NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

6th March 2018

MPFSS, March 2018

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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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
FOB	: Freight on Board (or Free on Board)
FOREX	: Foreign Exchange
FRW	: Franc Rwandais
FSD	: Financial Stability Directorate
FX	: Foreign Exchange
GBP	: Great British Pound
GDP	: Gross Domestic Product
IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
M3	: Broad money
MFIs	: Microfinance Institutions
MINECOFIN	: Ministry of Finance and Economic Planning
NBFIs	: Non-Bank Financial Institutions

NISR	: National Institute of Statistics of Rwanda
NPISHS	: Non Profit Institutions Serving Households
NPLs	: Non-Performing Loans
OPEC	: Organization of the Petroleum Exporting Countries
O/W	: Of which
P2G	: Payment to Government
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
SMEs	: Small and Medium Enterprises
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 recorded a broad-based improvement in 2017 as Real GDP increased by 3.7 percent globally and by 2.3 and 4.7 percent respectively in advanced and emerging & developing economies. Stronger than expected performances are observed in United States, Eurozone, Japan and UK and generally in emerging markets and developing economies. These positive growth prospects are expected to continue in 2018 as evidenced by high frequency data and the rising sentiment index.

On commodity markets, improving global demand, the oil supply adjustments together with geopolitical tensions in the Middle East exerted pressures on oil prices which rose by 23.3 percent in 2017 from a decline of 15.6 percent in 2016. The increase in oil prices fueled inflation which went up to 3.1 percent globally and to 1.7 percent in advanced economies in 2017 from 2.8 percent and 0.8 percent respectively in 2016.

Despite the uptick in the growth momentum, core inflation remained below central banks' targets in advanced economies, suggesting continuous accommodative monetary policy. Nevertheless, the Federal Reserve Bank started normalizing interest rates and winding down the balance sheet, consistent with positive economic progress and continuing improvement in the labor market. For the third time in 2017, the Fed funds rate was increased to 1.50 percent on December 13th from 1.25 percent.

The Rwandan economy grew by 4.6 percent, on average, in the first three quarters of 2017, from 7.3 percent recorded in the corresponding period of the previous year, driven by the service sector (+7.0 percent), agriculture sector (+6.0 percent) and industry sector (+2.0 percent). Economic growth progressively improved from 1.7 percent and 4.0 percent in the first and second quarter of 2017, respectively, to 8.0 percent in

2017Q3, largely on the account of improved agricultural performance mainly linked to good weather conditions.

Leading indicators of economic activities evidence a continuation of good economic performance in 2017Q4, evolving towards attaining or even surpassing the projected annual growth of 5.2 percent by end 2017. The composite index of economic activities (CIEA) increased, in real terms, by 16.4 percent from 12.4 percent in 2017Q3 and 6.5 percent in 2016Q4. Total turnovers of industry and service sectors rose by 19.3 percent in 2017Q4, higher than 6.9 percent registered in the same period of 2016.

Due to the recovery in commodity prices, Rwanda's formal trade deficit eased by 21.7 percent in 2017, to USD 1271.8 million from USD 1,624.5 million in 2016, as a result of the 57.6 percent increase in formal exports and 0.4 percent decline in formal imports. Consequently, formal imports coverage by exports improved to 42.6 percent in 2017 against 26.9 percent recorded in 2016. When informal cross border trade is included, the exports cover of imports improved to 46.5 percent in 2017 from 32.0 percent in 2016.

In 2017, the NBR maintained an accommodative monetary policy stance to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange pressures remained subdued. The NBR reduced its policy rate (KRR) from 6.25 percent in December 2016 to 6.0 percent in June 2017 and 5.5 percent in December 2017. As a result, total outstanding credit to the private sector expanded by 13.9 in 2017 compared to 7.8 percent in 2016, while broad money increased by 12.3 percent in 2017 from 7.5 percent in 2016.

In line with the improvement in weather conditions especially during the second half of 2017, food inflation dropped to 9.8 percent in 2017 from

10.7 percent in 2016 as vegetables inflation declined to 9.5 percent from 20.1 percent during the same period. This contributed to the drop in headline inflation to 4.9 percent in 2017 from 5.7 percent in 2016. Other downward pressures on inflation came from the ease in exchange rate pressures.

Following the improvement in Rwanda's export receipts resulting from the continued recovery in international commodity prices, diversification of exports as well as the decline in the import bill; exchange rate pressures significantly eased to a depreciation of 3.07 percent (y-o-y) against the USD in 2017 compared to a depreciation of 9.7 percent in 2016.

The financial sector continued to expand in 2017. Assets of the sector expanded by 13.8 percent in 2017 compared to 11.2 percent in the previous year. The banking sector assets increased by 12.9 percent (y-o-y) as at December 2017 to FRW 2,685 billion, while the microfinance sector assets increased by 9.7 percent to FRW 244 billion. The growth of banks and MFIs assets is attributable to increased mobilization of deposits. For the year ended December 2017, deposits of banks and MFIs grew by 12.6 percent and 8.5 percent respectively, compared to the growth rate of 7.8 percent and -2.4 percent registered in the previous year. On the other hand, assets of the pension sector grew by 17.7 percent to FRW 717.9 billion while insurance grew by 15.3 percent to FRW 399.8 billion in December 2017.

On the stability perspective, the financial sector remained stable and resilient. Banks and MFIs held strong capital and liquidity positions as at end December 2017. Capital Adequacy Ratio (CAR) stood at 21.4 percent for banks and 35.8 percent for MFIs against the 15 percent prudential requirement while the liquidity ratio was 43.7 percent for banks and 102.1 percent for MFIs. The non-performing loans of banks and MFIs *slightly dropped in the fourth quarter of 2017. NPLs ratio of banks stood at 7.6 percent in December 2017, the same as December 2016. Compared to the previous three quarters of 2017, the NPLs ratio of banks dropped from 8.2 percent in June to 7.7 percent in September and to 7.6 percent in December. NPLs ratio of microfinance institutions decreased from 9.0 percent in December 2016 to 8.2 percent in December 2017.*

The solvency position of private insurers continued to improve in 2017 following the capital injections by several companies as well as improved operational efficiency. The solvency position of the private insurers improved from 78 percent in December 2016 to 193 percent in December 2017, higher than the minimum required solvency ratio of 100 percent.

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 two MPFSSs, Rwanda's economic performance was in the first half of 2017 constrained by some challenges related with the completion of big investment projects and reduced performance of agriculture resulting from the long spell of the drought. Inflation was expected to ease in the second half of 2017 in line with improving weather conditions and easing exchange rate pressures. Given this backdrop, the NBR implemented an accommodative monetary policy stance in 2017 to encourage the financing of the economy by the banking sector.

The objective of this first MPFSS for 2018 is to assess developments for the year 2017 and give an outlook for 2018. 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 section presents recent macroeceonomic developments and near-term outlook in the global economy, with a focus on major advanced countries, Sub Saharan Africa and the East African Community. The section contextualizes the economic environment within which the NBR conducted its monetary policy in 2017 and helps to rationalize Rwanda's economic outlook.

1.1 Economic Growth and Outlook

According to IMF estimates, the global economy maintained a positive momentum in 2017 relative to 2016, buoyed by strong consumer confidence which supported investment, consumption and global trade. Real GDP growth for 2017 was estimated at 3.7 percent, higher than 3.2 percent recorded in 2016. Positive growth prospects are expected to continue in 2018 and, global growth projection revised up to 3.9 percent, 0.2 percent higher than October 2017 forecats.

According to the January 2018 IMF forecasts, growth in advanced countries stood at 2.3 percent in 2017, higher than the 2.0 percent forecast in October 2017 and 1.7 percent in 2016. In USA, real GDP in 2017 increased by 2.3 percent from 1.5 percent realized in 2016, driven by strong domestic and foreign demand, positive consumer sentiment and strong performance in financial markets.

Table 1: Global GDP Growth (p.a)

	2011	2012	2013	2014	2015	2016	2017	2018
World	**4.3**	**3.5**	**3.5**	**3.6**	**3.4**	**3.2**	**3.7**	**3.9**
Advanced economies	**1.7**	**1.2**	**1.3**	**2.1**	**2.2**	**1.7**	**2.3**	**2.3**
United States	1.6	2.2	1.7	2.6	2.9	1.5	2.3	2.7
Euro area	1.6	-0.9	-0.2	1.3	2.0	1.8	2.4	2.2
Japan	-0.1	1.5	2.0	0.3	1.1	0.9	1.8	1.2
United Kingdom	1.5	1.3	1.9	3.1	2.2	1.9	1.7	1.5
Emerg.& developing economies	**6.4**	**5.4**	**5.1**	**4.7**	**4.3**	**4.4**	**4.7**	**4.9**
China	9.5	7.9	7.8	7.3	6.9	6.7	6.8	6.6
India	6.6	5.5	6.4	7.5	8.0	7.1	6.7	7.4
Sub-Saharan Africa	**5.1**	**4.4**	**5.3**	**5.1**	**3.4**	**1.4**	**2.7**	**3.3**

Source: IMF, WEO, October 2017 & January 2018

In the Eurozone, GDP growth for 2017 rose to 2.4 percent from 1.8 percent in 2016, thanks to the improvement in consumer spending and investment. In the United Kingdom, economic growth decelerated to 1.7 percent in 2017 from 1.9 percent in 2016 and is projected at 1.5 percent in 2018 mainly due to the downside economic risks emanating from the Brexit.

After standing at 4.4 percent in 2016, growth for emerging and developing economies improved to 4.7 percent in 2017 and is projected at 4.9 percent in 2018. In China, GDP grew by 6.8 percent in 2017 from 6.7 percent in 2016, on the back of strong consumption and a rebound in investment as well as in industrial production. However, Chinese growth is expected to slow to 6.6 percent in 2018, due to slowing exports and government's regulatory tightening in the financial sector.

In Sub-Saharan Africa, economic growth increased to 2.7 percent in 2017 from 1.4 percent in 2016 and is projected to reach 3.3 percent in 2018 following a recovery in commodity prices that has helped oil exporting countries like Angola and Nigeria, and improving weather conditions that have eased pressures on the agriculture sector.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Angola	3.4	3.9	5.2	6.8	4.8	3.0	-0.7	1.5	1.6
Nigeria	11.3	4.9	4.3	5.4	6.3	2.7	-1.6	0.8	2.1
South Africa	3.0	3.3	2.2	2.5	1.7	1.3	0.3	0.9	0.9
South Sudan	-	-	-52.4	29.3	2.9	-0.2	-13.8	-6.3	-3.4
Egypt	5.1	1.8	2.2	3.3	2.9	4.4	4.3	4.1	4.5
Libya	3.2	-66.7	124.7	-36.8	-53.0	-10.3	-3.0	55.1	31.2

Source: IMF, WEO, Oct. 2017

Growth in the East African Community (EAC) remained broadly resilient in 2017 despite facing challenges related to bad weather. Growth for Kenya, Rwanda and Tanzania remained robust, though below their 2016 levels. Uganda's economic growth improved to 4.4 percent in 2017 from 2.3 percent in 2016, supported by rising investment spending. A positive rebound in growth for all EAC economies is expected in 2018, conditional on the improvement in weather conditions.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Burundi	5.1	4.0	4.4	5.9	4.5	-4.0	-1.0	0.0	0.1
Kenya	8.4	6.1	4.6	5.9	5.4	5.7	5.8	5.0	5.5
Rwanda	7.3	7.8	8.8	4.7	7.6	8.9	5.9	5.2 (*)	6.5 (*)
Tanzania	6.4	7.9	5.1	7.3	7.0	7.0	7.0	6.5	6.8
Uganda	7.7	6.8	2.2	4.7	4.6	5.7	2.3	4.4	5.2

Source: IMF, WEO, Oct.2017
(*) Revised projections by National authorities

1.2 Inflation and Commodity Prices

Global inflation rose to 3.1 percent in 2017 from 2.8 percent in 2016 in line with rising commodity prices and the abovementioned improvement in global demand.

However, despite improving demand and easing unemployment rate, core inflation remained below central banks' targets in most developed countries, reflecting weak wage growth.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018
World	**3.7**	**5.0**	**4.1**	**3.7**	**3.2**	**2.8**	**2.8**	**3.1**	**3.3**
Advanced economies	**1.5**	**2.7**	**2.0**	**1.4**	**1.4**	**0.3**	**0.8**	**1.7**	**1.9**
Euro area	1.6	2.7	2.5	1.3	0.4	0.0	0.2	1.5	1.4
United States	1.6	3.1	2.1	1.5	1.6	0.1	1.3	2.1	2.1
Japan	-0.7	-0.3	-0.1	0.3	2.8	0.8	-0.1	0.4	0.5
Emerging and dev. economies	**5.6**	**7.1**	**5.8**	**5.5**	**4.7**	**4.7**	**4.3**	**4.1**	**4.5**
China	3.3	5.4	2.6	2.6	2.0	1.4	2.0	1.6	2.4
India	9.5	9.5	10.0	9.4	5.8	4.9	4.5	3.8	4.9
Sub-Saharan Africa	**8.1**	**9.4**	**9.3**	**6.6**	**6.3**	**7.0**	**11.3**	**11.0**	**9.5**

Source: IMF, WEO, Oct. 2017

In the United States, despite a strong economic backdrop, core inflation remains below the Fed's target. While headline inflation increased to 2.1 percent in 2017 from 1.3 percent in 2016, core inflation eased to 1.8 percent in December 2017 from 2.2 percent recorded in December 2016.

In the Eurozone, headline inflation rose to 1.5 percent in 2017 from 0.2 percent in 2016 as improving consumer confidence stimulated spending and investment. Core inflation remained below the European Central Bank (ECB) policy target of 2 percent, which points to the expectation that the ECB may continue to maintain an accommodative monetary policy stance in 2018.

In emerging market and developing economies, inflation declined from 4.3 percent in 2016 to 4.1 percent in 2017 as exchange rate pressures eased in line with rising export receipts, following a recovery in commodity prices.

In Sub-Saharan Africa, adverse weather conditions constrained the performance in agriculture, exerting upward pressures on inflation, especially during the first half of 2017. However, headline inflation is expected to slightly ease to 11.0 percent from 11.3 percent in 2016, following the improvement in weather conditions in the second half of 2017. Subsequently, there was a buildup of inflationary pressures in most of EAC countries in the first half of 2017.

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

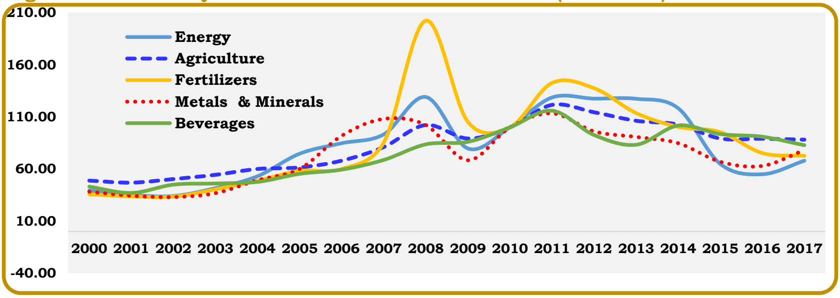
	2010	2011	2012	2013	2014	2015	2016	2017	2018 Proj.
Burundi	6.5	9.6	18.2	7.9	4.4	5.6	5.5	16.2	**20.2**
Kenya	4.3	14.0	9.4	5.7	6.9	6.6	6.3	8.0	**5.2**
Rwanda	2.3	5.7	6.3	4.2	1.8	2.5	5.7	4.9	**6.0**
Tanzania	7.2	12.7	16.0	7.9	6.1	5.6	5.2	5.3	**5.0**
Uganda	3.7	15.0	12.7	4.9	3.1	5.4	5.5	5.7	**5.6**

Source: IMF, WEO Database, Oct 2017

Despite the ease in agricultural prices, global commodity prices recovered in 2017 with energy and non-energy prices increasing by 23.6

percent and 5.2 percent respectively, from -15.2 percent and -2.6 percent in 2016.

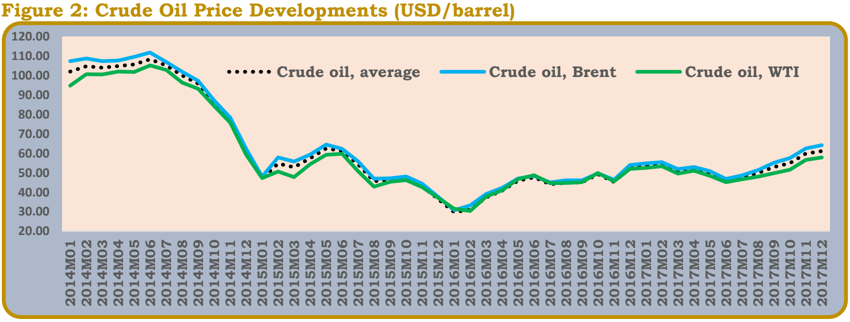
Figure 1: Commodity Prices Index in Nominal US Dollar (2010=100)



Source: World Bank, Feb 2018

Prices for crude oil increased by 23.3 percent from a decline of 15.6 percent in 2016, mainly driven by the decision of OPEC to cut supply until the end of 2018. Going forward, oil prices are expected to rise by 5.7 percent in 2018[1].

