NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

22nd February 2017

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LIST OF ACRONYMS AND ABBREVIATIONS

ACH : Automated Clearing House
ATM : Automated Teller Machine
BIF : Burundian Franc
BNR : Banque Nationale du Rwanda
B2P : Business to Person
BK : Bank of Kigali
BPR : Banque Populaire du 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
CIF : Cost, Insurance and Freight
CMA : Capital Market Authority
CPS : Credit to the Private Sector
CSD : Central Securities Depository
CSD : Central Securities Depository
DGF : Deposit Guarantee Fund
DRC : Democratic Republic of Congo
EAC : East African Community
EAPS : East Africa Payment System
ECB : European Central Bank
EDPRS : Economic Development and Poverty Reduction Strategy
EUR : Euro
FOB : Freight on Board (or Free on Board)
FOREX : Foreign Exchange
FRW : Franc Rwandais
FSD : Financial Stability Directorate

FSDP-2 : Second Financial Sector Development Program

FX : Foreign Exchange

GBP : Great British Pound

GDP : Gross Domestic Product

IMF : International Monetary Fund

JPY : Japanese Yen

KCB : Kenya Commercial Bank

KES : Kenyan Shilling

M3 : Broad money

MFIs : Microfinance Institutions

MNOs : Mobile Network Operators

MINECOFIN: Ministry of Finance and Economic Planning

MPC : Monetary Policy Committee

NBFIs : Non-Bank Financial Institutions

NCG : Net Credit to Government

NDA : Net Domestic Assets

NFA : Net Foreign Assets

NISR : National Institute of Statistics of Rwanda

NPISHS : Non Profit Institutions Serving Households

NPLs : Non Performing Loans

OPEC : Organization of the Petroleum Exporting Countries

P2G : Person to Government

P2P : Personal to Personal

POS : Point of Sale

Q1 : Quarter one

Q2 : Quarter two

Q3 : Quarter three

Q4 : Quarter four

REPO : Repurchase Agreement

RIPPS : Rwanda Integrated Payment Processing System

RNIT	: Rwanda National Investment Trust
ROA	: Return on Assets
ROE	: Return on Equity
RTGS	: Real Time Gross Settlement System
RSSB	: Rwanda Social Security Board
SACCOs	: Saving and Credit Cooperatives
SMEs	: Small and Medium Enterprises
TA	: Total Assets
T- Bills	: Treasury Bills
TZS	: Tanzanian Shilling
UGS	: Ugandan Shilling
UK	: United Kingdom
UOMB	: Urwego Opportunity Microfinance Bank
US	: United States
USA	: United States of America
USD	: American dollar
WEO	: World Economic Outlook
YoY	: Year-on-year

EXECUTIVE SUMMARY

The world economic growth decelerated from 3.2 percent in 2015 to 3.1 percent in 2016 but is projected to improve to 3.4 percent by end 2017. Advanced economies grew moderately by 1.6 percent from 2.1 percent in 2015, reflecting lower than expected US economic growth in the first semester, a slowdown in Japanese economic growth and the expected effect of the Brexit on European economy. They are expected to grow by 1.9 percent by end 2017 as both advanced, emerging and developing economies are anticipated to improve.

Overall, growth in emerging and developing economies stabilized at 4.1 percent in 2016, the same level as in 2015, supported by high growth in emerging Asia while economic activity was subdued in commodity exporting countries. Growth in emerging and developing countries is estimated to improve to 4.5 percent in 2017 reflecting a recovery in previously distressed large economies.

In Sub-Saharan Africa, economic growth dropped to 1.6 percent in 2016 from 3.4 percent in 2015, particularly affected by lower commodity prices, droughts in South East African countries and the EBOLA disease in Western African countries as well as political tensions in some other countries. Supported by recovering commodity prices, the Sub-Saharan African economy is projected to recover, growing by 2.8 percent by end 2017.

Although still lower compared to the levels of 2015, prices for most industrial commodities are recovering, helped by improving manufacturing activity worldwide, particularly in China. Oil prices are expected to increase, backed mainly by OPEC's effort to squeeze oil *production. Prices are expected to hike for metals and minerals due to supply constraints, including mines closures, while trends are seen to remain mixed for agricultural commodities depending on supply conditions.*

Lower commodity prices, together with weaker global demand kept inflation persistently low in advanced economies. In 2016, inflation was 0.7 percent, slightly higher compared to 0.3 percent in 2015. In 2017, helped by recovering energy prices and improving economic activity, inflation is foreseen to increase to 1.7 percent, but still below central banks' inflation targets, pointing to continuous accommodative monetary policy.

Despite the aforementioned global and regional economic headwinds, the Rwandan economy performed well in the first three quarters of 2016. Real GDP grew by 6.1 percent on average in the first three quarters of 2016, against 6.9 percent recorded in the corresponding period of the previous year. This good performance was mainly driven by the service sector (+7.7 percent from +7.0 percent), with an average contribution of 49.7 percent to the real GDP during the period under review.

Leading indicators of economic activities indicate that the economy will grow by around the initially projected growth of 6.0 percent, from 6.9 percent in 2015. The Composite Index of Economic Activities (CIEA), in real terms, increased by 10.7 percent in 2016 but lower than 13.5 percent registered in 2015, while the total turnovers of industry and services sectors rose by 10.1 percent in 2016, lower than 14.1 percent registered in 2015.

Regarding external sector performance, Rwanda's trade deficit improved by 5.9 percent in 2016, to USD 1649.7 million from USD 1752.5 million in 2015. Total formal exports value increased by 7.1 percent while total imports value recorded a decline of 2.7 percent during the same period.

Consequently, formal exports cover of imports improved to 27 percent in 2016 against 24 percent recorded in 2015. Despite the observed improvement in the trade balance in 2016, the import bill continued to outstrip export receipts, exerting pressures on the Rwandan francs exchange rate as the FRW depreciated against the USD by 9.7 percent y-o-y in 2016 compared to a depreciation of 7.6 percent in 2015.

In 2016, BNR maintained the KRR at 6.5 percent to ensure that the banking sector continues to finance economic activities while limiting inflationary pressures from the monetary sector. In line with economic activities, total new authorized loans to the private sector increased by 6.3 percent in 2016 compared to 13.7 percent in 2015; total outstanding credit to the private sector expanded by 7.8 percent in 2016, while broad money increased by 7.5 percent

Headline inflation increased from 4.5 percent in January 2016 to 7.3 percent in December 2016. It went up from an average of 2.5 percent in 2015 to 5.7 percent in 2016, mainly driven by rising food prices and transport costs.

In line with the recovery in commodity prices, export receipts are expected to continue improving. Conversely, the import bill is likely to reduce following the increased domestic production of some products and the government's "Made in Rwanda" initiative. Consequently, exchange rate pressures are expected to ease, reducing the pass through to inflation, albeit subject to the developments in food inflation.

The improvement in export receipts and the expected performance of economic activities will help to prop up the banking system liquidity, thus increasing the capacity of banks to scale up their lending to the private sector.

The Rwandan financial sector remained sound and stable in the year to end December 2016, despite a challenging macroeconomic environment. Assets and profits of Banks, MFIs, and the pension continued to expand, albeit at a slower pace compared to last year. The slowdown of growth in some key sectors of the economy reduced the lending space for banks and MFIs and increased NPLs. Nevertheless, the sector remains resilient and sound, largely due to strong capital and liquidity buffers held by financial institutions. Capital and liquidity levels of banks, MFIs and several insurance companies remained above the prudential requirements in December 2016.

Improved performance is observed in some insurance companies which were stressed in the early months of 2016 mainly due to unhealthy competition tendencies (price under cutting) and higher management expenses. These companies started recapitalizing in the third quarter of 2016 and their solvency conditions have improved. A number of other insurance companies are expected to recapitalize in 2017, which will strengthen the sector further.

Going forward, the BNR expects that recent reforms established will bolster performance and resiliency of the financial sector. Key reforms like the DGF establishment, the new capital requirements, the Umurenge SACCO automation and consolidation and the new directive on insurance business operations are expected to strengthen performance of the sector.

The objective of this first Monetary Policy and Financial Stability Statement (MPFSS) for 2017 is to assess developments for 2016 and give the outlook for 2017. This statement first presents the global economic developments and outlook in Chapter 1 to contextualize the domestic economic performance, presented in Chapters 2, 3, 4 and 5 before concluding with the outlook in chapter 6.

I. GLOBAL ECONOMIC ENVIRONMENT

This chapter presents a large picture of the recent developments and near-term outlook in the global economy, particularly in advanced countries, and implications on emerging and developing economies. It covers the economic growth, international commodity prices, inflation across key economies, monetary policy and financial markets. This helps to contextualize the economic environment within which BNR has conducted its monetary policy and to rationalize Rwanda's economic outlook.

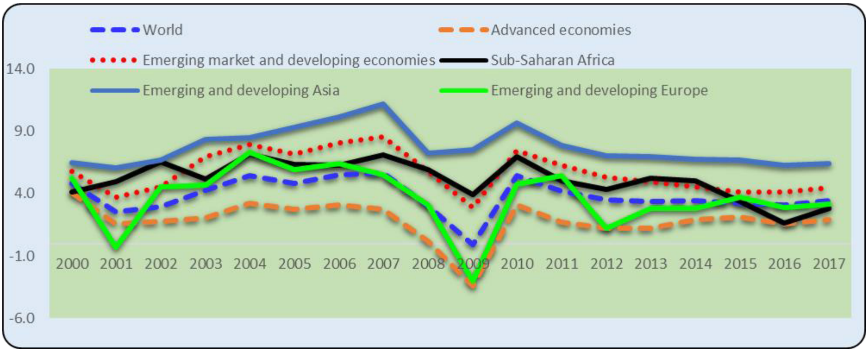
1.1 Economic Growth and Outlook

Over the period from 2000 up to 2007, the world economy enjoyed high and sustainable growth rate, averaging at 4.5 percent, with advanced as well as emerging and developing economies growing by 2.7 percent and 6.6 percent respectively. Growth patterns were however erratic across regions and countries. Among advanced economies, fast-growing economies included United States (2.7 percent), United Kingdom (2.9 percent) and Canada (2.8 percent). In emerging and developing economies, Asian economies remained the engine of growth, recording growth of 8.3 percent over 2000-2007 alongside with the Sub-Saharan Africa with 6.0 percent over the same period.

In advanced economies, factors that shaped the growth patterns comprised development in investment opportunities, appropriate macroeconomic policies, well functioning labour and financial markets and, sustainable domestic and external demand.

Over 2000-2007, Sub-Saharan Africa took advantage of positive externalities from the developed world and Chinese economy as well as sound macroeconomic policies, profound structural reforms, large investments projects, relatively stable macroeconomic environment and important inflows of foreign capitals.

Figure 1: Real GDP growth (in percent change)



Source: IMF, WEO Database & IMF WEO, January 2017.

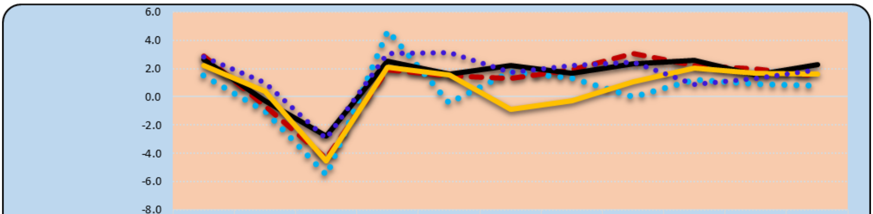
The global financial crisis in 2007-2008 put a break to the prevailing trends, negatively affecting the world economy, particularly the United States as well as large European and Asian economies which have strong trade, financial and investment links with the American economy. Overall world GDP fell by 0.1 percent in 2009 after 5.7 percent in 2007 and has not yet fully recovered up to date. In 2009, Real GDP growth stood at -2.8 percent for the United States, -5.5 percent for Japan and - 4.5 percent for the Euro area compared to the 2000-2007 average of 2.7 percent, 1.5 percent and 2.2 percent respectively.

Growth rates kept decelerating across countries and regional blocks. Legacies from the financial crisis such as high indebtedness, high unemployment rate, financial constraints as well as weak global demand continue to drag down growth prospects. More recently, new headwinds hitting the global economy resulted from the effect of the

2011 european debt, the fragilized european banking sector, the gradual slowdown and the economic rebalancing in China with its spillover effects on commodity prices and investments in extractive sectors, the hard winter in USA, the strength of the US dollar and the uncertainty over policies under the newly elected administration.

According to the January 2017 update of the World Economic Outlook, global economic growth is estimated at 3.1 percent in 2016 against 3.2 percent recorded in 2015. Growth in advanced economies is estimated at 1.6 percent in 2016, lower than 2.1 percent realized in 2015, reflecting weaker than expected US first half economic growth, a slowdown in Japanese economic growth and the expected impact of the British decision to leave the European Union (Brexit). Global growth is however forecasted to improve to 3.4 percent by end 2017 on the back of the expected recovery in emerging and developing economies as previously distressed economies such as Nigeria, Russia, South Africa, the Middle East and Latin America are expected to normalize. The recovery in commodity prices may provide support to resource exporting countries in 2017.

Figure 2: Growth rates in selected developed economies (in percent)



	2000-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Japan	1.5	-1.0	-5.5	4.7	-0.5	1.7	1.4	0.0	1.2	0.9	0.8
United Kingdom	2.9	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	2.0	1.5
United States	2.7	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.6	2.3
Euro area	2.2	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.1	2.0	1.7	1.6
Canada	2.8	1.0	-3.0	3.1	3.1	1.7	2.2	2.5	0.9	1.3	1.9

Source: IMF, WEO Database & IMF WEO, January 2017

In the United States, the economy slowed in the first half of 2016 to 1 percent against 2.2 percent in the second half of 2015, owing to a stronger US dollar and a slowdown in energy related investments. In 2016Q3, real GDP rebounded by 3.5 percent, helped by rising personal consumption spending, housing activity, a recovery in federal government spending, a rebound in non-residential investments and improving though still negative net exports. On average, US economic growth stood at 1.6 percent in 2016, lower than 2.4 percent forecasted in April 2016, reflecting a meager first half of the year. In 2017, growth is expected to pick up to 2.3 percent on waning effect of lower energy prices and past appreciation of the U.S. dollar.

In the Eurozone, economic activity has been recovering, supported by net exports and continued positive contributions from domestic demand. Real GDP grew by 1.7 percent for the first three quarters of 2016, reflecting positive contributions from gross fixed capital formation and household consumption, partly offset by negative contribution from external trade. Real GDP decelerated from 2.0 percent in 2015 to 1.7 percent in 2016 and is projected to slow further to 1.6 percent in 2017 as external demand is likely to dampen positive growth prospects from domestic demand.

Recent weak growth in developed countries resulted into important slowdown in global demand, unfavorable for emerging and developing economies' exports, particularly in commodity exporting countries. Overall, in emerging and developing economies, GDP growth stabilized at 4.1 percent in 2016 as in 2015 and is projected at 4.5 percent in 2017. In China, real GDP growth stood at 6.9 percent in 2015 but decelerated to 6.7 percent in 2016, the worst in 26 years. Going forward, Chinese real GDP is foreseen to further slowdown to 6.5 percent in 2017 as the stimulus may be waning.

The slowdown in global demand and its spillover effect on commodity prices affected the fiscal position of African large commodity exporting countries and dampened their growth perspectives. The biggest African economies like Angola, Nigeria and South Africa, are severely affected by low oil prices, which pull down Sub-Saharan growth performance. Sub-Saharan African economies comprised two important groups of economies, the resource-intensive and non-resource intensive groups. The resource-intensive group is made up of 23 countries and dominated by South Africa, Nigeria and Angola, whose combined GDP accounts for 60 percent of Sub-Saharan Africa GDP. With high reliance on commodity exports, these economies are currently suffering serious economic pressures.

The non-resource intensive group is composed of 22 countries, whose top performers include Ivory Coast, Ethiopia, Kenya, Tanzania, Senegal and Rwanda. These countries have especially benefited from the drop in international oil prices and have thus continued to maintain high growth.

Countries like Malawi, Ethiopia, Lesotho, Zimbabwe and Swaziland are hit by the drought while some other countries are facing political unrest. Overall, real GDP growth rate for the Sub-Saharan African block decelerated to 1.6 percent in 2016 from 3.4 percent in 2015, the lowest growth recorded since a decade.

Table 1: GDP growth in oil exporting African countries (in percent)

	2000-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Angola	12.3	13.8	2.4	3.4	3.9	5.2	6.8	4.8	3.0	0.0	1.5
Nigeria	8.5	7.2	8.4	11.3	4.9	4.3	5.4	6.3	2.7	-1.5	0.8
South Africa	4.3	3.2	-1.5	3.0	3.3	2.2	2.3	1.6	1.3	0.3	0.8
South Sudan	-	n/a	n/a	n/a	n/a	-52.4	29.3	2.9	-0.2	-13.1	-6.1
Algeria	4.4	2.4	1.6	3.6	2.8	3.3	2.8	3.8	3.9	3.6	2.9
Egypt	4.7	7.2	4.7	5.1	1.8	2.2	2.1	2.2	4.2	3.8	4.0
Libya	5.4	2.7	-0.8	5.0	-62.1	104.5	-13.6	-24.0	-6.4	-3.3	13.7

Source: IMF, WEO, October 2016 & WEO January 2017

In 2017, Sub-Saharan Africa real GDP is estimated to slightly improve to 2.8 percent on recovering commodity prices and a return to normal in previously distressed economies.

Table 2: GDP growth in African countries affected by drought (in percent)

	2000-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Lesotho	3.6	5.1	4.5	6.9	4.5	5.3	3.6	3.4	2.8	2.4	3.8
Malawi	3.4	7.6	8.3	6.9	4.9	1.9	5.2	5.7	3.0	2.7	4.5
Ethiopia	8.1	11.2	10.0	10.6	11.4	8.7	9.9	10.3	10.2	6.5	7.5
Swaziland	3.8	4.3	1.9	1.4	1.2	3.0	2.9	2.5	1.7	0.5	0.9
Zimbabwe	-6.3	-16.6	7.5	11.4	11.9	10.6	4.5	3.9	1.1	-0.3	-2.5

Source: IMF, WEO, October 2016

The EAC bloc has shown more resilience to the global shocks than the rest of the continent. Rwanda, Tanzania and Uganda remained the engine of the strong EAC economic performance. Looking ahead untill 2017, apart from the Burundian economy which is forecasted to stagnate, other economies are expected to continue growing.

