MPFSS, 30th August 2018

NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

30th August 2018

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LIST OF ACRONYMS AND ABBREVIATIONS

ASSAR : Association des Assureurs du Rwanda
ATM : Automated Teller Machine
BIF : Burundian Franc
NBR : National Bank of Rwanda
BRD : Banque Rwandaise de Développement
CAR : Capital Adequacy Ratio
CBA : Commercial Bank of Africa
CIC : Currency in Circulation
CIEA : Composite Index for Economic Activities
DGF : Deposit Guarantee Fund
DRC : Democratic Republic of Congo
EAC : East African Community
ECB : European Central Bank
EUR : Euro
FMOC : Financial Market Operations Committee
FOB : Freight on Board (or Free on Board)
FOREX : Foreign Exchange
FRW : Franc Rwandais
FSD : Financial Stability Directorate
FX : Foreign Exchange
GBP : Great British Pound
GDP : Gross Domestic Product
H1 : Half one
H2 : Half two
IFRS : International Financial Reporting Standards
IMF : International Monetary Fund
JPY : Japanese Yen
KES : Kenyan Shilling
LCR : Liquidity Coverage Ratio

LTD : Loan-to-Deposit Ratio

LTD : Long Term Savings Scheme

M3 : Broad money

MFIs : Microfinance Institutions

NBFIs : Non-Bank Financial Institutions

NFC : Near Field Communication

NISR : National Institute of Statistics of Rwanda

NPISHS : Non Profit Institutions Serving Households

NPLs : Non-Performing Loans

NSFR : Net Stable Funding Ratio

OFI : Other Financial Institutions

OG : Official Gazette

OPEC : Organization of the Petroleum Exporting Countries

O/W : Of which

POS : Point of Sale

Q1 : Quarter one

Q2 : Quarter two

Q3 : Quarter three

Q4 : Quarter four

q-o-q : quarter-on-quarter

REPO : Repurchase Agreement

RIPPS : Rwanda Integrated Payment Processing System

ROA : Return on Assets

ROE : Return on Equity

RSSB : Rwanda Social Security Board

SACCOs : Saving and Credit Cooperatives

TA : Total Assets

T- Bills : Treasury Bills

TZS : Tanzanian Shilling

UGS : Ugandan Shilling

UK : United Kingdom

U-SACCOs: Umurenge Savings and Credit Cooperatives

USA : United States of America

USD : American dollar

WEO : World Economic Outlook

y-o-y : year-on-year

EXECUTIVE SUMMARY

The world economy is projected to grow by 3.9 percent in both 2018 and 2019 against 3.7 percent recorded in 2017, supported by favourable global financial conditions, the improvement in global trade and international commodity prices. The global manufacturing Purchase Manager Index remains high, pointing to favourable business conditions that are supporting a strong economic outlook.

Real GDP growth for advanced economies is projected to stabilize at 2.4 percent in 2018, the same level as in 2017. Emerging and developing economies are projected to grow by 4.9 percent against 4.7 percent in 2017.

World annual average inflation rose to 3.0 percent in 2017 and is expected at 3.5 percent in 2018, in line with rising commodity prices and improvement in global demand. However, core inflation remained below central banks' targets in most developed countries, pointing to a continuation of accommodative monetary policy. In the US, core inflation remains above target of 2%, which prompted the Federal Reserve to increase the policy rate to a target range of 1.75 percent – 2.0 percent in June 2018, a range maintained in August 2018.

On the domestic side, the Rwandan economy recorded high performance, with real GDP growth standing at 10.6 percent in 2018Q1 from 1.7 percent registered in 2017Q1. The observed performance was driven by high growth in the service sector (+12.0 percent), agriculture sector (+8.0 percent) and industry sector (+7.0 percent).

The economy continued to register good performance over the first half of 2018 compared to the same period in 2017, as evidenced by the

Composite Index of Economic Activities (CIEA) and total turnovers of industry and services sectors. In real terms, the CIEA increased by 15.4 percent from 7.8 percent registered in the same period of 2017. The growth in total turnovers during the first half of 2018 stood at 15.7 percent against 15.5 percent registered in the corresponding period of 2017, with the services sector gaining by 15.8 percent and industry sector by 15.4 percent.

This good performance is supported mainly by good food crop harvest of 2018 Agricultural season A, increase in transport & tourism following the recent international events hosted by Rwanda, improved external sector and on-going construction projects.

Rwanda's formal trade deficit reduced by 2.0 percent in the first half of 2018 compared to the corresponding period of 2017, from USD 677.86 million to USD 664.21 million. This improvement was driven by a significant increase in formal exports by 23.2 percent while formal imports increased by 7.0 percent.

In the first half of 2018, traditional exports, re-exports and non-traditional exports increased by 28.7 percent, 22.2 percent and 19.1 percent, respectively while formal imports rose by 7.0 percent in value. The increase in formal imports was driven by the growth in all the categories of imports, namely consumer goods ((3.2 percent), capital goods (1 percent), intermediary goods (11.8 percent) as well as energy and lubricants (22.8 percent).

As result of external sector's improvement, mainly driven by the rise in international commodity prices, exchange rate pressures remain moderate, with the FRW depreciating by 1.7 percent against the USD by end June 2018, relative to December, compared to a depreciation of 1.3 percent in the same period of 2017.

Despite rising from 0.9 percent in 2018Q1 to 2.5 percent in 2018Q2, headline inflation broadly remains low and stable. In the first half of 2018, headline inflation eased to 1.7 percent, on average, from 7.0 percent in the same period of 2017 and 2.8 percent recorded in 2017H2.

This developments in headline inflation were mainly reflected in food and energy prices as well as in transport costs. The prices of many food items eased in 2018H1 compared to 2017H2, with the biggest contribution coming from vegetables whose inflation fell from an average of 1.9 percent in 2017H2 to -1.5 percent in 2018H1 owing to favourable rains during the agricultural season A 2018. However, the heavy rains in the period of March-May 2018 constrained the production and transport of solid fuels, leading to the increase in energy prices.

With regard to monetary policy, it is worth mentioning that the NBR maintained an accommodative monetary policy stance in 2018H1, keeping the policy rate at 5.50 percent to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange rate pressures were expected to remain subdued.

Broad money grew by 9.5 percent in June 2018 (y-o-y) compared to 12.7 percent in June 2017. Though new authorized loans by the banking sector decreased by 3.3 percent in 2018H1 compared to a decline of 2.4 percent in the same period of last year, growth in outstanding credit to the private sector stood at 7.3 percent against 8.0 percent during the same period.

The financial system remains safe and sound. The banking and microfinance sectors continue to hold sufficient buffers of capital and liquidity while the solvency position of private insurers has also *significantly improved. Profits of banks, MFIs and insurance companies increased in the first half of 2018 compared to the first half of 2017.*

As at June 2018, the Capital Adequacy Ratio (CAR) for banks and MFIs stood at 21.4 percent and 32.5 percent, respectively, compared to the 15 percent prudential benchmark. The overall banking sector Liquidity Coverage Ratio (LCR)[1] *stood at 299.5 percent in June 2018, compared to the 100 percent prudential requirement, while the liquidity ratio of MFIs stood at 103 percent, compared to the 30 percent prudential limit.*

The solvency position of private insurers increased to 149 percent in June 2018 compared to 61 percent registered in June 2017 and 100 percent prudential requirement. The improved solvency position of private insurers was driven by capital injections by some insurance companies, as well as improved earnings performance leading to greater retained profits in several companies.

The asset quality of banks and MFIs improved. In banks, the Non-Performing Loan ratio (NPLs) dropped to 6.9 percent as at June 2018 from 8.2 percent at June 2017. Similarly, in the same period, the NPLs ratio in MFIs reduced from 12.3 percent to 8 percent. The improved performance of the economy in the first quarter of 2018, as well as write-offs of bad loans that have been in the loss category for more than a year, largely explain the reduction of NPLs.

On a consolidated basis, the financial sector profits (banks, MFIs and Insurance) increased from FRW 40.2 billion in the June 2017 to FRW 50.6 billion in June 2018. During this period, the banking sector profits increased from FRW 21.5 billion to FRW 22.9 billion. The MFI sector

[1] In 2018, the National Bank of Rwanda introduced the 100% minimum Liquidity Coverage Ratio (LCR) as a prudential requirement for banks replacing the previous minimum required liquidity ratio of 20%. LCR is calculated by dividing a bank's high-quality liquid assets by its estimated total net cash flows over a 30-day stress period.

rebounded from a loss of FRW 118 million registered in the first half of 2017 to a profit of FRW 3.3 billion in the first half of 2018. In the same period, the insurance sector profits increased from FRW 18.6 billion to FRW 24.5 billion.

2018 is a year of significant changes with regard to the prudential, supervisory and accounting frameworks for banks due to the implementation of Basel II/III as well as IFRS 9. So far, the implementation of these new requirements has been smooth and the NBR will continue to enhance its supervisory approach in this regard. Credit risk remains a key risk for the sector and the NBR will continue to liaise with the Banks as well as all other stakeholders to overcome the huddles in property valuation as well as the collateral realisation process in order to reduce credit risk. Banks are also required to continue enhancing their credit processes to minimise this risk. Operational efficiency is also an area for continued improvement in order to improve returns on equity in a bid to improve their ability to attract capital and other funding sources.

With regard to the insurance sector, the NBR will continuously work with insurance companies on improving their operational efficiency, properly pricing risks, as well as combating frauds in the claims process.

INTRODUCTION

The Governor of the National Bank of Rwanda presents the Monetary Policy and Financial Stability Statement (MPFSS) twice a year to highlight the recent economic and financial developments and future prospects thereof. As noted in the previous MPFSS, the Rwandan economy is expected to record improved performance in all sectors of the economy in 2018.

The objective of this second MPFSS for 2018 is to assess developments for the first half of the year and provide an outlook for the remaining period of 2018 and beyond. The statement consists of six sections, presented after the executive summary and introduction. The first section highlights the global economic developments and outlook, followed by sections two, three and four, which discuss the domestic economic developments related with real, external and monetary sectors. The fifth section dwells on the financial sector stability analysis while section six presents the monetary policy and financial stability outlook, taking note of the context given in the preceding sections.

I. GLOBAL ECONOMIC ENVIRONMENT

This first part presents a large picture of the recent developments and near-term outlook in the global economy. It covers the economic growth, developments in international prices, and monetary policy & financial markets developments. This helps to contextualize the economic environment within which NBR has conducted its monetary policy and to rationalize Rwanda's economic outlook.

1.1 Economic Growth and Outlook

According to the IMF's July 2018 estimates, the world economy is projected to grow by 3.9 percent in both 2018 and 2019 against 3.7 percent recorded in 2017, supported by favorable global financial conditions, the improvement in global trade and international commodity prices. However, the potential re-emergence of global trade barriers, rising volatility in asset markets and continued US interest rates normalization are likely to impact the near-term growth prospects.

Table 1: Economic Growth Developments (percent)

	BLOOMBERG					IMF WEO		
	2017	2018						
	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
World		-	-	-		**3.7**	**3.9**	**3.9**
Advanced economies	**2.6**	**1.9**	**2.8**	**2.4**	**2.3**	**2.4**	**2.4**	**2.2**
United States (q-o-q)	2.9	2.0	4.1	3.0	2.8	**2.3**	**2.9**	**2.7**
Euro area (y-o-y)	2.7	2.5	2.2	2.0	1.7	2.4	2.2	1.9
Japan (y-o-y)	1.9	1.1	1.1	0.9	1.1	1.7	1.0	0.9
United Kingdom (y-o-y)	1.4	1.2	1.3	1.4	1.4	1.7	1.4	1.5
Emerg. & developing economies	5.7	5.5	5.3	5.3	5.3	**4.7**	**4.9**	**5.1**
China (y-o-y)	6.8	6.8	6.7	6.5	6.8	6.9	6.6	6.4
India (y-o-y)	7.0	7.7	7.6	7.5	7.2	6.7	7.3	7.5
Sub-Saharan Africa	-	-	-	-	-	**2.8**	**3.4**	**3.8**

Source: Bloomberg & IMF WEO, July 2018

Real GDP growth in advanced economies is projected to stabilize at 2.4 percent in 2018, the same level as in 2017. In USA, Real GDP grew by

4.1 percent in 2018Q2 from 2.0 percent in 2018Q1, buoyed by increased business investments, rising consumer spending as well as increasing exports. The Eurozone economic growth is foreseen to decelerate from 2.4 percent in 2017 to 2.2 percent in 2018 and 1.9 percent in 2019. After growing by 2.5 percent y-o-y in 2018Q1, real GDP increased by 2.2 percent in 2018Q2 and is expected at 2.0 percent in 2018Q3. Overall, however, the growth remains strong on the back of healthy global demand, improving productivity and competitiveness after member countries implemented structural reforms in products and labor markets.

Growth in emerging and developing economies improved from 4.4 percent in 2016 to 4.7 percent in 2017 and is projected at 4.9 percent in 2018 and 5.1 percent in 2019. These positive growth prospects will be supported by a pick-up in private consumption and fixed investment in some countries.

Chinese GDP grew by 6.7 percent in 2018Q2, backed by stronger external demand, improving domestic demand together with resilient real estate activity. China's GDP growth is foreseen to decelerate to 6.6 percent in 2018 and further to 6.4 percent in 2019 from 6.9 percent recorded in 2017. This projection reflects the continuous drag from Chinese tightening monetary policy, the slowing fiscal stimulus and the issue of the US raising trade barriers.

Sub-Saharan African economic growth is projected to rise to 3.4 percent in 2018 and to 3.8 percent in 2019, from 2.8 percent in 2017. Growth is expected to pick up in commodity exporting countries as the recovery in commodity prices continues. In the East African Community (EAC), GDP growth is projected at 5.8 percent in 2018 and 6.2 percent in 2019 from 5.2 percent in 2017. In spite of low projected

GDP growth for Burundi, economic performance in the EAC countries is expected to remain strong in both 2018 and 2019.

Table 2: Economic growth in EAC countries (percent)

	2017				2018	Annual average			
	Q1	Q2	Q3	Q4	Q1	2016	2017	2018 Proj.	2019 Proj.
Burundi	-	-	-	-	-	**-1.0**	**0.0**	**0.1**	**0.4**
Kenya	4.8	4.7	4.7	5.3	5.7	**5.8**	**4.8**	**5.5**	**6.0**
Rwanda	1.7	4.0	8.0	10.5	10.6	**6.0**	**6.1**	**7.2**	**7.8**
Tanzania	5.7	7.8	6.8	8.1[2]	-	**7.0**	**7.1**	**6.4**	**6.6**
Uganda	4.5	6.5	7.3	6.4	6.4	**2.3**	**4.5**	**5.2**	**5.8**

Source: National Bureau of Statistics Websites and IMF WEO, July 2018

1.2 Inflation and Commodity Prices

1.2.1 Inflation

World annual average inflation rose to 3.0 percent in 2017 and is expected at 3.5 percent in 2018 in line with rising commodity prices and improvement in global demand. However, core inflation remained below central banks' targets in most developed countries, pointing to a continuation of accomodative monetary policy, except in the US where the Federal Reserve increased the policy rate to the target range between 1.75 percent and 2.00 percent in June 2018 from a target range between 1.50 percent and 1.75 percent previously.

Table 3: Inflation in Advanced Countries (percent)

	2017				2018						2017	2018 proj.	2019 proj.
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun			
USA	2.4	1.6	2.2	2.1	2.1	2.2	2.4	2.5	2.8	2.9	**2.1**	**2.6**	**2.3**
Euro zone	1.5	1.3	1.5	1.4	1.3	1.1	1.3	1.2	1.9	2.0	**1.4**	**1.6**	**1.8**
Japan	0.2	0.3	0.7	1.1	1.3	1.5	1.1	0.6	0.7	0.7	**0.6**	**0.8**	**2.1**
China	0.9	1.5	1.6	1.8	1.5	2.9	2.1	1.8	1.8	1.9	**1.6**	**2.1**	**2.2**

Source: National statistics offices & IMF WEO, July 2018

US inflationary pressures continue to rise, with annual inflation increasing to 2.8 percent and 2.9 percent in May and June 2018, respectively, from 1.6 percent in June 2017. The Eurozone inflation

[2] Estimated basing on data for the first three quarters of 2017 and the annual figure for 2017

stood at 2.0 percent in June 2018 from 1.3 percent in the corresponding period of 2017. This uptick is driven by the rise in energy inflation, food, alcohol & tobacco as well as in non-energy industrial goods.

In China, inflation increased to 1.9 percent in June 2018, from 1.8 percent in May 2018 and 1.5 percent in June 2017, driven by the 1.5 percent rise in prices of consumer goods.

In Sub-Saharan Africa, inflationary pressures were mainly driven by the impact of droughts and weak currencies. Headline inflation was 11.0 percent in 2017 but is expected to fall to 9.5 percent in 2018 and 8.9 percent in 2019 as local currencies will be recovering, following the increase in commodity exports. In EAC, despite rising oil prices, inflation remained benign in the first half of 2018 as pressures from weather related food prices and exchange rate depreciation started waning.

