NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MPFSS, 22nd August 2019

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

22nd August 2019

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

22nd August 2019

TABLE OF CONTENT

LIST OF ACRONYMS AND ABBREVIATIONS

ATM : Automated Teller Machine
BIF : Burundian Franc
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

NBR : National Bank of Rwanda

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

Global economic growth is projected to slow down from 3.6 percent in 2018 to 3.2 percent in 2019, and estimated to pickup to 3.5 percent in 2020. In the first half of 2019, momentum in the global activity remained low, besides challenging backdrop that included intensified US-China trade and prolonged uncertainties around Brexit. The projected pickup in global growth in 2020 will depend on financial market sentiments staying generally supportive, continuous fading of temporary drags in the euro area, stabilization in some stressed emerging market economies, and avoidance of sharper collapses in others, such as Iran and Venezuela.

In Sub-Saharan Africa, growth is expected at 3.4 percent in 2019, and 3.6 percent in 2020, from 3.1 percent in 2018. This growth is reflected in both non- resource intensive and oil exporting countries.

World annual average inflation is projected at 3.58 percent in 2019, and 3.62 percent in 2020, from 3.64 percent in 2018, in line with falling commodity prices and low global demand. Headline inflation was subdued across most advanced and emerging market economies. In the first six months of 2019, monetary policy remained accommodative in most advanced economies, with central bank rates remaining unchanged in the Eurozone, Japan and UK.

The Rwandan economy recorded a growth of 8.4 percent in 2019Q1, from 10.4 percent registered in 2018Q1. The composite index of economic activities points to a sustained good economic performance in 2019Q2, consistent with the initial projection of 7.8 percent GDP growth in 2019.

Rwanda's exports continue to grow, rising by 7.5 percent to USD 577.8 million in the first half of 2019. This increase was mainly driven by good performance of non-traditional exports (+25.2 percent), and re-exports (+18.9 percent), which offset the fall in traditional exports that resulted from weakening external demand. On the other hand, imports grew by 18.2 percent, mainly explained by high domestic demand of capital goods, from ongoing projects, and intermediary goods. As a result, Rwanda's trade deficit increased from USD 601.4 million in 2018H1 to USD 767.9 million in 2019H1.

In 2019H1, headline inflation remained low, averaging to 0.7 percent, from 1.8 percent recorded in 2018H1. Low headline inflation was reflected in food deflation due to good agricultural production. Core inflation remained subdued at 1.6 percent, from 1.8 percent during the same period, reflecting non-inflationary aggregate demand.

In the first half of 2019, NBR maintained an accommodative monetary policy stance, reducing the policy rate from 5.5 percent to 5.0 percent, in order to support the financing of the economy by the banking sector, given that both inflationary and exchange rate pressures were projected to remain subdued.

As a result, broad money grew by 6.8 percent in 2019H1, compared to 8.4 percent in 2018H1. The outstanding credit to the private sector rose by 8.2 percent in the first half of 2019, compared to 1.8 percent growth in the same period of 2018. New authorized loans grew by 36.8 percent in 2019H1, from -3.3 percent in 2018H1. The growth observed in new authorized loans is mainly reflected in Manufacturing, restaurants and hotels, and Water & Energy sectors.

Money market interest rates remained broadly stable and have been converging towards the Central Bank Rate (CBR), as a result of improved management of liquidity. Commercial banks' lending and deposit rates slightly decreased, standing at 16.64 percent and 7.63 percent in 2019H1, from 16.98 percent and 8.01 percent recorded in 2018H1 respectively.

Going forward in 2019, the NBR is expected to maintain an accommodative monetary policy as inflation and exchange rate pressures are projected to remain moderate. The central bank will continue to monitor developments in global and domestic economy, and stands ready to take appropriate actions, to ensure Rwanda's macroeconomic stability.

The improved economic performance in 2019H1 supported growth of the balance sheet of the financial sector, especially through increased growth of deposits, demand for loans, and reduction of Non-Performing Loans (NPLs). The banking and microfinance sub-sectors increased their lending in the first half of 2019, on the back of increased demand for loans and reducing NPLs.

The financial system remains sound. Banks, MFIs and Insurance companies continue to maintain adequate capital and liquidity buffers over minimum requirements. Recent stress tests suggest that Banks can withstand a severe economic downturn. The solvency position of private insurers improved due to recent capital injections and retained earnings.

Profits increased across the financial sector supported by the improved economic performance. Banking sector profits increased through both interest income and non-interest income. In microfinance, growth of profits was supported by the strong performance of the agriculture sector and related reduction of non-performing loans. The new motor premium rates and increasing investment income underpinned the improvement of private insurer's profits.

The payment systems continued to operate smoothly and transactions continue to increase in both retail (mobile financial services, internet banking services and card-based payment) as wholesale platforms (RIPPs). The payment industry is working on the interoperability framework that will enhance the efficiency of electronic payments.

The NBR continued to make progress on a wide range of regulatory policies it deemed important for a sound and stable financial system. In this respect, the Bank reviewed and enhanced the already existing legal instruments, but also established new ones. In establishing these legal instruments, the NBR was guided by international standards.

INTRODUCTION

The objective of August 2019 Monetary Policy and Financial Stability Statement (MPFSS) is to assess economic and financial developments for the first half of the year 2019, and to give an outlook of the remaining period of 2019 and beyond. First, this statement presents the global economic developments in Section 1 to contextualize the domestic economic and financial performance presented in Sections 2, 3, 4, and 5. Section 6 concludes with monetary policy and financial stability outlook.

I. GLOBAL ECONOMIC ENVIRONMENT

This section presents recent developments and near-term outlook of the global economy, with a focus on major advanced countries, emerging and developing economies, Sub-Saharan Africa and the East African Community. The section contextualizes the economic environment within which the Rwandan economy has performed and NBR has conducted its monetary policy in the first half of 2019, and helps to rationalize Rwanda's economic outlook.

1.1 ECONOMIC GROWTH AND OUTLOOK

According to the IMF's July 2019 estimates, global growth is projected to slow down from 3.6 percent in 2018 to 3.2 percent in 2019, and to later pickup to 3.5 percent in 2020. Projected growth for 2019 and 2020 was revised down by 0.1 percentage point each relative to April forecast.

In the first half of 2019, momentum in the global activity remained low, as a result of challenges from intensified US-China trade, prolonged uncertainties on Brexit, weaker than expected growth in emerging and developing economies, despite positive growth in advanced economies.

The projected pickup in global growth in 2020, will depend on supportive reactions from financial markets; continuous fading of temporary drags in the euro area; stabilisation in some stressed emerging market economies, and avoidance of worse collapse in others.

Table 1: Economic growth developments (percent)

	BLOOMBERG					IMF WEO		
	2018	2019						
	Q4	Q1	Q2	Q3	Q4	2018	2019	2020
World		-	-	-		3.6	3.2	3.5
Advanced economies	-	-	-	-	-	2.2	1.9	1.7
United States (y-o-y)	3.0	3.2	2.6	2.3	2.1	2.9	2.6	1.9
Euro area (y-o-y)	1.2	1.2	1.0	1.2	1.3	1.9	1.3	1.6
Japan (y-o-y)	0.3	0.9	0.3	1.4	0.4	0.8	0.9	0.4
United Kingdom (y-o-y)	1.4	1.8	1.3	1.0	1.1	1.4	1.3	1.4
Emerg. & developing economies	-	-	-	-	-	4.5	4.1	4.7
China (y-o-y)	6.4	6.4	6.2	6.2	6.2	6.6	6.2	6.0
India (y-o-y)	6.6	5.8	6.4	6.9	7.2	6.8	7.0	7.2
Sub-Saharan Africa	-	-	-	-	-	3.1	3.4	3.6

Source: BLOOMBERG & IMF WEO, July 2019

Growth in advanced economies is projected at 1.9 percent in 2019 (0.1 percentage point higher than in April WEO), mostly reflecting an upward revision for the United States. Real GDP growth is projected to slow down to 1.7 percent in 2020 for advanced economies, despite an upward revision for the United States and Euro area.

In 2019Q1, the US economy grew by 3.2 percent (y-o-y), following high growth in exports (+3.7 percent) and contraction in imports (-3.7 percent), and as well as strong investments (+8.6 percent). Growth is projected at 2.6 percent in 2019 (0.3 percentage point higher than in April forecast), reflecting stronger than anticipated first quarter performance. Real GDP growth is projected to moderate to 1.9 percent in 2020 as the fiscal stimulus unwinds.

After decelerating to 1.2 percent (y-o-y) in 2018Q4 from 1.7 percent in 2018Q3, GDP growth in Euro area stabilized at 1.2 percent in 2019Q1 and projected to decelerate to 1.1 percent in 2019Q2. Growth is expected to pick up in the second half of this year and into 2020, as external demand is projected to recover and temporary factors continue to fade. Therefore, the Annual growth is projected at 1.3 percent in 2019 and 1.6 percent in 2020 (0.1 percentage point higher than in April forecast).

The United Kingdom's economy is set to grow at 1.3 percent (y-o-y) in 2019 (0.1 percentage point higher than in April forecast), reflecting stronger than anticipated growth in the first quarter, boosted by pre-Brexit inventory accumulation and stockpiling. In 2019Q1, real GDP grew by 1.8 percent (y-o-y) from 1.4 percent in 2018Q4, driven by private and government consumption, and gross capital formation. The UK's economy is projected to grow at 1.4 percent in 2020.

Japan's economy is set to grow by 0.9 percent in 2019, from... in 2018 reflecting additional fiscal support that includes measures to mitigate the effects of the planned increase of the consumption tax rate in October 2019. However, growth is projected to decline to 0.4 percent in 2020.

In emerging and developing economies, growth is expected to slow down to 4.1 percent in 2019 (0.3 percentage point lower than in April forecast), before improving to 4.7 percent in 2020 (0.1 percentage point lower than in April forecast), reflecting downward revisions for major economies in that category such as China and India.

In China, the negative effects of escalating tariffs and weakening external demand have added pressure to an economy already amid a structural slowdown. In 2019Q2, Chinese economy grew by 6.2 percent (y-o-y), lower than 6.4 percent in 2019Q1. Despite policy stimulus expected to support activity in the face of the adverse external shock, the Chinese economy is projected to slow down to 6.2 percent in 2019 and decelerate further to 6.0 percent in 2020.

India's economy is projected to grow by 7.0 percent in 2019 , picking up to 7.2 percent in 2020. The downward revision of 0.3 percentage point for both years, relative to April forecast, reflects a weaker than expected outlook for domestic demand.

In Sub-Saharan Africa, growth is expected to increase from 3.1% in 2018 to 3.4 percent in 2019, and 3.6 percent in 2020 (0.1 percentage point lower for, both years than the April forecast). This improving performance is reflected in non-resource intensive and oil-exporting countries. However, growth in South Africa is expected to slightly decline in 2019 than projected in April forecast, following a weak first quarter, owing to a larger than anticipated impact of energy supply issues in mining and weak agricultural production.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Angola	3.5	8.5	5.0	4.8	0.9	-2.6	-0.2	-1.7	0.4	2.9
Nigeria	4.9	4.3	5.4	6.3	2.7	-1.6	0.8	1.9	2.3	2.6
South Africa	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.7	1.1
South Sudan	-	-52.4	29.3	2.9	-0.2	-16.7	-5.5	-1.2	8.8	5.2
Egypt	1.8	2.2	3.3	2.9	4.4	4.3	4.2	5.3	5.5	5.9
Libya	-66.7	124.7	-36.8	-53.0	-13.0	-7.4	64.0	17.9	4.3	1.4

Source: IMF WEO, July 2019

In the East African Community (EAC), GDP growth is projected at 5.3 percent in 2019 and 5.4 percent in 2020, after 6.3 percent in 2018. Rwanda's economic growth stood at 8.4 percent in 2019Q1 from 9.6 percent in 2018Q4, and estimated at 7.8 percent in 2019. In Uganda, GDP growth stood at 5.6 percent in 2019Q1 from 6.8 percent in 2018Q4, and projected at 6.3 percent in 2019. During the same period, Kenya's real GDP grew from 6.0 percent in 2018Q4 to 5.6 percent in 2019Q1, and projected at 5.8 percent in 2019. Tanzania's economic growth stood at 6.6 percent in 2019Q1 from 6.3 percent in 2018Q4, and projected at 4.0 percent in 2019. In Burundi, growth is projected to remain subdued at 0.4 percent in 2019 from 0.1 percent in 2018.

Table 3: Economic growth in EAC countries (percent)

	2018				2019	Annual average		
	Q1	Q2	Q3	Q4	Q1	2018	2019 Proj.	2020 Proj.
EAC	-	-	-	-	-	6.3	5.3	5.4
Burundi	-	-	-	-	-	0.1	0.4	0.5
Kenya	6.5	6.4	6.3	6.0	5.6	6.0	5.8	5.9
Rwanda	10.4	6.8	7.7	9.6	8.4	8.6	7.8	8.1
Tanzania	7.5	6.3	6.8	6.3	6.6	6.6	4.0	4.2
Uganda	6.9	5.0	6.6	6.8	5.6	6.2	6.3	6.2

Source: Country Bureau of Statistics and IMF WEO, April 2019

1.2 INFLATION AND COMMODITY PRICES

1.2.1 Inflation

World annual average inflation is projected at 3.58 percent in 2019 and at 3.62 percent in 2020, from 3.64 percent in 2018, in line with falling commodity prices and softening global demand. Headline inflation has subdued across most advanced and emerging market economies. Core inflation in most advanced economies has been below the target, and has dropped further below historical averages in many emerging and developing economies. In the first six months of 2019, monetary policy stayed accommodative in most advanced economies, with central bank rates remaining unchanged in the Eurozone, Japan and UK.

Table 4: Inflation in advanced countries (percent)

	2018				2019						2018	2019 proj.	2020 proj.
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun			
USA	2.4	2.9	2.3	1.9	1.6	1.5	1.9	2.0	1.8	1.6	**2.4**	**2.0**	**2.7**
Euro zone	1.3	2.0	2.1	1.6	1.2	1.3	1.4	1.7	1.2	1.2	**1.8**	**1.3**	**1.6**
UK	2.4	2.4	2.4	2.1	1.8	1.9	1.9	2.1	2.0	2.0	**2.5**	**1.8**	**2.0**
Japan	1.1	0.7	1.2	0.3	0.2	0.2	0.5	0.9	0.8	0.7	**1.0**	**1.1**	**1.5**
China	2.1	1.9	2.5	1.9	1.7	1.5	2.3	2.5	2.7	2.7	**2.1**	**2.3**	**2.5**

Source: National statistics offices & IMF WEO, April 2019

The US annual average inflation (y-o-y) fell to 1.6 percent in June 2019 from 1.8 percent in the previous month, mainly due to a decline in energy prices.

The core inflation edged up to 2.1 percent in June 2019, from 2.0 percent in the previous month.

The annual inflation rate in the Eurozone rose to 1.3 percent (y-o-y) in June 2019 from 1.2 percent in the previous month, due to rising prices of food, alcohol & tobacco and services. The highest annual inflation rate was recorded in Germany (1.5 percent), followed by France (1.4 percent), Italy (0.8 percent), and Spain (0.6 percent). The annual core inflation was up to 1.1 percent in June 2019 from 0.8 percent in May, while the annual average inflation eased to 1.3 percent in 2019H1, after 1.5 percent in 2018H1.

The annual inflation rate in the United Kingdom was 2.0 percent (y-o-y) in June 2019, unchanged from the previous month, as prices for transport, and housing & utilities declined, while food prices rose further. The annual core inflation rose to 1.8 percent in June 2019, from 1.7 percent the previous month.

Japan's annual inflation eased to 0.7 percent (y-o-y) in June 2019, from 0.8 percent in the previous month, with a faster rise in food prices, offset by a steeper decline in transport and communication prices. The annual core inflation fell to 0.6 percent in June, from 0.8 percent in the previous month.

In China, inflation (y-o-y) stood at 2.7 percent in June 2019, unchanged from the previous month, with food prices rising the most since January 2012. The annual core inflation stabilized at 1.6 percent in June 2019, while the annual average inflation slightly rose to 2.2 percent in 2019H1 compared to 2.0 percent in 2018H1.

In Sub-Saharan Africa, annual average inflation is projected to decline to 8.1 percent in 2019 from 8.5 percent in 2018, reflecting large decline in global energy prices.

In EAC, annual average inflation is projected at 3.9 percent in 2019, a slight increase from 3.6 percent in 2018. The stable and low inflation in the region results from good agriculture production due to favorable weather conditions.

Table 5: Headline inflation in EAC countries (percent)

	2018				2019						Average		
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	2018	2019	2020
Burundi	-2.6	-0.4	-5.6	-5.6	-3.8	-4.1	-2.9	-2.2	-2.4	-4.0	1.2	7.3	9.0
Kenya	4.2	4.3	5.7	5.7	4.7	4.1	4.4	6.6	5.5	5.7	4.7	4.4	5.0
Rwanda	0.9	2.9	1.2	1.1	1.0	0.8	1.1	0.2	0.0	0.9	1.4	3.5	5.0
Tanzania	3.9	3.4	3.4	3.3	3.0	3.0	3.1	3.2	3.5	3.7	3.5	3.5	4.5
Uganda	2.0	2.2	3.7	2.2	2.7	3.0	3.0	3.5	3.3	3.4	2.6	3.5	4.4

Source: Country Bureaus of Statistics & IMF, WEO, April 2019

Burundi's annual average inflation (y-o-y) was - 4.0 percent in June 2019, from a deflation of 2.4 percent in the previous month, as transport, food and, non-alcoholic beverages prices went down.

The annual average inflation (y-o-y) in Kenya slightly rose to 5.7 percent in June 2019, from 5.5 percent in the previous month, mainly pushed up by food prices. Food inflation accelerated, while housing, transport and clothing prices increased at a slower pace. Transport inflation increased because of an increase in petrol and diesel pump prices. The annual average inflation increased to 5.2 percent in 2019H1, from 4.3 percent in 2018H1.

In Rwanda inflation eased to 0.7 percent in the first half of 2019 from 1.8 percent recorded in the same period of 2018, though it increased to 0.9 percent in June 2019 from 0.0 percent of the previous month. The decline in inflation was mainly reflected in food and energy deflation following favorable weather conditions.

The annual average inflation (y-o-y) in Tanzania increased to 3.7 percent in June 2019, from 3.5 percent in the previous month, amid rising prices of food, transport, and housing & utilities. Core inflation, which excludes food and energy, eased to 3.4 percent in June 2019, from 3.5 percent in the previous month. The annual average inflation eased at 3.3 percent in 2019H1, from 3.8 percent in 2018H1.