Table 3: Economic growth developments in EAC countries (in percent)

	2000-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sub-Sah- Africa	**6.0**	**5.9**	**3.9**	**7.0**	**5.0**	**4.3**	**5.2**	**5.1**	**3.4**	**1.6**	**2.8**
EAC_5	**5.7**	**6.4**	**5.4**	**7.0**	**6.5**	**5.1**	**5.5**	**5.7**	**4.1**	**4.7**	**5.4**
Burundi	3.2	4.9	3.8	5.1	4.0	4.4	5.9	4.5	-4.0	-0.5	2.0
Rwanda	8.2	11.1	6.3	7.3	7.8	8.8	4.7	7.0	6.9	6.0	6.0
Kenya	3.8	0.2	3.3	8.4	6.1	4.6	5.7	5.3	5.6	6.0	6.1
Tanzania	6.4	5.6	5.4	6.4	7.9	5.1	7.3	7.0	7.0	7.2	7.2
Uganda	7.1	10.4	8.1	7.7	6.8	2.6	4.0	4.9	4.8	4.9	5.5

Source: IMF, WECO, October 2016 & Jan.2017

1.2 Inflation and commodity prices

Sluggish global economic activity and still low commodity prices have resulted into persistently low inflationary pressures. Global inflation is estimated to stand at 2.9 percent in 2016 from 4.1 percent over 2000-2007 and to slightly rise to 3.3 percent by end 2017 on recovering energy prices. In advanced economies, inflation remained low, standing at 0.7 percent in 2016 from 0.3 percent in 2015 but foreseen to increase to 1.7 percent in 2017 as energy prices and global economic activities are expected to improve.

Table 4: Annual average inflation developments (in percent)

	2000-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
World	**4.1**	**6.3**	**2.7**	**3.7**	**5.1**	**4.1**	**3.7**	**3.2**	**2.8**	**2.9**	**3.3**
Advanced economies	**2.1**	**3.4**	**0.2**	**1.5**	**2.7**	**2.0**	**1.4**	**1.4**	**0.3**	**0.7**	**1.7**
United States	2.8	3.8	-0.3	1.6	3.1	2.1	1.5	1.6	0.1	1.2	2.3
Euro area	2.2	3.3	0.3	1.6	2.7	2.5	1.3	0.4	0.0	0.3	1.1
Japan	-0.3	1.4	-1.4	-0.7	-0.3	-0.1	0.3	2.8	0.8	-0.2	0.5
Emerg. & devel.economies	**6.7**	**9.2**	**5.0**	**5.6**	**7.1**	**5.8**	**5.5**	**4.7**	**4.7**	**4.5**	**4.5**
China	1.7	5.9	-0.7	3.3	5.4	2.6	2.6	2.0	1.4	2.1	2.3
India	4.4	9.2	10.6	9.5	9.5	9.9	9.4	5.9	4.9	5.5	5.2
Sub-Saharan Africa	**10.1**	**12.9**	**9.8**	**8.2**	**9.4**	**9.3**	**6.6**	**6.3**	**7.0**	**11.3**	**10.8**

Source: IMF, WECO, October 2016

In United States, headline inflation went up to 2.1 percent in December 2016 and was expected to average 1.2 percent and 2.3 percent in 2016 and 2017 respectively. Energy prices rose by 5.4 percent while food prices fell by 0.2 percent for December 2016. Core inflation stood at 2.2 percent in the year ending December 2016 against 2.1 percent in the year ending December 2015.

In the Euro area, inflation increased to 1.1 percent in December and projected to average 0.3 percent in 2016 from 0.0 percent in 2015. In China inflation went up from 1.4 percent in 2015 to 2.1 percent in December 2016 and projected to average 2.1 percent in 2016 and 2.3 percent in 2017 as a rebound in commodity prices continue to drive prices up.

In Sub-Saharan Africa, inflation is forecasted to increase to 11.3 percent by end 2016 and 10.8 percent in 2017 from 7.0 percent in 2015, due to depreciation pressures on local currencies and the impact of droughts in some countries.

Table 5: Annual headline inflation in EAC countries, in percent

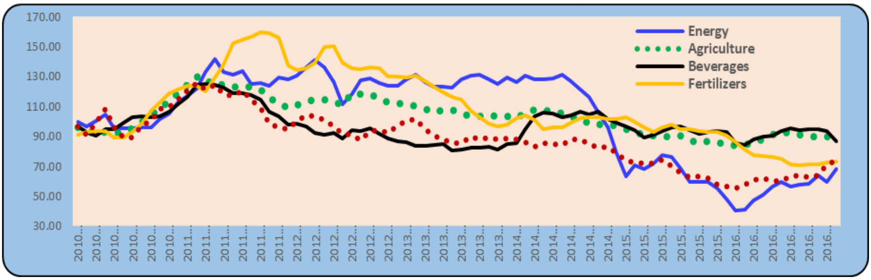
	2000-07	2008	2009	2010	2011	2012	2013	2014	2015	YoY 2016		2016
										Nov.	Dec.	
Burundi	9.4	24.4	10.6	6.5	9.6	18.2	7.9	4.4	5.6	7.1	9.6	5.6
Kenya	6.0	15.1	10.6	4.3	14.0	9.4	5.7	6.9	6.6	6.7	6.4	6.2
Rwanda	7.0	15.4	10.3	2.3	5.7	6.3	4.2	1.8	2.5	6.4	7.3	5.7
Tanzania	5.4	10.3	12.1	7.2	12.7	16.0	7.9	6.1	5.6	4.8	5.0	5.2
Uganda	4.9	12.0	13.0	3.8	15.1	12.9	5.0	3.1	5.5	4.6	5.7	5.5

Source: Country bureaus of statistics & IMF, WEO, October 2016

In EAC, inflation remained moderate due to reducing pressures on regional currencies despite pressures from food and oil prices.

On commodity markets, for the fifth straight year, prices declined in 2016, led by falling prices of both energy and non-energy commodities. Despite supply outages in some producing countries as well as cuts in oil related investments, oil prices have fallen owing to persistently oil supply glut. Production has increased in OPEC and non OPEC countries, US stockpiles remain high and Iran production resumed after a nuclear agreement. Among non-energy commodities, prices declined for agriculture commodities (both food and raw materials) reflecting plenty supply and for metals and minerals on account of global weak demand, particularly due to slowing Chinese demand for industrial commodities. Prices fell for fertilizers due to diminishing prices for the natural gas which is the main input in fertilizers production.

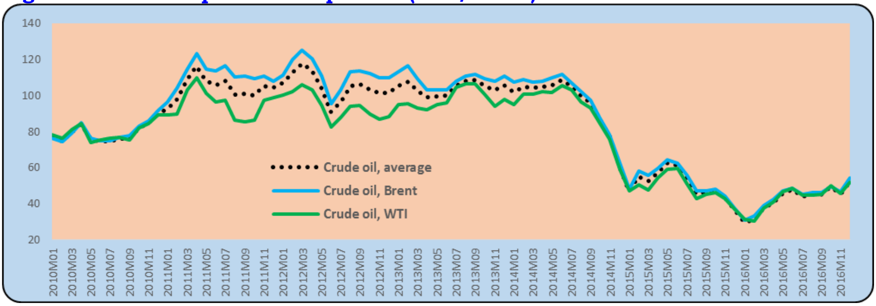
Figure 3: Commodity prices index in nominal US dollar (2010=100)



Source: http://www.worldbank.org/en/research/commodity-markets

In 2016, energy prices plunged by 15.3 percent, below a decline of 45.1 percent in 2015. Crude oil prices have relatively recovered, declining by only 15.6 percent against a drop of 47.3 percent in 2015 following improving market sentiment, reducing strength of the US dollar and falling oil production. Compared to a decline of 47.1 percent the previous year, Brent crude oil prices fell by 15.9 percent in 2016, to USD 44.05/barrel from USD 52.37/barrel.

Figure 4: Crude oil price developments (USD/barrel)



Source: World Bank

Non-energy prices dropped by 2.6 percent in 2016, lower than a decline of 15.0 percent the previous year. Pressured up by unfavorable weather conditions, agriculture prices slightly recovered in 2016 albeit still below their 2015 level. Supported by a slight rise in food prices (+1.6 percent after -15.4 percent) and less decline in prices of agriculture raw materials (-3.6 percent against -9.4 percent) and beverages (-2.7 percent and -8.1 percent), agriculture prices fell by 0.2 percent after dropping by 13.1 percent in 2015. Arabica and Robusta coffee prices went up by 2.4 percent and 0.6 percent respectively in 2016 due to increased demand from India and a cut in coffee supply in Brazil and Vietnam, particularly for Robusta, due to unfavorable weather conditions.

Table 6: Commodity prices (in percent change)

	2000-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2017*
Crude oil, average	130.3	133.1	-36.3	28.0	31.6	1.0	-0.9	-7.5	-47.3	-15.6	28.5	19.9
Beverages	-3.1	66.4	2.9	16.1	16.0	-20.1	-10.1	22.2	-8.1	-2.7	-1.3	-2.9
Coffee, arabica	-14.8	57.9	2.9	36.2	38.3	-31.2	-25.2	43.8	-20.3	2.4	-0.3	6.5
Coffee, robusta	-30.3	123.6	-29.2	5.6	38.7	-5.8	-8.4	6.8	-12.4	0.6	12.6	5.7
Tea, avg 3 auctions	-6.6	41.0	12.5	5.9	1.2	-0.8	-1.2	-4.9	-0.5	-2.5	6.0	10.8
Metals & Minerals	68.5	80.9	-33.1	46.2	13.5	-15.3	-5.5	-6.6	-21.1	-5.9	10.8	8.9
Tin	34.4	154.9	-26.7	50.3	27.7	-18.9	5.5	-1.7	-26.6	11.6	11.5	15.6
Gold	51.5	106.4	11.6	25.9	28.1	6.4	-15.5	-10.3	-8.3	7.6	-7.9	-2.5
Iron ore, cfr spot	88.2	200.5	-48.7	82.4	15.0	-23.4	5.3	-28.4	-42.4	4.6	11.3	-9.7
Fertilizers	56.2	309.1	-48.0	-5.0	42.6	-3.5	-17.4	-11.6	-5.0	-22.2	2.2	2.5

Source: http://www.worldbank.org/en/research/commodity-markets

(*): IMF, Commodity prices forecasts, 1st December 2016.

Prices for metals and minerals started to decline since 2011 following the slowdown and a move away from commodity-intensive investment in China but found support from the recent Chinese stimulus. Metals' prices increased by 10 percent in 2016Q4, the third consecutive quarter of gain, supported by continuing expansion in China's housing market, mines closures[1] and improving manufacturing activity across the world, particularly in China. Chinese demand for metals increased after announcement of a package of stimulus fueling pressures on metals' prices. On average, metals and minerals prices declined by 5.9 percent in 2016, largely lower compared to -21.1 percent in 2015. Notable improvements were recorded in prices of Iron ore (+4.6 percent in 2016 against -42.4 percent in 2015), tin (11.6 percent after -26.6 percent), lead (+4.4 percent from -14.7 percent), Zinc (8.2 percent compared to 10.6 percent), gold (+7.6 percent compared to -8.3 percent) and silver (+9.1 percent after -17.6 percent), while prices kept falling for copper (-11.7 percent after -19.7 percent), Nickel (-19.1 percent compared to -29.8 percent), platinum (-6.3 percent after -23.9 percent) and Aluminum (-3.6 percent from -10.9 percent in 2015).

[1] *Nickel mines in Philippines; Coal, lead and zinc in China, Zinc mines in Australia and Ireland, Gold mines in Zimbabwe and South Africa among others*

Looking ahead, prices are expected to continue recovering for most commodities in 2017. Oil prices are foreseen to rise to around USD 55/barrel reflecting continued market rebalancing and following OPEC's effort to squeeze oil supply. Responding to faster than expected closures of mines, prices for metals are projected to increase in 2017. For agriculture commodities, the outlook is expected to be erratic depending on supply conditions.

1.3 Monetary policy and financial markets

Most central banks in developed countries maintained an accommodative monetary policy stance to boost economic activities and allow inflation return to the central banks' target. The ECB rate was kept unchanged at 0.0 percent, The Bank of England rate at 0.25 percent, The Bank of Japan at -0.1 percent while the Federal Reserve revised up its target range between 0.50 percent and 0.75 percent. Non-standard monetary policy measures remained applicable in Europe, UK and Japan to support economic activities. The Federal Reserve expects to continue gradually normalizing the monetary policy stance in line with economic conditions. Two up to three further moves are expected in the year 2017. Meanwhile, the stance remains accommodative to further support the economy.

The short-term deposit rate remained negative in the Eurozone and Japan to discourage bank deposits and ensure supportive financial conditions necessary to stimulate the economic recovery. In December 2016, the 3-month deposit rate was at -0.350 percent from -0.085 percent in December 2015 in the Eurozone and at -0.440 percent from -0.215 percent in Japan. It increased to 1.535 percent and to 0.610 percent respectively in USA and UK from 0.680 percent and 0.575 percent in December 2015. The Ten-year bond interest rates went up globally after the Fed started its journey to a gradual interest rate hike on the back of higher inflation and higher growth expectations. From 2.27 percent in 2015, US 10-year bond interest rate reached 2.44 percent in December 2016. In the Eurozone, Japan and United Kingdom, it went down to 0.21 percent, 0.05 percent and 1.24 percent respectively in 2016 from its respective level of 0.63 percent, 0.27 percent and 1.96 percent in 2015, reflecting continued monetary policy easing programs.

On the foreign exchange market, the USD strengthened against the Euro and the Pound, appreciating by 3.2 percent and 19.4 percent respectively in 2016, after respective appreciation of 10.2 percent and 5.4 percent in 2015. The dollar fell by 2.7 percent against the Yen in 2016 against a slight depreciation of 0.4 percent in 2015. The dollar benefited from continuing improvement in the US labour market and a strong GDP growth in 2016Q3. The pound was undermined by concerns over the Brexit. The Yen was supported by its safe haven appeal amid a flight to safety, particularly related to the Brexit vote and a US slower -than expected interest rate hike.

Table 7: US dollar depreciation against major currencies (in percent change)

	2011	2012	2013	2014	2015	2016
EUR	-2.8	1.8	4.2	-12.0	-10.2	-3.2
GBP	-0.4	4.6	1.9	-5.9	-5.4	-19.4
JPY	-5.2	12.8	21.4	13.7	0.4	-2.7

Source: Bloomberg

1.4 Expected impact on Rwandan economy

The global economy keeps growing at slowing pace and aggregate demand remains low but expected to slightly recover in 2017.

In 2016, most commodity prices are recovering and expected to continue increasing in 2017. Oil prices are foreseen to rise to around USD 55/barrel reflecting continued market rebalancing and following

OPEC's effort to squeeze oil supply. Prices for metals are projected to increase in 2017 on improving manufacturing activities worldwide and following mines closures. For agriculture commodities, the outlook is expected to be erratic depending on supply conditions.

These developments are likely to affect the Rwandan economy, particularly the fact that rising oil prices in 2017 may lead to an increase in the oil import bill, though pressures should be moderated as the increase in oil prices is not expected to be very high and may thus be outweighed by the positive effect of the expected increase in international prices of metals and minerals on Rwanda's exports earnings.

II. NATIONAL ECONOMIC PERFORMANCE

This section highlights the developments in the national economy, focusing on drivers of economic growth and external sector performance in 2016. The chapter shows that despite the challenging global economic environment, the Rwandan economy remained resilient, with growth mainly driven by the services sector. Compared to 2015, Rwanda's trade deficit improved by 5.9 percent in 2016, following the 7.1 percent increase in export revenues and the 2.7 percent contraction in the import bill.

2.1 Economic Growth

Despite uncertainties in the global and regional environment, the Rwandan economy recorded good performance in the first three quarters of 2016 as real GDP grew by 6.1 percent on average, albeit lower than 6.9 percent recorded in same period of 2015. This good performance was mainly driven by the service sector which grew on average by 7.7 percent from 7.0 percent in corresponding period of 2015 and accounted for 49.7 percent of the total real GDP, followed by the industry sector (5.0 percent) and agriculture sector (3.7 percent) with respective shares of 14.6 percent and 29.6 percent in total real GDP.

Table 8: Rwanda Real GDP growth (in percent)

	2012	2013	2014	2015	2016			2016 Proj.	2017 Proj.
					Q1	Q2	Q3		
GDP	**8.8**	**4.7**	**7.0**	**6.9**	**7.6**	**5.4**	**5.2**	**6.0**	**6.0**
Agriculture	**6.0**	**3.0**	**5.0**	**5.0**	**7.0**	**3.0**	**1.0**	**4.3**	**5.1**
Food crops	7.0	4.0	6.0	4.0	4.0	4.0	2.0	4.7	4.9
Export crops	9.0	-5.0	-2.0	13.0	86.0	-23.0	-13.0	-2.6	7.2
Livestock & livestock products	6.0	7.0	8.0	9.0	9.0	10.0	10.0	8.5	8.8
Forestry	4.0	3.0	2.0	3.0	3.0	2.0	3.0	2.5	2.8
Fishing	-2.0	5.0	3.0	3.0	3.0	3.0	3.0	3.7	3.2
Industry	**8.0**	**9.0**	**6.0**	**7.0**	**10.0**	**-2.0**	**7.0**	**5.6**	**6.9**
Mining & quarrying	-7.0	20.0	11.0	-9.0	-5.0	-13.0	0.0	-10.1	7.3
Manufacturing	6.0	5.0	1.0	8.0	10.0	6.0	3.0	7.0	7.1
Electricity	17.0	8.0	9.0	8.0	25.0	13.0	14.0	8.3	8.4
Water & waste management	8.0	5.0	3.0	1.0	3.0	6.0	8.0	17.9	24.2
Construction	15.0	11.0	8.0	10.0	13.0	-6.0	12.0	7.6	5.8
Services	**12.0**	**5.0**	**9.0**	**7.0**	**8.0**	**9.0**	**6.0**	**7.1**	**6.7**
Trade & transport	15.0	6.0	9.0	6.0	10.0	12.0	8.0	6.6	2.7
Maintenance and repair of motors	8.0	6.0	3.0	7.0	7.0	9.0	10.0	5.0	6.0
Wholesale & retail trade	14.0	6.0	10.0	7.0	11.0	13.0	9.0	6.5	2.1
Transport services	19.0	7.0	8.0	4.0	7.0	6.0	2.0	7.0	4.4
Other services	10.0	5.0	9.0	8.0	6.0	7.0	5.0	7.4	8.7
Hotels & restaurants	6.0	3.0	4.0	4.0	5.0	4.0	6.0	4.3	4.0
Information & communication	33.0	0.0	17.0	16.0	0.0	15.0	-2.0	10.0	14.3
Financial services	13.0	10.0	5.0	10.0	7.0	4.0	3.0	9.5	10.6
Real estate activities	0.0	1.0	8.0	7.0	4.0	3.0	5.0	7.5	8.8
Public administration and defense; compulsory social security	22.0	9.0	6.0	5.0	13.0	16.0	19.0	6.1	6.0
Education	7.0	4.0	8.0	6.0	4.0	4.0	4.0	6.1	6.0
Human health and social work activities	23.0	6.0	9.0	8.0	20.0	8.0	-26.0	6.1	6.0
Cultural, domestic & other services	11.0	12.0	19.0	11.0	12.0	14.0	11.0	9.4	12.5
Taxes less subsidies on products	**2.0**	**-3.0**	**3.0**	**14.0**	**4.0**	**8.0**	**13.0**	**6.9**	**2.6**

Source: Rwanda National Institute of Statistics (NISR)

The good performance of the service sector was attributed mainly to the wholesale and retail trade, which grew by 11.0 percent in 2016 from 5.7 percent in 2015, followed by hotels and restaurants (5.0 percent from 2.7 percent) and transport (5.0 percent from 4.0 percent). The good performance of hotels and restaurants was a result of various local and international events, notably the 2016 African National Championships (CHAN), the World Economic Forum on Africa, the 27th Summit of the African Union, Kwita Izina, the Global Africa Investment Summit and the Meeting of the Partners to the Montreal Protocol. The transport sector was mainly helped by RWANDAIR LTD, which extended its business in 2016 by introducing new six destinations, leading to a total of 24 destinations served by the company.