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



Source: World Bank, Feb 2018

The increase in non-energy commodities was driven by metals and minerals prices, which increased by 24.2 percent, supported by strong global demand, especially in China where there was momentum in construction and manufacturing sectors. Prices went up for Copper

[1] IMF January 2018 forecasts oil prices to increase by 11.7 percent in 2018.

(26.7 percent), aluminium (22.7 percent), iron ore (22.8 percent), lead (24.0 percent), zinc (38.3 percent), tin (11.9 percent) as well as nickel (8.5 percent).

After a decline of 0.2 percent in 2016, prices for agriculture commodities further contracted by 1.0 percent in 2017, reflecting improving weather conditions in the second half of the year. Fertilizer prices decreased by 3.5 percent in 2017 owing to low demand in early 2017 as adverse weather conditions affected agricultural activities.

Arabica coffee prices declined by 8.0 percent, on average, following increased production. However, prices for Robusta coffee rose by 14.0 percent in line with lower production in Brazil and Colombia, respectively the first and third world largest coffee producers in 2017. In 2018, coffee prices are expected to remain stable.

Table 6: Commodity Prices (p.a)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Crude oil, average	28.0	31.6	1.0	-0.9	-7.5	-47.3	-15.6	**23.3**	**5.7**
Beverages	16.1	16.0	-20.1	-10.1	22.2	-8.1	-2.7	**-9.0**	**0.7**
Coffee, Arabica	36.2	38.3	-31.2	-25.2	43.8	-20.3	2.4	**-8.0**	**0.0**
Coffee, Robusta	5.6	38.7	-5.8	-8.4	6.8	-12.4	0.6	**14.0**	**-0.9**
Tea, Avg. 3 auctions	5.9	1.2	-0.8	-1.2	-4.9	-0.5	-2.5	**17.5**	**-0.3**
Metals & Minerals	46.2	13.5	-15.3	-5.5	-6.6	-21.1	-5.9	**24.2**	**-0.8**
Tin	50.3	27.7	-18.9	5.5	-1.7	-26.6	11.6	**11.9**	**1.0**
Gold	25.9	28.1	6.4	-15.5	-10.3	-8.3	7.6	**0.7**	**-1.0**
Iron ore	82.4	15.0	-23.4	5.3	-28.4	-42.4	4.6	**22.8**	**-18.6**
Fertilizers	46.2	13.5	-15.3	-5.5	-6.6	-21.1	-5.9	**24.2**	**2.5**

Source: World Bank, Feb 2018

1.3 Monetary Policy And Financial Markets

Despite the positive economic momentum observed in most advanced countries, weak wage growth kept core inflation below central bank targets. Persistent low inflation rate forced many central banks in advanced countries to maintain an accommodative monetary policy stance in 2017. As positive growth continues in 2018, core inflation will likely start to rise, pushing many central banks to consider tightening policy.

Though monetary policy remains accommodative in the US, the Federal Reserve continued normalizing interest rates and winding down the balance sheet. For the third time in 2017, the Fed funds rate was increased to 1.50 percent on December 13th from 1.25 percent on the expectation that the decreasing unemployment rate beyond the natural rate would push up wages and inflation. Three-month deposit rates increased to 1.71 percent in December 2017 from 1.54 percent in December 2016.

In the Eurozone, the ECB kept the policy rate unchanged at 0.00 percent and the asset purchase program at euro 30 billion a month until September 2018. Three-month deposit rates remained negative, standing at -0.38 percent in December 2017 from -0.35 percent in December 2016.

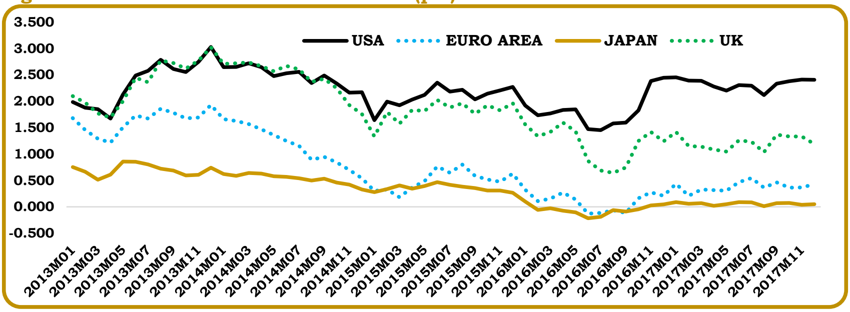
In the UK, inflation remained high, fueled by a weak British pound, calling for the Bank of England to increase rates for the first time in more than 10 years, by 25 basis points, to 0.50 percent in its November 2017 meeting. Three-month deposit rates decelerated to 0.51 percent in December 2017 from 0.61 percent in December 2016.

The Bank of Japan on the other hand maintained its expansionary monetary policy, and kept interest rates at negative 0.1 percent. Three-month deposit rates remained negative, standing at -0.12 percent in December 2017 from -0.44 percent in December 2016.

The negative short-term rates on banks' deposits in the central banks observed in the Eurozone and Japan were meant to discourage deposits and encourage economic financing.

In 2017, 10-year government bond yields increased in the Euro area and USA, reflecting market expectations about the future path of monetary policy in the context of improving economic activities. Additionally, a rise in the 10-year government bond yield was partly driven by the prospects of reforms to the federal tax code.

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



Source: Bloomberg database, 2018

On the foreign exchange market, the US dollar weakened against major currencies, notably the Euro and the British pound.

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

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

Source: Bloomberg, 2018

Despite some risks induced by the Brexit developments, the US dollar depreciated by 8.6 percent against the pound, in line with the hike in interest rates and more than initially expected growth in UK. It depreciated by 12.4 percent against the Euro, following sustained economic growth in the euro area.

II. NATIONAL ECONOMIC PERFORMANCE

2.1 Economic Growth

On average, the economy grew by 4.6 percent in the first three quarters of 2017 from 7.3 percent recorded in the corresponding period of the previous year, driven by the service sector (+7.0 percent), agriculture sector (+6.0 percent) and industry sector (+2.0 percent). Economic growth progressively improved from 1.7 percent and 4.0 percent in the first and second quarter of 2017, respectively, to 8.0 percent in 2017Q3, mainly on the account of improved agricultural performance linked to good weather conditions.

Table 8: Rwanda Real GDP Growth (Percent)

	2014	2015	2016	2017			2017 Proj.	2018 Proj.
				Q1	Q2	Q3		
GDP	**7.6**	**8.9**	**5.9**	**1.7**	**4.0**	**8.0**	**5.2**	**6.5**
Agriculture	**7.0**	**5.0**	**3.8**	**3.0**	**6.0**	**8.0**	**4.8**	**3.9**
Food crops	9.0	3.6	2.9	4.1	4.1	10.9	4.2	4.1
Export crops	-2.0	14.4	2.4	-23.8	22.3	-5.1	6.4	6.2
Livestock & livestock products	8.0	9.1	9.6	11.0	11.2	11.4	11.0	9.9
Forestry	3.0	3.8	3.8	3.2	3.3	3.0	2.7	-1.2
Fishing	4.0	3.2	2.6	3.1	4.5	4.9	3.0	2.9
Industry	**11.0**	**8.9**	**6.8**	**-1.0**	**1.0**	**6.0**	**4.7**	**10.2**
Mining & quarrying	25.0	-5.0	10.4	-1.5	3.4	25.3	11.7	18.0
Manufacturing	8.0	8.4	6.6	**7.0**	6.0	6.0	**7.6**	**7.7**
Electricity	9.0	8.0	15.8	5.0	6.3	11.5	5.5	7.9
Water & waste management	3.0	0.8	5.3	2.5	2.5	1.6	4.4	6.6
Construction	10.0	15.4	4.9	-7.2	-4.1	-0.6	0.0	9.9
Services	**7.0**	**10.4**	**7.1**	**4.0**	**7.0**	**10.0**	**5.8**	**6.7**
Trade & transport	**7.0**	**11.5**	**6.7**	**-7.0**	**-2.0**	**8.0**	**-1.8**	**5.3**
Maintenance and repair of motors	4.0	5.1	6.8	5.3	3.7	3.0	4.5	5.6
Wholesale & retail trade	8.0	12.7	6.1	-12.5	-6.2	2.5	-5.5	4.8
Transport services	4.0	9.7	8.0	1.8	5.6	21.2	5.0	6.1
Other services	**7.0**	**10.1**	**7.2**	**8.0**	**10.0**	**11.0**	**8.3**	**7.2**
Hotels & restaurants	12.0	9.3	11.3	16.9	9.0	5.0	15.0	11.8
Information & communication	6.6	17.9	8.6	2.2	6.1	27.9	5.0	5.5
Financial services	4.0	12.2	3.4	1.1	5.9	7.2	4.5	5.9
Real estate activities	6.0	4.5	6.2	8.3	7.4	2.2	8.6	6.4
Public administration and defense	7.0	5.5	11.6	-1.0	9.8	17.0	6.5	9.0
Education	3.0	1.7	1.7	3.7	3.7	3.7	6.6	6.2
Human health and social work activities	8.0	10.1	6.2	1.0	4.4	12.5	4.5	6.0
Cultural, domestic & other services	16.0	19.2	7.0	3.1	7.6	7.9	6.2	6.2
Taxes less subsidies on products	**8.0**	**14.0**	**4.0**	**-10.0**	**-12.0**	**-2.0**	**3.8**	**6.0**

Source: MINECOFIN & NISR (2017)

The good performance of the Rwandan economy observed in 2017Q3 continued in 2017Q4 as evidenced by the leading indicators of economic activities, evolving towards attaining or even surpassing the projected annual growth of 5.2 percent by end 2017.

In 2017Q4, the composite index of economic activities (CIEA) increased, in real terms, by 16.4 percent from 12.4 percent in 2017Q3 and 6.5 percent in 2016Q4. Total turnovers of industry and service sectors rose by 19.3 percent in 2017Q4, higher than 6.9 percent registered in the same period of 2016.

Table 9: CIEA (p.a)

CIEA	Real			Nominal		
	2015	2016	2017	2015	2016	2017
Q1	17.3	18.4	6.2	17.3	22.0	10.1
Q2	15.6	14.3	9.1	15.0	20.4	13.7
Q3	13.3	11.0	12.4	18.0	17.3	14.0
Q4	17.8	6.5	16.4	22.9	11.8	17.0
Annual	**16.0**	**12.3**	**11.1**	**18.4**	**17.6**	**13.8**

Source: NBR, Monetary Policy and Research Department

Despite the observed economic improvement in the last two quarters of 2017, growth for 2017 is likely to be lower than in 2016 as shown by the real CIEA, which increased by 11.1 percent in 2017, lower than 12.3 percent registered in 2016, though this could change depending on how agriculture performs in 2017Q4.

Further, positive growth prospects for 2017 are based on the trend in total turnovers of industry and service sectors, which rose by 15.8 percent from 10.1 percent in 2016.

The good performance in total turnovers was mainly driven by the service sector, with a share of 74.1 percent, increasing by 17.3 percent in 2017 from 11.0 percent registered in the previous year. The sector's performance is mainly attributed to the wholesale and retail trade (26.1 percent), transport and storage (16.7 percent), petroleum products (15.4 percent), as well as financial and insurance activities (11.1 percent).

Table 10: Turnovers of Industry & Services (p.a)

	2015			2016			2017		
	Q3	Q4	Annual	Q3	Q4	Annual	Q3	Q4	Annual
Total turnovers	**13.0**	**16.5**	**14.2**	**11.5**	**6.9**	**10.1**	**13.0**	**19.3**	**15.8**
Industries	**5.3**	**14.8**	**11.6**	**18.2**	**-3.0**	**7.7**	**4.7**	**21.0**	**12.0**
Mining & Quarrying	-47.1	-43.9	-40.9	-11.4	-19.3	-26.7	23.6	58.4	26.0
Manufacturing	22.4	15.2	19.3	9.5	5.6	10.7	11.8	18.2	16.4
Energy Sector	-18.6	19.5	2.2	57.1	27.8	52.6	13.2	20.1	14.2
Construction	14.9	41.5	30.6	31.0	-18.1	0.9	-12.6	18.9	1.6
Services	**16.0**	**17.2**	**15.2**	**9.1**	**10.9**	**11.0**	**16.3**	**18.7**	**17.3**
Wholesale & Retail trade	24.4	19.4	26.3	4.7	9.6	6.9	29.3	30.4	26.1
Petroleum distributors	-8.2	2.8	-7.9	14.4	17.7	14.3	4.2	5.7	15.4
Transport & Storage	4.5	8.4	6.2	23.2	28.3	22.7	22.1	15.7	16.7
Hotels & Restaurants	18.9	20.8	18.1	17.7	15.0	16.2	-6.4	-2.7	-1.3
Hotels	15.3	24.2	17.6	12.2	14.3	12.4	4.8	4.8	5.6
Restaurants	34.5	9.3	20.3	37.4	17.7	31.1	-39.7	-30.9	-24.5
Information & Comm.	7.3	6.7	-5.6	-0.3	7.9	11.7	0.1	3.1	-0.3
Financial & insurance	25.4	31.4	18.0	20.2	9.1	21.6	8.4	15.6	11.1
Banks	16.1	13.0	13.0	19.8	11.0	14.4	4.7	12.7	9.8
Real Estate Activities	40.3	57.4	65.0	3.5	39.9	9.2	-44.8	-29.4	-22.1

Source: NBR, Statistics Department

The sales of the transport sub-sector continued to be driven by business expansion of RwandAir, whose total sales rose by 51.2 percent in 2017 from 10.0 percent in 2016, representing 47.7 percent of the total sales of the transport sub-sector. The developments in the petroleum sub-sector is linked to the increase in petroleum re-exports by 38.9 percent in 2017 against 25.8 percent in 2016.

The industry sector, which accounts for 25.9 percent of the total sales, grew by 12.0 percent in 2017 from 7.7 percent in the previous year, mainly attributed to mining and quarrying (26.0 percent), manufacturing (16.4 percent) and energy (14.2 percent).

The manufacturing subsector's good performance followed the increase in turnovers of some companies, such as CIMERWA LTD, BAKHRESA GRAIN MILLING-RWANDA LTD, SKOL BREWERY, STEELRWA INDUSTRIES LTD, MOUNT MERU SOYCO LTD and INYANGE INDUSTRIES.

The energy sub-sector also continues to perform well, supported by recent new plants such as Kivuwatt power station. The sub-sector is set to further expand in future due to the ongoing construction of new power plants such as RUSUMO Hydroelectric Power Station and GISAGARA thermal power plant, expected to generate 80 MW each.

In line with trend in high frequency economic indicators, outstanding credit to the private sector increased by 13.9 percent in 2017 against 9.1 percent recorded in 2016 while new authorized loans by the banking sector expanded by 4.6 percent from 6.3 percent during the same period, re-affirming the expected growth trajectory in 2017.

2.2 External Trade Performance

Rwanda's formal trade deficit reduced by 21.7 percent in 2017 compared to 2016, from USD 1,624.5 million to USD 1271.8 million. This improvement was due to the resurgence in international commodity prices which started in the fourth quarter of 2016 and the increase in the volumes of some non-traditional exports such as products of milling industry, other minerals, cement, textiles as well as iron and steel.

The recovery in commodity prices boosted formal exports receipts by 57.6 percent while formal imports value recorded a modest decrease of 0.4 percent in 2017 compared to 2016.

As a result, formal imports coverage by exports improved to 42.6 percent in 2017 against 26.9 percent recorded in 2016. When informal cross border trade is included, the exports cover of imports improve to 46.5 percent in 2017 from 32.0 percent in 2016.