Table 4: Headline Inflation in EAC Countries (percent)

	2016	2017				2018						Average	
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	2017	2018
Burundi	9.6	21.1	15.1	15.2	10.3	6.1	-1.3	-2.6	-1.7	-1.0	-0.4	**16.6**	**12.7**
Kenya	6.4	10.3	9.2	7.1	4.5	4.8	4.5	4.2	3.7	4.0	4.3	**8.0**	**4.8**
Rwanda	7.3	7.7	4.8	3.8	0.7	1.3	0.7	0.9	1.7	3.0	2.9	**4.8**	**2.8**
Tanzania	5.0	6.4	5.4	5.3	4.0	4.0	4.1	3.9	3.8	3.6	3.4	**5.3**	**4.8**
Uganda	5.7	6.4	6.4	5.3	3.3	3.0	2.1	2.0	1.8	1.7	2.2	**5.6**	**3.6**

Source: National Bureaus of Statistics & IMF, WEO, July 2018

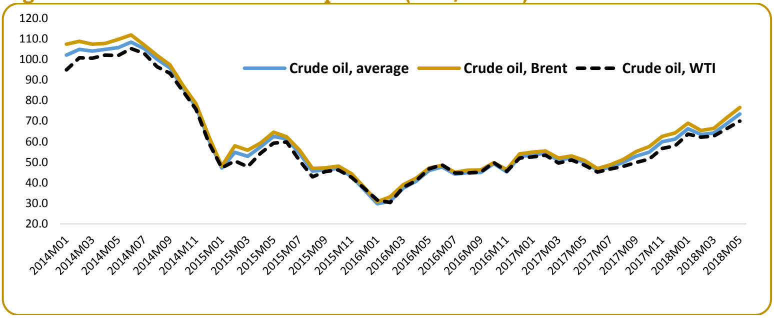
1.2.2 International Commodity Prices

The global commodity price index continued to increase in 2018 reflecting improving global economic activity and supply constraints for a number of commodities. In the first five months of 2018, global energy price index rose by 28.0 percent and non-energy by 5.6 percent, spurred by a sustained global demand. Prices increased for all categories of non-energy commodities; metals & minerals by 15.6

percent, fertilizers by 2.4 percent, and agricultural commodities by 1.6 percent.

In the first five months of 2018, Crude and Brent oil prices rose by 28.8 percent and 31.2 percent y-o-y, respectively, on the back of geopolitical concerns, tightening product inventories as well as a strong global demand, which added to the continuous OPEC oil supply adjustments.

Figure 1: Crude Oil Price Developments (USD/barrel)



Source: World Bank

Going forward, crude oil prices are expected to increase by 23.1 percent, to USD 65.0/barrel in 2018 and 2019 from USD 52.8/barrel in 2017, owing to strong demand amid continued supply cut by oil producers.

Table 5: World Bank Commodity Prices (percent change)

	2017Q4	2018Q1	May MoM	May YoY	Jan. – May 2017	Jan. – May 2018	2017	2018 Forc	2019 Forc
Crude Oil (average)	16.93	10.12	6.74	47.17	41.15	28.81	23.36	23.11	0.00
Metals and minerals	**4.73**	**4.26**	**0.40**	**20.14**	**27.04**	**15.63**	**24.13**	**8.57**	**-2.12**
Aluminium	4.64	2.40	1.99	20.21	22.47	17.34	22.69	10.52	-3.45
Tin	-3.46	6.99	-2.03	3.26	25.07	5.58	11.86	3.19	0.88
Iron ore	-7.98	13.12	0.53	5.88	49.51	-8.75	22.95	-10.86	-6.25
Beverages	**-2.95**	**-1.00**	**1.38**	**3.52**	**-3.65**	**-3.57**	**-9.01**	**-0.24**	**1.21**
Coffee Arabica	-6.07	-2.13	0.95	-9.59	5.38	-15.05	-8.03	-2.11	0.31
Robusta coffee	-10.15	-4.05	0.49	-9.78	34.76	-15.35	14.36	-10.31	1.00
Tea(*)	-0.74	-7.86	2.62	-6.39	23.27	-2.36	17.42	-1.61	0.33
Cereals	**-1.12**	**8.83**	**0.82**	**13.18**	**-5.47**	**13.78**	**-0.25**	**7.58**	**1.50**
Wheat (US HRW)	-2.33	-	-	-	-13.07	-	4.19	9.20	2.11
Maize	-1.54	10.06	1.98	12.92	-2.01	6.15	-2.52	6.45	1.82
Rice (Thai, 5 percent)	-0.83	7.90	0.00	7.13	-2.54	14.83	0.76	5.26	0.48
Barley	13.12	17.54	0.00	39.02	-18.42	38.17	-5.77	27.55	4.00

Source: World Bank

(*) Average price of three auctions, Mombasa, Colombo and Kolkata

The increase in prices for metals and minerals reflected the pick-up in global manufacturing production. The decline in prices of Iron ore (-8.75 percent for the first five months of 2018) was driven by high inventories in Chinese ports as well as weaker steel prices. Prices for fertilizers went up by 2.42 percent in the first five months of 2018 compared to a decrease of 9.31 percent in the same period of 2017, as prices for five of the eight major fertilizers are now higher compared to those of last year.

Compared to the first five months of 2017, average agriculture commodity prices rose as unfavorable weather conditions reduced harvests. During the same period, however, Arabica and Robusta coffee prices fell by 15.1 percent and 15.4 percent, respectively.

Due to diminished planting prospects, agricultural commodity prices are expected to rise by 2.0 percent in 2018 driven by a 7.8 percent increase in prices of cereals, while prices will decline by 0.2 percent for beverages with Arabica coffee, Robusta coffee and tea prices expected to decline by 2.1 percent, 10.3 percent and 1.6 percent, respectively.

1.3 Monetary Policy and Financial Markets

Monetary policy remained accommodative in most advanced economies with the central bank rate remaining unchanged in the Eurozone and UK. The European Central Bank rate (ECB) was maintained at 0.00 percent and the asset purchase program kept at euro 30 billion a month and likely to remain so until September 2018.

The Bank of England (BoE) kept unchanged the bank rate at 0.50 percent in June 2018 as inflation remained broadly stable at around 2.3 percent since March 2018. The Bank of Japan continued to apply a negative 0.100 percent interest rate and to buy government bonds to encourage the financing of economic activities.

Table 6: Ten-year Government Bond Rate end of Period (percent p. a)

	2016	2017				2018					
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
USA	2.444	2.3874	2.3037	2.3336	2.4054	2.7050	2.8606	2.7389	2.9531	2.8586	2.8601
Euro zone	0.208	0.328	0.466	0.464	0.427	0.697	0.656	0.497	0.559	0.341	0.302
Japan	0.0460	0.070	0.086	0.68	0.48	0.085	0.053	0.049	0.055	0.040	0.036
UK	1.239	1.139	1.257	1.365	1.190	1.510	1.501	1.350	1.418	1.230	1.278

Source: Bloomberg database

The three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.37 percent and -0.11 percent respectively in June, affecting banks' deposits in the Central bank and encouraging economic financing. In US, and UK, three-month deposit rates increased to 2.37 percent and 0.71 percent respectively.

On the foreign exchange market, the US dollar is recovering against major currencies, notably the Euro and the British pound, but continues to weaken versus the Yen.

1.4 Expected impact on the Rwandan economy

Globally, strong aggregate demand is likely to continue supporting the Rwandan economic prospects. Foreign demand for local export products is expected to remain healthy driven by an acceleration in global demand which continues to support Rwandan export earnings.

However, oil supply cuts by OPEC countries may push up oil prices, thus raising the import bill and putting pressures on the FRW.

Taken together, the above mentioned upward and downward risks imply that pressures on the Rwandan franc as well as on domestic prices are expected to remain moderate in 2018, since the growth in oil prices will not exceed previous levels.

II. NATIONAL ECONOMIC PERFORMANCE

This section concentrates on both the Rwanda's economic growth and external sector performance during the first semester of 2018. In the first quarter of 2018, the national economy grew by 10.6 percent in 2018Q1 from 1.7 percent recorded in 2017Q1.

About external sector development, Rwanda's formal trade deficit reduced by 2.0 percent in 2018H1 compared to 2017H1, as formal exports grew by 23.8 percent while formal imports rose by 7.0 percent.

2.1 Economic Growth

The observed good economic performance in 2018Q1 resulted from high growth recorded in the service sector (+12.0 percent), agriculture sector (+8.0 percent) and Industry sector (+7.0 percent).

Table 7: Rwanda Real GDP Growth (in percent)

	2015	2016	2017	2017				2018
				Q1	Q2	Q3	Q4	Q1
GDP	**8.9**	**6.0**	**6.1**	**1.7**	**4.0**	**8.0**	**10.5**	**10.6**
Agriculture	**5.0**	**4.0**	**7.0**	**3.0**	**6.0**	**8.0**	**10.0**	**8.0**
Food crops	4.0	3.0	7.0	4.0	4.0	11.0	11.0	6.0
Export crops	14.0	2.0	2.0	-24.0	22.0	-5.0	19.0	46.0
Livestock & livestock products	9.0	10.0	11.0	11.0	11.0	11.0	12.0	12.0
Forestry	4.0	4.0	3.0	3.0	3.0	3.0	4.0	4.0
Fishing	3.0	3.0	5.0	3.0	4.0	5.0	6.0	7.0
Industry	**9.0**	**7.0**	**4.0**	**-1.0**	**1.0**	**6.0**	**10.0**	**7.0**
Mining & quarrying	-5.0	10.0	21.0	-1.0	3.0	25.0	51.0	3.0
Manufacturing	8.0	7.0	6.0	7.0	6.0	6.0	7.0	7.0
Electricity	8.0	14.0	8.0	5.0	6.0	12.0	9.0	10.0
Water & waste management	1.0	5.0	2.0	2.0	2.0	2.0	1.0	2.0
Construction	15.0	5.0	-3.0	-7.0	-4.0	-1.0	-1.0	8.0
Services	**10.0**	**7.0**	**8.0**	**4.0**	**6.0**	**10.0**	**11.0**	**12.0**
Trade & transport	11.0	7.0	4.0	-7.0	-2.0	8.0	17.0	26.0
Maintenance and repair of motors	5.0	7.0	4.0	5.0	4.0	3.0	4.0	6.0
Wholesale & retail trade	13.0	6.0	0.0	-13.0	-6.0	2.0	19.0	26.0
Transport services	10.0	8.0	11.0	2.0	6.0	21.0	16.0	28.0
Other services	10.0	7.0	9.0	8.0	10.0	11.0	9.0	8.0
Hotels & restaurants	9.0	11.0	10.0	17.0	9.0	5.0	9.0	6.0
Information & communication	18.0	9.0	12.0	2.0	6.0	28.0	13.0	24.0
Financial services	12.0	3.0	7.0	1.0	6.0	7.0	14.0	12.0
Real estate activities	5.0	6.0	5.0	8.0	7.0	2.0	2.0	3.0
Public administration and defense	5.0	12.0	4.0	-1.0	10.0	17.0	-9.0	15.0
Education	2.0	4.0	4.0	2.0	2.0	2.0	2.0	2.0
Human health and social work activities	10.0	6.0	6.0	1.0	4.0	13.0	8.0	7.0
Cultural, domestic & other services	19.0	7.0	9.0	3.0	8.0	8.0	15.0	13.0
Taxes less subsidies on products	**14.0**	**4.0**	**-4.0**	**-10.0**	**-12.0**	**-2.0**	**9.0**	**17.0**

Source: Rwanda National Institute of Statistics (NISR)

The good performance registered by the service sector was mainly triggered by the upsurge in wholesale and retail trade (+26.0 percent), transport services (+28.0 percent), information and communication (+24.0 percent) as well as financial services (+12.0 percent).

The increase in wholesale and retail trade is reflected into the rise in total imports by 11.6 percent in 2018Q1 from a decline of 1.9 percent in 2017Q1. In the transport services sub-sector, the increase was driven by air transport that increased by 32.1 percent, followed by land transport (+30.3 percent) and services related to transport (+15.6 percent).

The agriculture sector recorded a good performance in 2018Q1, growing by 8.0 percent from 3.0 percent in 2017Q1, mainly driven by the increase in export crops as well as food crops. Export crops grew by 46.0 percent, recovering from a decline of 24.0 percent recorded in 2017Q1, largely on account of high coffee and tea production. Their output increased by 85.7 percent and 22.8 percent in 2018Q1, respectively, from declines of 38.9 percent and 11.1 percent in 2017Q1. Food crops' production increased by 6.0% in 2018Q1 against 4.0% recorded in 2017Q1 as result of 2018 season A good harvest that was supported by good weather conditions.

The industry sector increased by 7.0 percent in 2018Q1, mainly supported by the recovery in the construction sector, which grew by 8.0 percent from -7.0 percent in 2017Q1 following the on-going construction projects including Bugesera Airport. Furthermore, the sector continued to be supported by manufacturing industries, which maintained a growth rate of 7.0 percent during the same period, mainly led by textiles, clothing & leather goods (+33.3 percent), Non-metallic mineral products (11.0 percent) and food processing (9.0 percent).

The economy continued to register good performance in 2018Q2 and the numbers for 2018H1 are expected to be better compared to the same period of 2017 as demonstrated by leading indicators.

In real terms, the Composite Index of Economic Activities (CIEA) increased by 15.4 percent in the first six months of 2018 from 7.8 percent registered in the same period of 2017.

Table 8: CIEA (percent change, y-o-y)

CIEA	Nominal		Real	
	2017	**2018**	**2017**	**2018**
Q1	10.2	16.7	6.2	17.5
Q2	14.1	8.4	9.2	13.4
Jan.-June	**12.2**	**12.4**	**7.8**	**15.4**

Source: NBR, Monetary Policy and Research Directorate

Growth in total turnovers during the first half of 2018 stood at 15.7 percent against 15.5 percent registered in the corresponding period of 2017, with the services sector rising by 15.8 percent and industry sector by 15.4 percent.

Table 9: Turnovers of Industry & Services (percent change, y-o-y)

	2017			2018		
	Q1	**Q2**	**Jan.-June**	**Q1**	**Q2**	**Jan.-June**
Total turnovers	**14.8**	**16.2**	**15.5**	**19.4**	**12.3**	**15.7**
Industries	**10.1**	**12.6**	**11.4**	**17.2**	**13.6**	**15.4**
Mining and Quarrying	9.1	8.8	8.9	44.0	63.3	54.4
Manufacturing	9.6	27.0	18.0	16.7	9.0	12.7
Energy, water & Sanitation	19.1	5.8	11.8	4.3	1.7	3.0
Construction Sector	7.7	-4.2	1.2	19.0	17.7	18.3
Services	**16.5**	**17.6**	**17.0**	**20.2**	**11.9**	**15.8**
Wholesale and retail trade	16.7	27.1	22.1	30.8	11.1	20.1
Petroleum Distributors	44.1	14.4	27.8	0.8	16.3	8.4
Transport and Storage	18.8	10.6	14.4	23.9	22.2	23.0
Hotels and Restaurants	2.7	1.7	2.2	19.0	12.4	15.5
Information and Communication	0.9	-4.8	-2.2	9.5	6.2	7.8
Banks	10.7	11.5	11.1	14.6	10.0	12.3
Real Estate Activities	13.5	-11.9	-0.5	7.8	18.3	12.9

Source: NBR, Monetary Policy and Research Department

The service sector, with a share of 74.4 percent of the total turnovers, performed well following an increase in wholesale and retail trade (+20.1 percent), transport and storage (+23.0 percent), hotels & restaurants (+15.5 percent), financial and insurance activities (+12.8 percent) as well as in real estate activities (+12.9 percent).

The growth in wholesale and retail trade is reflected in the increase in imports of goods by 18.2 percent in volume during the first six months of 2018 from a decline of 1.6 percent in the same period of 2017. For the transport sub-sector, the increase in sales continued to be driven by business expansion of RwandAir.

Turnovers for hotels rose by 15.5 percent in 2018H1 from 2.2 percent in the same period of 2017. The uptick was mainly attributable to events, related to MICE (Meetings, incentives, conferences and exhibitions) tourism, of which Africa Tech Summit, 42nd General Assembly of the Federation of African National Insurance companies, Dot Finance Africa, Extraordinary African Union Summit and Next Einstein Forum, to mention but a few.

The industry sector, which accounts for 25.6 percent of the total sales, grew by 15.4 percent in the first half of 2018 from 11.4 percent in the corresponding period of the previous year, mainly attributed to mining and quarrying (+54.4 percent), construction (+18.3 percent), and manufacturing (+12.7 percent). The growth in mining followed international base metal prices, which increased further by 17.1 percent in the first six months of 2018 after 23.8 percent in the same period of 2017.

The manufacturing sub-sector's good performance was supported by the increase in turnovers of some companies, mainly food and beverages industries as well as metal industries. The construction sub-sector's good performance (+18.3 percent) was reflected in increased domestic demand of cement by 12.1 percent in the first half of 2018 from a decrease of 3.2 percent in the corresponding period of 2017.

2.2 External Trade Performance

Rwanda's formal trade deficit reduced by 2.0 percent in the first half of 2018 compared to the corresponding period of 2017, from USD 677.86 million to USD 664.21 million. This improvement was driven by a significant increase in formal exports by 23.2 percent while formal imports increased by 7.0 percent.

As a result, formal imports coverage by exports improved to 41.1 percent in 2018H1 from 35.7 percent recorded in 2017H1. When informal cross border trade is included, the exports cover of imports rises to 46.2 percent in 2018H1 from 39.7 percent in 2017H1. The improved trade balance has helped to continue easing the exchange rate pressures.

2.2.1 Formal Exports Developments

In the first half of 2018, traditional exports, re-exports and non-traditional exports accounted for 32.4 percent, 36.3 percent and 31.3 percent of the total export earnings, respectively. The export base has continued to be progressively diversified as the share of traditional exports in total exports declined from 62.1 percent in 2013 to 32.4 percent in 2018H1.

Table 10: Evolution of Exports: 2013–2017 (percent share)

	2013	2014	2015	2016	2017	2017H1	2018H1
Total exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Traditional exports	**62.1**	**55.2**	**47.5**	**36.6**	**30.1**	**31.1**	**32.4**
Coffee	9.6	10	11.1	9.8	6.8	**4.2**	**4.6**
Tea	9.7	8.6	13	10.6	8.9	**12.6**	**11.0**
Cassiterite	10.7	12	6.1	5.8	5.3	**6.4**	**5.9**
Coltan	23.5	17.5	11.8	6.6	6.6	**5.1**	**7.9**
Wolfram	5.2	4.4	3.1	2	1.3	**1.3**	**2.0**
Hides and Skins	2.8	2.4	1.9	1.2	0.8	**1.1**	**0.6**
Pyrethrum	0.7	0.3	0.4	0.6	0.3	**0.3**	**0.4**
Re - exports	**23.6**	**27.6**	**31.8**	**37.5**	**31.0**	**36.6**	**36.3**
Non - traditional exports	**14.3**	**17.3**	**20.7**	**25.9**	**38.9**	**32.4**	**31.3**

Source: NBR, Statistics Department

In 2018H1, total exports increased by 23.2 percent in value, to USD 463.16 million from USD 375.91 million in 2017H1, while the volume increased by 18.4 percent. The increase in exports value is mainly attributable to the good performance in traditional exports (+28.7 percent), non-traditional exports (+19.1 percent) and re-exports (+22.2 percent), following the increase in international commodity prices.

