	H2	H1	H2	H1	H2	2018	2019	2020
Headline	1.8	1.0	0.7	4.2	8.5	7.0	1.4	2.4	7.7
Domestic:	0.9	0.1	0.1	4.1	9.1	7.3	0.5	2.1	8.4
-Food	-0.6	-4.6	-3.1	8.5	15.5	8.8	-2.6	2.7	12.1
-Vegetables	-1.5	-8.1	-7.9	10.9	27.4	15.6	-4.8	1.5	21.5
-Meat	1.5	4.3	10.4	16.3	19.7	13.0	2.9	13.4	16.4
-Fruits	-6.1	-11.5	-11.4	8.4	11.3	5.4	-8.8	-1.5	8.4
-Bread & Cereal	3.1	-2.1	0.5	7.0	11.8	4.5	0.5	3.7	8.2
Housing	3.4	3.3	0.6	0.9	4.6	4.9	3.3	0.8	4.7
Transport	5.6	10.0	5.5	1.6	9.7	14.2	7.8	3.5	11.9
Imported	4.7	4.1	2.6	4.5	6.3	6.1	4.4	3.5	6.2
Core	1.8	1.4	1.6	3.0	5.5	5.7	1.6	2.3	5.6
Energy	10.0	9.7	-1.0	-0.6	10.2	5.5	9.8	-0.8	7.8

Source: NBR, Statistics Department

3.1.2 Contributors to headline inflation

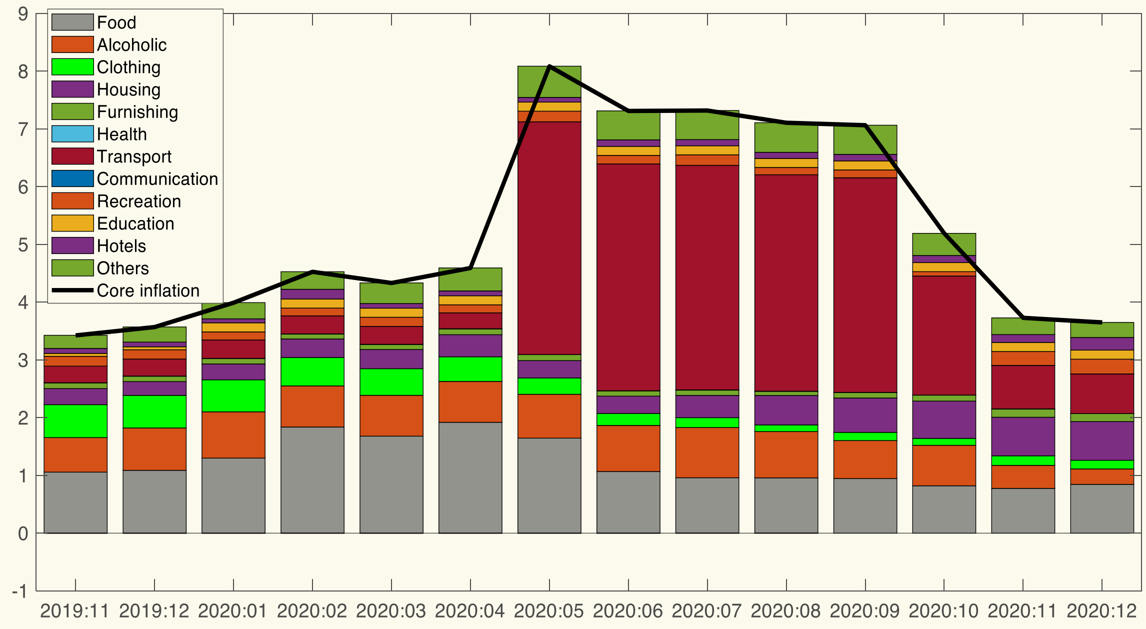
a. Core inflation

In 2020, the increase in core inflation resulted mainly from the surge in transport services inflation. The latter rose to 17.5 percent from 4.7 percent in 2019, because social distancing measures placed limits on carriage capacity of buses and thus the increase of transport fare per passenger, until the transport subsidy was introduced. An increase in the price of imported vehicles also contributed to the rise in transport inflation.

Other upward pressures on core inflation came from core food inflation that picked to 7.5 percent in 2020 from 1.3 percent in 2019, following the increase in international prices of some imported food products such as rice, sugar, and oil products, especially in 2021Q1. However, the pressure from core food inflation decelerated in 2020H2 due to the decline in international food prices as global demand reduced, affected by COVID-19.

Some effects of COVID-19 on core inflation also passed through housing components, such as the increase in prices for wood imported from the region and in imported supplies for building repair, especially in 2020H2.

Figure 5: Development of core inflation (%, Y-o-Y)

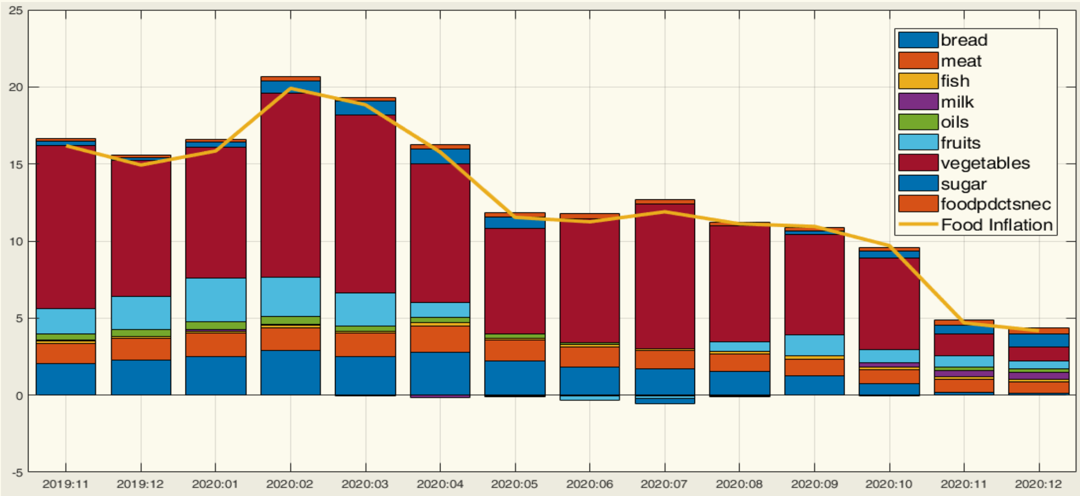


Source: NBR, Monetary Policy and Research Directorate

b. Food inflation

In 2020, food inflation accelerated to 12.1 percent on average, from a deflation of 2.7 percent in 2019, mostly reflecting upsurges in vegetables inflation, bread & cereals inflation, and fruits inflation. The increase was linked to disruptive weather conditions in season A/2020, which mostly affected prices in 2020H1. However, food inflation recorded a decelerating trend in the last three months of 2020 (from 11.3 percent in 2020Q3 to 6.1 percent in 2020Q4) on the back of favorable weather conditions that supported the good performance of domestic agricultural production for season A/2021.

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



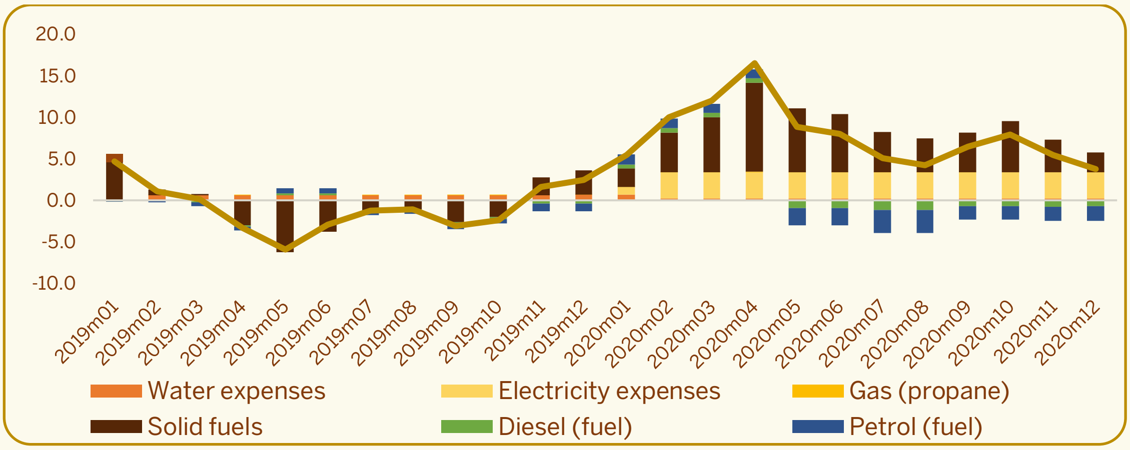
Source: NBR, Monetary Policy and Research Directorate

c. Energy inflation

An upward trend in energy inflation to 7.8 percent in 2020 from -0.8 percent recorded in 2019 reflected increases in solid fuels inflation to 10.6 percent from -1.5 percent. The trend in solid fuels inflation, particularly in 2020H1, was on the back of the reduction in extraction permits, linked to regulations for environmental protection. Also, an upward revision of electricity tariffs effective February 2020 contributed to the rise in energy inflation. These factors outweighed the downward pressures from local pump prices, linked to the drop in international oil prices.

In 2020Q3 and 2020Q4, energy inflation stabilized at around 5.4 percent and 5.7 percent respectively, even as local pump prices increased following the rise in international oil prices.

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



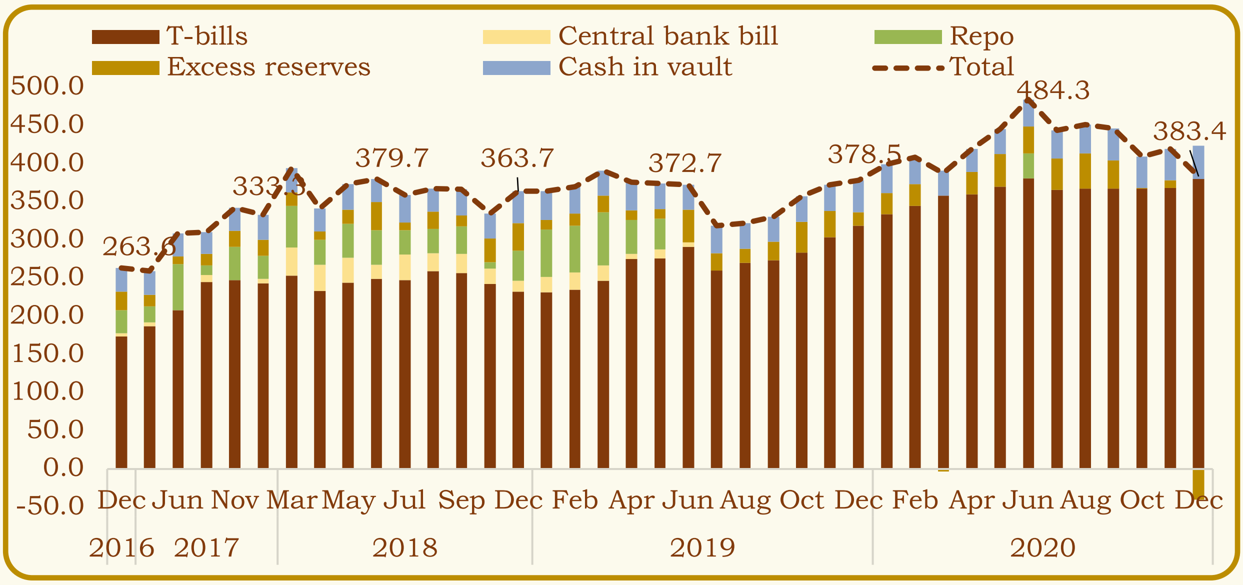
Source: NBR, Monetary Policy and Research Directorate

3.2 MONETARY SECTOR DEVELOPMENTS

3.2.1 Banking System Liquidity Conditions

In 2020, the most liquid assets grew at a slow pace of 1.3 percent, to FRW 383.4 billion, from FRW 378.5 billion in 2019, compared to an increase of 4.0 percent recorded in 2019. The observed growth in most liquidity assets is credited to the increase in T-bills investments which offset the decline in excess reserves experienced in 2020. As of December 2020, investment in T-bills rose by FRW 61.3 billion, while it had recorded an increase of 86.5 billion in 2019. That growth is partially related to subdued demand for loans by the private sector during the period of COVID-19, thus prompting banks to invest in risk-free securities. Despite the NBR's decision to reduce the reserve requirement ratio from 5 to 4 percent in March 2020, excess reserves dropped to FRW 23.0 billion on average in 2020 from FRW 42.0 billion in 2019, reflecting subdued economic activities.

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



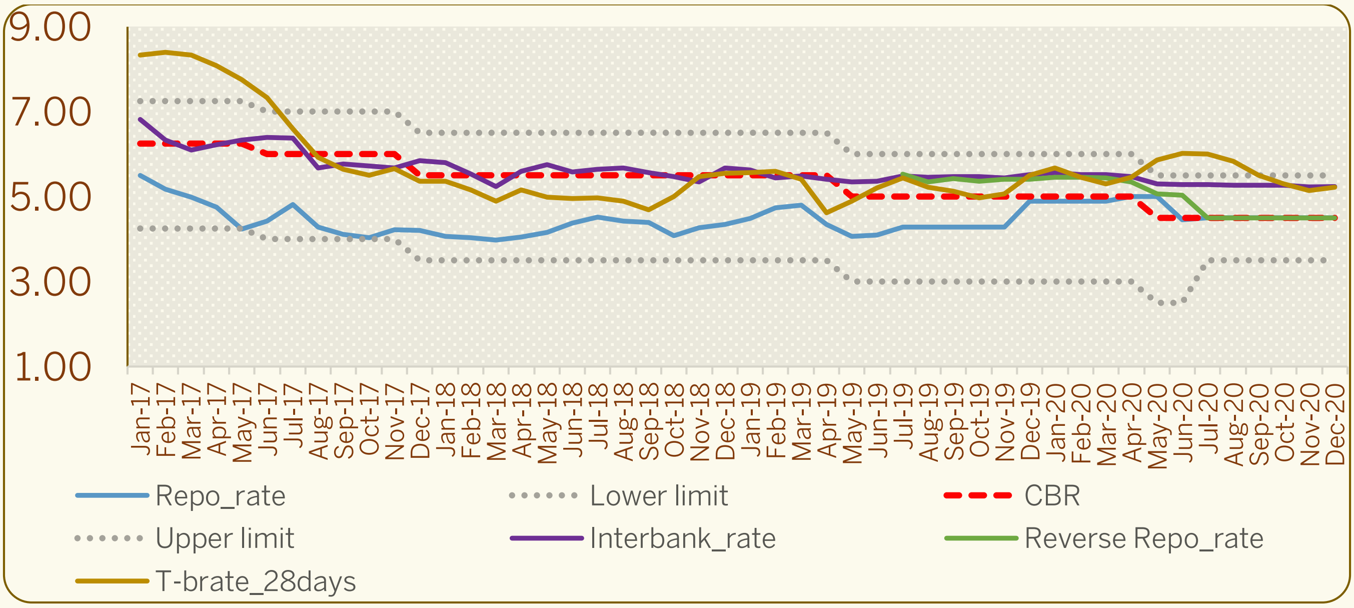
Source: NBR, Financial Market Department

3.2.2 Monetary Policy and Interest Rates

In 2020, the Monetary Policy Committee revised down the central bank rate from 5.0 percent to 4.5 percent on 29th April, aiming to continue supporting the economy during the challenging period of the COVID-19 pandemic. This NBR's historically low rate was kept unchanged during the August and November meetings. During that period, money market interest rates continued to evolve closer to the CBR.