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

	2013	2014	2015	2016	2017	Percentage change
Exports						
Value	**573**	**599.8**	**558.7**	**598.8**	**943.5**	**57.6**
Volume	308.4	324.1	390.6	466.0	634.6	**36.2**
Imports						
Value	2,247.4	2,386.9	2,311.2	2,223.3	2,215.4	**-0.4**
Volume	1,781.9	1,846.6	2,068.1	1,965.2	2,093.1	**6.5**
Trade balance (USD million)	-1674.4	-1787.1	-1752.5	-1624.5	-1271.8	**-21.7**
Percent Cover rate of Exports/Imports - Value	**25.5**	**25.1**	**24.2**	**26.9**	**42.6**	**58.1**

Source: NBR, Statistics Department

2.2.1 Formal Exports Developments

Rwanda's exports are composed of traditional exports, non-traditional exports and re-exports; accounting for 30.1 percent, 38.9 percent and 31.0 percent of the total export earnings in 2017 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 30.1 percent in 2017. The growing share of non-traditional exports is mainly due to the increased domestic production of products of milling industry, other minerals, cement, textiles as well as iron and steel in line with the "Made in Rwanda" program.

Table 12: Evolution of Percent Share of Exports: 2013–2017

	2013	2014	2015	2016	2017
Total exports	**100**	**100**	**100**	**100**	**100**
Traditional exports	**62.1**	**55.2**	**47.5**	**36.6**	**30.1**
Coffee	9.6	10	11.1	9.8	6.8
Tea	9.7	8.6	13	10.6	8.9
Cassiterite	10.7	12	6.1	5.8	5.3
Coltan	23.5	17.5	11.8	6.6	6.6
Wolfram	5.2	4.4	3.1	2	1.3
Hides and Skins	2.8	2.4	1.9	1.2	0.8
Pyrethrum	0.7	0.3	0.4	0.6	0.3
Re - exports	**23.6**	**27.6**	**31.8**	**25.9**	**31.0**
Petroleum products	11.4	11.4	16.0	18.8	16.5
Machines and engines	0.9	4.9	1.9	2.5	0.9
Vehicles	2.2	1.9	1.5	1.3	0.6
Non - traditional exports	**14.3**	**17.3**	**20.7**	**37.5**	**38.9**
Other minerals	0.0	1.3	5.6	13.4	26.3
Product of the milling industry	3.6	5.0	5.0	4.1	5.4
Cement and similar products	0.7	0.9	1.2	1.0	1.3
Textiles	0.1	0.3	0.4	0.4	0.5
Iron and steel	1.0	2.0	0.3	0.4	0.5

Source: NBR, Statistics Department

In 2017, total exports receipts increased by 57.6 percent to USD 943.5 million from USD 598.7 million in 2016, while its volume increased by 36.2 percent. The increase in exports value is attributable to good performance in all the main categories of exports. Non-traditional exports grew by 136.6 percent, traditional exports by 29.6 percent and re-exports by 30.3 percent.

Traditional exports, composed of coffee, tea, minerals, pyrethrum as well as hides and skins grew by 29.6 percent, amounting to USD 284.0 million in 2017 from USD 219.1 million in 2016 due to increased value of mineral exports by 44.6 percent, tea by 32.9 percent, coffee by 9.6 percent as well as a slight increase in hides and skins by 1.0 percent.

Compared to 2016, coffee exports value increased by 9.6 percent in 2017, to USD 64.12 million in 2017 from USD 58.49 million in 2016 while its volume rose slightly by 0.2 percent from 18,640.0 tons in 2016 to 18,670.7 tons in 2017. The increase in value is attributable to rising coffee unit prices by 9.4 percent, from 3.14 USD/Kg last year to 3.43 USD/Kg in 2017.

Tea exports receipts increased by 32.9 percent, from USD 63.42 million in 2016 to USD 84.27 million in 2017 due to the increase in both prices and volume. Tea prices grew by 23.5 percent from 2.6 USD/Kg in 2016 to 3.21 USD/Kg in 2017 while its volume increased by 7.5 percent, from 24,410 tons in 2016 to 26,243 tons in 2017 on the account of increased tea production.

The mining sector performed well in 2017 due to rising metal prices at the international market on the account of strong global demand. The exported value of the traditional minerals (Coltan, Cassiterite and Wolfram) increased by 44.6 percent, from USD 86.42 million recorded in 2016 to USD 124.97 million in 2017.

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

	2013	2014	2015	2016	2017	Percentage change
Coffee						
Value	54.9	59.68	62.04	58.49	64.12	**9.6**
Volume	19.99	15.97	18.79	18.64	18.67	**0.2**
Price USD/KG	2.75	3.74	3.3	3.14	3.43	**9.4**
Tea						
Value	55.48	51.76	72.46	63.42	84.27	**32.9**
Volume	21.01	22.67	24.68	24.41	26.24	**7.5**
Price USD/KG	2.64	2.28	2.94	2.6	3.21	**23.5**
Mining						
Value	225.7	203.32	117.81	86.42	124.97	**44.6**
Volume	9.58	10.47	7.28	6.54	8.01	**22.5**
Cassiterite						
Value	61.07	71.95	34.26	34.81	50.15	**44.1**
Volume	4.9	5.95	3.85	3.55	4.76	**34.1**
Price USD/KG	12.48	12.08	8.91	9.81	10.54	**7.4**
Coltan						
Value	134.57	104.78	66.2	39.74	62.21	**56.5**
Volume	2.47	2.3	1.65	1.27	1.73	**35.8**
Price USD/KG	54.57	45.51	40.08	31.29	36.06	**15.2**
Wolfram						
Value	30.05	26.59	17.34	11.87	12.60	**6.2**
Volume	2.22	2.21	1.78	1.72	1.52	**-11.4**
Price USD/KG	13.55	12.01	9.72	6.92	8.27	**19.5**
Hides and Skin						
Value	16.02	14.22	10.38	7.44	7.51	**1.0**
Volume	10.3	9.62	8.27	6.19	5.39	**-12.9**
Price USD/KG	1.56	1.48	1.26	1.2	1.39	**16.0**
Pyrethrum						
Value	3.98	1.83	2.48	3.36	3.10	**-7.6**
Volume	0.02	0.01	0.01	0.02	0.03	**28.3**
Price USD/KG	238.88	171.2	177.15	188.33	120.90	**-35.8**
I. Traditional exports						
Value	356.08	330.81	265.16	219.1	284.0	**29.6**
Volume	60.89	58.74	59.03	55.8	58.3	**4.6**
II. Re-exports						
Value	135.04	165.35	177.87	224.28	292.2	**30.3**
Volume	97.59	105.73	159.16	230.37	323.8	**40.5**
Petroleum products						
Value	65.0	68.5	89.3	112.4	156.1	**38.9**
Machines and engines						
Value	4.9	29.7	10.5	14.9	8.2	**-45.2**
Vehicles						
Value	12.5	11.3	8.6	7.5	5.9	**-21.5**
III. Non-traditional exports						
Value	81.91	103.6	115.73	155.27	367.4	**136.6**
Volume	149.89	159.63	172.42	179.86	252.5	**40.4**
Other minerals						
Value	0.00	8.04	31.28	80.06	248.49	**210.4**
Product of the milling industry						
Value	20.77	30.27	27.83	24.76	51.33	**107.3**
Cement and similar products						
Value	3.74	5.39	6.94	5.83	12.26	**110.3**
Textiles						
Value	0.75	1.97	2.35	2.16	4.28	**97.8**
Iron and steel						
Value	5.65	11.79	1.57	2.34	5.13	**118.6**
TOTAL EXPORTS						
Value	**573.03**	**599.76**	**558.75**	**598.7**	**943.5**	**57.6**
Volume	**308.37**	**324.1**	**390.61**	**466.0**	**634.6**	**36.2**

Source: NBR, Statistics Department

Receipts from exported hides and skins slightly increased by 1.0 percent, from USD 7.44 million to USD 7.51 million supported by rising unit prices by 16.0 percent from 1.2 USD/Kg in 2016 to 1.39 USD/Kg in 2017 which offset the decline in volume. The rising unit prices is due to value addition on hides and skins that are no longer exported in raw form but transformed, fetching a relatively higher price than the raw hides and skins.

Non-traditional exports (other ordinary exports) which are dominated by other minerals, products of milling industry and other manufactured products significantly increased by 138.9 percent amounting to USD 371.0 million in 2017 from USD 155.27 million in 2016. This increase was mainly driven by the good performance in other minerals component which is composed of beryllium and unwrought lead, iron ore and gemstones, which rose by 210.5 percent from USD 80.06 million in 2016 to USD 248.57 million in 2017 following the increase in international commodity price.

In addition, the products of milling industry, whose main products are wheat and maize flours and mainly exported to DRC, increased by 107.3 percent in value from USD 24.76 million in 2016 to USD 51.33 million in 2017 and 64.3 percent in volume from 68,839 tons to 11,380 tons driven by strong demand from the region supported by increased domestic production by local milling industries such as BAKHRESA Grain Milling (Rwanda) Ltd, MIKOANI Traders Ltd and MINIMEX.

Re-exports, mainly composed of petroleum products, machines and engines, vehicles and other re-exports, grew by 30.3 percent and 40.5 percent in value and volume respectively, mainly driven by the increase in re-exports of petroleum products by 38.9 percent in value and 42.4 percent in volume and other re-exports mainly composed of food stuffs by 35.9 percent and 40.4 percent in value and volume respectively. These products are mainly re-exported to DR Congo, accounting for 95.2 and 99.1 percent of the total re-exports value and volume respectively.

2.2.2 Formal Imports Developments

Rwanda's formal imports are composed of consumer goods, capital goods, intermediary goods as well as energy and lubricants. In 2017, formal imports value slightly decreased by 0.4 percent to USD 2,215.37 million from USD 2,223.30 million in 2016 while its volume increased by 6.5 percent to 2,093.15 tons from 1,965.20 tons. The decrease in formal imports value was driven by the fall in capital goods which declined by 12.4 percent and 9.4 percent in value and volume respectively mainly driven by machines, tools and devices, constituting 61.2 percent of the total capital goods imports value. This decline is related to the phasing out of some major construction projects, especially big hotels that imported machines to undertake construction in June 2016.

Table 14: Formal Imports Developments (Value in USD Million, Volume in Thousands of Tons)

		2013	2014	2015	2016	2017	Percentage change
Total imports	Value	2,247.40	2,386.90	2,311.20	2,223.30	2,215.37	**-0.4**
	Volume	1,781.90	1,846.60	2,068.10	1965.2	2093.1	**6.5**
Consumer goods	Value	633.6	656.2	694.1	723.0	746.7	**3.3**
	Volume	574.4	592.4	695.9	763.2	805.4	**5.5**
Capital goods	Value	596.3	642.2	652.6	707.9	620.2	**-12.4**
	Volume	59.0	60.6	70.2	69.1	62.6	**-9.4**
Intermediary goods	Value	632.9	720	682.5	566.0	596.2	**5.3**
	Volume	878.9	914.7	992.2	821.9	902.6	**9.8**
Energy and lubricants	Value	384.6	368.5	282.1	226.4	252.3	**11.4**
	Volume	269.7	278.9	309.8	311.0	322.6	**3.7**

Source: NBR, Statistics Department

In 2017, the imports value was dominated by consumer goods with a share of 33.7 percent of the total formal imports value, followed by capital goods (28.0 percent), intermediary goods (26.9 percent) and energy & lubricants (11.4 percent). In volume terms, intermediary goods were dominant with a share of 43.1 percent, followed by consumer goods (38.5 percent), energy & lubricants (15.4 percent) and capital goods (3.0 percent) of the total formal import volume.

Imports of consumer goods mainly composed of food stuffs increased by 3.3 percent in value, to USD 746.7 million in 2017 from USD 723.0 million in 2016 and 5.5 percent in volume to 805424.7 tons in 2017 from 76323.6 tons in 2016. The increase in consumer goods is mainly driven by the increase in food stuffs particularly sugar and sweets, cereals, flours and seeds as well as fats and oils following increased prices occasioned by low production within the EAC countries as a result of unfavorable weather conditions that affected agricultural production of 2017A season.

In contrast, articles of clothing and domestic articles declined by 17.5 percent and 46.6 percent in value and volume respectively. The decline in articles of clothing is attributed to increased taxes on second hand clothes in a bid to promote made in Rwanda garments. The decline in domestic articles is explained by the low domestic demand for items such as kitchen, toilet a and bathrooms articles and related products following the completion of Kigali Convention Center and Marriot Hotel that imported these items during their completion stages in June 2016.

Imports of capital goods, dominated by machines, devices and tools as well as transport materials, decreased by 12.4 percent in value and 9.4 percent in volume in 2017 compared to 2016. This decline in imports of capital goods is mainly driven by machines, tools and devices which account for 61.2 percent of the total capital goods value that decreased by 19.6 percent and by 19.6 percent in volume. The decline is related to the phasing out of some big construction projects such as Kigali Convention Center and Marriot Hotel that imported big machines to undertake construction in June 2016.

In 2017, imports of intermediary goods, dominated by construction materials, industrial products and fertilizers, increased by 5.3 percent in value and 9.8 in volume respectively mainly due to the increase in the value of industrial products by 20.7 percent and fertilizers by 31.7 percent. The increase in industrial products which is dominated by food inputs is driven by increased demand for industrial products imported by local milling industries including BAKHRESA Grain Milling Ltd, MIKOANI Traders Ltd and PEMBE Flour Mills SARL for production purposes.

The increase in imports of fertilizers is explained by increased demand for fertilizers following the favorable weather conditions for 2017/2018A season as well as the increase in prices due to global supply constraints following production cut by China, one of the leading producers of fertilizers in the world.

Conversely, the imports of construction materials declined by 17.0 percent in value and 6.2 percent in volume due to the reduction in cement imports by 6.9 percent, from 267.0 thousand tons in 2016 to 245.0 thousand tons in 2017, following the increase in domestic production of cement by CIMERWA and a slight increase in domestic demand by 0.5 percent.

Table 15: Domestic Production and Trade of Cement (in Tons)

	2014	2015	2016	2017	Percentage Change
Domestic production	**119,083**	**181,051**	**293,091**	**354,801**	**21.1**
CIMERWA	106,120	172,848	290,437	352,979	**21.5**
KCC	12,963	8,203	2,654	1,823	**-31.3**
Imports of cement	**469,447**	**421,892**	**266,724**	**249,639**	**-6.4**
Exports of cement	**16,160**	**25,258**	**29,793**	**71,725**	**140.7**
Domestic demand	**572,370**	**577,685**	**530,022**	**532,715**	**0.5**

Source: NBR, Statistics Department

Imports of energy and lubricants, of which 92.1 percent is petroleum products, increased by 11.4 percent in value and 3.7 percent in volume. This increase is explained by the rise in imports of petroleum products by 13.3 percent in value, on the account of increased oil price on international market following a decision by OPEC and some non-OPEC particularly Russia to cut oil production by 1.8 million barrel per day between January 2017 and December 2018 in a bid to rebalance the oil market.

2.3 Formal Trade With Other EAC Countries

Rwanda's exports to other East African Community (EAC) member countries with a share of 17.6 percent of the total formal exports in 2017 increased by 10.0 percent in value, to USD 166.8 million in 2017 from USD 151.7 million in 2016. The increase in export receipts was driven by the increase in exports to Kenya (+14.3 percent) and Uganda (+168.7 percent). The increase in exports to Kenya is mainly due to the high exports of tea while exports to Uganda increased mainly due to the rise in demand for the products of the milling industry, specifically corn soya blend, which constitute 48.4 percent of the total exports to Uganda.

Imports from EAC countries, which represent 21.1 percent of total formal imports, slightly decreased by 0.8 percent, from USD 470.02 million recorded in 2016 to USD 466.45 million recorded in 2017. Consequently, the trade deficit reduced by 7.0 percent, to USD 299.6 million in 2017 from USD 318.4 million in 2016.

Table 16: Trade Flows with EAC (USD Million)

		2013	2014	2015	2016	2017
Exports to EAC	Value in USD millions	123.0	140.2	121.0	151.7	166.8
	Percent change	6.4	14.0	-13.7	25.4	10.0
	Share of total formal exports	21.5	23.8	21.5	25	17.6
Imports from EAC	Value in USD millions	499.99	546.16	518.97	470.02	466.45
	percent change	-6.1	9.2	-5.0	-9.4	-0.8
	Share of total formal imports	22.2	22.9	22.5	21.1	21.1
TRADE BALANCE		**-393.5**	**-404.3**	**-399.2**	**-318.4**	**-299.6**

Source: NBR, Statistics Department

Rwanda's main exports to EAC member countries remain tea sold at the Mombasa auction, petroleum products procured by airlines at Kigali International Airport as well as those re-exported to Burundi, raw hides and skins of bovine, motor cars and sorghum usually exported to Uganda. Imports from EAC member countries are composed of cartons, boxes, cases, bags, and other packing containers from Kenya, home used products and agricultural products.