Traditional exports, which include coffee, tea, minerals, pyrethrum as well as hides and skin, grew by 28.7 percent, amounting to USD 150.29 million in 2018H1 from USD 116.74 million in 2017H1. This growth is driven by the increase in receipts of mineral exports by 51.9 percent, coffee (33.1 percent) and tea (7.7 percent) mainly driven by increased prices on the account of the continued improvement in global demand.

Compared to 2017H1, coffee exports increased in value by 33.1 percent in 2018H1, from USD 15.86 million in 2017H1 to USD 21.11 million in 2018H1. The increase in value is attributable to the rise in the unit price by 3.7 percent, from 2.66 USD/kg in 2017H1 to 2.76 USD/kg in 2018H1 following the increased exportation of fully washed coffee, as well as the growth in volume by 28.3 percent from 5.95 thousand tons to 7.64 thousand tons resulting from favorable weather conditions that started in 2017B season.

Despite the 2.3 percent decline in tea prices, tea exports increased in value by 7.7 percent, from USD 47.45 million in 2017H1 to USD 51.09 million in 2018H1, on the account of increased volume (+10.2 percent) from 15.1 thousand tons in 2017H1 to 16.65 thousand tons in 2018H1 following favorable weather conditions.

Table 11: Major Exports Developments (Value FOB in USD millions, Volume in thousands of tons and change in percent)

	2013	2014	2015	2016	2017	2017H1	2018H1	Percent change
Coffee								
- Value	54.9	59.68	62.04	58.49	64.12	**15.86**	**21.11**	**33.1**
- Volume	19.99	15.97	18.79	18.64	18.67	**5.95**	**7.64**	**28.3**
- Price USD/KG	2.75	3.74	3.3	3.14	3.43	**2.66**	**2.76**	**3.7**
Tea								
- Value	55.48	51.76	72.46	63.42	84.27	**47.45**	**51.09**	**7.7**
- Volume	21.01	22.67	24.68	24.41	26.24	**15.11**	**16.65**	**10.2**
- Price USD/KG	2.64	2.28	2.94	2.6	3.21	**3.14**	**3.0.7**	**-2.3**
Mining								
- Value	225.7	203.32	117.81	86.42	124.97	**48.34**	**73.43**	**51.9**
- Volume	9.58	10.47	7.28	6.54	8.01	**3.57**	**4.23**	**18.3**
Cassiterite								
- Value	61.07	71.95	34.26	34.81	50.15	**24.07**	**27.37**	**13.7**
- Volume	4.9	5.95	3.85	3.55	4.76	**2.24**	**2.55**	**13.5**
- Price USD/KG	12.48	12.08	8.91	9.81	10.54	**10.74**	**10.75**	**0.1**
Coltan								
- Value	134.57	104.78	66.2	39.74	62.21	**19.23**	**36.65**	**90.6**
- Volume	2.47	2.3	1.65	1.27	1.73	**0.66**	**0.82**	**23.9**
- Price USD/KG	54.57	45.51	40.08	31.29	36.06	**29.20**	**44.90**	**53.8**
Wolfram								
- Value	30.05	26.59	17.34	11.87	12.60	**5.04**	**9.40**	**86.7**
- Volume	2.22	2.21	1.78	1.72	1.52	**0.67**	**0.86**	**28.5**
- Price USD/KG	13.55	12.01	9.72	6.92	8.27	**7.49**	**10.88**	**45.3**
Hides and Skin								
- Value	16.02	14.22	10.38	7.44	7.51	**4.04**	**2.69**	**-33.4**
- Volume	10.3	9.62	8.27	6.19	5.39	**3.31**	**1.49**	**-54.9**
- Price USD/KG	1.56	1.48	1.26	1.2	1.39	**1.22**	**1.80**	**47.6**
Pyrethrum								
- Value	3.98	1.83	2.48	3.36	3.10	**1.05**	**1.98**	**88.5**
- Volume	0.02	0.01	0.01	0.02	0.03	**0.01**	**0.01**	**113.0**
- Price USD/KG	238.88	171.2	177.15	188.33	120.90	**181.74**	**160.8**	**-11.5**
I. Traditional exports								
- Value	356.08	330.81	265.16	219.14	283.97	**116.74**	**150.29**	**28.7**
- Volume	60.89	58.74	59.03	55.8	58.34	**27.96**	**30.02**	**7.4**
II. Re-exports								
- Value	135.04	165.35	177.87	224.28	292.20	**137.49**	**167.95**	**22.2**
- Volume	97.59	105.73	159.16	230.37	323.78	**151.71**	**185.61**	**22.3**
III. Non-traditional exports								
- Value	81.91	103.6	115.73	155.27	367.36	**121.68**	**144.92**	**19.1**
- Volume	149.89	159.63	172.42	179.86	252.45	**117.35**	**136.01**	**15.9**
TOTAL EXPORTS								
- Value	**573.03**	**599.76**	**558.75**	**598.69**	**943.53**	**375.91**	**463.16**	**23.2**
- Volume	**308.37**	**324.1**	**390.61**	**466.03**	**634.57**	**297.01**	**351.64**	**18.4**

Source: NBR, Statistics Department

The mining sector performed well in 2018H1 driven by the increase in prices and volumes. The exports' value of the main minerals (Coltan, Cassiterite and Wolfram) increased by 51.9 percent, from USD 48.34 million recorded in 2017H1 to USD 73.43 million in 2018H1. The increase in exports value of all mineral categories was led by Coltan (90.6 percent), Wolfram (86.7 percent) and Cassiterite (13.7 percent), driven by the increase in unit prices by 53.8 percent, 45.3 percent and 0.1 percent respectively amid strengthening global demand.

Receipts from exported hides and skins decreased by 33.4 percent, from USD 4.04 million to USD 2.69 million driven by the decline in its volume by 54.9 percent, from 3.31 thousand tons to 1.49 thousand tons following the temporary suspension of Kigali Leather Company, the main producer of hides and skin due to environmental concerns.

Pyrethrum exports performed well in both value and volume. Exports receipts from pyrethrum amounted to USD 1.98 million 2018H1 from USD 1.05 million in the corresponding period of 2017, an increase of 88.5 percent and 113.0 percent in value and volume respectively. The growth in pyrethrum exports is explained by increased demand mainly from USA.

Non-traditional exports, which increased by 19.1 percent in value and 15.9 percent in volume, were dominated by other minerals (50.2 percent), products of milling industry (23.3 percent), iron and steel (2.6 percent) and flowers (1.8 percent). The increase was mainly driven by the growth in exports of the products of milling industry by 85.0 percent in 2018H1, to USD 33.8 million from USD 18.2 million in 2017H1, thanks to the increased production by the local milling industry prompted by high demand from DRC and Uganda.

In addition, revenues from flowers, mainly exported to Netherlands, more than doubled to USD 2.6 million in 2018H1 from USD 1.1 million in the corresponding period of 2017 on the account of new investments that boosted production.

The growth in the non-traditional category is also explained by the increase in exports of other manufactured products like textiles (+158.8 percent), iron and steel (+67.2 percent) and mattresses (+56.8 percent) among others following the government initiative to increase locally produced goods to increase exports earnings.

Re-exports, mainly composed of petroleum products, machines and engines, vehicles and other re-exports, grew by 22.2 percent and 22.3 percent in value and volume respectively. This growth is explained by strong demand of foodstuffs, cars and machines from neighboring countries.

2.2.2 Formal Imports Developments

In the first half of 2018, formal imports rose by 7.0 percent in value, to USD 1,127.4 million from USD 1,053.8 million during the corresponding period of 2017 and its volume grew by 18.2 percent to 1,101.0 thousand tons from 931.1 thousand tons during the same period. The increase in formal imports was driven by the growth in all the categories of imports, namely consumer goods, capital goods, intermediary goods as well as energy and lubricants.

During the same period, the imports value was dominated by consumer goods with a share of 32.3 percent, followed by intermediary goods (27.5 percent), capital goods (27.4 percent) as well as energy & lubricants (12.2 percent). In volume terms, intermediary goods were dominant with a share of 44.8 percent, followed by consumer goods

(32.3 percent), energy & lubricants (16.5 percent) and capital goods (3.0 percent) of the total formal imports' volume.

Table 12: Formal imports developments (Value in millions of USD, Volume in thousands of tons and change in percent)

		2013	2014	2015	2016	2017	2017H1	2018H1	Percent change
Total imports	**Value**	**2,247.40**	**2,386.90**	**2,311.20**	**2,248.50**	**2215.37**	**1053.8**	**1127.4**	**7.0**
	Volume	**1,781.90**	**1,846.60**	**2,068.10**	**1,965.20**	**2093.15**	**931.1**	**1101.0**	**18.2**
Consumer goods	**Value**	633.6	656.2	694.1	728.3	746.74	353.0	364.2	3.2
	Volume	574.4	592.4	695.9	763.2	805.37	340.1	394.0	15.9
Capital goods	**Value**	596.3	642.2	652.6	713	620.17	305.8	308.8	1.0
	Volume	59	60.6	70.2	69.1	62.60	30.4	32.9	7.9
Intermediary goods	**Value**	632.9	720	682.5	569.5	596.19	277.1	309.7	11.8
	Volume	878.9	914.7	992.2	821.9	902.60	413.5	492.7	19.2
Energy and lubricants	**Value**	384.6	368.5	282.1	237.7	252.28	117.8	144.7	22.8
	Volume	269.7	278.9	309.8	311	322.57	147.1	181.4	23.3

Source: NBR, Statistics Department

Imports of consumer goods were dominated by food products with a share of 43.3 percent in value and 81.6 percent in volume. Imported consumer goods increased by 3.2 percent in value, to USD 364.2 million in 2018H1 from USD 353.0 million in the corresponding period of 2017 and by 15.9 percent in volume, from 340.1 thousand tons to 394.0 thousand tons. The increase in imported consumer goods is mainly driven by growth in volumes of articles of clothing (mainly clothes and shoes) by 6.5 percent, pharmaceuticals and cosmetics by 10.3 percent and domestic articles by 4.7 percent.

Imports of capital goods, dominated by machines and devices as well as transport materials, increased slightly by 1.0 percent in value and 7.9 percent in volume in 2018H1 compared to the corresponding period 2017H1. This increase is largely due to machinery, electrical and electronic equipment, whose volume increased substantially by 39.1 percent, offsetting the 18.9 percent decline in the volume of transport materials.

Compared to 2017H1, imports of intermediary goods rose by 11.8 percent in value and 19.2 percent in volume in 2018H1 on the account of strong demand for food industries, chemicals and other various inputs by local industries for production purposes. Intermediary goods were in 2018H1 dominated by industrial products with a value share of 59.0 percent, construction materials 25.2 percent, and fertilizers 3.1 percent.

In addition, imports of construction materials, mainly composed of cement, grew by 11.3 percent in value on the account of increased volume of cement by 31.0 percent. Domestic cement production reduced by 14.2 percent as CIMERWA cut its supply in March and April 2018 following maintenance of their machines while domestic demand increased by 12.1 percent in line with the increase in construction activities.

Table 13: Domestic production and trade of cement (tons, unless otherwise indicated)

	2014	2015	2016	2017	2017H1	2018H1	Percent change
Domestic production	**119,083**	**181,050**	**293,091**	**322,391**	**162,351**	**139,218**	**-14.2**
CIMERWA	106,120	172,848	290,437	322,253	**162,351**	**139,218**	**-14.2**
KCC	12,963	8,203	2,654	137	**0**	**0**	**0.0**
Imports of cement	469,447	421,892	268,353	225,905	**117,959**	**154,486**	**31.0**
Exports of cement	16,160	25,258	29,793	71,725	**32,479**	**16,009**	**-50.7**
Domestic demand	572,370	577,684	531,651	476,571	**247,831**	**277,695**	**12.1**

Source: NBR, Statistics Department

Imports of energy and lubricants, of which more than 92 percent is fuel, increased by 22.8 percent, amounting to USD 144.7 million in 2018H1 from 117.8 million in the corresponding period of 2017. The growth in imports of petroleum products is mainly on the account of increased oil prices following the decision by OPEC countries and some non-OPEC countries to cut oil output to prop up prices and balance the market.

2.2.3 Formal trade with other EAC Countries

Rwanda's trade deficit with the EAC member countries widened by 11.7 percent, standing at USD 152.83 million in 2018H1 from USD 136.81 million in the corresponding period of 2017. The worsening trade balance is on the account of increased imports by 12.0 percent from USD 221.67 million to USD 248.26 million, outweighing the 12.5 percent growth in exports from USD 84.86 million to USD 95.43 million.

Rwanda's exports to EAC, representing 20.6 percent of the total formal exports in 2018H1 from 22.57 percent in 2017H1 grew by 12.5 percent to USD 95.43 million in 2018H1 from USD 84.86 million in 2017H1. The growth was driven by the increased exports to Uganda and Kenya by 55.2 and 6.8 percent respectively.

The increase in exports to Kenya is mainly driven by the high exports of tea and coffee while increased exports to Uganda is attributable to higher exports of milling industry products, specifically corn soya blend, which constitute 58.6 percent of the total exports to Uganda.

Table 14: Trade flows with EAC (USD million)

		2013	2014	2015	2016	2017	2017H1	2018H1
Exports to EAC	Value in USD millions	122.9	142.5	120.2	151.66	166.81	84.86	95.43
	percent change	*6.4*	*15.9*	*-15.7*	*24.70*	*9.98*	-0.44	**12.5**
	Share to total formal exports	21.5	23.8	21.5	25.00	17.68	22.57	20.6
Imports from EAC	Value in USD millions	516.4	546.8	519.4	470.34	466.44	221.67	248.26
	percent change	*-3*	*5.9*	*-5*	*-9.40*	*-0.83*	-4.73	**12.00**
	Share to total formal imports	23	22.9	22.5	20.90	21.05	21.04	22.05
TRADE BALANCE		**-393.5**	**-404.3**	**-399.2**	**-320.50**	**-299.64**	**-136.81**	**-152.83**

Source: NBR, Statistics Department

Imports from EAC countries, accounting for 22.05 percent of total formal imports grew, by 12.0 percent, to USD 248.26 million in 2018H1 from USD 221.67 million in the corresponding period of 2017. The increase in imports from EAC is mainly driven by higher imports of cement and food products especially cereals such as maize corn, rice and sorghum.

2.2.4 Informal Cross Border Trade

During the period under review, Rwanda's Informal Cross-Border Trade (ICBT) recorded a trade surplus of USD 51.9 million in 2018H1 from USD 36.4 million in 2017H1, an increase of 42.5 percent.

Informal exports, which account for 13.6 percent of total formal exports, are dominated by exports to DRC with a big share (86.2 percent) of the total informal exports, followed by Uganda (11.1 percent) and Burundi (2.7 percent).

The growth in ICBT exports is explained by good agricultural production largely attributed to favorable weather conditions experienced during 2017/18 season A since agricultural products are predominant in this trade. In addition, increased exports to DRC is also on the account of removal of non-tariff barriers by DRC in the last quarter of 2017.

Table 15: Rwanda Informal Cross Border Trade (USD million)

		2013	2014	2015	2016	2017	2017H1	2018H1
Exports	Value in USD millions	110.7	107.5	108.3	132.7	98.41	**46.7**	**63.2**
	Percent change	*8.7*	*-2.9*	*0.7*	*22.5*	-19.3	**-30.2**	**35.2**
	Share to total formal exports	19.3	17.9	19.4	22.2	10.43	**12.4**	**13.6**
Imports	Value in USD millions	17.6	19.2	21.8	30.5	22.6	**10.3**	**11.3**
	Percent change	*-22.2*	*9.2*	*13.4*	*40.0*	-25.9	**-39.3**	**9.2**
	Share to total formal imports	0.8	0.8	0.9	1.4	1.02	**1.0**	**1.0**
Trade balance		**93.1**	**88.3**	**86.5**	**102.2**	**75.8**	**36.4**	**51.9**

Source: NBR, Statistics Department

Informal imports increased by 9.2 percent, from USD 10.3 million in 2017H1 to USD 11.3 million in 2018H1. Uganda remains the leading ICBT trading partner with 61.6 percent of the total ICBT imports followed by Burundi (19.6 percent), DRC (11.0 percent) and Tanzania (7.7 percent). The increase in ICBT imports is on the account of high imports of clothing, cement, Irish potatoes seeds and modern drinks from Uganda and husked rice from Tanzania.

2.3 Key Financial Flows

The balance of payments numbers indicate that financial flows to Rwanda continue to be the main source of financing the current account deficit. Total official inflows increased by 61.4 percent in 2018Q1 compared to the corresponding period of 2017 mainly driven by external public borrowing, budgetary grants as well as non-budgetary grants, which rose by 199.2 percent, 108.0 percent and 56.8 percent respectively.

Total private flows increased by 25 percent, from USD 260.8 million in 2017Q1 to USD 325.43 million in 2018Q1, mainly driven by the increase in external private borrowing, foreign direct investment, remittances and tourism receipts with respective growth of 42.2 percent, 30 percent, 25.8 percent and 7.3 percent.

Table 16: Key financial flows (USD million)

	2014	2015	2016	2017	2017Q1	2018Q1	2018 proj.
Total Private Inflows	**931**	**890.5**	**1359.46**	**1023.5**	**260.8**	**325.43**	**1166.9**
Direct Investments	314.7	223.3	266.3	293.4	75.4	98.0	312.3
Portfolio Investments	4.5	7.8	3.6	3.0	0.3	0.3	2.8
Remittances	174.9	153.2	167.3	207.6	48.1	60.5	217.9
Private Foreign Borrowings LT	133.2	138.5	532.5	162.2	55.9	79.6	141.5
Tourism receipts	303.7	367.7	389.76	357.3	81.1	87.03	492.4
Total Official Inflows	**1170.5**	**1222.8**	**1113.2**	**1143.7**	**183.7**	**296.5**	**1237.0**
Ordinary Budgetary Grants	276.9	218.6	234.6	253.3	33.6	69.9	261.8
Non-budgetary Grants	143.3	172.9	131.1	156.2	28.7	45.0	164.0
PKOs	105.3	159.3	170.8	175.1	38.5	18.7	130.9
Public Foreign borrowings	307.9	372.1	386.7	369.2	37.8	113.1	461.4
Capital Grants	337.1	299.9	190.0	189.9	45.1	49.8	218.9

Source: NBR, Statistics Department

Foreign direct investment grew by 30.0 percent, from USD 75.4 million in 2017Q1 to USD 98.0 million in 2018Q1, driven by good performance in the global economy as well as the continued effect of pro-investment policy reforms such as ease of doing business, zero tolerance to corruption and well-defined property rights.