Uganda's headline inflation (y-o-y) edged up to 3.4 percent in June 2019, from 3.3 percent in the previous month, with an upward pressure mainly coming from communication and education, while prices eased for transport, and rebounded for food & non-alcoholic beverages. The core annual inflation rose to 4.9 percent in June, from 4.6 percent registered in the previous month. The annual average inflation in Uganda rose to 3.2 percent in 2019H1, from 2.1 percent in 2018H1.

1.2.2 International commodity prices

In the first half of 2019, global commodity prices decreased, reflecting supply effects and softening global demand. Energy prices fell by 8.7 percent in the first half of 2019, compared to an increase of 30.3 percent in the corresponding period of 2018, while, non-energy commodity prices decreased by 7.0 percent, following a decline in prices of agricultural commodities, and metals & minerals.

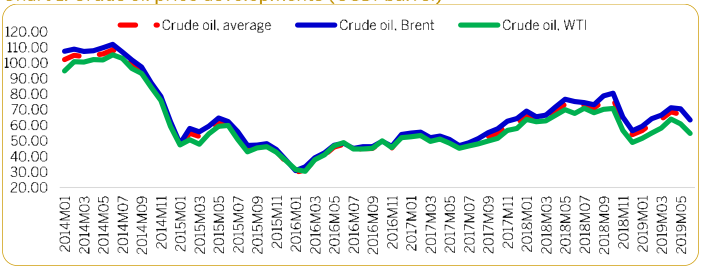
Table 6: Commodity prices (in percent change)

			2018			2019			Forecast, % changes	
	2017	2018	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	2019	2020
Energy	23.7	27.8	20.9	40.3	30.3	-6.2	-11.0	-8.7	-5.4	-1.3
Crude oil, average	23.3	29.4	22.0	44.5	32.9	-6.4	-8.9	-7.7	-4.1	-2.5
Non-energy	5.5	1.8	3.8	8.4	6.1	-6.4	-7.6	-7.0	-2.1	1.4
Agriculture cdities	-0.5	-0.3	-0.3	3.9	1.8	-5.8	-8.1	-7.0	-2.7	1.8
Beverages	-9.0	-4.8	-7.3	1.4	-3.0	-7.3	-9.8	-8.6	-4.6	2.1
Arabica coffee	-8.0	-12.0	-17.2	-10.0	-13.0	-7.1	-8.1	-7.6	-2.7	1.8
Robusta coffee	14.0	-16.0	-17.3	-13.4	-15.4	-12.1	-17.0	-14.5	-6.4	2.3
Tea auction (*)	17.3	-9.5	0.7	-6.6	-3.1	-18.3	-10.1	-14.2	-14.0	2.4
Food	0.6	0.3	1.2	4.9	3.1	-6.1	-9.5	-7.8	-3.2	1.8
Grains	-0.2	10.2	12.3	11.9	12.1	1.5	-2.6	-0.6	0.3	1.5
Agric.raw materials	1.1	0.3	-0.7	2.3	0.8	-4.3	-3.4	-3.9	0.1	1.2
Metals & Minerals	24.2	5.5	13.8	19.4	16.5	-9.4	-8.2	-8.8	-1.8	0.7
Tin	11.9	0.4	5.9	5.1	5.5	-0.7	-5.6	-3.1	5.3	1.7
Fertilizers	-4.5	11.1	0.6	10.1	5.2	10.6	9.3	9.9	4.7	1.7

Source: World Bank commodity prices, July 2019
(*) Average price of three auctions, Mombasa, Colombo and Kolkata

In the first half of 2019, crude oil prices decreased by 7.7 percent on average, compared to an increase of 32.9 percent in the corresponding period of 2018. On a monthly basis, crude oil prices dropped by 10.6 percent in June 2019. Going forward, crude oil prices are projected to decrease by 4.1 percent in 2019, and decline further by 2.5 percent in 2020.

Chart 1: Crude oil price developments (USD/barrel)



Source: World Bank commodity prices, July 2019

The decrease in non-energy commodity prices was attributed to agricultural commodities, and metals & minerals prices. Since August 2018, non-energy commodity prices slightly softened, partially due to subdued demand from China. In the first half of 2019, average prices for agriculture commodities decreased (-7.0 percent), due to the falling prices of beverages (-8.6 percent), of which Coffee Arabica (-7.6 percent), Coffee Robusta (-14.5 percent), and tea average auctions (-14.2 percent). During the same period, prices decreased by 7.8 percent for food, of which oils & meals (-15.8 percent) and other foods (-4.3 percent). Agricultural commodity prices are projected to decrease by 2.7 percent in 2019, attributed mainly to the projected falling prices of beverages by 4.6 percent; with Coffee Arabica, Coffee Robusta and tea average auction prices expected to decrease by 2.7 percent, 6.4 percent and 14.0 percent, respectively.

Metals & mineral prices decreased by 8.8 percent in the first half of 2019, compared to an increase of 16.5 percent in 2018H1, attributed to softening global demand, a strengthening US dollar, and growing trade tensions between US and China. Metals & mineral prices are projected to further decrease by 1.8 percent in 2019, a deeper decline than anticipated in the October 2018 forecast, but to slightly increase by 0.7 percent in 2020.

Prices for fertilizers went up by 9.9 percent in the first half of 2019, compared to an increase of 5.2 percent in the corresponding period of 2018, as a result of high import demand from Brazil and India. Fertilizers are projected to increase by 4.7 percent in 2019, and by 1.7 percent in 2020, due to modest global demand growth.

1.3 MONETARY POLICY AND FINANCIAL MARKETS

Monetary policy remained accommodative in most advanced economies, with central bank rates remaining unchanged in major economies. The US Federal Reserve has cut interest rates by 0.25 basis points, and signaled willingness to provide more support amid slower economic growth. The European Central Bank confirmed that monetary policy would remain amply accommodative, with no increase in policy rates in 2019.

Table 7: Ten-year Government Bond rate end of period (percent p. a)

	2017	2018				2019					
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
USA	2.740	2.861	2.860	3.061	2.684	2.629	2.715	2.405	2.502	2.125	2.005
Euro zone	0.497	0.302	0.302	0.470	0.242	0.149	0.183	-0.070	0.013	-0.202	-0.327
Japan	0.049	0.036	0.036	0.130	0.003	0.005	-0.022	-0.081	-0.040	-0.094	-0.158
UK	1.350	1.278	1.278	1.573	1.277	1.219	1.302	1.000	1.185	0.886	0.833

Source: Bloomberg database

The ten- year government bonds decreased in USA, UK, Japan and Eurozone to 2.01 percent, 0.83 percent, -0.16 percent, and -0.33 percent in June 2019, from 2.86 percent, 1.28 percent, 0.30 percent, and 0.04 percent in June 2018 respectively.

In June 2019, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.385 percent and -0.245 percent respectively. While in the USA and UK, the three-month deposit rates decreased to 2.3 percent and 0.8 percent, from 2.8 percent and 0.9 percent in December 2018 respectively.

On the foreign exchange market, the US dollar is appreciating against major currencies, notably the Euro and British Pound, while weakening against the Japanese Yen.

Table 8: Exchange rate per one dollar

	2017	2018				2019					
	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
USD/GBP	0.7402	0.7402	0.7402	0.7402	0.7402	0.7628	0.7540	0.7671	0.7673	0.7916	0.7875
USD/EUR	0.8330	0.8330	0.8330	0.8330	0.8330	0.8736	0.8794	0.8914	0.8917	0.8954	0.8793
USD/JPY	112.69	112.69	112.69	112.69	112.69	108.89	111.39	110.86	111.42	108.29	107.85

Source: Bloomberg

Compared to December 2018, the US dollar appreciated by 0.81 percent against the Euro, and by 0.46 percent against the British Pound in June 2019, from respective appreciation of 2.74 percent and 2.30 percent in June 2018. However, the dollar depreciated by 1.68 percent against the Japanese Yen, from a depreciation of 1.71 percent in June 2018.

II. NATIONAL ECONOMIC PERFORMANCE

This section discusses Rwanda's economic growth and external sector performance during the first semester of 2019. In the first quarter of 2019, the Rwandan economy recorded a growth of 8.4 percent, from 10.4 percent registered in 2018Q1. The composite index of economic activities (CIEA) which increased by 14.3 percent in the first half of 2019, suggests continued good performance over the first half of 2019. Compared to the same period of 2018, Rwanda's trade deficit increased by 27.7 percent in the first half of 2019, settling at USD 767.92 million in 2019H1, from USD 601.4 million in the previous year. This expansion was driven by high increase in imports of 18.2 percent this year, despite a surge in exports by 7.5 percent. The growth in imports is explained by high domestic demand for capital goods linked to ongoing projects and intermediary goods for industrial production.

2.1 ECONOMIC GROWTH

2.1.1 GDP Growth in 2019Q1

Since the second half of 2017, Rwanda has been experiencing strong economic growth, with an average Real GDP rate of 8.8 percent. In 2019Q1, the growth reached 8.4 percent, as a result of good performance in industry sector (+18.1 percent), followed by services (+7.6 percent) and agriculture (+4.3 percent) sectors.

Table 9: Rwanda Real GDP growth (in percent)

	2016	2017	2018	2018				2019
				Q1	Q2	Q3	Q4	Q1
GDP	6.0	6.1	8.6	10.4	6.7	7.7	9.5	8.4
Agriculture	3.9	6.6	5.9	8.5	6.7	4.8	3.8	4.3
Food crops	3.0	7.4	4.3	5.9	5.9	2.7	2.7	3.6
Export crops	2.4	2.3	9.7	46.1	5.6	6.2	-3.9	-8.7
Livestock & livestock products	9.6	11.4	13.3	12.1	13.1	13.9	14.1	14.4
Forestry	3.7	3.2	4.3	3.9	4.2	4.6	4.6	5.2
Fishing	2.6	4.8	4.8	6.9	5.6	4.3	2.7	2.4
Industry	6.7	4.5	10.3	6.0	10.3	12.0	12.2	18.1
Mining & quarrying	10.4	22.6	1.9	-5.4	8.1	6.9	-3.4	11.4
Manufacturing	6.6	6.5	10.7	7.3	13.3	10.9	12.9	7.8
Electricity	13.7	7.9	9.8	11.0	9.3	10.7	8.4	7.6
Water & waste management	5.3	2.0	2.7	2.1	0.3	3.6	4.6	4.3
Construction	4.9	-3.1	14.1	8.3	10.5	17.0	20.0	30.5
Services	7.2	7.9	8.8	12.2	5.3	7.3	10.6	7.6
Trade & transport	6.7	3.8	16.0	25.5	11.4	13.7	14.5	8.8
Maintenance and repair of motors	6.8	4.1	7.2	6.0	6.8	7.7	8.1	7.6
Wholesale & retail trade	6.1	0.1	15.2	25.2	11.0	12.0	13.8	7.4
Transport services	8.0	11.1	18.3	28.3	12.6	17.3	16.3	11.3
Other services	7.3	9.3	6.5	8.3	3.4	5.2	9.3	7.1
Hotels & restaurants	11.3	9.9	9.5	5.6	9.1	12.6	10.5	6.8
Information & communication	8.6	12.4	17.9	23.9	17.7	17.1	14.0	-2.5
Financial services	3.4	7.1	9.9	12.5	7.4	7.6	12.2	13.7
Real estate activities	6.2	4.9	5.4	3.4	4.5	6.5	7.2	2.4
Professional, scientific & technical activities	6.3	17.4	5.9	4.2	-5.6	18.9	7.0	25.4
Administrative & support service activities	9.8	26.2	-2.8	4.6	-11.6	-4.6	0.0	15.2
Education	3.7	2.0	3.7	3.7	3.7	3.7	3.7	3.8
Cultural, domestic & other services	7.0	8.6	12.5	13.3	13.2	10.0	13.5	13.2
Taxes less subsidies on products	4.4	-4.1	14.1	17.2	10.3	11.0	18.2	8.5

Source: Rwanda National Institute of Statistics (NISR)

The high performance recorded by the industry sector in 2019Q1, was mostly reflected in the construction sub-sector, which increased by 30.5 percent on the back of on-going infrastructure projects.

The expansion of industry sector also resulted from the manufacturing industries, especially industries producing construction materials. Non-metallic mineral products (including cement) increased by 21.1 percent, Metal products, machinery and equipment by 11.0 percent and Chemicals, rubber & plastic products by 10.2 percent. Additionally, Textiles, clothing & leather sub-sector continued to improve, recording a growth of 15.1 percent in 2019Q1 on top of 24.5 percent of 2018Q1.

The good performance of services sector was mainly driven by Trade and Transport services (+8.8 percent), Financial services (+13.7 percent), Administrative and Support service activities (+15.2 percent), and Professional, Scientific and Technical activities (+25.4 percent). Administrative & Support services were boosted by the performance of Travel agents and Tour operators that increased by 14.3 percent in 2019Q1. Professional, Scientific and Technical activities expansion was led by Architectural and Engineering services, with a growth of 63.0 percent in 2019Q1, from 48.1 percent in 2018Q1, consistent with the surge in construction activities.

The agriculture sector recorded a growth of 4.3 percent in 2019Q1, from 8.5 percent in 2018Q1, supported by good weather conditions. However, the sector's growth was limited by the decline in export crops, mainly due to the production of tea, which decreased by 7.2 percent in 2019Q1, from an increase of 22.8 percent in 2018Q1. Tea represents 24.9 percent of total exports crops, and its production fell as tea trees were cut for rejuvenation.

2.1.2 High Frequency Economic Indicators

The leading indicators of economic activities point to a continued expansion of economic activities in the second quarter of 2019; suggesting good economic performance for the first half of 2019. During 2019Q2, the CIEA in real term increased by 16.5 percent, from 11.9 in 2019Q1 and 9.3 percent in 2018Q2. The growth over the first half of 2019 stood at 14.3 percent, against 10.5 percent in the corresponding period of 2018.

Table 10: CIEA (percent change, y-o-y)

CIEA	Real		Nominal	
	2018	2019	2018	2019
Q1	11.8	11.9	16.7	9.4
Q2	9.3	16.5	8.7	18.0
H1	10.5	14.3	12.6	13.7

Source: NBR, Monetary Policy and Research Directorate

The total turnovers of industry and service sectors increased by 21.0 percent, from 15.7 percent, and construction activities and related services remain the main drivers.

Table 11: Turnovers of industry & services (percent change, y-o-y)

	2018			2019		
	Q1	Q2	H1	Q1	Q2	H1
Total turnovers	**19.4**	**12.3**	**15.7**	**21.7**	**20.3**	**21.0**
Industries	17.2	13.6	15.4	18.3	15.4	16.8
Mining and Quarrying	44.0	63.3	54.4	5.7	-22.6	-10.4
Manufacturing	16.7	9.0	12.7	9.0	20.7	14.9
Energy, water & Sanitation	4.3	1.7	3.0	21.6	29.0	25.4
Construction Sector	19.0	17.7	18.3	36.4	11.4	23.5
Services	20.2	11.9	15.8	22.8	22.0	22.4
Wholesale and retail trade	30.8	11.1	20.1	8.8	14.2	11.5
Petroleum Distributors	0.8	16.3	8.4	66.9	38.8	52.1
Transport and Storage	23.9	22.2	23.0	25.5	2.1	13.5
Hotels and Restaurants	19.0	12.4	15.5	10.6	7.6	9.0
Information and Communication	9.5	6.2	7.8	7.9	22.6	15.5
Financial and insurance activities	15.1	10.6	12.8	13.9	15.6	14.7

Source: NBR, Monetary Policy and Research Directorate

Construction sector's turnovers expanded by 23.5 percent in the first half of 2019, supported by construction projects, such as Kigali Arena stadium and road network upgrade in Kigali and upcountry. Moreover, sales by metal and cement industries increased by 20.4 percent and 50.4 percent respectively. This supported the manufacturing sub-sector, outweighing the decline in coffee and tea companies, and milling industries of 17.5 percent and 1.3 percent, from a growth of 19.2 percent and 28.5 percent respectively.

The service sector's performance was mainly led by petroleum distributors (+52.1 percent), financial services (+14.7 percent), as well as trade and transport services (+11.7 percent).

2.2 EXTERNAL TRADE PERFORMANCE

Rwanda's exports continue to grow, rising by 7.5 percent to USD 577.8 million in the first half of 2019. This increase was mainly driven by good performance of non-traditional exports (+25.2 percent), and re-exports (+18.9 percent), which offset the fall in traditional exports that resulted from weakening external demand. On the other hand, imports grew by 18.2 percent, mainly explained by high domestic demand of capital goods, from ongoing projects, and intermediary goods. As a result, Rwanda's trade deficit increased from USD 601.4 million in 2018H1 to USD 767.9 million in 2019H1

Table 12: Developments in Trade Balance (Value in millions of USD, Volume in 000' tons)

		2013	2014	2015	2016	2017	2018	2018H1	2019H1	% Change 19/18
Exports	Value	682.4	707.3	667.1	731.4	1041.9	1121.0	537.3	577.8	7.5
	Volume	308.4	324.1	390.6	466.0	634.6	742.3	385.2	609.0	58.1
Imports	Value	2265.0	2406.1	2333.0	2253.9	2238.6	2445.3	1138.7	1345.7	18.2
	Volume	1781.9	1846.6	2068.1	1965.2	2093.1	2314.8	1101.0	1083.2	-1.6
Trade balance		-1582.6	-1698.9	-1665.9	-1522.5	-1196.7	-1324.3	-601.4	-767.9	27.7
% Exports/Imports	%	30.1	29.4	28.6	32.4	46.5	45.8	47.2	42.9	-4.2

Source: NBR, Monetary Policy and Research Directorate

2.2.1 Exports Developments

Rwanda's exports are composed of; traditional exports, non-traditional exports, re-exports, as well as informal cross border trade (ICBT). In 2019H1, these categories represented 21.8 percent, 34.0 percent, 34.1 percent, and 10.0 percent share of the total export earnings, respectively.

The export base has continued to be progressively diversified, as the share of traditional exports in total exports dropped from 52.0 percent in 2013 and remained below one-third over the last three years.

In line with the "Made in Rwanda" program, the growing share of non-traditional exports is mainly driven by increased domestic production of milling industry, flowers, other minerals, cement, mattresses, milk products, textiles, as well as iron and steel.

