National Bank of Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

Amb. GATETE Claver

Governor

7th August 2012

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EXECUTIVE SUMMARY

The world economic recovery has again weakened in the second quarter 2012 according to IMF estimates for July 2012. The IMF forecasts world economic growth at 3.5% in 2012 from 3.9% in 2011. This was despite a higher-than-expected growth of 3.6% in the first quarter of 2012.. Serious financial tensions have surged in Europe while some other developed countries continue to face weak labor and housing markets. Therefore, money market interest rates have kept a low level and declining trend to contain worries about debt crisis in Europe and to support economic activity. However, economic activity continues to be strong in emerging and developing countries notwithstanding some moderation on the back of weak external and domestic demand.

Regarding the East Africa Sub-region, better agriculture sector performance and tight monetary and fiscal policies have progressively eased inflationary pressures in all EAC member countries.

As far as the domestic economy is concerned, despite unfavorable weather conditions which have negatively affected agriculture sector, other productive activities have continued to perform well, in line with the annual real GDP growth projections. The BNR composite index of non-agriculture economic activity (CIEA) increased by 11.1% in June 2012 on annual basis, total turnovers in industry and services increased by 23.6% and exports sector also continued to record good performance. Sustained by traditional and non-traditional products, exports value increased by 25.1% during the first half of 2012 on annual basis, against 22.1% for imports. The imports cover improved to 18.7% in the first half of 2012 from 18.2% in the corresponding period of the last year.

Dynamic economic activities have pushed the money demand at a higher level than initially projected. Broad money (M3) increased by 12.6% between end December 2011 and end June 2012 against 9.0% in 2012 monetary programme and 16.9% recorded in the same period of 2011. To sustain dynamic economic activities in both public and private sectors, increase in money supply was driven by the domestic credit, of which the credit to the private sector increased by 18.1% against 8.9% initially projected.

In response to persistent uncertainties in international and regional environment, the National Bank of Rwanda has been implementing a prudent monetary policy, while *continuing to support the financing of the economy. In this regard, the Central Bank policy rate was increased in May 2012 from 7.0% to 7.5%.*

As a result of a globally improving supply side and efficient monetary and fiscal policies, inflation in Rwanda has been maintained at moderate levels in the first half of 2012. The annual headline inflation decelerated to 5.92% in June from 8.18% in March 2012 and 8.34% in December 2011. However, during most part of the period under review, the inflation has been higher than in June 2012, fluctuating around 8% on annual basis, mainly driven by food and energy prices.

With regard to exchange rate policy, the BNR continued to maintain a flexible exchange rate regime. In response to higher demand for forex to finance important imports, the BNR has been intervening regularly on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the RWF exchange rate volatility. During the first half of 2012, the Rwanda franc remained quite stable; depreciating by only 1.37% against the US dollar at the end of June 2012.

For the remaining part of the year 2012, the National Bank of Rwanda will continue to implement a prudent monetary policy while supporting the financing of the economy. In coordination with other Government stakeholders, the BNR will continue to closely monitor and analyze domestic and global economic and financial developments so that appropriate measures are taken in due time, to ensure underlying pressures are well anchored. By end of 2012, the inflation rate is expected to be limited at 7.5%. Regarding the exchange rate policy, BNR remains committed to continue intervening on forex market to smoothen the exchange rate volatility.

Rwandan financial sector stability continued to be sound and stable throughout the first semester 2012 and all sectors complemented each other in the national development. The banking sector, which dominates the Rwandan financial sector demonstrated an increase in the balance sheet of 21.9%. The banking industry has been profitable, liquid and well capitalized to sustain growth but also resilient to external shocks as a result of strengthened legal, regulatory and supervisory framework. For instance, the Capital Adequacy Ratio (CAR) increased to 25.4% as of 30th June 2012 from 24.4% in June 2011.This is well above the minimum required Capital Adequacy ratio of 15%, which shows the stability of the financial sector.

The microfinance sector recorded a positive performance with the continued expansion of its balance sheet, realizing 22.2% asset growth. Additionally, the SACCOs continued to play a significant role in expanding financial inclusion. By end June 2012, UMURENGE SACCOs registered deposits and gross loans amounting to RWF 30.2 billion and RWF 10.0 billion respectively. Financial soundness indicators of the microfinance sector indicated an improvement measured in terms of NPLs ratio with a downward trend from 12% in December 2011 to 8.3% in June 2012 mainly due to the increase of loans granted by UMURENGE SACCOs which are performing with a NPLs rate of 2.6%.

During the semester under review, the insurance sector performance improved progressively. The total assets of the Rwandan insurance sector as at March 31, 2012, increased by 24.2%, reaching RWF 169.2 billion compared to RWF 136.2 billion as at March 31, 2011. However, gross premiums decreased slightly as well as the net profit from RWF 33.1 billion to RWF 32.6 billion and from RWF 17.6 billion to RWF 14.6 billion. But the return on assets and return on equity were stable as most of the insurers continued to invest prudently. The liquidity position of the insurers was strong with current ratio of 218% as at end March 2012. This good performance is a reflection of the impact of the supervisory reforms undertaken in the insurance industry. Major developments are related to prudent underwritings, investments and improved professionalism.

The pension sector assets (excluding private pension schemes) continued to grow with a positive trend reaching RWF 251 billion in June 2012 from RWF 231 billion in June 2011; indicating an increase of 9%. The benefits paid also grew by 14% from RWF 7 billion in June 2011 to RWF 8 billion in June 2012. Positive prospects are expected after the enactment of the new pension law that will give rise to the establishment of private pension schemes.

Briefly, financial sector as a whole was sound and stable; a factor that was also confirmed by the Financial Stability Committee (FSC) established in May 2012. Going forward, the BNR is committed to continue reforms in pension, insurance, banking and microfinance institutions in order to cater for new market developments. In addition, the financial literacy campaign which would impact positively on financial inclusion is one of important items on the BNR agenda to maintain the stability of the financial sector and increase monetary transmission mechanism.

With regard to the payment systems modernization, concerted efforts are now geared towards developing the retail payment systems. A lot of progress has been made in all forms of retail electronic payment systems, both card based and mobile financial services. The Visa National Net Settlement System (NNSS) has been operational since the 1st of March 2012. The retail Payments infrastructure has also improved considerably. The Number of ATMs has increased to 232 as compared to 167 by end 2011. Points of Sale (POS) have also increased to 385 from 227 at end 2011. Nine banks are currently Visa members (2 principle members, 3 associate members and 4 cash disbursement members); China Union Pay card is accepted by 2 banks; Mastercard (one bank) and Diner Club (one bank) as well. The level of interoperability has significantly increased. 65% of ATMs accept both RSwitch proprietary cards and Visa Cards.

To further enhance the developments in payment systems, the BNR together with the Rwanda Bankers Association, have embarked on the Cheque Truncation Project. The cheque truncation consist of cheque clearing system based on cheques image where the cheque is scanned and transmitted through the entire clearing cycle using the image instead of the physical cheque. At the regional level, the Rwanda Integrated Payments Processing System (RIPPS) has been upgraded to enable linkage to Regional Payment Systems notably; the East Africa Payment system (EAPS) and the COMESA Regional Payments and settlement system (REPSS) to facilitate the cross border payments in the East African community and COMESA region.

I. OVERVIEW OF ECONOMIC ENVIRONMENT

I.1 GLOBAL ECONOMY

I.1.1 Economic growth and outlook

According to IMF estimates in July 2012, the world economic activity rose by 3.6% in the first quarter 2012 helped by easing financial conditions, the rebound in industrial production and by international trade together with improving business confidence after the European long-term refinancing operations. The value of world trade of goods was 5% higher in the first quarter of 2012 compared to the same period of 2011 and the industrial production rose by 5.5% in the three months up to April 2012. However, due to escalating financial concerns in the Euro area and their spillover effects in other regions, global economic activity was expected to decelerate to 1.9% in the second quarter 2012 and on average to 3.5% for the whole year 2012 after 3.9% in 2011.

In the advanced countries, economic growth remained subdued as a result of structural impediments and concerns about global economy. In emerging and developing countries, despite some moderation following weak external demand and policy tightening, economic growth remained robust. The IMF estimates in July 2012 expect real GDP growth in 2012 at 1.4% in developed economies and 5.6% for emerging & developing economies against 1.6% and 6.2% respectively in 2011.

In the United States, real GDP rose by 1.5% in the second quarter of 2012 after 2.0% in the previous quarter led by accelerating consumer spending and exports while non-residential and inventory investment growth remained weak. Recent survey data pointed to a slight improvement in GDP growth to 2.0% by end 2012 compared to 1.7% in 2011. In the Euro area, economic activity remained flat in the first quarter 2012 and is expected to recede by 0.5% in the second quarter 2012. By the end of 2012, the economic activity is expected to slow down by 0.3% according to IMF estimates of July 2012 after 1.5% increase in 2011.

Downside risks remained mainly related to the escalating financial concerns, increased political and financial uncertainty in Greece and banking problems in Spain., After stagnating in the fourth quarter 2011, Japan's economic activity expanded by 4.7% in the first quarter of 2012 boosted by the private consumption and public spending together with changes in private inventories. For the second quarter 2012, real GDP is expected to stand at 1.6% with slowing production in the manufacturing sector, particularly in Asia.