2.3.1 Informal Cross Border Trade

Rwanda's informal cross-border exports with neighboring countries, accounting for 10.38 percent of formal exports in the period under review, decreased by 19.3 percent, amounting to USD 98.44 million in 2017 from USD 121.93 million in 2016. Exports to the DRC represent a big share of 83.3 percent of the total informal Cross-border trade exports, followed by Uganda (+12.5 percent), Burundi (+4.2 percent) and

Tanzania (+0.04 percent). The decline is mainly due to poor harvest experienced in 2017A season since agricultural products are predominant in informal Cross-border trade as well as the imposition of non-tariff barriers on beef, chicken and eggs by DR Congo between March and September 2017.

Table 17: Rwanda Informal Cross Border Trade (USD Million)

	2013	2014	2015	2016	2017
Exports					
Values in USD Million	110.71	107.51	100.45	121.93	98.44
Change (%)	8.74	-2.89	-6.57	21.38	-19.3
Share to total formal Exports (%)	19.32	17.93	17.98	20.35	10.38
Imports					
Values in USD Million	17.61	19.23	21.62	30.52	23.28
Change (%)	-22.19	9.17	12.46	41.18	-23.72
Share to total formal Imports (%)	0.78	0.81	0.94	1.37	1.05
Trade Balance	**93.10**	**88.28**	**78.83**	**91.4**	**75.2**

Source: NBR, Statistics Department

Informal imports decreased by 23.72 percent, from USD 30.52 million in 2016 to USD 23.28 million in 2017. The main sources of these imports are Uganda, Burundi and DR Congo and with shares of 64.0 percent, 19.0 percent and 13.5 percent respectively. The decline in imports was a result of the after effects of poor harvest that was experienced by all regional countries which affected imports of food stuffs particularly from Uganda where substantial flows of informal imports come from.

The developments in informal trade indicate that Rwanda's informal trade balance with neighboring countries remain in surplus despite a decrease of 17.7 percent from USD 91.4 million in 2016 to USD 75.2 million in 2017.

2.4 Key Financial Flows

Balance of payments estimates indicate that financial flows to Rwanda continue to be the main source of financing the current account deficit. Total official inflows slightly increased by 1.1 Percent in 2017 compared to 2016 mainly driven by increases in external public borrowing as well as non-budgetary grants which rose by 7.2 and 1.1 percent respectively.

Total private flows decreased by 22 percent due to substantial decline in private external borrowing by 70 percent from USD 532.5 million in 2016 to USD 159.7 million in 2017. This decline was occasioned by the lower external private borrowing in 2017 compared to 2016 that recorded a higher borrowing by RwandAir and Kigali Convention Center.

On the other hand, other flows such as foreign direct investment is estimated to grow by 10.2 percent in 2017 from USD 266.3 million to USD 293.4 million due to good performance in the global economy as well as pro-investment policy reforms implemented by Rwanda such as ease of doing business, zero tolerance to corruption and well defined property rights.

Remittances receipts grew by 24.1 percent from USD 167.3 million in 2016 to USD 207.56 million in 2017. This growth is supported by the good performance in the global economy, emergence of mobile network operators (MNOs) in addition to money transfer operators (MTOs) which has lowered transaction costs making it cheaper and efficient to send money across the borders, this has in turn led to the growth of remittance receipts.

Table 18: Key Financial Flows (USD Million)

	2013	2014	2015	2016	2017
Total Private Inflows	**883.1**	**931.0**	**890.4**	**1359.5**	**1,064.09**
O/W: Direct Investments	257.60	314.70	223.33	266.30	293.42
Portfolio Investments	1.70	4.50	7.75	3.60	3.74
Remittances	161.80	174.90	153.18	167.30	207.56
Private Foreign Borrowings LT	168.40	133.20	138.46	532.50	159.70
Total Official Inflows	**1353.91**	**1065.20**	**1063.44**	**942.45**	**952.54**
Ordinary Budgetary Grants	468.80	276.90	218.60	234.62	215.50
Non-budgetary Grants	112.81	143.30	172.85	131.11	132.50
Public Foreign borrowings	537.80	307.90	372.09	386.72	414.64
Capital Grants	234.50	337.10	299.90	190.00	189.90

Source: NBR, Statistics Department

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

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

3.1 Monetary Policy Stance in 2017

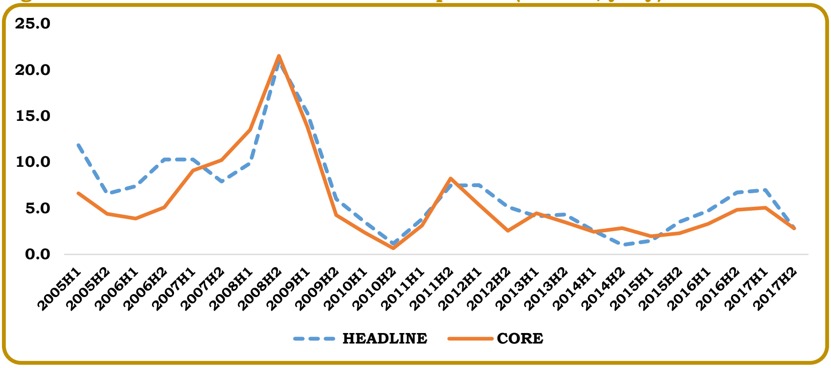
In 2017, the NBR maintained an accommodative monetary policy stance to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange pressures remained subdued. The NBR reduced its policy rate (KRR) from 6.25 percent in December 2016 to 6.0 percent in June 2017 and 5.5 percent in December 2017.

As a result, outstanding credit to the private sector increased by 13.9 percent between December 2016 and December 2017 against 9.1 percent recorded in the corresponding period of 2016. The broad money increased by 12.3 percent compared to 7.6 percent during the same period.

3.2 Inflation Developments in 2017

Overall, headline inflation declined to 4.9 percent in 2017 from 5.7 percent in 2016 mainly in line with the ease in exchange rate pressures and the significant fall in food inflation especially during the second half of the year. Food inflation dropped to 9.8 percent from 10.7 percent and vegetables inflation declined to 9.5 percent from 20.1 percent during the same period following the improved performance of the agriculture sector.

Figure 4: Headline and Core Inflation Developments (Percent, y-o-y)



Source: NBR, Monetary Policy and Research Department

Imported inflation increased from 4.7 percent in 2016 to 6.0 percent in 2017 due to lagged effect of high FRW depreciation against the USD in 2016. Core inflation, that excludes energy and fresh products, eased to 3.9 percent in 2017 from 4.1 percent in 2016 mainly in line with the still low level of aggregate demand. Domestic inflation also dropped to 4.5 percent in 2017 from 6.1 percent in 2016 in line with the aforementioned decline in food prices.

Table 19: Inflation Developments for Key Items (Annual Average, Percent)

	Bi-annual average								Annual average	
	2014H1	2014H2	2015H1	2015H2	2016H1	2016H2	2017H1	2017H2	2016	2017
Headline	2.5	1.1	1.5	3.5	4.7	6.7	7.0	2.8	**5.7**	**4.9**
Domestic	2.9	0.9	1.8	4.2	5.3	6.9	6.7	2.4	**6.1**	**4.5**
Food	3.6	-1.0	1.8	5.9	7.6	13.9	15.0	4.6	**10.7**	**9.8**
Vegetables	0.9	-8.9	0.8	12.7	16.7	23.6	17.2	1.9	**20.1**	**9.5**
Bread	0.4	7.5	7.2	1.2	0.0	4.3	8.7	8.3	**2.2**	**8.5**
Alcoholic	8.1	6.5	2.5	9.3	9.2	1.3	7.1	8.7	**5.2**	**7.9**
Education	7.1	7.2	0.5	0.4	1.4	2.1	-0.5	-1.0	**1.8**	**-0.7**
Housing	-0.1	2.0	3.8	4.2	3.1	1.7	1.9	2.0	**2.4**	**2.0**
Transport	-0.1	-1.5	-2.8	1.4	6.0	8.2	6.9	2.1	**7.1**	**4.5**
Imported	1.4	1.7	0.5	1.7	3.1	6.4	7.8	4.3	**4.7**	**6.0**
Core	2.5	2.8	2.0	2.3	3.3	4.8	5.0	2.8	**4.1**	**3.9**
Energy	-0.1	1.3	-0.5	2.6	5.2	2.8	4.7	5.0	**4.0**	**4.8**

Source: Monetary Policy & Research Department

3.3 Monetary Developments

3.3.1 Money Supply

The growth of broad money (M3) increased to 12.3 percent in 2017 from 7.6 percent recorded in 2016, to FRW 1,791.4 billion from FRW 1,594.7 billion, driven by growth in net foreign assets by 8.6 percent and in net domestic assets by 15.5 percent.

Table 20: Monetary Aggregates Developments (End Period, FRW Billion)

	2013	2014	2015	2016	2017	Percentage change			
						2014/ 2013	2015/ 2014	2016/ 2015	2017/ 2016
Net foreign assets	**744.0**	**690.4**	**642.6**	**739.5**	**803.3**	**-7.2**	**-6.9**	**15.1**	**8.6**
Foreign assets	923.1	890.9	860.8	1,078.2	1,204.4	**-3.5**	**-3.4**	**25.3**	**11.7**
Foreign liabilities	179.1	200.5	218.1	338.7	401.1	**11.9**	**8.8**	**55.3**	**18.4**
Net domestic assets	**284.7**	**533.5**	**839.5**	**855.2**	**988.1**	**87.4**	**57.3**	**1.9**	**15.5**
Domestic credit	567.1	897.0	1,223.1	1,340.9	1,568.7	**58.2**	**36.4**	**9.6**	**17.0**
Central government (net)	-187.3	-21.2	39.5	12.2	58.4	**-88.7**	**-286.1**	**-69.1**	**378.8**
Credit	193.7	222.3	304.1	284.5	379.4	**14.8**	**36.7**	**-6.4**	**33.3**
Deposits	381.0	243.6	264.6	272.3	321.0	**-36.1**	**8.6**	**2.9**	**17.9**
Public enterprises	1.3	11.9	5.6	43.3	46.1	**852.3**	**-53.2**	**674.9**	**6.5**
Private sector	758.0	906.3	1,178.1	1,285.4	1,464.2	**19.6**	**30.0**	**9.1**	**13.9**
O/W in foreign currency	15.8	63.6	134.9	141.3	211.7	**303.0**	**112.1**	**20.8**	**49.8**
Other items net	-282.5	-363.5	-383.7	-485.7	-580.6	**-28.7**	**-5.5**	**-26.6**	**-19.5**
Broad money M3	**1,028.7**	**1,223.9**	**1,482.1**	**1,594.7**	**1,791.4**	**19.0**	**21.1**	**7.6**	**12.3**
Currency in circulation	116.6	118.5	142.6	145.9	162.7	**1.7**	**20.3**	**2.3**	**11.6**
Deposits	912.1	1,105.3	1,339.5	1,448.8	1,628.7	**21.2**	**21.2**	**8.2**	**12.4**
O/W: Demand Deposits	378.7	456.2	614.6	587.9	650.1	**20.5**	**34.7**	**-4.3**	**10.6**
Term Deposits	339.2	407.3	469.0	532.4	580.1	**20.1**	**15.1**	**13.5**	**9.0**
Foreign currency deposits	194.2	241.8	255.9	328.5	398.5	**24.5**	**5.8**	**28.4**	**21.3**

Source: NBR, Statistics Department

Growth in net foreign assets was mainly driven by the increased foreign exchange inflows, including export receipts. Growth in net domestic assets was due to an increase in net credit to the government of 378.8 percent from -69.1 percent in 2016, and in credit to the private sector of 13.9 percent in 2017 from 9.1 percent recorded in 2016, standing at FRW 1,464.2 billion in 2017.

New authorized loans by the banking sector expanded by 4.6 percent in 2017 from 6.3 percent recorded in 2016, amounting to FRW 824.9 billion in 2017. This decelerating growth was mainly driven by the decline of new loans in Commerce, restaurants and hotels sector (-10.8 percent), Water and energy sector (-18.3 percent) and Manufacturing activities (-5.7 percent), consistent with the slowdown in economic activities.

Table 21: New Authorized Loans by Activity Branch (FRW billion, Unless Otherwise Indicated)

Activity branch	2012	2013	2014	2015	2016	2017	Percentage change 2017/2016
Non classified activities	83.0	56.5	62.6	67.1	77.7	90.6	**16.6**
Agricultural, fisheries& livestock	10.6	8.8	8.8	13.9	11.5	8.8	**-23.6**
Mining activities	0.0	0.2	0.2	0.3	1.8	0.8	**-56.2**
Manufacturing activities	37.0	43.9	72.5	51.2	63.9	60.3	**-5.7**
Water & energy activities	3.9	5.6	25.6	1.3	24.7	20.2	**-18.3**
Public works and building	111.9	93.2	138.4	237.3	195.0	230.8	**18.3**
Commerce restaurant and hotel	203.1	216.2	272.1	279.7	348.6	310.9	**-10.8**
Transport & warehousing & communication	30.4	29.5	42.2	53.8	37.7	73.6	**95.0**
OFI &Insurances and other non-financial services	4.6	6.1	4.5	14.8	5.8	9.4	**62.2**
Services provided to the community	14.4	12.5	26.1	22.6	21.8	19.5	**-10.5**
Total in FRW billion	**498.9**	**472.5**	**653.0**	**742.1**	**788.5**	**824.9**	**4.6**
Percentage change	**39.0**	**-5.3**	**38.2**	**13.7**	**6.3**	**4.6**	

Source: NBR, Financial Stability Directorate

In 2017, commerce, restaurants and hotels remained the most financed economic sector representing 37.7 percent of the total new authorized loans, followed by public works and buildings (28.0 percent).

Table 22: New Authorized Loans Distribution by Activity Branch (Percentage share)

Activity branch	2012	2013	2014	2015	2016	2017
Non classified activities	16.6	12.0	9.6	9.0	9.9	11.0
Agricultural, fisheries& livestock	2.1	1.9	1.3	1.9	1.5	1.1
Mining activities	0.0	0.0	0.0	0.0	0.2	0.1
Manufacturing activities	7.4	9.3	11.1	6.9	8.1	7.3
Water & energy activities	0.8	1.2	3.9	0.2	3.1	2.4
Public works and building	22.4	19.7	21.2	32.0	24.7	28.0
Commerce restaurant and hotel	40.7	45.8	41.7	37.7	44.2	37.7
Transport & warehousing & communication	6.1	6.2	6.5	7.3	4.8	8.9
OFI &Insurances and other non-financial services	0.9	1.3	0.7	2.0	0.7	1.1
Services provided to the community	2.9	2.7	4.0	3.0	2.8	2.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: NBR, Financial Stability Directorate

The share of new authorized loans to corporates increased to 61.3 percent (FRW 505.3 billion) in 2017 from 46.8 percent (FRW 233.3 billion) in 2012. Loans to individuals represent 38.7 percent (FRW 319.5 billion) of total loans in 2017, with 20.0 percent authorized to women.

Table 23: Distribution of New Authorized Loans by Gender

	2012	2013	2014	2015	2016	2017
Women (Percentage share)	22	22	25	23	21	20
Men (Percentage share)	78	78	75	77	79	80
Number women financed	19,190	14,376	90,796	87,337	81,165	73,222
Number men financed	45,825	37,273	133,505	170,378	188,907	201,660

Source: NBR, Financial Stability Directorate

Considering the new authorized loans by Province, Kigali City has an average share of 74.7 percent in the last six years, followed by Western and Eastern Provinces with 7.1 percent each, Southern Province (6.3 percent) and Northern Province (4.7 percent).

Table 24: Distribution of new authorized loans by Province (Percentage Share)

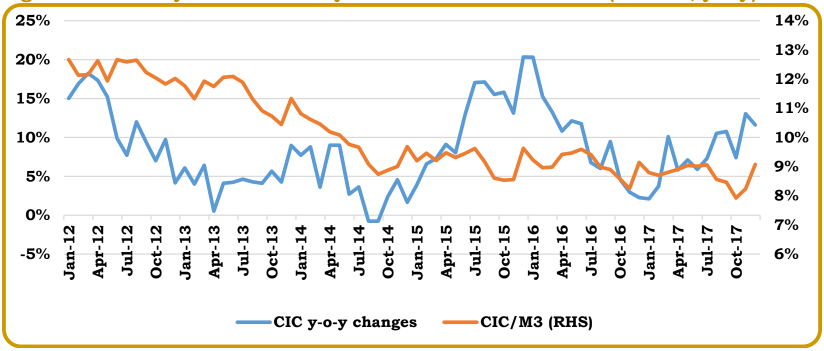
	2012	2013	2014	2015	2016	2017	Average
KIGALI CITY	71.2	75.9	71.1	76.9	74.0	79.2	74.7
WEST	9.5	6.3	10.4	5.3	6.2	5.1	7.1
EAST	6.7	7.8	8.1	7.1	7.4	5.9	7.1
SOUTH	7.7	5.1	6.3	6.1	7.3	5.2	6.3
NORTH	5.0	4.9	4.2	4.6	5.1	4.6	4.7
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: NBR, Financial Stability Directorate

3.3.2 Money Demand

Currency in circulation increased by 11.6 percent in 2017 from 2.3 percent in 2016 in line with increased economic activities in 2017Q4 compared to 2016Q4. The currency in circulation to broad money ratio declined to 9.0 percent in 2017 compared to 12.0 percent in 2012. This downward trend is mainly explained by the increase financial inclusion following the extension of the financial sector network.