Growth in tourism receipts is estimated at 7.3 percent, from USD 81.1 million in 2017Q1 to USD 87.03 million in 2018Q1, driven by business and conferences following heavy investment in hotels and RwandAir. The number of total visitors grew by 7.0 percent driven by 105.0 percent growth in conference visitors.

Inward remittances grew by 25.8 percent, from USD 48.1 million in 2017Q1 to USD 60.5 million in 2018Q1. This growth is supported by the good performance in the global economy and reduction of the global average cost of remitting money from 7.13 percent to 6.99 percent per 200 USD. In addition, sub-Saharan Africa's average cost of remitting money reduced from 9.81 percent to 9.44 percent (World Bank report 2018, issue No 26).

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

In the context of the abovementioned global and domestic economic developments and outlook in 2018 and beyond, this section highlights the monetary policy stance adopted by the NBR and the outcomes thereof.

3.1 Monetary Policy Stance

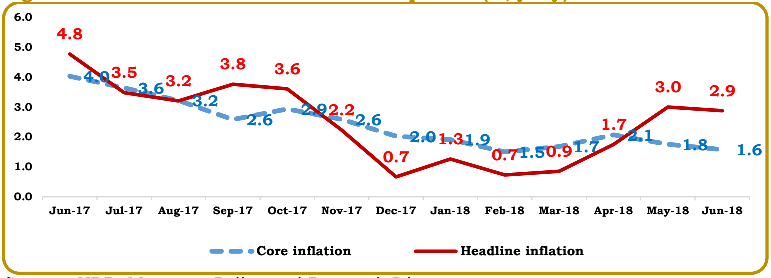
In the first half of 2018, the NBR maintained an accommodative monetary policy stance, keeping the policy rate at 5.50 percent to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange rate pressures were expected to remain subdued.

On annual basis, broad money grew by 9.5 percent in June 2018 compared to 12.7 percent in June 2017 while growth in outstanding credit to the private sector stood at 7.3 percent against 8.0 percent during the same period.

3.2 Inflation Developments

Despite rising from 0.9 percent in 2018Q1 to 2.5 percent in 2018Q2, headline inflation broadly remains low and stable. In the first half of 2018, headline inflation eased to 1.7 percent, on average, from 7.0 percent in the same period of 2017 and 2.8 percent recorded in 2017H2.

Figure 2: Headline and Core inflation developments (%, y-o-y)



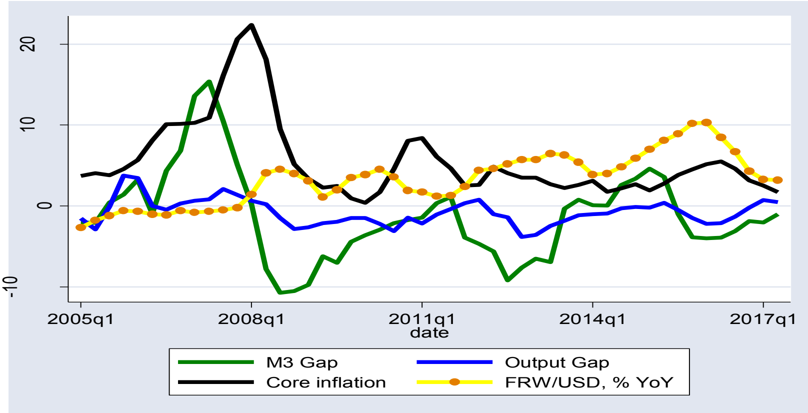
Source: NBR, Monetary Policy and Research Directorate

The developments in headline inflation were mainly reflected in food and energy prices as well as in transport costs. The prices of many food items eased in 2018H1 compared to 2017H2, with the biggest contribution coming from vegetables whose inflation fell from an average of 1.9 percent in 2017H2 to -1.5 percent in 2018H1 owing to favorable rains during the agricultural season A 2017/18.

However, the heavy rains in the period of March-May 2018 constrained the production and transport of solid fuels, leading to the increase in energy prices. Solid fuels inflation went up from 5.2 percent in 2017H2 to 15.6 percent in 2018H1. Likewise, energy inflation rose from 4.9 percent to 10.0 percent during the same period.

Core inflation also remained benign, declining from 2.8 percent in 2017H2 to 1.7 percent in 2018H1, in line with the still low level of aggregate demand (proxied by output gap and money supply gap) and the still subdued exchange rate pressures.

Figure 3: Inflation and Key Macroeconomic Aggregates



Source: NBR, Monetary Policy and Research Directorate

Transport inflation increased from 2.1 percent in 2017H2 to 5.6 percent in 2018H1 following the upward revision of both public transport fares since April 2018, and local pump prices from 1042 FRW/liter in January to 1065 FRW/liter in April. In addition, the lagged effect of the Yen appreciation against the USD from 1.6 percent in January 2018 to 4.2 percent in February and to 5.9 percent in March 2018 pushed up the inflation for imported cars and spare parts.

Domestic inflation dropped from 2.4 percent in 2017H2 to 0.9 percent in 2018H1 while imported inflation rose from 4.3 percent to 4.7 during the same period. The trend in domestic inflation was essentially influenced by domestic food prices, while imported inflation reflected the costs of fuels and lubricants.

Table 17: Inflation Developments for Key Items (annual percent change)

Inflation	2017		2018						
	2017H1	2017H2	Jan	Feb	Mar	Apr	May	Jun	2018H1
Headline	7.0	2.8	1.3	0.7	0.9	1.7	3.0	2.9	**1.7**
Domestic	6.7	2.4	0.4	-0.2	-0.4	0.8	2.3	2.3	**0.9**
Food:	15.0	4.6	-1.0	-2.4	-2.1	-1.4	1.5	1.7	**-0.6**
- Vegetables	17.2	1.9	-4.4	-6.2	-5.5	-3.1	4.2	6.0	**-1.5**
- Bread & Cereals	8.7	8.3	5.3	4.4	3.9	2.8	1.7	0.5	**3.1**
Alcoholic	7.1	2.0	2.2	2.9	2.2	3.8	5.3	4.0	**3.4**
Education	-0.5	2.3	1.2	1.0	1.5	1.5	2.3	2.2	**1.6**
Housing	1.9	6.6	0.7	0.4	0.2	0.4	0.2	0.2	**0.4**
Transport	6.9	2.1	2.7	2.4	3.8	7.7	8.1	8.8	**5.6**
Imported	7.8	4.3	4.2	4.0	5.1	4.9	5.3	4.7	**4.7**
Core	5.0	2.8	1.9	1.5	1.7	2.1	1.8	1.6	**1.7**
Energy	4.8	4.9	7.5	8.6	5.8	10.7	15.3	12.1	**10.0**

Source: NBR, Statistics Department

3.3 Monetary Developments

3.3.1 Money Supply

Broad money (M3) increased by 9.5 percent (y-o-y) in June 2018 against 12.7 percent in the corresponding period of the previous year, mainly driven by the increase in net domestic assets by 9.6 percent against 3.5 percent and an increase in net foreign assets by 9.4 percent from 29.0 percent during the same period. Compared to December 2017, M3 grew by 8.3 percent in June 2018 from 11.1 percent of the same period last year.

Growth in net domestic assets was mainly driven by the increase in credit to the private sector by 7.3 percent y-o-y in June 2018 from 8.0 percent in the corresponding period of last year, standing at FRW 1,491.2 billion from FRW 1,390.3 billion. In addition, net credit to the government grew by 33.7 percent from 13.9 percent during the same period, standing at FRW 189.5 billion from FRW 141.7 billion.

Table 18: Monetary Aggregates Developments (end period, FRW billion)

	2015	2016		2017		2018	% change	
	Dec	Jun	Dec	Jun	Dec	Jun	Jun17/ Jun 16	Jun18/ Jun 17
Net foreign assets	**642.6**	**567.5**	**739.5**	**731.9**	**803.3**	**800.8**	**29.0**	**9.4**
Foreign assets	860.8	890.1	1078.2	1101.8	1204.4	1226.3	23.8	11.3
Foreign liabilities	218.1	322.5	338.7	369.9	401.1	425.5	14.7	15.0
Net domestic assets	**839.5**	**1004.9**	**855.2**	**1040.3**	**988.4**	**1139.8**	**3.5**	**9.6**
Domestic credit	1223.1	1451.7	1340.9	1575.9	1568.7	1766.2	8.6	12.1
Central government (net)	39.5	124.4	12.2	141.7	58.4	189.5	13.9	33.7
Public enterprises	5.1	39.9	43.3	43.9	46.1	85.4	10.1	94.8
Private sector	1178.6	1287.4	1285.4	1390.3	1464.2	1491.2	8.0	7.3
O/W in foreign currency	*133.6*	*178.9*	*141.3*	*193.3*	*199.3*	*199.5*	8.0	3.2
Other items net (Assets: +, Liab: -)	-383.7	-446.8	-485.7	-535.6	-580.3	-626.4	-19.9	-16.9
Broad money M3	**1482.1**	**1572.4**	**1594.7**	**1772.2**	**1791.7**	**1940.6**	**12.7**	**9.5**
Currency in circulation	142.6	150.8	145.9	159.7	162.7	181.6	5.9	13.7
Deposits	1339.5	1421.6	1448.8	1612.5	1628.9	1759.0	13.4	9.1
O/W: Demand deposits	614.6	640.0	587.9	680.2	647.3	697.3	6.3	2.5
Time and saving deposits	469.0	512.4	532.4	542.3	583.1	615.4	5.8	13.5
Foreign currency deposits	255.9	269.2	328.5	390.0	398.5	446.2	44.9	14.4

Source: NBR, Statistics Department

New authorized loans by the banking sector decreased by 3.3 percent in 2018H1 compared to a decline of 2.4 percent realized in the same period of last year. This trend was mainly driven by the decline in new loans to commerce, restaurants and hotels (-14.2 percent), public works and building (-3.2 percent). This contraction is explained by a high rejection rate of 20.4 percent in value and 14.7 percent in number of loan requests compared to 16.6 percent and 3.5 percent, respectively, in the same period of last year.

In this respect, credit conditions were mostly tightened in many banks driven by risk mitigation, subsequent to significant impact of loan provisioning and write-offs of big non-performing loans.

Table 19: New Authorized Loans by Activity Sector (FRW billion, unless otherwise indicated)

Activity sector	2013H1	2014H1	2015H1	2016H1	2017H1	2018H1	Percentage change	
							2017H1/ 2016H1	2018H1/ 2017H1
Non-classified Activities	26.3	33.8	30.6	37.8	44.5	51.4	17.9	15.3
Agricultural, Fisheries& Livestock	4.1	3.4	6.7	6.3	4.9	5.7	-21.6	15.7
Mining Activities	0.0	0.0	0.3	1.7	0.6	0.3	-64.6	-57.3
Manufacturing Activities	14.9	44.6	12.3	35.8	28.4	33.1	-20.5	16.4
Water & Energy Activities	0.4	16.1	1.3	8.0	8.8	0.2	10.2	-97.8
Public works and building	43.5	68.7	119.6	89.9	105.2	101.8	17.0	-3.2
Commerce, Restaurant and Hotels	107.5	132.0	144.3	216.1	169.3	145.3	-21.6	-14.2
Transport & Warehousing & Communication	14.9	15.5	24.3	18.7	38.2	48.4	104.0	26.7
OFI & Insurances and Other Non-financial Services	4.7	1.2	12.5	3.5	6.5	1.0	83.5	-84.8
Services provided to the Community	4.2	10.4	8.9	8.9	10.2	14.7	14.3	44.8
Total	**220.4**	**325.7**	**360.8**	**426.7**	**416.7**	**402.7**	**-2.4**	**-3.3**

Source: NBR, Financial Stability Directorate

In 2018H1, commerce, restaurants and hotels remains the most financed sector by commercial banks with 36.1 percent in total new loans, followed by public works and building (25.3 percent) and activities not classified elsewhere mainly composed of personal loans (12.8 percent). The share of these components in total new authorized loans stands at 74.2 percent.

Table 20: New Cash Loans Distribution by Economic Sectors (percent share)

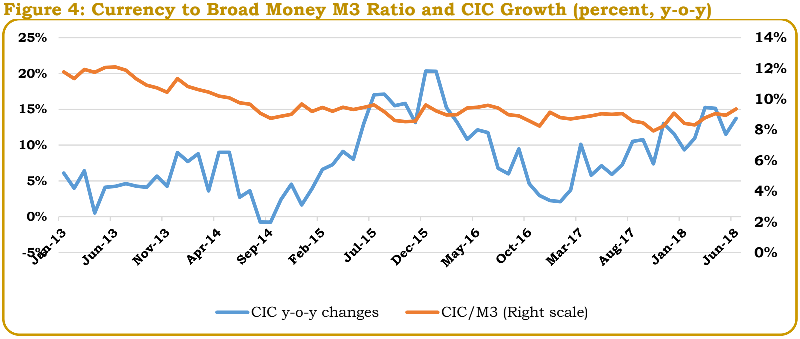
Activity sector	2013H1	2014H1	2015H1	2016H1	2017H1	2018H1
Non-classified Activities	11.9	10.4	8.5	8.9	**10.7**	**12.8**
Agricultural, Fisheries& Livestock	1.8	1.0	1.9	1.5	**1.2**	**1.4**
Mining Activities	0.0	0.0	0.1	0.4	**0.1**	**0.1**
Manufacturing Activities	6.8	13.7	3.4	8.4	**6.8**	**8.2**
Water & Energy Activities	0.2	4.9	0.3	1.9	**2.1**	**0.0**
Public works and building	19.8	21.1	33.2	21.1	**25.2**	**25.3**
Commerce, Restaurant and Hotels	48.8	40.5	40.0	50.6	**40.6**	**36.1**
Transport & Warehousing & Communication	6.7	4.8	6.7	4.4	**9.2**	**12.0**
OFI & Insurances and Other Non-financial Services	2.1	0.4	3.5	0.8	**1.6**	**0.2**
Services provided to the Community	1.9	3.2	2.5	2.1	**2.4**	**3.7**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: NBR, Financial Stability Directorate

3.3.2 Money Demand

Currency in circulation (CIC) increased by 13.7 percent (y-o-y) in June 2018 from 5.9 percent in June 2017. Compared to December 2017, it grew by 11.6 percent in June 2018 against 9.5 percent recorded in the same period of last year. This upward trend in CIC is driven by an improvement in economic activities. In addition, the monetization of economy continued to improve as the ratio of broad money to GDP increased to 23.4 percent in 2017 from 15.4 percent in 2013. The currency in circulation to broad money ratio remains low, standing at 9 percent in June, below an average of 10 percent in the last 5 years. This downward trend in the ratio of CIC to broad money continues to be mainly caused by the improvement in financial inclusion and payment systems modernization.

Figure 4: Currency to Broad Money M3 Ratio and CIC Growth (percent, y-o-y)



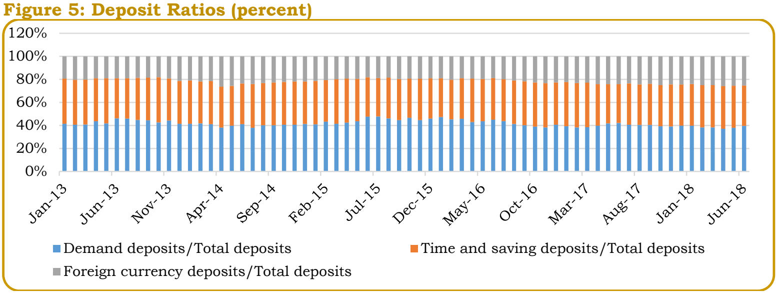
Source: NBR, Monetary Policy and Research Department

Total deposits picked up by 9.1 percent y-o-y in June 2018, versus 13.4 percent in June 2017. Compared to December 2017, they grew by 8 percent in June 2018 against 11.3 percent recorded in the corresponding period of last year. This upturn trend followed the continued good performance of economic activities.

Demand deposits increased by 2.5 percent y-o-y in June 2018 against 6.3% recorded in June 2017, time and saving deposits grew by 13.5 percent from 5.8 percent, and foreign currency deposits rose by 14.4 percent from 44.9 percent during the same period. The increase in time and savings deposits can be partially attributed to the removal of the 15% withholding tax on term deposits with maturity of one year and above.

The share of demand deposits in total deposits remains high but with a downward trend, standing at 39 percent on average in 2018H1, lower than 42 percent in the last five years, followed by time and saving deposits with 36 percent from 37 percent, and foreign currency deposits with 25 percent, compared to 21 percent in the last five years.

Figure 5: Deposit Ratios (percent)



Source: NBR, Statistics Department

With regard to deposits by category of depositors, Households and Non-Profit Institutions Serving Households (NPISHs) continue to dominate.