In the Middle East and North Africa, economic activity is expected to strength to 5.5% in 2012 boosted by oil production and domestic demand against 3.5% in 2011. Economic growth is also projected to remain robust to 5.4% in Sub-Saharan Africa from 5.2% in 2011, thanks to its relative insulation with regard to external financial shocks and consolidation of macroeconomic stability.

I.1.2 Inflation

Inflationary pressures are gradually easing, thanks to declining energy prices and following weakening global demand. The world annual inflation stood at 2.6% in the second quarter 2012 after 3.1% in the first quarter 2012. In advanced economies, inflation is projected at 2.0% in 2012 against 2.7% in 2011 while for emerging and developing countries it is expected to decelerate to 6.3% from 7.2% in 2011. In June 2012, headline inflation remained flat at 1.7% in the USA and in Euro Area to 2.4% after 2.3% and 2.6% respectively in April 2012. In the UK, inflation was down to 2.4% in June from 2.8% and 3.0% respectively in May and April 2012. In Japan, inflation was for the sixth straight month positive at 0.2% in June after 0.1% in May and 0.5% in April 2012.

With regard to EAC countries, high inflationary pressures have been progressively easing since November last year on account of better agriculture sector performance and tight monetary and fiscal policies. In July 2012, Kenya's and Uganda’s year-on-year inflation rate slowed down to 7.7% and 14.3% from 10.1% and 18.0%, respectively in June, and 18.9% and 27.0% in December 2011. Similarly, headline inflation has dropped slightly to 17.4% in June in Tanzania from 18.2% in May and 19.8% in December 2011, thanks to the declining price of rice whose production has increased. Rwanda year-on-year inflation decelerated to 5.9% in June from 8.3% the previous month drawn by falling food prices, housing and energy prices. In Burundi, the annual inflation increased from 14.9% in December 2011 to 25.2% in April 2012 attributed to food and energy prices, before easing to 17.3% in June following a decline in food prices.

Table 1: Annual inflation in EAC countries in %

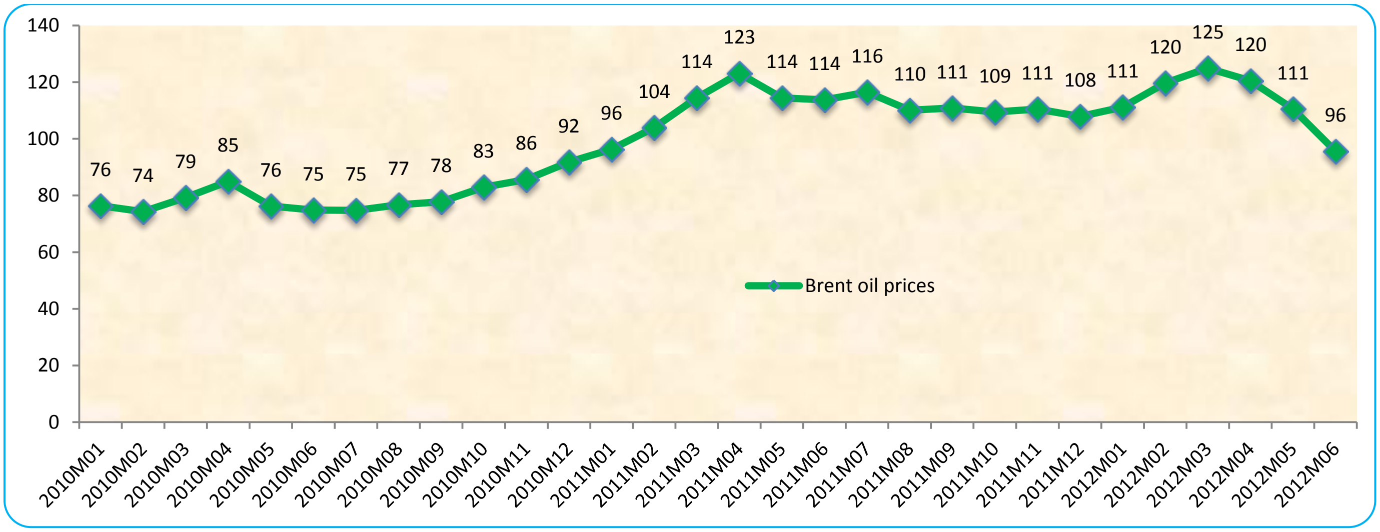
	2010	2011				2012					
	Dec	Mar	Jun	Sept	Dec	Jan	Feb	Mar	Apr	May	Jun
Uganda	3.1	11.1	15.8	28.3	27.0	25.7	25.4	21.2	20.3	18.6	18.0
Kenya	4.5	9.2	14.5	17.3	18.9	18.3	16.7	15.6	13.1	12.2	10.1
Tanzania	5.6	8.0	10.9	16.8	19.8	19.7	19.4	19.0	18.7	18.2	17.4
Burundi	4.9	5.7	8.6	11.7	14.9	21.6	22.0	24.5	25.2	22.5	17.3
Rwanda	0.2	4.1	5.8	6.6	8.3	7.8	7.9	8.2	7.00	8.3	5.9

Source: EAC Central Banks respective websites

In June 2012, commodity prices continued to decline in response to deteriorating European debt concerns. Energy prices declined, for the third consecutive month, by 12.0% after a decline of 7.6% in May 2012 on rising supply, high stocks in United States and on easing tensions with Iran over its nuclear program. Similarly, non-energy prices dropped by 3.6% and 2.5%, respectively in June and May 2012 led by declines in main groups of products: agriculture, fertilizers, metals and minerals. The fall in metals and minerals prices deepened to -5.1% in June 2012 after -4.7% in May on concerns about global demand. Agricultural prices slowed by 2.8% in June after a fall of 1.7% in the previous month drawn by most commodities including food (-1.2%), beverages (-4.0%), fats and oil (-3.3%) and agricultural raw materials (-6.8%) while prices increased for grains (0.4%) and other foods (0.8%).

According to the World Bank estimates, Brent crude oil prices declined by 13.5% in June 2012 to USD 95.59/barrel from USD 110.52/barrel in May 2012 on easing supply conditions coupled with weak demand and high US stocks. For the near future, oil prices are expected to slightly decline with futures contract for December 2013 down to USD 93/barrel.

Fig. 1: Brent crude price developments (USD/ barrel)



In low and middle income countries, energy prices fell by 12.0% and 7.66% respectively in June and May 2012, non-energy commodity prices contracted by 3.6% and 2.5% during the same period. Agriculture commodity prices slid by 2.8% and 1.7% respectively in June and May 2012. Food prices dropped by 1.2% in June, with grains prices slightly increased by 0.4%.

I.1.3 Financial Markets

In June 2012, money market interest rates kept on declining reflecting significant excess liquidity in the money market. Long term maturity interest rates remained volatile. Central bank rates remained unchanged in leading economies except in Euro Area where it was reviewed down to 0.75% on 5 July 2012 as inflationary pressures have been dampened further. Policy rate remained in the range between 0% and 0.25% in USA, at 0.5% at Bank of England while Japanese Central Bank kept it at 0.1%. 3-month interest rates reduced to 0.53% in June after 0.59% in May 2012 in Euro area to 0.87% after 1.00% in the UK. In the USA, 3-month rate was a little down to 0.47% in June 2012 after 0.48% in the previous month whereas it was constant at 0.17% in Japan.

10-year government bond rate was almost unchanged in USA standing at 1.64% in June 2012 on account of mixed economic data and due to subdued labor market data while housing market was relatively stable. In the Euro area, 10-year interest rate was up to 1.58% in June 2012 from 1.20% in May 2012 on return of risk appetite and reduced flight-to-safety flows ahead of June European Council meeting that was expected to initiate some political measures to strengthen financial stability. Japanese and British 10-year Government rate stood at 0.84% and 1.73%, respectively in June from 0.86% and 1.57% in May 2012.

On the foreign exchange market since March 2012, US dollar remained strong against the Euro and the GBP (since April) mainly due to changes in perception of sustainability of the debt in the European countries and on yield differentials between USA and Euro Area. However, in June, the dollar depreciated by 2.4% versus the Euro and 1.9% versus the GBP while appreciating by 1.8% versus the Japanese Yen.

I.2 NATIONAL ECONOMIC PERFORMANCE

I.2.1 Economic growth

The Rwandan economy maintained its good performance in the first half of 2012 and in line with annual real GDP growth projected at 7.7% in 2012 from 8.6% in 2011. In the first quarter 2012, real GDP increased by 7.7% boosted by the high increase in services (+14%) despite moderate performance in industry (1%) and agriculture (3%). In addition, the composite index of economic activities (CIEA) in nominal terms, increased by 11.1% end June 2012 compared to the same period of 2011. Total turnovers registered by industry and services sectors show good performance of the economy during the first half of 2012 rising by 23.6%. Industry sector grew by 21.7% and services by 24.4%. The industry companies represent about 30.2% while service sector accounts for 69.8% of the total turnovers.