Table 13: Evolution of percent share of exports: 2013–2018

	2013	2014	2015	2016	2017	2018	2018H1	2019H1
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Traditional exports	52.2	46.8	39.7	30.0	27.3	27.9	28.2	21.8
Coffee	8.0	8.4	9.3	8.0	6.2	6.1	3.9	3.5
Tea	8.1	7.3	10.9	8.7	8.1	8.1	9.5	7.7
Cassiterite	9.0	10.2	5.1	4.8	4.8	4.4	5.0	3.8
Coltan	19.7	14.8	9.9	5.4	6.0	6.4	6.7	4.1
Wolfram	4.4	3.8	2.6	1.6	1.2	1.9	1.8	1.8
Hides and Skins	2.3	2.0	1.6	1.0	0.7	0.6	0.8	0.3
Pyrethrum	0.6	0.3	0.4	0.5	0.3	0.4	0.4	0.6
II. Re - exports	19.8	23.4	26.7	30.7	28.0	29.0	30.9	34.1
III. Non - traditional exports	12.0	14.6	17.3	21.2	35.3	31.9	29.2	34.0
IV. Informal cross-border trade	16.0	15.2	16.2	18.1	9.4	11.2	11.8	10.0

Source: NBR, Monetary Policy and Research Directorate

Rwanda's total exports receipts increased by 7.5 percent (to USD 577.8 million in 2019H1 from USD 537.3 million) in 2018H1, while its volume increased by 58.1 percent. The increase in exports value is attributable to good performance in non-traditional exports (+25.2 percent), as well as re-exports (+18.9 percent), which offset falling receipts from traditional exports (-16.7 percent).

Table 14: Major Exports Developments (Value FOB in USD millions, Volume 000' tons)

	2013	2014	2015	2016	2017	2018	2018H1	2019H1	Percent change
Coffee									
- Value	54.9	59.7	62.0	58.5	64.1	68.7	21.1	20.2	-4.1
- Volume	20.0	16.0	18.8	18.6	18.7	21.0	7.6	8.0	4.5
- Price USD/KG	2.7	3.7	3.3	3.1	3.4	3.3	2.8	2.5	-8.2
Tea									
- Value	55.5	51.8	72.5	63.4	84.3	90.5	51.3	44.3	-13.5
- Volume	21.0	22.7	24.7	24.4	26.2	30.9	16.7	16.4	-2.0
- Price USD/KG	2.6	2.3	2.9	2.6	3.2	2.9	3.1	2.7	-11.8
Mining									
- Value	225.7	203.3	117.8	86.4	125.0	142.2	72.5	56.0	-22.8
- Volume	9.6	10.5	7.3	6.5	8.0	8.4	4.2	3.8	-9.3
Cassiterite									
- Value	61.1	71.9	34.3	34.8	50.2	49.4	26.8	21.8	-18.6
- Volume	4.9	6.0	3.8	3.5	4.8	4.7	2.5	2.1	-17.5
- Price USD/KG	12.5	12.1	8.9	9.8	10.5	10.4	10.8	10.6	-1.3
Coltan									
- Value	134.6	104.8	66.2	39.7	62.2	71.5	36.2	23.9	-34.0
- Volume	2.5	2.3	1.7	1.3	1.7	1.7	0.8	0.7	-16.5
- Price USD/KG	54.6	45.5	40.1	31.3	36.1	41.9	45.0	35.6	-20.9
Wolfram									
- Value	30.1	26.6	17.3	11.9	12.6	21.4	9.4	10.2	8.5
- Volume	2.2	2.2	1.8	1.7	1.5	1.9	0.9	1.0	21.2
- Price USD/KG	13.6	12.0	9.7	6.9	8.3	11.0	10.9	9.7	-10.5
Hides and Skin									
- Value	16.0	14.2	10.4	7.4	7.5	6.7	4.4	1.9	-57.4
- Volume	10.3	9.6	8.3	6.2	5.4	5.9	3.3	2.1	-37.2
- Price USD/KG	1.6	1.5	1.3	1.2	1.4	1.1	1.3	0.9	-32.2
Pyrethrum									
- Value	4.0	1.8	2.5	3.4	3.1	4.7	2.0	3.6	83.3
- Volume	0.02	0.01	0.01	0.02	0.03	0.03	0.0	0.0	89.5
- Price USD/KG	238.9	171.2	177.2	188.3	120.9	156.0	160.8	155.5	-3.3
I. Traditional exports									
- Value	356.1	330.8	265.2	219.1	284.0	312.7	151.3	126.0	-16.7
- Volume	60.9	58.7	59.0	55.8	58.3	66.2	31.8	30.2	-5.0
II. Re-exports									
- Value	135.0	165.4	177.9	224.3	292.2	324.9	165.9	197.3	18.9
- Volume	97.6	105.7	159.2	230.4	323.8	364.0	185.2	230.5	24.5
III. Non-traditional exports									
- Value	81.9	103.6	115.7	155.3	367.4	358.1	156.9	196.4	25.2
- Volume	149.9	159.6	172.4	179.9	252.5	312.2	168.2	348.3	107.1
IV. Informal cross-border trade	109.3	107.5	108.3	132.7	98.4	125.3	63.2	58.0	-8.1
TOTAL EXPORTS									
- Value	682.4	707.3	667.1	731.4	1,041.9	1,121.0	537.3	577.8	7.5
- Volume	308.4	324.1	390.6	466.0	634.6	742.3	385.2	609.0	58.1

Source: NBR, Monetary Policy and Research Directorate

Traditional exports composed of; coffee, tea, minerals, pyrethrum, as well as hides and skins, fell by 16.7 percent, amounting to USD 126.0 million in 2019H1, on account of poor performance from mineral exports (-22.8 percent), agricultural exports, notably tea (-13.5 percent), and coffee (-4.1 percent).

During 2019H1, Rwanda's coffee exports registered USD 20.2 million, from USD 21.1 million in the corresponding period of 2018, reflecting the decline in global prices. In terms of volume, exported quantities of coffee rose by 4.5 percent (to 8.0 thousand tons in 2019H1).

Similarly, Rwanda's tea exports receipts dropped by 13.5 percent (to USD 44.3 million in 2019H1), mainly due to the decline in global prices (-11.8 percent of the unit price). In terms of volume, Rwanda exported 16.4 thousand tons in 2019H1, 1.8 percent lower than 16.7 thousand tons the previous year.

Furthermore, Rwanda's exports earnings from traditional minerals (Coltan, Cassiterite and Wolfram) fell by 13.6 percent (to USD 56.0 million in 2019H1 from USD 72.5 million in the previous year), due to declining global demand.

Receipts from exported hides and skins dropped by 57.4 percent (to USD 1.9 million in 2019H1), much lower than 4.4 million registered in 2018H1, due to a decrease in prices and exported quantities. Exports earnings from pyrethrum rose by 83.3 percent (to 3.6 million in 2019H1), on the account of increased exports quantities that offset falling prices.

Non-traditional exports (other ordinary exports) comprised of; other minerals, products of milling industry, and other manufactured products, registered an increase of 25.2 percent amounting to USD 196.4 million in 2019H1. This positive performance is a result of increased regional demand, and domestic production.

Finally, re-exports that are mainly composed of; petroleum products, foodstuffs, vehicles, machinery and electronics, rose by 18.9 percent (to USD 197.3 million in 2019H1). This growth is attributed to high demand from regional countries.

2.2.2 Imports Developments

Rwanda's imports are composed of consumer goods, capital goods, intermediary goods, energy and lubricants. In 2019H1, imports bill rose by 18.2 percent (y-o-y) (to USD 1,338.7 million), mainly due to increasing domestic demand of capital and intermediary goods.

Imports bill of consumer goods rose by +4.3 percent, capital goods (+40.3 percent), intermediary goods (+20.6 percent), energy and lubricants (+5.2 percent). In contrast, informal cross border imports (ICBT) fell by 40.0 percent. In terms of share of total imports value, capital goods account for (32.2 percent), consumer goods (28.2 percent), intermediary goods (27.8 percent), energy and lubricants (11.3), and ICBT (0.5 percent).

On the other hand, imports volume fell by 1.6 percent, mainly from a decline in imports of food products. In volume terms, intermediary goods have the largest share with 48.2 percent of total imports volume, followed by consumer goods (29.3 percent), energy and lubricants (18.4 percent), and capital goods (4.0 percent).

Table 15: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

		2013	2014	2015	2016	2017	2018	2018H1	2019H1	Percent change
Total imports	Value	2,265.0	2,406.1	2,333.0	2,253.9	2,238.6	2,445.3	1,138.7	1,345.7	18.2
	Volume	1,781.9	1,846.6	2,068.1	1,965.2	2,093.1	2,314.8	1,101.0	1,083.2	-1.6
Consumer goods	Value	633.6	656.2	694.1	723.0	746.7	762.4	364.2	379.9	4.3
	Volume	574.4	592.4	695.9	763.2	805.4	852.0	394.0	317.9	-19.3
Capital goods	Value	596.3	642.2	652.6	707.9	620.2	684.8	308.8	433.4	40.3
	Volume	59.0	60.6	70.2	69.1	62.6	78.4	32.9	43.4	32.0
Intermediary goods	Value	632.9	720.0	682.5	566.0	596.2	670.0	309.7	373.4	20.6
	Volume	878.9	914.7	992.2	821.9	902.6	1,016.2	492.7	522.6	6.1
Energy and lubricants	Value	384.6	368.5	282.1	226.4	252.3	307.8	144.7	152.2	5.2
	Volume	269.7	278.9	309.8	311.0	322.6	368.2	181.4	199.3	9.9
Informal cross-border trade	Value	17.6	19.2	21.7	30.6	23.3	20.3	11.3	6.8	-40.0

Source: NBR, Monetary Policy and Research Directorate

In 2019H1, import bill on consumer goods increased by 4.3 percent, while the volume decreased by 19.3 percent, due to a decrease in value and volume of food products import bill of 7.4 percent and 22.8 percent respectively. This, partly reflects good performance of agriculture sector. The decline in imports value of food products was offset by rising imports of non-food products, mainly composed of medicaments and domestic articles.

Imports of capital goods are dominated by; machinery, electronics, and electrical apparatus, as well as transport materials that increased by 40.3 percent in value, amounting to USD 433.4 million in 2019H1. This increase is due to on-going infrastructure investments including the construction of a peat power plant, energy, roads, and real estate among others.

Imports of intermediary goods are composed of; industrial products (54 percent of total intermediary goods imports value), construction materials (29 percent), and fertilizers (+5 percent). Imports of intermediary goods rose by 20.6 percent (to USD 373.4 million in 2019H1). While in terms of volume, they increased by 6.1 percent amounting to 522.6 thousand tons in 2019H1.

Imports value on industrial products increased by 10.2 percent, following the rise in domestic demand of raw materials by local industries. In addition, import bill on construction materials rose by 39.4 percent, cement volume (+ 4.5 percent) despite the growing domestic production (+ 51.1 percent), which covers 60 percent of cement domestic demand.

Table 16: Domestic production and trade of cement (in tons)

	2013	2014	2015	2016	2017	2018	2018H1	2019H1	Percent change
Domestic production	104,997	119,083	181,050	293,091	322,391	364,864	139,355	210,501	51.1
Imports of cement	402,246	469,447	421,892	268,353	225,905	318,854	154,486	161,507	4.5
Exports of cement	13,657	16,160	25,258	29,793	71,725	43,263	16,009	23,635	47.6
Domestic demand	493,587	572,370	577,684	531,651	476,571	640,455	277,833	348,373	25.4

Source: NBR, Monetary Policy and Research Directorate

Imports of energy and lubricants, dominated by petroleum products that represent over 90 percent of the total category value in 2019H1, rose by 5.2 percent amounting to USD 152.2 million. The energy import bill is on account of increased volume amidst lower global oil prices, due to rising global supply and weakening global demand. In volume terms, energy imports rose by 9.9 percent (to 199.3 thousand tons in 2019H1), higher than 181.4 thousand tons in the previous year.

2.3 FORMAL TRADE WITH OTHER EAC COUNTRIES

Rwanda's exports to other East African Community (EAC) member countries, which accounts for 22.3 percent share of the total exports in 2019H1, increased by 141.0 percent in value (USD 128.9 million in 2019H1).

On the other hand, imports from EAC reduced by 7.8 percent, from lower demand of food products amid increased domestic output. As a result, Rwanda's trade deficit with EAC narrowed to USD 99.8 million in 2019H1, from USD 194.5 million a year earlier.

Table 17: Trade flows with EAC (in USD millions)

		2013	2014	2015	2016	2017	2018	2018H1	2019H1
Exports to EAC	Value in USD millions	61.5	82.5	53.4	77.5	80.5	82.2	53.5	128.9
	percent change	*14.4*	*34.2*	*-35.3*	*45.2*	*3.8*	*2.1*	36.1	141.0
	Share to total exports	9.0	11.7	8.0	10.6	7.7	7.3	10.0	22.3
Imports from EAC	Value in USD millions	516.4	546.8	519.4	470.0	466.4	537.0	248.0	228.7
	percent change	*-3*	*5.9*	*-5*	*-9.4*	*-0.8*	*15.1*	11.9	-7.8
	Share to total imports	22.8	22.7	22.3	20.9	20.8	22.0	21.8	17.0
TRADE BALANCE		-454.9	-464.3	-466.0	-392.5	-385.9	-454.8	-194.5	99.8

Source: NBR, Monetary Policy and Research Directorate

2.4 INFORMAL CROSS BORDER TRADE

Rwanda remains a net exporter of informal cross border trade (ICBT) in the region with a trade surplus of USD 51.3 million in 2019H1. The informal exports and imports account for 10.0 percent and 0.5 percent share of total exports and imports respectively, in 2019H1. In the period under review, informal exports declined by 8.1 percent to USD 58.0 million while imports dropped by 40.0 percent to USD 6.8 million compared to the corresponding period in 2018.

Table 18: Rwanda informal cross border trade (USD million)

		2013	2014	2015	2016	2017	2018	2018H1	2019H1
Exports	Value in USD millions	109.3	107.5	108.3	132.7	98.4	125.3	63.2	58.0
	Percent change	*8.7*	*-2.9*	*0.7*	*12.6*	*-25.8*	*27.3*	-17.9	-8.1
	Share of total exports	16.0	15.2	16.2	18.1	9.4	11.2	11.8	10.0
Imports	Value in USD millions	17.6	19.2	21.7	30.6	23.3	20.3	11.3	6.8
	Percent change	*-22.2*	*9.2*	*13.4*	*40.0*	*-23.9*	*-12.8*	-23.8	-40.0
	Share of total imports	0.8	0.8	0.9	1.4	1.0	0.8	1.0	0.5
Trade balance		93.1	88.3	86.5	91.4	75.1	105.0	51.9	51.3

Source: NBR, Monetary Policy and Research Directorate

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

This section highlights the monetary policy stance adopted by the NBR and the outcomes, within the context of the global and domestic economic developments in the first half of 2019.

3.1 MONETARY POLICY STANCE

In the first half of 2019, the NBR maintained an accommodative monetary policy stance. Given that both inflationary and exchange rate pressures were projected to remain subdued, NBR cut the policy rate from 5.50 percent to 5.0 percent in May, to continue supporting the financing of the economy by the banking sector.

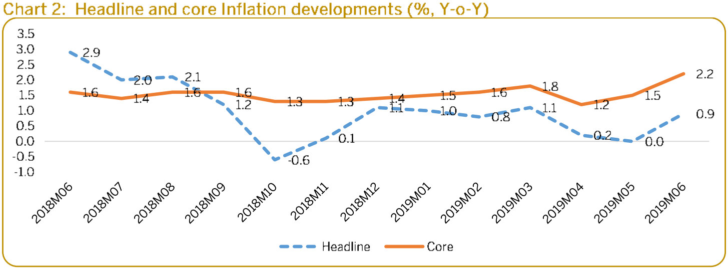
Compared to December 2018, broad money (M3) grew by 6.8 percent in June 2019, versus 8.4 percent in corresponding period of 2018. This was mainly supported by an increase in credit to private sector, where new authorized loans increased by 36.8 percent in the first six months of 2019.

3.2 INFLATION DEVELOPMENTS

3.2.1 Introduction

Headline inflation eased to 0.7 percent in 2019H1, from 1.8 percent recorded in the same period of 2018, though it increased to 0.9 percent in June 2019, from 0.0 percent in the previous month. The decline in headline inflation was mainly reflected in food, and energy deflation. Core inflation picked up in May and June 2019, but it relatively stabilized at 1.6 percent in 2019H1, from 1.8 percent in 2018H1.

Chart 2: Headline and core Inflation developments (%, Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

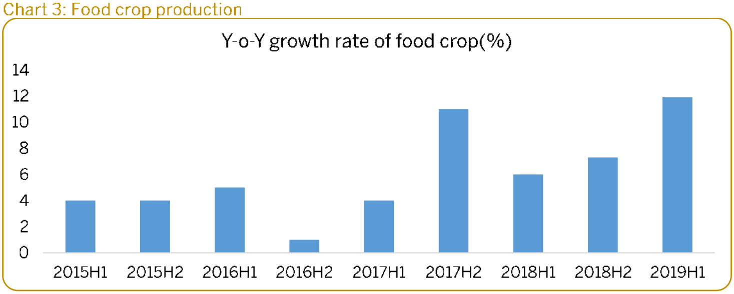
3.2.2 Drivers of inflation

1. Food inflation

In 2019H1, on average, food inflation continued to decelerate up to -3.1 percent, from -0.6 percent in 2018H1. The decline in food inflation was observed in vegetables inflation, which dropped from -1.5 percent to -7.9 percent, and fruits inflation that fell from -0.6 percent to -11.4 percent during the same period.

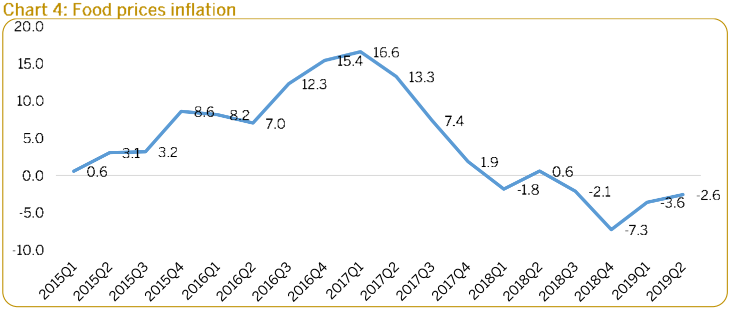
The drop-in vegetables inflation was caused by good agricultural production recorded in season A, where by the growth in food crops was 11.9 percent in 2019H1, from 6.0 percent recorded in 2018H1. Market survey organized by the National Bank of Rwanda in June 2019, on food prices, indicated that vegetable prices may gradually rise in the next months, as the dry season sets in.