Figure 5: Currency to Broad Money M3 Ratio and CIC Growth (Percent, y-o-y)

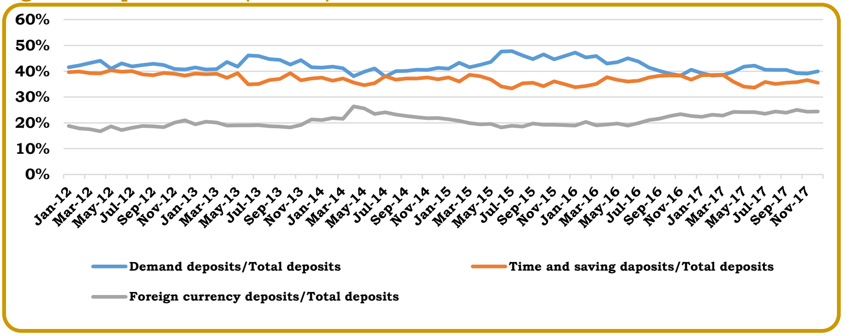


Source: NBR, Monetary Policy and Research Department

Total deposits picked up by 12.4 percent in 2017 from 8.2 percent recorded in the previous year. The growth of total deposits in 2017 is reflected in all type of deposits. Demand deposits grew by 10.6 percent from -4.3 percent, time and saving deposits rose by 9.0 percent from 13.5 percent and foreign currency deposits picked up by 21.3 percent from 28.4 percent.

The share of demand deposits in total deposits remained high, averaging 42 percent of total deposits in the last six years, followed by time and saving deposits with a share of 37 percent and foreign currency deposits with 21 percent.

Figure 6: Deposit Ratios (Percent)



Source: NBR, Statistics Department

Considering the deposits by category of depositors, Households and Non-Profit Institutions Serving Households (NPISHs) dominate in demand and time deposits, while foreign currency deposits are mostly held by non-financial corporations.

Table 25: Deposits by Category of Depositors (Percentage Share)

Depositors	Demand deposits					Term deposits					Foreign currency deposits				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Other financial institutions	2.4	2.4	3.4	2.25	2.3	4.6	3.8	5.8	3.87	4.6	0.2	0.1	0.3	0.14	0.7
Social security funds	1.7	1.2	3.7	1.63	5.5	13.3	14	12	13	11.9	0.1	0.1	0.3	0.23	0.3
Public enterprises	1.6	2.4	0.8	1.67	0.3	0.3	0.2	0.4	1.7	0.3	0.5	0.4	0.7	0.41	0.2
Other nonfinancial corporations	11.3	11.8	14.0	11.9	12.8	4.0	4.6	3.1	3.74	2.8	12.1	13.4	9.5	10.8	11.6
Households and NPISH	24.5	23.5	22.5	22.2	18.6	15.1	14.3	14.6	15.3	15.8	8.4	8.0	8.9	11.2	12.2
Total	**41.5**	**41.3**	**44.4**	**39.6**	**39.5**	**37.3**	**36.9**	**35.9**	**37.6**	**35.5**	**21.3**	**22.0**	**19.6**	**22.8**	**25.0**

Source: NBR, Statistics Department

The share of Rwanda Social Security Board (RSSB) and Other Financial Corporations (OFC) composed by Rwanda Development Bank, Microfinance Institutions and Insurance in total term deposits represented 43.2 percent on average between 2014 and 2017. RSSB has the greatest share of 30.9 percent and OFC followed with 12.3 percent.

Table 26: Term Deposits by Institutional Depositors (Percentage Share)

	2014	2015	2016	2017
RSSB	34.1	32.3	31.8	25.3
OFC (BRD, MFIs, Insurance)	10.0	15.6	11.8	12.0
Total	**44.1**	**47.9**	**43.6**	**37.3**

Source: NBR, Statistics Department

The deposit market in Rwanda is characterized by structural challenges related with low deposit base, low level of term deposits and concentration of term deposits in the hands of a few institutional investors, constraining long-term financing.

3.4 Liquidity Conditions of the Banking System

Liquidity conditions in the banking system significantly improved in 2017 compared to 2016. Commercial banks' most liquid assets rose by 26.4 percent, standing at FRW 333.3 billion in 2017 from FRW 263.6 billion as recorded in 2016.

Table 27: Most Liquid Assets of Banks

	FRW Billion						Percentage change	
	2012	2013	2014	2015	2016	2017	2016/ 2015	2017/ 2016
T-bills	62.5	171.6	172.3	225.1	177.7	249.6	**-21.1**	**40.5**
Repo	52.5	63.0	47.5	26.5	30.5	30.0	**15.1**	**-1.6**
Excess Reserves	9.5	9.9	17.2	17.1	24.5	20.6	**43.3**	**-15.9**
Cash in Vault[2]	22.3	24.3	35.4	34.2	30.8	33.1	**-9.9**	**7.5**
Total	**146.8**	**268.8**	**272.4**	**302.9**	**263.6**	**333.3**	**-13.0**	**26.4**

Source: NBR, Monetary Policy and Research Department

The aforementioned improvement in economic activities was reflected in liquidity injection. As mentioned total deposits in the banking sector

[2] In domestic currency (excluding foreign)

increased by 12.6 percent in 2017 from 8.2 percent in 2016. In addition, the NBR injected FRW 44.8 billion in 2017 compared to FRW 16.7 billion in 2016 through SWAP transactions with commercial banks. Furthermore, following the improvement in external sector, sales to banks reduced to USD 276.3 million equivalent to FRW 229.9 billion in 2017, from USD 327.5 million equivalent to FRW 258.3 billion during the previous year.

3.5 Interest rate developments

Money market interest rates have been declining in tandem with the key repo rate and liquidity developments in the banking sector. Repo, interbank and T-bills interest rates respectively stood at 4.21 percent, 5.85 percent and 7.07 percent end December 2017 from 5.02 percent, 6.61 percent and 9.02 percent end December 2016.

Table 28: Interest Rates Developments (p.a)

	2016				2017			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Key Repo rate	6.50	6.50	6.50	6.25	6.25	6.00	6.00	5.50
Discount Rate	10.50	10.50	10.50	10.25	10.25	10.00	10.00	9.50
Repo Rate	3.09	3.62	4.73	5.02	4.99	4.42	4.11	4.21
T-bills rate	6.35	7.29	8.22	9.02	9.42	8.78	7.42	7.07
Interbank rate	5.18	5.93	6.67	6.61	6.10	6.40	5.76	5.85
Deposit rate	7.32	7.94	8.24	8.01	7.84	7.92	7.86	7.66
Lending rate	17.09	16.95	17.36	17.21	16.85	16.76	17.33	17.19
Spread	9.77	9.01	9.12	9.20	9.01	8.84	9.47	9.53

Source: NBR, Statistics Department

With regard to commercial banks' interest rates, both deposit and lending interest rates slightly declined to 7.63 percent and 17.17 percent, on average in 2017 from 7.91 percent and 17.29 percent in 2016 respectively. The decline in lending rate was driven by the reduction in the rate charged to individual borrowers from 18.13

percent and 18.07 percent in 2015 and 2016 respectively, to 17.78 percent in 2017.

Table 29: Interest Rates by Type of Borrowers (p.a)

Type of Borrower	2013	2014	2015	2016	2017
Corporates	16.86	16.52	16.61	16.67	16.61
Individuals	17.73	18.48	18.13	18.07	17.78

Source: NBR, Financial Stability Directorate

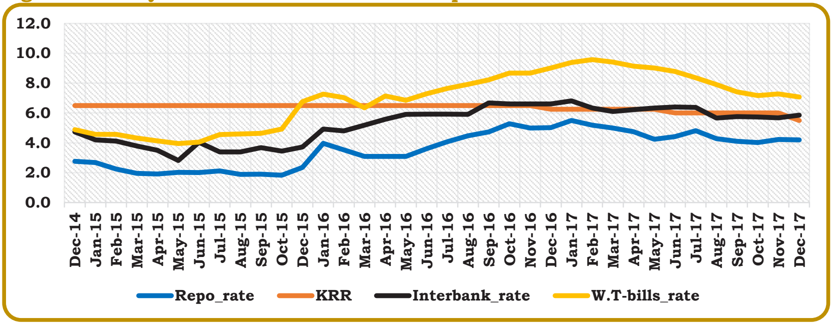
3.6 Financial Market developments

3.6.1 Money market development

With the perspective of boosting interbank market activities and therefore enhance monetary policy transmission mechanism, the NBR established a Financial Markets Operations Committee (FMOC) to improve daily liquidity management and guide NBR interventions on money market. In addition, the NBR introduced the true repo mechanism to increase the trust of players on interbank market as all transactions are collateralized and ownership of security holders is fully transferred during the borrowing period.

As a result, the value of transactions on interbank market increased by 5 percent, from FRW 443.9 billion in 2016 to FRW 466.1 billion in 2017. Furthermore, the transmission mechanism from central bank rate to money market rates significantly improved, paving the way to the adoption of price based monetary policy.

Figure 7: Money Market Interest Rates Developments



Source: NBR, Monetary Policy Analysis Department

3.6.2 Capital market development

In 2017, the Government of Rwanda through the Ministry of Finance and Economic Planning and the National Bank of Rwanda continued to issue Government bonds on quarterly basis. Four bonds were issued: two 5-year bonds and two 7-year bonds with an average subscription of 181 percent. As a result, outstanding T-Bond increased to FRW 180.0 billion end 2017 from FRW 152.5 billion end 2016.

Since 2013, the participation of institutional and retail investors has been increasing. The share of institutional investors increased from 18.8 percent in December 2013 to 57.6 percent in December 2017 and the share of retail investors rose to 5.8 percent from 0.1 percent during the same period. On the other hand, the share of banks in government bonds declined from 81.2 percent in December 2013 to 36.6 percent in December 2017.

The increased participation of institutional and retail investors in Government bonds, is attributable to continued awareness campaigns done across the country, in a bid to educate Rwandans about the benefits of investing in Government securities.

Table 30: T-Bonds Outstanding 2014-December, 2017 (FRW billion)

Year	Banks	In percent	Institutional investors	in percent	Retail investors	in percent	Total
2013	6.9	81.2	1.6	18.8	0	0.1	8.5
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
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

Source: NBR, Financial Market Department

In addition, the number of deals transacted on secondary market increased to 179 transactions in 2017 from 99 transactions in 2016, whereas, the turnovers increased by 207 percent, to FRW 5.2 billion from FRW 1.7 billion in the same period.

Table 31: Trading Activities on the Rwanda Stock Exchange (RSE)

	2013	2014	2015	2016	2017	Percentage change 2017/2016
Bond						
Numbers of deals	-	13	30	99	179	**80.8**
Turnovers in Million	-	1,089.70	913.5	1,710.50	5,250.26	**206.9**

Source: Rwanda Stock Exchange

In 2018, the quartely issuance of government bond will continue and there is plan to introduce bond reopening framework aiming to increase liquidity on debt securities market and improve on bond pricing mechanism.

3.7 Exchange rate developments

Exchange rate pressures eased in 2017 owing to the improvement in Rwanda's export receipts in line with a continued recovery in international commodity prices, diversification of exports as well as the decline in the import bill. As a result, the FRW depreciated by 3.07 percent (y-o-y) against the USD in 2017 compared to a depreciation of 9.7 percent in 2016.

In 2017, the FRW depreciated by 13.2 percent and 16.9 percent (y-o-y) against the British pound and Euro respectively following the improved economic performance in the Euro area as well as the depreciation of USD against these currencies. The FRW depreciated by 2.3 percent, 2.7 percent and 0.4 percent against the Kenyan, Ugandan and Tanzanian shillings respectively, while appreciating by 1.0 percent against the Burundian franc.

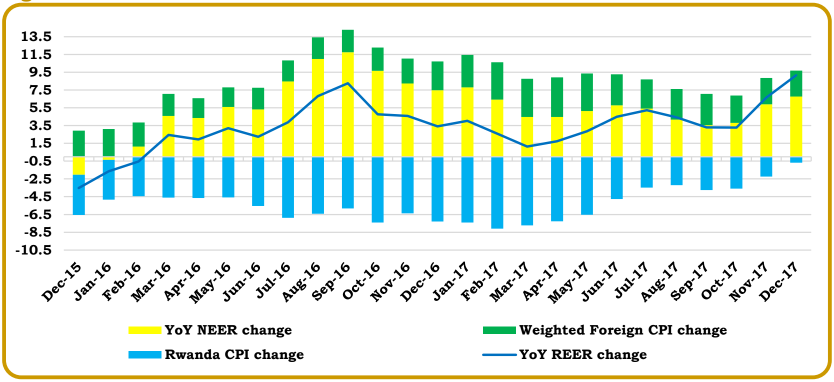
Table 32: Appreciation/Depreciation rate of selected currencies against the FRW

	USD/FRW	GBP/FRW	EUR/FRW	KES/FRW	TZS/FRW	UGS/FRW	BIF/FRW
Dec-13	6.1	8.0	10.2	5.3	6.2	11.7	4.9
Dec-14	3.6	-2.4	-8.5	-2.8	-7.0	-6.7	1.0
Dec-15	7.6	2.8	-3.2	-4.6	-13.5	-11.6	10.0
Dec-16	9.7	-9.2	5.3	9.6	8.6	2.3	-0.2
Jan-17	0.2	2.1	2.2	-1.2	-2.4	1.0	-0.4
Feb-17	0.5	2.0	1.4	-0.4	-1.9	1.2	-0.3
Mar-17	0.8	2.5	2.5	0.3	-1.6	0.8	-0.3
Apr-17	0.9	6.2	4.6	0.1	-1.7	0.2	-0.5
May-17	1.0	5.5	7.6	0.1	-1.6	1.2	-1.1
Jun-17	1.3	7.5	10.4	0.0	-1.4	2.0	-1.0
Jul-17	1.5	8.7	13.5	0.0	-1.2	1.9	-1.2
Aug-17	1.8	7.3	15.2	1.1	-1.1	2.2	-1.3
Sept-17	2.2	11.8	14.7	1.5	-0.9	2.6	-1.4
Oct-17	2.5	10.4	13.7	1.3	-0.6	1.6	-1.2
Nov-17	2.9	12.9	16.3	2.0	-0.1	2.3	-1.0
Dec-17	**3.07**	**13.2**	**16.9**	**2.3**	**0.4**	**2.7**	**-1.0**

Source: NBR, Monetary Policy and Research Department

The FRW real effective exchange rate depreciation increased to 9.2 percent (y-o-y) in 2017 from 3.4 percent in 2016, mainly attributed to the depreciation of the nominal exchange rate of FRW against currencies of some of the major trading partners and the increase in the inflation differential.

Figure 8: Drivers of REER movement



Source: NBR, Monetary Policy and Research Department

IV. FINANCIAL SECTOR STABILITY

4.1 The structure of the financial sector

During the year 2017, the financial sector continued to register positive growth, with total assets of the sector growing by 13.8 percent to FRW 4,047 billion in December 2017 from FRW 3,556 billion in December 2016. The largest share of assets is held by banks (66.4 percent of the total), followed by pension (17.7 percent), Insurance (9.9 percent) and MFI (6 percent).

During the year ended December 2017, the number of institutions making up the financial sector remained at 504. The number of banks increased from 16 to 17 (CBA launched its operations in February 2017); insurance companies increased from 15 to 16 (Mayfair Insurance also started operations in May 2017); microfinance institutions decreased from 472 to 470 (a network of SACCOs formed one Ltd liability MFI); the pension sector constituted of 1 pension fund (RSSB).

Table 33: Structure of the Financial Sector (Number and Assets)

Financial Sector	Dec-15		Dec-16		Dec-17		Assets/GDP		
	Number	% Share of TA	Number	% Share of TA	Number	% Share of TA	Dec-15	Dec-16	Dec-17
Banking sector	17	66.7	16	66.9	17	66.4	36.5	38.0	35.6
Insurance	14	9.7	15	9.7	16	9.9	5.3	5.5	5.3
Pension[3]	1	17.2	1	17.1	1	17.7	9.4	9.3	9.5
MFIs	494	6.4	472	6.3	470	6.0	3.6	3.6	3.2
Total	**526**	**100**	**504**	**100**	**504**	**100**	**54.8**	**56.4**	**53.7**

Source: Financial Stability Directorate (TA=Total Assets)

[3] Private pension schemes are not included. As at December 2017, 10 private pension schemes were licensed.