Table 2: Real GDP Growth, in %

	2008	2009	2010	2011	2012proj.
GDP	**11.2**	**6.2**	**7.2**	**8.6**	**7.7**
Agriculture	**6.5**	**7.7**	**5.0**	**4.7**	6.1
Food Crop	6.2	9.4	4.9	5.0	6.0
Industry	**15.1**	**1.3**	**8.4**	**17.6**	**11.2**
Mining	15.4	18.2	10.2	49.5	10.8
Manufacturing	5.6	2.9	9.3	8.0	8.6
Construction	28.1	1.4	8.8	23.6	13.2
Services	**13.8**	**6.2**	**9.0**	**8.9**	**8.7**
Wholesale and Retail	19.4	4.0	8.4	10.2	8.8
Transport & Communication	23.8	9.2	8.7	5.3	6.0
Finance	1.6	4.1	23.6	20.4	12.4
Activities non elsewhere	**11.5**	**9.6**	**4.8**	**7.9**	**0.6**

Source: MINECOFIN and NISR

I.2.2 Agriculture sector

In 2012, food crops harvest for season 2012 A rose by only 1.3% compared to 5.4% achieved in 2011 season A due to the heavy rains and floods which destroyed some crops mainly fruits and vegetables.

The production of tradable tea declined by 7.3% due to adverse weather conditions. However, the production of tradable coffee increased by 35.5% in the first half of 2012 compared to a decline in the corresponding period of the last year (-14.6%). This good performance results mainly from sufficient use of fertilizers and high and favourable rainfall which were sufficient in the months of April and May 2012.

I.2.3 External sector

The first half of 2012 was marked by a continuing increase in exports and imports, both in volume and value. Exports volume and value recorded a significant increase of 61.9% and 25.1% respectively while imports increased respectively by 23.9% and 22.1%. Despite the high increase in exports, the trade deficit deteriorated to USD 851.3 million from USD 701.1million recorded in the first half of 2011. The coverage of imports by exports has slightly improved to 18.7% for the first half of 2012 from 18.2% for the same period of 2011. Including informal cross border trade, the coverage of imports by exports becomes 23.3% in the first half of 2012 from 21.4% in the first half of 2011.

1. Exports

Rwanda's main exports remain coffee, tea and minerals which represented 57% of total exports in value during the first half of 2012. Tea exports have performed poorly, declining by 7.7% in value and 10.7% in volume, due to a decline of 7.3% in production due to adverse weather conditions.

Coffee exports recorded good performance with an increase of 51.8% in volume from 2 264 tons in January-June 2011 to 3,436 tons in January-June 2012. This increase in volume has offset a decline of 2.4% in international prices from an average of USD3.62/Kg in the first half of 2011 to an average of USD3.53/Kg in first half of 2012, as the value increased by 48%.

During the period under review, Rwanda's mining exports declined by 0.6% in volume and by 4.5% in value declining from USD 67.7 million in the corresponding period of 2011 to USD 64.6 million in June 2012. This poor performance in mining sector was mainly due to a fall in tin's international prices by 25.9% while the prices of coltan and wolfram increased by 16.9% and 27% respectively.

Table 3: Major exports developments (Value FOB in millions of USD, Volume in thousands of tons)

Products	Jan - Jun 2010	Jan - Jun 2011	Jan - Jun 2012	% change, 2011/2012
Coffee				
- Value	9.20	8.20	12.14	48.04
- Volume	3.55	2.26	3.44	51.75
- Price USD/KG	2.59	3.62	3.53	-2.45
Tea				
- Value	33.00	36.33	33.53	-7.71
- Volume	12.81	13.33	11.90	-10.70
- Price USD/KG	2.58	2.73	2.82	3.34
Cassiterite				
- Value	15.26	46.71	27.20	-41.77
- Volume	1.68	2.95	2.32	-21.40
- Price USD/KG	9.07	15.82	11.72	-25.92
Coltan				
- Value	8.08	17.02	23.73	39.38
- Volume	0.39	0.46	0.54	19.28
- Price USD/KG	20.72	37.27	43.55	16.85
Wolfram				
- Value	2.38	3.97	13.71	245.31
- Volume	0.34	0.30	0.83	171.87
- Price USD/KG	7.04	13.08	16.61	27.01
Hides and Skin				
- Value	1.35	3.19	4.95	54.88
- Volume	1.33	2.68	3.67	36.73
- Price USD/KG	1.01	1.19	1.35	13.27
Pyrethrum				
- Value	1.27	3.28	4.53	38.01
- Volume	0.01	0.01	0.02	24.13
- Price USD/KG	222.47	233.09	259.14	11.18
I. SUB TOTAL MAIN EXPORTS				
- Value	70.52	118.72	119.78	0.90
- Volume	20.11	22.01	22.72	3.24
II. OTHER EXPORTS				
- Value	15.92	21.85	35.96	64.55
- Volume	22.85	45.36	74.09	63.36
III. REEXPORTS				
- Value	18.97	15.45	39.49	155.60
- Volume	4.00	6.50	22.73	249.89
TOTAL GENERAL				
- Value	105.40	156.02	195.23	25.13
- Volume	46.96	73.86	119.54	61.85

Source: *BNR, Statistics Department*

Non-traditional export products have also shown a good performance, mainly due to the increase in exports of live animals, vegetables, mineral water, beer, cosmetics products and textile products. The major part of these non-traditional exports went to DRC and Burundi except hand crafts which are mainly exported to developed countries like the USA and the UK.

Table 4: Evolution of some non-traditional exports (Value in millions of USD, Volume in thousands of tons)

	Jan – Jun 2011		Jan - Jun 2012		% change	
	Volume	Value	Volume	Value	Volume	Value
Mineral Water and Beer	5.5	2.5	4.4	3.9	-20.7	55.1
Livestock	1.7	2.2	2.4	3.6	45.6	64.8
Edible Vegetables, roots and tubers	14.6	1.8	13.9	1.8	-4.4	0.7
Footwear	0.2	0.8	0.2	0.7	-18.6	-10.6
Cement	6.9	0.6	13.1	1.3	90.1	130.4
Cosmetic products	0.3	0.8	0.3	0.9	15.9	17.5
Handcrafts	0.0	0.2	0.0	0.2	-30.1	-29.1

Source: *BNR, Statistics Department*

Among non-traditional exports, performance of some big companies such as INYANGE Industries, BRALIRWA and CIMERWA have shown tangible improvement during the recent past, which can be expected to continue in the future. Comparing the first half of 2012 with the corresponding period of the previous year, total exports for the three major companies increased highly by 110.5% from USD 2.40 million to USD 5.05 million. Exports of INYANGE increased by 35% in value from USD 0.36 million to USD 0.49 million, and their main destinations are Burundi, DRC, Tanzania Uganda, Kenya, Italy, Sudan and Congo Brazzaville. BRALIRWA exports also rose by 99.4% in value from USD 2.04 million to USD 4.06 million, and export destinations are Burundi, Congo Brazzaville, Uganda, Netherlands, Germany, Kenya and Spain. Exports for CIMERWA amounted to USD 0.50 million while there was nothing exported in the first half of 2011 since the company started exporting in July 2011. For the moment, CIMERWA products are exported only to Burundi and DRC.

2. Imports

During the first half of 2012, import's CIF value increased by 22.1% from USD 857.1 million to USD 1 046.5 million attributed to the increase of 42.3%, 24.4% and 18.5% in imports of capital goods, intermediary goods and energy and lubricants, respectively. In terms of volume, total imports increased by 23.9% during the period under review pushed up by increase of 23%, 35.8% and 27.4% of consumer goods, capital goods and intermediary goods respectively.

Table 5: Imports Developments (Value CIF in millions of USD, Volume in thousands of tons)

	Jan– Jun 2010		Jan –Jun 2011		Jan – Jun 2012		% change	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	**Value**
IMPORTS	546.1	649.2	617.5	857.1	765.3	1 046.5	23.9	22.1
CONSUMER GOODS	231.4	202.0	201.6	262.6	247.9	278.7	23.0	6.1
of which Food products	189.7	77.5	151.4	93.3	186.0	112.2	22.8	20.2
Health and care	12.7	37.9	14.7	69.3	16.2	54.7	10.7	-21.0
Goods of domestic use	6.7	29.0	5.9	16.4	6.9	16.1	15.9	-1.9
CAPITAL GOODS	19.2	167.2	23.7	206.4	32.2	293.8	35.8	42.3
of which Transport	3.2	30.3	4.7	39.2	9.0	62.0	89.7	58.1
Machines, devices and	9.0	104.7	9.1	104.4	13.1	173.7	43.4	66.3
INTERMEDIARY GOODS	199.6	178.2	285.2	240.5	363.5	299.1	27.4	24.4
of which Construction	108.7	72.8	156.4	83.7	198.1	108.6	26.7	29.9
Industrial products	79.7	77.6	98.5	115.0	134.7	135.7	36.7	17.9
Fertilizers	3.6	2.2	21.4	20.8	17.6	18.8	-17.7	-9.7
ENERGY AND LUBRICANTS	95.9	101.8	107.0	147.6	121.7	174.9	13.8	18.5
of which fuel	91.7	95.9	102.3	140.4	116.1	165.6	13.5	18.0
Trade balance		**-543.8**		**-701.1**		**-851.3**		
Cover by exports (%)		**16.2**		**18.2**		**18.7**		

Source: NBR, Statistics Department

Consumer goods which account for 26.6% of the total imports in value are composed of food products, beverages and tobacco, clothings, health and care, goods for domestic use and other consumer goods. In the first half of 2012, consumer goods increased both in value and volume, respectively, by 6.1% and 23.0%, trigged by an increase in value of beverages and tobacco (75.5%), items of clothing (+56.4%), and food products (20.2%), despite the decline in health and care (-21.0%), domestic use (-1.9%) and papers and cartons (-40.0%).