Adversely affected by the prolonged dry season, growth of the agriculture sector slowed to 3.7 percent in first three quarters of 2016 compared to 5.3 percent recorded in the same period of 2015.

The industry sector's production was also moderate in 2016 as it increased by 5.0 percent on average in the first three quarters of 2016 from 6.7 percent recorded during the corresponding period of 2015. This deceleration was mainly due to the continued poor performance in mining and quarrying activities. However, the sector is projected to improve in 2017, buoyed by the expected improvement in prices of metals and minerals, the ongoing government measures such as the reduction in electricity tariffs by at least 28 percent, government projects such as the rehabilitation and construction of roads, and, the continued increase in cement production by CIMERWA.

As evidenced by the leading economic indicators of economic activities such as the composite index of economic activities (CIEA), the developments in total turnovers of industry and services sectors as well as credit to the private sector, economic activities in 2016Q4 recorded good performance, evolving towards achieving the initial annual projection growth of 6 percent by end 2016.

The Composite Index of Economic Activities (CIEA) in real terms increased by 10.7 percent in 2016 from 13.5 percent registered in 2015, while in nominal terms, it grew by 15.3 percent from 16.1 percent in 2015.

Table 9: CIEA (percent change, Y-o-Y)

CIEA	Nominal		Real	
	2015	2016	2015	2016
Q1	15.2	19.2	14.9	15.0
Q2	13.1	17.8	13.2	12.2
Q3	15.7	14.9	10.7	10.3
Q4	20.0	10.4	15.3	5.7
Annual	16.1	15.3	13.5	10.7

Source: BNR, Monetary Policy and Research Department

The total turnovers of the industry and services sectors rose by 10.1 percent from 14.1 percent registered in the same period of 2015, supported by the good performance of energy (+52.6 percent), banking (+23.4 percent), transport services (+22.7 percent), hotels and restaurants (+15.9 percent), petroleum distributors (+14.3 percent) as well as information & communication (+11.7 percent) but depressed by the decline in mining (-26.7 percent) as a result of falling international prices for minerals.

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

	2014		2015		2016	
	Q4	**Annual**	**Q4**	**Annual**	**Q4**	**Annual**
Total turnovers	12.0	15.8	16.3	14.1	6.9	10.1
Industries	23.1	17.6	14.8	11.6	-3.0	7.7
Mining and Quarrying	18.3	5.5	-43.9	-40.9	-19.3	-26.7
Manufacturing	27.9	17.5	15.2	19.3	5.6	10.7
Energy Sector	18.4	26.1	19.5	2.2	27.8	52.6
Construction Sector	19.7	22.9	41.5	30.6	-18.1	0.9
Services	7.9	15.0	16.8	15.0	11.0	10.9
Wholesale and retail trade	17.9	21.6	15.5	26.7	11.2	6.8
Petroleum Distributors	-9.6	0.5	19.5	-7.9	9.4	14.3
Transport and Storage	9.0	24.1	8.4	6.2	28.3	22.7
Hotels and Restaurants	3.3	16.0	18.4	11.5	16.1	15.9
Information and Communication	14.5	35.5	6.7	-5.6	7.9	11.7
Banks	0.9	8.6	29.4	17.9	11.1	23.4

Source: BNR, Monetary Policy and Research Department

In line with economic activities, new authorized loans increased by 6.3 percent in 2016 from 13.7 percent recorded in 2015, amounting to FRW 788.5 billion in 2016 while outstanding credit expanded by 7.8 percent in 2016 against 30 percent recorded in 2015, amounting to FRW 1,269.6 billion end December 2016.

2.2 External Trade Performance

Compared to 2015, Rwanda's trade deficit improved by 5.9 percent in 2016, to USD 1649.8 million from USD 1752.5 million. Total formal exports value increased by 7.1 percent while total imports value recorded a modest decline of 2.7 percent during the same period. Consequently, formal exports cover improved to 27 percent in 2016 against 24 percent that was recorded in 2015. When including informal cross border trade, the exports cover of imports improved to 32 percent in 2016 compared to 28 percent in 2015. Despite the observed improvement in the trade balance in 2016, the import bill continued to outstrip export receipts, exerting pressures on the Rwandan francs exchange rate.

The improvement in the trade balance has been observed in the last three months of 2016 due to a slower decrease in traditional exports of 5 percent compared to the average decline of 21 percent in the previous three quarters, the good performance of the non-traditional exports category (+34.2 percent) mainly driven by other minerals (+156 percent), re-exports (+26.1 percent) as well as the decline in imports. The slight decline in traditional exports in 2016Q4 is on the account of the resurgence in mineral prices particularly Cassiterite.

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

	2010	2011	2012	2013	2014	2015	2016	% change 2016 / 2015
Formal Exports								
Value	253.6	387.7	482.7	573.0	599.8	558.7	598.7	7.1%
Volume	113.1	167.8	288.7	308.4	324.1	390.6	466.0	19.3%
Informal Exports Value	55.09	71.4	101.81	110.71	107.51	100.45	121.93	21.4%
Total Exports Value (formal + Informal)	**308.69**	**459.1**	**584.51**	**683.71**	**707.31**	**659.15**	**720.63**	**9.3%**
Formal Imports								
Value	1,384.4	1,890.6	2,199.2	2,247.4	2,386.9	2,311.2	2,248.5	-2.7%
Volume	1,185.1	1,333.4	1,708.5	1,781.9	1,846.6	2,068.1	1,965.2	-5.0%
Informal Imports Value	35.22	23.51	22.63	17.61	19.23	21.62	30.52	41.2%
Total Imports Value (formal + Informal)	1,419.62	1,914.11	2,221.83	2,265.01	2,406.13	2,332.82	2,279.02	-2.3%
Formal Trade balance (USD mill)	-1,130.7	-1,502.9	-1,716.4	-1,674.4	-1,787.1	-1,752.5	-1,649.8	-5.9%
Informal trade balance (USD mill)	19.87	47.89	79.18	93.10	88.28	78.83	91.41	16.0%
% Cover rate of Formal Exports/Formal Imports – Value	18%	21%	22%	25%	25%	24%	27%	
% Cover rate of Total Exports/Total Imports – Value (formal + informal)	22%	24%	26%	30%	29%	28%	32%	

Source: BNR, Statistics Department

2.2.1 Formal Exports Developments

Rwanda's exports are composed of traditional exports, non-traditional exports and re-exports. Traditional exports, which include coffee, tea, minerals, pyrethrum as well as hides and skins amounted to USD 219.1 million in 2016 from USD 265.2 million in 2015, accounting for 36.6 percent of the total export earnings in 2016 compared to 47.5 percent in 2015. Re-exports amounted to USD 224.28 million (37.5 percent of total exports) in 2016 compared to USD 177.87 million (31.8 percent) in 2015 and non- traditional exports increased to USD 155.27 million (25.9 percent) in 2016 compared to USD 115.73 million (20.7 percent) in 2015 as shown by table below.

Table 12: Evolution of percent share of exports: 2010–2016

	2010	2011	2012	2013	2014	2015	2016
Total Exports	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Traditional Exports	**72.6**	**77.9**	**59.4**	**62.1**	**55.2**	**47.5**	**36.6**
Coffee	22.0	19.2	12.6	9.6	10.0	11.1	9.8
Tea	21.9	16.5	13.6	9.7	8.6	13.0	10.6
Cassiterite	16.6	25.0	11.0	10.7	12.0	6.1	5.8
Coltan	7.3	10.0	11.8	23.5	17.5	11.8	6.6
Wolfram	2.8	4.1	5.4	5.2	4.4	3.1	2.0
Hides and Skins	1.5	2.0	3.0	2.8	2.4	1.9	1.2
Pyrethrum	0.6	1.2	2.0	0.7	0.3	0.4	0.6
Re - Exports	**14.1**	**9.6**	**22.4**	**23.6**	**27.6**	**31.8**	**37.5**
Non - Traditional Exports	**13.3**	**12.5**	**18.2**	**14.3**	**17.3**	**20.7**	**25.9**

Source: BNR, Statistics Department

In 2016, total exports recorded a good performance, increasing by 7.1 percent in value, to USD 598.7 million from USD 558.7 million in 2015, while the volume increased by 19.3 percent. The increase in exports value is attributable to the good performance in non-traditional exports (+34.2 percent) and re-exports (+26.1 percent). The value of exports in 2016 was at the same level as 2014, before the decline in international commodity prices. However, the volume of exports in 2016 was 43.8 percent much higher than its level in 2014, showing the negative impact of the decline in international commodity prices.

Compared to 2015, coffee exports recorded a poor performance. Its value decreased by 5.7 percent in 2016, from USD 62.04 million in 2015 to USD 58.49 million in 2016. This resulted from the decline in coffee unit price by 4.9 percent, from 3.30 USD/kg to 3.14 USD/kg, as the volume slightly declined by 0.8 percent, from 18,793 tons in 2015 to 18,638 tons in 2016.

Tea exports decreased in value by 12.5 percent, from USD 72.46 million in 2015 to USD 63.42 million in 2016. This decrease was due to the decline in both the unit price and volume, as the former decreased by 11.5 percent from 2.94 USD/kg in 2015 to 2.60 USD/kg in 2016 and the latter decreased by 1.1 percent, from 24,677 tons in 2015 to 24,415 tons in 2016.

The mining sector has continued to perform poorly since 2015 due to the fall in international commodity prices. The exported value of the main minerals (Coltan, Cassiterite and Wolfram) declined from USD 117.81 million recorded in 2015 to USD 86.42 million in 2016. Cassiterite slightly increased by 1.6 percent in value, from USD 34.26 million in 2015 to USD 34.81 million in 2016 but declined by 7.7 percent in volume, from 3,846 tons 2015 to 3,550 tons in 2016. The slight increase in value is mainly due to the improvement in unit price by 10.1 percent, from 8.91 USD/kg in 2015 to 9.81USD/kg in 216. The unit price for Coltan fell by 21.9 percent leading to a decline in its exports value and volume by 40.0 percent and 23.1 percent respectively. The fall in the unit price of wolfram (-28.8 percent) led to the decline in both value and volume by 31.5 percent and 3.8 percent respectively.

Hides and skins exports declined by 28.3 percent due to the volume and price effect. The volume declined by 25.1 percent, from 8,265 tons in 2015 to 6,194 tons in 2016. In addition, the unit price declined by 4.3 percent, from 1.26 USD/kg in 2015 to 1.20 USD/kg in 2016. The decline in volume is mainly attributed to the legislation that was adopted by the EAC countries to increase tax on exports of hides and skins to discourage their exportation and to encourage the proliferation of regional industries. This has led to the establishment of a factory in Bugesera to transform hides and skins into different finished products.

Exports for pyrethrum increased by 35.5 percent in value and by 27.5 percent in volume. The good performance in pyrethrum exports is on the account of both the increase in unit price as well as in volume as a result of the emergence of 7 new markets in China, Germany, Italy, South Korea, Netherlands and USA.

Non-traditional exports increased in both value and volume by 34.2 percent and 4.3 percent respectively and this is attributable to the good performance registered in the other minerals' category (gold bar and gemstones), which grew by 156 percent in value, from USD 31.27 Million in 2015 to USD 80.06 Million in 2016. However, some key non-traditional exports such as products of the milling industry (-11 percent) and edible vegetables, roots and tubers (-40 percent) recorded poor performance in 2016. Milling products are mainly exported to Burundi and DRC. However, those exports to Burundi declined due to the opening up of the AZAM subsidiary milling company in Burundi. Exports to DRC, from BAKRESHA and MINIMEX, declined, due to more competitive products from Uganda.

Re-exports, which are dominated by petroleum products, vehicles and machines as well as engines, increased by 44.7 percent in volume and by 26.1 percent in value due to the rise in re-exports of petroleum products (+57.9 percent in volume and +25.8 percent in value). Petroleum products represent 53 percent of the total re-exports volume and 50 percent of total re-exports earnings.

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

	2010	2011	2012	2013	2014	2015	2016	% change 2016 / 2015
Coffee								
Value	56.08	74.60	60.89	54.90	59.68	62.04	58.49	-5.7%
Volume	18.24	15.60	16.99	19.99	15.97	18.79	18.64	-0.8%
Price	3.08	4.78	3.58	2.75	3.74	3.30	3.14	-4.9%
Tea								
Value	55.71	63.90	65.72	55.48	51.76	72.46	63.42	-12.5%
Volume	21.53	23.73	22.45	21.01	22.67	24.68	24.41	-1.1%
Price	2.59	2.69	2.93	2.64	2.28	2.94	2.60	-11.5%
Minerals								
Value	67.79	151.4	136.07	225.70	203.32	117.81	86.42	-26.6%
Volume	5.47	8.85	7.53	9.58	10.47	7.28	6.54	-10.2%
Cassiterite								
Value	42.21	96.82	52.90	61.07	71.95	34.26	34.81	1.6%
Volume	3.87	6.95	4.64	4.90	5.95	3.85	3.55	-7.7%
Price	10.89	13.93	11.41	12.48	12.08	8.91	9.81	10.1%
Coltan								
Value	18.48	38.58	56.91	134.57	104.78	66.20	39.74	-40.0%
Volume	0.75	0.89	1.14	2.47	2.30	1.65	1.27	-23.1%
Price	24.69	43.35	49.72	54.57	45.51	40.08	31.29	-21.9%
Wolfram								
Value	7.10	16.03	26.26	30.05	26.59	17.34	11.87	-31.5%
Volume	0.84	1.01	1.75	2.22	2.21	1.78	1.72	-3.8%
Price	8.42	15.93	15.00	13.55	12.01	9.72	6.92	-28.8%
Hides and Skins								
Value	3.74	7.62	14.37	16.02	14.22	10.38	7.44	-28.3%
Volume	3.73	6.22	10.03	10.30	9.62	8.27	6.19	-25.1%
Price	1.00	1.22	1.43	1.56	1.48	1.26	1.20	-4.3%
Pyrethrum								
Value	1.41	4.51	9.71	3.98	1.83	2.48	3.36	35.5%
Volume	0.01	0.02	0.04	0.02	0.01	0.01	0.02	27.5%
Price	222.27	240.37	257.86	238.88	171.20	177.15	188.33	6.3%
I. Traditional Exports								
Value	184.7	302.1	286.8	356.1	330.8	265.2	219.1	-17.4%
Volume	49.0	54.4	57.0	60.9	58.7	59.0	55.8	-5.5%
II. Re – Exports								
Value	35.90	37.26	107.99	135.04	165.35	177.87	224.28	26.1%
Volume	7.43	20.37	57.05	97.59	105.73	159.16	230.37	44.7%
III. Non-traditional Exports								
Value	33.03	48.35	88.00	81.91	103.60	115.73	155.27	34.2%
Volume	56.67	93.06	174.59	149.89	159.63	172.42	179.86	4.3%
Total Exports								
Value	253.66	387.67	482.75	573.03	599.76	558.75	598.7	7.1%
Volume	113.07	167.84	288.67	308.37	324.10	390.61	466.0	19.3%

Source: BNR, Statistics Department

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 2016, the imports value was dominated by consumer goods with a share of 32.4 percent, followed by capital goods (+31.7 percent), intermediary goods (+25.3 percent) and energy & lubricants (+10.6 percent). In volume terms, intermediary goods were dominant with a share of 41.8 percent, followed by consumer goods (+38.8 percent), energy & lubricants (+15.8 percent) and capital goods (+3.5 percent).For the period under review, formal imports decreased by 2.7 percent in value, to USD 2,248.48 million from USD 2,311.24 million in 2015 and in volume by 5.0 percent, from 2,068,104 tons to 1,965,164 tons. The decline in formal imports value is due to a decrease in intermediary goods by 16.6 percent and in energy and lubricants by 15.7 percent despite an increase in consumer goods and capital goods by 4.9 percent and 9.3 percent respectively. Formal imports volume declined due to a 17.2 percent decline in the volume of intermediary goods.

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

	2010	2011	2012	2013	2014	2015	2016	% change 2016/2015
Consumer Goods								
Value	439.01	553.11	626.06	633.62	656.18	694.13	728.34	4.9%
Volume	468.52	453.20	576.96	574.38	592.36	695.91	763.24	9.7%
Capital Goods								
Value	357.56	465.35	589.24	596.32	642.25	652.58	713.00	9.3%
Volume	39.20	50.52	68.09	59.00	60.62	70.21	69.11	-1.6%
Intermediary Goods								
Value	381.97	526.55	622.44	632.88	720.00	682.45	569.45	-16.6%
Volume	481.61	609.18	810.27	878.85	914.69	992.18	821.86	-17.2%
Energy and Lubricants								
Value	205.84	345.57	361.42	384.60	368.50	282.08	237.69	-15.7%
Volume	195.73	220.49	253.24	269.72	278.94	309.80	310.96	0.4%
Petroleum Products								
Value	183.52	331.47	342.3	367.90	352.54	260.35	216.17	-17.0%
Volume	140.86	212.52	242.4	261.23	270.41	276.96	267.18	-3.5%
Total Imports								
Value	**1,384.4**	**1,890.6**	**2,199.2**	**2,247.4**	**2,386.9**	**2,311.2**	**2,248.48**	**-2.7%**
Volume	**1,185.1**	**1,333.4**	**1,708.5**	**1,781.9**	**1,846.6**	**2,068.1**	**1,965.16**	**-5.0%**

Source: BNR, Statistics Department

Imports of consumer goods, dominated by food products, increased in both volume (+9.7 percent) and value (+4.9 percent). The rise in volume was mainly attributed to the increase in food products (+13 percent) and domestic articles (+12 percent). Food imports CIF value rose mainly due to the increased imports for vegetables, fruits and spices (+38 percent), meat and fish (+16 percent), milk and milk products, birds' eggs, natural honey (+98 percent) and cereals, flours and seeds (+18.7 percent). Overall, imports of consumer goods increased because of the poor performance in the agriculture sector as a result of a prolonged dry season.