4.2 Banking Sub-Sector

4.2.1 Structure and Performance of the Banking Sector

As at end December 2017, the banking sector comprised of 17 banks (11 commercial banks, 4 microfinance banks, 1 cooperative bank and 1 development bank) up from 16 banks in December 2016 following the entry of Commercial Bank of Africa (CBA) into the Rwandan market. These banks are spread across the country with a network of 265 branches, 71 sub-branches and 210 outlets.

Growth of the banking sector assets improved to 12.9 percent as at end December 2017 (from FRW 2,380 billion to 2,685 billion) compared to the 11.6 percent growth noted in 2016. This growth was largely driven by the growth in customer deposits. As at end December 2017, banking sector assets were distributed as follows: net loans accounted for 58.8 percent of total assets, government securities 10.1 percent, cash and reserves at the NBR 7.9 percent, placements in foreign banks 6.3 percent, due from banks in Rwanda 6.2 percent, fixed assets 4.6 percent, investment in other securities 4.1 percent, and other assets 1.9 percent.

The banking sector stock of loans (outstanding loans)[4] increased by 12.6 percent (from FRW 1,403 billion in December 2016 to FRW 1,579 billion in December 2017), lower than 14.3 percent registered in the corresponding period of 2016. From credit surveys conducted during the year, banks cited weak credit demand in the first half of 2017 to have constrained lending opportunities. In some banks, write-offs of previous bad loans also constrained growth of their loan book.

[4] These include loans to private sector and Government Institutions

New authorized loans improved during the second half of 2017 (especially in the third quarter), and is expected to remain strong in 2018. The value of new loans authorized by banks in the second half of 2017 increased by 12.9 percent compared to the second half of 2016 (from FRW 361.5 billion to FRW 408.1 billion). In the first half, new loans authorized by banks had dropped by 2.4 percent compared to the corresponding period of 2016. Improved lending in the second half reflects improved credit demand and improved economic performance. From NBR's credit survey conducted in December 2017, 14 out of 17 banks expect improved lending to be sustained in 2018.

Banks continue to largely rely on customer deposits to fund their business. The share of deposits to total banks' liabilities was 76 percent as at end December 2017. In the same period, the share of interbank funds was 18 percent, while other lines of credit accounted for less than 5 percent.

During the year ended December 2017, banks' deposits[5] increased by 12.6 percent (from FRW 1,530 billion in December 2016 to FRW 1,723 billion in December 2017), higher than 7.8 percent growth registered during the previous year. The increase of deposits was most noticeable in the increase of deposits of the pension fund (27.6 percent), private companies (16 percent) and individuals (7 percent).

The challenge of deposits' structure continues to persist. Demand deposits represented 57.7 percent of the banking sector deposits in December 2017 while a significant proportion of term deposits are deposits with a one year maturity and under. This constrains lending activities of banks, especially for large long-term projects. It is however

[5] These cover households, Government as well as public enterprises deposits

worth noting that this structure has improved significantly from 70 percent demand deposits composition in 2012.

Table 34: Key Banking Financial Highlights (FRW billion)

Indicators	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Total Assets	1,248	1,511	1,803	2,132	2,380	2,685
Loans & Overdrafts (Net)	747	844	1,011	1,228	1,403	1,579
Deposits	741	866	1,042	1,418	1,530	1,723
Total Liabilities	981	1,203	1,471	1,735	1,938	2,226
Total Shareholders' Funds	267	308	332	397	442	459
Interbank	78	115	175	256	313	396

Source: NBR, Financial Stability Directorate

4.2.2 Financial Soundness Indicators of Banks

Banks' solvency levels remained adequate in 2017 with sufficient capital buffers. Aggregate capital ratios of banks remained above the minimum prudential requirements. The system-wide total capital relative to risk-weighted assets (RWA) was at 21.4 percent at end December 2017 against the 15 percent minimum prudential requirement. The Tier 1 capital (core capital) ratio stood at 20 percent against the 10 percent minimum requirement while Common Equity Tier 1 (CET1) capital ratio was 19.1 percent compared to the 8 percent minimum requirement. The sector's leverage ratio[6] was 9.6 percent in December 2017, against the 6 percent prudential minimum.

Banks continue to hold good quality capital which includes paid-up capital, share premium and retained earnings. Altogether, these components accounted for 64 percent of total capital of banks as at end December 2017. The share of subordinated debt stood at 36 percent as at December 2017.

[6] Leverage ratio is the relationship between a banking system core capital and its total assets + off balance sheet elements.

With regard to liquidity, the ratio of liquid assets to total deposits stood at 43.7 percent as at end December 2017 against the 20 percent minimum prudential requirement. Excess liquidity of banks increased to FRW 409 billion in December 2017 up from FRW 344 billion.

During 2017, banks performed a parallel run for the new capital and liquidity requirements for Basel II/III that came into effect at the start of 2018. Industry average Liquidity Coverage Ratio (LCR)[7] was 193 percent as at December 2017, compared to 100 percent minimum prudential requirement. The LCR standard aims to ensure that banks have adequate stock of unencumbered high quality liquid assets (HQLA) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30-calendar day liquidity stress scenario. On the other hand, the industry average CAR under the new regime was 20.1 percent compared to the 15 percent minimum requirement.

The non-performing loans (NPLs) ratio for the banking sector remained at 7.6 percent in December 2016 and December 2017. The NPLs ratio initially increased to 8.2 percent in June 2017 but subsequently reduced to 7.7 percent in September and to 7.6 percent in December 2017.

The NPLs ratio in agriculture dropped from 22.7 percent in December 2016 to 10 percent in December 2017. This reduction reflects improved performance of the sector in the third quarter of 2017. The national accounts for 2017Q3 estimated agriculture to have grown at 7.8 percent, from 1.4 percent registered in 2016Q3.

[7] Basel III LCR is calculated by dividing a bank's stock of high-quality liquid assets by its total net cash outflows over a 30-day stress period. The new regulation requires banks to keep LCR at least 100%.

NPLs ratio picked up in the manufacturing, trade and hotel sectors. As at end December 2017, the NPL ratio for the manufacturing sector increased from 9.4 percent (year-on-year) to 13.9 percent largely driven by a few big loans that underperformed due to weak project planning by borrowers and inadequate loan monitoring by banks. For the trade sector, the NPLs ratio increased from 8.9 percent to 12 percent due to weak domestic demand, especially in the first half of 2017 that affected businesses. For the hotel sector, the NPLs ratio increased from 7.8 percent to 11.6 percent.

The mortgage sector, with the highest share of loans (37 percent) had one of the lowest NPLs ratio. As at December 2017, the NPLs ratio in the mortgage sector stood at 4.5 percent, lower than the 5 percent registered in December 2016, and the 7.6 percent average NPLs ratio for all sectors combined.

With regard to provisioning for NPLs, total banking sector provisions increased from FRW 54 billion in December 2016 to FRW 67 billion in December 2017. Consequently, the coverage of non-performing loans by loan loss reserves increased from 43 percent to 47 percent. Loan-loss coverage ratios vary with loans types, with collateralized loans requiring less provisions compared to non-secured loans.

Profits before tax declined from FRW 56.7 billion in December 2016 to FRW 54.1 billion in December 2017 mainly on account of additional provisions for non-performing loans.

Banks core lending business remains profitable. As at end December 2017, interest income accounted for over 74 percent of total income of banks. Between December 2016 and December 2017, the banking industry net interest income (NII)[8] increased by 8 percent (from FRW 175.0 billion to188.9 billion), compared 19 percent growth registered in 2016. This was mainly due to a faster growth of interest expense (15 percent increase from FRW 69 billion in 2016 to FRW 80 billion in 2017) compared to the growth in interest income (10 percent growth from FRW 244 billion in 2016 to FRW 269 billion in 2017).

The banking sector's operational efficiency improved in 2017. Operating costs of banks as a proportion of total income dropped from 50 percent in December 2016 to 48 percent in December 2017. Operating expenses increased by 5 percent in December 2017, compared to 18 percent registered in December 2016 following branch and staff rationalization initiatives of several banks.

The banking system foreign exchange exposure remained within prudential requirements. As at end December 2017, the Net Open Position of banks (NOP) measured as the ratio between foreign currency exposure and core capital stood at -7.8 percent. The regulation on foreign exchange exposure limit requires banks to maintain their Net Open position (NOP) within a band of +/-20 percent. As at end December 2017, foreign currency loans were 47 percent of foreign currency deposits plus lines of credits, below the prudential maximum set at 50 percent.

[8] Net interest income is the difference between the interests that are generated from a bank's assets and the interest expenses associated with paying out its liabilities.

Table 35: Key Soundness Indicators (p.a)

Indicators	Dec-14	Dec-15	Dec-16	Dec-17
Solvency ratio (total capital) (min 15%)	24.0	22.5	21.9	21.4
NPLs / Gross Loans	6.0	6.2	7.6	7.6
Provisions / NPLs	56.9	46.2	42.7	46.7
Earning Assets / Total Assets	93.1	83.1	82.4	83.0
Return on Average Assets	1.9	2.1	1.7	1.1
Return on Average Equity	10.5	11.2	8.8	6.2
Liquid assets/total deposits (min 20%)	57.6	45.8	42.5	43.7
FX exposure/core capital (+/-20%)	-1.8	-5.7	-7.0	-7.8
FX loans/FX deposits	29.5	47.7	38.8	46.7

Source: NBR, Financial Stability Directorate

4.3 Microfinance Sector

4.3.1 Structure and Performance of Microfinance Sector

As at end December 2017, the microfinance sub-sector comprised of 470 institutions: 19 limited liability companies; 451 Savings and Credit Cooperatives (SACCOs), which include 416 Umurenge SACCOs and 35 non-Umurenge-SACCOs). Microfinance institutions continue to offer financial inclusion opportunities to the rural population. As at end December 2017, the total number of accounts in microfinance institutions was 3.4 million.

The balance sheet of the microfinance sector continued to expand in 2017. As at end December 2017, total assets of MFIs grew by 9.7 percent (y-o-y) to FRW 244 billion, higher than the 6.6 percent growth registered in 2016.

Between December 2016 and December 2017, total loans by MFIs increased by 2.9 percent (y-o-y), compared to the 14.9 percent growth registered in December 2016, largely due to the slowdown of economic activities especially in the first half of 2017 as well as the increased level of credit risk in the previous periods.

MFIs increased their placements in the banking sector from FRW 67.5 billion in December 2016 to FRW 78.6 billion in December 2017. Consequently, the share of MFIs funds placed in banks to total MFI assets increased from 30 percent to 32.1 percent. Nevertheless, loans still account for the largest share of MFIs assets at 54.1 percent. Other components of MFIs assets are: cash in vaults (1.5 percent), investments in government securities (0.9 percent) and other assets (11.4 percent).

The share of MFIs loans to the agriculture sector have increased over the last three years from 13.5 percent in December 2014 to 16.1 percent in December 2017. Increased agriculture financing is a commendable trend as it supports the Government's agenda of agriculture transformation. It is also worth noting that most of these institutions (especially U-SACCOs) are based in rural areas where agriculture employs more than 70 percent of the population. On the other hand, the share of MFI loans to mortgage dropped from 31.9 percent to 28.6 percent, while the share of loans to trade and hotel dropped 36 percent to 34 percent.

Table 36: MFIs Loans by Sector

Economic Sector	Sectoral Distribution of MFI Loans (Percentage Share)			
	Dec-14	Dec-15	Dec-16	Dec-17
Agriculture, Livestock, Fishing	13.5	16.5	14.9	16.1
Mortgages	31.9	31.3	30.4	28.6
Trade and hotels	36.4	35.0	34.0	34.3
Transport, Warehouses, Communications	3.9	3.9	4.2	3.5
Others	14.3	13.2	16.5	17.6

Source: NBR, Financial Stability Directorate

Deposits, the main source of MFIs funds, grew by 8.5 percent (y-o-y) as at end December 2017 (from FRW 114.5 billion to 124.1 billion), after declining by 2.4 percent in 2016. This pick up of growth of deposits is attributable to the rebound of economic performance especially in the third quarter of 2017, and most importantly the recovery of agricultural production. Deposits account for 79.2 percent of total MFIs liabilities and greatly determine the lending and investment capacity of MFIs. In addition to deposits, MFIs raised capital equivalent to FRW 6.3 billion mainly in form of new injections by limited liability MFIs.

4.3.2 Soundness of Microfinance Institutions

The MFIs sector remains adequately capitalized and liquid. The Capital Adequacy Ratio (CAR[9]) stood at 35.8 percent in December 2017, above the minimum regulatory requirement of 15 percent. In the same period, the liquidity ratio of MFIs stood at 102 percent, above the prudential limit of 30 percent. MFIs hold significant liquid assets thereby limiting their lending activities mainly because of the perceived high credit risk as well as low demand for credit especially in rural areas. Nonetheless, the high capital and liquidity buffers indicate the resiliency of the sector, especially if faced with adverse shocks.

The NPLs ratio of MFIs dropped from 9 percent in December 2016 to 8.2 percent in December 2017. Improved agriculture performance largely explains the decline of the MFI NPLs ratio. Umurenge SACCO NPLs ratio dropped from 13.1 percent in December 2016 to 12.9 percent in December 2017. The high U-SACCOs NPLs ratio reflects their lending behavior. As at end December 2017, U-SACCOs held 29 percent of their loan portfolio in agriculture, compared to 10.7 percent for other MFIs and 1.5 percent for banks. Given this lending behavior, agriculture

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

shocks, related to bad weather conditions and other such shocks tend to affect U-SACCOs more compared to other MFIs and banks. The improved agriculture performance observed since the third quarter of 2017 is expected to lead to improved asset quality of U-SACCOs.

The MFI sector's loan-loss coverage ratio (the coverage of NPLs by provisions) increased from 53.2 percent to 55.0 percent. Total provisions of MFIs increased from FRW 5.7 billion in December 2016 to FRW 6.2 billion in December 2017. Increased provisions tend improve their loss absorption capacity. Best practice is to have a loan loss coverage ratio of at least 50 percent.

Profits of the microfinance sector dropped from FRW 9.8 billion in December 2016 to 2.4 billion in December 2017 on account of increased provisions. Consequently, the Return on Assets (ROA) and Return on Equity (ROE) of total MFIs decreased respectively to 1.0 percent and 2.9 percent from 4.4 percent and 13.7 percent registered as at December 2016.

Table 37: MFIs Performance Indicators (U-SACCOs included)

Indicators	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Assets (FRW billion)	101.0	128.7	159.3	209.0	222.7	244.3
Loans (FRW billion)	56.5	71.2	86.8	111.7	128.4	132.1
Deposits (FRW billion)	54.5	69.5	86.1	117.3	114.5	124.1
Equity (FRW billion)	30.1	43.0	52.8	65.0	78.5	87.5
Net profit/Loss (FRW billion)	5.0	6.0	5.0	6.8	9.8	2.4
Capital Adequacy Ratio (percent)	29.8	33.4	33.2	31.1	35.2	35.8
NPLs / Gross Loans (percent)	8.5	6.8	7.0	7.9	9.0	8.2
ROA (percent)	5.0	4.7	3.2	3.4	4.4	1.0
ROE (percent)	16.7	13.9	10.3	11.4	13.7	2.9
Liquidity ratio (percent)	78.1	80.5	87.0	89.6	88.8	102.0

Source: NBR, Financial Stability Directorate

4.4 Non-Bank Financial Institutions (NBFIs) Sub-Sectors

4.4.1 Structure and Performance of Insurance and Pension Sub-Sectors

The insurance sector is composed of 16 companies: 10 private non-life insurers, 4 private life insurers and 2 public medical insurers. The number of brokers increased from 15 in December 2016 to 16 in December 2017; the number of agents increased from 415 to 581; while the number of loss adjusters remained 13.

The pension sub-sector consists of one mandatory pension fund – Rwanda Social Security Board (RSSB), which provides defined pension benefits on a mandatory basis to all employees formally employed in public and private sector. Since the enactment of the new Pension Law in 2015, which put forward the licensing conditions of private pension schemes, the NBR had licensed 10 private pension schemes as at December 2017, among which are 6 complementary occupational pension schemes[10] and 4 personal pension schemes[11]. These schemes are managed by 10 pension service providers, of which 3 are administrators, 4 investment managers, 2 custodians, and 1 corporate trustee.