Food products which represent 40.2% of consumer goods' value increased both in value and volume, respectively, by 20.2% and 22.8%. Those developments were attributed to sugar and sweets, various food preparations; salt, meat & fish and cereal, fats & oil of which imports increased respectively by 48.0%, 31.3%, 26.3%, 23.0% and 7.8%.

Health and care which account for 19.6% share of total value of consumer goods declined in value (-21.0%) while increasing in volume by 10.7%. The decline in value was attributed to pharmaceutical products which declined by 33.6% in value and 38.7% in volume.

Imports of goods for domestic use declined in value by 1.9% while increasing by 15.9% in volume due mainly due to lower imports of beddings (-38.1% in value and -1.7% in volume respectively), despite the increase of 21.4% in value of dishes and other kitchen items.

Capital goods which are dominated by machines, devices and tools accounting for 28.1% of the total value of imports increased highly in both value and volume, respectively by 42.3% and 35.8% driven mainly by machines, devices and tools, and transport materials. Imports of transport materials increased by 58.1% in value mainly triggered by buses (+486.2%), vans (+110.1%), while machines, devices and tools also recorded a high increase of 66.3%.

The import of intermediary goods in the first half of 2012 represented 28.6% in the total imports and their value and volume increased by 24.4% and 27.4% respectively. The rise in value was enlightened by construction materials (+29.9%) of which a big part is attributed to metallic construction materials, cement and other similar products which increased by 32.3% and 25.2% respectively. The share of imported cement in total domestic demand was 78.7% compared to 74.8% in the first half of 2011. Similarly, the import of industrial products increased in both value and volume by 17.9% and 36.7% respectively, largely attributed to metallic industries (+78.7%), chemicals industries (+43.3%) and foods products (+36.6%). Other imported industrial products are textile industries, paper industries, wood industries and various industries. However, import of fertilizers declined in both value and volume by 9.7% and 17.7% respectively.

As a result of higher oil prices and increasing domestic demand, the imports of energy and lubricants rose both in value and volume by 18.5% and 13.8%, respectively, with 94.7% composed of petroleum products.

3. Trade with EAC countries

In the first half of 2012, total trade with EAC countries increased to USD 454.62 million from to USD 402.05 million in the first half of 2011, which is an increase of 13.1% leading to continuing deterioration of the trade deficit attributed to higher imports from EAC compared to exports which are still low, despite an increasing trend.

Table 6: Trade flow of Rwanda within EAC bloc (USD million)

	2006	2007	2008	2009	2010	2011	Jan-Jun 2011	Jan-Jun 2012
Exports to EAC	36.51	45.03	46.25	47.34	54.16	80.70	36.08	57.35
Imports from EAC	241.73	316.17	461.10	449.65	513.35	674.75	365.97	397.25
Trade balance	**-205.22**	**-271.14**	**-414.85**	**-402.31**	**-459.19**	**-594.05**	**-329.89**	**-339.90**

Source: BNR, Statistics Department

Rwanda's main exports to EAC countries in the first half of 2012 were flavored or non-flavored tea, raw hides of bovine, roasted or non-roasted coffee, bars and rods of iron or non-alloy steel, vegetables and beer. On the other hand, major imports from EAC countries are cement, fertilizers, clothing, fats & oils and sugar, among others.

4. Cross border trade

With regard to the informal cross-border trade, total exports during the first half of 2012 increased by 67.3% and amounted to USD 51.04 million from USD 30.52 million in the first half of 2011. This represents around 26.1% of formal exports. Informal imports declined by 18.7% from USD 12.89 to USD 10.48 million in the first half of 2012, leading to improvement in Rwanda's positive informal trade balance (USD 40.56 million) with neighbouring countries.

Table 7: Rwanda informal cross border trade (in USD millions)

	2010	2011	2011				2012						
			Jan	Mar	Jun	Jan- Jun	Jan	Feb	Mar	Apr	May	Jun	Jan- Jun
Exports	48.85	71.51	4.45	4.36	6.70	**30.52**	8.08	7.86	9.94	7.72	8.72	8.72	**51.04**
Imports	35.17	23.51	1.62	1.60	4.62	**12.89**	1.33	1.40	1.97	1.68	2.03	2.07	**10.48**
Trade balance	**13.68**	**48.00**	**2.83**	**2.76**	**2.07**	**17.63**	**6.75**	**6.46**	**7.97**	**6.04**	**6.69**	**6.65**	**40.56**

Source: BNR, Statistics Department

II. MONETARY SECTOR DEVELOPMENTS

II.1 INFLATION

Despite high regional inflationary pressures, inflation in Rwanda has been maintained at moderate levels in 2012 as a result of efficient management of the monetary and exchange rate policies and continuing overall improvement in the supply side, despite some sporadic shocks, especially on food and energy products. Headline inflation on annual basis declined to 5.92% in June 2012 from 8.18% in March 2012 and 8.34% in December 2011.

Domestic inflation stood at 6.75% in June from 9.65% in May while imported inflation decelerated to 2.65% in June 2012. The main driver for domestic inflation has been food prices which increased on annual basis by 15.47% in March 2012 before decelerating to 11.35% in June 2012. Higher food prices are mainly due to lower harvests compared to the previous periods caused by heavy rains which destroyed some crops, especially vegetables. Increase in vegetables' prices has been much higher in 2012 reaching 21.28% in June 2012 on annual basis from 8.26% in December 2011.

Core inflation which excludes fresh foods and energy from the overall CPI has been significantly decelerating and stood at 3.65% in June 2012 from 5.27% in March 2012 and 8.25% in December 2011.This declining core inflation is due to the effectiveness of the monetary and exchange rate policies implemented by the National Bank of Rwanda in the first quarter 2012.

Table 8: Inflation by origin and category (% change in CPI, base 2009:100)

	Weights	2010	2011	2012					
		Dec	Dec	Jan	Feb	Mar	Apr	May	Jun
Overall inflation	**10 000**	**0.23**	**8.34**	**7.81**	**7.85**	**8.18**	**6.95**	**8.32**	**5.92**
Local Goods	7947	-0.07	8.26	7.78	8.32	9.01	7.74	9.65	6.75
Imported Goods	2053	1.45	8.63	7.93	5.99	4.89	3.81	3.13	2.65
Food inflation	3538	-2.69	11.22	12.75	15.49	15.47	12.83	15.12	11.35
of which fresh food	1403	-1.06	8.26	11.39	18.60	22.35	17.17	21.39	16.89
Energy	767	3.61	9.30	8.41	5.80	8.27	6.88	10.84	6.64
Core inflation	**7829**	**0.15**	**8.25**	**7.06**	**5.97**	**5.27**	**4.80**	**5.43**	**3.65**

Source: BNR, Statistics Department

II.2 MONETARY AND EXCHANGE RATE POLICY STANCE

During the first half of 2012, the National Bank of Rwanda has been implementing a tight monetary policy to avoid risks of exacerbation of inflationary pressures while continuing to support the financing of the economy. In response to rising inflation and persistent uncertainties in international and regional environment, the BNR Monetary Policy Committee raised the Central Bank policy rate from 7.0% in November 2011 to 7.5% in May 2012 and decided to keep it unchanged in July 2012.

In addition to further build and shape market expectations, the BNR continued to enhance its communication strategy by exchanging information with all stakeholders, with a particular focus on financial institutions and the business community. Indeed, the communication strategy has been enhanced by a financial services awareness program for investors and consumers. In providing the public with the skills, knowledge and information, this program contributes to improving the monetary policy transmission mechanism.

With regard to exchange rate policy, the BNR continued to maintain a flexible exchange rate regime, regularly intervening on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the RWF exchange rate volatility. During the first half of 2012, the Rwanda franc remained quite stable; depreciating by 1.37% against the US dollar, the most used foreign currency in transactions with trading partners.

II.3 MONEY SUPPLY AND DEMAND

From December 2011 to June 2012, broad money M3 increased by 12.5% against 16.9% in the same period of 2011 and 17% projected for the whole year 2012. This increase was driven by a significant growth in net domestic assets (230.9%) resulting from an increase in net credit to government (+76.7%) and credit to the private sector (+18.1%) whereas Net foreign assets declined by 23% due to a high increase of 70% in BNR sales of foreign exchange to commercial banks and moderate increase of 1.4% of government spending in foreign currency.

Table 9: Monetary aggregates development (in RWF billion, at end of period)

	2011				2012		Change (%)	
	March	Jun	Sept	Dec	Mar	Jun	Dec-10/Jun-11	Dec-11/Jun-12
Net foreign assets	464.4	485.3	520.0	671.2	579.7	516.5	-6.5	-23.0
Net domestic assets	162.0	227.3	201.8	109.4	235.4	362.1	134.4	230.9
Domestic credit	323.4	400.9	379.3	288.0	417.7	550.6	49.5	91.2
Central government (net)	-98.6	-48.2	-114.6	-223.6	-138.5	-52.0	63.3	76.7
Public enterprises	1.1	2.6	4.4	2.8	2.1	2.6	-17.7	-8.0
Private sector	421.4	447.0	490.3	509.8	555.6	602.2	12.6	18.1
Other items net (Assets: +)	-161.4	-173.5	-177.5	-178.5	-182.3	-188.5	-1.4	-5.6
Broad money M3	**626.5**	**720.2**	**721.8**	**780.7**	**815.1**	**878.6**	**16.9**	**12.5**
Currency in circulation	83.9	101.5	93.4	102.8	99.3	108.8	12.2	5.9
Deposits	542.5	618.6	628.4	678.0	715.9	769.8	17.7	13.6

Source: BNR, Statistics Department

In the first half of 2012, the credit to the private sector increased by 18.1% and new authorized loans stood at RWF 237.3 billion against RWF 140.7 billion in the first half of 2011, which is an increase of 68.6%.