Money market rates were steered around the central bank rate, in the symmetric corridor of +1/-1 percent since July 2020. The interbank rate dropped by 11 basis points to 5.35 percent in 2020, from 5.46 percent in 2019. Also, reverse repo declined to 4.90 percent on average in 2020 from 5.41 percent in 2019. However, repo rate and 28 days T-bill rates rose to 4.74 percent and 5.57 percent on average in 2020, from 4.40 percent and 5.22 percent in 2019 respectively. The shift of repo and reverse repo rates towards the CBR were credited to the revised monetary policy framework which set these rates at the policy rate since July 2020. The decision is expected to continue strengthening the monetary policy transmission mechanism by steering the interbank rate close to CBR.

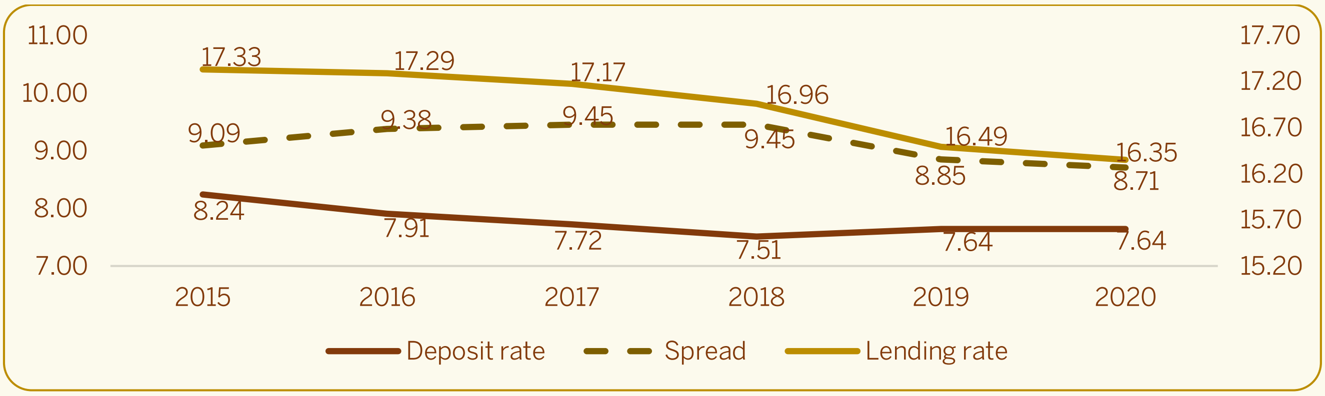
Figure 9: Money market rates developments



Source: NBR, Monetary Policy and Research Directorate

The lending rate decreased by 14 basis points to 16.35 percent in 2020 from 16.49 percent in 2019, reflecting the decline in lending rates for both corporate and individual borrowers. The deposit rate remained stable at 7.64 percent on average in 2020 compared to the previous year. As a result, the spread between the lending rate and the deposit rate dropped by 14 basis points to reach 8.71 percent on average in 2020, from 8.85 percent in 2019, which is beneficial for the clients of banks.

Figure 10: Market interest rates (percent average)



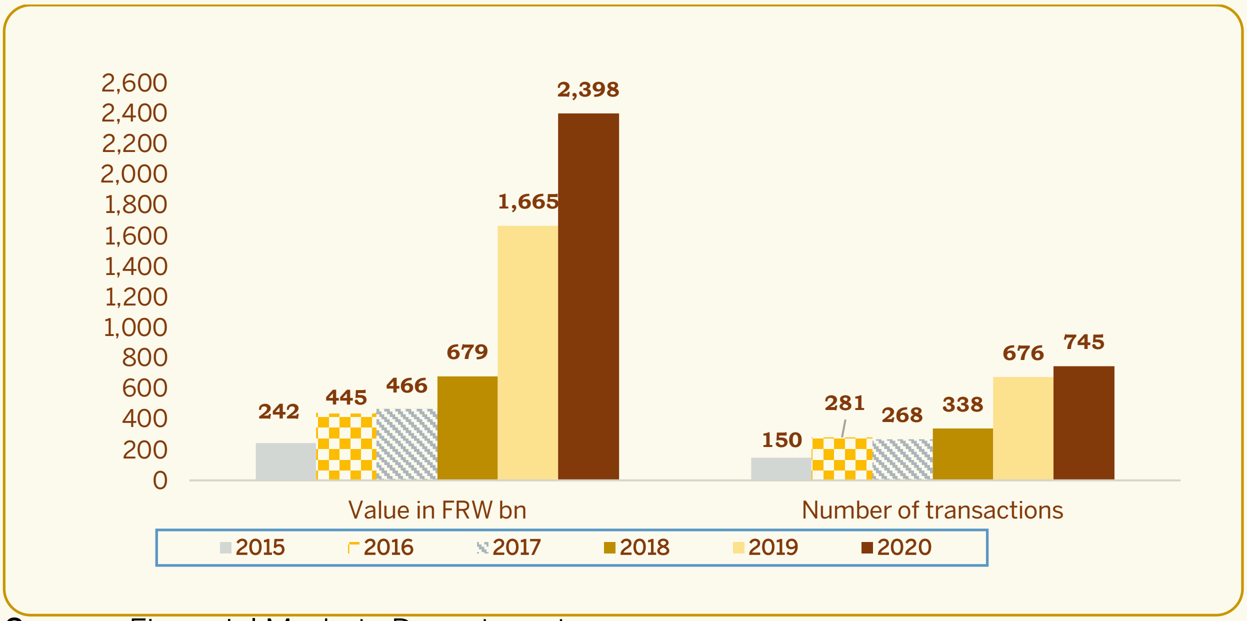
Source: NBR, Monetary Policy and Research Directorate

3.2.3 Money market development

The interbank market plays a vital role to efficiently channel liquidity in the banking system and hence, for the transmission of monetary policy and price-discovery mechanism in the money market.

In the year 2020, the interbank market continued its positive trend, both in the number of transactions and exchanged amount. In terms of volume transacted, the market recorded FRW 2.39 trillion from FRW 1.66 trillion in 2019, which is an increase of 40.0 percent; while the number of transactions increased by 10.2 percent, to 745 transactions in 2020 from 676 in 2019.

Figure 11: Development of interbank market 2015- End December 2020



Source: Financial Markets Department

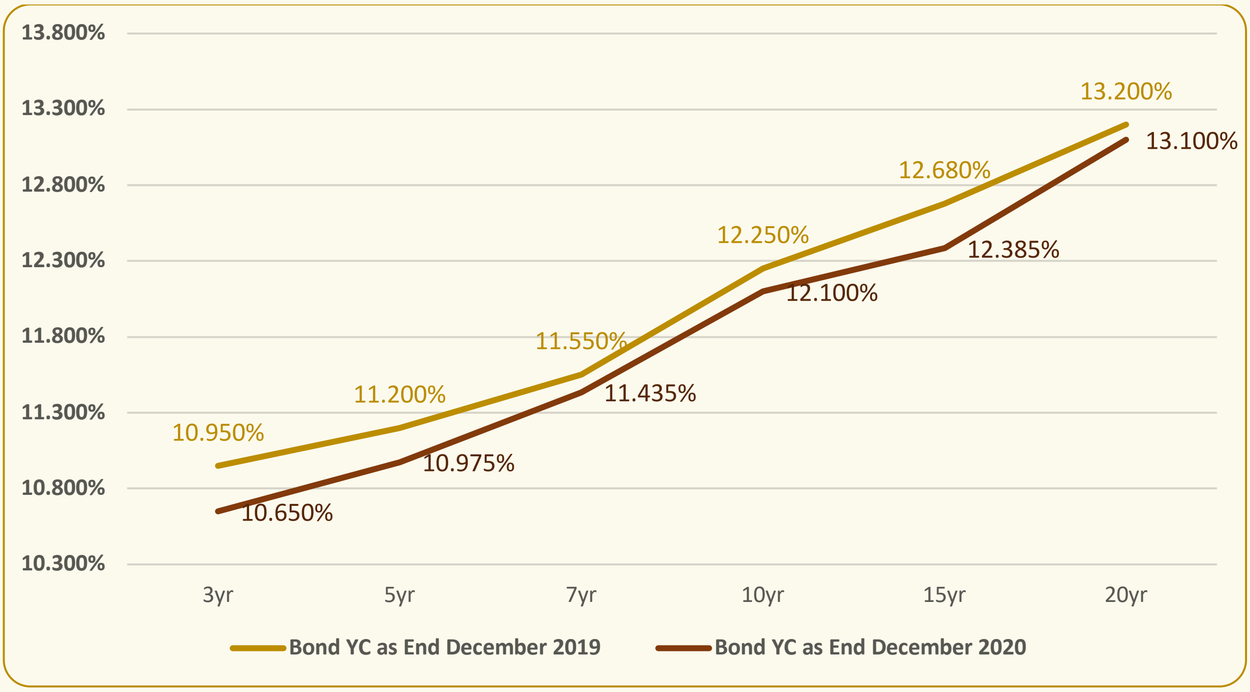
The resilience of the interbank market during the COVID-19 crisis was mostly explained by sound liquidity management and growing forecasting skills by both NBR's staff and banks' treasurers. In addition, the money market trading trust built among banks has played a role in developing the interbank market.

3.2.4 Bond primary market development

Despite the COVID-19 outbreak in 2020, the Government of Rwanda through NBR has successfully issued seven new bonds and reopened eight bonds with an average subscription of 154.8 percent, reflecting sustained investors' appetite and trust in Government of Rwanda bonds.

The oversubscription coupled with improving activities in the secondary market - which provides an alternative exit strategy to wishful investors - have resulted in a decline in the yields of Rwanda's T-Bonds.

Figure 12: T-Bonds yield curves (December 2019 vs December 2020)



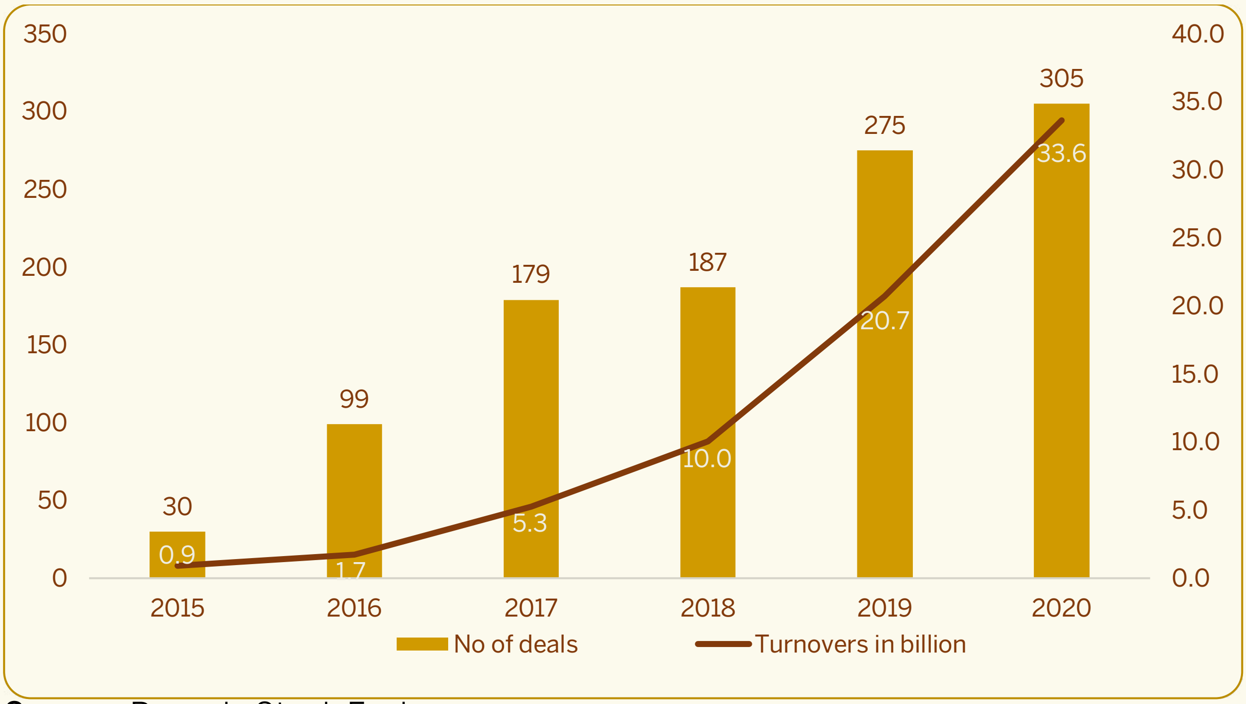
Source: BNR, Financial Markets Department

3.2.5 Bond secondary market development

In 2020, activities on the secondary bond market sustained their rising momentum as the number of deals and turnovers increased compared to 2019.

The right scale on the graph shows that the number of deals increased by only 10.9% percent, from 275 deals in 2019 to 305 deals in 2020. On the other hand, the turnover of traded bonds increased by 62.3 percent, from FRW 20.7 billion in 2019 to FRW 33.6 billion in 2020.

Figure 13: Bond trading on the Rwanda Stock Exchange 2015- December 2020



Source: Rwanda Stock Exchange

The increase in number of deals and bond turnovers traded on the exchange market 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 since 2019.

3.2.6 Money supply

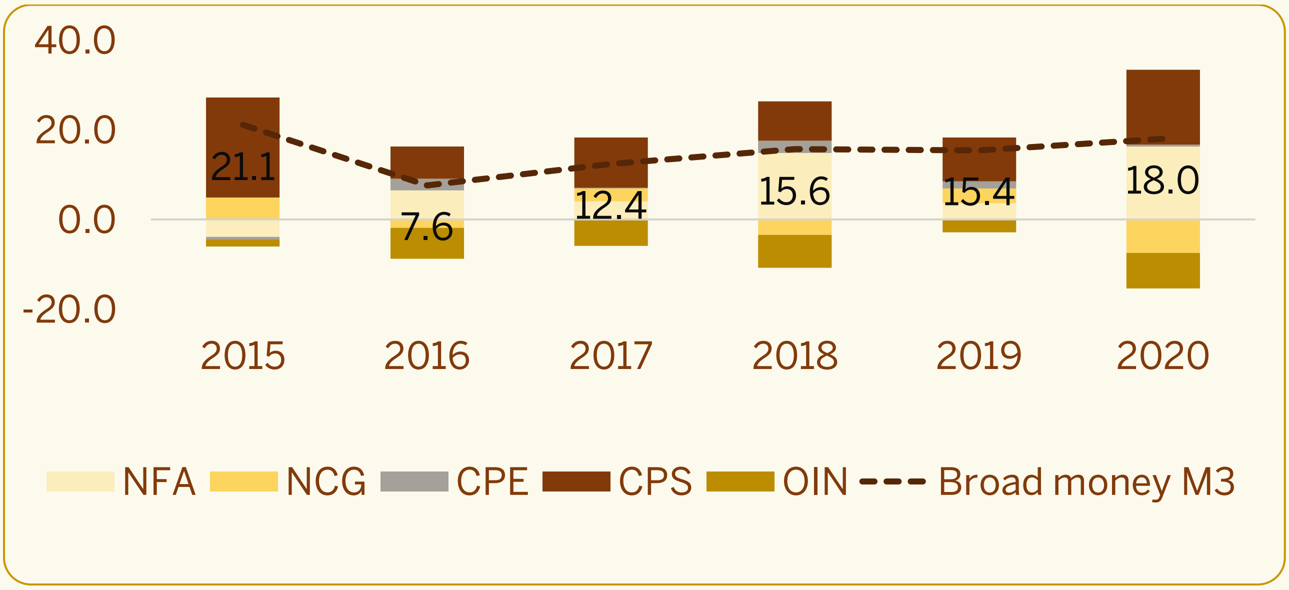
In 2020, money supply registered the highest growth in four years, boosted by different measures taken by NBR and the Government of Rwanda to contain the negative economic impact of the pandemic. Broad money (M3) grew by 18.0 percent in 2020 compared with a growth of 15.4 percent recorded in the year before. Credit to the Private Sector (CPS) was the main positive contributor [+16.7 percent] to that growth in M3, followed by Net Foreign Assets (NFA) [+16.3 percent] and Credit to Public Enterprises (CPE) [+0.5 percent]. By contrast, Other Items Net (OIN) and Net Credit to

Government (NCG) recorded negative contributions of 8.0 percent and 7.5 percent respectively.