Imports of capital goods, dominated by machines, devices and tools as well as transport materials, increased in value (+9.3 percent) while the volume slightly declined (-1.6 percent). The increase in value of capital goods is mainly due to imports of transport materials (+17.9 percent) and machines & devices (+10.1 percent). This increase has been occasioned by the EAC decision to increase tax on used cars which led to high importation of used cars in anticipation of the implementation of this law. It was also due to the expiry of a one year transition period warranted by the new investment code that was signed on May 27, 2015, removing exemptions on importation of construction materials such as machines to undertake big construction projects.

Imports of intermediary goods, dominated by construction materials, industrial products and fertilizers decreased in both value and volume by 16.6 percent and 17.2 percent respectively, mainly driven by the decline in the value of construction materials by 27.4 percent, industrial products (-13.3 percent, despite an increase in volume by 3.2 percent) and fertilizers (-35.1 percent). The decrease in industrial products value is mainly driven by a decrease in food industries (-11.4 percent), chemical industries (-17.1 percent), wood industries (-18.9 percent), metallic industries (-53.1 percent), paper industries (-1.5 percent) and other various industries (-11.2 percent). Construction materials, which are one of the dominating items in this category declined in both value and volume. This trend was due to the importation of cheaper construction materials, particularly metallic construction materials from China, the decline in imports of cement given that domestic cement production has increased by 68 percent with the expansion of CIMERWA, as well as the completion of some big construction projects that led to the reduction of domestic demand for cement by 0.8 percent in 2016.

The decline in imports of fertilizers is due to the change in the government policy of gradually reducing the subsidy in terms of fertilizers to farmers paving way for the private sector to take over. This, coupled with existing high stock of fertilizers imported during the last half of 2015 and the low demand for fertilizers by farmers following adverse weather conditions for season B, led to an overall reduction in fertilizer imports in 2016.

Imports of energy and lubricants decreased in value by 15.7 percent but slightly increased in volume by 0.4 percent. This category of imports is mainly composed by imports of petroleum products, with value and volume shares of 90 percent and 85 percent, respectively. The decline in value of energy and lubricant imports was mainly due to the fall in prices of imports of petroleum products such as fuel (motor spirit) which decreased by 17.0 percent. In value terms, this decline is slightly lower compared to the decline recorded in the corresponding period of 2015.

2.2.3 Formal trade with other EAC Countries

Rwanda's exports to other East African Community (EAC) member countries, representing 26.3 percent of the total formal exports in 2016 against 21.5 percent in 2015, increased by 31.1 percent in value, to USD 157.52 million in 2016 from USD 120.15 million in 2015. The rise was due to the increase in re-exports of petroleum products to Burundi, by 292 percent, from USD 6.46 million in 2015 to USD 25.35 million in 2016. This is due to the fact that in 2015, Burundi imported some petroleum products from “Total”, a company situated in Tanzania, and since 2016, this Tanzanian-based company has closed, leading to an increase of petroleum re-exports to Burundi.

Imports from EAC countries, which represent 23.5 percent of total formal imports, increased by 1.6 percent, from USD 519.36 million recorded in 2015 to USD 527.56 million recorded in 2016. The trade deficit improved by 7.3 percent, to USD 370.04 million in 2016 from USD 399.21 million in 2015.

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

	2010	2011	2012	2013	2014	2015	2016
Exports to EAC							
Value	54.16	80.71	115.59	122.94	142.45	120.15	157.52
% change	14.4	49.0	43.2	6.4	15.9	-15.7	31.1
% share of total formal Exports	21.8	20.8	23.9	21.5	23.8	21.5	26.3
Imports from EAC							
Value	513.35	469.72	532.56	516.39	546.8	519.36	527.56
% change	14.2	-8.5	13.4	-3.0	5.9	-5.0	1.6
% share of total formal Imports	37.1	24.8	24.2	23.0	22.9	22.5	23.5
Trade Balance	**-459.19**	**-389.01**	**-416.97**	**-393.45**	**-404.35**	**-399.21**	**-370.04**

Source: BNR, Statistics Department

Rwanda’s main exports to EAC member countries remain tea (46.9 percent of the total EAC exports) sold at the Mombasa auction, petroleum products (18.7 percent, of which 68 percent is re-exported to Burundi and 32 percent procured at Kigali International Airport), raw hides and skins of bovine (3.3 percent, of which 70.9 percent is exported to Kenya), motor cars (1.8 percent, mostly re-exported to Burundi), sorghum (1.6 percent, mainly exported to Uganda).

Imports from EAC member counties are composed of cartons, boxes, cases, bags, and other packing containers from Kenya, home used products and agriculture products.

2.2.4 Formal trade balance

The Rwandan trade balance has been deteriorating over the years due to the continued higher imports bill than exports receipts. The mismatch between imports and exports is mainly due to the continued reliance on low-value export products, whose prices depend on the international market dynamics and the continued excessive demand for foreign produced goods especially capital and intermediate goods, to sustain the ongoing economic development.

However, increased production initiatives for some categories of imports such as rice, wheat and sugar whose domestic market is growing rapidly and whose contribution to the import bill is high should be reinforced. There is potential to produce these commodities locally and this should have a big positive impact on the trade balance. For example, imports of cement, sugar, wheat, rice and second hand clothing exceed coffee and tea exports earnings.

2.2.5 Informal Cross Border Trade

Rwandan informal cross-border exports with neighboring countries, which account for 20.4 percent of formal exports in the period under review, increased by 21.4 percent, amounting to USD 121.93 million in 2016 from USD 100.45 million in 2015. The high increase of exports to Uganda is particularly due to exports of live animals as well as telephonic apparatus in 2016. The observed increase in telephonic apparatus is due to the fact that their prices are lower in Rwanda than in Uganda because IT related equipments are exempted from taxes in Rwanda.

Exports to the Democratic Republic of Congo (DRC) represent a big share of 74.7 percent of the total informal cross border exports, followed by exports to Uganda with 19.1 percent while exports to Burundi and Tanzania account for 6.24 percent and 0.02 percent respectively.

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

	2010	2011	2012	2013	2014	2015	2016
Exports							
Values in USD Million	55.09	71.40	101.81	110.71	107.51	100.45	121.93
% change		29.6	42.6	8.7	-2.9	-6.6	21.4
% Share to total formal Exports	21.7	18.4	21.1	19.3	17.9	18.0	20.4
Imports							
Values in USD Million	35.22	23.51	22.63	17.61	19.23	21.62	30.52
% change		-33.3	-3.7	-22.2	9.2	12.5	41.2
% Share to total formal Imports	2.5	1.2	1.0	0.8	0.8	0.9	1.4
Trade Balance	**19.87**	**47.89**	**79.18**	**93.10**	**88.28**	**78.83**	**91.41**

Source: BNR, Statistics Department

Informal imports increased by 41.2 percent, from USD 21.62 million in 2015 to USD 30.52 million in 2016. This increase was offset by the bigger increase in informal exports, leading to an improvement of 16.0 percent in Rwanda's informal trade balance with neighboring countries, from USD 78.83 million in 2015 to USD 91.41 million in 2016. The main sources of these imports are Uganda, Burundi and the Democratic Republic of Congo (DRC) with shares of 64.3 percent, 26.8 percent and 9.0 percent respectively. The increase in informal imports is due to increased importation of food such as maize corn, soft drinks and modern beer from Uganda.

2.3 Some Key Development in the Balance of Payments (BOP)

In 2016, provisional numbers for the BOP show that Rwanda has ended the year with a drawdown of reserves to the tune of USD 20.8

million from a drawdown of USD 28.5 million in 2015. Although we recorded an improvement in formal trade deficit by 5.9 percent from USD 1,752.5 million in 2015 to 1,649.7 million in 2016. When we adjust the trade in goods by informal cross border trade, Rwandair airplanes imports, electricity and goods purchased in the airport; the current account deficit deteriorate, from USD 1,113.9 million to USD 1,187.1 million. The deterioration of the current account deficit resulted from a higher level of imports compared to exports. The exports of goods and services increased by 5.1 percent, from USD 1,496.8 million in 2015 to USD 1,573.4 million in 2016, while the imports increased by 6.0 percent from USD 2,923.8 million in 2015 to USD 3,107.1 million in 2016, leading to increased deficit of 6.8 percent from USD 1,435.4 million in 2015 to USD 1,533.7 million in 2016.

Total official inflows declined from USD 890.6 Million in 2015 to USD 856.4 Million in 2016. However, Total estimated private inflows increased by 43.4 percent compared to a decline of 9.5 percent recorded in 2015, mainly due to high private long term external borrowing estimated to USD 504.5 million in 2016 compared to USD 153.2 million in 2015. In 2016, the private long term external borrowing is mainly driven by RWANDAIR borrowing (USD 289.8 million), KCC borrowing (USD 130.0 million) and other private external debts (USD 84.71 million). Foreign direct investments are estimated to increase by 5.8 percent, amounting to USD 236.2 million in 2016 from USD 223.3 million in 2015 Tourism receipts are estimated to have an increase of 6.0 percent, from USD 367.7 million in 2015 to USD 389.8 million in 2016.

Despite the slowdown in the global economy, remittances' receipts grew by 7.7 percent in 2016 compared to a decline of 11.1 percent in 2015, following the 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. The transaction cost was harmonized in EAC to USD 16 per USD 200 remitted since June 2014. This, together with the review of the remittances' compilation methodology by including mobile network operators since the second half 2015, has improved remittances' receipts.

Table 17: Key capital inflows (USD million)

	2010	2011	2012	2013	2014	2015	2016
Total Private Inflows	642.9	774.5	866.3	883.1	931.0	906.4	1,299.8
Direct Investments	250.5	119.1	255.0	257.6	314.7	223.3	236.2*
Portfolio Investments	7.5	87.6	5.9	1.7	4.5	6.8	2.0*
Remittances	98.2	166.2	175.3	161.8	174.9	155.4	167.3
Private Foreign Borrowings LT	85.0	149.9	148.4	168.4	133.2	153.2	504.5*
Tourism Receipts	201.6	251.8	281.8	293.6	303.7	367.7	389.8*
Total Official Inflows	750.2	946.6	624.8	1241.1	921.9	890.6	856.4
Ordinary Budgetary Grants	402.9	545.7	343.3	468.8	276.9	218.6	240.6
Public debt(budget &Project loans)	61.7	222.2	110.3	537.8	307.9	372.1	425.8
Capital Grants	285.6	196.7	171.2	234.5	337.1	299.9	190.0*

Source: BNR, Statistics Department (* are estimates)

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

After taking note of the challenging global and domestic economic environment, this chapter highlights how BNR conducted its monetary policy and the outcomes thereof. The chapter shows that BNR implemented a prudent monetary policy not only to mitigate inflationary and exchange rate pressures that cropped up in 2016 but also to continue supporting the financing of the economy by the banking sector.

3.1 Monetary Policy Stance in 2016

In 2016, BNR maintained a prudent monetary policy in a context of high pressures on the FRW exchange rate due to global macroeconomic environment and increasing demand of the dollar on the domestic market on one side, and inflationary pressures following the poor performance of the agriculture sector and increased imported inflation, on the other side.

BNR ensured that the banking sector continued to finance the economic activities while limiting inflationary pressures from the monetary sector. As a result, total new authorized loans to the private sector increased by 6.3 percent in 2016 compared to 13.7 percent in 2015. Outstanding credit expanded by 7.8 percent in 2016 against 30.0 percent recorded in 2015. The broad money increased by 7.5 percent against 21.1 percent during the same period.

3.2 Inflation Developments in 2016

Headline inflation increased from 4.5 percent in January 2016 to 7.3 percent in December 2016. It went up from an average of 2.5 percent in 2015 to 5.7 percent in 2016, mainly driven by rising food prices and transport costs. The increase in food prices was mostly influenced by the surge in vegetables inflation from an average of 6.7 percent in 2015 to 20.2 percent in 2016. The rising food prices stemmed from reduced food supply, following the poor performance in agricultural production.

Other significant pressures on headline inflation came from transport inflation which edged up to reach 7.1 percent on average in 2016 from -0.7 percent in 2015 due to the exchange rate effect on imported inflation. Imported inflation increased on average from 1.1 percent in 2015 to 4.7 percent in 2016 while domestic inflation, mostly influenced by the trend in local food prices, stood at 6.0 percent in 2016 on average, compared to 3.0 percent in 2015.

Core inflation, which excludes fresh products and energy, rose on average from 2.1 percent in 2015 to 4.1 percent in 2016 due to the increase in external common tariffs for some imported core products that do not meet the EAC originality criteria like imported oils, sugars and the increase in some local core products such as milk products and BRALIRWA soft drinks, in addition to the increase in imported inflation.

Table 18: Inflation developments for key items (annual percent change)

	2015	2016						Annual average (%)	
	Dec	Mar	Jun	Sep	Oct	Nov	Dec	2015	2016
Headline	4.5	4.6	5.5	5.8	7.4	6.4	**7.3**	**2.5**	**5.7**
Domestic	5.7	5.4	6.1	5.9	7.8	6.0	**7.1**	**3.0**	**6.0**
Food:	9.7	7.8	9.4	11.2	16.3	13.5	**16.4**	**3.9**	**10.7**
- Vegetables	23.3	18.4	20.2	18.8	26.7	18.2	**22.2**	**6.7**	**20.2**
- Bread and Cereals	-0.4	-0.8	0.2	2.7	5.8	7.1	**7.6**	**4.1**	**2.1**
Alcoholic	10.0	9.4	8.7	0.2	-0.4	0.5	**2.0**	**5.9**	**5.2**
Education	0.1	1.7	1.7	2.3	2.3	2.3	**2.3**	**0.4**	**1.8**
Housing	2.9	3.0	2.9	0.9	1.3	1.0	**1.4**	**4.0**	**2.4**
Transport	2.4	4.8	7.0	8.7	7.9	7.5	**7.7**	**-0.7**	**7.1**
Imported	1.3	2.1	3.9	5.6	6.3	7.7	**7.9**	**1.1**	**4.7**
Core	2.3	2.9	4.2	4.8	5.3	5.0	**5.3**	**2.1**	**4.1**
Energy	1.6	5.2	4.1	-0.3	0.7	1.7	**2.6**	**1.1**	**4.0**

Source: BNR, Statistics Department

3.3 Monetary Developments

Before assessing liquidity conditions and interest developments, this section presents key monetary aggregates developments in 2016 reflecting the conduct of BNR monetary policy to mitigate inflationary and exchange rate pressures.

3.3.1 Money Supply

Broad money (M3) grew by 7.5 percent in 2016 (y-o-y) to FRW 1592.7 billion lower than 21.1 percent recorded in December 2015. The deceleration in money supply growth in 2016 is due to a reduction in the growth of net domestic assets to 1.7 percent compared with 57.3 percent in 2015, despite an expansion of 15.0 percent in foreign assets in 2016 after a contraction of 6.9 percent realized in 2015.

The deceleration in net domestic assets in 2016 followed a decline in net credit to government by 74.2 percent to FRW 10.2 billion compared to the increase of 286.1 percent in 2015, and a slowdown in credit to the private sector growth to 7.8 percent from 30 percent last year. The credit to the private sector stood at FRW 1269.6 billion end December 2016 while new authorized loans amounted for FRW 788.5 billion in 2016.

Table 19: Monetary aggregates developments (end period, FRW billion)

	2013	2014	2015	2016	% change		
	Dec	Dec	Dec	Dec	Dec-14/ Dec-13	Dec-15/ Dec-14	Dec-16/ Dec-15
Net foreign assets	**744.0**	**690.4**	**642.6**	**739.2**	**-7.2**	**-6.9**	**15.0**
Foreign assets	923.1	890.9	860.8	1078.2	-3.5	-3.4	25.3
Foreign liabilities	179.1	200.5	218.1	339.0	11.9	8.8	55.4
Net domestic assets	**284.7**	**533.5**	**839.5**	**853.5**	**87.4**	**57.3**	**1.7**
Domestic credit	567.1	897.0	1223.1	1323.6	58.2	36.4	8.2
Central government (net)	-187.3	-21.2	39.5	10.2	88.7	286.1	-74.2
Credit	193.7	222.3	304.1	284.5	14.8	36.7	-6.4
Deposits	381.0	243.6	264.6	274.3	-36.1	8.6	3.7
Public enterprises	1.3	11.9	5.6	43.7	852.3	-53.2	682.6
O/W in foreign currency	*0.0*	*6.1*	*1.3*	*21.7*	-	-79.4	1623.2
Private sector	***758.0***	***906.3***	***1178.1***	***1269.6***	***19.6***	***30.0***	***7.8***
O/W in foreign currency	*15.8*	*63.6*	*134.9*	*163.0*	303.0	112.1	20.8
Other items net (Assets: + Liab:	-282.5	-363.5	-383.7	-470.0	-28.7	-5.5	-22.5
Broad money M3	**1028.7**	**1223.9**	**1482.1**	**1592.7**	**19.0**	**21.1**	**7.5**
Currency in circulation	116.6	118.5	142.6	145.9	1.7	20.3	2.3
Deposits	912.1	1105.3	1339.5	1446.8	21.2	21.2	8.0
O/W: Demand deposits	378.7	456.2	614.6	587.9	20.5	34.7	-4.3
Term deposits	339.2	407.3	469.0	530.4	20.1	15.1	13.1
Foreign currency deposits	194.2	241.8	255.9	328.5	24.5	5.8	28.4

Source: BNR, Statistics Department

The expansion in net foreign assets by 15.0 percent in 2016 was mainly due to an increase in BNR foreign resources by 9.9 percent and an increase in formal exports' receipts by 7.1 percent against a reduction of 6.8 percent in 2015.

New authorized loans by the banking sector grew by 6.3 percent in 2016 from 13.7 percent recorded in 2015. The decelerating growth was mainly explained by the decline in new loans to public works and building sector by 17.8 percent in 2016 and a fall in loans to transport, warehousing & communication sector of -29.9 percent in 2016 from 27.5 percent in 2015. Developments in new authorized loans were in line with the slowdown in economic activities.