Considering distribution of credit to private sector by economic activities, loans extended by the banking sector largely benefited the mortgage industries (26.8%), commerce and hotel (31.5%) and non-classified activities (15.4%) which comprise mainly loans to consumption (salary advances, overdraft to individuals, etc.). The share of loans to primary agriculture, manufacturing, transport and warehousing were relatively low, representing 5.5%, 6.3% and 8.8% respectively. Regarding the agriculture and related activities, the share of loans represented 9.3% in the first half of 2012.

Regarding money demand, from December 2011 to June 2012, both currency in circulation and deposits in banking system kept on trending upward as was observed in the same period of 2011 even if the increase in first semester of 2012 was relatively lower. Currency in circulation grew by 5.9% in first half of 2012 compared to 12.2% in the same period of 2011 due to less demand for cash to finance coffee season as the prices to farmers have significantly declined from RWF 350 per kg in 2011 to RWF 220 in 2012. In 2012, about RWF 15.7 billion has been injected to finance coffee season against RWF 18.1 billion in 2011.

In addition, as the use of mobile payment system and the development of POS in Rwanda and related distribution channels underwent important changes since 2005, the ongoing modernization of payment systems reduces progressively the currency in circulation.

Furthermore, deposits with the banking system also recorded an increase of 13.6% against 17.7% in 2011 as demand deposits gained more increasing by 19.1% and time deposits by 15.0% while foreign currency deposits declined by 0.7%. As shown in the table below, households and non-profit institutions saving households (NPISH) have the largest share in total deposits, while it declined from 57.3% in the first half of 2011 to 52.8% in the period under review.

Table 10: Change in deposits by institutional sectors (*in million RWF unless otherwise indicated*)

	Jan- Jun 2011		Jan- Jun 2012		% changes
	Amount	**Shares in %**	**Amount**	**Shares in %**	
Other financial institutions	143354.1	5.2	327386.1	9.2	128.4
Social Security Funds	250770.7	9.2	385034.6	10.8	53.5
Public enterprises	111656.1	4.1	125700.4	3.5	12.6
Other non-financial corporations	661997	24.2	841017.5	23.6	27.0
Households and NPISH	1568239.5	57.3	1880745.8	52.8	19.9
Total	**2736017.4**	**100.0**	**3559884.4**	**100.0**	**30.1**

Source: Statistics Department

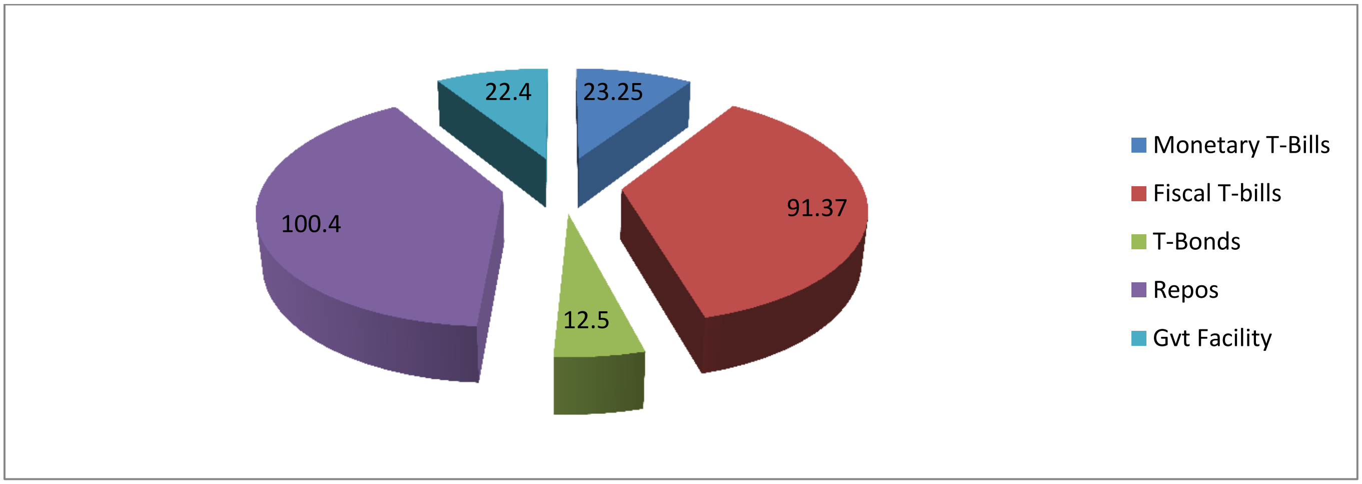
II.4 BANKING SYSTEM LIQUIDITY CONDITIONS

The banking system liquidity continued to improve during the first half of 2012 and BNR has intervened frequently to manage liquidity through REPO operations and issuance of treasury bills to meet the reserve money targets.

By end of June 2012, total outstanding liquidity resulting from mopping up operations amounted to RWF 215 billion compared to RWF 160.8 billion by end December 2012, treasury bills accounting for 53.3% against 46.6% for Repos. Besides, outstanding Government long term deposit facility reached RWF 22.3 billion by end June 2012 against RWF 20.6 billion by end December 2011 and was used to finance especially mortgages and equipment with 52% and 36% respectively.

Within the framework of developing the capital market, BNR issued Government Treasury Bonds and by end June 2012, the total Bonds listed on Rwanda Stock Exchange amounted to RWF 12.50 billion.

Fig. 2: Outstanding amount of BNR and Government securities (RWF billion)



Source: Financial Markets Department

Regarding the interbank market development in the first semester 2012, a significant decrease of 95% has been recorded in the total volume transacted. It stood at 14.38 Billion RWF end June 2012 whereas it had reached 294.88 billion in end June 2011. This trend was driven by comfortable liquidity conditions in almost all banks leading to more investment in money market instruments as mentioned above.

II.5 INTEREST RATES DEVELOPMENTS

Over the course of the first half of 2012, short-term interest rates increased slightly and adjusted to the change in Policy Rate in May 2012 from 7 to 7.5%. Repo, T-bills and interbank weighted average interest rates moved to 7.4%; 9.3% and 9.0% respectively from 6.4%; 7.6% and 7.3% in January 2012. That transmission facilitated the Central Bank to more efficiently manage the liquidity in the banking system.

Table 11: Interest rates (in percentage)

	2011				2012					
	Mar	June	Sept	Dec	Jan	Feb	Mar	Apr	May	June
BNR Policy Rates										
Key Repo Rate	6.0	6.0	6.0	7.0	7.0	7.0	7.0	7.0	7.5	7.5
Discount Rate	10.0	10.0	10.0	11.0	11.0	11.0	11.0	11.0	11.5	11.5
Money Market Rates										
Repo rate	6.0	6.0	6.0	6.5	6.4	6.0	6.9	6.9	7.4	7.4
Refinancing Facility	7.5	9.0	9.5	8.5	8.5	9.5	9.5	10.0	9.5	10.1
Treasury Bills Rate	7.2	6.8	6.7	7.6	7.6	7.6	7.7	7.9	8.3	9.3
Commercial Banks										
Interbank Rate	6.7	7.0	6.9	8.1	7.3	6.9	7.7	8.0	8.6	9.0
Deposit Rate	7.5	8.0	6.5	8.0	7.4	8.3	8.2	8.1	9.9	7.9
Lending Rate	16.6	17.0	17.0	16.7	16.9	16.7	16.3	16.9	16.7	16.8

Source: BNR, Statistics Department

Over the period under review, the commercial banks average lending rates have stabilized between 16.7% and 16.9% while deposits rate have been fluctuating between 7.4% in January and 9.9% in May 2012, but with a clear upward trend observed since September 2011. This trend is an indication of improving competition in the banking system, especially with the licensing of two regional banks (KCB in 2009 and Equity in 2011) as well as two big microfinance institutions which have been upgraded to microfinance banks (Agaseke Bank and Unguka Bank in November 2011).

II.6 EXCHANGE RATE AND FOREIGN EXCHANGE MARKET DEVELOPMENTS

Regarding the exchange rate policy, BNR kept the RWF exchange rate fundamentally market driven. It continued to intervene on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the RWF exchange rate volatility depending on the volume of foreign exchange reserves available.