The expansion in outstanding CPS was essentially driven by the restructuring of loans granted to borrowers with good records, whose activities have been negatively affected by the pandemic, and new authorized credit distributed in 2020. The NBR's NFA has been the driver of the growth of total NFA, reflecting the accumulated revenues in foreign currencies, amounting to USD 2359.9 million in 2020, from USD 1377.6 million recorded in 2019.

The negative contribution of OIN was attributed to the increase in equity for both NBR and Commercial banks, while the drop in NCG resulted from an accumulation of government deposits in 2020, y-o-y, as evidenced by a low fiscal injection of FRW 118.2 billion compared with FRW 199.3 billion during the corresponding period of 2019.

Figure 14: Contributors to M3 growth on asset side



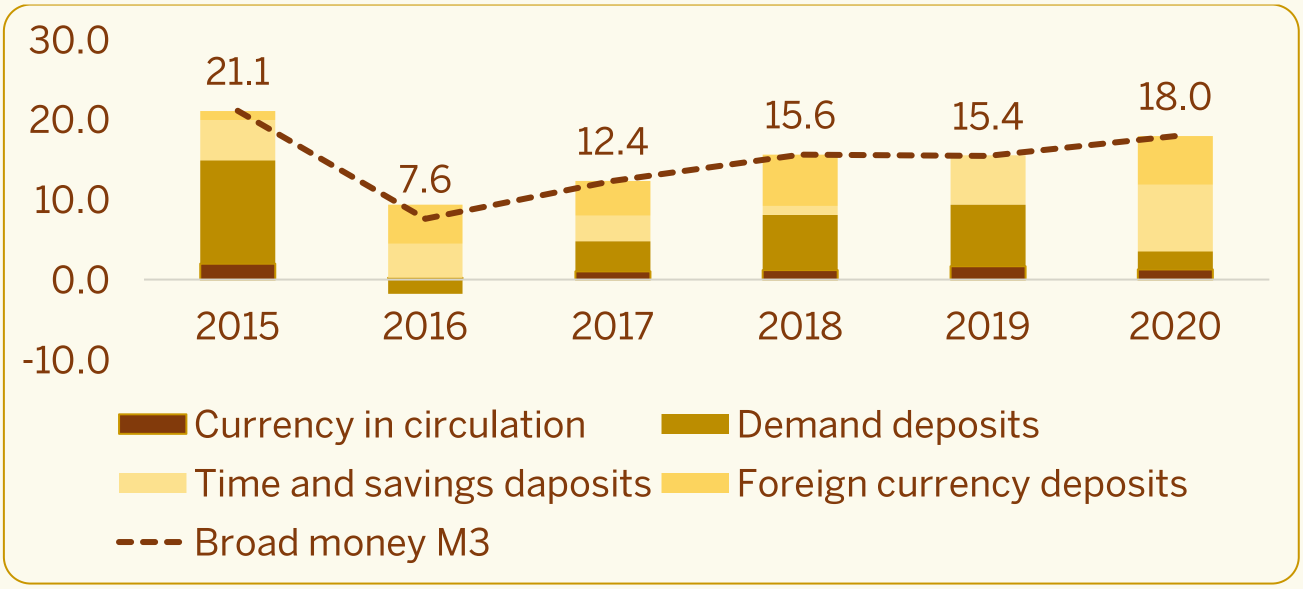
Source: NBR, Monetary Policy and Research Department

From the liability side, time & saving deposits have been the main contributors to M3 growth with a contribution of 8.3 percent in 2020, followed by foreign currency deposits with 6.1 percent, demand deposits with 2.3 percent, and Currency in Circulation (CIC) with 1.2 percent.

The hike in time and saving deposits reflects increased term deposits for some big depositors. The growth in foreign currency deposits was mainly driven by an accumulation of foreign exchange inflows by public and private corporations, aiming to finance their future imports and investment abroad. A low contribution of currency in circulation is observed over the period under review, owing to the expansion of the banking industry across the country and the development of Microfinance institutions. Besides, the improved technology in the operations of banks and MFIs (pull and push operations using mobile phones between economic agents and their banks or MFIs) is another way of increasing cashless in the economy.

The increased use of digital payments since the outbreak of COVID-19 also explains the low contribution of currency in circulation in the year 2020.

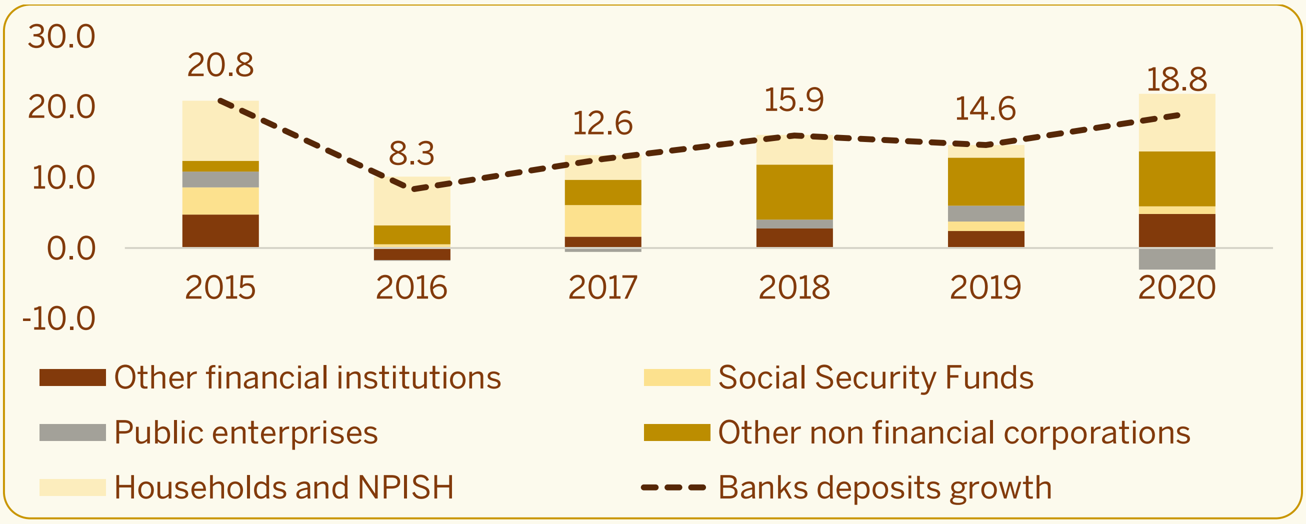
Figure 15: Contributors to M3 growth on liability side



Source: NBR, Monetary Policy and Research Directorate

Banks' deposits constitute the main component of M3. They picked up by 18.8 percent in 2020, from 14.6 percent in the previous year. The major contribution to that growth was from households and NPISH which contributed 8.2 percent from 1.8 percent of the previous year, followed by other non-financial corporations with 7.8 percent from 6.8 percent, other financial institutions with a contribution of 4.9 percent versus 2.4 percent and social security fund with 1.0 percent versus 1.3 percent. Contrary, public enterprises contributed negatively to the growth of banks' deposits by -3.1 percent versus a positive contribution of 2.3 percent the previous year.

Figure 16: Contributions of depositors in the growth of deposits



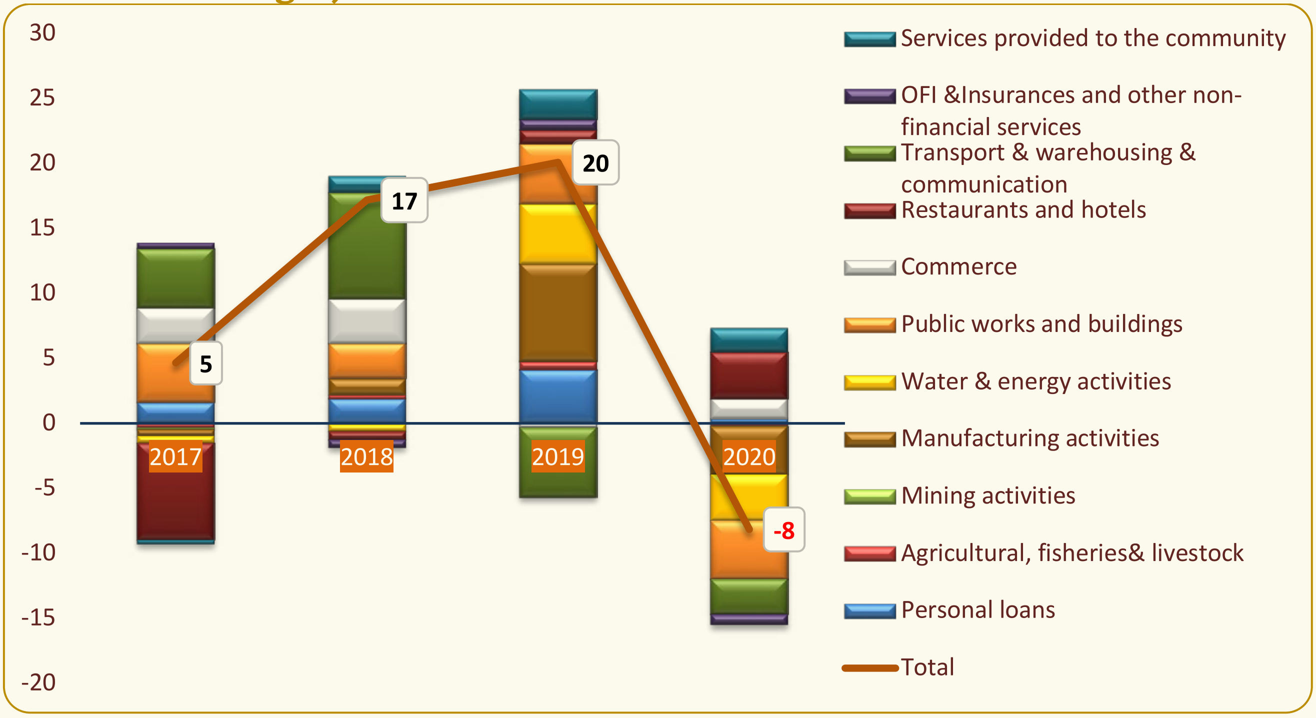
Source: NBR, Monetary Policy and Research Directorate

3.2.7 Credit

Outstanding credit to the private sector grew by 21.8% in 2020, higher than the 12.6% growth recorded in 2019. This increase resulted from the restructured loans amounting to FRW 799.9 billion and New Authorized Loans (NALs) which amounted to FRW 1,066 billion. Loan restructuring was part of the measures taken by the government and the NBR to support firms that faced cash flow constraints caused by the COVID-19 pandemic.

In the year 2020, NALs fell by 8 percent from an increase of 20 percent in 2019, the first decline in the last 5 years. NALs in 2020 declined in all sectors except those of hotels and restaurants, services provided to the community, and commerce, whose loans increased significantly by 161%, 41% and 6% respectively. Subsequently, these sectors were the largest contributors to the growth in 2020. The growths of these three sectors were driven by high-value loans given to corporates in addition to base effect in the hotels and community service sectors. The declines in other sectors reflect the demand and supply shocks linked to the uncertainties around the COVID-19 pandemic, coupled with measures to contain its spread.

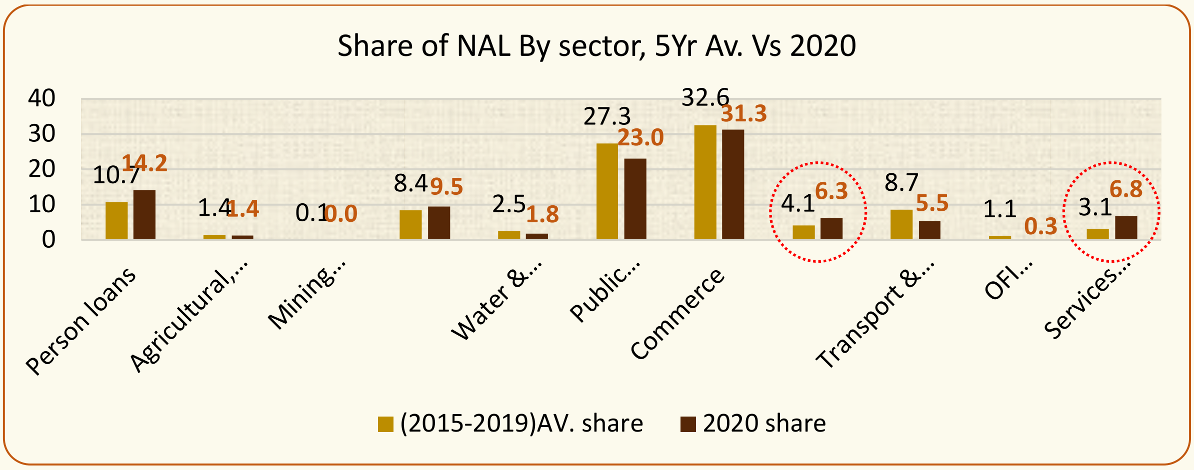
Figure 17: Contributions of Sectors to the Change in New Authorized Loans (y-o-y % changes)



Source: NBR, Monetary Policy and Research Directorate

The most financed sectors, in terms of share of total loans' value, were the commerce sector (31.3%), public works and building (23.0%), personal loans (14.2%), and manufacturing activities (9.5%). The very high growths in loan value to hotels & restaurants and services provided to the community led to an increase in their share of total loans in 2020 compared to their average shares in the last 5 years.

Figure 18: Distribution of NALs by Economic sector in % shares



Source: NBR, Monetary Policy and Research Directorate

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section shows exchange rate developments for the year 2020. Compared to the previous year, the depreciation of the FRW against the USD was slightly higher (5.4 percent from 4.9 percent), reflecting an uptick of the demand for foreign currencies in the second half of the year, amid low foreign inflows.

4.1 EXCHANGE RATE DEVELOPMENTS

In the first half of the year 2020, the depreciation of the Rwandan franc was relatively muted compared to the same period of 2019. The low depreciation rate was due to significantly low demand for foreign currencies during the COVID-19 lockdown and the supply-chain disruptions, which constrained transactions with the rest of the World. End June 2020, the FRW depreciated by 1.6 percent against the USD, as the country kept on importing essential goods and healthcare products, but slower than 2.2 percent observed in the same period of 2019.

The Rwandan franc came under increased pressures during the second half of the year with the resumption of economic activities and the uptick of the demand for foreign currencies amid low foreign inflows. As of December 2020, the FRW depreciated by 5.4 percent against the USD, y-o-y, from a depreciation of 4.9 percent in December 2019.

The franc weakened also versus other major currencies including the British Pound, the Euro and the Yen. In December 2020, relative to December 2019, the franc depreciated by 9.4 percent against the British Pound, 15.7 percent against the Euro and by 11.4 percent vis-a-vis the Japanese Yen faster than 8.5 percent, 2.8 percent and 6.3 percent depreciation recorded end December 2019, respectively.

Concerning regional currencies, the Rwandan franc strengthened by 1.3 percent versus the Kenyan shilling in December 2020, while it fell by 4.5

percent in December 2019. The franc depreciated by 5.7 percent, 7.2 percent and 2.5 percent vis-a-vis the Tanzanian shilling, Ugandan shilling and the Burundian franc, slowing more than last year when it lost 3.7 percent, 5.1 percent and gained 0.2 percent respectively.