Chart 3: Food crop production



Source: NBR, Monetary Policy and Research Directorate

Chart 4: Food prices inflation



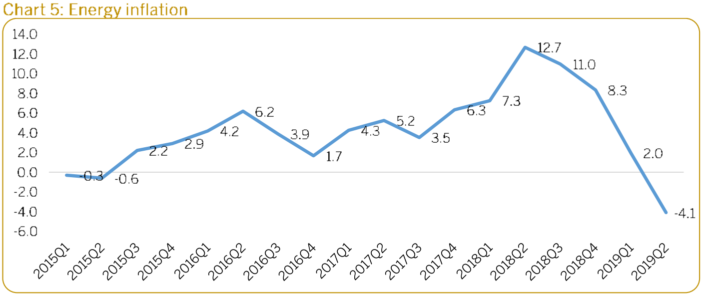
Source: NBR, Monetary Policy and Research Directorate

2. Energy inflation

Energy inflation eased to -1.0 percent in 2019H1, from 10.0 percent recorded in 2018H1, mainly reflecting a decline in charcoal and firewood prices which account for roughly 50 percent in energy. This decline observed in energy inflation was also reflected in housing inflation that dropped from 3.4 percent to 0.6 percent during the same period.

The downward trend observed in solid fuels (charcoal and firewood) prices started from 2018Q2 (20.9 percent), 2018Q3 (14.7 percent), 2018Q4 (10.6 percent), 2019Q1 (3.4 percent) and ended at (-8.5 percent) in 2019Q2. This persistent decline in solid fuels' inflation resulted from an increase in the issuance of forests harvesting permits. The increase in permit issuance was in line with weather conditions that were favorable for environmental protection in the process of charcoal burning. The market survey reveals that prices of charcoal and firewood are likely to increase in 2019Q3, due to fewer harvesting permits issued during the dry season. Regarding other energy components, fuels & lubricants that cover 26 percent in energy inflation, caused no pressures on local pump prices, reducing from 1055FRW per liter in 2018H1 to 1040 FRW per liter in 2019H1 on average.

Chart 5: Energy inflation

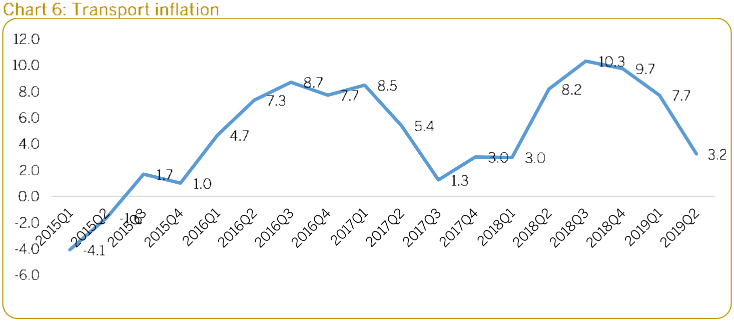


Source: NBR, Monetary Policy and Research Directorate

3. Transport inflation

In 2019H1, transport inflation remained stable at 5.5 percent compared to 2018H1, unlike other main components of headline inflation. The stability in transport inflation resulted from the phasing out of the increase in public transport fares that occurred in April 2018.

Chart 6: Transport inflation

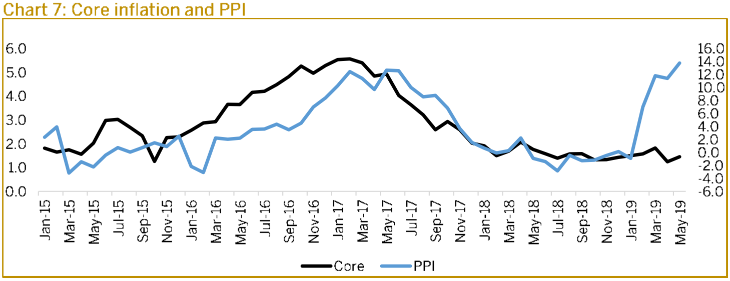


Source: NBR, Monetary Policy and Research Directorate

3.2.3 Core inflation

The relative stability recorded in core inflation (1.6 percent in 2019H1 from 1.8 percent in 2018H1), in line with the trend observed in costs of production as evidenced by the producer price index (PPI), which measures the costs of producing domestic consumer goods. It directly affects retail prices, and therefore serves as a good leading indicator of pressures, especially on core inflation. The upward revision in water tariffs in Feb-March 2019, led to a hike in PPI observed during the same period. However, this hike did not fully transmit into a higher increase in core inflation, because water does not have significant weight in CPI basket, as it does in PPI.

Chart 7: Core inflation and PPI



Source: NBR, Monetary Policy and Research Directorate

Table 19: Developments in inflation (Y-o-Y, % change)

	2018		2019						
	2018H1	2018H2	Jan	Feb	Mar	Apr	May	June	2019H1
Headline	1.8	1.0	1.0	0.8	1.1	0.2	0.0	0.9	0.7
Domestic	0.9	0.1	0.5	0.2	0.8	-0.4	-0.7	0.0	0.1
Food	-0.6	-4.6	-4.3	-4.1	-2.4	-3.1	-3.0	-1.6	-3.1
Vegetables	-1.5	-8.1	-7.1	-7.0	-4.4	-7.1	-10.8	-10.8	-7.9
Meat	1.5	4.3	6.7	7.8	10.4	9.0	13.6	14.8	10.4
Fruits	-6.1	-11.5	-15.7	-15.1	-14.6	-12.8	-6.4	-4.0	-11.4
Bread & Cereal	3.1	-2.1	-1.8	-1.4	0.3	1.1	1.9	2.9	0.5
Housing	3.4	3.3	2.6	1.2	1.1	0.0	-1.3	0.0	0.6
Transport	5.6	10.0	8.2	8.2	6.8	3.0	3.5	3.2	5.5
Imported	4.7	4.1	2.7	2.6	2.2	2.0	2.5	3.7	2.6
Core	1.8	1.4	1.5	1.6	1.8	1.2	1.5	2.2	1.6
Energy	10.0	9.7	4.7	1.1	0.2	-3.3	-6.0	-2.9	-1.0

Source: NBR, Monetary Policy and Research Directorate

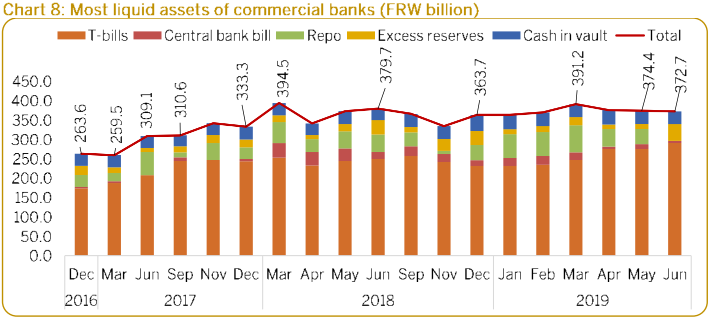
3.3 MONETARY AGGREGATES DEVELOPMENTS

This section assesses key developments in monetary aggregates, banking liquidity conditions and interest rates.

3.3.1 Banking System Liquidity Conditions

In June 2019, the growth of the most liquid assets decelerated to 2.4 percent, from FRW 363.7 billion in December 2018 to FRW 372.7 billion, compared to the growth of 13.9 percent recorded during the same period of the previous year. This is explained by more interventions on the foreign exchange market, and low increase in net fiscal injection. Comparing 2019H1 to 2018H1, net fiscal injection grew by 0.6 percent. In addition, commercial banks purchased more foreign currency from NBR, equivalent to USD 143.7 million (FRW 127.6 billion) from USD 96.6 million (FRW 82.4 billion).

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



Source: NBR, Financial Markets Department

3.3.2 Monetary Policy and Interest Rates

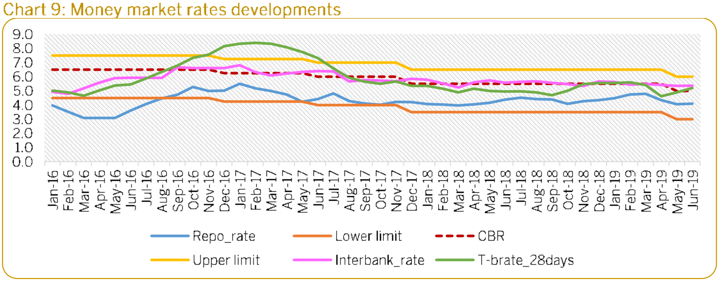
After NBR cut its monetary policy rate from 6.0 percent to 5.5 percent in December 2017, the central bank rate (CBR) was kept unchanged until the MPC decided to cut it further to 5.0 percent in May 2019. As a result, nominal short-term interest rates continued to move gradually around the CBR.

Money market rates converged towards the CBR.

Money market interest rates continued to stabilize around the central bank rate. Interbank rate fell to 5.45 percent on average in 2019H1, from 5.64 percent on average in 2018H1. However, repo and T- bill rates increased to 4.42 percent and 5.22 percent on average in 2019H1, from 4.11 percent and 5.09 percent in 2018H1 respectively.

It is important to highlight that, the repo, interbank and T- bill rates dropped by 3, 27, and 13 basis points respectively in 2019Q2, following the MPC's decision to cut the CBR by 50 basis points in May 2019.

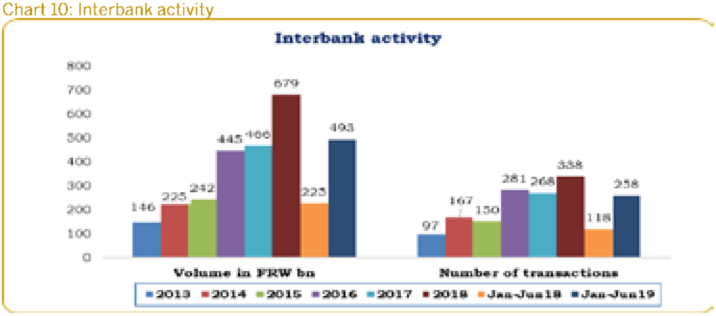
Chart 9: Money market rates developments



Source: NBR, Financial Markets Department

The interbank market activities kept rising from better liquidity management, and upgraded monetary policy implementation. Compared to 2018H1, Interbank market activities almost doubled, both in value (from FRW 225 billion to FRW 493 billion), and number of transactions (from 118 to 258) in 2019H1.

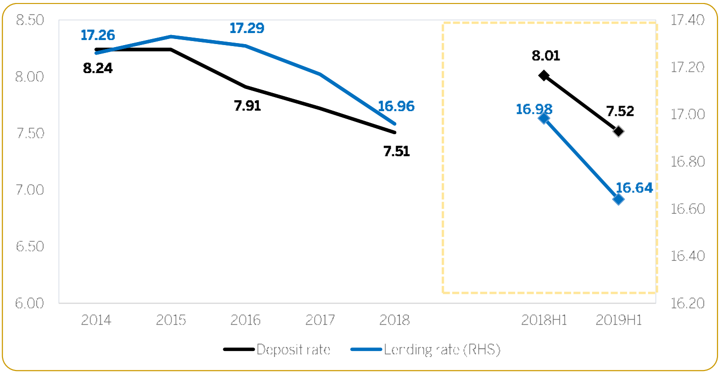
Chart 10: Interbank activity



Source: NBR, Financial Markets Department

The market rates followed the downward trend in money market rates. Deposit rate dropped by 49 basis points, decreasing to 7.52 percent on average in 2019H1, from 8.01 percent in 2018H1. Similarly, lending rate declined by 34 basis points, to 16.64 percent, from 16.98 percent during the same period.

Chart 11: Market interest rates (percent average)



Source: Financial Markets Department

3.3.3 Money Supply

During the first six months of 2019, M3 grew by 6.8 percent, with demand deposits contributing the most. In 2019H1, total deposits grew by 6.5 percent from a growth of 8.1 percent in 2018H1, while the currency in circulation grew by 9.7 percent from a growth of 11.6 percent in 2018H1.

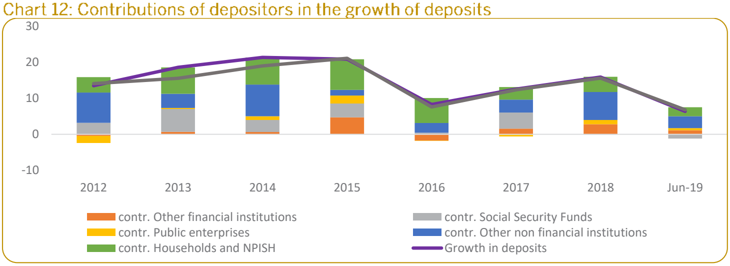
Table 20: Deposits (FRW million)

	2015	2016	2017	2018	Jun-19
Demand Deposits	614560.3	587890.9	647331.8	770886.2	825062.3
Term Deposits	469036.4	532401.0	583111.1	603259.1	695177.5
Foreign Deposits	255870.1	328540.4	398501.6	514026.3	491439.9
Total Deposits	1339466.8	1448832.3	1628944.5	1888171.6	2011679.7

Source: NBR, Monetary Policy and Research Directorate

Turning to the depositors' breakdown, the biggest contribution came from other non-financial corporations, with a growth of 11.1 percent. Deposits from social security funds declined by 7.7 percent, reflecting their preference to invest in government securities. In this regard, non-banks investment increased in both T-bills (FRW 127.3 billion in June 2019 from FRW 111.1 billion in December 2018), and T-bonds (FRW 204.4 billion in June 2019 from FRW 153.9 billion in December 2018).

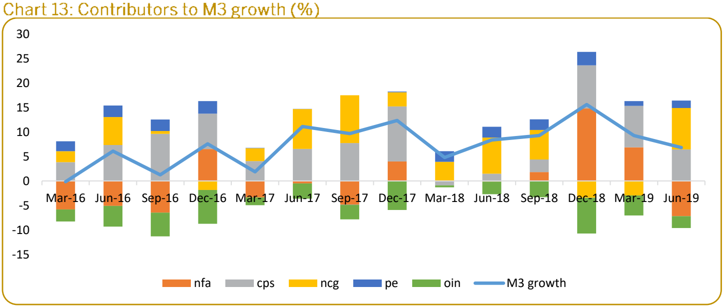
Chart 12: Contributions of depositors in the growth of deposits



Source: NBR, Monetary Policy and Research Directorate

Looking at M3 counterparts, Net domestic assets (NDA) was the main driver behind M3 growth, increasing by 28.9 percent. In 2019H1, Net credit to government (NCG) grew significantly, from a combination of an increase in domestic debt and a drawdown in deposits. Thus, making NCG the main contributor to NDA growth, followed by the credit to private sector (CPS) with a growth of 8.2 percent.

Chart 13: Contributors to M3 growth (%)



Source: NBR, Monetary Policy and Research Directorate

3.3.4 Credit

The outstanding credit to the private sector rose by 8.2 percent in 2019H1, compared to 1.8 percent growth in 2018H1. New authorized loans (NALs) grew by 36.8 percent in 2019H1, from -3.3 percent in 2018H1, due to an increase in demand for loans (52.4 percent in number and 28.3 percent in value), and a reduction in loan's rejection rate (12.1 percent from 27.9 percent). The growth observed in NALs is mainly reflected in Manufacturing (176.3 percent in 2019H1 from 16.4 percent in 2018H1), restaurants and hotels (385.0 percent in 2019H1 from -60.0 percent in 2018H1), and Water & Energy sectors (23602 percent in 2019H1 from -97.8 percent in 2018H1).

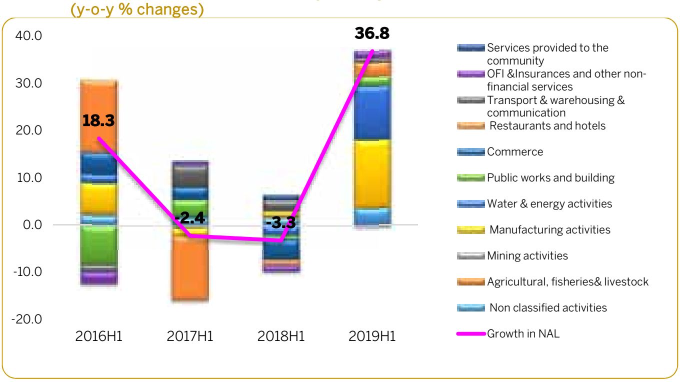
Table 21: New authorized loans by sector (FRW billion, unless otherwise indicated)

	2015H1	2016H1	2017H1	2018H1	2019H1	Percentage growth	
						2018H1/ 2017H1	2019H1/ 2018H1
Non classified activities	30.6	37.8	44.5	51.4	65.8	15.4	28.0
Agricultural, fisheries& livestock	6.7	6.3	4.9	5.7	5.2	15.8	-8.0
Mining activities	0.3	1.7	0.6	0.3	0.0	-56.9	-84.8
Manufacturing activities	12.3	35.8	28.4	33.1	91.5	16.4	176.3
Water & energy activities	1.3	8.0	8.8	0.2	45.8	-97.8	23602.0
Public works and building	119.6	89.9	105.2	101.8	110.1	-3.2	8.2
Commerce	133.6	150.1	161.6	143.2	143.2	-11.4	0.0
Restaurants and hotels	10.6	66.0	7.7	3.1	14.9	-60.0	385.0
Transport & warehousing & communication	24.3	18.7	38.2	48.4	52.5	26.7	8.5
OFI &Insurances and other non-financial services	12.5	3.5	6.5	1.0	7.1	-84.9	624.7
Services provided to the community	8.9	8.9	10.2	14.7	14.8	44.8	0.1
Total	360.8	426.7	416.7	402.7	550.8	-3.3	36.8

Source: NBR, Financial Stability Directorate

The main sectors that contributed to the growth in new authorized loans are manufacturing, and water & energy sector as shown on the chart below.

Chart 14: Contributions of sectors of activity to the growth of new authorized loans (y-o-y % changes)



Source: NBR, Financial Stability Directorate

1.1 MONEY MARKET DEVELOPMENTS

During 2019H1, the interbank market recorded a development in both the number of transactions, and the volume exchanged, compared to 2018H1.

This development in the interbank market is explained by the continuous improvement in liquidity forecasting and management, after the adoption of price-based monetary policy framework at the beginning of 2019.

1.2 BOND PRIMARY MARKET DEVELOPMENTS

In 2019H1, the Government continued the regular bond issuance program, through NBR. In this regard, NBR has successfully issued two new bonds; a 7-year bond in February 2019 and a 5-year bond in May 2019, and the average subscription level was 264.3 percent. In addition, NBR reopened three bonds; a 10-year, 15-year and 7-year bond in January, March and June 2019, respectively, with an average subscription level of 188.8 percent.