Table 21: Deposits by Category of Depositors (percent share)

Depositors	Demand deposits					Time deposits					Foreign currency deposits				
	2014	2015	2016	2017	Jun-18	2014	2015	2016	2017	Jun-18	2014	2015	2016	2017	Jun-18
Other financial institutions	2.4	3.4	2.3	2.2	2.8	3.8	5.8	3.9	4.6	5.4	0.1	0.3	0.1	0.7	0.4
Social security funds	1.2	3.7	1.6	5.5	5.2	14	12	13	11.9	10.6	0.1	0.3	0.2	0.3	1.5
Public enterprises	2.4	0.8	1.7	0.3	0.5	0.2	0.4	1.7	0.3	0.1	0.4	0.7	0.4	0.2	0.2
Other nonfinancial corporations	11.8	14	11.9	12.8	12.4	4.6	3.1	3.7	2.8	3.8	13.4	9.5	10.8	11.6	11.1
Households and NPISH	23.5	22.5	22.2	18.6	18.5	14.3	14.6	15.3	15.8	14.6	8.0	8.9	11.2	12.2	12.8
Total	**41.3**	**44.4**	**39.7**	**39.4**	**39.3**	**36.9**	**35.9**	**37.6**	**35.5**	**34.6**	**22.0**	**19.6**	**22.7**	**25.0**	**26.1**

Source: NBR, Statistics Department

3.4 Liquidity Conditions

Liquidity conditions in banks continued to improve in 2018H1. Compared to December 2017, banks' most liquid assets[3] rose by 13.9 percent in June 2018 against 17.3 percent in the same period of the previous year, standing at FRW 379.7 billion from FRW 333.3 billion as recorded in December 2017, supported by increased liquidity injection.

Table 22: Most Liquid Assets of Commercial Banks (FRW billion, unless otherwise indicated)

	2016	2017				2018		% change	
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Dec-16/ Jun-17 (percent)	Dec-17/ Jun-18 (percent)
T-bills	173.7	187.3	207.9	245.0	243.6	253.5	249.5	**19.7**	**2.4**
Central bank bills	4.0	5.0	0.0	9.0	6.0	37.0	18.5	**-100.0**	**207.5**
Repo	30.5	21.0	60.4	13.0	30.0	54.7	45.0	**98.0**	**50.0**
Excess Reserves (FRW billion)	24.5	14.8	9.9	15.2	20.6	17.2	36.8	**-59.6**	**78.7**
Cash in Vault	30.8	31.4	30.9	28.4	33.1	32.1	29.9	**0.3**	**-9.7**
Total	**263.5**	**259.5**	**309.1**	**310.6**	**333.3**	**394.5**	**379.7**	**17.3**	**13.9**

Source: NBR, Monetary Policy and Research Department

The improvement in liquidity conditions was partly driven by the NBR's injection of FRW 8.8 billion in 2018H1 compared to FRW 12.4 billion

[3] Local currency

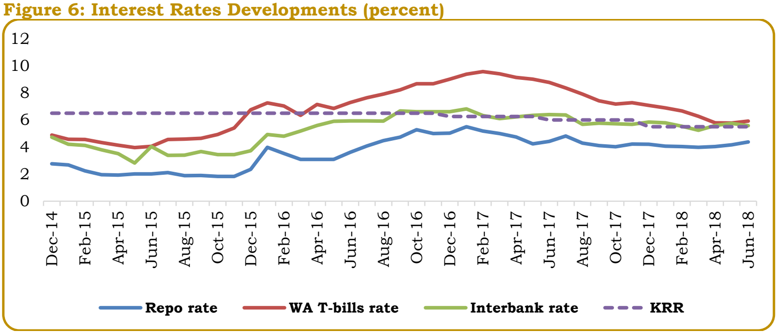
in the same period of last year through SWAP transactions with commercial banks.

In addition, following the improvement in the external sector, sales of foreign exchange to banks reduced to USD 96.6 million equivalent to FRW 82.4 billion from January to June 2018, against USD 135.6 million equivalent to FRW 112.0 billion during the corresponding period of the previous year. Fiscal injections also increased by 53.2 percent to FRW 94.0 billion in 2018H1 compared to FRW 61.4 billion in 2017H1.

3.5 Interest Rate Developments

Money market interest rates have been declining in line with an accommodative monetary policy stance and improved banking system liquidity conditions. Repo, interbank and T-bills interest rates respectively stood at 4.11 percent, 5.58 percent and 6.22 percent end 2018H1 compared to 4.21 percent, 5.85 percent and 7.07 percent end December 2017.

Figure 6: Interest Rates Developments (percent)



Source: NBR, Statistics Department

With regard to commercial banks' interest rates, lending interest rates slightly declined to 16.98 percent, on average, in 2018H1 compared

17.07 percent 2017H1 while deposit rates increased to 8.01 percent compared to 7.80 percent in the same period last year.

Table 23: Market Interest Rates (percent average)

	2013	2014	2015	2016	2017	2017	2018						
						Jan-June	Jan	Feb	Mar	Apr	May	June	Jan-June
Lending rate	17.32	17.26	17.33	17.29	17.17	17.07	17.23	16.84	17.03	16.81	16.91	17.03	16.98
Deposit rate	9.93	8.24	8.24	7.91	7.63	7.80	7.34	7.95	8.23	7.49	8.71	8.33	8.01
Spread	7.39	9.02	9.09	9.38	9.54	9.27	9.89	8.89	8.80	9.32	8.20	8.70	8.97

Source: NBR, Statistics Department

For corporates, the lending rate declined to 16.4 percent in 2018H1 from 16.7 percent in 2017H1. However, the lending rate for individual borrowers slightly increased to 17.8 percent from 17.4 percent in during the same period.

Table 24: Interest Rates by Type of Borrowers (p.a, average)

Lending rate Type of Borrower	2013	2014	2015	2016	2017	2017H1	2018H1
Corporates	16.9	16.5	16.6	16.7	16.6	16.7	16.4
Individuals	17.7	18.5	18.1	18.1	17.8	17.4	17.8

Source: NBR, Financial Stability Directorate

On the interbank market, during the first 7 months of 2018, the market recorded transactions worth FRW 320.3 billion compared to FRW 243.8 billion recorded in the same period of 2017. During the same period, the number of interbank transactions increased to 159 compared to 136. This upward trend is linked to the progressive improvement in liquidity forecasting and management by the NBR following the introduction of the Financial Markets Operations Committee (FMOC). This will be key in the implementation of a price-based monetary policy framework expected to kick-off by end 2018.

3.6 Capital Market Development

In 2017, through the NBR, the Government has continued the quarterly bond issuance. During the period, NBR has successfully issued four bonds and reopened one: two 5-year bonds, a 7-year bond and 10-year bond with an average subscription of 239 percent. The first ever bond reopening has been successful with a remarkable subscription level of 311.3 percent from 42 applications received from different categories of investors. As a result, T-Bond outstanding was FRW 200.0 billion as of end June 2018, from FRW 180.0 billion end December 2017.

Table 25: T-Bonds Outstanding (FRW billion, unless otherwise indicated)

Year	Banks	Percent	Institutional investors	Percent	Retail investors	Percent	Total (FRW billion)
2014	24.3	50.1	23.4	48.3	0.8	1.6	48.5
2015	46.2	46.2	51.5	51.5	2.3	2.3	100.0
2016	60.9	39.9	86.5	56.7	5.1	3.3	152.5
2017	65.8	36.6	103.7	57.6	10.5	5.8	180.0
Jun.18	72.3	36.1	109.8	54.9	18.0	9.0	200.0

Source: NBR, Financial Market Department

In all these issuances, there was an increasing participation of institutional and retail investors. The share of institutional investors increased from 23.4 percent by December 2014 to 54.9 percent end June 2018, and the share of retail investors increased to 9.0 percent from 1.6 percent in the same period. On the other hand, the share of banks in government bonds declined from 50.1 percent end December 2014 to 36.1 percent end June 2018.

The successful issuance is attributed to current market conditions and continued joint efforts in the public awareness campaign across the country, in a bid to encourage Rwandans to save money and invest in risk free Government debt securities.

3.6.1 Secondary Market

In the first semester of 2018, a bond turnover of FRW 6.39 billion was recorded on Rwanda Stock Exchange (RSE); that is an increase of 78.7 percent from FRW 3.58 billion traded in 2017. On the equity side, a turnover of FRW 5.0 billion was traded in 2018H1 against FRW 12.2 billion in 2017H1; that is a decrease of 59.0 percent. The increase in bond market turnover is attributable to the increased public awareness of available investment opportunities on stock exchange. On the equity market, the decrease was mainly driven by a lack of listing over 2018H1 as compared to 2017H1 when I&M Bank was listed on RSE. The market capitalization increased from FRW 2,746 billion end June 2017, to FRW 2,894 billion end June 2018.

Table 26: Trading Activities on the RSE

Equities	2013	2014	2015	2016	2017	Jan-Jun-17	Jan-Jun-18	% change 2017/2018
No of deals	1,738	1,529	938	892	903	430	325	**-24.42%**
Volume in million	108	135	136	95	98	79	30	**-62.01%**
Turnovers in million	53,982	45,223	37,634	15,405	15,805	12,212	5,006	**-59.01%**
Bond								
No of deals	0	13	30	99	179	90	82	**-8.89%**
Volume in million	0	1,055	885	1,634	5,121	3,489	6,063	**73.77%**
Turnovers in million	0	1,090	913	1,711	5,250	3,575	6,390	**78.74%**
Market cap (FRW billion)	1,372.70	1,340	2,820	2,748	2,936	2,746	2,894	**5.38%**
Market cap (USD million)	2,048.50	1,931	3,811	3,435	3,475	3,314	3,366	**1.55%**

Source: Rwanda Stock Exchange

IV. EXCHANGE RATE AND FOREIGN MARKET DEVELOPMENTS

This chapter shows recent exchange rate developments, taking note of the fact that in the first half of 2018 pressures on exchange rate remained moderate.

4.1 Exchange Rate Developments

Relative to December 2017, the FRW depreciated by 1.7 percent against the USD by end June 2018 compared to a depreciation of 1.3 percent registered end June 2017, following the relatively increased demand for dollars to finance imports. However, pressures on exchange rate remained moderate due to the improvements in external sector resulting from a significant increase in exports by 23.8 percent while imports grew by 7.0 percent, the Made in Rwanda initiative and international conferences that recently took place in Rwanda and injected more foreign currencies in the economy.

Table 27: Appreciation/Depreciation Rate of FRW against Selected Currencies

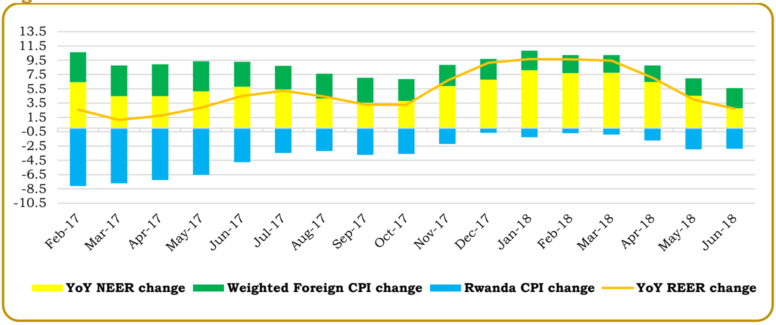
	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
Dec-2011	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-2012	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-2013	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-2014	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Dec-2015	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Dec-2016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

Source: NBR, Monetary Policy and Research Department

Compared to the British pound and Euro, the FRW appreciated by 0.9 percent and 0.4 percent respectively, while it depreciated by 3.6 percent against the Japanese yen. Compared to regional currencies, the FRW depreciated by 4.0 percent and 1.5 percent against the Kenyan shillings and the Burundian Francs, respectively, but appreciated by 4.7 percent and 0.1 percent against the Ugandan and Tanzanian shillings.

Looking at the currency basket for Rwanda's main trading partners, the FRW real effective exchange rate depreciated by 2.7 percent (y-o-y) end June against 4.5 percent recorded during the corresponding period in 2017. This was mostly attributable to the depreciation of the nominal value of the FRW against currencies of some of the major trading partners. In nominal effective terms, it depreciated by 2.8 percent compared to a depreciation of 5.8 percent at the end June 2017.

Figure 7: Drivers of REER Movement

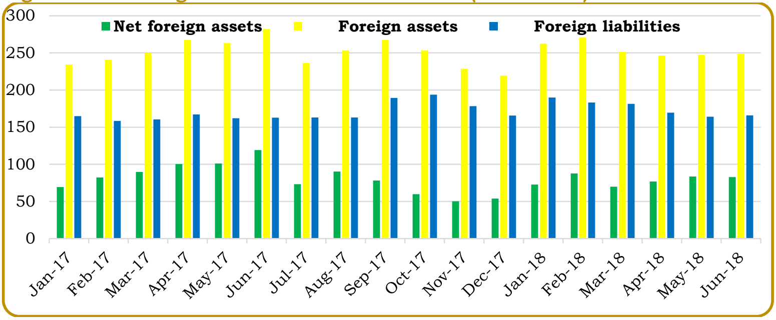


Source: NBR, Monetary Policy and Research Department

4.2 Foreign exchange market developments

By end June 2018, net foreign assets of commercial banks decreased by FRW 14.7 billion, to an average monthly stock of FRW 79.0 billion from FRW 93.7 billion accumulated in the same period of 2017. The decline in net foreign assets is mainly explained by higher increase in foreign liabilities than that observed in foreign assets of commercial banks. The moderate decrease in commercial banks' net foreign assets explains the slight increase in the foreign exchange pressures on Rwandan Francs.

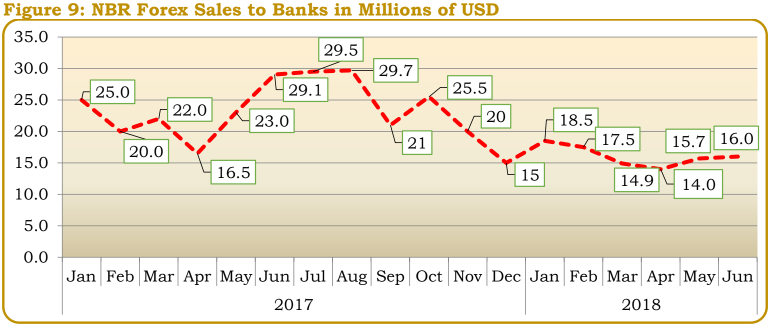
Figure 8: Net Foreign Assets in Commercial Banks (FRW billion)



Source: NBR, Monetary Policy and Research Department

Forex sales to commercial banks reduced by 28.7% in the first half of 2018, to USD 96.6 million in 2018H1 from USD 135.6 million in the corresponding period of 2017.

Figure 9: NBR Forex Sales to Banks in Millions of USD



Source: NBR, Monetary Policy and Research Department

V. FINANCIAL SECTOR STABILITY

5.1 Introduction

The financial sector remains a critical enabler of Rwanda's current and future economic growth. The sector helps to mobilise savings, allocate those savings to investments, enable economic agents to diversify and manage risks and, facilitates payment, clearing and settlement in the economy and across borders. The financial sector is expected to continue supporting Rwanda's development goals embodied in the National Strategy for Transformation (NST1). Direct links between the financial sector and the NST1 exist especially within the pillar of economic transformation through providing required capital to meet priorities such as creating descent and productive jobs, accelerating urbanisation; promoting industrialisation and, increasing agriculture productivity. However, a sound and inclusive financial system also provides a foundation for meeting other strategic objectives, including social transformation. Sustaining stability of the financial sector, as well as laying foundation for its development is therefore pertinent for the broader economic goals of the country.

Over the period under review, the NBR continued to pursue its mission of maintaining a sound financial system by reviewing the legal and regulatory frameworks governing financial institutions and the payment system, as well as conducting micro and macro prudential supervision. Sections below summarize the structure of the financial sector, the performance of different sub-sectors of the financial sector and, key developments including changes in the legal and regulatory framework.

5.2 Structure of the Financial Sector

There were no significant changes in the structure of the financial sector compared to June 2017. The banking sector continues to hold the largest combined share of the financial sector assets at 65.5 percent, followed by pension at 17.4 percent; insurance at 9.8 percent, MFIs at 6.6 percent, and voluntary pension schemes at 0.7 percent. In terms of number of institutions, as at June 2018, the financial sector consisted of 513 institutions: 16 Banks (from 17 in June 2017 following a merger of CBA Rwanda and Crane Bank Rwanda), 473 MFIs, 16 Insurers and 11 pension funds (including 1 Mandatory Pension Scheme and 10 Voluntary Pension Schemes).

Table 28: The Structure of the Financial Sector (Number and Assets)

Financial Sector	Jun-10		Jun-17		Jun-18		Assets/GDP		
	Number	% Share of TA	Number	% Share of TA	Number	% Share of TA	Jun-10	Jun-17	Jun-18
Banking sector	14	71.5	17	66.9	16	65.5	21.6	36.1	34.9
Insurance	8	11.1	16	9.7	16	9.8	3.2	5.1	5.2
Mandatory pension Fund	1	13.8	1	17.1	1	17.4	6.4	9.3	9.2
Private pensions Schemes	-	-	-	-	10	0.7	-	-	0.0
MFIs	524	3.6	473	6.3	473	6.6	2.6	3.5	3.5
Total	**547**	**100**	**507**	**100**	**516**	**100**	**33.8**	**54.0**	**53.2**

Source: NBR, Financial Stability Directorate

5.3 Banking Sub-Sector

The banking sector remains an integral part of Rwanda's financial system. Its assets account for the majority of total financial system assets (65.5 percent). The banking sector is also connected to other parts of the financial sector, hence, its stability is critical for the stability of the entire financial sector. As at end June 2018, the insurance sector, MFIs and pension respectively held 47 percent, 36.8 percent and 29 percent of their assets as deposits in banks. The pension fund also held 11 percent of its assets as equity in banks, while insurance companies held 4 percent of their assets as equity in banks. To avoid any systemic risk to the financial sector, the NBR through its regulatory and supervisory roles closely monitors performance of the banking sector.

Total assets of the banking sector stood at FRW 2,824 billion at end June 2018, indicating a year-on-year growth of 9.8 percent. Growth of the banking sector assets slowed down compared to the 12.9 percent growth registered in the same period of 2017. The moderation of growth in banking sector assets is mainly reflected in slower growth of banking sector loans, the main component of banks' assets. As at end June 2018, total banking sector loan book (outstanding loans)[4] increased by 7.8 percent (year-on-year) to FRW 1,630 billion, compared to 14.4 percent growth registered in the same period of 2017.