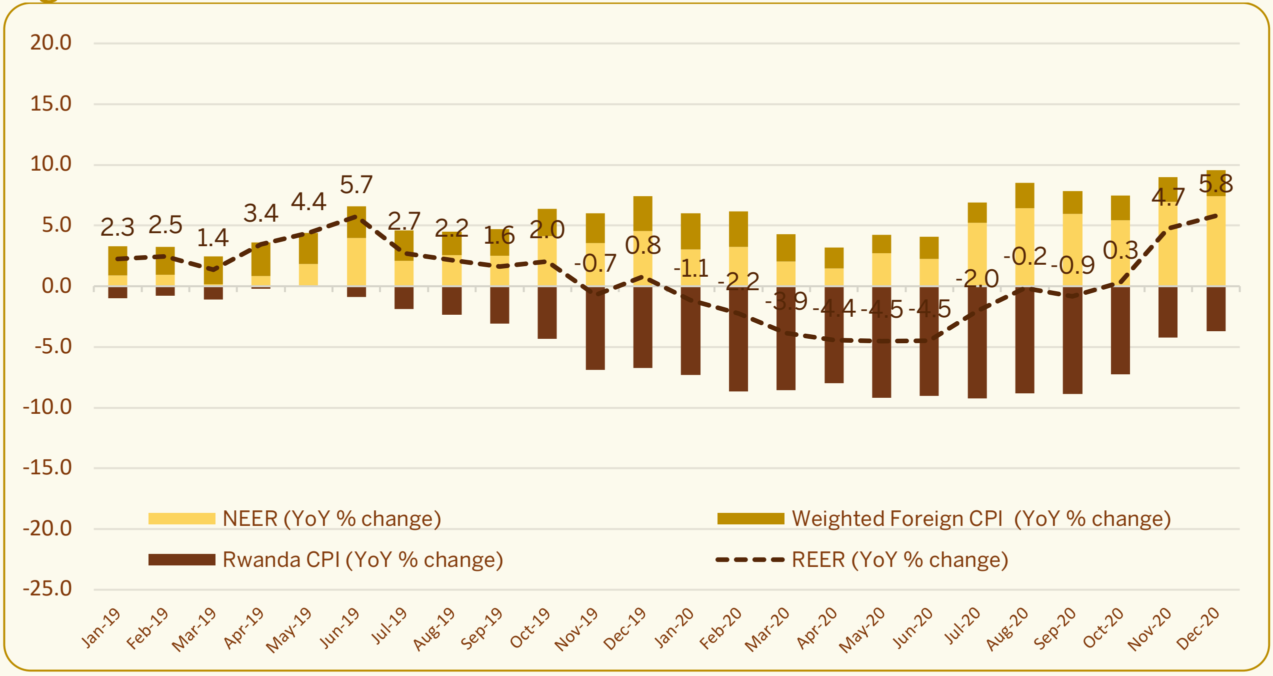
Table 18: FRW Exchange rate (in % change compared to Dec. previous year)

	USD	GBP	EUR	JPY	KES	TZS	UGS	BIF
Dec-11	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-12	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-13	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-14	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Dec-15	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Dec-16	9.7	-9.2	5.3	13.4	9.6	8.6	2.3	-0.2
Dec-17	3.1	13.2	16.9	6.6	2.3	0.4	2.7	-1.0
Dec-18	4.0	-2.0	-0.1	6.2	5.5	1.2	1.8	1.9
Dec-19	4.9	8.5	2.8	6.3	4.5	3.7	5.1	-0.2
Dec-20	5.4	9.4	15.7	11.4	-1.3	5.7	7.2	2.5

Source: NBR, Monetary Policy Department

Compared to a basket of currencies of Rwanda's main trading partners, the FRW depreciated in real terms by 5.8 percent (y-o-y) end December 2020, against a depreciation of 0.8 percent recorded end December 2019. This depreciation was mostly attributable to high nominal depreciation of the FRW against currencies of some of the main trading partners. Higher domestic inflation (3.7 percent) than weighted foreign inflation (2.2 percent) tends to moderate the depreciation rate. In nominal effective terms, the franc depreciated by 7.4 percent in December 2020 compared to a depreciation of 4.6 percent end of December 2019.

Figure 19: Drivers of REER movement



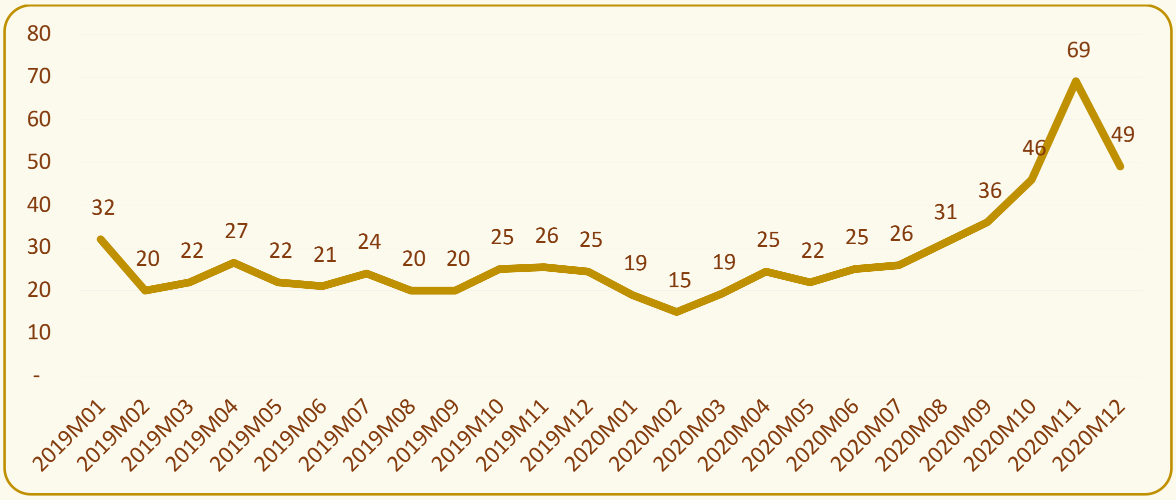
Source: BNR, Monetary Policy Department

4.2 FOREIGN EXCHANGE MARKET DEVELOPMENTS

As of December 2020, net foreign assets of commercial banks decreased by 20.0 percent to stand at FRW 97.05 billion from FRW 121.29 billion recorded end of December 2019. This slowdown reflects a faster increase in foreign liabilities (FRW 240.25 billion from 157.21 FRW billion), amid a slight growth in foreign assets (FRW 337.31 billion from FRW 278.5 billion) as banks borrowed externally to acquire domestic assets mainly with the Central Bank through SWAPS which increased by FRW 20 billion, and the current account in foreign currencies which increased by FRW 67 billion.

On account of higher foreign exchange demand linked to the resumption of economic activities in 2020H2, NBR forex sales to banks rose by 35.2% in 2020, to USD 381.80 million from USD 282.5 million in 2019.

Figure 20: NBR forex sales to Banks (in millions USD)



Source: NBR, Monetary Policy Department

Between November and December 2020, the supply of foreign exchange slightly improved due to increased remittances, inflows from international organizations, NGOs and export receipts. NFA of commercial banks increased by 9.7 percent, which contributed to easing pressures on the forex market.

V. THE STABILITY OF THE FINANCIAL SYSTEM

5.1 INTRODUCTION

Rwanda's economy was negatively impacted by the COVID-19 pandemic and the associated containment measures, contracting by 4.1 percent during the first nine months of 2020. The service sector, which significantly relies on face-to-face human interaction was most severely affected especially the tourism, retail trade, transport, education and commercial real estate sectors. This consequently weakened the debt service capacity of firms and households, increased credit risk and weakened demand for loans and other financial services. The financial sector was fast in responding to the pandemic by supporting their financially viable clients through loan repayment deferrals, loan restructuring, suspension and cancellation of insurance policies, as well as waiving fees especially on loan renegotiation and electronic payments.

Lifting of the lockdown in May 2020, accompanied with the Government stimulus initiatives and reopening of economies of trading partners contributed in improving the economic activities in Q3 and Q4, 2020 providing a sound basis for the performance of financial sector. However, the increase in infection rates and COVID-19 related fatalities in December 2020 and in Q1 2021 necessitated tighter containment measures including a three-week lockdown in Kigali in January 2021 and travel restrictions between districts and provinces across the country. These new containment measures may reverse some of the gains highlighted above. The Government has made noteworthy progress in vaccination preparedness with roll out having commenced in February 2021. This, in addition to improvements in COVID-19 treatment therapies and continuous enforcement of pre-existing containment measures such as wearing of masks, hand washing and social distancing are expected to provide a strong basis for a safe re-opening of the economy and recovery. The outlook of the financial sector will largely depend on the speed of economic recovery, although the NBR continues to work with regulated financial institutions to minimize the risk of potential disruptions.

Globally, the impact of COVID-19 on the financial sector has depended on the structure of the sector, the pre-pandemic soundness conditions and policy measures implemented by regulators and Governments. In Rwanda, unlike in developed and some emerging economies with highly integrated financial systems where the COVID-19 shock was mainly propagated through capital outflows and plummeting of equity and bond prices, the domestic financial sector is dominated by the banking sector, whose business is predominantly financial intermediation. This makes the loan quality deterioration the main impact on the financial sector. The financial sector was sound and stable during the pre-COVID-19 period with high capital and liquidity buffers, which have been a firm foundation for the sector's resilience.

At the early stages of the COVID-19 crisis, the Government and the NBR undertook a number of policy actions to ensure that financial institutions maintain business continuity and support the economic recovery through supporting lending to the economy and safeguarding stability of the financial sector.

Economic recovery is paramount for financial stability, but initiatives to support recovery should be implemented in a prudent way and complimented with effective risk management in supervised institutions. To support lending, since the last MPFSS (August 2020), the NBR continued to operationalize the Economic Recovery Fund (ERF). The hotel refinancing window of this facility, from which FRW 42.7 billion had been disbursed by end December 2020 provided additional liquidity to banks while at the same time reducing the debt burden for hotel borrowers by refinancing 35 percent of their outstanding loans at an interest rate of 5 percent. The fund had also disbursed FRW 6.1 billion in working capital loans to viable large, micro, small and medium enterprises affected by the pandemic. The extended lending facility established by the NBR in April 2020 (initially planned for six months) was extended in October to offer a standby support to liquidity stressed banks during this pandemic. These initiatives together with the accommodative monetary policy stance laid a good foundation for the financial sector to continue functioning effectively and efficiently. Prudential actions implemented early 2020 have also supported the resilience of financial sector. The undistributed 2019 dividends helped to maintain sufficient capital and liquidity buffers.

The following sections summarize development and performance of the financial sector based on December 2020 data and focusing on all the sub-sectors (Banks; Microfinance; Insurance; Pension and the Payment System), the NBR supervision priorities during this pandemic, policy reforms implemented since the last MPFSS and projected near-term and medium-term outlook of the sector.

5.2 STRUCTURE OF THE FINANCIAL SECTOR

The NBR is mandated to regulate and supervise the financial sector with the exception of the capital markets. This includes Banks, MFIs, Insurance, Pension, Payment System and the related Service Providers, Remittance Companies, Forex Bureaus, and Non-Deposit Taking Lending Financial Institutions. This report covers only the sectors regulated and supervised by the NBR.

The number of regulated financial institutions largely remained stable since the last MPFSS in August 2020 – with a reduction of 3 forex bureaus and licensing of 3 non-deposit taking lending only institutions. The NBR currently regulates 600 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); 457 microfinance institutions (i.e., 416 Umurenge SACCOs; 19 limited liability MFIs and; 22 other SACCOs); 13 pension schemes(of which 12 are private pension schemes); 94 foreign currency dealers and remittance companies; and 6 lending-only institutions (Table 19). It is worth noting that the NBR's supervisory mandate covers prudential supervision (micro and macro) as well as market conduct supervision with the financial consumer protection responsibility. In conjunction with other agencies, the NBR also focuses on financial system integrity of these institutions particularly on Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT).

The financial sector remains dominated by the banking sector, which accounts for 68 percent of the total financial sector assets as at end December 2020 (Table 19). 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 — the combined deposits of microfinance, insurance and pension sectors accounted for 21.3 percent of banking sector deposits as at end December 2020. The pension sector is the second largest with 16.6 percentage share of 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, while the 12 private pension schemes account for 5 percent of pension sector assets. Insurance and microfinance sectors accounted for 9.4 percent and 5.6 percent respectively, of the financial sector assets, while the rest (foreign currency dealers, remittance companies and lending-only institutions) accounted for the remaining 0.4 percent (lending only institutions 0.3 percent and Foreign Currency Dealers & Remittances companies 0.1 percent)

Table 19: Structure of the Financial System

Regulated Financial Institutions	December 2019			December 2020		
(Assets in FRW Billion)	Number	Assets	% of TA	Number	Assets	% of TA
Banks	**16**	**3,476**	**65.9%**	**16**	**4,290**	**68.0%**
Commercial Banks	11	2,807	53.3%	11	3,545	56.2%
Microfinance Banks	3	68	1.3%	3	69	1.1%
Development Banks	1	262	5.0%	1	266	4.2%
Cooperative Banks	1	340	6.5%	1	411	6.5%
Pension Schemes	**13**	**936**	**17.8%**	**13**	**1,046**	**16.6%**
Public	1	891	16.9%	1	986	15.6%
Private	12	45	0.9%	12	60	1.0%
Insurers	**14**	**510**	**9.7%**	**14**	**592**	**9.4%**
Life	3	52	1.0%	3	59	0.9%
Non-Life	11	458	8.7%	11	533	8.4%
Microfinances	**457**	**321**	**6.1%**	**457**	**356**	**5.6%**
U-SACCOs	416	134	2.5%	416	144	2.3%
Other SACCOs	22	92	1.7%	22	103	1.6%
Limited Companies	19	94	1.8%	19	107	1.7%
Foreign Currency Dealers & Remittances	**97**	**8**	**0.2%**	**94**	**8**	**0.1%**
Forex Bureau	83	8	0.2%	80	8	0.1%
Remittance Companies	8	-	-	8	-	-
Money Transfer Agencies	6	-	-	6	-	-
Lending only Institutions	**3**	**19**	**0.4%**	**6**	**23**	**0.3%**
Grand Total	600	5,270	100.0%	600	6,315	100.0%

Source: NBR, Financial Stability Directorate

5.3 THE BANKING SUB-SECTOR

5.3.1 Performance of the Banking Sub-Sector

Assets of the banking sector increased faster in 2020 on the back of high growth of deposits, borrowing from other financial institutions. Banks' assets increased by 24 percent (year-on-year) to FRW 4,310 billion in December 2020 (i.e., 53 percent of GDP). This growth was higher than 12.5 percent registered in December 2019. This growth of banking sector assets in 2020 mirrors the high growth of deposits —by 21.2 percent (year-on-year) to FRW 2,647 billion in December 2020, almost double the 11.1 percent registered in December 2019. Developments in deposits highly influence banking sector assets as deposits account for 71 percent of total banking sector liabilities.

The stellar deposit growth largely came from institutional investors (pension fund; insurers; MFIs; and some large companies) whose deposits in banks increased by 21 percent to FRW 684 billion (i.e., 26 percent of banking sector deposits) as at December 2020, higher than the growth of 3.2 percent in December 2019. Most of these deposits are demand deposits suggesting that the slowdown in economic activities limited their investment and other spending options. Similarly, borrowings from other domestic financial institutions increased by 63 percent (FRW 284 billion) compared to the 5 percent (FRW 22 billion) growth in 2019. Shareholders' funds increased by FRW 94 billion driven mainly by capital injections by some banks as well as the withholding of dividend payments for 2019 in a bid to build capital buffers to enhance their ability to absorb shocks.