As a result, T-Bonds outstanding increased by 30.3 percent (from FRW 245.0 billion end December 2018 to FRW 319.3 billion end June 2019).

Table 22: T-Bonds Outstanding 2014- June 2019 (FRW billion and %)

YEAR	BANKS	% SHARES	INSTITUTIONAL INVESTORS	% SHARES	RETAIL INVESTORS	% SHARES	TOTAL
2014	24.3	50.1%	23.4	48.3%	0.8	1.6 %	48.5
2015	46.2	46.2%	51.5	51.5%	2.3	2.3 %	100.0
2016	60.9	39.9%	86.5	56.7%	5.1	3.3 %	152.5
2017	65.8	36.6%	103.7	57.6%	10.5	5.8 %	180.0
2018	84.2	34.4%	138.1	56.4%	22.7	9.3 %	245.0
2019H1	114.9	36.0%	171.2	53.6%	33.2	10.4 %	319.3

Source: NBR, Financial Markets Department

Compared to December 2018, the share of retail investors increased from 9.3 percent to 10.4 percent by the end of June 2019. In addition, the yields declined for all maturity of Government bonds issued and reopened, during the 2019H1. The 5-year bond yield declined to 11.3 percent end June 2019, from 11.8 percent end December 2018. The 7-year bond yield declined to 11.65 percent from 12.4 percent, the 10-year bond yield declined to 12.25 percent from 12.5 percent, and the 15-year bond yield declined to 12.7 percent from 12.9 percent during the same period.

The successful new issuance and reopening of T-bonds is attributed to favourable market conditions, and successful public awareness campaigns across the country, encouraging all potential investors to invest in risk free Government debt securities.

3.6 SECONDARY MARKET DEVELOPMENTS

During 2019H1, the value traded on counter of Government bonds remained stable at FRW 6.2 billion, from RWF 6.4 billion in 2018H1. However, the number of deals increased by 53 percent, from 85 transactions in 2018H1 to 130 transactions in 2019H1.

Table 23: Trading activities on the RSE

GOVERNMENT BOND TRADED	2014	2015	2016	2017	2018	Jan-Jun 2018	Jan-Jun 2019
No of deals	13	30	99	179	187	85	130
Value traded (FRW billion)	1.1	0.9	1.7	5.3	10.0	6.4	6.2
Market cap (FRW billion)	1,340	2,820	2,748	2,936	2,949	2,895.50	3,060

Source: Rwanda Stock Exchange

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section shows recent exchange rate developments, highlighting that by end June 2019, pressures remained moderate, and the FRW depreciation is consistent with the projection for the whole year. Exchange rate pressures originated from the increased mismatch between imports and exports; following the ongoing infrastructure projects.

4.1 EXCHANGE RATE DEVELOPMENTS

Relative to December 2018, the FRW depreciated by 2.2 percent against the USD by end June 2019, higher than a depreciation of 1.7 percent registered in the same period of 2018, following the relatively high import bill from ongoing infrastructure projects. However, this depreciation remains moderate and consistent with the revised projection of around 4.8 percent for the whole year 2019, but higher than 4.0 percent recorded in 2018.

Table 24: Appreciation/Depreciation rate of FRW against selected currencies

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
Dec-2011	1.6	1.5	-0.4	7.3	-2.0	-5.8	-3.9	-2.2
Dec-2012	4.5	10.0	7.7	-5.2	3.4	4.7	-2.6	-11.5
Dec-2013	6.1	8.0	10.2	-13.4	5.3	6.2	11.7	4.9
Dec-2014	3.6	-2.4	-8.5	-9.7	-2.8	-7.0	-6.7	1.0
Dec-2015	7.6	2.8	-3.2	7.8	-4.6	-13.5	-11.6	10.0
Dec-2016	9.7	-9.2	5.3	13.4	9.6	8.6	2.3	-0.2
Jun-2017	1.3	7.5	10.4	5.4	0.0	-1.4	2.0	-1.0
Dec-2017	3.1	13.2	16.9	6.6	2.3	0.4	2.7	-1.0
Jun-2018	1.7	-0.9	-0.4	3.6	4.0	-0.1	-4.7	1.5
Sep-2018	2.9	-0.1	0.6	2.1	5.2	0.6	-2.4	2.0
Dec-2018	4.0	-2.0	-0.1	6.2	5.5	1.2	1.8	1.9
May-2019	1.8	1.2	-0.9	3.1	2.3	1.8	0.2	-0.4
Jun-2019	2.2	2.0	1.6	4.8	1.8	2.2	2.6	-0.2

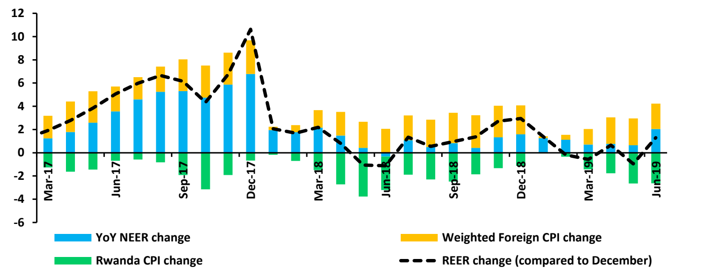
Source: NBR, Monetary Policy and Research Directorate

Compared to the British pound, Euro and Japanese yen, the FRW depreciated by 2.0 percent, 1.6 percent and 4.8 percent respectively. Compared to the regional currencies, it also depreciated by 1.8 percent, 2.2 percent and 2.6

percent against the Kenyan, Tanzanian and Ugandan shillings, respectively, while it appreciated by 0.2 percent against the Burundian franc.

In real effective terms, compared to December 2018, the FRW depreciated by 1.3 percent by end June 2019, from an appreciation of 1.1 percent registered in June 2018. This is mostly attributed to the depreciation of the nominal value of the FRW against most currencies of major trading partners. In nominal effective terms, it depreciated by 2.0 percent compared to an appreciation of 0.3 percent at the end of June 2018.

Chart 15: Drivers of REER movement



Source: NBR, Monetary Policy and Research Directorate

4.2 FOREIGN EXCHANGE MARKET DEVELOPMENTS

By end June 2019, net foreign assets of commercial banks decreased by FRW 1.6 billion, to a stock of FRW 80.6 billion from FRW 82.2 billion accumulated end June 2018. Consequently, due to the high demand of dollars from ongoing big projects, NBR increased its sales of US dollars to commercial banks by 48.6 percent in 2019H1, from USD 96.6 million end June 2018 to USD 143.5 million end June 2019.

V. FINANCIAL SECTOR STABILITY

5.1 INTRODUCTION

The NBR is mandated with ensuring a sound financial system. This mandate is founded on the fact that a well-functioning and sound financial sector is a critical enabler for sustainable economic growth, development and socio economic transformation. To achieve its mission, the NBR regulates and supervises the financial sector (with the exception of the Capital Market) to ensure compliance with minimum prudential requirements related to capital, liquidity and other relevant matrices. Corporate governance practices are also a key focus area of the NBRs supervisory approach to ensure that supervised institutions are run well by appropriately qualified and skilled individuals in order to promote the public's trust and confidence in the system.

To achieve the above mission, the NBR regularly reviews the applicable laws and regulations in compliance with international best practices such as the Basel Core Principles (BCPs) for Banks, Insurance Core Principles (ICPs) and Principles for Financial Markets Infrastructures (PFMIs). Laws and regulations are also reviewed to address any emerging issues noted on the market such as cybersecurity, corporate governance weaknesses, credit risk concerns etc. In addition, the NBR uses off-site analysis of reports submitted by and other information collected about supervised institutions to assess risks at a micro level. Based on the risk assessments, on-site inspections are conducted to further deepen the understanding of risks identified. Once issues have been noted, appropriate enforcement actions are taken against the concerned institutions. In addition to the micro-prudential supervision, the NBR also assesses systemic risks facing the sector and implements appropriate macro prudential tools. Finally, the NBR is also charged with the responsibility of ensuring smooth resolution of financial institutions, should the need arise, to avoid destabilizing the financial sector and the economy at large.

In addition to its financial soundness mandate, the NBR also oversees market conduct of supervised institutions in order to ensure protection of financial services consumers. The NBR, in partnership with other Government institutions also undertakes different initiatives aimed at deepening the Rwandan financial sector and that it is inclusive and efficient.

Performance of the financial sector (Banking, Insurance, Pension, Microfinance, and the Payment System) as at June 2019 is summarized in the following sections. The assessment focuses on growth of the balance sheet of the financial sector, asset quality, capital adequacy, liquidity and profitability. Recent developments in payment systems as well as trends in access to finance are also included. The last section captures the recent financial sector policies and legal instruments implemented since the last MPFSS (March 2019).

5.2 Structure of the Financial Sector

The financial system continues to grow and remains dominated by Banks. As at June 2019, total assets of the financial sector expanded by 14 percent (y-o-y) to FRW 4,919 billion representing 56.9 percent of GDP and up from the 12 percent growth registered in June 2018. The banking sector accounted for 66.1 percent total financial system assets as at end June 2019. The pension fund ranked second with 17 percentage share followed by insurance and microfinance sectors which accounted for 9.7 percent and 6.4 percent respectively. Following the review of the Pension Law in 2015 and the publication of the regulation on voluntary pension schemes in 2016, the NBR has so far registered 12 private pension schemes, with assets worth FRW 39.8 billion (0.8 percent of total assets of the financial sector).

The number of regulated financial institutions reduced from 516 to 500 during the period under review. The number of insurance companies reduced from 16 to 14 following the merger of SAHAM and SORAS in May 2019. Microfinance institutions reduced from 473 to 457 due to mergers, acquisitions and liquidations. 4 MFIs are under liquidation, 1 MFI license was withdrawn due to non-compliance, 10 MFIs were acquired by UMUTANGUHA PLC and 4 SACCOs were acquired by UMURIMO Finance, while two SACCOs merged into MTG ISHEMA SACCO. On the other hand, the MFI sector registered 3 new entrants during the period under review (AMIFA RWANDA, BRAC MFI and JALI SACCO).

Table 25: The Structure of the Financial Sector

	Jun-17		Jun-18		Jun-19		Assets/GDP		
Financial Sector	Number	% Share of TA	Number	% Share of TA	Number	% Share of TA	Jun-17	Jun-18	Jun-19
Banking	17	66.9	16	65.5	16	66.1	36.1	35.8	38.0
Insurance	16	9.7	16	9.8	14	9.7	5.1	5.4	5.5
Public Pension Fund	1	17.1	1	17.4	1	17.0	9.3	9.5	9.8
Private Pension Schemes	-	-	10	0.7	12	0.8	-	0.0	0.0
MFIs	473	6.3	473	6.6	457	6.4	3.5	3.6	3.7
Total	504	100	516	100	500	100	54.0	54.2	56.9

Source: Financial Stability Directorate

5.3 BANKING SUB-SECTOR

5.3.1 Structure of the Banking Sub-Sector

The banking sector is composed of 11 Commercial Banks, 1 Development Bank, 1 Cooperative Bank and 3 Microfinance Banks. All these Banks are regulated under the Banking Law N° 47/2017 of 23/9/2017 governing the organization of banking.

Concentration of the sector has steadily declined over the recent past with the four largest banks holding 56 percent of total sector assets as at end June 2019 down from 62 percent in June 2009. This reduction was mainly due to the entry of new players into the market.

Subsidiaries of foreign institutions held 48 percent of total sector assets compared to 25 percent in June 2009. The entry of these foreign based institutions has been key in the introduction of new banking products and services notably Agency Banking as well as other technology based products and services.

5.3.2 Growth of the Banking Sub-Sector

The balance sheet of the banking sector continued to expand during the period under review. Assets of Banks increased by 15.1 percent (y-o-y) from FRW 2,824 billion in June 2018 to FRW 3,252 billion in June 2019, an improvement compared to the 9.8 percent growth registered in June 2018. All the major components of Banks' increased during the period under review: loans (+ 16.6 percent), Government securities (+ 13.3 percent), cash and reserves at NBR (+ 35.8 percent) and other investments (+ 43.3 percent). The improved growth of assets was mainly driven by the growth of deposits, as well as, fresh capital injections and retained earnings.

Lending remained the main business of Banks. The share of loans in Banks' assets increased from 57.7 percent in June 2018 to 58.8 percent in June 2019. Government securities represented 10 percent of total assets while cash and reserves at NBR represented 8.9 percent, Investments in other securities 5.3 percent, assets held by other financial institutions 10.1 percent, fixed assets 4.4 percent and other assets 2.4 percent. The main earning assets for Banks are loans and investments in Government securities— income from these two accounted for 71.3 percent of total incomes of Banks as at end June 2019. In the period under review, Banks reduced the share of their holding of Government securities in favour of increased lending to the private sector (Table 26). The asset structure of Banks imply that credit demand, quality of loans, and interest rate spread determine profits of Banks, which ultimately also determines the solvency positions of Banks.

Table 26: Structure of Banks assets

Assets of Banks	Jun-17	Jun-18	Jun-19	% Share in Total Assets (Jun 18/17)	% Share in Total Assets (Jun 19/18)
Cash in Vaults	65	61	74	2.2	2.3
Reserves in NBR	137	157	213	5.6	6.6
Dues from Financial Institutions	359	390	330	13.8	10.1
Government Securities	228	288	327	10.2	10.0
Investments in other Securities	81	120	173	4.3	5.3
Loans & Overdrafts (Net)	1,513	1,630	1,912	57.7	58.8
Fixed Assets (net)	115	123	145	4.4	4.4
Other Assets	74	53	78	1.9	2.4
Total Assets	2,572	2,824	3,252	100.0	100.0

Source: NBR, Financial Stability Directorate

Credit growth picked-up during the period under review. Gross outstanding loans of the banking sector increased by 16.6 percent (y-o-y) from FRW 1,723 billion (21.8 percent of GDP) in June 2018 to FRW 2,008 billion (23.4 percent of GDP) in June 2019 compared to the 9.1 percent growth registered in June 2018. The uptick of the banking sector loans was largely driven by increased new lending. Demand for loans particularly increased in the first half of 2019, compared to last year, enabling Banks to lend— for example, the volume and value of loan applications increased from 239,629[1] to 365,129 and from FRW 505.7 billion to FRW 648.6 billion respectively. In line with improved demand

[1] The figure includes digital loan applications reported from the second half of 2018

for loans, new loans approved by Banks in the first six months of 2019 increased by 36.7 percent (from 402.7 billion to FRW 551.1 billion), compared to the decline of 3.4 percent registered in the first six months of 2018.

Credit growth particularly increased in transport and communication, water and energy as well as in manufacturing (Table 27). The growth in the transport and communication sector was largely due to the FRW 50 billion MTN syndicated loan concluded towards the end of 2018. Growth in the water and energy sector was mainly due to the FRW 17.5 billion extended to WASAC to finance its water network extension plan. Lending to manufacturing has consistently increased over the last three years (Table 27) —partly demonstrating Banks' increased financing of the "Made in Rwanda" program. Lending to manufacturing was broad-based in-terms of beneficiaries – for example, new manufacturing loans in the first half of 2019 went to 249 firms, compared to 125 firms registered in June 2018, portraying increased demand of loans for manufacturing purposes, as well as, increasing appetite of Banks to lend to this strategic sector.

Lending also accelerated in agriculture and consumer loans (Table 27). In agriculture, increased lending reflects good agriculture seasons that enabled farmers to borrow for farming purposes. Consumer loans have also increased for the last three years in row (Table 27), reflecting the increasing uptake of micro-digital loans so far offered by four banks (BK, Equity, KCB and CBA). Banks offer these loans in partnership with telecoms. The size of these loans range between FRW 1,000 to 500,000 and hold a maturity of 1-6 months. Since June 2018, the uptake of these loans have increased. The outstanding value of these micro-digital loans increased by 113 percent during the period under review (i.e., from FRW 1.5 billion in June 2018 to 3.2 billion in June 2019).

Banks' loan portfolio remain concentrated to trade and mortgage sectors, although this slightly reduced in June 2019. The combined share of mortgage and trade loans in the total banking sector loans stood at 50.3 percent in June 2019, down from 54.3 percent in June 2018 as Banks diversify their lending to manufacturing, consumer loans and communication. The high banking sector exposure to trade and mortgage sectors remains among key risks facing the financial sector. With this structure, shocks to the mortgage sector like fluctuation of housing prices, rental prices and occupancy rates would weigh on the banking sector performance. On a positive note, the banking sector is conscious of this risk and have started to diversify by increasing lending to other sectors of the economy (Table 27). Further, to contain risks related to high real estate exposure, the NBR introduced the loan-to-value (LTV) limits on housing properties (details of LTV directive are discussed in section on policy reforms).

Table 27: Banks' Outstanding Loans by Sector

Activity Sector	Loans (In Billions, FRW)			Annual Change	
	Jun-17	Jun-18	Jun-19	% change 18/17	% change 19/18
Consumer loans	121.9	137.8	160.5	13.0	16.5
Agricultural & livestock	28.4	24.6	28.2	-13.5	14.4
Mining activities	1.7	3.4	3.3	104.5	-2.5
Manufacturing	149.9	173.1	208.8	15.5	20.6
Water & energy	39.6	43.2	82.6	9.1	91.2
Mortgage industries	530.8	609.0	672.6	14.7	10.4
Public works	*73.5*	*119.2*	*114.0*	*62.2*	*-4.4*
Residential houses	*251.3*	*259.9*	*295.0*	*3.4*	*13.5*
Commercial houses	*206.0*	*229.9*	*263.6*	*11.6*	*14.7*
Trade	298.2	282.7	301.7	-5.2	6.7
Restaurant & hotel	157.0	132.9	146.2	-15.4	10.0
Transport & communication	134.4	161.5	249.5	20.1	54.4
OFI &Insurance	26.1	21.5	23.6	-17.6	10.0
Other Service sector	50.5	54.2	52.8	7.3	-2.5

Source: NBR, Financial Stability Directorate

The banking sector loans are mainly to the private sector and are largely in local currency. Loans to Government agencies accounted for only 6.7 percent of total loans in June 2019, with the rest going to private households and corporates. Banks also largely lend in local currency reflecting that foreign exchange exposure and risks are minimal. Local currency loans accounted for 87.7 percent of total banking sector loans in June 2019, with only 12.3 percent being denominated in foreign currency.