The moderate growth of the banking sector outstanding loans reflects the slowdown of new lending during the first half of 2018 and write-offs of bad loans in some banks. New loans approved by banks in the first 6 months of 2018 amounted to FRW 402.7 billion, 3.3 percent lower than FRW 416.7 billion approved in the same period of last year. The reduction of new approved loans is attributable to two factors: First, weak credit demand that saw the volume of loan applications reduce by 5.5 percent in the first half of 2018, compared to the first half of 2017 (i.e., from 139,131 to 131,426). Similarly, in the same period, the value of loan applications increased by 1.1 percent (from FRW 500 billion to 505.7 billion), compared to the 3 percent growth registered in the first half of 2017. Second, tighter credit conditions implemented by banks in reflection of higher NPLs experienced last year also reduced the speed of new lending. From the NBR's credit

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

survey of June 2018, the overall loan rejection[5] rate (in value) increased from 16.6 percent in the first half of 2017 to 20.4 percent in the first half of 2018. In terms of volume, the loan rejection rate increased from 3.5 percent to 14.7 percent. Banks with higher NPLs ratio in 2017 concentrated their efforts on loan recovery as opposed to disbursement of new loans.

Loans and advances remain the largest component of banks' assets constituting 57.7 percent of banks' assets in June 2018 (58.8 percent in June 2017) followed by cash and bank balances representing 22 percent (June 2017: 22 percent) and government and other securities at 14 percent (June 2017: 12 percent).

Mortgage, trade and manufacturing held the highest share of total banking sector loans, with a combined share of 64.8 percent at end June 2018. The share of mortgage loans increased from 34.5 percent at June 2017 to 37.1 percent at June 2018, while the share of manufacturing loans increased from 9.7 percent to 10.5 percent. In the same period, the share of trade loans reduced from 19.4 percent to 17.2 percent while that of hotel & restaurant loans dropped from 10.2 percent to 8.1 percent, largely driven by reduced pace of new loans—new hotel loans in the first 6 months of 2018 reduced by 60 percent compared to the same period of 2017. Generally, following the completion of large hotel projects in 2016 and early 2017, growth of new hotel loans have moderated. Agriculture and mining account for a small portion of banking sector loans, with a share of 1.5 percent and 0.2 percent respectively.

[5] The loan rejection rate is the ratio of the value or number of rejected loan applications by all banks to the number of loan applications received by the banks during the same period.

Table 29: Share of Loans by Activity Sector (percent)

Activity Sector	% of total loans			% change
	Jun-16	Jun-17	Jun-18	Jun-18/17
Personal loans	8.5	7.9	8.4	13.0
Agricultural, fisheries and livestock	2.3	1.8	1.5	-13.5
Mining activities	0.1	0.1	0.2	104.5
Manufacturing activities	9.8	9.7	10.5	15.5
Water & energy activities	2.3	2.6	2.6	9.1
Mortgage industries	34.6	34.5	37.1	14.7
Public works	*5.5*	*4.8*	*7.3*	62.2
Residential houses	*17.2*	*16.3*	*15.8*	3.3
Commercial houses	*11.9*	*13.4*	*14.0*	11.7
Trade	22.7	19.4	17.2	-5.2
Hotels	7.6	10.2	8.1	-15.4
Transport & warehousing	7.1	8.7	9.8	20.1
OFI &Insurance	1.6	1.7	1.3	-17.6
Service sector	3.2	3.1	3.3	7.3

Source: NBR, Financial Stability Directorate

Deposits continued to be the primary funding source for the banking system, underpinning a stable funding structure. As at June 2018, deposits represented 78.2 percent of banks' total liabilities, from 79.1 percent in the corresponding period of last year. Foreign liabilities continue to represent a small portion of liabilities (0.4 percent), effectively containing potential cross border risks. Other composition of banks' liabilities include funds from other local financial institutions (17.1 percent of total liabilities); bills payable (0.4 percent) and other liabilities (3.9 percent).

As at June 2018, total banking sector deposits[6] increased by 9.5 percent (year-on-year) to FRW 1,834 billion, compared to 11.1 percent growth registered in the same period of last year. Term and savings deposits significantly increased by 19.2 percent to FRW 750 billion, compared to 5.2 percent registered last year. On the other hand, growth of demand deposits decelerated to 3.6 percent to FRW 1,083 billion, compared to 17.5 percent growth achieved in the same period last year. Driven by the strong growth of term and savings deposits, the

[6] These cover households, government as well as public enterprises deposits

proportion of "term and savings" deposits in total banking sector deposits increased from 37.6 percent in June 2017 to 40.9 percent in June 2018. Strong growth of term deposits was partly supported by a slight increase of deposit rate ─ average deposit rate increased from 7.8 percent in June 2017 to 8.0 percent in June 2018.

Despite the improved growth of term deposits, a larger composition of term deposits remain short-term. As at June 2018, around 98.5 percent of total term deposits had a maturity of maximum 1 year. Shortage of long-term resources therefore remains a hindrance for long-term lending and long-term investments. Improving the level of savings, especially long-term savings, therefore remains a critical priority for Rwanda. In support of the agenda to increase savings, Government through the revised Income Tax Law (April 2018), introduced fiscal incentives by waiving the 15 percent withholding tax on term deposits with at least 1-year maturity. This policy, along with continued financial literacy and specifically savings awareness campaigns, is expected to drive long-term savings up.

Banks' cost of raising new funding remained broadly unchanged during the first half of 2018, as a slight increase of average deposit rate (from 7.8 percent to 8.0 percent) were offset by lower interbank funding rates (from 6.4 percent to 5.6 percent). The reduction in average interbank rate was triggered by an accommodative monetary policy stance implemented by NBR since December 2016.

Table 30: Key Banking Financial Highlights (FRW billion)

Indicators	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Total Assets (net)	1,767.6	2,000.0	2,278.2	2,571.7	2,824.5
Loans & Overdrafts (Net)	904.5	1,108.8	1,322.7	1,512.8	1,630.3
Deposits	1,061.2	1,181.2	1,507.1	1,674.4	1,833.0
Total Liabilities	1,476.3	1,640.1	1,859.4	2,118.1	2,343.2
Profits (Net After Tax)	17.3	23.6	19.4	21.5	22.9
Total Shareholders' Funds	291.3	359.9	418.8	453.6	481.3

Source: NBR, Financial Stability Directorate

5.4 Financial Soundness Indicators of Banks

The banking system remains adequately capitalised. The total Capital Adequacy Ratio (CAR) for the banking sector stood at 21.4 percent as at June 2018 compared to the 15 percent regulatory requirement. Banks also continue to maintain high quality capital. Common equity, which primarily constitutes core capital accounted for up to 96.7 percent of total capital of banks as at June 2018. The banking sector leverage ratio, which compares capital of banks to total assets, including off-balance sheet assets, stood at 11.8 percent in June 2018, higher than the minimum prudential standard of 6 percent. During the period under review banks increased their paid-up capital by 26 percent (from FRW 209 billion in June 2017 to FRW 262 billion in June 2018), supporting the capital position of banks. The capital buffers held by banks demonstrate the capacity of the banking sector to withstand financial and economic shocks. Recent stress tests suggested that banks have sufficient capital to withstand economic shocks.

In May 2017, the NBR issued *Regulation N°06/2017 of 19/05/2017 on capital requirements of banks* in compliance with Basel II/III. The regulation became effective beginning January 2018. The new framework requires banks to hold enough capital to contain a number risks, ranging from the traditional risks associated with financial intermediation (credit risk), to operational risks and market risks. The new framework ensures that banks set a side appropriate level of capital (high quality capital) to cater for various risks they undertake. Banks faced no major challenges in meeting requirements of this framework, largely because even in the old framework they held sufficient capital buffers and also due to the sufficient preparatory period (the framework was tested under a parallel run for more than one year).

The liquidity position of the banking sector remained favourable, with the Liquidity Coverage Ratio[7] (LCR) and Net Stable Funding Ratio (NSFR[8]) of banks standing at 299.5 percent and 224.7 percent respectively as at June 2018, higher than the 100 percent minimum prudential requirement. The LCR and NSFR are Basel III compliant standards introduced by NBR through a regulation in May 2016 (*Regulations No 07/2017 OF 19/05/ 2017 on liquidity requirement for banks*). The LCR standard aims at promoting the banks' resilience to potential liquidity disruptions over a thirty (30) day horizon, by ensuring that a bank has sufficient unencumbered, high-quality assets to offset the net cash outflows it could encounter under an acute short-term stress scenario. The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets. It aims to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position. Banks faced no challenges in meeting liquidity requirements under the new standards.

The industry-wide loan-to-deposit ratio (LTD) dropped slightly to 94 percent at end June 2018, compared to 94.4 percent at end June 2017. The decline in LTD ratio is attributable to the growth of deposits that outpaced growth of loans in the year to ended June 2018. The LTD indicates how banks transform deposits into loans.

The quality of banks' loan portfolios improved, with the Non-Performing Loans ratio (NPLs) declining to 6.9 percent as at June 2018, from 8.2 percent as at June 2017. In absolute amount, the NPLs stock dropped to FRW 138 billion in June 2018, from FRW 149 billion in June 2017. The improvement in the banking sector asset quality was underpinned by a strong performance of the economy during the first half of 2018

[7] The LCR is calculated by dividing a bank's high-quality liquid assets by its total net cash flows over a 30-day stress period.

[8] The NSFR is calculated by dividing the bank's available stable funds to its required stable funds

that enhanced the debt servicing capacity of borrowers, as well as write-offs of bad loans that were in the loss category for more than 1 year. Total write-offs of banks between June 2017 and June 2018 amounted to FRW 64.8 billion. Writing off bad loans is a regular exercise performed by banks to clean up their balance sheet for proper accounting of their assets and capital optimisation. However, defaulters who are written off continue to be liable for repayment. Recovery of such dues is a continuous process.

Table 31: Key Soundness Indicators (percent)

Indicator	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Capital Adequacy Ratio (min 15%)	23.6	24.3	23.3	20.8	21.4
Leverage ratio (min 6%)					11.8
NPLs / Gross Loans	6.6	5.9	7	8.2	6.9
Provisions / NPLs	50.4	51.5	42.7	44.9	67.2
Return on Average Assets	2.1	2.4	1.7	1.7	1.6
Return on Average Equity	12	13	9	10	9.6
Liquidity Coverage ratio (Min 100%)	-	-	-	-	299.5
Net Stable Funding Ratio (Min 100%)	-	-	-	-	224.7
Loan to Deposit ratio	88.6	97.4	90.9	94.4	94
FX loans to FX deposits + Lines of credits (Max 50%)	12.7	32.6	55.7	42.5	31.5
FX exposure/core capital (+/- 20%)	-1.5	-7.1	-1.8	-6.1	-6.2

Source: NBR, Financial Stability Directorate

A sectoral breakdown of impaired loans shows that NPLs dropped in several sectors. The NPLs ratio in agriculture dropped from 18.2 percent in June 2017 to 7.2 percent in June 2018. In the mortgage sector, it dropped from 5.8 percent to 5.3 percent, while in other services it dropped from 10.7 percent to 8.9 percent. The NPLs ratio, however, increased in manufacturing from 8.8 percent to 13.9 percent; in hotels from 9.8 percent to 11 percent, and in trade from 8.8 percent to 11.5 percent. The significant decline of NPLs in agriculture was driven by a strong growth rebound of the agriculture sector in 2018Q1.

Table 32: NPLs by Economic Sector (percent)

Activity Sectors	Sectoral NPLs Ratio (percent)					Percent share in Total NPLs
	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	
Non-classified activities	6.3	7.2	6.4	7.8	6.1	**6.9**
Agricultural, fisheries & livestock	17.3	14.9	16.9	18.2	7.2	**1.4**
Mining activities	0	2.8	0.9	0	0.6	**0**
Manufacturing	2.3	1.1	6	8.8	13.9	**19.7**
Water & energy	0.2	2.6	0.2	0.1	0	**0**
Mortgage industries	5.4	4.5	5.1	5.8	5.3	**26.1**
Trade	6.3	7.1	6.9	8.8	11.5	**26.6**
Hotel	5.3	6.1	9	9.8	11	**11.9**
Transport & warehousing	4.5	4	3.1	3	2.6	**3.4**
OFI &Insurance	0.8	4.2	4.2	0.4	0.4	**0.1**
Service sector	6.6	6.5	4.5	10.7	8.9	**3.9**

Source: NBR, Financial Stability Directorate

The coverage of non-performing loans by provisions (loan loss coverage ratio) improved to 67.2 percent in June 2018, from 44.9 percent in June 2017. The increase in the loan-loss coverage ratio mainly resulted from a strong growth of provisions, by 39 percent (from FRW 67 billion in June 2017 to FRW 93 billion in June 2018) offset by the 7 percent reduction in the stock of NPLs from FRW 149 billion to FRW 138 billion. The increase in provisions is largely attributable to the implementation of the requirement to compute general provisions at 1 percent for normal risk and 3 percent for watch category loans. The improved loan loss coverage ratio indicates the banking sector improved resiliency to credit risk losses.

The banking sector profits improved in the first half of 2018 compared to the same period of last year. The banking sector profits (after tax) amounted to FRW 23 billion in June 2018, compared to FRW 22 billion registered in the corresponding period of 2017. The improved banking sector profits in the first half of 2018 was driven by higher Net Interest Income (from FRW 92 billion to 99 billion) and higher Non-Interest Income (from FRW 44 billion to 50 billion) which more than offset the increase of operational costs and provisions expenses of banks (from FRW 104 billion to 112 billion).

Interest income remained the main source of income for banks, despite non-interest income increasing strongly in the first half of 2018. As at June 2018, interest income accounted for 74.4 percent of total income of the banking sector, against 25.6 percent for other non-interest income. Nevertheless, the banking sector non-interest income increased by 13.5 percent (year-on-year) in June 2018, compared to 12 percent for interest income. Increased growth in non-interest income during the period under review came from recoveries of bad loans (from FRW 12.5 billion to FRW 14.7 billion); foreign exchange income (from FRW 9.6 billion to FRW 11.4 billion) and; fees and commissions (from FRW 22 billion to FRW 24 billion).

Growth of the banking sector expenses edged up to 12.3 percent in the first half of 2018 (from FRW 141 billion to 158 billion), after moderating to 7.9 percent in the corresponding period of 2017. Banks' interest expenses, normally the main expense for banks, increased by 23.8 percent (year-on-year) to FRW 46 billion in June 2018, compared to 10.5 percent growth registered in June 2017. The uptick in interest expenses reflects the increased borrowings by banks from both local and foreign financial institutions and the changes in the deposit structure of banks where the ratio of remunerated term and saving deposits to total deposits increased in June 2018, compared to June 2017. To a lesser extent, the slight increase in the weighted deposit rate from 7.8 percent in June 2017 to 7.9 percent in June 2018 also weighed up interest expenses. Operational expenses of banks also increased by 6.0 percent to FRW 89 billion in June 2018, up from 5.3 percent growth registered in June 2017.

Banks' expenses were also weighed up by high growth of provision expenses, by 17.4 percent (from FRW 20 billion at June 2017 to 23 billion at June 2018). Strong growth of banking sector provisions partly resulted from the new requirement on general provisions issued by NBR in December 2017 to bolster the resiliency of the banking sector (*Regulation N°12/2017 OF 23/11/2017 on credit classification and provisioning*). This regulation requires banks to maintain a provision of 1 percent of outstanding loans in normal[9] class and 3 percent of loans in watch[10] class. The improved loan-loss provision level demonstrates improved banking sector preparedness to absorb current and potential credit risks.

The banking system foreign exchange exposure remained within prudential limits. To contain foreign exchange risk, the NBR regulation requires banks to maintain their Net Open Position (NOP) within a band of +/-20 percent of core capital. As at June 2018, the banking system NOP stood at -6.2 percent. Foreign exchange exposure is also limited by the small size of foreign currency loans and foreign currency liabilities. Foreign currency loans amounted to the equivalent of FRW 245 billion at June 2018 (i.e., 12.3 percent of total loans). In the same period, foreign currency liabilities amounted to FRW 687 billion (i.e., 29.3 percent of total liabilities).

5.5 Microfinance Sector

5.5.1 Structure and Performance of the Microfinance Sector

The microfinance sector's assets represent 6.6 percent of total financial system assets. The sector is comprised of 473 licensed institutions.

[9] A Normal class refers to a credit facility that is up to-date in payments as scheduled in the contract

[10] Watch class refers to a credit facility whose principal or interest is due and unpaid for thirty days to less than ninety days

These include 416 Umurenge SACCOs; 38 non-Umurenge SACCOs and; 19 Limited Lability Microfinance institutions. Through their cross-country penetration, microfinance institutions remain critical enablers of financial inclusion, especially for the rural population.

The balance sheet of the microfinance sector continued to grow in the first half of 2018. Total MFIs assets increased by 14.3 percent (year-on-year) to FRW 283 billion in June 2018, up from 7.6 percent growth in corresponding period of June 2017. The strong growth of assets was driven by robust growth of deposits, that increased by 17.0 percent to FRW 156 billion, compared to 5.9 percent growth registered in June 2017. Deposits remain the main source of funds for MFIs. As at June 2018, deposits accounted for 81.9 percent of total MFIs liabilities. Other sources of funds for MFIs include shareholders equity; lines of credit from bank, financiers such as Business Development Fund (BDF), and others.

Table 33: MFIs Performance Indicators (U-SACCOs included)

Indicators	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Assets (FRW billion)	147.4	187.5	230.3	247.7	283.1
Loans (FRW billion)	78	93.6	119.5	127.4	142.9
Deposits (FRW billion)	82.2	104.9	126	133.4	156.1
Equity (FRW billion)	47	58.8	69.7	82.5	91.9
Net profit/Loss (FRW billion)	2.6	3.4	4.3	-0.1	3.3
Capital Adequacy Ratio (percent)	31.9	31.4	30.3	33.3	32.5
NPLs / Gross Loans (percent)	7.6	7.4	7.5	12.3	8.0
ROA (percent)	1.8	3.9	4	-0.1	1.2
ROE (percent)	5.6	12.6	13.3	-0.3	3.7
Liquidity ratio (percent)	86.2	95.4	95.1	99.1	103.3

Source: NBR, Financial Stability Directorate

5.5.2 The Soundness of Microfinance Institutions

The MFIs sector maintained sufficient capital and liquidity positions as at end June 2018. Total MFIs Capital Adequacy Ratio (CAR) stood at 32.5 percent, higher than the 15 percent prudential requirement. The CAR for Umurenge SACCOs, a sub-sector of the MFI sector, stood at

32.1 percent. With regard to liquidity, the liquidity ratio of the MFIs sector stood at 103.3 percent, compared to 30 percent prudential requirement. The higher capital and liquidity buffers held by MFIs reflect their asset mix, with cash in vault and deposits in banks accounting for 40 percent of total assets while outstanding loans represent 50.5 percent of total assets. Over time, as investment opportunities increase, MFIs are expected to invest this capital buffer to more income generating assets.