Financial intermediation continues to be the main business of banks as loans constituted 55.3 percent of total assets and generated around 63.5 percent of total banks' revenues as at end December 2020. Government securities represented 18.1 percent of total assets of banks, dues from domestic banks 12 percent, reserves at the NBR 6.2 percent, fixed assets 6.1 percent and cash 2.3 percent. This structure indicates that credit risk is a significant risk for the banking sector.

Banks have avoided excessive procyclicality in 2020 by continuing to lend to the economy, albeit at a slower pace compared to 2019. New loans approved by banks amounted to FRW 1,066 billion in 2020, 8 percent lower than FRW 1,160 billion approved in 2019, but higher than FRW 966.5 billion and FRW 824.9 billion approved by banks in 2018 and 2017 respectively. Reflecting the effect of the pandemic and risks profile, the reduction of new loans was most apparent in sectors like mortgage (by FRW 52 billion), manufacturing (by FRW 42 billion), water and energy (by FRW 41 billion), transport and communication (by FRW 31 billion). Further, in reflection of funding profile of banks, with about 61.1 percent of banks deposits that are demand deposits, the composition of new loans in terms of maturity remained broadly stable. The short-term loans constituted 39.7 percent of new loans as at end

December 2020 from 40.4 percent in December 2019. During the same period, medium term loans and long-term loans accounted for 35.8 percent and 24.4 percent from 31.4 percent[2] and 28.3 percent respectively.

The contraction of the economy in response to COVID-19 weakened credit demand and this, along with heightened credit risks constrained bank lending. The NBR credit survey conducted in December 2020 indicated that growth in volume of loan applications moderated to 4.3 percent (year-on-year) to 461,943 in 2020, from a growth rate of 17.6 percent registered in 2019, while the value dropped by 10.5 percent to FRW 1,334 billion, down from 20.5 percent growth in 2019. The survey also indicated that Banks' loan approval rate remained stable in 2020, at around 80 percent, slightly above the level of 2019 (at 77.9 percent).

Banks' outstanding loans significantly increased by 21 percent (year-on-year) to FRW 2,525 billion in December 2020, higher than 11.4 growth registered in December 2019 on the back of new loans granted by banks as well as recapitalized interest and principal restructured loans. Restructured loans represented 31.7 percent of total outstanding loan portfolio as at end December 2020 in response to the pandemic and its economic effects. Expected interest income on these restructured loans was recapitalized and contributed to the growth of the banking sector stock of loans. In addition, the pace of write off loans decelerated in 2020 in line with the regulatory forbearance to delay the write off of long outstanding class 5 loans for another 12 months before foreclosure to allow markets to stabilize and ensure realization of more value from these assets. In 2020, write offs amounted FRW 0.6 billion compared to FRW 57 billion in 2019 and FRW 50 billion in 2018. It is worth noting that these loans are adequately provided for. Except for commercial real estate and transport and communication, the stock of loans significantly increased in all other sectors, reflecting the reasons mentioned above (Table 20).

[2] By short term refers to the period not exceeding one year; medium term refers to the period between 1 year and 5 years, while long term denotes the period exceeding 5 years.

Table 20: Banks' Outstanding Loans by Sector

Activity Sector	Loans (FRW Billion)			Annual Change	
	Dec-18	Dec-19	Dec-20	% change 18/19	% change 19/20
Consumer Loans	196.4	258.5	302.1	31.6	16.9
Agricultural & Livestock	25.0	24.1	24.4	-3.6	1.2
Mining	3.1	2.7	3.8	-12.9	40.7
Manufacturing	183.4	223.5	293.8	21.9	31.5
Water & Energy	53.5	83.3	109.6	55.7	31.6
Mortgage	667.5	694.4	820.8	4.0	18.2
Public Works	*125.5*	*129.3*	*203.1*	*3.0*	*57.1*
Residential Houses	*288.5*	*312.2*	*375.7*	*8.2*	*20.3*
Commercial Houses	*253.6*	*252.9*	*242.0*	*-0.3*	*-4.3*
Trade	312.2	319.4	366.8	2.3	14.8
Hotels	130.9	143.3	211.1	9.5	47.3
Transport & Communication	219.3	255.5	257.8	16.5	0.9
Financial Services	21.0	22.6	32.0	7.6	41.6
Other Services	58.3	56.7	102.5	-2.7	80.8

Source: NBR, Financial Stability Directorate

Amidst the prevailing economic downturn and heightened risks, the NBR's prudential supervision and monetary policy will aim to strike the right balance between supporting lending for economic recovery and safeguarding stability of the financial sector. Globally, experiences have shown that the procyclical behavior of banks in recessionary periods can aggravate and prolong the shock or deter economic and financial sector recovery. Hence, as we come out of this pandemic, it is important that banks continue lending or providing working capital to viable firms or businesses. Nevertheless, the NBR is cognizant of the heightened risks - like credit risk, which will require banks to reinvigorate their credit underwriting standards, as well as credit monitoring.

The recent supervisory, monetary and fiscal responses to COVID-19 have been designed, among other things, to support banks and the financial sector in general to continue providing financial services in a sustainable manner. For example, the six (6) months' extended lending facility established by the NBR in April 2020 was extended in order to provide standby liquidity support to any solvent bank that may require temporary liquidity support. To date, only 2 banks have so far used this facility to the tune of FRW 5 billion – indicating that the banking system does not have any liquidity concerns. The decision to defer dividends distribution for 2019 enabled banks to shore up capital and liquidity. Monetary policy has also been accommodative since the start of the pandemic to support lending to the economy. The decision in April 2020 to reduce the reserve requirement from 5 percent to 4 percent released FRW 23 billion additional liquidity to the banking sector. Finally, the implementation of the Economic Recovery Fund (ERF) offered both liquidity to banks and firms. Around FRW 42.7 billion of the allocated FRW 50 billion had been disbursed to banks under the hotel refinancing window. FRW 6 billion had been disbursed under the working capital window and FRW 7.3 billion from the public passenger transportation refinancing window.

As at end December 2020, total outstanding loans restructured due to COVID-19 amounted to FRW 799.9 billion (i.e., 31.7 percent of total loans), dropping from total restructured loans due to COVID-19 of around FRW 1,215[3] billion (48.1 percent of total loans). The resumption of economic activities in Q3 and Q4 supported the improvement of businesses and normalization of loan payment for most of these loans. For example, as at end December 2020, loans worth FRW 620.6 billion had resumed payment following the expiration of the repayment moratorium. The challenge however is whether this resumption of payment will be sustained into 2021 and beyond. Loans worth FRW 129.9 billion (i.e., 16.2 percent of total restructured loans and 5.1 percent of total banking sector loans) were restructured more than once in 2020. Watch loans (class 2) in the banking sector increased by 50 percent (FRW 93 billion) between December 2019 and December 2020, indicating the buildup of credit risk. Credit risk will continue to be a major area of supervisory focus during 2021.

[3] This number includes a few loans that were restructured more than once.

Banks were considered essential services and therefore continued to operate even during the March to May 2020 lockdown, albeit with fewer employees allowed to work in the office. As such, banks largely adopted remote working practices to continue serving their customers. In addition, banks and their customers increasingly adopted electronic channels such as mobile and internet banking, push and pull of funds between bank accounts and electronic money wallets provided by telecommunication companies as well as card enabled payments. This has increased operational risk in the sector with regard to availability of systems to serve customers, cybersecurity, and outsourcing risks related to third party providers of systems and services. As such, operational resilience and business continuity management (BCM) will be another area of supervisory focus during 2021.

5.3.2 Financial Soundness Indicators of the Banking Sector

The banking sector continued to hold sufficient capital buffers. As at end December 2020, the banking industry aggregate Tier 1 capital adequacy ratio (core capital) stood at 20.3 percent (against 12.5 percent prudential minimum) while total capital adequacy ratio stood at 21.1 percent (against 15 percent prudential minimum). All banks, including Domestic Systematically Important Banks (D-SIBs,) held capital levels above the prudential requirement. Total regulatory capital increased by FRW 86 billion between December 2019 and 2020 to FRW 642 billion driven by capital injection (paid up capital increased by FRW 51 billion to FRW 364 billion in December 2020) as well as retained earnings.

The stress test performed by the NBR in December 2020 indicated that banks are able to absorb significant losses and continue to meet the prudential capital requirements. The shock assumed that the loans that were restructured more than once between March and December 2020 defaulted, thereby increasing the NPL ratio to 9.3 percent. The shock also assumed a 38 percent haircut on collaterals (based on most recent survey on collateral realization through the auction process). The results of this test indicated that most banks would continue to meet the prudential capital requirement, while others would necessitate utilization of the capital conservation buffer.

Banks continued to maintain adequate liquidity levels above the minimum prudential requirements. The industry Liquidity Coverage Ratio (LCR) stood at 245.7 percent in December 2020, compared to the minimum prudential requirement of 100 percent. On a solo basis, all banks including D-SIBs met this liquidity requirement. The LCR measures the proportion of high liquid assets held by a bank to its short-term obligations. In Rwanda, high liquid assets constitute cash, Central Bank reserves and Government securities. Similarly, the Net Stable Funding Ratio (NSFR) for the sector stood at 161.4 percent in December 2020 compared to 100 percent minimum prudential requirement. The NSFR measures the proportion of long-term assets funded by stable funding. It compares the amount of available stable funding and the amount of required stable funding over a one-year horizon. The available stable funding mainly consists of deposits of maturity of less than one year, core capital, borrowings and other liabilities with maturities of at least one year and other funding with residual maturity of less than one year.

The stability of liquidity position in 2020 reflected the high growth of deposits and policy measures instituted to broaden the liquidity of banks during COVID-19 crisis. Total deposits of banks increased by 21.2 percent to FRW 2,647 billion as at end December 2020 from FRW 2,184 billion as at end December 2019, higher than the growth of 11.1 percent registered during the previous year. The higher growth of deposits is mainly linked to the increase of deposits of institutional investors and other few large companies commensurate with reduced investment opportunities during the pandemic. As at end December 2020, 7 large customers' deposits increased by 21.1 percent to FRW 684 billion from FRW 565 billion, higher than the growth of 3.2 percent registered in December 2019. Nevertheless, the growth of deposits was higher for demand deposits (21 percent) while term deposits grew by 14.9 percent. Subsequently, the share of demand deposits in total deposits increased to 61.1 percent in December 2020 from 59.9 percent in

December 2019, while the share of term deposits in total deposits dropped to 38.9 percent in December 2020 from 40.1 percent in December 2019.

The aggregate non-performing loans (NPLs) ratio stood at 4.5 percent in December 2020, down from 4.8 percent in December 2019. The stock of NPLs however increased from FRW 106 billion in December 2019 to FRW 133 billion in December 2020. The reduction in the NPL ratio was mainly due to the higher growth of gross loans (new authorized loans, slowdown in writing off long overdue loss loans and the recapitalization of interest and principal following the COVID 19 restructuring of loans affected by the pandemic). Similarly, watch category loans (i.e. loans whose repayment is late by 30 to 90 days) increased from FRW 184 billion in December 2019 representing 8.8 percent of total loans to FRW 277 billion representing 10.9 percent of total loans. The NBR expects banks to proactively assess borrowers' repayment capacity whether or not they are more than 90 days past due in order to accurately determine the level of problem loans, appropriately classify and provide for them and ultimately assess the adequacy of capital. This will be useful for the avoidance of damaging cliff effects as COVID-19 relief measures expire which would cause the adverse loan procyclicality that would delay the economic recovery.

The NPLs ratio has been particularly low in sectors like agriculture (3.3 percent); manufacturing (0.9 percent); residential mortgage (3 percent); public works (4 percent) and; restaurants & hotels (4.5 percent). On the other hand, the NPLs ratio remains high or above average in sectors like mining (70.7 percent); trade (8.1 percent); commercial real estate (7.5 percent) and other services - including schools (6.7 percent) — Table (21). The elevated NPLs ratio in mining and trade sectors is however not broad based but rather results from non-performance of a few large customers who then weighed down the entire sector's loan performance.

Table 21: NPLs Ratio by Economic Sector (percent)

Activity Sectors	NPLs Ratio (Percent)				% share in total NPLs
	Dec-17	Dec-18	Dec-19	Dec-20	
Personal Loans	5.7	6.3	6.9	5.9	10.8
Agricultural & Livestock	10	6.6	4.4	3.3	0.8
Mining	0.7	1.3	78	70.7	2.5
Manufacturing	13.8	11.7	0.8	0.9	2.5
Water & Energy	0	1.3	0	0	0
Mortgage	4.5	3.7	4.3	4.6	35.3
Trade	12	10.1	9.5	8.1	28.1
Hotels	12.1	9.9	2.8	4.5	8.9
Transport & Communication	2.4	4.9	1.2	1.2	3
Financial Services	0.2	4.1	0.7	5.9	1.8
Other Services	11.3	10.2	5.3	6.7	6.5

Source: NBR, Financial Stability Directorate

Cumulative (balance sheet) provisions for non-performing loans increased from FRW 88.8 billion in December 2019 to FRW 141.3 billion in December 2020. As a result, the provision coverage ratio increased from 83.6 percent in December 2019 to 106.3 percent in December 2020.

Banking sector profit edged-up on the back of higher Net Interest Income (NII) and slowdown of operational expenses. The aggregate net profits of the banking sector increased from FRW 75.7 billion in 2019 to FRW 81.7 billion in 2020. This increase is attributable to the growth of interest income on loans by FRW 40.5 billion (from FRW 301 billion in 2019 to 341.6 billion in 2020) and the growth of interest from government securities by FRW 21.9 billion (from FRW 33 billion in 2019 to 55 billion in 2020).

On the other hand, non-interest income accounting for 22.5 percent of bank income, dropped in 2020 by FRW 7.4 billion (from FRW 128.5 billion in 2019 to FRW 121 billion). Fees and commission income declined by 8.3 percent to FRW 49 billion as business activity decelerated due to the economic downturn and as banks waived fees and commissions associated with loan restructuring as well as electronic payments in a bid to promote the cashless agenda. Other incomes, which largely constitute loan recoveries also declined in 2020 by 22 percent to FRW 38.6 billion.

Banks' expenses increased by FRW 45.1 billion in 2020, down from FRW 47.8 billion in 2019. Interest expenses on deposits increased by 18.5 percent from FRW 72 billion to FRW 85 billion. The increase of interest expenses mainly reflected the volume effects. The remunerated deposits increased by FRW 131 billion from FRW 878 billion in December 2019 to FRW 1,009 billion in December 2020 and while the average deposit rate remained stable at 7.64 percent. Further, other interest expenses increased by 7.4 percent from FRW 33 billion to FRW 36 billion. Staff costs only increased marginally by 1 percent to FRW 89 billion compared to a 10 percent increase in 2019. Costs associated with premises, depreciation and transport declined by 7 percent to FRW 31 billion compared to a 9 percent increase in the previous year. On the other hand, other operating expenses which mainly constitute revaluation and operational losses, litigation costs among others increased by 20 percent to FRW 92 billion. Going forward, banks will need to pursue cost efficiency measures through products, services and channels that are customer centric, affordable, responsible and safe while ensuring financial stability and sustainability.