The insurance sector registered improved growth in 2017, although the level of penetration is still low. Total assets of the insurance sector grew from FRW 346.8 billion in December 2016 to FRW 399.8 billion in December 2017. The level of insurance penetration (gross written premiums relative to GDP) remained low, but slightly improved from 1.6 percent in December 2016 to 1.7 percent in December 2017. In the same

[10] A complementary pension scheme is a scheme established upon agreement between the employer and the employee.
[11] A personal pension scheme is a scheme established by the opening of a retirement savings account with an authorized financial institution.

period, the insurance density (gross written premiums relative to adult population) improved from FRW 16,475 to 18,536.

Growth of assets improved for both public and private insurance companies. Assets of public insurance institutions (RSSB-Medical scheme and MMI) increased by 17 percent (from FRW 213.1 billion to FRW 249 billion), while assets of private insurance companies (altogether) increased by 13 percent (from FRW 133.5 billion to 150.7 billion). Strong asset growth in the insurance sector was due to improved net profits driven by investment income and capital injections made by private insurers in the course of 2017.

The insurance sector net profits increased from FRW 24.3 billion in December 2016 to FRW 40.1 billion in December 2017 (65 percent growth). Profits of both public and private companies improved: Net profits of public companies increased by 27.2 percent (from FRW 29 billion to FRW 36.9 billion), while net profits of private insurance companies increased by 169.4 percent (from FRW -4.7 billion to FRW 3.3 billion).

Improved claims ratio[12], reduced expense ratio[13] and stronger growth premiums supported growth of the insurance sector profits. The claims ratio of the industry reduced from 58 percent in December 2016 to 55 percent in December 2017. In the same period, the expense ratio dropped from 38 percent to 30 percent. Consequently, the underwriting returns of the insurance sector improved from FRW 4.3 billion in December 2016 to 16.4 billion in December 2017. The underwriting losses of private insurers dropped from FRW 13.4 billion to 6.9 billion. In the same period, the investment income of the insurance sector

[12] The claims ratio is the percentage of claims costs incurred in relation to the net premiums earned.

[13] The expense ratio in the insurance industry is a measure of profitability calculated by dividing the expenses associated with acquiring, underwriting and servicing premiums by the net premiums written by the insurance company.

improved from FRW 21.3 billion to 25.7 billion due to increased returns on investment in term deposits and government securities.

Insurance companies managed to reduce management expenses by FRW 3.5 billion to 32.4 billion as at end December 2017. Management expenses of private insurers reduced from FRW 29 billion to 26 billion, whereas public insurers reduced their management expenses from FRW 6.6 billion to 6.4 billion.

Overall, measures put in place by the NBR in 2016 to improve the performance of the insurance sector have started paying-off. A directive on insurance business conduct issued in August 2016 sought to improve the performance of the insurance sector through improving underwriting standards, pricing mechanisms and claims management. The implementation of this directive is providing positive results in-terms of proper pricing of risks underwritten, as well as better management of insurance receivables, thereby providing needed liquidity for claims settlement and investment.

In the recent past, the insurance sector has faced significant challenges in the motor insurance business. As at end December 2017, the motor insurance business accounted for 49.7 percent of total premiums and 58.2 percent of claims, respectively, for private non-life insurance. The challenges faced in this business relate to weak underwriting risk assessment, price undercutting and high claims, which altogether caused insurers to incur losses. For this line of business, the net underwriting losses stood at FRW 4.3 billion as at December 2017, representing 62 percent of total private insurers' underwriting losses for the period.

Table 38: Performance of Motor Insurance Products

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

Source: NBR, Financial Stability Directorate

In 2013, a study conducted by the actuarial consulting firm (ActServ) indicated key recommendations to turnaround the motor insurance business. The delayed implementation of these recommendations caused the sector to continue incurring losses. It is against this background that insurers, through their association (ASSAR) agreed to increase the prices on motor premiums as part of the ActServ recommendations.

The new pricing structure will see a minimum increment of 73 percent on the prices of motor insurance in two phases with effect from January 2018. Insurance companies will adjust the increment of motor insurance prices by 60 percent of the total increment in 2018 and 40 percent in 2019, which will make a 100 percent of the total increment by 2020.

Table 39: Key Financial Performance Highlights of the Insurance Sector

Description (FRW billion)	Period					Percentage change Dec-16/15	Percentage change Dec-17/16
Insurance sector (public and private)	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**		
Gross written premiums	75.0	82.8	91.4	104.2	120.9	**14.0**	**16.0**
Net written premiums	67.0	72.3	81.0	95.0	109.1	**17.2**	**14.8**
Total Claims	26.9	41.8	45.8	54.7	60.3	**19.6**	**10.1**
Management expenses	24.8	26.6	31.5	35.9	32.4	**14.2**	**-9.8**
Net underwriting profit (loss)	15.2	3.9	3.8	4.3	16.4	**13.3**	**280.2**
Investment Income	18.1	20.4	18.8	21.3	25.7	**12.9**	**20.6**
Net profit after taxes	32.0	19.4	21.9	24.3	40.1	**11.0**	**65.0**
Assets	233.0	271.4	304.9	346.8	399.8	**13.7**	**15.3**
Technical provisions	52.7	57.4	66.2	69.5	78.0	**5.0**	**12.2**
Liabilities	19.3	19.9	19.3	24.3	27.4	**26.4**	**12.8**
Capital and reserves	161.1	194.1	219.5	252.9	294.3	**15.2**	**16.4**
Private insurance	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Percentage change Dec-16/15**	**Percentage change Dec17/16**
Gross written premiums	38.9	44.7	52.3	57.6	66.3	**10.0**	**15.2**
Net written premiums	30.9	34.1	41.9	48.4	54.5	**15.3**	**12.7**
Total Claims	19.7	25.8	28.5	32.5	35.5	**14.0**	**9.2**
Management expenses	19.5	20.5	26.0	29.3	26.0	**12.6**	**-11.3**
Net underwriting profit (loss)	(8.3)	(12.2)	(12.5)	(13.4)	(6.9)	**6.9**	**-48.2**
Investment Income	10.7	10.9	9.2	10.0	12.2	**9.4**	**21.2**
Net profit after taxes	1.1	(6.2)	(4.1)	(4.7)	3.3	**13.4**	**169.4**
Assets	99.4	108.1	114.8	133.6	150.8	**16.3**	**12.8**
Technical provisions	52.0	56.5	65.6	68.4	76.9	**4.3**	**12.4**
Liabilities	15.5	17.8	17.6	20.6	22.2	**17.3**	**7.5**
Capital and reserves	31.9	33.9	31.7	44.5	51.6	**40.7**	**15.9**
Public insurance	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Percentage change Dec-16/15**	**Percentage change Dec-17/16**
Gross written premiums	36.0	38.2	39.1	46.6	54.6	**19.3**	**17.0**
Net written premiums	36.0	38.2	39.1	46.6	54.6	**19.3**	**17.0**
Total Claims	7.2	16.0	17.3	22.3	24.8	**28.9**	**11.3**
Management expenses	5.4	6.1	5.5	6.6	6.4	**21.5**	**-3.1**
Net underwriting profit (loss)	23.5	16.1	16.4	17.7	23.4	**8.4**	**31.8**
Investment Income	7.4	9.5	9.7	11.3	13.5	**16.3**	**20.1**
Net profit after taxes	30.9	25.6	26.0	29.0	36.9	**11.4**	**27.2**
Assets	133.7	163.3	190.1	213.2	249.0	**12.1**	**16.8**
Technical provisions	0.6	0.9	0.6	1.1	1.1	**78.0**	**-**
Liabilities	3.8	2.2	1.7	3.7	5.3	**120.8**	**42.3**
Capital and reserves	129.2	160.2	187.8	208.4	242.7	**11.0**	**16.5**

Source: NBR, Financial Stability Directorate

4.4.2 Soundness of Insurance Sector

The solvency of the insurance sector improved in 2017. As at December 2017, the solvency of the insurance sector (both public and private) improved to 1,133 from 1,088 percent in December 2016—which is significantly above the minimum requirements of 100 percent. The most significant improvement occurred in the private insurance business, whose solvency ratio increased to 193 percent in December 2017 from 78 percent in December 2016. The recently adopted insurance pricing model is expected to further improve the soundness of the insurance sector.

The insurance sub-sector maintained ample liquidity to cater for short-term financial obligations as they fall due. As at December 2017, the consolidated liquidity ratio of the sector was 349 percent up from 321 percent registered in the same period of 2016. The liquidity ratio of private insurers improved to 127 percent from 106 percent, which falls within the required range of liquidity position of insurers of minimum 120 percent and maximum 150 percent.

Table 40: Key Financial Soundness Indicators of the Insurance Sector

FSIs (percent)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Insurance sector (Private and Public)					
Solvency margin (Min. 100%)	1,627	2,066	1,074	1,088	1,133
Claims ratio (max.60%)	40	58	56	58	55
Expenses ratio (max. 30%)	37	36	38	38	30
Combined ratio (max.90%)	77	94	94	95	85
ROA (min. 4%)	14	7	7	7	8
ROE (min. 16%)	20	10	10	10	10
Liquidity ratio (min. 120% - max.150%)	301	221	252	321	349
Private Insurers	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**
Solvency margin (Min. 100%)	118	126	116	78	193
Claims ratio (max.60%)	64	76	68	67	65
Expenses ratio (max. 30%)	62	58	59	60	48
Combined ratio (max.90%)	125	134	127	127	113
ROA (min. 4%)	1	-6	-4	-4	2
ROE (min. 16%)	4	-18	-13	-11	5
Liquidity ratio (min. 120% - max.150%)	110	59	71	106	127
Public Insurers	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**
Solvency margin (Min. 100%)	3,136	4,006	2,262	2,529	2,331
Claims ratio (max.60%)	20	42	44	48	45
Expenses ratio (max. 30%)	15	16	14	14	12
Combined ratio (max.90%)	35	58	58	62	57
Return on Assets (min. 4%)	23	16	14	14	11
Return on Equity (min. 16%)	24	16	14	14	11
Liquidity ratio (min. 120% - max.150%)	2,231	2,940	4,796	3,248	2,898

Source: NBR, Financial Stability Directorate

4.4.3 Performance of the Pension Sector

The pension sector continued to grow and contribute to the development of the financial sector. It remains a key source of long-term funds to the financial sector, mostly to the banking sector. As at end December 2017, 21 percent of the pension assets were deposits in banks and; 9 percent equity in banks.

The sub-sector is dominated by the public pension fund, Rwanda Social Security Board (RSSB). As at end December 2017, the pension fund had 398,303 contributing employees and paid pension benefits to around 34,933 beneficiaries. Going forward, the asset base of the pension sector is expected to expand as voluntary pension schemes are registered.

During the period under review, the pension sector assets grew by 18 percent (from FRW 609.8 billion to 717.9 billion), higher than the 12 percent registered in 2016. Both total contributions and investment income supported the improved growth of pension funds' assets. Total contributions increased by 16 percent to FRW 85.5 billion in December 2017, almost double the growth of 6 percent registered in the same period of 2016 due to the increased contributing employees (from 391,424 to 398,303). Similarly, as at December 2017, the investment income increased by 24 percent to FRW 30 billion, up from 10 percent registered in December 2016. This increase reflects the increased income from term-deposits in banks, and government securities.

Table 41: Key Financial Performance Highlights

DESCRIPTION (FRW billion)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Percentage change Dec-15/16	Percentage change Dec-17/16
Total assets	416.3	480.7	546.3	609.8	717.9	**12**	**18**
Total contributions	58.2	56.9	68.4	73.8	85.5	**8**	**16**
Total benefits paid	11	13.4	15.4	17	18.8	**10**	**11**
Operating expenses	7.2	5	4.7	4.5	4.5	**-4**	**-2**
Investment income	14.6	20.7	21.8	24.1	30	**10**	**24**

Source: NBR, Financial Stability Directorate

On the investment perspective, the pension fund continued to maintain its long-term investment horizon in order to cater for future pensioners' benefits payments. The investment of assets is primarily in the interest of pension members, and the investment decisions are made based on the nature of their liabilities and the risk-return profile of their assets. The investment portfolio is well diversified and allocated as follows: 34.9 percent in equity investments, 20.7 percent in term deposits, 12.8 percent in government securities, 8.6 percent in cash on current accounts, 7 percent in offshore investments, 15.7 percent in properties and 0.3 percent in corporate bonds.

Table 42: The Investment Mix of Pension Funds

Description (FRW Billion)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	%change Dec-17/16
Government Securities	75.1	81.1	68.5	107.6	91.29	**(15.2)**
Quoted Equities	56.9	71.1	73.6	59.1	72.50	**22.6**
Unquoted Equities	61.8	75.8	114.5	143.6	176.80	**23.1**
Investment in properties	103.2	109.7	117.2	117.2	112.17	**(4.3)**
Term Deposits	80.0	113.0	120.8	147.0	147.98	**0.7**
Offshore investments (equity)	9.1	10.6	10.4	12.7	50.28	**296.6**
Cash (current accounts)	7.2	10.4	31.3	17.3	61.60	**255.5**
Corporate Bonds	0.3	2.7	3.3	2.6	2.5	**(2.7)**
TOTAL	**393.6**	**474.4**	**539.5**	**607.2**	**715.2**	**18%**

Source: NBR, Financial Stability Directorate

4.5 Payment System

The Rwandan Payment System plays a critical role in ensuring the efficient and smooth functioning of the financial sector and overall economy at large. The year ended December 2017 registered significant progress in both the wholesale and retail payment system compared to previous periods.

4.5.1 Rwanda Integrated Payments Processing System (RIPPS)

The NBR continued to monitor the Rwanda Integrated Payments Processing System (RIPPS) to ensure that this infrastructure remains efficient, resilient and safe. During the year 2017, one single operational disruption of RIPPS was reported.

With regard to RIPPS activities, customer transfers increased by 12 percent and accounted for 91 percent of the volume of total transactions, while, the use of paper-based instruments like cheques has decreased over time. Cheque transactions accounted for 8 percent of the volume of total non-cash transactions.

Table 43: Transactions through RIPPS

Mode of Payment	January-December 2016				January-December 2017				Percentage change	
	Volume	% Share	Value (Million FRW)	% Share	Volume	% Share	Value (Million FRW)	% Share	Volume	Value
Customer transfers	2,716,645	90	4,107,461	54	3,041,717	92	4,678,067	62	12	14
Interbank transfers	14,736	0	2,728,485	36	15,240	0	2,106,699	28	3	-23
Cheques	284,779	9	708,981	9	254,293	8	726,556	10	-11	2
Total	3,016,160	100	7,544,927	100	3,311,250	100	7,511,322	100		

Source: NBR, Financial Stability Directorate

4.5.2 Mobile Financial Services

One of the areas growing really fast in the retail digital payments space is mobile money transactions. Between December 2016 and December 2017, active mobile money holders increased by 13 percent from 3,333,349 to 3,774,438 subscribers. The number of agents increased by 39 percent from 59,952 to 83,531 between December 2016 and December 2017.

Similarly, between December 2016 and December 2017 the transactions of mobile financial services provided by mobile network operators increased by 22 percent from 205 to 251 million in volume while the value increased by 33 percent from FRW 1,040 billion to FRW 1,385 billion.

Further, mobile banking services have been growing at a good pace. As at December 2017, the registered mobile banking users increased by 18 percent to 1,158,944. Currently, ten banks and one microfinance institution are offering mobile banking services.

New mobile financial services (cross border transactions, government services payments, and micro savings) continued to grow fast during the period under review, thanks to MNOs and government initiatives (through Rwanda Online). As at December 2017, the volume of micro-savings grew by 360 percent to 963,848. The volume of Payments to Government (P2G) grew by 274 percent to 948,201 transactions in 2017 while the volume of transactions that crossed the border increased by 58 percent to 101,186.

Table 44: Usage of New Products

Services	Jan-Dec 2016		Jan-Dec 2017		Percentage change	
	Volume	Value (FRW Million)	Volume	Value (FRW Million)	Volume	Value
Micro saving	209,390	2,888	963,848	4,535	360	57
Cross border	63,927	2,684	101,186	3,385	58	26
P2G	253,320	1,363	948,201	5,752	274	322

Source: NBR, Financial Stability Directorate

4.5.3 Internet Banking Services

Currently, eight banks out of seventeen are offering internet-banking services. As at December 2017, the number of internet banking subscribers increased by 21 percent to 52,020, and the value of transactions rose to FRW 1,418 billion from FRW 1,014 billion, an increase of 40 percent. It is worth mentioning that the NBR launched the internet banking services during the year 2016 and almost all government payments are being processed through the internet portal. From July 2017 to December 2017, the value of government payment transactions processed through internet banking amounted to 20 percent of the total national budget (2017/2018).