Table 20: New authorized loans by activity branch (FRW billion, unless otherwise indicated)

Activity branch	2012	2013	2014	2015	2016	%change 2016/15
Non-classified activities	83.0	56.5	62.6	67.1	77.7	15.8
Agricultural, fisheries& livestock	10.6	8.8	8.8	13.9	11.5	-17.4
Mining activities	0.0	0.2	0.2	0.3	1.8	458.5
Manufacturing activities	37.0	43.9	72.5	51.2	63.9	24.6
Water & energy activities	3.9	5.6	25.6	1.3	24.7	1817.6
Public works and building	111.9	93.2	138.4	237.3	195.0	-17.8
Commerce restaurant and hotel	203.1	216.2	272.1	279.7	348.6	24.6
Transport & warehousing & communication	30.4	29.5	42.2	53.8	37.7	-29.9
OFI &Insurances and other non-financial services	4.6	6.1	4.5	14.8	5.8	-60.6
Services provided to the community	14.4	12.5	26.1	22.6	21.8	-3.4
Total	**498.9**	**472.5**	**653.0**	**742.1**	**788.5**	**6.3**

Source: BNR, Financial Stability Directorate

Commerce, restaurant and hotels remained the most financed economic sectors representing 44.2 percent of the total authorized loans in 2016, followed by public works and buildings (24.7 percent) and non-classified activities (9.9 percent) dominated by personal loans.

Table 21: New cash loans distribution by economic sector (percent share)

Activity branch	2012	2013	2014	2015	2016
Non-classified activities	16.6	12.0	9.6	9.0	9.9
Agricultural, fisheries& livestock	2.1	1.9	1.3	1.9	1.5
Mining activities	0.0	0.0	0.0	0.0	0.2
Manufacturing activities	7.4	9.3	11.1	6.9	8.1
Water & energy activities	0.8	1.2	3.9	0.2	3.1
Public works and building	22.4	19.7	21.2	32.0	24.7
Commerce restaurant and hotel	40.7	45.8	41.7	37.7	44.2
Transport & warehousing & communication	6.1	6.2	6.5	7.3	4.8
OFI &Insurances and other non-financial services	3.5	0.9	1.3	0.7	0.7
Services provided to the community	2.3	2.9	2.7	4.0	2.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BNR, Financial Stability Directorate

New authorized loans to corporates continued to represent a big share in total loans with 61.2 percent (FRW 482.5 billion) in 2016 from 46.8 percent (FRW 233.3 billion) in 2012.

Loans to individuals represented 38.8 percent (FRW 305.9 billion) of total loans with 21 percent authorized to women and 79 percent to men in 2016. The number of women financed by banks remained low, representing on average 58,573 between 2012 and 2016 compared to an average of 115,178 men during the same period.

Table 22: Distribution of loans by gender in number

	2012	2013	2014	2015	2016
Women (share of loans in %)	22	22	25	23	21
Men (share of loans in %)	78	78	75	77	79
Number women financed	19,190	14,376	90,796	87,337	81,165
Number men financed	45,825	37,273	133,505	170,378	188,907

Source: BNR, Financial Stability Directorate

Concerning new authorized loans distributed by Provinces, Kigali City remained with a highest share averaging at 73.9 percent in the last five years, followed by the Western Province (7.4 percent), the Eastern Province (7.4 percent), the Southern Province (6.5 percent) and lastly, the Northern Province (4.8 percent).

Table 23: Distribution of new authorized loans by Province (FRW billion)

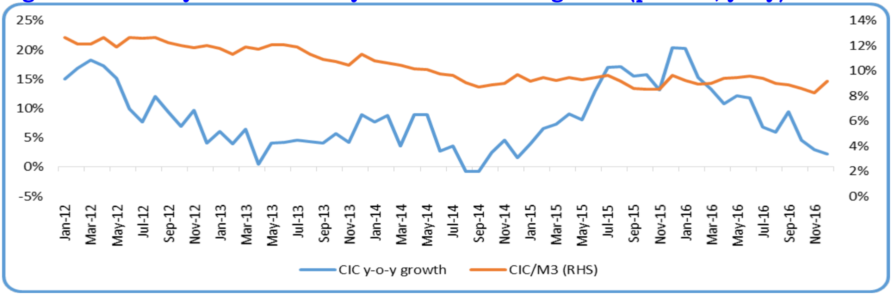
	2012	2013	2014	2015	2016
KIGALI CITY	355.0	358.7	464.0	571.0	583.4
WEST	47.4	29.9	67.8	39.0	49.1
EAST	33.4	36.7	52.8	52.6	58.2
SOUTH	38.3	23.9	41.1	45.0	57.2
NORTH	24.9	23.3	27.2	34.5	40.6
TOTAL	**498.9**	**472.5**	**653.0**	**742.1**	**788.5**

Source: BNR, Financial Stability Directorate

3.3.2 Money Demand

With regard to money demand, currency in circulation (CIC) grew by 2.3 percent (y-o-y) in 2016 against 20.3 percent in 2015. The currency to broad money ratio continued to decrease in the recent past, averaging at 9 percent in 2016 from 12 percent in 2012. The extension in banking sector network, microfinance institutions and payments system modernization remain the main cause of this trend.

Figure 5: Currency to broad money M3 ratio and CIC growth (percent, y-o-y)



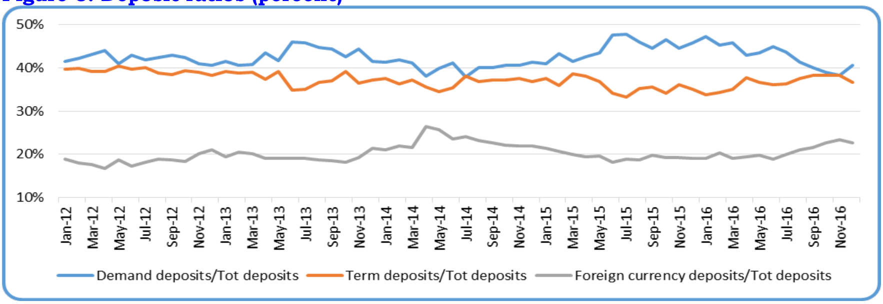
Source: BNR, Monetary Policy and Research Department

The total bank deposits expanded by 8 percent in 2016 compared to 21.2 percent in 2015. This deceleration in total deposits growth is mainly explained by a slowdown in economic activities.

Demand deposits reduced by 4.3 percent in 2016 compared to an increase of 29.2 percent in 2015 while term deposits expanded by 13.1 percent compared to 15.1 percent in the last year. Foreign currency deposits grew by 28.4 percent against 5.8 percent in 2015 mainly due to domestic currency depreciation.

Demand deposits continued to dominate with 43 percent average share in total deposits in 2016, followed by term deposits (37 percent) and foreign currency deposits (20 percent).

Figure 6: Deposit ratios (percent)



Source: BNR, 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 most held by non-financial corporations.

Table 24: Deposits by category of depositors (percent share)

	Demand deposits					Term deposits					Foreign currency deposits				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Other Financial Institutions	2.1	2.4	2.4	3.4	2.25	6.1	4.6	3.8	5.8	3.87	0.3	0.2	0.1	0.3	0.14
Social Security Fund	1.7	1.7	1.2	3.7	1.63	9.6	13.3	14	12	13	0.1	0.1	0.1	0.3	0.23
Public Enterprises	1.9	1.6	2.4	0.8	1.67	0.2	0.3	0.2	0.4	1.7	0.4	0.5	0.4	0.7	0.41
Other Nonfinancial Corporations	13.3	11.3	11.8	14	11.9	3.8	4	4.6	3.1	3.74	11.8	12.1	13.4	9.5	10.8
Households and NPISH	21.6	24.5	23.5	22.5	22.2	18.5	15.1	14.3	14.6	15.3	8.5	8.4	8	8.9	11.2
Total	**40.6**	**41.5**	**41.3**	**44.4**	**39.6**	**38.2**	**37.3**	**36.9**	**35.9**	**37.6**	**21.1**	**21.3**	**22**	**19.6**	**22.8**

Source: BNR, Statistics Department

The share of RSSB, insurance companies, and Microfinance institutions in total term deposits in the banking system represented 51.9 percent on average in the last five years. RSSB has a big share of 32.6 percent, MFIs with 12.1 percent and insurance institutions with 7.2 percent.

Table 25: Share of RSSB, Insurance and MFIs in term deposits (percent share)

	2012	2013	2014	2015	2016
RSSB	24.3	34.8	36.6	32.7	34.4
Insurance	8.4	8.1	6.4	5.8	7.2
MFIs	9.5	10.8	12.5	15.4	12.4
Total	**42.2**	**53.7**	**55.5**	**53.9**	**54.0**

Source: BNR, Financial Stability Directorate

3.4 Liquidity Conditions of the Banking System

In 2016, banking system liquidity conditions have been tight as indicated by the level of most liquid assets which amounted to FRW 263.6 billion in December 2016 from FRW 302.9 billion in December

2015. That decline was mainly explained by the slowdown in economic activities and BNR interventions on foreign exchange markets by selling dollars to banks. Between January 2016 and December 2016, total sales of USD to commercial banks amounted to USD 327.5 million equivalent to FRW 258.3 billion against USD 273.5 million that is equivalent to FRW 197.4 billion sold in 2015.

Table 26: Most liquid assets of commercial banks (FRW billion, unless otherwise indicated)

	2012	2013	2014	2015	2016	2015/2014 (% change)	2016/2015 (% change)
T-bills	62.5	171.6	172.3	225.1	177.7	**30.6**	**-21.1**
Repo	52.5	63.0	47.5	26.5	30.5	**-44.2**	**15.1**
Excess reserves	9.5	9.9	17.2	17.1	24.5	**-0.6**	**43.3**
Cash in vault	22.3	31.9	35.4	34.2	30.8	**-3.4**	**-9.9**
Total	**146.8**	**276.4**	**272.4**	**302.9**	**263.6**	**11.2**	**-13.0**

Source: BNR, Monetary Policy & Research Department

3.5 Interest Rates Developments

In 2016, money market interest rates have been increasing in line with banking liquidity conditions. Repo, T-bills and interbank interest rates increased respectively to 4.1 percent, 7.7 percent and 5.9 percent on average in 2016, from 2.1 percent, 4.7 percent and 3.6 percent on average in 2015.

Table 27: Interest rates developments (annual average in percent)

	2012	2013	2014	2015	2016	2016			
						Mar	Jun	Sep	Dec
Key Repo Rate	7.33	7.21	6.71	6.50	6.48	6.50	6.50	6.50	6.25
Discount Rate	11.33	11.21	10.71	10.50	10.48	10.50	10.50	10.50	10.25
Repo rate	7.12	6.14	3.68	2.06	4.08	3.09	3.62	4.73	5.02
T-Bills Rate	9.88	9.61	5.62	4.71	7.67	6.35	7.29	8.22	9.02
Interbank Rate	9.22	8.73	5.59	3.63	5.89	5.18	5.93	6.67	6.61
Deposit Rate	8.85	9.93	8.20	8.24	7.91	7.32	7.94	8.28	8.01
Lending Rate	16.70	17.32	17.30	17.33	17.29	17.09	16.95	17.36	17.21
Spread	7.85	7.39	9.10	9.09	9.38	9.77	9.01	9.08	9.20

Source: BNR, Statistics Department

With regard to commercial banks interest rates, both lending and deposit interest rates declined slightly to 7.91 percent and 17.29

percent on average in 2016 from 8.24 percent and 17.33 percent on average in 2015, respectively. Looking to the lending rate by type of borrowers, the weighted average rate was driven by the rate charged to individual borrowers.

Table 28: Interest rates by type of borrowers (annual average in percent)

Type of borrower	2013	2014	2015	2016	2016			
					Mar	Jun	Sep	Dec
Corporates	16.86	16.52	16.61	16.67	16.65	16.29	16.53	16.32
Individuals	17.73	18.48	18.13	18.07	17.81	18.12	18.28	18.59

Source: BNR, Financial Stability Directorate

Regarding lending interest rates by maturities, the short-term rate (17.98 percent) outpaced medium-term rate (17.50 percent) and long-term rate (15.91 percent) as short-term loans are relatively riskier.

3.6 Money Market Developments

As at end 2016, money market interest rates have been relatively high. The repo rate rose from 2.36 percent in December 2015 to 5.02 percent in December 2016 and T-bills rate increased from 6.76 percent to 9.02 percent while the interbank rate moved from 3.73 percent to 6.61 percent during the same period. Though generally stable, the slight upward movement in short term interest rates was due to the monetary authority's willingness to align money market interest rates to the key repo rate so as to develop the interbank market. Those actions yielded good results. On the interbank market, the amount traded increased from FRW 242.45 billion in 2015 to 444.95 billion in 2016, an increase of 84 percent. The number of interbank transactions increased by 87 percent (to 281 in 2016 from 150 transactions in 2015).

Table 29: Evolution of interbank market transactions

YEAR	INTERBANK AMOUNT	NUMBER
2010	518,095	742
2011	396,400	436
2012	141,529	175
2013	145,750	97
2014	224,760	167
2015	242,450	150
2016	444,953	281

Source: Financial Market Department

3.7 Capital market development

The capital market in Rwanda is still largely dominated by the primary market, despite the recent improvements in the secondary market. In addition, Rwanda's secondary market is until now dominated by the government issued securities.

3.7.1 Primary Government Bond Market

The long term debt security offers the investment opportunities to the capital holders to access risk free investments with good returns and very liquid instruments. For the issuer, the Bond market allows to access affordable long term resources.

In 2016, BNR and its partners continued the program of issuing Government bonds on quarterly basis with the aim of developing the capital market by availing more marketable financial instruments, shaping a long term yield curve for other private instruments and putting in place a better alternative way of accessing medium and long term domestic resources needed for economic financing. Thus, four Government Bonds were successfully issued in 2016: two bonds of 5 years' maturity (in February and August); a 15 years' maturity bond (in May) and a 3 years' maturity bond (in November). As result the T-bonds outstanding balance increased from FRW 100 billion to FRW 155 billion.

Table 30: T-Bonds Outstanding 2013-2016 (FW billion, unless otherwise indicated)

YEAR	BANKS	IN PERCENT	INSTITUTIONAL INVESTORS	IN PERCENT	RETAIL INVESTORS	IN PERCENT	TOTAL
2013	6.9	81.2	1.6	18.8	0.0	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	100.0
2016	62.8	40.5	87.1	56.2	5.1	3.3	155.0

Source: BNR, Financial Market Department

In all these issuances, increasing participation of institutional and retail investors was observed while regional investors have shown appetite to invest in local bonds. This shows the increase in saving opportunities offered by the capital markets and the growing confidence that investors have in the Rwandan Government securities especially in the T-bonds market.

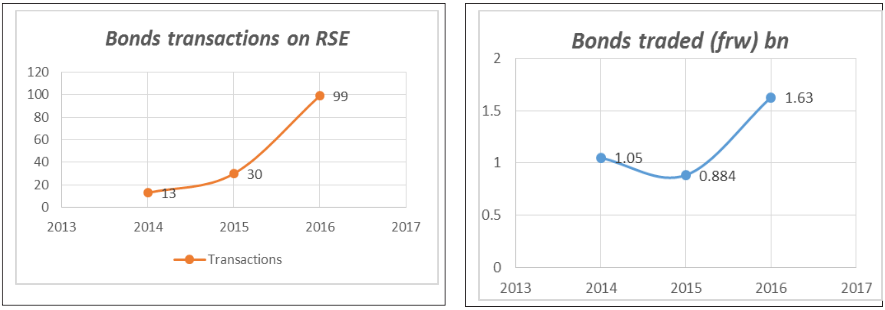
The share of banks in government bonds continued to decline during the last four years since 2013 in favor of institutional and retail investors, following the awareness campaigns conducted across the country. The share of banks in total outstanding of Government Bonds decreased from 81.2 percent end December 2013 to 40.5 percent end December 2016 while the share of institutional investors increased to 56.2 percent in December 2016 from 18.8 percent in December 2013. The share of Retail investors also increased to 3.3 percent end December 2016 from 0.1 percent end December 2013.

3.7.2 Secondary Market

In 2016, FRW 17.1 billion was recorded on the Rwanda Stock Exchange (RSE) as total turnover of both bond and equity markets, translating into a decline of 55.6 percent compared to 2015 mainly due to low performance of listed companies.

However, the secondary market for Government bonds performed well in 2016. The volume of bond traded at the secondary market increased by 85 percent (to FRW 1.63 billion in 2016 from FRW 0.88 billion in 2015) while the number of transactions increased by 230 percent, that was from 30 transactions in 2015 to 99 transactions in 2016.

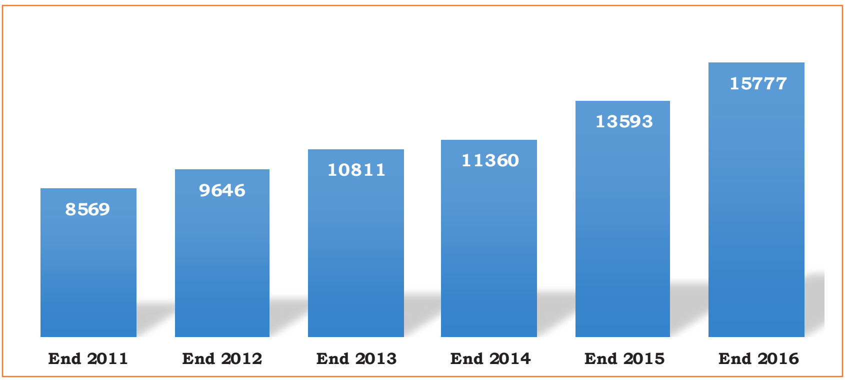
Figure 7: Bond transactions on RSE



Source: Rwanda Stock Exchange

In addition, good development in terms of saving accounts opened through CSD has been recorded. Domestic investors dominated in terms of accounts opened at a level of 79.3 percent compared to 18.7 percent for the rest of the world including other EAC investors.

Figure 8: Investors participation in opening CSD accounts



Source: BNR, Financial Markets Department

However, the Rwandan capital market is still lacking the corporate bond and most of the investors in government bonds tend to hold the securities up to maturity which are big challenges to the development of the Rwandan capital market. To find solutions to those challenges, CMA is planning to sensitize SMEs and corporates and to raise funds from the capital market by issuing corporate bonds and introducing Market makers in the near future.