The asset quality for MFIs improved during the first half of 2018. The total NPLs ratio of MFIs reduced from 12.3 percent in June 2017 to 8 percent in June 2018. In terms of amount, NPLs of MFIs reduced from FRW17 billion to FRW 12 billion during the period under review. The reduction of the NPLs ratio was more pronounced in Limited Liability MFIs (from 20.9 percent to 8.7 percent). The NPLs ratio in Umurenge SACCOs reduced from 13 percent to 12.4 percent. The reduction in NPLs during the first of half of 2018 is attributable to write-offs of bad loans, especially in Limited Liability MFIs, and the improved economic performance, especially of agriculture, in the last quarter of 2017 and the first half of 2018.

Profits of the microfinance sector recovered to FRW 3.3 billion in the first half of 2018, from a loss of FRW 118 million in the first half of 2017. Average ROE for the MFI sector increased from -0.3 percent to 3.7 percent during the same period. Profits mainly came from SACCOs. Profits of Umurenge SACCOs was FRW 1.9 billion, slightly below FRW 2 billion profits achieved in the first half of 2017, while profits of other non U-SACCOs increased from FRW 1.5 billion to 2.1 billion. On the other hand, Limited Liability MFIs registered losses amounting to FRW 653 billion, compared to the loss of FRW 3.6 billion registered in the first half of 2017. Higher provision expenses related to non-performing loans caused losses in Limited Liability MFIs.

5.6 Structure of Insurance Sector

Rwanda's insurance industry is comprised of public and private insurers. Public insurance business is run by 2 public health insurers (RSSB-medical and MMI), while private insurance business consists of 14 private insurers (10 general insurers and 4 life insurers). In the year to June 2018, the general insurance sector accounted for 82.8 percent of total gross premiums earned, while life insurance accounted for 17.2 percent. The insurance sector operates a network of 581 agents, 17 brokers, and 18 loss adjusters as at June 2018, respectively from 557 agents, 13 brokers, and 13 loss adjusters in June 2017.

5.6.1 Performance of Insurance Sector

Assets of the insurance sector increased by 15 percent (from FRW 366.5 billion in June 2017 to FRW 423 billion in June 2018), compared to 10.2 percent achieved in the corresponding period of 2017. Improved growth of the insurance sector assets was driven by retained earnings from public insurers and capital injections of several private insurers during the period between June 2017 and June 2018. Despite this growth, the insurance penetration (Gross premiums relative to GDP) remains low at 1.7 percent in June 2018, the same level as in June 2017. During the period under review, the per capita insurance spending (Gross premiums relative to active population) improved to FRW 20,943 in June 2018 from FRW 17,813 in June 2017.

Insurance sector assets are dominated by placements in banks and investment in Government securities. As at end June 2018, placements in banks accounted for 47 percent insurance sector assets from 48 percent as at June 2017, followed by investment in Government securities at 15 percent of total assets from 12 percent as at June 2017. Insurers also continued to meet the investment limits established by the NBR on asset classes. On a consolidated basis, total investment in properties was at 10 percent as at June 2018 from 11 percent as at June 2017, which is lower than the 30 percent maximum prudential limit. Similarly, total insurance sector investment in equity was 11 percent of total assets as at June 2018 from 12 percent as at June 2017, which is lower than the 30 percent prudential maximum. Other assets accounted for 16 percent of total assets as at June 2018, from 18 percent as June 2017. General insurers, with short-term liabilities, maintained their investment is short-term instruments like placements in banks. On the other hand, life insurers relatively maintained their investments in long-term assets (real estate, treasury bonds) that match their long-term liabilities.

Profits (after tax) of the insurance sector increased from FRW 18.6 billion as at June 2017 to FRW 24.9 billion as at June 2018. Improved profits of the insurance sector were largely driven by the strong growth of premiums and improved investment income. Net profits improved across many insurers both private and public. Profits of public insurers during the period under review increased from FRW 17.9 billion to FRW 22.2 billion. Similarly, profits of private insurers' increased from FRW 0.6 billion to FRW 2.7 billion. Profits of the insurance sector were underpinned by the strong growth of premiums which outweighed the growth of claims and operational expenses. For the sector as a whole, net premiums earned increased by FRW 9.1 billion (from FRW 52.3 billion in June 2017 to FRW 61.4 billion in June 2018). On the other hand, in the same period both claims and management expenses of the insurance sector increased by FRW 7 billion (from FRW 46.1 billion to 53.1 billion). Consequently, the combined ratio of the insurance sector, that compares total expenses to net premiums earned, reduced from

87 percent in June 2017 to 86 percent in June 2018, compared to the 90 maximum prudential standard.

Table 34: Key Financial Performance Highlights of the Insurance Sector

Description (FRW billion) Insurance Sector (Public & Private)	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	%Change Jun17/16	%Change Jun-18/17
Gross written premiums	44.9	47.5	52.9	59.7	70.2	**12.9**	**18**
Net written premiums	38.2	41.1	46.1	52.3	61.4	**13.4**	**17**
Total Claims	18.7	22.0	30.2	30.9	36.3	**2.3**	**18**
Management expenses	13.2	13.6	17.2	15.2	16.8	**-11.6**	**10**
Net underwriting profit (loss)	6.3	5.4	(1.4)	6.3	8.3	**-550.0**	**32**
Investment Income	8.9	9.8	11.6	12.7	17.0	**9.5**	**34**
Net profit after taxes	14.6	14.7	10.0	18.6	24.9	**86.0**	**34**
Assets	247.2	295.3	332.6	366.5	423.0	**10.2**	**15**
Technical provisions	51.1	59.0	74.2	80.5	85.5	**8.5**	**6**
Liabilities	15.6	18.0	20.3	19.8	26.2	**-2.5**	**32**
Capital and reserves	180.5	218.4	238.1	266.0	311.3	**11.7**	**17**
Private insurers	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**	**%Change Jun-17/16**	**%Change Jun-18/17**
Gross written premiums	25.4	27.9	30.6	33.8	37.7	**10.5**	**12**
Net written premiums	18.7	21.5	23.7	26.5	29.0	**11.8**	**9**
Total Claims	12.0	13.6	18.5	18.4	18.5	**-0.5**	**0.5**
Management expenses	10.4	11.0	13.2	12.3	13.5	**-6.8**	**9**
Net underwriting profit (loss)	(3.7)	(3.1)	(8.0)	(4.2)	(3.0)	**-47.5**	**-29**
Investment Income	4.3	4.0	4.1	5.2	6.1	**26.8**	**17**
Net profit after taxes	0.1	0.3	(4.1)	0.6	2.7	**-114.6**	**346**
Assets	102.9	116.7	124.7	136.4	157.5	**9.4**	**15**
Technical provisions	51.0	58.5	73.4	79.8	84.4	**8.7**	**6**
Liabilities	11.8	15.9	17.5	17.3	21.5	**-1.1**	**24**
Capital and reserves	40.0	42.2	33.8	39.2	51.6	**16.0**	**32**
Public insurers	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**	**%Change Jun-18/17**	**%Change Jun-18/17**
Gross written premiums	19.5	19.6	22.4	25.8	32.5	**15.2**	**26**
Net written premiums	19.5	19.6	22.4	25.8	32.5	**15.2**	**26**
Total Claims	6.7	8.4	11.8	12.5	17.8	**5.9**	**43**
Management expenses	2.8	2.6	4.0	2.9	3.3	**-27.5**	**14**
Net underwriting profit (loss)	10.0	8.6	6.6	10.5	11.3	**59.1**	**8**
Investment Income	4.6	5.8	7.5	7.5	10.9	**-**	**46**
Net profit after taxes	14.5	14.4	14.1	17.9	22.2	**27.0**	**24**
Assets	144.4	178.6	207.9	230.1	265.5	**10.7**	**15**
Technical provisions	0.1	0.4	0.7	0.7	1.1	**-**	**53**
Liabilities	3.8	2.0	2.8	2.5	4.7	**-10.7**	**89**
Capital and reserves	140.4	176.2	204.3	226.8	259.7	**11.0**	**14**

Source: NBR, Financial Stability Directorate

Profits of the insurance sector also came from a strong growth of investment income Investment income of the insurance sector grew by 34 percent to FRW 17 billion in June 2018 from FRW 12.7 billion in June 2017. Particularly, profits (after tax) of private insurers mainly originated from investment income that grew by 17 percent to FRW 6.1 billion in June 2018 from FRW 5.2 billion in June 2017. Strong growth of investment income was driven by favorable yields on term deposits in banks and government securities as well as a marked growth in invested funds from the capital injections.

The strong growth of premiums that contributed to the insurance sector reflects the positive effects of the new motor insurance premium rates. In January 2018, the insurance sector through its industry association (ASSAR) started to implement the revised motor insurance premiums tariffs, a move that aimed to improve the performance of the motor insurance business from which they were making losses. The first 6 months of implementation has enabled motor insurance premiums to strongly increase by 18.1 percent (from FRW 11 billion in June 2017 to 13 billion in June 2018), this followed a decline of 0.3 percent in the corresponding period of 2017.

Table 35: Performance of Motor Insurance Business

Description (FRW Million)	Jun-15	Jun-16	Jun-17	Jun-18
Net earned premiums	9,181	11,016	10,980	12,907
Claims incurred (-)	5,986	9,843	8,805	8,716
Expenses (-)	4,316	5,119	4,363	5,182
Net underwriting profit/loss	**(1,121)**	**(4,864)**	**(2,187)**	**(990)**
Key soundness indicators (%)				
Claims ratio (60%-70%)	65	89	80	68
Expenses ratio (≤30%)	47	46	40	40
Combined Ratio (< 100%)	112	136	120	108

Source: NBR, Financial Stability Directorate

Generally, private insurers are still making underwriting losses, although much lower compared to last year (from 4.2 billion in June 2017 to 3 billion in June 2018). Going forward, in order improve the underwriting business of private insurers, the NBR will continue working with the insurance sector to ensure appropriate pricing of risks, combat fraud in claims, obtain efficiency by managing operating expenses, and through ensuring that companies have sufficient technical reserves to pay claims,.

5.6.2 Soundness of Insurance Sector

Aggregate private insurers' solvency margins – a measure of the strength of insurers' capital buffers held to cover losses – strengthened to 149 percent in June 2018, compared to 61 percent in June 2017 and the 100 percent prudential requirement. The improved solvency position of private insurers was driven by capital injections by some insurance companies. As at June 2018, total capital of the sector grew by 17 percent to FRW 311.3 billion from FRW 266 billion in June 2017.

Table 36: Key Financial Soundness Indicators of the Insurance Sector

FSIs (percent) Insurance sector (Private + Public Insurers)	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Solvency margin (Min. 100%)	1722	941	991	1,034	1091
Claims ratio (max.60%)	49	54	66	59	59
Expenses ratio (max. 30%)	35	32	36	28	27
Combined ratio (max.90%)	84	85	102	87	86
ROE (min. 16%)	16.2	13	4	14	16
ROA (min. 4%)	11.8	10	3	10	12
Liquidity ratio (min.150%)	319	382	345	333	353
Private Insurers	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**
Solvency margin (Min. 100%)	131	88	(30)	61	149
Claims ratio (max.60%)	64	63	78	70	64
Expenses ratio (max. 30%)	56	47	50	42	46
Combined ratio (max.90%)	120	110	128	112	110
ROE (min. 16%)	0.5	1	(24)	3	10
ROA (min. 4%)	0.2	0	(7)	1	3
Liquidity ratio (min.150%)	121	128	52	94	121
Public Insurers	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**
Solvency margin (Min. 100%)	3314	2467	2,394	2,160	2,195
Claims ratio (max.60%)	34	43	66	48	55
Expenses ratio (max. 30%)	15	13	35	11	10
Combined ratio (max.90%)	49	56	101	59	65
ROE (min. 16%)	21	16	14	16	17
ROA (min. 4%)	20	16	14	16	17
Liquidity ratio (min.150%)	2551	5899	3,215	4,699	3,481

Source: NBR, Financial Stability Directorate

Liquidity of the insurance sector remains adequate. The liquidity ratio of insurance sector, which compares current assets to current liabilities, improved from 331 percent in June 2017 to 353 percent in June 2018, which is above the minimum prudential requirement of 150 percent.

5.7 Performance of Mandatory Pension Scheme (RSSB)

Growth of pension fund assets accelerated following high growth of contributions. Total assets of the pension fund increased by 19.2 percent (from FRW 628.8 billion in June 2017 to 749.2 billion in June 2018), up from 7.6 percent registered last year. This growth mainly came from increased contributions, which grew by 14.8 percent (from FRW 77.5 billion to FRW 89 billion), compared the 4 percent registered in the corresponding period of last year. This increase was largely driven by increased number of contributors that increased from 465,579[11] in June 2017 to 539,441 in June 2018. Growth of investment income slowed to 6.9 percent (From FRW 27.4 billion in June 2017 to 29.3 billion in June 2018), compared to 18.6 percent growth registered in corresponding period of last year.

Table 37: Key Financial Highlights of RSSB-Pension Fund

DESCRIPTION (FRW Billion)	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	%change Jun-17/16	%change Jun-18/17
Total assets	455.9	512.1	584.5	628.8	749.2	**7.6**	**19.2**
Total contributions	55.5	59.7	74.5	77.5	89.0	**4**	**14.8**
Total benefits paid	11.9	14.9	15.8	17.7	21.1	**12**	**19.1**
Operating expenses	7.1	4.3	4.7	4.5	5.9	**-4.3**	**31.4**
Investment Income	20.2	21.0	23.1	27.4	29.3	**18.6**	**6.9**

Source: NBR, Financial Stability Directorate

[11] The figure includes all contributors who paid their premiums within the financial year 2016/2017.

Despite the increasing number of pension fund contributors, the pension coverage[12] is still low at 8 percent in June 2018, from 7.1 percent in June 2017. This is closely associated with significant low proportion of the population that is employed in the formal sector. The recent launch of the National Long Term Savings Scheme (LTSS) is expected to tap into the informal sector to grow long-term savings, including pension. The establishment of voluntary complementary pension schemes is also expected to further deepen the pension coverage.

Equities (both quoted and unquoted) represent the largest portion of the pension fund's assets (36 percent up from 33 percent in June 2017). Investment in these equities increased by 21.8 percent (from FRW 217.2 billion in June 2017 to FRW 264.7 billion in June 2018), after reducing by 11 percent the previous year. The increase of pension fund equity investments is mainly attributable to increased share prices in some quoted equities as well as new investments in other, mainly unquoted equities.

Cash and Bank balances are the second most significant asset category representing 27 percent (down from 28 percent) of the fund's assets. Term deposits represented 68 percent of these balances down from 72 percent as at June 2017 and 86 percent in June 2016. It is worthwhile noting that the fund's current accounts, which act as collection accounts prior to making investment decisions, are also remunerated in a bid to optimise returns.

On the other hand, the pension fund reduced their exposure in Government securities. The total pension fund investment in Government securities reduced from FRW 98.4 billion in June 2017 to

[12] Pension coverage ratio compares the number of people enrolled in pension fund relative to working-age population)

92.8 billion in June 2018, implying a 5.7 percent decline. Similarly, during the same period the pension fund total investment in property also dropped from FRW 117.5 billion to FRW 98.4 billion, implying a 16.3 percent decline.

The level of contributions to RSSB remains adequately higher compared to the benefits paid. As at end June 2018, benefits paid were 23.7 percent of contributions. The RSSB invests the surplus contributions to meet the future liabilities. The low number of beneficiaries as compared to the number of contributors reflects the demographic structure of the Rwandan population, where the percentage of retirement age population is 3 percent total population, while the working age population is 58 percent of total population[13].

Table 38: The Investment Mix of RSSB-Pension Fund

Description (FRW billion)	Jun-15	Jun-16	Jun-17	Jun-18	% share	%change Jun-18/17
Government Securities	77.7	97	98.4	92.8	13%	**-6%**
Equities	166.6	199.7	217.2	264.7	36%	**22%**
Properties	112.8	117.2	117.5	98.4	13%	**-16%**
Cash & Bank balances	137.5	156.5	187	199.7	27%	**7%**
Other investments & securities	14.3	12	39.3	78.9	11%	**101%**
TOTAL	**508.9**	**582.4**	**659.4**	**734.5**		**11%**

Source: NBR, Financial Stability Directorate

With the establishment of the Pension Law in 2015, the National Bank of Rwanda started to license and regulate private pension schemes. As at end June 2018, the NBR had licensed 10 private pension schemes of which 6 are complementary pension schemes and 4 personal pension schemes. The NBR had also licensed several service providers including 3 custodians, 5 investment managers, 4 administrators as

[13] Source of data: NISR population estimate based on the 2012 census.

well as 1 trustee for these schemes. As at June 2018, these schemes had 37,739 contributing members of which 3,566 were in complementary pension schemes and 34,173 in personal pension schemes.

5.8 Payment System

5.8.1 Wholesale Payment System

The Integrated Payment Processing System (RIPPS) facilitates wholesale payment in Rwanda. This system comprises of ATS (Automated Transfer System) which channel high value transactions through Real Time Gross Settlement (RTGS) and low value transactions through Automated Clearing House (ACH). The Central Securities Depository (CSD) is another integral component of RIPPS and accommodates all securities (both equities and debt) issued in Rwanda. It includes also an integrated primary trading (auction) module and an application (tightly linked with the RTGS function of the ATS) for the settlement of securities transactions, following the principle of Delivery versus Payment (DvP).