4.5.4 Card Based Payment System

Between December 2016 and December 2017, the card payment infrastructure showed a continuous upward growth trend. The number of POS increased by 11.6 percent from 1,885 to 2,104. The number of payment cards slightly increased by 22 percent from 750,126 to 916,726. In terms of usage, the volume ATMs transactions increased by 15 percent from 8,200,589 to 9,408,701 and the value increased by 21 percent from FRW 407 billion to FRW 493 billion. POS transactions increased by 84 percent from 660,746 to 1,213,853 in terms of volume and by 66 percent from FRW 41.5 billion to FRW 69 billion in terms of value. The table below highlights the penetration of access points and their usage.

Table 45: Penetration of Pouch Points per 100,000 Adult Population and Payment Usage per Capita (Percent)

Penetration rates of cards usage	Dec-16	Dec-17
Penetration rate of ATMs per 100,000 adult population	6.0	5.9
Penetration rate of POS per 100,000 adult population	28.16	30.5
Penetration rate of Cards per bank accounts	32.3	40.5
Average usage of card per ATM	11.0	10.3
Average usage of card per POS	0.9	1.3

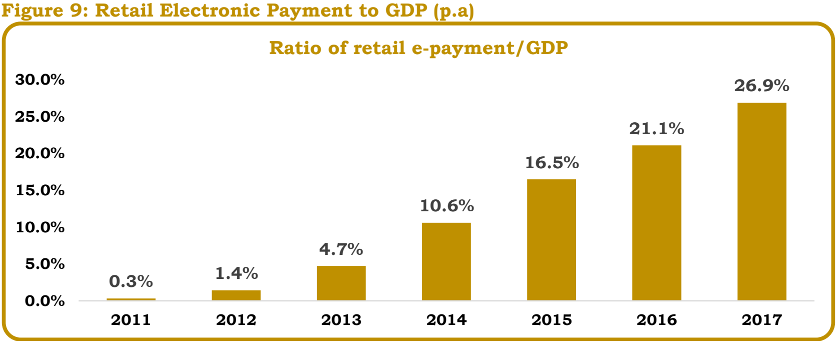
Source: NBR, Financial Stability Directorate

The above indicators show a low level of POS density and usage compared to advanced countries with regard to a cashless economy. There is therefore a need to sensitize and incentivize merchants to increase the acceptability of this terminal. The e-payments campaign conducted in November and December 2017 was aimed at achieving this objective.

4.5.5 The ratio of retail electronic payment to national economic growth

As a result of recent initiatives in the payments industry, retail electronic payments have increased over time to attain 26.9 percent of the Gross Domestic Product (GDP).

Figure 9: Retail Electronic Payment to GDP (p.a)



Source: NBR, Financial Stability Directorate

4.6 Access to finance

The financial sector development in Rwanda is providing individuals with access to financial products and services as well as confidence to actually use them. Financial services outreach continued to expand mainly supported by digital access points and the large presence of microfinance institutions country wide. As a result, the usage of available financial services continued to increase during the period under review.

4.6.1 Distribution of Physical Access Points

Branches Network

Generally, the physical network of banks, MFIs and insurance companies declined during 2017. The number of banks' branches reduced from 549 in 2016 to 546 in 2017. The reduction is attributable to the replacement of physical brick and mortar branches by digital services and in some cases, agency banking. For the microfinance sector, the number of branches increased from 735 in 2016 to 736 in 2017. The number of branches for insurance companies reduced to 141 branches in December 2017 from 154 branches in December 2016. The city of Kigali continued to have a big share of insurance branches compared to the other reflecting the level of economic activities.

Table 46: Number of Access point by Provinces

Access Points	Kigali	North	East	West	South	Total 2017	Total 2016	Percentage change
Banks Branches	195	69	92	108	82	**546**	**549**	**-0.5**
MFIs Branches	114	139	143	168	172	**736**	**735**	**0.1**
Insurance Branches	55	16	26	15	25	**141**	**154**	**-8.4**
Total	364	224	261	291	279	**1423**	**1438**	**-1.0**

Source: Financial Stability Directorate

Agents

Mobile financial services agents significantly increased in 2017. As at December 2017, agents of mobile financial services increased by 39 percent to 83,531. This trend supports the move from physical access points to digital ones. Agents in banks reduced though in 2017 due to the closure of a number of agents who were not meeting agents' standards.

Table 47: Number of Agents

Agencies	2014	2015	2016	2017
Banks' agents	2,003	3,265	4,411	2,276
MFIs' agents	-	-	481	481
Mobile financial services agents	32,110	48,320	59,952	83,531

Source: Financial Stability Directorate

4.6.2 Usage of Financial services and products

4.6.2.1 Number of Client Accounts

The total number of accounts of banks and MFIs increased by 3.2 percent to 5.7 million in December 2017 (Table…). In the microfinance sector where accounts are gender disaggregated, account penetration for women grew faster compared to men's. The accounts for females in MFIs grew by 9.9 percent whereas for males, the increase was 8.1 percent. As at December 2017, women held 39.7 percent of total accounts in MFIs (1.3 million), while men held 51.9 percent (1.7 million) of MFIs accounts.

Table 48: Number of Clients Accounts (Thousands)

Sector	Dec-15	Dec-16	Dec-17	Percentage change (Dec-17/16)
Banking	**2,355**	**2,364**	**2,262**	**-4.3**
Microfinance	**2,792**	**3,179**	**3,457**	**8.7**
Females	1,081	1,249	1,373	**9.9**
Males	1,463	1,663	1,797	**8.1**
Groups/entities	248	267	287	**7.5**
Total	**5,147**	**5,543**	**5,719**	**3.2**

Source: Financial Stability Directorate

4.6.2.2 Number of Depositors and Borrowers

The usage of financial services is captured by trends in number of borrowers and depositors. Between December 2016 and December 2017, the number of depositors increased from 1,784,497 to 1,877,858. The distribution of depositors by province in December 2017 were as follows: Eastern Province (15.9 percent), Southern Province (14 percent), Western province (13 percent) and Northern Province (10.6 percent).

The number of borrowers decreased from 306,485 in 2016 to 243,380 in 2017 due to the clean-up of overdrawn accounts. The City of Kigali has the largest number of borrowers (139,899), followed by Eastern Province (34,858) whereas Western province has the lowest number of borrowers (19,627). This distribution reflects the concentration of economic activities in Kigali City.

Table 49: Number of Depositors and Borrowers by Provinces

	Kigali	North	East	West	South	Total 2017	Total 2016
Depositors	862,002	198,619	299,309	256,062	262,144	**1,877,858**	**1,784,497**
Borrowers	139,899	20,899	34,858	19,627	28,413	**243,380**	**306,485**

Source: NBR, Financial Stability Directorate

4.7 Financial Education

4.7.1 Awareness Campaigns on Adoption of Digital Payment

Despite various initiatives and professed commitment to developing a cashless economy, Rwanda still faces a challenge related to the prevalent use of cash as a payment mechanism for economic transactions. Thus, transforming Rwanda's cash dominant economy to a cashless one continues to be a high priority. This transformation involves two dimensions: (i) Moving away from a cash dependent economy in which cash is the predominant payment instrument for settling financial and commercial transactions, (ii) introducing non-cash electronic means of payment, thereby significantly reducing the share of cash usage in the economy.

In a move to encourage the adoption of E-payments instruments, NBR in collaboration with PSF, the banking industry and telecommunication companies organized countrywide campaigns during the month of December 2017. The campaign was officially launched on November 16th 2017 and ended on December 12th 2017 and was conducted under the theme of ***"Accelerating the move towards a cashless Rwanda through Public - Private Partnership".*** Apart from upcountry awareness campaigns, Radio and TV shows as well as social media engagements were conducted to enable merchants and the population at large better understand the benefits of E-payments.

The awareness campaign intended to communicate to the public about the infrastructure and different platforms available in banks and other financial services providers such that merchants can adopt the use of digital payments in their businesses. The e-payment awareness campaign also aimed at enabling citizens to access and use electronic payment system (EPS), sensitizing and enabling merchants to use EPS and extending the awareness in rural areas and empowering merchants to prioritize electronic payments for all payments.

Generally, the participation rate in the campaign was very good. In Kigali city, the campaign gathered 1,184 merchants while in the provinces, the campaign was attended by 1,383 PSF members which brings the total to 2,567 participants.

Moving from cash-based to digital payments has many potential benefits, for both senders and receivers. It improves the efficiency of making payments by increasing the speed of payments and by lowering the cost of disbursing and receiving them. It can enhance the security of payments and thus reduce the incidence of crime associated with them.

4.8 Market conduct and Financial Consumer protection

4.8.1 Financial Consumer Protection Regulatory frameworks

Protecting consumers from abusive practices and enabling them to make well-informed decisions regarding the use of financial products and services is an important policy goal for the NBR.

The financial consumer protection law was drafted and submitted to MINECOFIN for review and approval. The law will enable financial consumer to make well-informed decisions on how best to use financial services and products while increasing and maintaining consumer confidence and trust in the financial system. It will also lead to transparent pricing, presentation of complete and simple information to consumers.

4.8.2 Key Facts Statements

Key Facts Statements (KFSs) for credit, accounts and insurance were developed in 2016. KFSs are standard format documents for disclosing to potential customers key information on financial products (such as fees, interest rates, terms and conditions) before they make a decision with regard to a specific financial services product.

Supervised Financial Institutions were sensitized on the use of KFSs as well as requiring them to submit samples of the KFSs along with their bank charges for publication on the NBR website for comparison purposes. This practice will give room for customers to make informed decisions after comparing fees, charges and other related conditions of different financial service providers.

4.9 Deposit Guarantee Fund

The recent financial sector reforms recognized the importance of having a Deposit Insurance System with the main objective of providing protection to small depositors against risks of losing their deposits arising from failure of financial institutions. The National Bank of Rwanda established the Deposit Guarantee Fund (DGF) primarily charged with collecting premiums, investing the premiums and reimburse insured depositors in the event of failure of contributing institution.

The ultimate goals of the DGF are the maintenance of public confidence in the financial sector and, minimizing bank runs. In accordance with the DGF Law No. 31/2015 of 05/06/2015, every deposit taking institution (Banks and MFIs) licensed by the National Bank of Rwanda is a compulsory member and contributor to the Deposit Guarantee Fund.

The Fund has already collected premiums for the year 2017 amounting to FRW 1.2 billion. These resources are invested in government securities with different maturity term as recommended by the DGF Investment Committee.

The Fund is essentially an insurance scheme where depositors may receive up to FRW 500,000 in compensation for deposits with banks and MFIs. Therefore, this Fund is seen as a commendable step in instituting an insurance scheme for depositors and enhancing confidence in the country's financial sector.

4.10 Key Legal Developments in the Financial Sector

The financial sector legal and regulatory regime in Rwanda has evolved over the years to meet the changing structure of the Rwandan financial sector as well as related market developments. These prudential regulations relating to banking, microfinance institutions, non-banking financial businesses and financial infrastructure aim at achieving a sound and efficient financial sector in the interest of depositors, stakeholders and other customers of financial institutions and the economy as a whole.

Laws and regulations reviewed and published:

- The Law Nº 47/2017 of 23/9/2017 governing the organization of banking was published in the Official Gazette Nº 42 of 16/10/2017. The new banking law allows Rwanda to be fully compliant with the Basel Core Principles. Additionally, the Law is expected to enhance licensing procedures as well as harmonize the financial sector legal framework within EAC.

- Regulation Nº 12/2017 of 23/11/2017 on credit classification and provisioning was published in Official Gazette Nº 49 bis of 04/12/2017. This regulation was reviewed to ensure that banks promptly identify and monitor their nonperforming credit facilities and undertake adequate measures to manage credit risk in their portfolios. It limited interests recovered on non-performing loans and reinforced treatment of collaterals when constituting provisions.

- Regulation Nº 13/2017 of 23/11/2017 on transactions with bank related parties and management of credit concentration risk was published in Official Gazette Nº 49 bis of 04/12/2017. This regulation was reviewed to ensure that transactions with related parties are prudently managed and reinforced the management of concentration risk.

- Regulation Nº11/2017 of 23/11/2017 on accreditation requirements of external auditors for pension, insurance and banking sector was published in the Official Gazette Nº 49 bis of 04/12/2017. This Regulation was reviewed in order to update requirements and responsibilities of external auditors of financial institutions.

- Regulation Nº11/2017 of 23/11/2017 on corporate governance, risk management and internal controls requirements for insurance business was published in the Official Gazette Nº 49 bis of 04/12/2017. The rationale behind the revision of this regulation was to ensure effective oversight of the insurance business based on the nature, scale and complexity of the insurance business being regulated.

- A directive Nº 04/2017 of 12/10/2017 on anti- fraud in the insurance sector. This directive aims at maintaining financial stability by ensuring shareholders, policyholders and beneficiaries' confidence in insurance sector.

V. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

5.1 Monetary Policy Outlook

The good performance of agriculture in 2017 helped to support economic growth and also contributed to the ease in food prices and inflation in general. Though oil prices are increasing, they are still below their 2015 levels and thus pose no serious challenges to inflation developments.

In 2017, exports receipts increased by 57.6 percent while imports slightly declined by 0.4 percent reducing the trade deficit by 21.7 percent and this is likely to continue in 2018. Formal exports are projected to increase by 15 percent while imports are expected to rise by 7 percent in 2018, helping to stabilize the exchange rate around 4.5 percent depreciation of the FRW against the US dollar.

In view of the above, inflation is expected to be around 5.0 percent in 2018 compared to 4.9 percent realized in 2017, giving room to NBR to continue implementing an accommodative monetary policy stance to continue supporting the financing of the economy by the banking sector. Thus, outstanding credit to the private sector is forecast to grow by 13.0 percent while M3 growth is projected at 14.0 percent. Going forward, the NBR will continue to monitor key macroeconomic developments to decide on the appropriate monetary policy stance.

In addition, there has been significant innovations in Rwanda's financial sector, such as modernization of payment systems and financial sector expansion across the country, posing challenges to the pillars of the current NBR monetary policy framework, such as the stability of the velocity of money and money multiplier. Thus, the NBR is planning to shift to a more forward-looking price based monetary policy framework in the next two years to further improve the effectiveness of monetary policy.

5.2 Financial Sector Stability Outlook

The performance of the financial sector will be driven by the overall economic performance in 2018. The projected improved economic growth in 2018 will expand opportunities for financial institutions to lend, increase the capacity of borrowers to service their loans and arrears.

The new insurance sector pricing policy will improve performance of private insurers. Proper assessment of insurance risk and appropriate pricing will sustain private insurers' solvency at required levels. This, in addition to better management of receivables, combating fraud in the claims process and containment of management expenses is expected to improve the insurers underwriting profits. The BNR will continue to engage with the ASSAR to address other challenges facing the sector, notably the lack of a minimum wage as well as the unlimited liability exposure for insurers under motor third party insurance.

The review and enhancement of the legal and regulatory framework done in the last 3 years is also expected improve the resilience, transparency and integrity of the financial sector. These reforms are aimed at aligning with international best practice and setting foundations for the financial sector to innovate and grow. Going, forward, implementation of these legal instruments will support the stability and development of the sector. The review of the legal and regulatory environment will continue with the following laws and regulations expected to be revised or put in place in the course of this year: the revised Pension Law, revised Payment System Law, licensing requirements for banks and insurers, Risk Management for Banks, Sanctions for Non-compliance by Banks, Micro Insurance, Credit Information System regulation, Electronic Fund Transfer regulation, Shadow Banking, and the regulation on Major Investments and Placements of Banks.

Banks will begin to implement the new capital adequacy and liquidity requirements in line with Basel II/III during this year. General provisions computed at 1 percent and 3 percent for normal and watch loan categories, respectively, will also come into effect during 2018. Fortunately, these have been under a parallel run for more than one year and banks are adequately prepared.

The implementation of IFRS 9 is expected to be a significant change especially for the banking sector. The BNR will continue to engage with banks to ensure a smooth implementation without significant shocks on capital.

The BNR will also continue educate the public and engage with key stakeholders to drive the uptake of e-payment channels and instruments in a bid to promote a cashless society.

Consumer education will also continue to be enhanced by sensitizing and mobilizing banks and insurers to provide adequate explanations to clients before issuing KFS so that financial consumers fully understand the cost of services for which they intend to consume. BNR intends to progress from the current static information available on its website with regards to bank charges to a more dynamic website. Currently, a link has been created on the BNR website where all the information from banks related to fees and charges are gathered and periodically updated. The automation and provision of dynamic tool will help consumers to easily compare bank charges and negotiate affordable costs.

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