IV. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

This chapter shows recent exchange rate developments, taking note of the fact that for the last decade, the FRW depreciation against the USD was highest in 2016. The chapter shows that these exchange pressures emanated from the increased mismatch between foreign exchange demand and supply. However, these exchange rate pressures were eased by BNR interventions on the forex market.

4.1 Exchange Rate Developments

In 2016, the Rwandan Franc has been under pressure mostly due to the mismatch between a high import bill and the still low export revenues as well as high demand for dollars from different companies and governments projects under the Public Private Partnership (PPP) framework which need to mobilise hard currency from the domestic market. Consequently, relative to December 2015, the FRW depreciated by 9.7 percent end December 2016 (trading for FRW 819.79 per dollar against FRW 747.41 end December 2015) compared to a depreciation of 7.6 percent end December 2015.

Table 31: Appreciation/Depreciation rate of selected currencies against the FRW

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
Dec-2011	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-2012	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-2013	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-2014	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Dec-2015	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Dec-2016	9.7	-9.2	5.3	13.4	9.6	8.6	2.3	-0.2

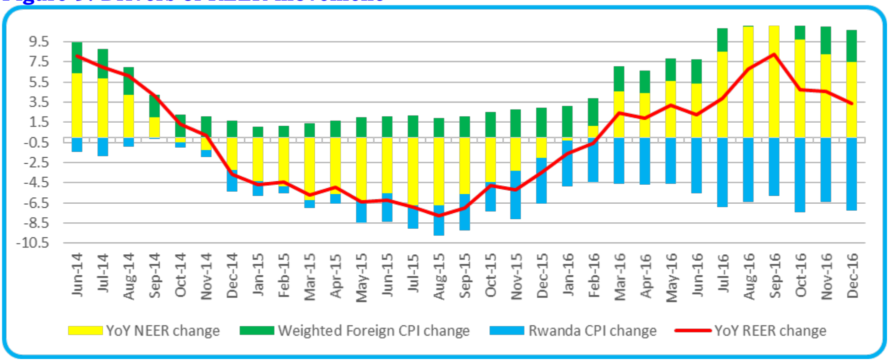
Source: BNR, Monetary Policy and Research Department

In the same period, the FRW depreciated by 5.3 percent versus the EURO 9.6 percent, 8.6 percent and 2.3 percent against the Kenyan, Tanzanian and Ugandan shillings respectively while it appreciated by

9.2 percent against the British Pound (GBP) and by 0.2 percent against the Burundian franc. Since the last twelve years from 2004, the Rwandan Franc recorded the highest depreciation in 2016.

Looking at the basket of currencies for Rwanda's main trading partners, it is worth mentioning that by end December 2016, the FRW real effective exchange rate depreciated by 3.3 percent (y-o-y) after an appreciation of 3.5 percent end December 2015, while in nominal effective terms, it depreciated by 7.5 percent compared to an appreciation of 2.0 percent end December 2015.

Figure 9: Drivers of REER movement



Source: BNR, Monetary Policy and Research Department

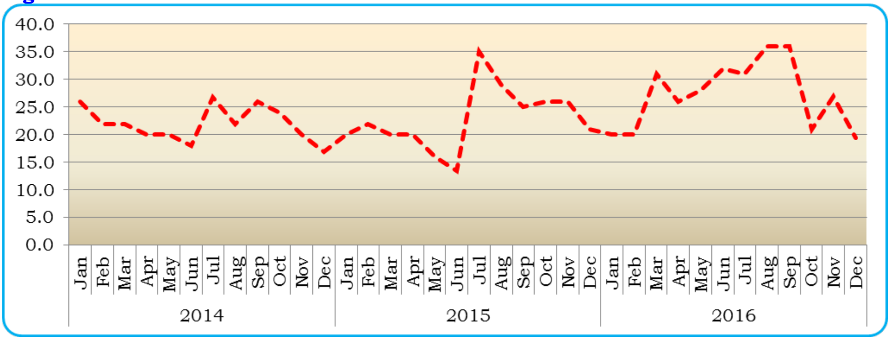
As depicted from the figure above, there is a depreciation trend of the real effective exchange rate in 2016 compared to an appreciation trend in 2015 which shows the loss in trade competitiveness.

4.2 Foreign Market Developments

In 2016, the foreign exchange market was characterized by high foreign exchange demand while commercial banks' foreign exchange resources declined to USD 3,061.47 million in 2016 from USD 3,260.68 million in 2015 with negative implications on commercial banks' Net Foreign Assets, resulting into exchange rate pressures.

To curb these exchange rate pressures, BNR has increased its interventions on the market by selling USD 327.5 million in 2016 from USD 273.5 million in 2015 - an increase of 19.7 percent - while keeping foreign reserves that cover around 4 months of imports. In addition, BNR has increased communication with market players to deal with unnecessary speculative behaviour.

Figure 10: BNR Sales to banks in millions of USD



Source: BNR, Financial Markets Department

The foreign exchange market conditions are expected to continue improving following the ongoing recovery in international commodity prices coupled with the completion of some big projects which may reduce pressures on the Rwandan franc. In addition, market distortions are likely to keep reducing following the initiative by foreign exchange bureaus to create a dealers' association. Going forward, BNR remains ready to intervene on the foreign exchange market, use the regulatory framework in place and increase communication to all market players in order to reduce unnecessary speculations.

V. FINANCIAL SECTOR STABILITY

Rwanda's financial sector is a key enabler for economic growth and development. The financial sector stimulates economic growth by collecting savings and channeling them to productive investments. Maintaining stability of the financial sector is therefore one of the key mandates of the central bank. The BNR achieves this mission through regulating and supervising the financial system (Banks, MFIs, Insurance companies, the Pension and the Payment System). In its supervision function, the BNR mainly monitors trends in loans; profits; capitalization and liquidity conditions of financial institutions. Sections below cover performance of the financial sector as at end December 2016.

5.1 Structure of the Financial Sector

The Rwandan financial sector is primarily composed of the banking, microfinance, pension and insurance sub-sectors. Financial institutions in these sub-sectors as well as in the payment system and the credit information system are regulated and supervised by the BNR. The capital market, regulated by the Capital Market Authority (CMA) is also an integral component of the Rwandan financial system. In terms of composition, the banking sector is the largest, although overtime its share has gradually declined, a sign of diversification in the financial sector. The banks' combined share declined from 71.3 percent in 2010 to 66.9 percent in December 2016. The main contribution to the recorded diversification came from the increased share of the pension and the MFIs/SACCOs – the MFIs and SACCOs combined share of financial sector assets increased to 6.3 percent December 2016, up from 3.7 percent in 2010, while the share of the pension sector increased from 14.9 percent in 2010 to 17.1 percent in

December 2016. The share of the insurance sector was 9.7 percent in December 2016 (Table 32).

The financial sector continued to grow in 2016, although at a lower rate compared to 2015. As at December 2016, total financial sector assets amounted to FRW 3.5 trillion[2], increasing by 11 percent (year-on-year) down from 18 percent registered in 2015. The size of the financial sector, as measured by total assets relative to GDP increased to 56.4 percent in December 2016, up from 54.8 percent in December 2015 and 36.6 percent in December 2010 (Table 32). This financial deepening indicator demonstrates the increasing role of the financial sector in the economic performance of the country especially because the assets of the financial sector mainly grew in form of private sector financing. Combined loans of Banks and MFIs were 29 percent of the GDP in December 2016.

Table 32: Structure of the Financial Sector (Number and Assets)

Financial Sector	Dec-10		Dec-15		Dec-16		Assets/GDP		
	Number	% Share of TA	Number	% Share of TA	Number	% Share of TA	Dec-10	Dec-15	Dec-16
Banking sector	14	71.3	17	66.7	16[3]	66.9	26.5	36.5	38.0
Insurance	8	10.2	14	9.7	15	9.7	3.8	5.3	5.5
Pension	1	14.9	1	17.2	1	17.1	5.0	9.4	9.3
MFIs	11	3.7	494	6.4	472	6.3	1.4	3.6	3.6
Total	**34**	**100**	**526**	**100**	**504**	**100**	**36.6**	**54.8**	**56.4**

Source: Financial Stability Directorate (TA=Total Assets)

5.1.1 Financial Sector Performance Indicators

The performance of the financial sector in 2016 was shaped by the overall performance of the economy. The reduced growth in some sectors of the economy like the service sector and agriculture reduced

[2] The value considers assets of the regulated financial institutions (Banks, Insurance companies, pension funds, and all micro finance Institutions), and excludes the Central Bank.
[3] These are banks operating in Rwanda. The number excludes CBA that acquired a license in December 2016 but has not commenced operations.

the investment opportunities of lending institutions (Banks and MFIs) and reduced the debt servicing capacity of some borrowers. Despite the unfavorable macroeconomic environment in 2016, the financial sector remains resilient, largely due to strong capital and liquidity held by the sector. Generally, capital and liquidity levels in the sector remain above the prudential requirements. The insurance sector solvency and profits started improving in December 2016. Most undercapitalized insurance companies injected additional capital, thereby improving their capital adequacy ratios. Further improvement is expected in 2017 as remaining undercapitalized insurers implement their capital injection plans.

5.1.2 Banking Sector Structure and Performance

The banking sector holds around 66.9 percent of the total financial sector assets. During the year ended December 2016, the system constituted of 16 institutions, down from 17 in 2015, following the merger of BPR and BRD Commercial. The current structure includes eleven commercial banks, three microfinance banks, one development bank and one cooperative bank. Commercial Bank of Africa (CBA) from Kenya was licensed in December 2016 and is expected to commence operations in early 2017. In-terms of banks' branch network, there were 194 bank branches country-wide as at December 2016, 174 sub-branches, 181 outlets, and 4,411 bank agents. As at end December 2016, the banking system assets continued to grow; capital remained adequate and above the prudential limit.

Total assets of the banking sector continued to grow in 2016, albeit at a lower rate compared to last year. Total assets grew by 11.5 percent at end December 2016 (from RWF 2,133 billion to RWF 2,378 billion) compared to 18.3 percent registered at end December 2015 (Table 33).

This decelerated growth of assets is largely attributable to slowdown of growth of loans in 2016. Loans and advances[4], the largest component of banks' assets (59.2 percent of total assets) increased by 14.6 percent, lower than 18.3 percent recorded in 2015. The slowdown of domestic demand in 2016 affected business earnings and reduced their demand for credit to expand their businesses. The total amount loan applications received by banks declined from FRW 937 billion in 2015 to FRW 861 billion in 2016.

Table 33: Key Banking Financial Highlights (in FRW billion)

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Total Assets (net)	879	1,084	1,248	1,511	1,803	2,133	2,378
Loans & Overdrafts	429	557	747	844	1,011	1,228	1,407
Deposits	570	733	844	1,020	1,233	1,418	1,528
Total Liabilities	803	859	981	1,203	1,471	1,735	1,934
Total Shareholders'	162	225	266	307	331	397	444
Net Profit (after Tax)	15	23	27	16	34	43	40

Source: BNR, Financial Stability Directorate

Growth of loans was largely driven by mortgage, hotels and commercial activities (Table 34). Commercial & Hotel sector experienced the largest growth in absolute terms of FRW 108.4 billion (27.1 percent) in line with the country's tourism promotion agenda.

The mortgage sector grew by FRW 59.8 billion (12.3 percent). The share of mortgage loans in total loans was 34.7 percent in December 2016. In second place, commercial and hotel loans was 32.4 percent of total loans. Together, mortgage and "commercial and hotels" held up to 67.1 percent of total banking system loans. Mining and agriculture are the two least financed sectors with 0.1 and 1.8 percentage share of total banking system loans. Loans to agriculture declined by 4 percent from FRW 29.8 billion end December 2015 to 28.6 billion end December 2016.

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

Table 34: Banks' Sectoral Lending (FRW billion)

	Dec-14	Dec-15	Dec-16	% Change (Dec 16/15)
Non-classified activities	133.9	121.6	114.9	-5.5
Agricultural, fisheries& livestock	27.9	29.8	28.6	-4.0
Mining activities	0.3	0.7	1.4	96.0
Manufacturing activities	102.8	108.0	142.9	32.3
Water & energy activities	29.8	29.8	44.8	50.2
Mortgage industries	318.9	485.5	545.3	12.3
Commercial & hotel	353.7	400.7	509.1	27.1
Transport & warehousing	60.2	82.3	106.1	28.9
OFI &Insurance	11.4	22.6	25.5	12.5
Service sector	32.4	43.2	52.2	20.6

Source: BNR, Financial Stability Directorate

With regard to banks' liabilities and funding patterns, deposits[5] remained the main source of funding for the Rwandan banking system in 2016. Deposits represented 79 percent of total liabilities of banks at end December 2016. Between December 2015 and December 2016, total deposits increased by 7.8 percent (to FRW 1, 528 billion), down from 15 percent growth in the previous period. Banks' deposits are largely demand deposits, although term deposits registered a strong increase in the year to end December 2016. As at December 2016, demand deposits represented 60 percent of total deposits (from 62 percent in 2015) while term deposits constituted 40 percent (from 38 percent in 2015).

Term deposits, despite constituting a lower proportion, increased by 18.1 percent in December 2016 (year-on-year) to FRW 642 billion. In the same period, demand deposits increased by only 1.9 percent to FRW 886 billion. Overdependence on shorter term deposits remains a structural challenge to the Rwandan financial system, as short-term funds held by banks constrain their capacity to finance long-term investment needs.

[5] These deposits cover household deposits, legal entity deposits, deposits of Government and public enterprises

Individuals and other non-bank institutions reduced their demand deposits in banks and increased their investments in Government Securities (T-bills and T-bonds). The total investment by individuals in government securities increased from FRW 2.3 billion as at end December 2015 to FRW 5 billion in December 2016. In the same period, total investments by institutional investors (RSSB, RNIT, Insurance) in Government Securities increased by 141 percent (year-on-year) to FRW 142 billion. These institutions drew on their demand deposits in banks to invest in risk free government securities. Due to this investment substitution, the outstanding amount of demand deposits of these institutional investors in banks declined from FRW 55.1 billion in December 2015 to FRW 35.1 billion in December 2016—Demand deposits of insurance companies in banks declined From FRW 23.8 billion to FRW 17.7 billion— RSSB demand deposits in banks declined from FRW 31.3 billion to FRW 17.3 billion.

The asset quality of the Rwandan banking system remains healthy despite a slight increase in NPLs. NPLs increased from 6.2 percent in December 2015 to 7.5 percent in December 2016. The increase in NPLs in 2016 is mainly attributable to the slowdown of economic activities in 2016 that affected the debt servicing capacity of some businesses. The improved loan classification among banks following a thorough BNR review of the loan books of some large banks also contributed to this increase in NPLs. BNR targets reducing the NPLs ratio to 5 percent in the medium-term. NPLs have steadily declined from historical high levels of 25 percent in 2006 and 2007 to single digit, mainly driven by banks' gradual improvement in credit underwriting standards. BNR has also intensified its supervision efforts to ensure appropriate loan classification and adequate provisioning by the Banks.

The agriculture sector faced the highest increase in NPLs from 13.3 percent in December 2015 to 22.7 percent in December 2016 (Table 35). This deterioration of agriculture loans reflects the slowdown of agriculture production in 2016, especially the lower harvest in season B, the longest agriculture season that was negatively affected by drought. The impact of weak agriculture performance is however negligible as loans to this sector make up only 1.8 percent of total banking sector loans. Increase in NPLs was mainly driven by increased NPLs in "commerce and hotels" which increased from 8.2 percent to 8.6 percent and manufacturing sector whose NPLs increased from 2.5 percent to 9.4 percent. Around 41 percent of total NPLs in the banking sector are in commerce and hotels. The mortgage sector, despite holding the highest share of loans, has one of the lowest NPLs at 5 percent.

Table 35: NPLs by Economic Sector (Percent)

Activity Sectors	NPLs per total loans of the sector						%Share in Total NPLs
	2011	2012	2013	2014	2015	2016	2016
Non-classified activities	3.8	2.9	3.8	5.2	6.2	6.7	7.2
Agricultural, fisheries & livestock	13.1	8.2	11.5	13.1	13.5	22.7	6.1
Mining activities				1.6	1.6	0.0	0.0
Manufacturing	6.6	2.8	3.9	1.2	2.5	9.4	12.5
Water & energy	5.3	0.5	0.0	0.0	0.2	0.1	0.1
Mortgage industries	5.7	4.7	6.0	5.1	4.4	5.0	25.5
Commercial & hotel	8.9	7.6	6.2	4.9	8.2	8.6	40.6
Transport & warehousing	6.4	3.6	4.2	4.7	3.7	3.2	3.2
OFI &Insurance	1.2	0.5	1.1	7.1	3.8	0.8	0.2
Service sector	3.3	2.4	5.1	7.6	5.6	9.9	4.8

Source: *BNR, Financial Stability Directorate*

During 2016, the banking sector remained well capitalized, with all capital adequacy ratios above their regulatory minima (Table 36). The system-wide Capital Adequacy Ratio (CAR) was 21.8 percent at end December 2016, above the minimum regulatory requirement of 15 percent. In the same period, Tier 1[6]— a measure of high quality capital— stood at 19.9 percent, above the 10 percent prudential requirement. The capital ratios are influenced by new banks that are yet to fully deploy their capital in lending and other risk weighted assets.

Table 36: Key Soundness Indicators (Percent)

Indicator	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Solvency ratio (total capital) (min 15%)	24.7	25.0	23.9	23.1	24.0	22.5	21.8
NPLs / Gross Loans	10.7	8.0	6.0	6.9	6.0	6.2	7.5
NPLS net/Gross loans	9.2	6.2	5.4	6.0	5.1	5.2	5.9
Provisions / NPLs	50.7	50.8	53.7	53.3	56.8	46.2	42.0
Earning Assets / Total Assets	79.5	77.2	79.9	78.6	93.1	83.1	82.4
Large Exposures / Gross Loans	12.9	9.8	9.1	11.6	17.7	23.4	30.8
Return on Average Assets	1.9	2.2	2.2	1.5	1.9	2.1	1.7
Return on Average Equity	10.4	10.6	10.4	7.4	10.5	11.2	9.2
Cost of deposits	2.7	2.3	2.9	3.8	3.3	3.2	3.7
Liquid assets/total deposits (min 20%)	58.4	44.3	41.2	49.4	48.7	45.8	42.5
FX exposure/core capital (min/max 20%)	4.9	6.6	-0.6	-2.2	-1.8	-5.7	-7.1

Source: BNR, Financial Stability Directorate

The banking sector continued to maintain sufficient liquidity positions in 2016. The liquidity ratio of the banking sector stood at 42.5 percent, above the regulatory requirement of 20 percent.