The funding base of banks continued to expand during the period under review. Customer deposits accounted for 76.7 percent of total banking system liabilities as at end June 2019. Deposits are mainly from residents (73.7 percent of total deposits). Global experience indicates that resident deposits constitute stable funds compared to non-resident deposits that are highly sensitive to market sentiments. As at June 2019, interbank and foreign financing represented other sources of financing for Rwandan Banks, at 16.3 and 6.8 percent, respectively. Banks use interbank funds mainly for short-term liquidity management, rather than for investment purposes.

Growth of banking sector deposits picked up to 13 percent (from FRW 1,833 billion to 2,072 billion) in June 2019, an improvement compared to the 9.5 percent growth registered in June 2018. Growth was more notable in demand deposits (14.6 percent), compared to term deposits (7.2 percent). Reflecting deposit growth patterns, the proportion of term deposits in total deposits dropped from 40.8 percent in June 2018 to 39.3 percent in June 2019, while that of demand deposits increased from 59.2 percent to 60.7 percent. The slowdown of growth in term deposits was largely driven by institutional investors (Insurers, RSSB, MFIs) that reduced their placements in Banks in favour of Government securities that offer relatively higher yields compared to interest paid for deposits by Banks. For example, the total term deposits of institutional investors dropped from FRW 290.7 billion in June 2018 to 274.6 billion in June 2019.

Table 28: Key Banking Financial Highlights (FRW billion)

Indicators	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
Total Assets (net)	2,000	2,278	2,572	2,824	3,252
Loans & Overdrafts (Net)	1,109	1,323	1,513	1,630	1,918
Total Liabilities	1,640	1,859	2,118	2,343	2,689
Deposits	1,181	1,507	1,674	1,833	2,072
Profits (Net After Tax)	24	19	22	23	26
Total Shareholders' Funds	360	419	454	481	569

Source: NBR, Financial Stability Directorate

5.3.3 Financial Soundness Indicators of Banks

The banking sector remains solvent and maintains capital buffers above the minimum prudential requirements. The system-wide total Capital Adequacy Ratio (CAR) increased to 23.3 percent of risk-weighted assets in June 2019, up from 21.9 percent observed in June 2018. Banks also maintained high quality capital by holding a high proportion of Common Equity Tier 1 (CET1) in their capital stock. CET1 accounted for 93.7 percent of total banking sector capital in June 2019 (i.e., FRW 496.7 billion out of FRW 530 billion). Banks CET1 is largely composed of paid-up capital, share premiums and retained earnings. Capital is required by Banks to absorb losses that may arise during the normal course of the bank's operations. The sufficient capital buffer held by Banks therefore indicates the resilience of the financial sector to shocks.

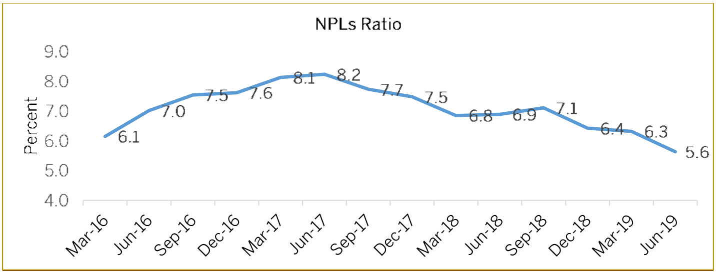
Capital ratios of Banks were driven-up by capital injections and retained earnings that outmatched growth of risk weighted assets. During the period under review, the core capital of Banks increased by FRW 90 billion (from FRW 407 billion in June 2018 to FRW 497 billion in June 2019). This growth is largely attributable to fresh capital injection and retained reserves.

Banks are expected to increase their capital base in the next five years in line with the new licensing requirements. In December 2018, the NBR increased the minimum paid-up capital requirements for different categories of Banks - Commercial Banks from FRW 5 billion to FRW 20 billion and Development

Banks from FRW 3 billion to FRW 50 billion. The minimum paid up capital for Cooperative and Mortgage Banks was set at FRW 10 Billion. Banks have a five year transition period ending 2023 to comply with the new requirements while new entrants will be required to meet the minimum capital requirements at the licensing stage.

With regard to asset quality, the Non-Performing Loans (NPLs) ratio of Banks, has steadily dropped since September 2017 (Chart 16) implying a reduction in the proportion of bad loans to total loans. The NPLs ratio is a key financial stability indicator as it affects profits, solvency and liquidity of Banks. The steady reduction of the NPLs ratio observed since September 2017, when it reached a pick of 8.2 percent, is a result of the write-offs done by Banks – total write-offs by Banks amounted to FRW 29 billion in the first six months of 2019. In addition, the improved economic performance resulted in increased revenues for borrowers and thereby their ability to meet debt service commitments as well as an uptick in demand for new loans resulting in new lending.

Chart 16: Banking Sector NPLs Ratio



Source: Financial Stability Directorate

The NPLs ratio particularly dropped in agriculture, manufacturing, mortgage and hotels (Table 29). In agriculture, the reduction of NPLs was supported by the improved performance of the sector during the period under review. A good agriculture season supported farmers to borrow from Banks, as well as, service their loans. The significant reduction of NPLs ratio in the manufacturing sector as well as mortgage and hotels was mainly due to write-offs as well as increased new lending to this sector. The NPLs ratio also dropped in the consumer loans category, water and energy sector and in transport and communication mainly reflecting increased lending to these sectors during the first half of 2019.

Banks' asset quality deteriorated in trade and mining (Table 29). In mining, the trend in NPLs reflects the slowdown of international commodity prices that affected the export revenue from minerals in the first half of 2019. Due to unfavorable international prices, Rwanda's mineral export values decreased by 22.8 percent (y-o-y) in H1 2019, compared to 50.1 percent growth registered in H1 2018. The slowdown of commodity prices, not only affected export revenues, but also affected the performance of mining loans. The total amount of NPLs in mining increased from FRW 22 million in June 2018 to FRW 2.9 billion. Nevertheless, mining accounts for a small share of banking sector loans (2 percent as at end June 2019) and hence its bad performance did not weigh-up the overall banking sector NPLs ratio. In trade, NPLs were driven by the poor performance of four large loan facilities in two Banks amounting to FRW 15.3 billion. The increasing NPLs in the trade sector since June 2016 (Table 29) is among the key risks facing the banking sector as this sector accounts for the second largest share of banking sector loans (at 15.6 percent), after mortgage (at 34.9 percent).

Banks' loan-loss coverage ratio increased from 67.4 percent in June 2018 to 80.2 percent in June 2019. In nominal value, Banks' provisions increased from FRW 92.8 billion in June 2018 to FRW 100.6 billion in June 2019.The loan loss provision coverage ratio is an indicator of how protected a bank is against future losses. A higher ratio therefore means that Banks can withstand future losses better, including unexpected losses. The provisions of Banks are expected to increase further during the next 5 years as Banks implement the

IFRS9 related provisions. Banks adopted IFRS9 in December 2018, although the NBR guideline allows Banks to spread their outstanding IFRS9 day one provisions over five years (i.e., 2018-2023)

Table 29: NPLs Ratio by Economic Sector (percent)

Activity Sectors	Sectoral NPLs Ratio (percent)					Percent share in Total NPLs
	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	
Personal loans	7.2	6.4	7.8	6.1	6.0	8.7
Agriculture	14.9	16.9	18.2	7.2	5.0	1.3
Mining activities	2.8	0.9	0	0.6	88.4	2.6
Manufacturing	1.1	6	8.8	13.9	1.3	2.5
Water & energy	2.6	0.2	0.1	0.0	0.0	0.0
Mortgage industries	4.5	5.1	5.8	5.3	4.0	24.5
Trade	7.1	6.9	8.8	11.5	15.0	40.8
Hotels	6.1	9	9.8	11	8.8	11.7
Transport & Communication	4	3.1	3	2.6	1.9	4.4
OFI &Insurance	4.2	4.2	0.4	0.4	1.7	0.4
Other services	6.5	4.5	10.7	8.9	6.7	3.2

Source: NBR, Financial Stability Directorate

The banking sector remains adequately liquid. The Liquidity Coverage Ratio (LCR), that indicates the proportion of Banks' highly liquid assets to their short-term obligations stood at 180.5 percent as at end June 2019, against 100 percent minimum prudential requirement. Similarly, the aggregate Net Stable Funding Ratio (NSFR), that relates the Banks long-term assets to long-term liabilities stood at 164.3 percent at end June 2019 against 100 percent minimum prudential requirement. The high NSFR reflects the structure of banking sector liabilities that are largely composed of client deposits. The NBR implemented the two-liquidity standard (LCR and NSFR) in 2018 as part of the broader reforms to comply with international regulatory standards (Basel III).

The banking sector profits picked-up as income expanded more, in absolute terms, than expenses. The net profits of Banks increased to FRW 26.2 billion in H1 2019 from FRW 22.9 in H1 2018. The improvement in banking sector profits is associated with 14.3 percent increase in income from FRW 195.7 billion in H1 2018 to FRW 223.7 billion in H1 2029, which offset the 14.3 percent growth of expenses from FRW 158.7 billion in H1 2018 to FRW 181.4 billion in H1 2019. Increasing profits of the banking sector supports its stability by increasing its capital base through retained earnings.

Banks' profits were largely driven-up by Net Interest Income (NII). The total banking industry NII increased by FRW 20.6 billion during the period under review (i.e., from FRW 99.6 billion in H1 2018 to FRW 120.2 billion in H1 2019). Banks generate interest income from loans (at 85.3 percent of total interest income), Government securities (9.4 percent) and placements & other market securities (5.3 percent). Banks' NII in H1 2019 was weighed-up by the slowdown of interest expenses and increased volume of loans which increase interest income. The slowdown of Interest expenses is attributed to the reduced growth of term deposits and a decline of cost of funds.

Profits of Banks were also weighed-up by non-interest income that increased by FRW 5.6 billion (from FRW 49.7 billion in June 2018 to FRW 55.3 billion in June 2019) largely due to recoveries.   A breakdown of non-interest income of Banks indicates that during the period under review, recoveries increased the most by FRW 4 billion indicating Banks' efforts in recovery of NPLs and previously written-off loans, but also the positive impact of the economic performance that enables economic agents (individuals and firms) to service their debt. Fees and commissions increased by FRW 1.3 billion, off-balance sheet income by 0.5 billion, while foreign exchange income dropped by FRW 0.2 billion. It is worth noting, though, that non-interest income only represents 25 percent of Banks' total income as at end June 2019 indicating overreliance on lending for revenue generation.

Banks' expenses increased at the same rate as income. The total banking industry expenses increased by FRW 22.7 billion (from FRW 158.7 billion in H1 2018 to FRW 181.4 in H1 2019). As at end June 2019, Banks' expenses were largely composed of interest expenses (27 percent of total expenses), salaries and wages (21 percent), provisions (21 percent) and other expenses (21 percent). During the period under review, provisions incurred the highest growth in nominal terms increasing by FRW 14.4 billion while salaries and wages increased by FRW 3.3 billion. These two combined accounted for more than 70 percent of the increase in total expenses of Banks in H1 2019 compared to H1 2018.

5.4 MICROFINANCE SUB-SECTOR

5.4.1 Structure of Microfinance Sub-Sector

The microfinance sector is composed of 457 institutions as at end June 2019. This includes 19 Limited Liability MFIs, 438 Savings and Credit Cooperatives (SACCOs) of which 416 are Umurenge SACCOs and 22 other SACCOs. Compared to Banks, MFIs are spread across the country which facilitates access to finance for the unbanked population, especially rural households and micro SMEs. As at end June 2019, MFIs had 3,779,860 clients (i.e., 54 percent of the total adult population). In terms of products, MFIs mainly offer loans and saving products to their clients.

5.4.2 Performance of Microfinance Sub-Sector

The balance sheet of the microfinance sub-sector continued to expand during the period ended June 2019. Total assets of this sub-sector increased by FRW 34 billion from FRW 279 billion in June 2018 to 313 billion in June 2019. All MFI sub-categories grew during the period as follows: Assets of U-SACCOs increased by FRW 10.4 billion to FRW 138.4 billion, assets of Limited Liability MFIs increased by 16.7 billion to FRW 85.6 billion, while assets of other SACCOs increased by FRW 6.9 billion to FRW 89.1 billion.

Loan portfolios of MFIs increased while deposits in banks declined. The share of loans in MFI total assets increased from 51 percent in June 2018 to 52 percent in June 2019, reflecting improved lending in H1 2019. On the other hand, the share of MFI deposits in banks to their total assets reduced from 37 in June 2018 to 36 percent in June 2019. This change in asset mix indicates increased intermediation by the microfinance sector.

MFI lending to agriculture picked up during the period under review. The stock of MFI loans to the agriculture sector increased by 244 percent (from FRW 21.5 billion in June 2018 to FRW 73.8 billion in June 2019) higher than the 3.3 percent growth registered in June 2018. Reflecting increased lending to agriculture, the share of agricultural loans in total MFIs increased to 44.2 percent in June 2019 from 14.4 percent in June 2018, making the agriculture sector the most financed sector by MFIs ahead of trade (at 26.4 percent) and mortgage (at 10.3 percent). The improved lending to the agriculture sector reflects increased demand for credit and improved assets quality in this sector following a good agriculture performance in H1 2019.

Growth of MFI assets reflects increased funding during the period under review. Deposits, the main source of funds for MFIs, increased by FRW 13.6 billion to FRW 167 billion during the year ended June 2019. During the same period, equity (including paid-up capital, retained earnings and other equity) increased by FRW 15 billion to FRW 106 billion. Borrowing and lines of credit account for a small portion of MFI funding (10 percent) and increased by FRW 1.2 billion during the period under review.

Similar to Banks, the challenge of short-term funding constrains the MFI sector for long-term lending. Saving and term deposits accounted for only 32 percent of total deposits of the MFI sector (i.e., FRW 53.5 billion out of FRW 167.2 billion total deposits). The share of term and saving deposits is much lower for the U-SACCO subcategory at 13 percent (i.e., FRW 9.4 billion, out of FRW 73.1 billion).

5.4.3 The Soundness of Microfinance Sub-Sector

The MFIs sub-sector remains solvent and liquid. As at June 2019, the Capital Adequacy Ratio (CAR), stood at 33.8 percent, above the minimum regulatory requirement of 15 percent. The solvency buffer held by MFIs portrays the resilience and capacity of the sector to withstand shocks. The MFIs sector also holds sufficient liquid assets and liquidity risks are minimal. The liquidity ratio of the MFI sector stood at 108.8 percent at end June 2019, significantly above the prudential limit of 30 percent. The high liquidity position of MFIs relates to the limited lending opportunities of these institutions.

Asset quality of MFIs improved with the overall ratio of non-performing loans to total loans dropping from 8 percent in June 2018 to 6.7 percent in June 2019. In absolute amounts, NPLs of MFIs dropped by FRW 600 million (from FRW 11.8 billion in June 2018 to 11.2 billion in June 2019). The NPLs ratio dropped across the two sub-categories of the microfinance sector as follows: In Limited Liability MFIs, the ratio dropped from 8.7 percent to 5.2 percent, and in other SACCOs, from 4.2 percent to 3.7 percent. To address the issue of NPLs and written off loans, GoR established a national taskforce composed of four ministries (MINECOFIN, MINICOM, MINALOC and MINIJUST) and six institutions (NBR, RIB, RNP, Prosecutor General, and RCA) in October 2018 to enforce loan recovery in U-SACCOs. The task force recovered FRW 2.7 billion during the first five months of operation (November 2018-March 2019). These recoveries improved profits of U-SACCOs as other income while sending a clear message that defaults will be followed up thereby preventing further downgrade of loans into NPL. The second phase of the taskforce's operations commenced in August 2019 and is expected to further increase recovery in U-SACCOs, and ultimately profitability and asset quality.

Profits of the microfinance sector more than doubled from FRW 3.2 billion in H1 2018 to FRW 6.6 billion in H1 2019. During the same period, the MFI sector ROA and ROE increased from 1.2 percent and 3.7 percent respectively to 4.3

percent and 12.8 percent. Profits rebounded in all MFI sub-categories. Limited Liability MFIs recovered from a loss of FRW 653.3 million in H1 2018 to a profit of FRW 1.1 billion in H1 2019. Profits of U-SACCOs increased by FRW 1.1 billion (from FRW 1.8 in H1 2018 to FRW 2.9 in H1 2019). Profits of other SACCOs increased by FRW 400 million (from FRW 2.1 billion in H1 2018 to FRW 2.5 billion in H1 2019). MFI sector profits was driven up improved economic performance that supported increased demand for loans and improved asset quality.

Table 30: MFIs Performance Indicators (U-SACCOs included)

Indicators	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
Assets (FRW billion)	187.5	230.3	247.7	279.0	313.1
Loans (FRW billion)	93.6	119.5	127.4	149.3	167.6
Deposits (FRW billion)	104.9	126	133.4	153.6	167.2
Equity (FRW billion)	58.8	69.7	82.5	90.7	105.9
Net profit/Loss (FRW billion)	3.4	4.3	-0.1	3.2	6.6
Capital Adequacy Ratio (%)	31.4	30.3	33.3	32.5	33.8
NPLs / Gross Loans (%)	7.4	7.5	12.3	8.0	6.7
ROA (%)	3.9	4	-0.1	1.2	4.3
ROE (%)	12.6	13.3	-0.3	3.7	12.8
Liquidity ratio (%)	95.4	95.1	99.1	103.3	108.8

Source: NBR, Financial Stability Directorate

5.5 INSURANCE SECTOR

5.5.1 Structure of Insurance Sub-sector

The insurance sector is an integral component of Rwanda's financial system. It is the third largest component of the financial sector, after banking and the public pension fund. This sector supports the economy by providing risk mitigation mechanisms for households and firms as well as supporting financing by investment of funds mobilized from policy holders. Its growth and performance is therefore critical for economic growth and development. The NBR regulates and supervises the insurances sector to ensure its stability and soundness. Sections below summarize the performance of this sector as at end June 2019.

The insurance sector consisted of 14 insurance companies as at June 2019. This includes 12 private Insurers (9 non-life and 3 life Insurers) and 2 public health Insurers (RSSB Medical and MMI). The number of Insurers dropped by 2 reflecting the merger of SAHAM and SORAS in May 2019 (SAHAM Vie merged with SORAS Vie, while SAHAM Assurance General merged with SORAS Assurance General). The four companies that merged held a combined market share of 19.8 percent of the total insurance industry in December 2018. Insurance intermediaries consisted of 707 agents, 17 brokers, and 19 loss adjusters as at June 2019 from 581 agents, 16 brokers and 13 loss adjusters as at June 2018.