Non-cash transactions gained momentum in the year to end June 2018. The volume of customers' transfers increased by 25 percent (year-on-year) in June 2018 (from 1,538,408 to 2,055,528). In terms of value, customer transfers increased by 16 percent (from FRW 2,274 billion to FRW 2,719 billion). The increased uptake of electronic transactions is attributable to further acknowledgement by economic agents on the benefits of this mode of payments.

5.8.2 Retail Payments

Points of Sales (POSs) and Automated Teller Machines (ATMs)

In the sphere of retail payments, electronic retail payments continued to increase, thanks to developing infrastructure. Between June 2017 and June 2018 the number of POSs transactions increased by 48 percent from 533,802 to 789,428. During the same period, the total value of POS transactions increased by 21 percent (from FRW 32 billion to FRW 39 billion). The number of traditional POS devices, which use cards increased by 7 percent from 2,031 in June 2017 to 2,198 in June 2018.

In addition, new types of POSs devices have been introduced to the market since 2018. These POSs devices have tremendously increased following the NBR campaign on usage of electronic payments in December 2017. These are of three categories: 3,998 virtual POS[14]; 3,486 Near Field Communication (NFC) enabled POS[15] and; 25,811 Mobile POS[16].

The number of debit cards increased by 8 percent from 872,476 in June 2017 to 945,262 in June 2018 while credit cards increased by 7% from 3,531 in June 2017 to 3,768 in June 2018.

However, as the digital transactions increased, the growth of operations on ATMs moderated, and some banks opted to close some of their ATMs. Between June 2017 and June 2018, the number of ATMs decreased by 6 percent from 405 to 382. ATM transactions in volume remained almost the same from 4,612,888 in June 2017 to 4,624,960 in June 2018 while a small increase of 4 percent from FRW 241 billion in June 2017 to FRW 251 billion in value was recorded.

[14] Virtual POS: that accept payment through QR Code or web services;
[15] Physical POS, that accept traditional cards or Near Field Communication;
[16] Mobile POS: POS that accept payment through a merchant codes, whether on smart phone or a feature phone

Table 39: Evolution of Payment Access Points and Cards

Payment Machines and Cards	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Number of ATMs	343	361	398	405	382
Traditional POS terminals	1,057	1,339	1,707	2,031	2,198
Modern POS terminals	N/A	N/A	N/A	N/A	33,285
Number of debit cards	532,157	654,349	682,184	872,476	945,262
Number of credit cards	1,561	3,675	3,201	3,531	3,768

Source: NBR, Financial Stability Directorate

Mobile Financial Services and Internet Banking

Mobile technology continues to play a significant role in enhancing electronic payments with the aim of creating an inclusive cashless society. Between June 2017 and June 2018, the number of active users of mobile financial services increased by 18 percent from 3,377,111 to 3,987,980 subscribers. With regard to access points, the penetration rate of mobile operators' agents increased by 50 percent, from 83,550 to 124,945 agents between June 2017 and June 2018.

Similarly, mobile financial accounts increased by 9 percent from 8.6 million in the first six months of 2017 to 9.4 million in the first six months of 2018. In the same period, the volume of mobile financial services transactions increased by 18 percent (from Frw119 million to FRW 141 million). During the same period the value of mobile financial services increased by 35 percent (from FRW 622 billion to FRW 838 billion). The usage of mobile financial services was mainly concentrated in the purchase of airtime (35 percent in volume) while the big values are transacted through "cash-In" (35 percent in volume).

Furthermore, the registered mobile banking users increased by 22 percent to 1,266,483 as at June 2018 while internet banking users increased by 141 percent to 92,865 as at June 2018. The value of mobile banking transactions increased by 45 percent from FRW 16 billion as at June 2017 to FRW 24 billion as at June 2018. Internet banking transactions volume increased by 82 percent from 157,129 to

285,719 while the value increased by 57 percent from FRW 663 to FRW 1,043 billion between June 2017 and June 2018. Mobile banking transactions continued to be bolstered by the introduction of the new product: push and pull. This product allows telecoms subscribers to be able to transfer money from their Mobile Money wallet to their bank Account (Push) and vice versa using their phones.

Eight banks out of sixteen offer internet-banking services while ten banks and one-microfinance institution offer mobile banking services.

Microloans and micro-savings products of Mobile Network Operators (MNOs) through partnership with financial institutions, continued to develop. MNOs collected FRW 4 billion in micro savings from customers between January and June 2018. A total amount of FRW 1.6 billion was lent during the same period.

Table 40: Microloans and micro-savings through Mobile Money Channel

Micro Savings and Loans		Volume of transaction			Value of transaction (FRW in million)		
		Jan-Jun 2017	Jan-Jun 18	% Change (2018/17)	Jan-Jun 2017	Jan-Jun 18	% Change (2018/17)
Savings	Savings collected	582,212	1,197,404	106	2,203	4,167	89
	Savings Withdrawn	459,758	875,704	90	2,155	3,991	85
	Balance as of end Jun-18	-	-	-	130	176	36
Loans	Loan disbursement	178,232	187,628	5	1,093	1,629	49
	Loan repayment	163,682	366,309	124	676	1,388	105

Source: NBR, Financial Stability Directorate

Geographical Distribution of Payment Access Points

Considering the distribution of payment access points, the largest number of payment access points (ATMs and POS terminals) remained concentrated in Kigali City while mobile financial services' agents were better distributed across the Country as of June 2018.

Table 41: Payment Access Points

Access Points	Province	Kigali City	North	East	South	West	TOTAL
ATMs	Number (Jun-18)	202	36	49	41	54	382
	Population[17] served by 1 ATM	5,607	47,955	52,974	63,170	45,764	27,529
POSs[18]	Number (Jun-18)	1,832	79	66	84	137	2,198
	Population served by 1 POS	618	21,853	39,329	30,833	18,038	4,784
Mobile Agents	Number (Jun-18)	51,476	10,929	25,447	18,858	18,235	124,945
	Population served by 1 Agent	22.00	157.96	102.00	137.34	135.52	84.16

Source: NBR, Financial Stability Directorate and the Fourth Rwanda Population and Housing Census, 2012.

5.9 Access to finance

5.9.1 Recent Trend in Access Points

In measuring the outreach and physical presence of financial service providers, the number of branches for banks, MFIs and insurance companies declined. The number of bank branches decreased from 553 in June 2017 to 522 in June 2018. This reduction is attributed to the adoption of digital channels and agency banking by banks. The number of banks with agency banking increased from five as at June 2017 to six as at June 2018.

In addition, the number of insurance branches and agents has significantly increased. The number of insurance agents grew from 581 in June 2017 to 864 in June 2018; the growth is attributed to the authority given to insurance companies to register their agents. Insurance branches increased from 141 in June 2017 to 200 in June 2018.

[17] Population refers to the total population as in the Fourth Rwanda Population and Housing Census, 2012.

[18] Traditional POSs only

On the other hand, the mobile financial services agents increased greatly from 83,550 in June 2017 to 124,945 in June 2018, an increase of 49.5 percent.

Table 42: Number of Branches and Agents

Branches	Jun-17	Jun-18	% change
Banking	553	522	-5.6
Microfinance	735	736	0.13
Insurance	141	200	41.8
Total	**1,429**	**1,399**	**-2.0**
Agents			
Banking	3,547	3,780	6.6
Microfinance	487	487	0
Insurance	581	864	48.7
Mobile money Agents	83,550	124,945	49.5

Source: NBR, Financial Stability Directorate

5.9.2 Recent Trends in Financial Usage Indicators

The key indicators of usage of financial products is how people borrow and deposit money. The number of depositors in the banking sector grew from 1,871,858 in June 2017 to 1,940,266 in June 2018 (3.5 percent increase). Kigali city has the highest number of depositors (45.5 percent) followed by Eastern Province (16 percent), Western Province (14 percent), Southern Province (14 percent) and Northern Province (10.5 percent).

The number of borrowers in the banking sector decreased from 261,871 in June 2017 to 247,253 in 2018 (5.9 percent decrease). In terms of geographical distribution, Kigali city has 58 percent of the total number of borrowers while the Northern Province has the lowest number of borrowers (8.3 percent) as of end June 2018.

Table 43: Number of Depositors and Borrowers by Provinces

	KIGALI	NORTH	EAST	WEST	SOUTH	Total (Jun-17)	Total (Jun-18)
Depositors	883,674	205,236	310,226	269,971	271,159	**1,871,858**	**1,940,266**
% of total population	78%	12%	12%	10%	11%	**18%**	**18%**
Borrowers in Banks	143,381	20,575	31,152	26,480	25,665	**261,871**	**247,253**
% of total population	13%	1%	1%	1%	1%	**2%**	**2%**

Source: NBR, Financial Stability Directorate and the Fourth Rwanda Population and Housing Census, 2012.

5.9.3 Number of Client Accounts

In June 2018, the total number of accounts of banks and MFIs increased by 3.1 percent to 6 million. The share of female owned accounts in the MFIs, with gender disaggregated data, stands at 39.7 percent (1.4 million) while male owned accounts are 51.7 percent (1.9 million). In terms of growth, the account penetration for women grew faster compared to men's. The accounts for females in MFIs grew by 9.8 percent whereas for males, the increase was 9.6 percent.

Table 44: Number of Client Accounts (Thousands)

Branches	Jun-16	Jun-17	Jun-18	% change
Banking	2,318	2,501	2,357	-5.7
Microfinance	3,008	3,356	3,686	9.8
Female	*1,153*	*1,333*	*1,464*	*9.8*
Male	*1,580*	*1,739*	*1,906*	*9.6*
Groups/entities	*275*	*284*	*316*	*11.2*
Total	**5,326**	**5,857**	**6,043**	**3.1**

Source: NBR, Financial Stability Directorate

A. The Credit Reporting System

The Rwandan Credit Registry is an information system managed by the NBR. It contains granular information on credit granted by the institutions participating in the system – all credit-granting institutions – on a borrower by-borrower basis and that includes, in specific cases, details, which provide loan-by-loan information. The purpose of the credit information system database is not only for the compilation and dissemination of statistics, but also for a multitude of other purposes, such as for micro-prudential supervision of credit institutions, for monetary policymaking, for economic research and for the macro-prudential analysis and policymaking.

NBR also supervises the private credit reference bureau licensed as per the Law governing Credit Information System in Rwanda. The private credit bureau (TransUnion) collects information from mainly mandatory participants (Banks, Microfinance Institutions, SACCOs and Insurance companies) as well as voluntary ones which include the 2 telecom companies (MTN, Airtel), WASAC and RRA. The purpose of the establishment of private credit reference bureau is the sharing of a credit information among financial institutions, to ease the credit assessment and improve decision making before granting any loan.

The usage of credit information has risen over the past 3 years. As at June 2018, the data found on searches made by banks and MFIs has increased to 88 percent and 93 percent from 77 percent and 69 percent respectively as at December 2016.

The information provided by credit reference bureau is continuously enhanced. The credit reference bureau has designed and implemented the credit score, which is now accessed online by all subscribers. The credit score maps the credit risk and uses past credit information to scrutinize the repayment position of a borrower.

The number of individuals and corporates listed in the private credit bureau increased from 1,378,819 in June 2017 to 1,535,145 in June 2018. The credit reference bureau coverage ratio increased from 20 percent in June 2017 to 22 percent in June 2018, thanks to additional data on student loans provided by BRD under its student-financing scheme.

B. Deposit Guarantee Fund

Rwanda's Deposit Guarantee Fund (DGF) was established by Law N° 31/2015 of 05/06/2015 determining the organization and functioning of a Deposit guarantee Fund for Banks and Microfinance Institutions (MFIs). The Fund's main objective is providing protection to small depositors against risks of losing their deposits arising from failure of a bank or MFI thereby maintaining public confidence in the banking and financial system.

As of end June 2018, the DGF had accumulated FRW 1,925 billion. These funds have been invested in near-liquid risk free government securities. In the 6 months ended June 2018, the Fund had earned investment income of FRW 39 million compared to FRW 11 million in June 2017. The Fund will continue to grow through collection of premiums and returns on invested funds.

C. Developments in Regulatory Environment

Regulatory changes will undoubtedly remain a key factor shaping the Rwandan financial sector going forward. The aim of this continuous change is, among other, to mitigate risks in the financial system and to provide an enabling environment for the financial sector development. This section summarizes key regulatory changes during the period under review.

D. Regulation on Payment Services Providers

The publication of the regulation on payment initiation and aggregation services, and the revision of the regulation governing payment services providers (Official Gazette No. 14 of 02/04/2018) removed banks' monopoly on their customers' account information and payment services. The first regulation adds two new categories of payment service providers to the regulatory framework: payment initiation service providers and account aggregation service providers. The providers will be allowed to gain access to a payment service user's accounts, provided the user has explicitly given consent. Hence, bank customers can use third-party providers to manage their finances and banks are obliged to give these third-party providers access to their customer accounts, which will enable third parties to offer financial services on top of banks' data and infrastructure.

E. Regulation on Corporate Governance for Banks

The regulation n° 01/2018 of 24/01/2018 on corporate governance for banks was published in the OG n° 6 bis of 05/02/2018. This regulation reviewed the regulation N° 06/2008 of 05/09/2008 on corporate governance for banks to comply with new banking law. The regulation sheds the light on the requirements on corporate governance, identifies responsibilities in the managerial and operational structure of the banks and reinforcing key components of risk governance.

F. Regulation on Business Continuity Management

The regulation n° 04/2018 of 24/01/ 2018 on business continuity management was published in the OG n° 6 bis of 05/02/2018. This regulation aims at promoting, enhancing, and ensuring business continuity management for banks to ensure they are able to continue operations as a going concern while minimizing losses, including the ones that may arise from disturbances to payment and settlement systems, in the event of major operational disruptions. The regulation will require banks to have business continuity policies, and will clarify key regulatory requirements to be contained in business policies as part of banks' risk management.

G. Regulation on Cybersecurity

The regulation n° 02/2018 of 24/01/2018 on cybersecurity was published in the OG n° 6 bis of 05/02/2018. This regulation aims at establishing minimum prudent standards to banks to protect against cybersecurity threats to banks. It is designed to promote the protection of customer information as well as the information technology systems of banks.

H. Regulation on Outsourcing

Regulation n° 03/2018 of 24/01/2018 on outsourcing was published in the OG n° 6bis of 05/02/2018. This regulation envisages setting up minimum prudent standards to banks that outsource one or more of their business activities to a service provider. It will help to alert banks on potential impact of the outsourcing on earnings, solvency, liquidity, funding and capital, and risk profile.

I. Regulation on Risk Management for Banks

Regulation n° 2100/2018 – 009 [614] of 25/07/2018 on risk management for banks was published in the OG n° 32 of 06/08/2018. This regulations aims at enhancing the risk management framework for banks by capturing a range of risks that banks face (i.e., transfer risks from other countries and information technology risk)

J. Regulation on Reporting Requirements

Regulation n° 2100 /2018 – 008 [614] of 25/07/2018 on reporting requirements was published in the OG n° 32 of 06/08/2018. This regulations aims at operationalizing the electronic reporting platform (Data Warehouse) — platform that supervised institutions shall use to submit their reports to NBR in an efficient manner.

VI. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

6.1 Monetary Policy Outlook

In line with expectations, the Rwandan economy performed well in 2018H1. The external sector also continues to record good performance, in line with the progressive increase in international commodity prices linked to the uptick in global demand.

In view of the above, export receipts as well as other foreign exchange inflows improved significantly, helping to ease exchange rate and inflationary pressures. As initially projected, the depreciation of the FRW against the USD is expected not to exceed 4.0% end December 2018. Likewise, headline inflation is projected at around 5.0% during the same period.

Therefore, the monetary policy stance is foreseen to remain accommodative in the near-term, on account of subdued inflationary and exchange rate pressures, coupled with improving but still low aggregate demand.

As announced in March 2018, NBR will shift from monetary targeting to a price-based monetary policy framework by end 2018. Until now, there has been commendable progress in terms of preparing for this transition, such as the improvement in modelling and forecasting, liquidity forecasting and management as well as aligning the institutional framework to the envisaged policy regime.

6.2 Financial Sector Stability Outlook

The financial sector is expected to remain sound as measured by the solvency and liquidity metrics. The capital and liquidity positions of banks will strengthen further under the new Basel II/III capital and liquidity standards. The implementation of a new accounting standard (IFSR9) is also expected to bolster the resiliency of the banking system. The NBR has issued an implementation guideline in this regard to ensure a smooth and sector wide consistent application of the standard. To sustain a healthy insurance sector, NBR will continue working with the insurance industry on appropriate pricing of risks, as well as proper management of claims and operational expenses.

Credit risk remains a major risk facing banks and microfinance institutions. Credit risk manifests in form of loan concentration to some sectors, as well as higher NPLs in some sectors. The NBR will continue working with Banks and MFIs on proper loan classification and adequate provisions for bad loans. On-going efforts by the Government to improve the "foreclosure process of collateralized loans" and "the auction standards" is also expected increase the recovery of bad loans by banks and MFIs.

The level of long-term savings is expected to improve in the medium-term as ongoing saving awareness campaigns and saving incentives bear fruits. The on-going financial literacy and saving awareness campaign by NBR and the Government incentives on long-term savings will drive up the level of savings, reduce the cost of funds for financial institutions, and spur increased lending to drive economic development as well as long-term development projects.

The drive towards a cashless economy is expected to build momentum. The recent Government's cashless incentive of removing the import duty on e-payment devises from 25 percent to 0 percent is expected to bear fruits as merchants easily acquire e-payment devises. Ongoing efforts to enhance interoperability of existing payment infrastructures (i.e., ATMs, POS, and mobile channels) is expected to promote cashless payments through reduced costs and service quality.

The NBR will continue to review the legal and regulatory environment of the financial sector to enhance stability but also to ensure compliance with international best practice. Key regulations in the pipeline for publication include the regulation on non-deposits taking institutions, micro insurance, major investment and placement by banks, and administrative sanctions & fines applicable to banks. Over the next 12 months, NBR also plan the revision of the regulations on licensing for banks and insurers, as well as regulations on opening and closing of a place of business, on amalgamation, on internal controls, on consolidated supervision as well as on financial statement disclosures for banks.

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