The banking sector continued to make profit, albeit lower than in the previous year. Total banking system net profit (after tax) amounted to FRW 40 billion in 2016, from FRW 43 billion registered in the previous year. Return on assets (ROA) and return on equity (ROE) of banks

[6] It is composed of **core capital**, which consists primarily of common stock and disclosed reserves (or retained earnings)

declined respectively to 1.7 percent and 9.2 percent from 2.1 percent and 11.2 percent registered as at December 2015 (Table 36). The reduction in banks' profits is attributable to high increase of operating expenses (by 18.6 percent in 2016, compared to 9.3 percent in 2015) and increase in interest expenses (14 percent in 2016, against 9 percent in 2015). Increased interest expenses reflects the changing structure of banks' deposits as remunerated deposits take a larger share. Term deposits of banks increased by 18 percent in 2016, compared to 8 percent in 2015. Higher taxes payable by BK (the largest bank) in 2016 following the expiration of the 5 year tax discount period given to listed companies, also weighed down the banking system profits. BK paid 10 billion in taxes in 2016, up from FRW 5.4 billion in 2015.

5.2 Microfinance Sector

The microfinance sub- sector is an integral component of Rwanda's financial system. The sector plays a critical role in driving financial inclusion (connecting the rural population and lower income groups to financial services). This sub-sector is comprised of MFIs with limited company status and SACCOs. Despite the challenging economic environment in 2016, the sector remained solvent, liquid and continued to finance the economy. Details of structure and performance of this sub-sector are captured in sections below.

5.2.1 Structure of the Microfinance Sector

The total number of microfinance institutions declined from 494 as at end December 2015 to 472 as at end December 2016. This decline is due to the restructuring of 2 unions (made up of a network of 14 SACCOs) that changed their legal status to 2 limited liability companies. 10 SACCOs were also liquidated and their depositors were refunded by the Government in December 2016. As at December 2016, out of the 472 microfinance institutions operating in Rwanda, 17 are microfinance institutions with limited liability company status; 455 are Savings and Credits Cooperatives (SACCOs): These include 416 U-SACCOs and 39 non U-SACCOs.

5.2.2 Performance of the Microfinance Sector[7]

The microfinance sector balance sheet continued to expand in 2016. Total assets of the microfinance sector (MFIs) registered an increase of 6.6 percent (year-on-year) in December 2016 to FRW 223 billion, lower than the growth of 31 percent registered in the same period of 2015. The slowdown of growth of microfinance assets was partly caused by the RSSB decision to transfer "mutuelle de santé" funds from U-SACCOs to its accounts in banks for better management. A total of FRW 13 billion was transferred. The decision aimed at improving reconciliation and monitoring of these funds, which is easier in banks with automated operational systems.

The intermediation function of collecting deposits and providing loans remains the main business of microfinance institutions. The share of loans in total assets of the MFIs sector increased from 53 percent in December 2015 to 57 percent in December 2016. In the same period, total outstanding loans by MFIs increased by 15 percent, compared to 29 percent registered in 2015. The reduced pace of lending in MFIs was due to increased prudent lending by MFIs in face of increased credit risk. The decline of agriculture performance in 2016, and related increase in NPLs in this sector, reduced the lending space of the microfinance institutions. Agriculture remains a key lending sector for MFIs as it accounts for 30 percent of U-SACCO loans and 15 percent of total MFI loans.

[7] This analysis covers all MFIs (i.e MFIs with companies +U-SACCOs)

MFIs investment in Government securities increased by 120 percent (year-on-year) to FRW 1 billion in December 2016. Amidst increasing NPLs and the reduced pace of lending, MFIs' investment in Government securities, although from a low base, supported the MFIs sector to register improved profits in 2016.

Deposits of MFIs declined by 2.6 percent (year-on-year) in December 2016 from FRW 117 billion to FRW 114 billion. The main factors behind this reduction was: 1) The effect of the withdrawal of *"Mutuelle de santé funds*" by RSSB and; 2) Slowdown of economic activities, especially agriculture that reduced the depositing capacity of farmers. The two factors combined to reduce the deposit of MFIs, especially in U-SACCOs where deposits declined by 15.7 percent.

Despite the reduction in deposits observed above, the MFIs sector remains solvent and liquid. The CAR for MFIs stood at 35.2 percent in December 2016, above the minimum regulatory requirement of 15 percent. MFIs assets are sufficiently liquid and liquidity risk is moderate. The liquidity ratio of MFIs stood at 88.8 percent at end December 2016, significantly above the prudential limit of 30 percent.

The asset quality of microfinance institutions deteriorated in 2016. The NPL ratio of MFIs increased from 7.9 percent in December 2015 to 9 percent in December 2016 (Table 37). The loan quality of MFIs was greatly affected by the weak performance of the agriculture sector in 2016. MFIs total loans to agriculture account for 15 percent of total loans of MFIs and 30 percent of U-SACCOs.

Net profits of MFIs increased to FRW 9.8 billion as at end December 2016, up from FRW 6.8 billion in 2015. Profits of MFIs were boosted by increased income on account management fees (from FRW 2.4 billion to FRW 3.5 billion) on accord of, the 386,396 new accounts registered in 2016. The increased income on investment in Government securities (from FRW 27 million to FRW 71 million) also contributed to MFIs profits in 2016. The combined effect of increased account management fees, higher returns on Government securities and reduced growth of operating expenses increased MFIs profits in 2016. Consequently, Return on Assets (ROA) and Return on Equity (ROE) of MFIs increased respectively to 4.4 percent and 13.7 percent from 3.4 percent and 11.4 percent registered as at December 2015.

Table 37: MFIs Performance Indicators (U-SACCOs included, in FRW billion, unless otherwise indicated)

Indicators	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Assets	45.0	77.0	101.0	129.0	159.0	209.0	223.0
Loans	32.0	34.0	57.0	71.0	87.0	112.0	128.0
Deposits	24.0	46.0	54.0	69.0	86.0	117.0	114.0
Equity	15.7	20.2	30.1	43.0	52.8	65.0	78.5
Net profit/Loss	1.2	2.3	5.0	6.0	5.0	6.8	9.8
Capital Adequacy Ratio (%)	34.7	26.1	29.8	33.4	33.2	31.1	35.2
NPLs / Gross Loans (%)	11.2	12.0	8.5	6.8	7.0	7.9	9.0
ROA (%)	2.7	2.9	5.0	4.7	3.1	3.3	4.4
ROE (%)	7.9	11.1	16.7	13.9	9.5	10.5	13.7
Liquidity ratio (%)	63.3	90.1	78.1	80.5	87.0	89.6	88.8

Source: *BNR, Financial Stability Directorate*

5.2.3 Performance of Umurenge SACCOs (U-SACCOs)

Assets of the U-SACCOs slightly declined by 0.07 percent from FRW 100.9 billion to 100.2 billion. The transfer of *"Mutuelle de santé"* funds from U-SACCOs was the main cause for this decline. A total of FRW 13 billion (23 percent of U-SACCO deposits) deposits was withdrawn from U-SACCOs in 2016. Similar to banks and MFIs, the U-SACCO reduced their pace of lending in 2016. The U-SACCO loans expanded by 6.6 percent (year-on-year) in December 2016, down from 21 percent in 2015. This slowdown reflected the cautious lending by U-SACCOs in face of increasing NPLs, especially in agriculture. Given the high exposure of U-SACCOs to agriculture (30 percent total U-SACCOs loans), the impact of reduced agriculture performance in 2016 negatively impacted this sector more than banks and other MFIs.

The U-SACCOs hold sufficient capital and liquidity buffers as at end December 2016. The Capital Adequacy Ratio (CAR) of U-SACCOs stood at 35.5 percent, above the minimum regulatory requirement of 15 percent. In the same period, liquidity ratio of U-SACCOs stood at 105.5 percent which is above the minimum regulatory liquidity ratio of 30 percent.

Similar to other sectors of the financial sector, the asset quality of U-SACCOs deteriorated in 2016. U-SACCOs' NPLs increased from 10.7 percent to 13.4 percent as at December 2015 and December 2016 respectively. Apart from the economic performance which affected the loan servicing capability, the increase of NPLs in U-SACCOs can also be explained by improved reporting and loan classification by U-SACCOs following the BNR on-site inspection on loan classification in all U-SACCOs.

Similar to trends observed in the consolidated MFIs sector, profits of U-SACCOs increased during the period under review, mainly driven by high non-interest income (account maintenance fees), reduced growth of operating expenses and increased incomes on investment in Government securities. Total profits of U-SACCOs (after tax) increased to FRW 5.2 billion in December 2016, from FRW 4.5 billion in 2015. Consequently, the Return on Assets (ROA) and Return on Equity (ROE) of U-SACCOs changed from 4.5 percent and 15.3 percent to 5.2 percent and 14.5 percent respectively. Paid up capital of U-SACCOs increased by 14.8 percent (FRW 1.3 billion) and caused ROE to decline (Table 38).

Table 38: U-SACCO Performance Indicators (in billions of FRW unless otherwise indicated)

Indicators	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Assets	29.1	41.0	57.4	72.3	100.9	100.2
Loans	4.6	13.6	20.8	26.7	32.3	34.4
Deposits	22.4	28.2	36.9	45.7	66.5	56.1
Equity	4.8	10.6	17.7	23.8	29.4	35.6
Net profit/Loss	0.7	3.4	5.0	4.4	4.5	5.2
Capital Adequacy Ratio (%)	16.3	25.9	30.9	32.9	29.1	35.5
NPLs / Gross Loans (%)	5.6	5.3	7.3	7.1	10.7	13.4
ROA (%)	2.5	8.2	8.7	6.1	4.5	5.2
ROE (%)	15.5	31.5	28.2	18.4	15.3	14.5
Liquidity ratio (%)	107.0	87.5	82.0	86.8	95.3	105.5

Source: BNR, Financial Stability Directorate

5.2.4 Refund of Deposits in Collapsed MFIs

The process of refunding depositors of MFIs/SACCOs that collapsed in 2006 and afterwards resumed in 2016. The Government of Rwanda, through the Ministry of Finance and Economic Planning, agreed to refund 75 percent of the deposits lost in the collapsed MFIs/SACCOs. This implied that depositors of the MFIs that failed in 2006 who initially received 50 percent refund would receive an additional payment of 25 percent. Depositors for MFIs/SACCOs that failed after 2006 were to receive the full payment of 75 percent. The BNR reimbursed a total of FRW 1.120 billion to 8,919 depositors (86 percent of the registered depositors).

The BNR is currently handling cases of depositors that did not provide their bank accounts or provided wrong accounts during the registration period. Suspicious cases and cases involving amounts returned by banks, especially due to the discordance between the beneficiaries and the holders of the accounts are being examined and processed as they occur.

5.3 Non-Bank Financial Institutions (NBFIs)

The pension fund and public insurance companies continued to perform well in 2016, despite a challenging economic environment.

Some private insurance companies underperformed though, mainly due to unhealthy competition tendencies (price undercutting) and high claims ratios and management expenses. To safeguard soundness of this sub-sector, BNR implemented a number of reforms in 2016, which have started bearing positive results: Some troubled insurance companies have recapitalized and a number of others are expected to recapitalize in 2017. Details of the performance of the insurance and the pension sectors are discussed in sections below.

5.3.1 The Structure of Non-Bank Financial Institutions

Non-Bank Financial institutions cover insurance companies and pension schemes. The number of insurance companies increased from fourteen in December 2015 to fifteen in December 2016, with BK General Insurance Ltd joining the market in July 2016. Currently, the Rwandan insurance industry is composed of nine non-life insurers, four life insurers, two public medical insurers, fifteen insurance brokers and four hundred and fifteen insurance agents. The pension sub-sector is composed of 1 public pension scheme (RSSB). The BNR is in the process of licensing private pension schemes in accordance with new pension law.

5.3.2 Insurance Sector Performance

As at end December 2016, total assets of the insurance sector increased by 13.7 percent to FRW 346.8 billion, higher than the 12 percent growth registered in 2015 as a result of new capital injections made by some insurance companies in the last quarter of 2016 (Table 39).

Private insurers assets increased by 16 percent to FRW 134 billion in December 2016 against 6.5 percent registered in 2015 due to a total of FRW 6.7 billion as fresh capital injected by private insures during the year. On the other hand, public insurers (RSSB and MMI) assets grew by 12 percent in 2016 mainly due to good profitability recorded during the year under review (Annual Profit: FRW 29 billion), compared to 16.4 percent growth registered in 2015. As at end December 2016, assets of the insurance sector were distributed as follows: Term deposits in banks accounted for 39.4 percent of total assets; investment in securities and equities (25.5 percent); investment in property (13.5 percent); property and equipment (5.7 percent) and other assets (7 percent).

Total capital of the insurance sector grew by 16 percent to FRW 252.9 billion by end December 2016. The total gross premium written of the sector increased by 14 percent to FRW 104.2 billion and the underwriting and net profit also increased by 21 percent and 12 percent respectively .

The insurance sector net profits (after tax) increased from FRW 24.3 billion in December 2015 to FRW 24.6 billion in December 2016 driven by good performance of public insurers whose profit after tax increased from FRW 26 billion to FRW 29 billion (Table 39). The net loss for private insurers was FRW 4.4 billion as at end December, 2016 as compared to a loss of FRW 2.7 billion registered in 2015. This performance was mainly driven by unhealthy competition among private insurers that led to price undercutting and an erosion of premiums underwritten. This was further exacerbated by high claims ratios and management expenses.

To safeguard stability of the insurance sector, BNR issued a directive on insurance business conduct and a regulation on sanctions for misconduct to restore order and good practice in the sector.

Table 39: Key Financial Highlights for the Insurance Sector

Insurance Sector (public +private) Particulars (In billion FRW)	Dec-10	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Gross premium written	46.6	82.8	92.8	28.8	52.9	78.1	104.2
Underwriting profit(loss)	5.2	1.7	6.7	-0.9	-1.4	2.4	4.6
Net Profit after taxes	15.3	21.1	24.3	7.2	10.0	18.2	24.6
Total assets	125.7	272	305.9	323.1	332.6	341.7	346.8
Technical provisions	33.4	54.7	62.5	63.9	74.2	72.6	69.5
Total capital and reserves	74.5	197.9	228.1	244.6	238.1	246.9	252.9
Public Insurers Particulars (in FRW billion)	**Dec-10**	**Dec-14**	**Dec-15**	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**
Gross premium written	20.4	38.2	40.1	12.1	22.4	33.1	46.6
Underwriting profit(loss)	8.5	16.1	17.3	4.5	6.6	11.4	17.7
Net Profit after taxes	13.3	25.6	27	9.7	14.1	20.8	29.0
Total assets	64.8	163.3	190.1	201.1	207.9	214.0	213.2
Technical provisions	0.2	0.9	0.6	0.4	0.7	1.0	1.1
Total capital and reserves	61.5	160.2	187.8	199.8	204.3	209.9	208.4
Private Insurers Particulars (in billion FRW)	**Dec-10**	**Dec-14**	**Dec-15**	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**
Gross premium written	26.2	44.7	52.7	16.7	30.6	45.0	57.6
Underwriting profit(loss)	-3.3	-14.4	-10.6	-5.3	-8.0	-9.0	-13.1
Net Profit after taxes	2	-4.5	-2.7	-2.4	-4.1	-2.6	-4.4
Total assets	60.9	108.7	115.8	122.0	124.7	127.7	133.6
Technical provisions	33.2	53.8	61.9	63.4	73.4	71.6	68.4
Total capital and reserves	13	37.7	40.3	44.8	33.8	37.0	44.5

Source: BNR, Financial Stability Directorate

As at December 2016, the solvency ratio of the insurance sector stood at 1088 percent against 1074 percent in 2015, above the BNR regulatory minimum requirement of 100 percent (Table 40). In the same period, the solvency ratio of private insurers stood at 78 percent in December 2016 from the negative solvency ratio recorded during the last 2 quarters of 2016 (-44 percent in June 2016 and -37 percent in September 2016). The improvement of this solvency ratio resulted from the recapitalization of some private insurers in the third quarter of 2016. BNR expects the solvency level of insurance companies to improve further in 2017 as more insurance companies implement their capital injection plans.

Table 40: Key Financial Soundness Indicators of the Insurance Sector

Insurance Sector Key Financial Soundness Indicators (FSIs)	Dec-10	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Solvency margin (Min. 100%)		2066%	1074%	1071%	1010%	1036%	1088%
Claims ratio (max.60%)	45%	58%	56%	55%	59%	60%	58%
Expenses ratio (max. 30%)	41%	42%	38%	35%	34%	36%	37%
Combined ratio (max.90%)	86%	100%	94%	90%	93%	96%	95%
ROA (min. 4%)	12%	7%	7%	15%	17%	7%	7%
ROE (min. 16%)	21%	10%	10%	11%	12%	10%	10%
Liquidity ratio (min. 120%)	192%	313%	308%	355%	236%	258%	304%
Public Insurers **Key FSIs**	**Dec-10**	**Dec-14**	**Dec-15**	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**
Solvency margin (Min. 100%)		4006%	2262%	2414%	2467%	2529%	2529%
Claims ratio (max.60%)	35%	42%	44%	43%	43%	50%	48%
Expenses ratio (max. 30%)	23%	16%	14%	20%	20%	16%	14%
Combined ratio (max.90%)	58%	58%	58%	63%	63%	66%	62%
ROA (min. 4%)	21%	16%	14%	19%	23%	13%	13.6%
ROE (min. 16%)	22%	16%	14%	19%	23%	13%	13.9%
Liquidity ratio (min. 120%)	1434%	3877%	5820%	10386%	7337%	3340%	3222%
Private Insurers **Key FSIs**	**Dec-10**	**Dec-14**	**Dec-15**	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**
Solvency margin (Min. 100%)		126%	116%	65%	-44%	-37%	78%
Claims ratio (max.60%)	55%	76%	68%	67%	76%	69%	67%
Expenses ratio (max. 30%)	59%	71%	59%	47%	46%	53%	60%
Combined ratio (max.90%)	114%	147%	127%	115%	122%	124%	127%
ROA (min. 4%)	3%	-6%	-4%	-6%	-21%	-3%	-3.3%
ROE (min. 16%)	15%	-18%	-13%	-2%	-6%	-10%	-19.4%
Liquidity ratio (min. 120%)	67%	100%	88%	112%	60%	70%	90%

Source: BNR, Financial Stability Directorate

5.3.3 Pension Sector performance

The pension fund (Rwanda Social Security Board – RSSB) remains one of the sources of long-term finance in Rwanda. As at end December 2016, the fund held 24.1 percent of its total assets as deposits in banks; 9.1 percent as equity shares across banks. Deposits of RSSB account for 11 percent of total banking system deposits.