Low insurance penetration, limited product differentiation, price undercutting, high operating costs and fraud in the claims processes are some of the key challenges facing the insurance sector. The insurance penetration (ratio of total premiums to GDP) stood at 1.7 percent in June 2019, the same in June 2018. This low level of insurance penetration suggests significant scope for insurance expansion. Low penetration also reflects the currently low usage of insurance products and services by the economic agents (households and firm). For example, as at end June 2019, the total insurance policy holders stood at 795,932 (11 percent of the total adult population). The mismatch between insurance products on the market vis a vis the needs of households especially in the rural areas and the informal sector (farming and SMEs), partly explains this low penetration. It is important that insurance companies widen their client base through tailoring their products to the current needs of economic agents. Insurance companies also need to diversify their business that is currently dominated by motor and health insurance products with 43 percent and 31 percent share of total non-life insurance premiums, respectively.

Recent initiatives to increase the insurance penetration include micro-insurance regulation published in December 2018 purposely to create conducive environment for micro-insurance business. Micro insurance includes a range of insurance products that cover the low-income segments of the population against specific risks in exchange for regular premium payments proportionate to the likelihood and cost of the risks involved. It is a broad market that, if exploited by insurance companies, can expand their client base, as well as increase insurance penetration. The other recent initiative expected to increase insurance penetration is the National Agriculture Insurance Scheme. Early this year, the Ministry of Agriculture and Animal Resources (MINAGRI) in partnership with three insurance companies conducted a pilot of this scheme by providing insurance cover to cooperatives of farmers of maize, rice and livestock in 14 districts. Based on the lessons from the pilot, the scheme is expected to be rolled out across the country and is expected to increase insurance penetration as agriculture employs more than 73 percent of adult Rwandans. Other avenues being reviewed to increase insurance penetration include the assessment of where big risks are insured as well as combatting fronting practices in the sector. Continuous assessment of other insurable assets currently not insured and

[2] Policyholders in Private Insurers only

designing appropriate products to cover those risks will be a critical enabler in further increasing insurance penetration going forward.

5.5.2 Performance of Insurance Sub-sector

During the period under review, total assets of the insurance sector increased by FRW 54.3 billion to FRW 477.3 billion (1.8 percent of GDP). Assets of public Insurers (RSSB-Medical and MMI) registered the highest increase by FRW 37.4 billion, compared FRW 16.9 billion for private Insurers. Assets of the insurance sector were boosted by capital injections (FRW 4.3 billion) and retained earnings (FRW 50 billion).

Asset allocation of insurance companies remained stable, as in previous years. Deposits in Banks remained the largest portion of the Insurers' assets (39 percent), followed by government securities (19 percent), equities (12 percent) and properties (10 percent). It is worth noting that the asset mix of insurers varies with the class of business. Whereas short term insurers (non-life – including public insurers) held most of their assets in short term maturities of bank deposits (41 percent), loans and receivables (24 percent), securities and equities (19 percent) and investment in property (8 percent), long term insurers (life) held their assets more in longer term maturities – securities and equities 48 percent, investment in properties (27 percent) and bank deposits (18 percent).

During the period under review, Insurers increased their holdings of Government securities from 16 percent to 19 percent while deposits in Banks reduced (from 47 percent to 39 percent). Insurers' substitution of deposits with Government securities reflects Government's increased issuance of long-term, risk free, securities during the period under review.

Growth of the insurance sector's premiums improved during the period under review. Total premiums registered by Insurers increased by FRW 9.1

billion (i.e., from FRW 64.3 billion in H1 2018 to FRW 73.4 billion in H1 2019), higher than the FRW 4.6 billion growth registered in the corresponding period of the previous year. Growth was higher among public insurers (MMI and RSBB-Medical) by FRW 6 billion (from FRW 64.3 billion in H1 2018 to FRW 73.4 billion in H1 2019), compared to private Insurers with premium growth of FRW 3.3 billion (from FRW 26.6billion in H1 2018 to FRW 32.6 billion). For public insurers the growth of premiums was driven by increased number of subscribers from 432,450 in H1 2018 to 498,289 in H1 2019. For private insurers, the uptick in premiums reflected the continued impact of the upward revision of motor insurance premiums.

Motor and medical insurance premiums accounted for 61 percent of total premiums (FRW 25 billion out of 40.9 billion) registered by private Insurers in H1 2019 and 74 percent of total non-life insurance premiums. The remaining 39 percent of private Insurers' premiums came from property (7 percent), guarantees (4 percent), engineering (3 percent), accident and health (2 percent), transportation (1 percent), liability (2 percent), other non-life insurance products (3 percent) and life insurance products (17%).

Table 31: Key Financial Performance Highlights of the Insurance Sector

Description (In FRW billion) Insurance sector (Public & Private)	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	%Change Jun-18/17	%Change Jun-19/18
Gross written premiums	47.5	52.9	59.7	64.3	73.4	7.7	14.1
Net written premiums	41.1	46.1	52.3	57.9	66.2	10.7	14.3
Total Claims	22.0	30.2	30.9	34.4	37.3	11.5	8.3
Management expenses	13.6	17.2	15.2	16.2	18.4	6.7	13.6
Underwriting profit (loss)	5.4	(1.4)	6.3	4.9	9.7	-21.8	96.3
Investment Income	9.8	11.6	12.7	16.3	14.5	28.0	-10.8
Net profit after taxes	14.7	10.0	18.6	20.8	23.2	11.6	11.8
Assets	295.3	332.60	366.50	422.97	477.1	15.4	12.8
Technical provisions	59.0	74.2	80.5	85.5	97.1	6.2	13.6
Liabilities	18.0	20.3	19.8	26.2	26.1	32.2	-0.5
Capital and reserves	218.4	238.1	266.0	311.3	354.7	17.0	14.0
Private insurance	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**	**Jun-19**	**%Change Jun-18/17**	**%Change Jun-19/18**
Gross written premiums	27.9	30.6	33.8	37.7	40.8	11.5	8.1
Net written premiums	21.5	23.7	26.5	31.3	33.6	18.1	7.3
Total Claims	13.6	18.5	18.4	18.5	20.5	0.5	10.9
Management expenses	11.0	13.2	12.3	13.5	13.6	9.4	1.0
Underwriting profit (loss)	(3.1)	(8.0)	(4.2)	(3.0)	(0.9)	-29.3	-70.6
Investment Income	4.0	4.1	5.2	6.1	7.0	16.6	15.4
Net profit after taxes	0.3	(4.1)	0.6	2.7	4.7	346.0	74.5
Assets	116.7	124.7	136.4	157.5	174.2	15.5	10.6
Technical provisions	58.5	73.4	79.8	84.4	95.8	5.8	13.5
Liabilities	15.9	17.5	17.3	21.5	23.7	24.1	10.6
Capital and reserves	42.2	33.8	39.2	51.6	55.5	31.7	7.5
Public insurance	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**	**Jun-19**	**%Change Jun-18/17**	**%Change Jun-19/18**
Gross written premiums	19.6	22.4	25.8	26.6	32.6	3.2	22.5
Net written premiums	19.6	22.4	25.8	26.6	32.6	3.2	22.5
Total Claims	8.4	11.8	12.5	16.0	16.8	27.7	5.3
Management expenses	2.6	4.0	2.9	2.8	4.8	-4.5	72.9
Underwriting profit (loss)	8.6	6.6	10.5	7.9	11.0	-24.8	39.7
Investment Income	5.8	7.5	7.5	10.2	7.5	35.8	-26.4
Net profit after taxes	14.4	14.1	17.9	18.1	18.5	1.0	2.5
Assets	178.6	207.9	230.1	265.5	302.9	15.4	14.1
Technical provisions	0.4	0.7	0.7	1.1	1.3	53.4	21.0
Liabilities	2.0	2.8	2.5	4.7	2.3	88.9	-50.5
Capital and reserves	176.2	204.3	226.8	259.7	299.2	14.5	15.2

Source: NBR, Financial Stability Directorate

Profits of the insurance sector (public + private) increased as growth of premiums outmatched that of claims and other operational expenses. The consolidated net profits of Insurers (public and private) increased by FRW 2.4 billion (from FRW 20.8 billion in H1 2018 to FRW 23.2 billion in H1 2019). Improved profits are attributable to higher growth of premiums (+FRW 9.2 billion) compared to claims (+FRW 2.9billion) and operational expenses (+ FRW 2.2 billion). Reflecting growth dynamics of premiums and expenses in H1 2019, the combined ratio (claims ratio+ expense ratio), that measures the operational underwriting profitability of Insurers dropped from 86 percent in June 2018 to 85 percent in June 2019 and remains below the 90 percent prudential maximum.

Profits of private insurers improved over the last four years from a loss of FRW 4.1 billion in June 2016, to a profit of FRW 2.7 billion and FRW 4.7 billion in June 2018 and June 2019 respectively. This steady improvement has been underpinned by a combination of revised premium rates on motor insurance and improved claims management that has gradually reduced the underwriting losses of private Insurers. Profits of private Insurers have been also supported by a steady growth of investment income. As at end June 2019, private Insurers (altogether), held FRW 130.8 billion of investments in different instruments (Government securities, equities, properties and placements in Banks). Investment income of private Insurers increased from FRW 6.1 billion in H1 2018 to FRW 7 billion in 2019.

To improve their profits further, insurers need to appropriately price risks, diversify their insurance products (especially the untapped sectors and segments of the population), as well as put in place controls to reduce fraud. In support of these interventions, the NBR in 2016 issued a directive on conduct of insurance business that required, among other things, Insurers to put in place underwriting and pricing policies forbidding Insurers to sell insurance on credit.

Table 32: Performance of Motor Insurance Business

Description (FRW Billion)	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
Net earned Premiums	9.2	11.0	11.0	12.9	14.1
Claims Incurred	6.0	9.8	8.8	8.7	7.4
Expenses	4.3	5.1	4.4	5.2	6.1
Net underwriting profit/ (loss)	(1.1)	(4.9)	(2.2)	(0.9)	0.7
Key Financial Ratios (%)					
Claims ratio (60% -70%)	65	89	80	68	52
Expenses ratio (≤30%)	47	46	40	40	43
Combined Ratio (< 100%)	112	136	120	108	95

Source: NBR, Financial Stability Directorate

5.5.3 Financial Soundness Indicators of Insurers

Private Insurers solvency level, a measure of the strength of Insurers' capital buffers held to cover all liabilities, improved to 174 percent in June 2019, compared to 149 percent in June 2018, and 100 percent prudential minimum. From a long-term perspective, solvency of private Insurers progressively improved for -53 percent in June 2016, to 61 percent in June 2017 and 149 percent in June 2018. During the period under review, solvency of private Insurers was boosted by net profit (FRW 4.7), as well as, capital injections (FRW 4.3 billion). The solvency position of public Insurers has consistently been high reflecting their stable and profitable business. As at June 2019, the solvency ratio of public Insurers stood at 2,297 percent, significantly above the 100 percent prudential minimum.

The insurance sector holds adequate liquidity to meet their obligations (claims and other expenses). As at end June 2019, the liquidity ratio of private Insurers stood at 125 percent, above 120 percent minimum prudential requirements. During the same period, the liquidity position of public insurers stood at 4,058 percent.

Table 33: Financial Soundness Indicators of the Insurance Sector

Description (In FRW billion) Insurance sector	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
Solvency ratio (Min. 100%)	941	991	1,034	1,091	1,190
Claims ratio (max.60%)	54	66	59	59	57
Expenses ratio (max. 30%)	32	36	28	27	28
Combined ratio (max.90%)	85	102	87	86	85
ROA (min. 4%)	13	4	14	16	13
ROE (min. 16%)	10	3	10	12	10
Liquidity ratio (min. 120%)	382	345	333	353	323
Private Insurers	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
Solvency ratio (Min. 100%)	88	(30)	61	149	174
Claims ratio (max.60%)	63	78	70	64	62
Expenses ratio (max. 30%)	47	50	42	46	41
Combined ratio (max.90%)	110	128	112	110	103
ROA (min. 4%)	1	(24)	3	10	17
ROE (min. 16%)	0	(7)	1	3	5
Liquidity ratio (min. 120%)	128	52	94	121	125
Public Insurers	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
Solvency ratio (Min. 100%)	2,467	2,394	2,160	2,195	2,297
Claims ratio (max.60%)	43	66	48	55	52
Expenses ratio (max. 30%)	13	35	11	10	15
Combined ratio (max.90%)	56	101	59	65	66
Return on Assets (min. 4%)	16	14	16	17	12
Return on Equity (min. 16%)	16	14	16	17	12
Liquidity ratio (min. 120%)	5,899	3,215	4,699	3,481	4,058

Source: NBR, Financial Stability Directorate

5.6 PENSION SUB-SECTOR

The Pension sub-sector comprises of one mandatory Pension Fund (RSSB) and 12 Private Pension Schemes as at June 2019. RSSB Pension Fund is managed as a Defined Benefits Scheme (DB), which provides pension benefits to retirees that were formally employed in the public and private sector, and other benefits related to occupational hazards. Private pension schemes are managed as Defined Contribution Schemes (DC), which provide pension benefits based on the contributions collected and the performance of the investment of those contributions.

5.6.1 Performance of Mandatory Pension Fund (RSSB)

As at June 2019, the Pension Fund represented 17 percent of total financial sector assets and remained a key source of long-term funds to the financial sector, mostly the Banking sector. In the same period, 18.5 percent of the pension assets were deposits in Banks and; 13.3 percent equities in Banks.

Total assets of the Pension Fund increased from FRW 749.2 billion in June 2018 to FRW 836.7 billion in June 2019, indicating a year-on year growth of 11.7 percent, down from 13.3 percent achieved in the corresponding period of 2018. Slowdown in growth of the Pension Fund's assets is mainly attributed to revaluation losses of some properties.

Total contributions to RSSB grew by 5.1 percent (from FRW 89.0 billion in June 2018 to FRW 93.5 billion in June 2019) while investment income increased by 20.1 percent to FRW 35.2 billion in June 2019, up from 6.9 percent registered in June 2018. The improved growth of investment income reflects increased income from term-deposits in Banks, and government securities.

Pension benefits paid by RSSB increased relatively higher compared to contributions: 27.5 percent (from FRW 9.8 billion in H1 2018 to FRW 13.0 billion in H1 2019). Benefits paid increased following upward review of the minimum pension benefits payable. In April 2018, a presidential order (N° 069/01 of 13/04/2018) increased the monthly minimum benefits payable from FRW 5,200 to FRW 13,000 per month.

Table 34: Key Financial Performance Highlights

DESCRIPTION (in FRW Billion)	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	%change Jun-18/17	%change Jun-19/18
Total assets	512.1	584.5	661.3	749.2	836.7	13.3	11.7
Total contributions	59.7	74.5	77.5	89.0	93.5	14.8	5.1
Total benefits paid	14.9	15.8	17.7	21.1	26.9	19.1	27.5
Operating expenses	4.3	4.7	4.5	5.9	7.4	31.4	25.4
Investment income	21.0	23.1	27.4	29.3	35.2	6.9	20.1

Source: NBR, Financial Stability Directorate

With regard to investment mix, the Pension Fund assets were largely categorised as equities (35 percent) followed by government securities (19 percent), bank deposits (19 percent), properties (14 percent) and other investments (13 percent).

As at June 2019, the investments in Government securities increased by 66 percent from FRW 92.8 billion in June 2018 to FRW 154.1 billion in June 2019, higher than a decline of 6 percent growth recorded in the previous period. High growth of Government securities was due to increased new issuances by Government during the year to end June 2019. Equity investments in (both quoted and unquoted), which represent the largest portion of the Pension Fund's assets (35 percent in June 2019), increased from FRW 264.7 billion in June 2018 to FRW 289.3 billion in June 2019. Most of these investments are found in non-quoted corporations (68 percent of total investments in equities).

Table 35: The Investment Mix of RSSB-Pension Fund

Description (Billion FRW)	Jun-16	Jun-17	Jun-18	Jun-19	% share	% change Jun-18/17	% change Jun-19/18
Government Securities	97.0	98.4	92.8	154.1	19	-6	66
Equities	199.7	217.2	264.7	289.3	35	22	9
Investment in properties	117.2	117.5	98.4	117.1	14	-16	19
Deposits in Banks	156.5	187	199.7	154.9	19	7	-22
Other investments and securities	12.0	39.3	78.9	102.9	13	101	30
TOTAL	582.4	659.4	734.5	818.3		11	11

Source: NBR, Financial Stability Directorate

5.6.2 Performance of Private Pension Schemes

Private Pension Schemes are regulated and supervised under the Pension Law N° 05/2015 of 30/03/2015. The number of private pension schemes increased from 10 in June 2018 to 12 in June 2019. These include 7 complementary occupational pension schemes and 5 personal pension schemes. These schemes have 48,013 contributing members of which 44,304 members are in complementary pension schemes and 3,709 members in personal pension schemes. The NBR has also licensed 16 pension service providers of which: 6 are administrators, 6 investment managers, 3 custodians, and 1 corporate trustee.

Assets of the 12 licensed private pension schemes amounted to FRW 39.8 billion in June 2019, up from FRW 31.9 billion in June 2018. This increase of assets reflects the 2 new licensed schemes, as well as increased contributions and investment incomes from previously licensed schemes. total contributions and investment income increased to FRW 3.6 billion and FRW 1.6 billion from FRW 3.3 billion and FRW 1 billion respectively.

Table 36: Financial Highlights of Private Pension Schemes

Description (in Billion FRW)	Jun-18	Jun-19
Assets	32.0	39.8
Liabilities (Payables)	0.0	0.1
Technical Reserves	31.9	39.8
Contributions received	3.3	3.6
Benefits paid	1.4	2.4
Investment income	1.0	1.6
Operating expenses	0.2	0.3
Total number of contributors	37,739	48,013
Total number of people took pension benefits	1,159	3,128
Number of pension schemes	10	12

Source: NBR, Financial Stability Directorate

5.7 Payment Systems

Payment Systems are a key component of the financial system as they facilitate safe and timely completion of financial transactions. In Rwanda, the NBR holds a core responsibility of ensuring the safe and efficient functioning of the payment and settlement systems. The oversight of payment systems has, thus, become a crucial element in the NBR's mandate of maintaining stability of the domestic financial system. The NBR also assumes the role of operator of some of the payment systems as well as plays a catalytic role for the development of the sector. During the period under review, the payment systems continued to operate smoothly and expanded further as witnessed by the operations in the retail payment system especially mobile financial services, internet banking and card based payments.