Table 22: Key Financial Soundness Indicators for Banks (Percent)

Indicators	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Total CAR (min 15 %)	21.9	21.4	25.5	24.1	21.1
Core Capital Tier 1 (min 12.5%)	20	20	23.8	22.6	20.3
NPLs Ratio	7.6	7.6	6.4	4.9	4.5
Provisions / NPLs	42.7	46.7	68.2	81.5	106.4
Return on Average Assets	1.7	1.1	1.9	2.2	2
Return on Average Equity	8.8	6.2	11.2	12.5	11.8
LCR (min 100%)	-	-	299	215	254.7
NSFR (min 100%)	-	-	222	111	161.4
FX Exposure/Core Capital (± 20%)	-7	-7.8	-5.6	-4.8	-4.4

Source: NBR, Financial Stability Directorate

5.4 MICROFINANCE SUB-SECTOR

5.4.1 Structure of the Microfinance Sector

The microfinance sector remains an integral player in Rwanda's economic financing and development goals. Despite its relatively small size (5.6 percent of total financial sector assets), the sector serves nearly 4 million account holders, mostly rural households, and Micro, Medium and Small Enterprises (MSMEs) usually unserved or underserved by the mainstream banking sector. It's penetration in all parts of the country significantly reduced the geographical access barrier and supported financial inclusion gains registered by Rwanda in the recent past – the 2020 Finscope study indicated that 93 percent of Rwandans are financially included. This section aims at indicating the performance of the sector during this COVID-19 pandemic, the challenges the sector is facing, as well as policy measures implemented to maintain its stability.

The number of microfinance institutions remained unchanged at 457 in December 2020, the same level as in December 2019. These include 416 Umurenge SACCOs (U-SACCOs), 22 other SACCOs and 19 Public Limited Companies (PLCs).

The COVID-19 pandemic and the containment measures stalled the growth of the microfinance sector balance sheet. Total assets of this sector increased by 11 percent to FRW 356 billion in December 2020, lower than 14.7 percent in 2019, and lower than the average growth of 15.3 in the last 5 years. The COVID-19 containment measures including the March to May 2020 lockdown and post lockdown targeted travel restrictions and social distancing measures greatly affected micro, medium and small enterprises cash-flows, reduced their capacity to save, and increased their withdrawal needs to cater for the pandemic uncertainties. Consequently, MFI sector deposits increased by 12.9 percent (from FRW 170 billion in December 2019 to FRW 192 in December 2020) down from 17.8 percent growth registered in 2019. The MFIs are highly dependent on customer deposits, with over 84.3

percent of their liabilities coming from deposits and this explains why the recovery of small businesses from the pandemic is key to this sector.

Growth of the MFI sector loans moderated mainly due to weak credit demand and elevated credit risk. As at end December 2020, the total outstanding loans expanded by FRW 19 billion, from FRW 183 billion in December 2019 to FRW 202 billion in December 2020, compared to the growth of FRW 20 billion registered during the previous year. With the exception of other SACCOs (mainly Umwarimu SACCO), lending moderated in the rest of the MFI sector sub-categories. In Public Limited Companies, loans increased by 9.5 percent in December 2020 to FRW 68 billion, against 22.3 percent growth registered in December 2019. Lending in U-SACCOs expanded by 5.9 percent (from FRW 52.0 billion in December 2019 to FRW 55 billion in December 2020), down from 8.4 percent registered as at end December 2019. In contrast, lending in other SACCOs (non-Umurenge SACCOs) increased by 14.2 percent, from FRW 69 billion to FRW 79 billion, compared to the growth of 6.4 percent that was 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.

Although lending moderated, it remains the main business of microfinance institutions with loans accounting for 54.6 percent of the total assets in December 2020 (against 55.6 percentage in December 2019). Placements in banks constitute 31.7 percent of total assets (from 31.6 percent in December 2019) while fixed assets held 10.1 percent, government securities 1.8 percent and cash 1.8 percent. This structure indicates that credit risk is the main risk to the sector and that stability of the banking sector (which holds a significant share of assets as indicated above) has a noteworthy impact on the sector's performance and stability.

Different supervisory, fiscal and MFI interventions helped to contain the impact of the pandemic on the microfinance sector and its clients. The guidance from the NBR encouraged microfinance institutions to provide payment relief to their affected clients - which MFIs responded to and as end December 2020, 20.6 percent of their loan portfolio had been restructured. Although this is not a long-term solution, the NBR believes it was a necessary short-term remedy to allow borrowers some breathing space in the context of an unfavorable business environment. The Economic Recovery Fund also allotted FRW 2 billion to provide working capital to micro enterprises through MFIs and around FRW 410.4 million was disbursed as at 5th February 2021. Although this measure directly supports business, it indirectly supports micro-finance institutions by de-risking their clients affected by COVID-19. Microfinance institutions also intervened in several ways to contain the spread of the virus among their clients and staff, as well as supporting their clients. For example, in a survey performed by Access to Finance Rwanda (AFR) in May 2020, MFIs reported to have continued supporting their clients by providing working capital to clients dealing with essential sectors, cancelled all late payment penalties, stopped group meetings to contain the spread of the virus, introduced emergency loans disbursed via mobile money and played an advisory role on safety for members via phone/group calls.

5.4.2 The Soundness of Microfinance Sector

The microfinance sector remained adequately capitalized and liquid during 2020. The MFI industry total Capital Adequacy Ratio (CAR) stood at 36.0 percent as at end December 2020, well above the regulatory minimum of 15 percent. Factors that supported the MFI capital position in December 2020 include increase of retained earnings (+ FRW 8.5 billion) and fresh capital injections (+ FRW 6.2 billion). The sector also held adequate liquidity with the aggregate liquidity ratio at 101.5 percent, against 30 percent minimum prudential requirement. Considering the elevated credit risk, these capital and liquidity buffers are expected to support the resilience of the sector in the near term.

The MFI asset quality, as measured by the NPL ratio, deteriorated to 6.7 percent in December 2020 from 5.7 percent in December 2019 as the pandemic containment measures affected household and business incomes. The worst deterioration of MFI asset quality was felt in June 2020 with NPLs ratio of 12.8 percent. Asset quality has, however, improved in Q3 and Q4 to 9.1 percent and 6.7 percent, respectively, following the re-opening of economic sectors and implementation of different economic recovery stimulus. Although data indicated that some SMEs had started to normalize loan servicing in Q3 and Q4 2020, the tighter COVID-19 containment measures re-introduced in January 2021, including the lockdown in Kigali (economic and financial hub) and restrictions on cross-district movements could halt this recovery. Nevertheless, the NBR expects that economic optimism in the second half of 2021 will offer solid ground for sustainable recovery of businesses, including MSMEs, and support stability of the microfinance sector.

Table 23: MFIs Performance Indicators

Indicators	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Assets (FRW billion)	223	244	280	321	356
Loans (FRW billion)	134	138	164	184	202
Deposits (FRW billion)	115	124	144	170	192
Equity (FRW billion)	79	87	98	114	128
Net profit/loss (FRW billion)	10	2	7	12	10
Capital Adequacy Ratio (%)	35.2	35.8	35.1	35.7	36.0
NPLs Ratio (%)	9.0	8.2	6.5	5.7	6.7
ROA (%)	4.4	1.0	2.6	3.8	3.0
ROE (%)	13.7	2.9	7.7	10.7	8.2
Liquidity Ratio (%)	88.8	102.0	100.3	100.4	101.5

Source: NBR, Financial Stability Directorate

5.5 NON-DEPOSIT TAKING LENDING FINANCIAL INSTITUTIONS

The National Bank of Rwanda has so far licensed 6 NDFIs in 2020 against 3 institutions in 2019. These institutions do not collect deposits from the public but offer loans either out of their own capital or from borrowing from other institutions. Total assets of NDFIs increased by 21.3 percent from FRW 19 billion in December 2019 to FRW 23 billion in 2020. The total outstanding loans constituted 64.6 percent of total assets of NDFIs and increased by 2.9 percent from FRW 14.6 billion by December 2019 to FRW 15 billion as of December, 2020. The rest of NDFIs' assets is held in cash and investments in subsidiaries. NDFIs' profit increased by 119 percent as of December 2020 but this is because most of the NDFIs incurred losses in 2019 (Table 24).

Table 24: Key financial highlights of NDFIs

Details	Dec-2019 FRW million	Dec-2020 FRW million	Change in %
Total Assets	19,171	23,258	21.3
Total Outstanding Loans	14,614	15,045	2.9
Total Operating Income	2,576	3,953	53.4
Total operating expenses	2,569	1,712	-33.4
Net Profit/loss	(1,102)	216	119.6

Source: NBR, Conduct Supervision & Financial Inclusion Department

5.6 INSURANCE SECTOR

5.6.1 Structure of the Insurance Sector

The insurance plays a critical role in economic development mainly through risk transfer, mobilization of savings and development of capital markets through investments. Nevertheless, the insurance penetration in Rwanda is still low, at 1.7 percent as at end December 2020 indicating potential for growth. The sector was sound at the on-set of the COVID-19 pandemic compared to prior periods with solvency ratio of 114 percent compared to negative 53 percent in 2016. This steady improvement over the last four years was enabled by deliberate intervention by NBR particularly on containing unfavorable competition such as price undercutting, encouraging operational efficiency and stopping market malpractices like selling insurance on credit. These measures, along with the 2018 industry review of the motor insurance premiums — the largest product by premiums, and the favorable economic conditions favored the recovery of the private insurance sector in the period between 2016 and 2020. The outbreak of COVID-19 and the economic downturn have, however, disrupted this progress in numerous ways. Sections below summarize the structure and performance of the insurance sector during this pandemic, challenges caused by this pandemic, interventions by the industry and NBR, and projected outlook in-terms supervisory priority and performance of the sector.

The landscape of the insurance sector largely remained unchanged since the last MPFSS. As at end December 2020, the sector constituted 12 private insurers (9 non-life and 3 life Insurers) and 2 public medical insurers (RSSB Medical and MMI). Private insurers include 6 subsidiaries of foreign insurers (mainly from the EAC region and other parts of Africa) and 4 local companies. Insurance institutions serve their policyholders through a network of 914 insurance agents; 14 insurance brokers; 1 reinsurance broker and 18 loss adjusters.

Private insurers' business is dominated by non-life business with around 81 percent of total premiums, while life insurance accounted for 19 percent. Non-life insurance business is dominated by motor and medical insurance products with combined share of 56 percent of total private insurers premiums (Motor insurance: 33.6 percent and Medical insurance: 22.4 percent), reflecting limited product differentiation. The remaining of 44 percent of private insurers' premiums came from life insurance (19.6 percent); property (8.1 percent), guarantees (3.7 percent), engineering (5 percent), accident and health (1.4 percent), transportation (0.9 percent), liability (2 percent), other non-life insurance products (3.3 percent). Public insurance business is operated by two government-owned insurers— RSSB Medical Scheme, which is under the administration of the Rwanda Social Security Board and mainly serves public servants and a few private sector members, and the Military Medical Insurance (MMI) which serves members of the military, police and correctional services. As at December 2020, public medical insurance business account for 77 percent of total premiums of medical insurance products collected by (both private and public Insurers) and 43 percent of total premiums of insurance sector.

The asset mix of life insurers and non-life insurers continued to reflect their liability profiles. Non-life insurers (short-term insurers) continued to hold most of their assets in short term maturities, to cater for their short-term liabilities – placements in Banks with average one-year maturity represented 43 percent of total assets, government securities — majority treasury bills held 19 percent. Conversely, life insurers, with long- term liabilities, continue to invest in assets with long-term maturities to meet their long-term liabilities. Life insurers' total long-term investments (government securities and properties) represented around 63 percent of total assets as at end December 2020.

Overall, the negative impact of COVID-19 on the insurance sector was limited by the nature of the insurance business in Rwanda. First, mandatory insurance products (motor and medical) dominate the insurance business with around 75 percent share of total premiums of the insurance sector. The mandatory nature of these products makes them less sensitive to economic downturn, although they could be sensitive in a more protracted recession. Second, insurers' investments are largely concentrated in fixed income assets - including term deposits and Government securities. Deposit rates in Rwanda are generally stable, which secures insurers' returns on term deposits. Investment in Government securities, which increased last year, remains a risk free instrument with less sensitivity to the recent economic down-turn. Third, insurance policies offered by insurers do not cover pandemic risks. This combined with the pandemic containment measures helped to tame claims. It is in context that Rwanda's insurance sector remained resilient through 2020 despite the pandemic, with continuous growth of assets and profits and adequate solvency and liquidity position.

5.6.2 Performance of the Insurance Sector

The insurance sector balance sheet expanded faster in 2020 compared to the previous year on the back of high retained earnings and some capital injections. Total assets of the sector (private and public) edged up by 15 percent (year-on-year) to FRW 591.7 billion, higher than 14 percent growth registered last year. Higher growth of assets particularly happened among public insurers by 15.8 percent (against 13.8 percent last year) than private insurers, by 13.6 percent (against 14.3 percent last year). Growth of insurance sector assets during this pandemic came from retained earnings as around FRW 52.5 billion and FRW 43.6 billion of net profit were retained in

2020 and 2019 respectively. This high retention of profits was required by NBR to conserve capital during this pandemic. Growth of insurance sector assets as also, to a smaller extent, driven-up by FRW 2.7 billion of capital injection during the period under review. Growth of assets is observed through all major components of insurers' assets as follows: placements in Banks (+ FRW 12.5 billion), government securities (+ FRW 50.6 billion), equities (+FRW 4.7 billion), properties (+1.6 billion), receivables (+FRW 5.3 billion), while other assets reduced by FRW 4.2 billion.

Growth of premiums of private insurers slowed down due to the economic downturn but this was outweighed by the moderation of claims and operational expenses, resulting in better profitability. Claims particularly dropped on motor, transportation and accident & health insurance products. The six-week lockdown and travel restrictions that characterized last year contained accident related claims and office related operational expenses as most insurers' staff were working from home. Consequently, growth of insurance claims moderated to 6.7 percent (year-on-year) to FRW 82.9 billion (against 10.1 percent growth in 2019).

Although the insurance sector claims and expenses subsided during this pandemic and helped to push up profits, the pandemic affected mainly the life insurance business in many ways, notably through lower demand for insurance products and higher termination of life insurance policies. Consequently, growth of life insurance premium moderated to 12 percent (year-on-year) to FRW 18.4 billion in December 2020, significantly lower than 22 percent growth registered in 2019. The lockdown and social distancing measures that followed restricted in-person interaction with customers, which disrupted agent/broker-driven sales. In some instances, policyholders were unable to pay full premiums leading insurance companies to allow their clients to pay annual premiums in installments. Life policy surrenders also increased as households sought to deal with costs inflicted on them by the pandemic. This disruption of life insurance business, however, didn't affect the insurance sector balance sheet due to the relatively small share of life insurance business, compared to mandatory products like motor and medical.

The recovery of economic activities and easing of travel restrictions after effectively containing the pandemic is expected to shore-up performance of the life insurance business.

Despite the challenges mentioned above, the underwriting returns of the insurance sector improved in 2020 largely due to the better performance of the non-life or particularly motor and medical insurance products. Underwriting profits increased from FRW 17.8 billion in 2019 to FRW 20.7 billion in 2020 and this improvement was cross-cutting for both private and public insurers: For private insurers, underwriting losses improved from FRW 6.3 billion in 2019 to FRW 4.2 billion in 2020, while underwriting profits of public insurers marginally increased from FRW 24.1 billion to 24.9 billion. Continued improvement in underwriting will be driven by effective risk pricing of products, operational efficiency as well as fraud detection and prevention especially in the claims process.

At the on-set of the pandemic, NBR encouraged insurers to offer premium payment flexibility to their customers given the impact of the pandemic on household and corporate incomes. The NBR also granted regulatory forbearance with regard to the treatment of premium receivables in the solvency computation – insurers were allowed to admit premium receivables less than 90 days in the solvency computation. As a result, premium receivables from increased from FRW 4.9 billion in December 2019 to FRW 8.5 billion 2020 (9 percent of total premiums and 4 percent of total assets). NBR will continue to engage insurers with regard to recovery of these receivables in order to safeguard capital and liquidity.