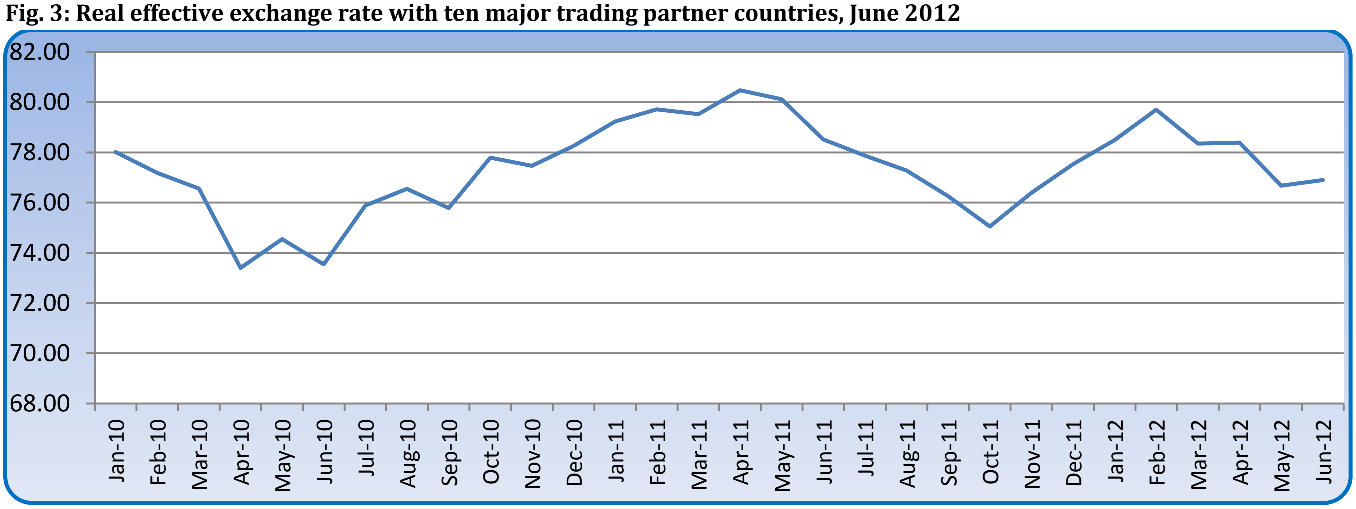
As a result, the Rwandan franc depicted a relatively stable performance against the major international currencies during the six months of 2012. It moderately depreciated against the USD by 1.3% trading between RWF 604.14 end-December 2011 and 612.43 end-June 2012 per dollar. However, this moderate depreciation recorded against USD in the first half of 2012 is relatively high compared with total depreciation of 1.6% over the whole of last year. It was due to the higher-than expected increase in forex demand to finance important imports of goods especially in the second quarter of 2012.

In the first half of 2012, RWF also edged down by 2.5% against the GBP while it appreciated by 2.1% versus the EURO. In the East African region, RWF depreciated against Uganda, Kenya and Tanzania shillings by 1.61%, 2.46% and 1.96% respectively following rapid appreciation of these currencies against USD to offset a strong depreciation recorded last year. On the other hand, RWF appreciated by 5.32% against Burundian franc.

Facing higher demand for forex in the first half of 2012, the BNR managed to keep the external stability of local currency through interventions on forex exchange market. BNR sales to commercial banks increased by 71% to reach USD 228.5 million in the first half of 2012 versus USD 134.1 million during the same period in 2011.

Overall, the real effective exchange rate appreciated by 1.6% between February and June 2012, resulting mainly from narrowing inflation differential vis-à-vis major sub-regional trade partners.

Fig. 3: Real effective exchange rate with ten major trading partner countries, June 2012



Source: BNR, Monetary Policy and Economic Analysis Department

III. MONETARY AND EXCHANGE RATE POLICY IN THE SECOND HALF OF 2012

III.1 ECONOMIC AND INFLATION OUTLOOK

The Rwandan economy continued to perform well and in line with 7.7% of economic growth projected for 2012. The economic growth in the first quarter 2012 increased by 7.7% in real terms and indicators of economic activities show very good performance of the economy in the first half of this year. For the remaining part of the year 2012, the National Bank of Rwanda will continue to implement a prudent monetary policy to limit the inflation rate at a maximum of 7.5% end 2012, while continuing to support the financing of the economy.

III.2 MONETARY AND EXCHANGE RATE POLICY

Considering the current developments and outlook in economic fundamentals, the short term BNR Monetary Policy will remain prudent to avoid any exacerbation of inflationary exogenous shocks, while continuing to stimulate the required lending to the productive activities to achieve expected economic growth. In this regard, to mitigate the likely negative impact of unfavourable global environment, BNR, in coordination with other Government stakeholders, will continue to closely monitor and analyse domestic and global economic and financial developments so that appropriate measures are taken in due time, to ensure underlying pressures are well anchored.

Regarding the perspectives in money markets developments, the BNR will continue to manage liquidity by issuing T-Bills and availing at the same time the securities needed to promote interbank market. Also, preparations are underway to issue a specific Bond for the Diaspora by end December 2012.

In addition, to further contribute to the development of the capital market, the Government in collaboration with the BNR plans to extend the debt securities maturity to avail more opportunities for longer term investments. Different maturities provide market-determined term structure of interest rates that reflects the opportunity cost of money at each maturity, thus improving the yield curve.

Regarding the exchange rate policy orientation during the remaining period of 2012, BNR remains committed to maintain a market driven exchange rate by intervening on forex market to smoothen the exchange rate volatility. Also, it will continue to ensure that the exchange rate policy remains supportive of external sector competiveness.

III.3 COMMUNICATION STRATEGY

The BNR considers its communication strategy as an important tool to create a solid interactive platform of exchanging information with all stakeholders and to enhance the monetary policy transmission mechanism. The BNR will continue focusing on improving the understanding of the monetary and exchange rate policies by the public to foster public support for goals and actions. In particular, this communication will continue to be expanded to financial literacy emphasizing the ongoing financial deepening reforms in the banking system, insurance sector, Umurenge Sacco program, capital market development and payment systems modernization, among others.

IV. FINANCIAL SECTOR STABILITY

In the period under review, the BNR continued to employ important reforms to ensure that the financial system mainly composed of the banking system, microfinance and non-banking financial institutions is robust and continue to show good financial health. These reforms included the establishment of appropriate market infrastructure (efficient legal and regulatory framework, supervisory tools, modern payment systems and the private credit reference bureau). In addition, the BNR established the Financial Stability Committee (FSC) in May 2012 with the mission to promote the stability of the Rwandan financial system by analysing the system in its environment on a permanent basis, and by identifying, monitoring and publishing associated risks.

The outcome of the 2011 financial stability reports and first meeting of FSC substantiate that Rwanda's financial system is sound and stable and able to mitigate systemic risks.

IV.1 FINANCIAL SECTOR SOUNDNESS

IV.1.1 Banking Sector

1. Performance indicators

During the first half of 2012, the sector demonstrated good performance as a result of strengthened legal and supervisory framework as well as good macroeconomic environment. In the period under review, the banking sector total asset increased from RWF 1,084.2 billion in December 2011 to RWF 1,207.8 billion in June 2012, which is a growth of 11.4%. The above rise in the banking sector balance sheet is mainly due to the rapid increase of the deposits and loans during the first half of 2012.

Furthermore, total loans increased by 20% from RWF 631.2 billion in December 2011 to RWF 757.1 billion in June 2012, while deposits have grown by 12.8% from RWF 716.5 billion in December 2011 to RWF 808.4 billion end June 2012.

Table 17: Performance achievement, in Rwf 000

	Dec-11	Jun-12
Total Assets	1,084,192,044	1,207,844,775
Total Deposits	716,466,968	808,370,208
Total Loans	631,267,680	757,018,376
NPL	50,504,712	45,254,736
Profit After Tax	*13,495,292	13,439,891

* Note : ***The data refers to June 2011***

Through close supervision and monitoring of banks, the quality of assets improved significantly as the Non-performing loans (NPLs) to total gross loans reduced to 6% in June 2012 from 8% in December 2011. NPLs stood at RWF 45.3 billion in June 2012 against RWF 50.5 billion in December 2011; that is an improvement of 10.3%.

The sector profitability remained good although there is slight decrease of 0.4%, from RWF 13.5 billion in June 2011 to RWF 13.4 billion in June 2012. The return on assets (ROA) and return on equity (ROE) stood at 2.3% and 10.9% respectively in June 2012.

Based on macro-prudential assessments and stress testing results, the banking sector remained well capitalized with sufficient Reserves to cope with market demands. As at end June 2012, the capitalization levels (measured by total capital to risk weighted assets) stood at 25.4% compared to 25% realized in December 2011; well above the regulatory capital of 15%. The sector's liquidity position stood at 48.3% in June 2012 compared to 45.3% achieved in December 2011.

Table 12: Key soundness indicators (%)

Indicators	2011			2012	
	Jun	Sept	Dec	Mar	Jun
Solvency ratio (total capital)	24.4	25.7	25.0	26.6	25.4
NPLs / Gross Loans	9.2	9.3	8.0	6.5	6.0
NPLS net/Gross loans	7.5	7.3	6.2	5.1	4.4
Provisions / NPLs	49.5	49.4	50.8	52.8	50.9
EarningAssets / Total Assets	80.5	71.2	77.2	79.9	81.4
Large Exposures / Gross Loans	10.2	10.1	9.8	7.7	9.7
Return on AverageAssets	2.9	2.3	2.2	2.5	2.3
Return on AverageEquity	15.2	11.9	10.5	11.6	10.9
Cost of deposits	2.4	2.4	2.4	2.9	2.9
Liquidassets/total deposits	55.9	49.3	45.3	49.7	48.3
Forexexposure/core capital	4.8	3.0	6.6	5.6	-1.5

Source: *BNR, Banking Supervision Department*

IV.1.2 Microfinance Sector

The microfinance sector is comprised microfinance institutions and SACCOs. The total assets of the microfinance sector (UMURENGE SACCOs included) increased by 22.2% from December 31, 2011 to June 30, 2012, that is, from RWF 77.4 billion to RWF 94.6 billion. Gross loans and deposits increased by 25.7% and 23.3%, from RWF 40.7 billion to RWF51.7 billion and from RWF 45.8 billion to RWF 56.5 billion, respectively for the same period. This performance is mainly driven by the growth of UMURENGE SACCOs.