5.7.1 Wholesale Payment Systems

A safe, reliable, secure and efficient wholesale payment system is an essential component of a well-functioning financial system. The NBR oversees the wholesale systems and uses them for monetary policy implementation and provision of liquidity to maintain financial stability. In Rwanda, the wholesale payment systems are embodied in the Rwanda Integrated Payment Processing System (RIPPS). This system comprises of ATS (Automated Transfer System) which channels high value transactions through Real Time Gross Settlement (RTGS) and low value transactions through Automated Clearing House (ACH). The Central Securities Depository (CSD) is another integral component of RIPPS and accommodates securities (both equities and debt) issued in Rwanda. It includes also an integrated primary trading (auction) module and an application (tightly linked with the RTGS function of the ATS) for the settlement of securities transactions, following the principle of Delivery versus Payment.

During the period under review, all components of RIPPS continue to operate effectively without failure or delays in spite of the growing volume of transactions. As at end June 2019, RIPPS processed 4,240,663 transactions worth FRW 10,519.3 billion from 2,889,070 transactions worth FRW 8,031.4 billion as at June 2018, representing an increase of 46.8 percent in volume and 31 percent in value. High increase of RIPPS transactions mainly reflects improved economic activities, uptick of internet banking and more convenient facilities that banks are offering their clients. The RIPPS transactions were dominated by transfers accounting for 92 percent in value and 94 percent in volume. Given the systemic importance of RIPPS, the NBR will continue to ensure its the maximum availability, confidentiality and integrity.

Table 37: RIPPS Transactions

Payment Type	Volume			Value (FRW billion)		
	July 17-June 18	July 18-June 19	% Change	July 17-June 18	July 18-June 19	% Change
Single transfers	343,698	561,039	63.2	3,523.5	4,716.5	33.8
Multiple transfers	2,307,580	3,405,444	47.6	1,354.9	1,932.5	42.6
Interbank transfers	14,616	14,998	2.6	2,497.8	3,012.4	20.6
Cheques	223,176	259,182	16.1	655.2	857.9	31
TOTAL	2,889,070	4,240,663	46.8	8,031.4	10,519,3	31

Source: Financial Stability Directorate

5.7.2 Retail Payments

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

During the year ended June 2019, electronic retail payments continued to gain momentum. The number of POS transactions increased by 40 percent from 1,588,639 in June 2018 to 2,218,888 in June 2019, while the value of POS transactions increased by 18 percent from FRW 85 billion in June 2018 to FRW 100 billion in June 2019. The number of traditional POS devices, which use cards increased by 9 percent from 2,801 in June 2018 to 3,046 in June 2019. New types of POSs (Virtual POSs, Near Field Communication (NFC) POSs and Mobile POSs) which were introduced on the payment market in 2018 also increased by 30 percent from 10,761 to 14,003 between June 2018 and June 2019.

The volume of ATM transactions slightly increased by 2 percent from 9,585,002 in June 2018 to 9,734,504 in June 2019. In value ATM transactions increased by 4 percent from FW 529 billion in June 2018 to FRW 551 billion in June 2019.

Table 38: Evolution of Payment Access Points

Payment Access Points	Jun-2015	Jun-2016	Jun-2017	Jun-2018	Jun-2019
Number of ATMs	361	398	405	382	390
Traditional POS terminals	1,339	1,707	2,031	2,198	3,046
New Types of POS	-	-	-	10,761	14,003
Mobile Payment Agents	35,863	52,081	83,550	94,672	102,181

Source: Financial Stability Directorate

Mobile Financial Services and Internet Banking

Mobile technology continues to play a significant role in enhancing electronic payments aimed at creating an inclusive cashless society. The value of mobile financial services transactions increased by 32 percent from FRW 1,563 billion in June 2018 to FRW 2,058 billion in June 2019. The uptick of mobile financial services reflects the increased number of users of mobile financial services. During the period under review, the number of active users of mobile financial services increased by 51 percent from 3,987,980 at end June 2018 to 6,006,135 at end June 2019.

With regard to internet banking, the value of transactions increased by 13 percent from FRW 1,798 billion in June 2018 to FRW 2,032 billion in June 2019. In volume, internet banking transactions increased by 133 percent from 468,122 at end June 2018 to 1,089,376. The growth of internet banking transactions is mainly explained by the increase of the number of banks that offer internet banking.

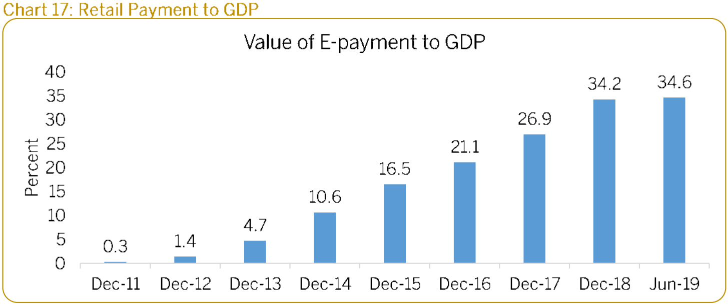
Table 39: Mobile Financial Services Development (Number of transactions)

Services	June-18	June-19	Composition June-18	Composition June-19	% change
Airtime	95,337,006	126,043,137	36%	38%	32%
Cash-in	72,021,981	80,765,415	27%	24%	12%
Cash-out	45,814,770	55,312,559	17%	17%	21%
P2P	22,284,175	28,032,208	8%	8%	26%
Electricity	16,955,310	14,057,595	6%	4%	-17%
Merchant	4,683,960	12,498,148	2%	4%	167%
Pull/Push	4,028,172	5,622,388	2%	2%	40%
B2P	1,627,032	4,197,650	1%	1%	158%
P2G	1,611,532	2,575,874	1%	1%	60%
Saving	1,241,911	2,087,546	0%	1%	68%
Water	123,883	261,122	0%	0%	111%
Regional Remittance	132,173	223,094	0%	0%	69%
International Remittance	69,067	169,440	0%	0%	145%
MNO/MNO	16,944	33,413	0%	0%	97%
School Fees	5,071	17,002	0%	0%	235%
	265,952,987	331,896,591	100%	100%	25%

Source: Financial Stability Directorate

Retail payments gathered momentum as shown in the below graph of value of E-payment to GDP.

Chart 17: Retail Payment to GDP



Source: Financial Stability Directorate

5.8 ACCESS TO FINANCE

Financial services play an important role in the efficient allocation of productive resources thereby contributing to investment, trade, income distribution and economic growth. The usage of innovative financial technology continues to improve access to finance and build an inclusive financial system. This was however more apparent in the banking sub-sector than in other sub-sectors. In a specific way, the penetration of digital loans has significantly increased the number of client accounts and borrowers in the banking sector during the period under review.

5.8.1 Recent Trends in Financial Service Usage

The key indicators of usage of financial products are how people borrow and deposit money. During the period under review, the number of depositors in the banking sector grew by 22.4 percent from 1,940,267 in June 2018 to 2,376,475 in June 2019. Kigali city has the highest number of depositors (59.2 percent) followed by Western Province (11.3 percent), Eastern Province (10.9 percent), Southern Province (10.2 percent) and Northern Province (8.4 percent). During the same period, the number of borrowers in the banking sector increased by 53.2 from 247,253 in June 2018 to 378,809 in June 2019. In terms of geographical distribution, Kigali city has 72.7 percent of the total number of borrowers while the Northern Province has the lowest number of borrowers (5.4 percent) as at end June 2019.

Table 40: Number of Depositors and Borrowers in Banks by Province

	KIGALI	NORTH	EAST	WEST	SOUTH	Total Jun-19	Total Jun-18
Depositors	1,406,753	199,156	260,113	267,369	243,084	2,376,475	1,940,267
Borrowers	275,400	20,638	35,149	22,802	24,820	378,809	247,253

Source: NBR, Conduct Supervision & Financial Inclusion Department

5.8.2 Growth of Client Accounts

Account ownership is the most important financial tool that provides a safe way to store money and build savings for future investment. As at June 2019, the total number of client accounts in banks and MFIs increased by 25.3 percent to 7.5 million from 6.0 million in June 2018, compared to the growth of 3.2 registered in June 2018. More notable improvement was noted in the banking sector where the number of accounts increased by 61.3 percent to reach 3.8 million as at June 2019, after declining by 5.8 percent in June 2018. The growth of client accounts in banks is attributed to high penetration of digital loans account in commercial banks. In MFIs, the number of accounts increased to 3.7 million in June 2019 from 3.6 million in June 2018. Male owned accounts constituted 50.9 percent (1.9 million) of total MFIs accounts while female owned accounts constituted 40.2 percent (1.5 million).

Table 41: Number of Client Accounts

Client accounts(in "000")	Jun-17	Jun-18	Jun-19	% change 18/17	% change 19/17
Banking	2,501	2,357	3,802	-5.8	61.3
Microfinance of Which:	3,356	3,686	3,772	9.8	2.3
Female	1,333	1,464	1,517	9.8	3.6
Male	1,739	1,906	1,920	9.6	0.7
Groups/entities	284	316	335	11.3	6.0
Total	5,857	6,043	7,574	3.2	25.3

Source: NBR, Conduct Supervision & Financial Inclusion Department

5.9 Financial Sector Reforms Implemented

The NBR continued to make progress on a wide range of regulatory policies deemed important for a sound and stable financial system. In this respect, the Bank reviewed and enhanced the already existing legal instruments, but also established new ones. In establishing these legal instruments, the NBR was guided by international standards as well as market developments. Below are legal instruments gazetted since March 2019, as well as other initiatives.

Directive on Loan to Value Ratio

Effective April 2019, the National Bank of Rwanda (NBR) established a Directive on Loan-To-Value (LTV) limits (*Directive No 2600/2019-00015 (613*). This directive caps the size of mortgage loans relative to the value of the property associated with the loan. As per this directive, the LTV limits for construction or purchase of commercial property was established at 80 percent– meaning that the bank can contribute up to 80 percent of the value of the property and the borrower contributes 20 percent. The LTV limit for residential properties was established at 100 percent for the first house and 80percent for subsequent houses. The NBR shall regularly review these limits basing on developments in the housing market and credit market.

By introducing the LTV limits, the NBR aims to prevent systemic financial sector risks associated with boom and burst cycles in the property markets. Setting LTV limits helps in three aspects: First, it strengthens the borrowers' resilience against future house price shocks. Second, the limits promote responsible borrowing by requiring the borrower to make a certain contribution to the project. Third, it limits the level of exposures Banks take on when underwriting a mortgage.

This directive requires Banks to disburse loans for the construction or purchase of the property after the borrower has contributed his/her portion. Certain instruments like Government bonds, deposit certificate, personal and complimentary pension savings are acceptable guarantees of the borrowers contribution. The contribution of the borrower should not be borrowed from other financial institutions. The NBR shall monitor implementation of this directive through regular on-site and off-site inspections.

Regulation Governing the Shareholding, Acquisition and Amalgamation of Banks

The NBR established a regulation governing the shareholding, acquisition and amalgamation of Banks (Regulation N° 2310 /2019 –00023 [614] of 19/3/2019). This regulation aims to ensure that any new acquisition or ownership does not expose Banks to undue risks or hinder effective supervision. This regulation reflects another milestone achieved by NBR in complying with the international principles of effective bank supervision (also known as Basel Core Principles) – particularly principle 6 and 7 of BCPs. This regulation contains four essential elements:

1. Prescribes criteria, including fit and proper tests, for approving requests for proposed mergers and acquisitions of regulated financial institutions;
2. Sets minimum conditions that must be fulfilled by merging or acquiring regulated financial institutions during the due diligence process;
3. Provides guidance on the processes and procedures for evaluating applications for merger and acquisition and the required documents or agreements to be submitted and;
4. Prescribes post-merger or post-acquisition /amalgamation requirements.

To implement this regulation, Banks are obliged to submit to NBR names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares.

Regulation on Major Investment and Placements of Banks

The NBR established a regulation on major investments and placements of Banks (Regulation N° 2310 /2019 – 00022 [614] of 19/3/2019). This regulation replaced two regulations of 2011 on major investment and baking placements of Banks. This regulation aims to minimise risks related to excessive investment in immovable properties and equities, the two assets whose value gets greatly affected by changes in market sentiments. This regulation sets restrictions on: (1) acquisition of immovable properties, (2) investment in shares of other companies, (3) placements and deposits in other financial institutions.

The regulation above allows Banks to acquire immovable properties only for the purpose of conducting their business (offices) or providing amenities for their employees. In other words, Banks are not allowed to do direct investment in properties like commercial real estate. Where a bank acquires immovable property for acceptable reasons like conducting their business or providing amenities for its staff, this investment should not exceed 50 percent of the bank's core capital. This investment limit does not however apply to immovable collaterals acquired by Banks in recovery of debt owed to a bank if this property is disposed of within a 1-year period from the acquisition date.

Banks' maximum aggregate investment in equity shares of other companies was established at 25 percent of core capital. Banks are also obliged to seek approval from NBR before making major investment in equity shares of other companies.

The regulation established the maximum placements that Banks can make in foreign financial institutions as follow: Banks can place or deposit up to 50 percent of their core capital in foreign financial institutions with long term international rating by a recognized international rating agency of "A" or above and 30 percent with long term international rating by a recognized international rating agency of "B" or above. In addition to investment thresholds, Banks are required to establish adequate prudential policies and procedures that minimise risks related to concentrated placements.

Insurance Sector Anti-fraud and Related Financial Crimes Forum

In June 2019, the NBR facilitated the establishment of the insurance sector anti-fraud and related crimes forum. This forum, composed of representatives from 27 public and private institutions, aims to help co-ordinate action against insurance fraud and other financial crimes. Fraud in the insurance sector largely takes two-forms– (1) fictitious and intentionally inflated insurance claim and, (2) manipulation of facts at the time of insurance application in order to lower their premium. In either form, fraud negatively affects the insurance sector through increased losses and consumers of insurance products through increased premiums. The other financial crimes that the forum will handle include money laundering and financing terrorism cases, as well as cybercrimes. The NBR underscores that the newly established fraud forum will supplement its existing prudential oversight to minimise fraud and financial crimes in the insurance sector. The composition of the fraud forum includes law enforcement agencies that will help to investigate and prosecute identified cases.

The first meeting of the insurance anti-fraud forum was held on June 13, 2019 and approved the following terms of reference (TORs).

i. sharing of information between and within the financial sector on fraud incidents;
ii. promote public awareness about fraud and financial crimes and their prevention;
iii. Build and exploit improved information and knowledge, providing a center of expertise to raise the priority of fraud and financial crimes, secure and target counter fraud resource appropriately and achieve better prevention and enforcement of fraud and financial crimes mitigation measures;

iv. address the key fraud and financial crimes enablers and high threat areas by prioritizing and driving forward specific multi-partner interventions to reduce them;

v. Discuss/deliberate on the identified cases and devise strategies to curb them.

Regulation on Minimum Internal Control and Audit for Banks

In August 2019, the NBR enhanced the regulation on internal control and audit for Banks (Regulation N° 4230 /2019 - 00024[614] OF 5/6/2019). This regulation replaced the one established in 2011 and aims to set the minimum internal control and internal audit standards that bank should put in place to contain potential risks in their operations. The NBR believes that an effective internal control is a critical component of bank management and a foundation for the safe and sound operation of banking institutions. The enhanced regulation provides the following five key internal control principles that Banks must observe while setting their internal control systems:

i. **Management oversight and the control culture:** The regulation emphasises the role of the board of directors as the ultimate body responsible for ensuring that an adequate and effective system of internal controls is established and maintained in Banks. The regulation requires Banks to have board members that are objective, capable, and inquisitive, with a knowledge or expertise of the activities of and risks run by the bank.

ii. **Risk recognition and assessment:** The regulation requires Banks to establish internal control system that enable them to identify and evaluate all types of material risks that could adversely affect the achievement of the bank's goals. The senior management of the bank is required to continually evaluate these risks and establish proper controls.

iii. **Control activities and segregation of duties:** The regulation requires that an appropriate control structure is setup in Banks, with control activities defined at every business level. These should include top-level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations; and, a system of verification and reconciliation.

iv. **Information and communication:** The regulation requires Banks to have adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format.

v. **Monitoring activities and correcting deficiencies.** The regulation requires that Banks regularly monitor their internal control systems with the aim of improving them. This provision is because the banking sector is very dynamic and rapidly evolving, hence, Banks must continually monitor and evaluate and improve their internal control systems.

VI. MONETARY POLICY AND FINANCIAL SECTOR STABILITY OUTLOOK

6.1 MONETARY POLICY OUTLOOK

Inflation is expected to slightly pick up in 2019

Following a more than anticipated performance in agriculture sector, headline inflation projection for 2019 was revised down to 2.0 percent, higher than 1.4 percent recorded in 2018. Similarly, core inflation is projected at 2.3 percent in 2019, from 1.6 percent recorded in 2018.

The continued accommodative monetary policy stance and fiscal stimulus through 2019 will support the current growth in credit to private sector going forward. Consistently, this is expected to strengthen the improvement in domestic demand, leading to the rise in inflation during the second half of the year, compared to 0.7 percent recorded in 2019H1.

Good economic performance expected to continue in 2019

The Composite index of Economic Activities, points to a sustained economic performance in 2019Q2, consistent with the projection of 7.8 percent growth in 2019. Going forward, Rwanda's aggregate demand in 2019 is expected to continue improving. Downward risks could potentially come from the Global economy, owing to intensified US-China trade tensions and prolonged uncertainties around Brexit. As result of these developments, global economic growth is projected to slow down from 3.6 percent in 2018 to 3.2 percent in 2019, before picking up to 3.5 percent in 2020.

The NBR will continue monitoring developments in domestic and global economic conditions, and stands ready to take appropriate measures, to ensure Rwanda's macroeconomic stability.

6.2 FINANCIAL SECTOR OUTLOOK

The financial sector is expected to remain sound and stable. The capital and liquidity buffers held by the financial sector indicate the resilience and capacity of the sector to withstand shocks. Through its regular oversight of the sector, NBR will continue ensuring that financial institutions hold enough capital relative to the risks they undertake as well as sufficient liquidity to meet financial obligations.

Enhancement of the legal and regulatory frameworks will continue to be areas of specific focus for the NBR especially as pertains to review of the Insurance, Microfinance and Financial Consumer Protection Laws as well as their implementing regulations.

The uptake of cashless or electronic payment is expected to pick-up in line with the on-going awareness campaign, incentives, and the forthcoming interoperability initiative.

National Bank of Rwanda
KN 6 AV.4,
PO Box 531 Kigali, Rwanda
Tel:(+250) 788 199 000
Email:info@bnr.rw
Swiftcode:BNRWRWRW
Twitter:@CentralBankRw
Website:www.bnr.rw