Between December 2015 and December 2016, pension assets increased by 12 percent to FRW 609.8 billion against 14 percent in December 2015.

Investment income and contributions are key drivers of the growth of the pension funds' assets. The total contribution in the pension fund increased by 8 percent in December 2016 to FRW 73.7 billion due to the increase of the number of contributors (from 369,343 to 391,242). The pension fund's investment income increased by 1 percent from FRW 24 billion to FRW 24.2 billion mainly due to income earned from investments in fixed term deposits and government securities.

In the period under review, the total benefits paid increased by 11 percent from FRW 15.2 billion to FRW 16.8 billion mainly due to the increased number of the pension beneficiaries from 32,994 to 34,146.

The BNR is in process of licensing and supervising voluntary pension schemes as provided by the new pension law. Two regulations were issued in this regard in 2016: the licensing regulation and the regulation on operations of voluntary pension schemes. The BNR is in process of licensing these schemes, a task that is expected to be completed by June 2017.

5.4 The Payment System

In addition to the implementation of a robust financial, legal and regulatory framework over the past periods, the modernization of the payment system has been a catalyst to ensuring financial sector stability and growth.

5.4.1 Rwanda Integrated Payments Processing System (RIPPS)

RIPPS is an integrated system comprising of Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH) and Central Securities Depository (CSD). The RIPPS continued to operate smoothly in the second half of 2016.

5.4.2 Card Based Payment System

Between December 2015 and December 2016, the number of ATMs increased by 5 percent from 380 to 400 while the number of POS devices increased by 10 percent from 1,718 to 1,885 due to increased demand from merchants like new hotels. The number of ATM cards increased by 14 percent from 661,389 in December 2015 to 754,384 in December 2016 (Table 41).

In addition, the number of transactions on ATMs and POSs increased between December 2015 and December 2016. ATMs transactions increased by 9 percent from 7,505,815 to 8,183,116 in volume and by 15 percent from 354 billion FRW to 406 billion FRW in value while POS transactions increased by 77 percent from 373,029 to 660,746 in terms of volume and 56 percent from FRW 26.6 billion to 41.5 billion in terms of value.

Table 41: Evolution of Payment Access Points and Cards

	2010	2011	2012	2013	2014	2015	2016
Number of ATMs	84	167	292	333	354	380	400
Number POS terminals	99	227	566	946	1,152	1,718	1,885
Number of debit cards	41,377	115,200	389,269	487,498	638,869	657,904	746,458
Number of credit cards	172	516	418	845	2,540	3,485	3,668

Source: BNR, Financial Stability Directorate

5.4.3 Mobile Financial Services and Internet Banking

Mobile technology continues to play a big role to enhance electronic payments with the aim of creating an inclusive cashless society. Between December 2015 and December 2016, the rate of active mobile money holders increased by 34 percent from 2,522,096 to 3,333,349 subscribers. With regard to access points (agents), the penetration rate of agents increased by 48 percent, from 40,467 to 59,952 agents between December 2015 and December 2016.

Similarly, between December 2015 and December 2016, the registered mobile money accounts increased by 27 percent to 9.7 million and the volume of transaction increased by 22 percent to 205 million. However, the value reduced by 5 percent from FRW 1,093 billion to FRW 1,040 billion between December 2015 and December 2016. The usage of mobile money was high in airtime (68.0 percent) in terms of volume while the big values are transacted through sending or receiving money between persons (Table 42).

Table 42: Mobile Money Payment Transactions (January-December 16)

Service	**volume (% share)**	**Value (% share)**
Airtime	68.0	6.4
Electricity	14.4	5.8
Water	0.0	0.4
Fuel	0.0	0.0
Merchant	0.9	2.0
Bank &MNO	0.4	3.7
MNO& Bank	0.0	0.7
Saving	0.2	1.0
MNO to MNO	0.0	0.2
P2P	15.0	74.4
B2P	0.8	3.7
Cross border	0.1	1.0
School fees	0.0	0.0
P2G	0.2	0.5

Source: BNR, Financial Stability Directorate

Furthermore, the registered mobile banking users increased by 18 percent to 980,671 and internet banking users increased 20 percent to 43,047.

Other new products including cross border mobile money transfers, government payment and saving are at nascent stage. However, the usage is growing especially for government payments, thanks to Rwanda Online Project. Rwandans are able to pay in a cashless manner government services.

Consequently, Payments to Government (P2G) grew up from 18,252 in 2015 to 253,320 transactions in 2016 (terms of volume) and from FRW 230 million in 2015 to FRW 1.36 billion in 2016 (Table 43). In addition, the introduction of new products by MNOs like merchant payments is expected to contribute significantly to the cashless economy. The following table highlights saving, cross border and P2G transactions registered in 2016.

Table 43: Usage of New Products (Jan-December 2016)

Services	Volume	Value (FRW in Million)
Saving	209,390	2,888
Cross border	63,927	2,684
P2G	253,320	1,363

Source: BNR, Financial Stability Directorate

5.4.4 Geographical Distribution of Payment Access Points

As of end December 2016, the largest number of payment access points (ATMs and POS terminals) remained concentrated in Kigali City while mobile money agents were more or less better distributed across the Country (Table 44).

Table 44: Payment Access Points

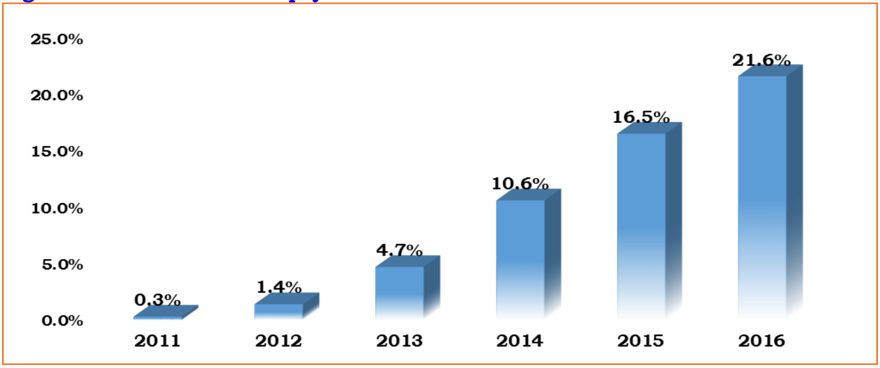
Access Points	Province	East	Kigali City	North	South	West	TOTAL
ATMs	Number	55	203	35	50	57	400
	%	13.6	51.2	8.7	12.4	14.1	100
POS	Number	40	1,617	79	47	102	1,885
	%	2.6	83.8	4.3	3.4	5.9	100
Mobile money Agents	Number	8,216	18,880	7,116	9,384	12,233	55,829
	%	15	34	13	17	22	

Source: BNR, Financial Stability Directorate

5.4.5 Ratio of Electronic Retail Payment to GDP

The following data indicates that the ratio of electronic retail payments transactions to GDP has increased from 0.3% in 2011 to 21.6% as of end December 2016.

Figure 11: Electronic retail payment to GDP



Source: BNR, Payment system Department (2016, estimates)

5.5 Access to Finance

The Rwandan Government considers financial inclusion as an integral enabler for achieving its development and poverty reduction objectives as embodied in both Vision 2020 and EDPRS 2. For example, accelerated financial inclusion is expected to enhance efforts to achieve the first pillar of EDPRS 2 on economic transformation, productivity and youth employment through increasing the saving level, lending to private sector, and consequently accelerating investments, including SMEs.

The Government explicitly targets accelerating financial inclusion in its financial sector development program (FSDP-2). According to Finscope findings, the financially included population increased from 42 percent in 2008 to 72 percent in 2012 and to 89 percent in 2015. Of the included, 68 percent are formally served, up from 42 percent in 2012. The improvement in formal inclusion between 2012 and 2016 was mainly driven by an uptake of products offered by non- bank formal financial institutions such as mobile money, U-SACCOS. Finscope 2016 revealed that usage of formal financial services was still low— 15 percent of adult population reported to have accessed loans from formal financial institutions (Banks and MFIs). Around 3.7 percent revealed to have accessed loans from banks. The Government is finalizing a financial inclusion strategy, with new reforms to include the 11 percent excluded population and to deepen the usage of financial services.

To regularly monitor financial inclusion gains, BNR collects and analyses trends in access to finance using data from banks; MFIs; insurance companies, pension and mobile network operators (MNOs). These data are mainly categorized into access to finance indicators and financial services usage indicators.

5.5.1 Recent Trends in Access to Finance Indicators.

5.5.1.1 Growth of Client Accounts

The number of client's accounts is steadily increasing in banks and MFIs. Total accounts of banks and MFIs increased by 7.8 percent to 5.5 million in December 2016 (Table 45). In microfinance sector where accounts are gender disaggregated, account penetration remains low among women compared to men. As of end December 2016, women held 39.3 percent of total accounts in MFIs (1.2 million), while men held 52.3 percent (1.7 million) of MFIs accounts. Nevertheless, the increase of female owned accounts in MFIs grew strongly in 2016 (15 percent), compared to men owned accounts (13.7 percent). The increased number of accounts is indicative of increased access and usage as most formal financial activity are tied to accounts.

Table 45: Number of Client Accounts (in thousands)

Sector	2012	2015	2016	Change (2016/2015)
Banking	2,548	2,355	2,364	0.4%
Microfinance	1,989	2,794	3,180	13.8%
Females	785	1,081.80	1,249.40	15.5%
Males	1,079	1,463.30	1,663.10	13.7%
Groups	125	248.8	267.7	7.6%
Total	**4,537**	**5,149**	**5,544**	**7.7%**

Source: BNR, Financial Stability Directorate

5.5.1.2 Developments of Banks' Branches

The number of bank branches increased by 3.6 percent (year-on-year) in December 2016 (from 530 to 549) (Table 46). Since 2012, the number of banks' branches almost doubled, as a result of the entrance of new banks that joined the market and the expansion of existing banks. In the same period, the number of branches in the microfinance sector increased by 3.5 percent (from 770 to 796). The observed increase in the number of banks and MFI branches will continue facilitating access and usage of formal financial services.

Table 46: Evolution of Number of Branches, Sub-branches and outlets

Financial Sector	2012	2015	2016	Change (Dec-2016/15)
Banking sector	296	530	549	3.6%
Microfinance	NA	770	796	3.4%
Total		**1,300**	**1,345**	**3.5%**

Source: BNR, Financial Stability Directorate

The largest number of bank branches are located in Kigali City (36.1 percent) followed by the Southern Province (17.9 percent), while Northern Province has the lowest share of branches (12.2 percent). For the microfinance sector however, the biggest number is located in Eastern Province (187) followed by the Western Province (182) and the lowest number is located in Kigali City (104).

Agent banking is gaining momentum and continues to reach out to populations that bank branches would not otherwise reach (Table 47). So far, five banks (Bank of Kigali, COGEBANQUE, Equity Bank, KCB Rwanda, and UOMB) use agency banking. Between December 2015 and December 2016, the number of bank agents increased from 3,265 to 4,411. With regard to geographic distribution of bank agents, Kigali City has the highest percentage share (38.1 percent) followed by

Northern Province (17.3 percent) and Western Province holds the least (14 percent).

Table 47: Number of Branches and Bank agents by Province in December 2016

Sector	Kigali	North	East	West	South	Total (Dec-1616)	Total (Dec-15)
Banks' branches	198	67	91	95	98	**549**	**530**
MFI branches	104	167	187	182	156	**796**	**770**
Total	**302**	**234**	**278**	**277**	**254**	**1,345**	**1,300**
Banks' agents	1,681	763	675	652	640	**4,411**	**3,265**

Source: BNR, Financial Stability Directorate

5.5.1.3 Recent Trends in Financial Usage

Considering usage of financial services, the number of depositors in the banking sector increased from 1,409,293 in 2015 to 1,784,497 in 2016 (11.5 percent increase). Total depositors at end December 2016 represented 28.1 percent of total adults' population (6,694,886). The distribution of depositors by province in December 2016 showed that 48.3 percent of total depositors in banks are located in Kigali City, followed by Eastern Province (15.1 percent), Southern Province (13.5 percent), Western province (13 percent) and Northern Province (10.1 percent) (Table 48).

The number of borrowers decreased from 328,811 in 2015 to 306,485 in 2016 (7 percent decrease). This decline reflects the overall slowdown of economic sectors that triggered the reduction in both number of borrowers and amount borrowed in 2016. The City of Kigali has the largest number of borrowers (154,490), followed by Eastern Province (60,148) and the Western province has the lowest number of borrowers (27,246) (Table 48).

Table 48: Number of Depositors and Borrowers in Banks by Province

Sector	Kigali	North	East	West	South	Total (Dec-16)	Total (Dec-15)
Number of depositors	862,016	180,027	270,266	232,064	240,124	1,784,497	1,409,293
Number of[8] borrowers	154,490	29,207	60,148	27,246	35,394	306,485	328,811

Source: BNR, Financial Stability Directorate

The number of new loan recipients (individuals who secured loans from banks) increased from 261,806 in 2015 to 274,166 in 2016 (4.7 percent increase). High growth of number of new loans happened in the Eastern Province (63 percent), followed by the Southern Province (10 percent) and Northern Province (8 percent). Number of new loans in Kigali City and Western Province declined by 18 percent and 2 percent respectively.

Table 49: Number of New Loans by Province

PROVINCE	Dec-15	Dec-16	(Change %)
NORTH	27,067	29,266	8.1
SOUTH	48,987	53,853	9.9
EAST	39,710	64,856	63.3
WEST	40,585	39,715	-2.1
KIGALI CITY	105,457	86,475	-18.0
TOTAL	**261,806**	**274,165**	**4.7**

Source: BNR, Financial Stability Directorate

[8] This includes the outstanding number of loan beneficiaries in banks

VI. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

6.1 Monetary Policy Outlook

The global economic growth slowed from 3.2 percent in 2015 to 3.1 percent in 2016 due to poor performance in advanced economies with negative effects on Sub-Saharan Africa, whose growth decelerated to its lowest level in more than 20 years, declining from 5.1 percent in 2014 to 3.4 percent in 2015 and further down to 1.6 percent in 2016. However, the world economy is expected to pick up from 2017 going forward though downside risks continue to cloud the outlook in different regions.

Most of the commodity prices started to recover in 2016 and are anticipated to continue rising in 2017. Prices are expected to increase for oil, following OPEC's effort to cut oil supply, and for metals and minerals due to closures of mines in Philippines, China, Australia, Ireland, Zimbabwe and South Africa among others, and improving demand particularly in China. Beverages prices are projected to pick up, led by both coffee and tea prices. This gives positive prospects for Rwanda's external sector performance as exports are expected to continue improving.

The FRW depreciated by 9.7 percent between December 2015 and December 2016, the highest level for the last decade. However, the FRW depreciation is expected to ease in 2017, thanks to the expected improvement in Rwanda's export receipts in line with a recovery in commodity prices. Though the bill for oil imports is expected to remain high, the overall import bill is likely to decline following the increased domestic production of some items, such as cement, that previously required a lot of forex to import, the government's "Made in Rwanda" initiative and the phasing out of especially some big construction projects.

The expected increase in export receipts and anticipated decline in the import bill will help to lessen the exchange rate pressures, contributing to the ease in inflation, through its dampening effects on imported inflation, which hiked from 1.1 percent on average in 2015 to 4.7 percent in 2016. However, the fall in inflation will remain contingent on the developments in food inflation that is still high, standing at 10.7 percent in 2016 from 3.9 percent in 2015.

The improvement in export receipts and the expected performance of economic activities will help to prop up the banking system liquidity, thus increasing the capacity of banks to scale up their lending to the private sector, albeit subject to the improvement in the demand for loans which is also dependent on the state of economic activities. These developments will create more room for BNR to progressively adjust its monetary policy to encourage the financing of the economy by the banking sector while keeping inflationary pressures under control. Thus, outstanding credit to the private sector is expected to increase by 16.3 percent by end December 2017 from 7.8 percent recorded in 2016.

6.2 Financial Sector Stability Outlook

Banks and microfinance institutions are expected to reinvigorate their lending in line with improved performance of some sectors of the economy in 2017. As economic growth strengthens in 2017, the debt servicing capacity of businesses is also expected to improve thereby presenting lending opportunities for Banks and MFIs. The BNR will continue to closely monitor, through the supervisory framework, lending activities to ensure adherence to proper credit analysis and monitoring to minimize NPLs going forward. Enhanced recovery plans by Banks and MFIs are also expected to play a major role in driving down NPLs towards the BNR's medium term target of 5 percent.

In 2016, BNR reviewed the regulation on capital requirements for Banks to ensure compliance with Basel II/III and also as part of the EAC convergence criteria. The regulation, which will become effective in the second half of 2017, stipulates total capital of not less than 12.5 percent of total risk-weighted assets of which 10 percent is core capital. The banks shall hold a capital conservation buffer of 2.5 percent of the total risk-weighted assets over and above these minimum ratios to enable the banks to withstand future periods of stress. The Bank also reviewed the regulation on liquidity ratio introducing two complementary metrics with different time horizons. Implementation of the new capital and liquidity requirements is expected to strengthen the resiliency of the banking sector going forward.

The performance of the insurance sector is expected to improve in 2017 primarily led by the recapitalization of undercapitalized insurers as well as better conduct of business by private insurers particularly with regard to appropriate pricing for risks undertaken, not selling insurance on credit, enhanced policies and procedures to manage claims and eliminate fraudulent ones, rationalization of management expenses as well as capacity building initiatives to enhance staff skills. These initiatives are expected to improve the sector's profitability and solvency going forward.

The Deposit Guarantee Fund (DGF) is expected to start collecting premiums in the second quarter of 2017. Premiums will be computed at 0.1 percent of eligible deposits (excludes bank, MFI, insurance,

insurance company, pension fund, collective investment scheme, government or government agency and shareholders holding more than 5 percent of the contributing bank or MFI). Deposit insurance is expected to boost confidence in the financial sector and to strengthen the BNR financial crisis management tools.

The automation (pilot phase is currently on-going) and consolidation of U-SACCOs is expected to be completed in 2017. This will improve operations and management of these institutions which will ultimately improve the asset quality and overall profitability of the sector.

Increased uptake of digital and mobile financial services is expected to continue driving further financial inclusion. The observed increasing trend in mobile money accounts, mobile money transactions as well as introduction of new e-payment solutions is expected to further drive usage of these services and move Rwanda closer to a cash-light economy.

The Government of Rwanda is embarking on the next phase of financial inclusion reforms. A National Financial Inclusion Strategy is being finalized and aims at crafting strategies to include the 11 percent excluded adult population as well as deepening the use of financial services in order to increase the proportion of the population that is formally included.

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