Table 25: Key performance highlights of the insurance sector

Description (In FRW billion)	Private Insurers			Public Insurers			Insurance sector		
	Dec-18	Dec-19	Dec-20	Dec-18	Dec-19	Dec-20	Dec-18	Dec-19	Dec-20
Gross written premiums	77.2	85.6	97.1	55.8	65.8	72.2	134.6	151.4	169.3
Net written premiums	57.8	66.2	70.5	55.8	65.8	72.2	116.7	132.1	142.7
Total Claims	38.1	43.8	45.3	32.4	33.8	37.5	69.0	77.6	82.9
Management expenses	25.8	28.7	29.4	5.0	7.9	9.7	33.6	36.6	39.1
Net underwriting returns	(6.1)	(6.3)	(4.2)	18.4	24.1	24.9	14.2	17.8	20.7
Investment Income	8.4	10.3	11.8	17.1	14.5	14.8	30.5	24.8	26.6
Other Income	3.1	2.8	4.7	0.3	0.9	3.2	3.5	3.7	7.9
Net profit after taxes	3.4	4.1	9.5	35.8	39.5	43.0	42.8	43.6	52.5
Assets	168.2	192.3	218.4	283.2	322.4	373.3	452.5	514.6	591.7
Technical provisions	90.2	101.2	114.5	0.9	1.6	1.6	89.1	102.8	116.0
Liabilities	26.2	31.7	35.0	2.4	3.5	4.9	27.5	35.2	39.9
Capital and reserves	51.8	59.4	69.0	279.9	317.2	366.8	335.9	376.6	435.8

Source: NBR, Financial Stability Directorate

The pandemic demonstrated opportunities to further digitize insurance business considering the significant reliance on face-to-face distribution channels such as branches, outlets, brokers and agents, and manual processing and payment of claims. Digitization will enable insurers better serve their customers in a fast and efficient manner, expedite claims processing and payment which will have a significant positive impact on the sector's reputation and therefore long-term sustainability and stability. Consumer education about insurance will further deepen penetration.

5.6.3 Financial Soundness of the Insurance Sector

During the period under review, the insurance sector remained solvent and maintained capital buffers above minimum prudential requirements. As at end December 2020, private insurers' aggregate solvency ratio stood at 114 percent, compared to 100 percent minimum requirement. Private insurers solvency level in 2020 was buoyed by retained profits by several insurers (from FRW 4.2 billion in 2019 to FRW 11 billion in 2020) and capital injections (from FRW 55.3 billion in December 2019 to FRW 58 billion in December 2020).

Private insurers had sufficient liquidity well above minimum prudential requirements. Liquidity ratio which indicates the adequacy of liquid assets to cover liabilities, increased from 130 percent in December 2019 to 134 percent in December 2020, above the 120 percent prudential requirement. Liquidity needs vary depending on the category of insurers' business (short term or long-term insurance business). Short term or non-life insurers that underwrite insurance policies of 1 year of maturity, tend to hold enough liquidity to cater for their short-term obligations, while life insurers who underwrite long term insurance policies, usually hold moderate liquid buffers in line with long term nature of their liabilities.

Since the outbreak of COVID-19, the level of premium receivables increased, in line with NBR's guidance to insurers to support policyholders on flexibility of premium payment schedules. During the period, premium receivables increased both in volume and value. As at December 2020, the number of policies sold on credit increased from 19,095 to 24,445. In value terms, premium receivables grew from FRW 4.9 billion in December 2019 to FRW 8.5 billion in December 2020. However, the level of credit risk (premium receivables in relation to assets) to private insurers remains low, as total premium receivables account 3.7 percent of private insurers' assets as at end December 2020. Among these receivables, the large portion (54 percent of total premium receivables) remained below 90 days of acceptable grace period, while 13 percent falls between 90 to 180 days and 33 percent are above 180 days. Corporates represented 65 percent of total premium receivables, individual's 12 percent, public institutions 20 percent and NGOs 3 percent. Despite, the increase of the premium receivables, liquidity buffers held by insurers remained adequate and sufficient to pay claims and expenses. Going forward, NBR will continue to closely monitor the growth of these receivables and take timely measures to mitigate liquidity risks in private insurers.

Table 26: Key Financial Soundness Indicators of the Insurance sector

FSI (%)	Prudential Benchmark	Private Insurers			Public Insurers			Insurance sector		
		Dec-18	Dec-19	Dec-20	Dec-18	Dec-19	Dec-20	Dec-18	Dec-19	Dec-20
Solvency margin	Min 100%	165	170	114	2265	2426	2,496	1133	1266	1251
Claims ratio	(60% -70%)	59	62	64	56	51	52	58	57	58
Expenses ratio	Max 30%	48	43	41	9	12	13	30	28	27
Combined ratio	Max 90%	108	105	106	65	63	65	87	84	85
ROE	Min 16%	13	11	14	13	12	12	13	12	12
ROA	Min 4%	4	4	4	13	12	12	10	9	9
Liquidity ratio	Min.120%	134	130	134	3982	4636	3984	383	325	321

Source: NBR, Financial Stability Directorate

5.7 PENSION SECTOR

5.7.1 Structure of Pension sector

The Pension sector is a significant provider of funds to the financial sector. As at end December 2020, the sector (mandatory and voluntary) had total assets of FRW 1,055.7 billion which account for 17 percent of total financial sector assets and 11 percent of GDP. Among these assets, pension funds' placements in banks amounted to FRW 185.2 billion representing 7 percent of total deposits held by banks. Total equity investments in local banks and insurance companies were FRW 98.5 billion and FRW 5.5 billion representing 2.3 percent and 1.3 percent of all total equity of banks and insurers respectively. Pension sector's investments in treasury bills and bonds amounted to FRW 151.2 billion and FRW 58.9 billion respectively representing 46 percent for total outstanding treasury bills and bonds.

The sector continued to support other economic sectors through investments in different companies across various sectors such as real estate to the tune of 26 percent of total investment portfolio of the pension sector, manufacturing (9 percent), telecommunication (5 percent), hotels (3 percent), agriculture and forestry (1 percent). The stability and performance of this sector is therefore critical to the stability of financial sector and ultimately the real economy.

The pension sector is dominated by the mandatory public pension fund— the Rwanda Social Security Board (RSSB) that mainly covers formal sector employees. The scheme is a Defined Benefits (DB), which provides pension benefits to retirees based on the age of the member, how long they contributed to the fund, and average monthly earnings received for the five (5) years preceding the date of pension entitlement. In a bid to increase pension inclusivity, the Ministry of Finance and Economic Planning developed and launched the Long-Term Savings Scheme (LTSS) also known as Ejo-Heza in order to provide a pension coverage product for people in the informal sector that were not covered by the mandatory RSSB pension scheme. Ejo-Heza is also administered by RSSB. The RSSB represents over 95 percent of pension sector assets. 12 private pension schemes representing 5 percent of the sector's assets are voluntary and managed as Defined Contribution schemes (DC), which provides pension benefits based on the contributions collected and the performance of the investment of those contributions.

5.7.2 Performance of Public Pension Fund

Assets of the pension sector continued to grow but at a lesser pace compared to previous year. Assets of the public pension fund increased by 10.7 percent to FRW 985.6 billion as at end December 2020, lower than the growth of 15.3 percent registered in 2019. The slowdown was attributed to reduced contributions (from FRW 51 billion in December 2019 to FRW 50.8 billion in December 2020), due to the reduction of employees' salary base in some institutions and suspension of contributions by some private institutions, whose employees were suspended since the outbreak of COVID-19. In addition, the fair value losses mainly on listed equities slowed down the growth of assets. Fair value losses grew by FRW 4.7 billion in 2020, against the fair value gains of FRW 3.8 registered in 2019. Declined investment income also reduced the growth of assets. Investment income of public pension reduced from FRW 20.2 billion in December 2019 to FRW 17.1 billion in December 2020. During the period, interest on fixed income investments (placements in Banks and Government securities) remained stable. The observed shock was on reducing dividends (from FRW 4.7 billion in December 2019 to FRW 0.9 billion in December 2020) partly due to the NBR directive restricting dividend distribution in banks and insurers, but also due to general underperformance of equities arising from the unfavorable economic conditions triggered by the COVID-19 pandemic.

During the period, Pension fund benefits payments increased from FRW 14.8 billion in December 2019 to FRW 17.3 billion in December 2020, reflecting the increased number of beneficiaries (from 39,652 to 42,544). Regular monthly pension payments to retirees represented 90 percent of total benefit payments. The other benefits were paid to pension members of permanent incapacitation/invalidity and lump sum payments to members attaining the retirement age or deceased (with less than 15 years of contribution period). Other operating expenses increased from FRW 2.7 billion to FRW 6.6 billion, mainly due to increased fair value loss of some listed equities observed since the outbreak COVID-19 pandemic in March 2020. During the period, the fair value losses stood at FRW 4.7 billion in December 2020, compared to the fair value gains of FRW 3.7 billion earned in the previous year.

Table 27: Key financial highlights of Public Pension Fund

DESCRIPTION (in FRW Billion)	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	%change Dec-19/18	%change Dec-20/19
Total assets	609.8	717.9	773.2	891.1	985.6	15.3	10.6
Total contributions	36.7	44.6	45.2	51.0	50.8	13.0	-0.5
Total benefits paid	8.8	9.8	13.0	14.8	17.3	14.5	16.5
Operating expenses	2.2	2.1	1.6	2.7	6.6	70.6	142.9
Investment income	10.0	12.6	17.5	20.2	17.1	15.5	-15.4

Source: NBR, Financial Stability Directorate

With regard to investment allocation, the largest portion of the Fund's investments are allocated in equities at the tune of 33 percent, followed by government in securities (22 percent); placements in Banks (18 percent); properties (14 percent); and other investments—including commercial papers (13 percent). Overall, total value of the Fund's investment portfolio increased from FRW 867.8 billion to FRW 964.8 billion (97 percent of all assets) in December 2020. The growth of investments of the fund was supported by positive net inflows from contributions vis a vis benefits paid, and total income (investment income and other income) in relation expenses.

During the period under review, the Pension fund increased its risk appetite for most investment classes. Investments in government securities increased most by FRW 49 billion (from FRW 160.8 billion to FRW 210.1 billion) in search for low risk investments, placements by FRW 27 billion (FRW 150.5 billion to FRW 177.5 billion). Investment in equities increased by FRW 18.7 billion (from FRW 297.3 billion to FRW 316.0 billion). Most of these investments are unquoted corporations (70 percent of total investments in equities). Similarly, property investments increased by FRW 4.1 billion (from FRW 135.8 billion to FRW 139.9 billion), mainly due to the additional investments.

Table 28: Investment allocation of Public Pension Fund

Description (Billion FRW)	Dec-17	Dec-18	Dec-19	Dec-20	% Share	%Change Dec-19/18	%Change Dec-20/19
Government Securities	91.3	122.8	160.8	210.1	22	31.0	30.7
Equities	249.3	262.3	297.3	316.0	32	13.3	6.3
Properties	112.2	101.1	135.8	139.9	15	34.4	3.0
Placements in Banks	209.6	179.4	150.5	177.5	19	-16.1	17.9
Other investments and securities	52.8	89.7	123.4	121.4	12	37.6	-1.6
TOTAL	**715.2**	**755.3**	**867.8**	**964.8**		**14.9**	**11.2**

Source: NBR, Financial Stability Directorate

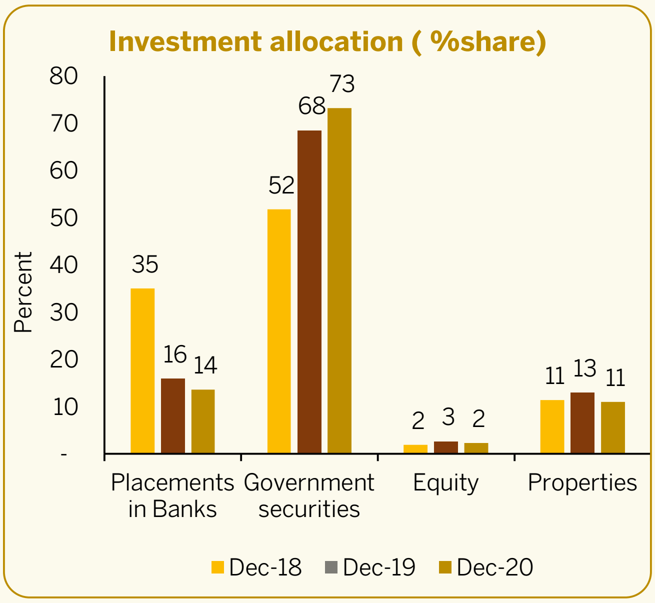
5.7.3 Private Pension schemes

The assets of private pension schemes continued to growth amid the COVID-19 outbreak. These private pension schemes remained 12 and altogether increased their assets by FRW 14.6 billion from FRW 45.4 billion in December 2019 to FRW 60.1 billion in December 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 FRW 8 billion in December 2019 to FRW 9.3 billion in December 2020, while investment income slightly grew from FRW 3.7 billion to FRW 4.2 billion (Figure 21). The remaining portion of private pension assets came from revaluation gains.

Government securities are the most significant investment class of private pension schemes representing 73 percent of total assets, followed by placements in banks with 14 percent, properties 11 percent and equities 2 percent.

The share of government securities in total investments increased from 68 percent to 73 percent, at the expense of placements in banks that reduced from 16 percent to 14 percent. Increased investment in government securities (both bonds and bills) was linked to the higher yields gained on this investment category (perceived as risk free securities), compared to slow growth of interests on placements in banks observed 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 21: Highlights of Private pension scheme



Description (In Billion FRW)	Dec-18	Dec-19	Dec-20
Assets	35	45.4	60.1
Liabilities	0.1	0.1	0.0
Technical Reserves	34.9	45.3	60.1
Contributions received	4.8	8	9.3
Benefits paid	3.1	3.8	5.1
Investment income	2.1	3.7	4.2
Operating expenses	0.8	1.2	1.0

Source: NBR, Financial Stability Directorate

5.8 THE PAYMENT SYSTEM

The payment systems are a vital part of the economic and financial infrastructure and their efficient functioning improves overall economic performance. They provide the channels of funds transfer among financial institutions and facilitate to release the payment obligations arising in the financial markets and across the wider economy. The Rwanda National Payments System (RNPS) comprises the wholesale payment system, retail payment systems, instruments and Payment Service Providers (PSPs). The RNPS, especially mobile financial services have improved in the period under review as witnessed by the operations of different financial market systems.

5.8.1 Wholesale payment systems

In Rwanda, the wholesale payment system is supported by the Rwanda Integrated Payment Processing System (RIPPS), which comprises of the Real Time Gross Settlement (RTGS) system and the Automated Clearing House (ACH). During the year 2020, customer transfers dominated RIPPS activities with a share of 93 percent in terms of number while interbank transactions led with a share of 50 percent in terms of amount. However, RIPPS customer transactions decreased respectively by 14 percent in volume and 17 percent in value during 2020 compared to the previous year. The decrease is due to the impact of lockdown for Covid-19 pandemic.

As indicated in the last monetary policy and financial stability statement, the NBR started the RIPPS upgrade project with the objectives of improving operational resilience and the functionalities of the high value payment system, offering greater access and strengthening end-to-end risk management. The first phase of the upgrade was completed in November 2020 with the migration of the Central System from ISO 15200 to ISO 20022 in a like to like model preparing participants to swiftly move to the second phase with full-fledged ISO 20022. The interface security was enhanced as well. The second phase of the project, which includes enhancement of ISO 20022, extended RIPPS access to non-bank financial institutions and a 24/7 operating mode, will be finalized in June 2021.