Indeed, for UMURENGE SACCOs, deposits and gross loans registered deposits and gross loans amounting to RWF 30.2 billion and RWF 10.0 billion at end June 2012 against RWF 22.5 billion and 4.7 billion RWF end December 2011, showing an increase of 34.2% and 112.7% respectively. Total assets increased by 40.6%, from RWF 29 billion end June 2011 to RWF 40.8 billion end June 2012.

Table 13: MFIs Consolidated financial performance indicators, UMURENGE SACCOs included (in RWF billion)

	31-Dec-11	30-June-12	Change in %
Total Assets	77.4	94.6	22.2
Liquidity	33.0	38.2	15.7
Gross Loans (Before Provisions)	40.7	51.2	25.7
Non Performing Loans	4.8	4.2	-12.5
Provisions	2.1	2.3	9.5
Loans (Net of Provisions)	38.6	48.9	26.6
Deposits	45.8	56.5	23.3
Equity	20.2	24.5	21.2
Non Performing Loans rate	12.0	8.3	-30.8
Liquidity ratio	85.6	67.6	-21.0
Capital adequacy ratio	26.1	25.9	-0.7

Source: *BNR, Microfinance Supervision Department*

Financial soundness indicators of the microfinance sector indicated a significant improvement. NPLs ratio reduced from 12% to 8.3% mainly due to the good performance of UMURENGE SACCOs with a NPLs rate of 2.6% end June 2012 from 5.6% end December 2011, while the NPLs rate for other MFIs is 9.7 % decreasing from 12.9 %.

Considering only existing MFIs and SACCOs, most of financial soundness indicators of the microfinance sector are indicating an improvement. On a consolidated basis, existing MFIs and SACCOs are complying with prudential norms. Indicators of growth measured in terms of total assets, deposits and gross loans showed a positive trend as indicated in the table.

The table below indicates significant improvement registered by UMURENGE SACCOs in terms of modernization of the sector. UMURENGE SACCO also registered achievements improvements in building their own premises and equipping themselves with IT equipment paving the way to their computerization and consolidation process.

Table 14. UMURENGE SACCOs Premises and IT equipment

No	Denomination	Number	%
1	SACCOs operating in own offices	62	14.9
2	SACCOs with unfinished buildings	60	14.4
3	SACCOs with plots	131	31.5
4	SACCOs operating in Government Offices	247	59.4
5	SACCOs renting	96	23.1
6	SACCOs with Laptops	295	70.9
7	SACCOs with Desktops	416	100
8	SACCOs with Management Software	0	0
9	SACCOs with Electricity (Solar energy and Generators	328	78.8
10	SACCOs with internet (Modem included)	300	72.1

Source: Microfinance Supervision Department

IV.1.3 Non-Bank Financial Institutions (NBFIs)

The non-bank financial institutions are composed of insurance and pension sectors. The National Bank of Rwanda is mandated to regulate and supervise these institutions to protect interests of policy holders and pensioners by ensuring that these institutions are financially sound and stable.

1. Insurance sector

The insurance sector is composed of 9 insurers of which seven are private and two are public, 5 insurance brokers, 120 insurance agents and 8 loss adjusters. The insurance sector in Rwanda is developing as depicted by insurance penetration which is about 2.3% though still less than the 10% for middle income economies.

During the period under review, the insurance sector performance improved progressively. The total assets of the Rwandan insurance sector as at 30th June 2012 reached RWF 180.6 billion compared to RWF 147.5 billion as at 30th June 2011. The Gross premiums increased, however the net profit decreased slightly. The liquidity position of the insurers is strong. The return on assets and return on equity improved as most of the insurers continue to invest prudently.

Table 15: Financial soundness indicators for the insurance sector in RFW billions

Indicators	2010	2011		2012	
	Dec	June	Dec	Mar	June
Total assets	128.211	147.513	157.528	169.242	180.632
Total capital	85.028	100.862	104.381	112.044	115.184
Total gross premiums	49.738	42.826	46.288	32.634	46.354
Underwriting profit	7.063	12.875	6.756	11.381	16.843
Total net profit	15.687	20.076	12.564	14.632	19.820
Claims ratio in percent	44	17	41	45	43
Combined ratio in	81	65	79	61	63
Current ratio (percent)	178	180	190	218	298
Return on equity	17	20	13	13	17
Return on assets	11	14	9	9	11

Source: *BNR, Non Bank Financial Institution Supervision Department*

2. Pension sector

The Pension Sector is comprised of the Rwanda Social Security Board (pension branch) or National Social Security Fund and about 40 private occupational pension schemes administered by insurance companies.

The National Social Security Fund covers largely salaried workers representing 8% of the working population in Rwanda. The pension coverage is still low compared to middle income economies' coverage of at least 25%.

During the period under review, the pension sector assets, contributions and benefits (excluding private pension schemes) continued to grow with a positive trend. The contributions as major source of revenue increased by 26% and assets increased by 9%.

IV.2 REGULATORY FRAMEWORK AND SUPERVISION

IV.2.1 Banking Sector

In the first half of 2012, the BNR continued to strengthen supervision its supervisory roles by conducting off site surveillance and onsite inspection. During the period under review, four onsite inspections were conducted against ten targeted this year 2012.

The BNR continued to reinforce the supervisory legal framework to accommodate new market developments such as agent banking and mobile banking among others, all aiming to widen financial access. Banks have expressed interest in these new innovations and so far three banks have been licensed to offer agent banking and others have applied, while almost all banks do mobile banking.

In addition, good progress has been recorded in relation to product innovations and network expansion: 119 new branches and outlets were licensed between the periods June 2011 to June 2012 representing an increase of 34.2%. Similarly, the usage of ATMs to enhance intermediation and lower transaction costs recorded substantial growth of over 69.6% from 135 ATMS (June 2011) to 229 ATMs (June 2012).

BNR continued to implement the banking law by putting in place new regulations; two directives were approved and issued to banks. Also, two regulations were published in the Official Gazette in the first half of 2012.

Four new forex bureaus were licensed in the first half of 2012 while five of them closed due to failure to meet the requirement, hence, recording a total of 130 forex bureaus. BNR issued a new regulation on the operation of forex bureaus with the aim of streamlining the business and to ensure adherence to best practices in the sector. This new regulation will become enforceable in January 2013.

IV.2.2 Microfinance Sector

During the first half of 2012, off-site and on-site inspections were performed on regular basis. The microfinance supervision activity was mainly concentrated on the licensing and onsite inspections of SACCOs established in line with UMURENGE SACCO Program where 362 SACCOs out of 416 were fully licensed against 139 end December 2011.

Regarding the supervision and monitoring of MFIs, onsite inspections were conducted countrywide by Inspectors from BNR headquarters jointly with Inspectors appointed in Districts.

IV.2.3 Non-Bank Financial Institutions

During the period under review, BNR accomplished a number of activities relating to strengthening the legal framework and conducting inspections for Non-Bank Financial institutions. Activities accomplished include reviewing the Insurance contracts law and finalization of insurance regulation on dissolution and winding up of insurance companies that will soon be published in the official Gazette. In addition, BNR has been closely following up legislative procedures aiming at the pension law enactment. .

In addition, BNR closely monitored the actuarial valuation for life insurance companies and this will facilitate the separation of life and non-life insurance businesses. A number of prudential meetings were conducted to ensure that the non-bank financial institutions meet minimum capital and solvency requirements and observe corporate governance best practices.

BNR started the initiatives aiming at establishing appropriate supervisory framework for Special Guarantee Fund and Mutuelle de Santé. BNR also participated in the peer review meeting of all EAC insurance regulators to review the compliance with insurance core principles.

IV.3 ACCESS TO FINANCE

IV.3.1 Access to Finance

In line with measuring access to finance, a second FinScope survey has been undertaken. Preliminary findings of FinScope Rwanda 2012 show that the percentage of adult population having access to formal financial services increased from from 21.1% in 2008 to 42% in 2012. The percentage of adult population informally served is 29.8% in 2012 from 26.4% in 2008, that is to say that, in total, adult population financially included increased to 71.8% in 2012. The percentage of adult population financially excluded decreased from 52.4% in 2008 to 28.1% in 2012. It is worth mentioning that this level of inclusion was reached mainly due to the impact of UMURENGE SACCO Program and financial awareness campaign.

IV.3.2 SMEs financing

According to the country's policy of empowering SMEs, which is observed as the key catalyst for GDP growth and employment creation, the BNR has taken proactive steps in this regard. Between March to May 2012, BNR in partnership with World Bank conducted a supply SME financing survey to assess the obstacles of financing to SME's in Rwanda and thereafter propose appropriate policies.

The preliminary findings indicate positive outlook: on average, SMEs constitute 17% of the overall lending portfolio in Rwanda, which is higher compared to 5% in Nigeria, about 8% in South Africa and 16% across developing economies. In terms of distribution by sector of activities, commerce and hotels, and mortgage industry have big shares, 41% and 22% respectively. Other financed activities are manufacturing activities (9%); agricultural, fishery and livestock (9%); transport and warehousing insurance (4%), service sector (4%); water and energy activities (4%), non-classified activities (4%) and OIF and insurance (2%).