5.8.2 Retail Payment Services

Mobile Financial Services and Internet Banking

Supported by mobile financial services (mobile payments and mobile banking), retail electronic payments accelerated exceptionally during the period under review. During 2020, active mobile payment subscribers (transacted in the previous 90 days) increased by 13 percent from 4,139,075 to 4,688,124 while the number of mobile agents increased by 33 percent from 98,359 to 131,173. Mobile payment transactions increased by 85 percent from 378.8 million worth FRW 2,349 billion FRW in 2019 to 701 million worth FRW 7,177 billion FRW in 2020. It is worth noting that comparing 2019 to 2020, the portion of cash-based transactions significantly reduced as a consequence of various policies taken to encourage digital payments and minimize the risk of COVID-19 spreading. Indeed, the portion of digital payment transactions (personal transfers, merchant payments) significantly

Banks which provided internet-banking services increased to thirteen (13) from nine (9) in December 2019 and the number of subscribers increased by 9 percent from 91,825 in December 2019 to 99,810 in December 2020. During the period under review, internet banking transactions increased by 7 percent to 1,445,174 in 2020 from 1,352,301 in 2019 and by 4 percent in terms of value to FRW 2,362 Billion in 2020 from FRW 2,276 Billion in 2019

Card Based Payment services

The number of traditional Point of Sale (POS) machines increased from 3,477 in December 2019 to 4,335 in December 2020. During this period, POS transactions increased by 56 percent in volume from 2,426,456 in December 2019 to 3,780,051 in 2020, while in value, POS transactions increased by 9 percent from FRW 109 billion in 2019 FRW 120 billion in December 2020.

On the other hand, Automated Teller Machines (ATM) decreased from 383 in 2019 to 334 in 2020 due to the fact that two banks moved from ATMs services to Agency banking services. In terms of usage, ATM transactions decreased by 9 percent in volume from 10,061,164 in 2019 to 9,203,942 in December 2020, though the value increased by 17 percent in value from FRW 578 Billion to FRW 679 Billion considering that most people have been withdrawing larger amounts due to the limited access to ATMs during the lockdown period.

Merchant payment

Table 29: Penetration of Touch Points per 100,000 Adult Population and Payment Usage per Capita

	Penetration rates of cards usage	December 2019	December 2020
ATM	Number of devices	383	334
	Penetration rate of ATMs per 100,000 adult population	5.2	4.4
Traditional POS	Number of devices	3,477	4,335
	Penetration rate of Traditional POS per 100,000 adult population	47.3	57.1
Modern POS	Number of devices	19,770	44,029
	Penetration rate of Modern POS per 100,000 adult population	268.7	579.5

Source: NBR, Financial Stability Directorate

Mobile POS contributed the most to increased usage of electronic payments compared to other types of POS during the period under review. As at end December 2020, the number of mobile POS increased significantly to 39,743[4] in December 2020 from 13,675 in 2019 due to increased adoption by various businesses such as supermarkets, retail shops, health centers and specifically microbusinesses.

Mobile POS transactions increased significantly by 511 percent in volume from 7 million to 45 million, while in value they increased by 1,514 percent from FRW 52 billion to FRW 846 billion due to various policies taken to encourage digital payment to limit spread of COVID-19. These policies included but were not limited to no charges on merchant transactions, intensive awareness campaign and merchants' onboarding.

In contrast, other types of POS including Virtual POS and near field communication (NFC) POS decreased during the period under review. The number of virtual POS decreased from 5,713 in December 2019 to 4,264 in December 2020 while NFC POS decreased from 382 in December 2019 to 22 in December 2020. The virtual POS transactions decreased in volume by 73 percent from 14,393 to 3,848 due to the decrease in number of devices

[4] The number exclude the acceptance points provided to motorcycle riders.

whereas they increased in value by 15 percent from FRW 35 Million to FRW 40 million. NFC POS transactions increased in volume by 79 percent from 78,948 to 141,615 while they increased in value by 21 percent from FRW 2 Billion to FRW 2.6 Billion.

5.9 CRISIS MANAGEMENT ARRANGEMENTS

NBR is also vested with the crisis management and resolution responsibility in order to ensure stability within the financial sector and that any weak or failing financial institutions are resolved in a manner that does not cause systemic risks. A number of the key components of a comprehensive crisis management framework are operational such as regulatory reforms (Regulations implementing Basel II and III standards); regulatory and supervisory approach of DSIBs; Prompt Corrective Actions (PCA) and recovery plans; the Emergency Liquidity Facility (ELF) and the Financial Sector Coordination Committee (FSCC) that deals with crisis management issues at the national level.

Depositor protection is a key element of crisis management as it helps to foster the public's confidence in the system, reducing the risk of bank runs. In Rwanda, the Deposit Guarantee Fund (DGF) was established by Law N° 31/2015 of 05/06/2015 determining the organization and functioning of a DGF for banks and microfinance institutions. The main purpose of the DGF is: (i) to protect insured depositors of a bank or a microfinance institution by providing insurance against the loss of insured deposits and (ii) contribute to the stability of the financial sector by ensuring that depositors have prompt access to their insured deposits in the event of failure by a bank or microfinance institution.

The DGF executes three key functions including the collecting premiums from banks and microfinance institutions, managing the collected premiums and reimbursing the depositors of insured deposits in the event that a bank or microfinance institution fails. The Fund covers a maximum of five hundred thousand Rwandan Francs (FRW 500,000) per insured depositor in aggregate with all eligible deposit accounts held, including interest accrued.

All licensed banks and MFIs (limited liability companies and SACCOs) are contributing members of the Fund paying quarterly premiums on the basis of the stock of eligible deposits. Premiums collected are invested mainly in government securities so as to build reserves for future reimbursement of depositors in the event of failure of a member institution. Since its inception, the DGF has amassed premiums amounting to FRW 6.4 billion, penalty charges of FRW 4.9 million and earned interest income of FRW 994 million. As at December 2020, total DGF fund portfolio amounted to FRW 7.6 billion, from FRW 4.9 billion in December 2019, while its coverage of banking sector ensured deposits increased to 4.8 percent in December 2020, from 3.4 percent in December 2019.

In line with its prime function of providing the cover to the depositors, the DGF and the appointed liquidator continued with the fourth phase of settling claims of depositors of CAF ISONGA, a microfinance institution that failed in 2018. So far, 8,430 deposits worth FRW 274 million have been registered of which depositors holding deposits worth FRW 227 million (83 percent of total deposits) were refunded with FRW 153 million (67.4 percent of total registered deposits) due to the coverage limit of FRW 500,000 as per DGF law. The remaining 32.6 percent will be covered with the proceeds from disposal of assets by the liquidator. The rest of the registered depositors who were not refunded are mainly those with low value deposits (less than FRW 5,000) who did not follow through the claims process. The liquidation is still in process and the DGF will continue working hand in hand with the liquidator to ensure that all eligible depositors are refunded in line with existing framework.

Access to Finance

Access to finance leads to the creation of equal opportunities to all groups of people and enables their smooth integration into the national economy, which contributes to citizen's financial health. It enables them to manage their cash flows and payments; raises standards of living; lowers their transaction costs compared with those in the informal sector and reduces vulnerability to risks. On the other hand, low access leads to increased income inequalities, poverty and low-growth rates.

Recent Trends in Access and Usage of financial services

Between December 2019 and December 2020, the number of depositors in banks increased from 2,263,861 to 2,658,966 (17.5 percent increase). The distribution of depositors by province in December 2020 revealed that 69.4 percent of total depositors are located in Kigali City, against the 59.3 percent in 2019, reflecting concentration of depositors in Kigali city, followed by Eastern Province (from 10.8 percent to 9.0 percent), Western Province (from 11.1 percent to 8.0 percent), Southern province (from 10.4 percent to 7.2 percent), and Northern Province (from 8.3 percent to 6.5 percent). The number of borrowers increased from 421,553 in 2019 to 519,687 (23.3 percent increase). Similar to depositors, the City of Kigali has the largest number of borrowers (79.0 percent), followed by Eastern Province (6.9 percent) and the Northern Province has the lowest number of borrowers (4.5 percent).

Table 30: Number of Depositors and Borrowers in Banks by Province

	Kigali	North	East	West	South	Total 2020	Total 2019
Depositors	1,844,659	171,922	238,266	212,836	191,283	**2,658,966**	**2,263,861**
Borrowers	410,760	23,349	35,646	24,146	25,786	**519,687**	**421,553**

Source: NBR, Conduct Supervision & Financial Inclusion Department

Growth of Client Accounts

Having a bank account often means having a safe place to store money and being able to use it conveniently and have access to loans and other financial services. The total number of accounts of banks and MFIs grew from 7.7 million by December, 2019 to 8.8 million as of December, 2020 (14.5 percent increase) whereby bank accounts grew by 17.3 percent.

Table 31: Number of MFI clients' accounts (In Thousands)

Sector	Dec-18	Dec-19	Dec-20	% change
Banking	3,443	3,850	4,518	17.3
Microfinance:	3,680	3,907	4,369	11.8
Female	1,469	1,598	1,793	12.2
Male	1,896	1,973	2,198	11.4
Group/entities	315	346	378	9.2
Total	**7,123**	**7,757**	8,887	14.5

Source: NBR, Conduct Supervision & Financial Inclusion Department

The accounts for female clients in MFIs grew by 12.2 percent compared to male owned accounts that increased by 11.4 percent. In terms of composition, women held 40 percent of total accounts in MFIs (1.7 million), while men held 50.3 percent (2.1 million) of total MFIs accounts.

Number of MFIs' outstanding loans by gender.

Generally, the total outstanding loans in all MFIs and SACCOs grew by 32.5 percent. This has been accelerated by loans from PLCs and Non-USACCOs that grew by 44.4 percent. However, the number of loans from U-SACCOs reduced by 6.7 percent and this can be attributed to low appetite for loans due to Covid-19 pandemic.

5.10 POLICY REFORMS IMPLEMENTED SINCE THE LAST MPFSS

The National Bank of Rwanda is determined to establish a robust legal and regulatory framework necessary for a stable and developed financial system. Since the last MPFSS, NBR issued 2 Regulations. Paragraphs below explains their details.

Regulation Governing Financial Holding Companies

The NBR has established Regulation N° 36/2021 of 7/1/2021 governing financial holding companies. This Regulation applies to financial holding companies registered and licensed in the Republic of Rwanda that meets one of the following criteria: i) the regulated financial institution holds 30 percent of the total assets of the financial holding company, ii) the regulated financial institution in the financial holding company is designated as a domestically systemic financial institution or is to affect the stability of or public confidence in the financial system and iii) the financial institution is the provider of a systemically important payment system. A financial holding company not registered in the Republic of Rwanda is subject to this regulation unless it is supervised on global consolidated basis by the home country supervisor or host jurisdiction in which it has substantial operations.

Regulation on the Application of Proportionality Principle to Banks

The NBR established Regulation N° 37/2021 of 7/1/2021 on the application of proportionality principle to banks. This Regulation aims at adjusting supervisory intensity based on risk profile, complexity and business model of banks, maintaining financial stability by increasing by increasing cost efficiency and reducing the complexity of requirements without at the same time affecting the effectiveness and soundness of the overall system.

Regulation on consolidated supervision for insurance (Group wide supervision)

The purpose of this Regulation N° 38/2021 of 7/1/2021 is to establish the group-wide supervision framework for effective management of risks arising from an insurer's related persons, insurance groups or financial conglomerates or mixed conglomerates.

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 MONETARY POLICY OUTLOOK

Global economy to recover helped by policy support and the vaccine for COVID-19

Despite the uncertainties surrounding the future evolution of the COVID-19 pandemic, the global economy is expected to recover by 5.5 percent from the 2020 severe contraction. However, the magnitude of the recovery will be uneven across the globe depending on factors like access to the COVID-19 vaccine, the effectiveness of policy support, exposure to cross-country spillovers, and preexisting economic conditions. Despite the expected recovery in energy prices, world inflation is expected to remain low in 2021 reflecting a weak global demand.

Domestic economy to close the gap left behind by covid-19

The Rwandan economy contracted by 4.1 percent on average in the first three quarters of 2020, but started to recover in the second half of 2020 as suggested by the recent high frequency economic indicators. This recovery is expected to continue in 2021, helped by policy interventions to revive business activities despite less supportive global demand. The roll-out of the COVID-19 vaccine globally and by the country will enhance private-sector optimism, supporting the recovery.

Headline inflation is expected to evolve around the lower bound of 2.0 percent in 2021

In line with global economic environment and domestic economic performance, projections indicate that headline inflation is expected to ease and evolve around the lower bound of 2.0 percent in 2021 on average. The downward trend in headline inflation will be reflected mostly in core inflation which will reflect muted costs of producing core domestic goods and services. Risks that may divert the headline inflation from the projected baseline path include the performance of agriculture in seasons B and C 2021.

Monetary policy to remain supportive to the recovery

In 20201, the monetary policy stance is expected to remain accommodative, in line with the low inflationary pressures and moderate aggregate demand. The Bank will continue to closely monitor domestic and global economic conditions and stands ready to take appropriate measures if and when necessary.

6.2 FINANCIAL SECTOR OUTLOOK

The outlook of the financial sector will largely be determined by the trajectory of the pandemic and economic activities. NPLs and provisions for bad debts are likely to increase during 2021 with an expected negative impact on profitability and capital buffers. Despite the shock and considering the high levels of capital and liquidity held by banks, the NBR is confident that Banks and MFIs will remain resilient through 2021. Insurers are also expected to continue demonstrating resilience in 2021, though, credit risk (upsurge of premium receivables) and policy restructuring is likely to remain as a key challenge of the sector and affect the growth of premiums and liquidity positions. Payment systems will remain efficient, secure and reliable and facilitate discharge payment obligations arising in the financial markets and across the wider economy.

The three-week lockdown of Kigali in January 2021 was very impactful in controlling the level of new COVID 19 infections and fatalities. The Government recently commenced the vaccination program in February 2021 with these efforts expected to intensify throughout the rest of the year. The global availability of vaccines especially in the region and among major trading partners, the continued improvement in COVID 19 treatment therapies, increased availability and usage of cheap, accurate, reliable and rapid tests as well as continued enforcement of pre-existing containment measures such as mask wearing, hand washing and social distancing will pave the way for a sustainable reopening of the economy and continued safety and soundness of the financial sector. Demand for credit and insurance policies will recover in line with economic activities. The NBR will continue to engage with all relevant stakeholders with regard to measures to rescue and revive the most affected sectors such as tourism and its value chains, public passenger transport, and education among others.

With regard to the legal and regulatory framework, the NBR intends to gazette the Regulation on Business Continuity Management and Operational Resilience for Financial Institutions as well as the Regulation on the accreditation of External Auditors of Financial Institutions, Regulation on licensing of pension schemes and service providers; Regulation on accreditation of actuaries; and the Regulation governing the E- Money Issuesr. The pipeline of Regulations to be reviewed by June 2021 includes the Regulation governing the organization of microfinance activities; Regulation on foreign exchange operations, the Cybersecurity Regulation as well as the Outsourcing Regulation. The main reason to review these regulations is to capture new dynamics in the financial sector as well as ensure alignment with international best practices.

From the supervision point of view, NBR will continue engaging supervised institutions on asset quality and assumptions underlying the current levels of provisions with the ultimate aim of ensuring the provisions are commensurate with perceived risks. Monitoring of premium receivables will be key priority with the purpose of engaging insurers to have clear timeline of for premium receivable recovery. The first phase of RIPPS upgrade has brought major changes in the payment industry and offered benefits including efficient, real time payment. The second phase of RIPPS upgrade will be expected to enhance security interface, which includes enhancement of ISO 20022, extended RIPPS access to non-bank financial institutions with 24/7 operating mode.

NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

NATIONAL BANK OF RWANDA, KN 6 AV.4 | P.O.Box: 531 Kigali Rwanda | Tel: (+250) 788 199 000
Email: info@bnr.rw | Swiftcode: BNRWRWRW | Twitter: @CentralBankRw | Website: www.bnr.rw