In addition, BNR has undertaken appropriate measures to break the traditional norms of over-reliance on real estate and land as prime collateral by introducing the enforcement of movable collateral supplemented by better credit information provided through the new private credit reference bureau.

Table 16: Financing of SMEs by banks and MFIs (in "000" Rwf)

Sector	2008	2009	2010	2011	Jun-12
Banks	77,200,670	108,733,789	108,015,099	118,421,717	139,999,822
MFIs	815,038	2,732,746	3,470,400	6,523,902	7,687,818
Total	78,015,708	111,466,535	111,485,499	124, 945,619	147, 687,640

Source: BNR, Financial Stability Directorate

IV.3.3 Women access to finance

Access to finance by gender indicate that generally, women's appetite and courage to take loans is improving which is a positive indicator to empower women out of poverty. In 2006, only 16% of loans by banking sector were granted to women against 22% in 2011. Furthermore, monthly comparison indicates that about 75% (Rwf 16.6 billion) and 25.0% (Rwf 5.5 billion) of loans issued by banks were disbursed to men and women respectively in June 2012 compared to the 80.5% and 19.5% recorded in June 2011. In addition, 42% of account holders in microfinance sector are women.

IV.3.4 Geographical distribution of loans

Considering the geographical distribution of loans, Kigali city takes the lion's share of 73% for new loans disbursed in the month of June 2012 followed by Western province (7%), Southern province (8%), Eastern province (8%) and Northern province (4%).

IV. 4 CREDIT INFORMATION SYSTEM

The private credit reference bureau (CRB Africa) came to supplement the public credit reference bureau managed within the BNR in order to gather quality credit information for the purpose of minimizing credit moral hazards and adverse credit underwriting, this initiative has started to pay off.

All financial institutions have signed memorandum of understanding with CRB Africa and have started to provide data to CRB Africa. Similarly, banks have begun to use CRB Africa data in client credit analysis. During the first half of year 2012, all mandatory participants provided data to CRB Africa and used credit reports issued by the bureau.

According to CRB Africa report, from June 2011 to June 2012, the usage of credit report by the mandatory participants increased by 385% from 2,467 usage in June 2011 to 11,959 usage in June 2012. As of 30th June 2012, all commercial banks and microfinance banks as well as 32 MFIs and SACCOs were CRB participants. The insurance companies started sharing information with CRB Africa in October 2011 and the number of policy accounts submitted increased significantly by 425% from 6,003 in December 2011 to 31,507 in June 2012.

In addition to mandatory participants (financial institutions), voluntary participants such as the utility companies (telecoms & EWSA) have registered to share credit information and information on client accounts submitted to the bureau increased by 352% from 1,562 in December 2011 to 7,055 in June 2012.

Going forward, the National Bank of Rwanda will continue to ensure improved quality and coverage of credit information sharing with voluntary participants to include retail traders (supermarkets) as well as other credit granting institutions. Furthermore, BNR with the support AfDB will continue to monitor the assignment that already started in June 2012, of conducting a public awareness campaign to sensitize consumers, participants and policy makers on the role of credit information sharing and consumer rights.

IV. 5 FINANCIAL STABILITY OUTLOOK

The outlook for Rwandan financial stability remains positive. As of end June 2012, the financial system remained well performing and stable and resilient to different shocks as proven by stress testing results. The main contributing factor to the prevailing stability of the sector is the governance structures that exist in the supervised institutions, regulatory framework in place and regular prudential meetings as well as continuous off and on-site inspections performed by BNR. As a result, financial institutions are well capitalized, with satisfactory asset quality, highly liquid and profitable.

Mindful of the potential risks to the financial stability due to current global economic challenges, the BNR remains vigilant in its regular supervision of the financial system for any early warnings and committed to take proactive actions accordingly. Through its financial stability committee, the BNR will continue reforms in financial sector to further strengthen the financial stability and reinforce the supervisory legal framework to accommodate new market developments all aiming to widen financial access while maintaining financial stability. BNR will contribute to strengthen UMURENGE SACCOs by consolidating SACCOs at district level and at national level. BNR will continue to ensure that financial institutions remain prudent in their operations through on-site and off-site examinations.

The non-performing loans (NPLs) ratio is an important measure of the quality of the assets in banks' loan portfolios. Therefore, the maximum of 5% of NPLs ratio is the new target set for the year end 2012 in the Rwandan banking sector as a measure of asset quality management.

The risk based supervision approach adopted by the National Bank of Rwanda is expected to contribute towards mitigation of any emerging risks to financial sector stability. The improvement of financial literacy campaign will also contribute to maintain the financial stability of Rwandan financial system.

For the purpose of financial sector development and access to finance, BNR is envisaged to take on board the recommendations that shall have come out of the second financial development program (FSDPII).

V. PAYMENT SYSTEMS

After the stabilization of the RIPPS, concerted efforts are now geared towards developing the retail payment systems. The RIPPS has stabilized and banks have put much effort to integrate core banking applications with the system. 73.33% of banks have developed the interface between RIPPS and their core banking and the availability rate of the system has been 99.44% during the last 6 months. The table below shows a significant increase in transactions going through ATS and the first six months of 2012 have superseded the whole of 2011.

Table 17: **Transactions through ATS**

	RTGS					ACH					
Type of transaction	Customers transactions		Interbank transactions		Cards	Cheques		Credit transfer (batches)		Total	
Period	Feb –Dec 2011	Jan - Jun 2012	Feb –Dec 2011	Jan - Jun 2012	Jan - Jun 2012	Feb –Dec 2011	Jan - Jun 2012	Feb –Dec 2011	Jan - Jun 2012	2011	Jan - Jun 2012
Total Messages	270,768	65,950	24,120	3,590	428	32,103	28,174	69,410	120,587	396,401	221,823
Volume of instructions	270,768	65,950	24,120	3,590	428	296,595	181,430	730,599	856,665	1,322,082	1,111,157
Value (millions Rwfs)	977,286	464,943	4,179,446	484,162	3,016	750,217	463,279	446,206	588,726	6,353,155	2,326,931

Transactions through CSD have also increased tremendously and total trades from Jan-June 2012 are 1,788 with total shares reaching 45.974 measured in millions of Rwandan Francs.

In regard to retail payment systems, a lot of progress has been made in all forms of electronic payment systems, both card based and mobile financial services. The Visa National Net Settlement System (NNSS) has been operational since the 1st March 2012. This system facilitates domestic transactions to be settled in local currency and the Central Bank is the settlement agent. Six (6) banks are already participants in NNSS.

To increase the acceptance of other international cards by Rwandan banks terminals, banks are introducing different cards on the market. Nine banks are currently Visa members (2 principle members, 3 associate members and 4 cash disbursement members); China Union Pay is accepted by 2 banks; Mastercard (one bank) and Diners Club (one bank) as well. The level of interoperability has significantly increased and 65% of ATMs accept both RSwitch proprietary cards and Visa Cards. One bank is accepting 3 international cards (Visa, Mastercard and China Union Pay (CUP)). The following table depicts the statistics showing the progress in electronic payment system.

Table 18: Statistical data on electronic means of payments

	Number of Subscribers			Number of Transactions			Value (Million RWF)		
	2011	March 2012	June 2012	2011	March 2012	June 2012	2011	March 2012	June 2012
POS	-	-	-	38,440	9,957	12,341	73	2,424	2,058
ATMs	-	-	-	1,976,376	1,082,223	1,420,583	122,536	35,846	43,763
Mobile Banking	155,986	198,590	248,689	527,300	33,655	253,392	5,215	179	411
Internet Banking	-	5,841	6,237	1,493	35,513	36,828	708	4,188.5	4,568
Mobile payments	639,673	765,416	968,315	4,323,490	2,767,884	4,301,744	51,024	26,476	33,737

The retail Payments infrastructure has also improved considerably. The Number of ATMs has increased to 232 as compared to 167 by end 2011. Points of Sale (POS) have also increased to 385 from 227 at end 2011.

More importantly, the number of cards issued has superseded what the Banks had projected, a total of 320,565 cards was issued as at end June 2012 as compared to 250,534 in March 2012, representing an increase of 28 % in three months.

Table 19: Number of cards

Item	End 2011	June 2012
Number of Debit Cards	208,767	320,565
Number of credit Cards	526	542
Number of ATMs	167	232
Number of POSs	227	385

Regarding the E-commerce in Rwanda, Rwandair is operating e-commerce through I&M Bank. One bank has got the e-commerce license from Visa and has already identified the payment gateway and they are on the test phase. In addition there is an increasing number of institutions that are applying to be licensed as remittance service providers and to offer mobile financial services as well. On the legal and regulatory side, the regulation governing payment services providers has been amended to include the interoperability between payment infrastructures.

To further enhance the developments in payment systems, the BNR together with the Rwanda Bankers Association, have embarked on the Cheque Truncation Project. The cheque truncation consists of cheque clearing system based on cheques image where the cheque is scanned and transmitted through the entire clearing cycle using the image instead of the physical cheque.

In this regard, new standards for the cheques have been published and new printers willing to provide services to banks in Rwanda are being accredited by the BNR and accreditation guidelines were published for that purpose. The new standardized cheques are supposed to be in circulation in January 2011. This project shall help to fast track the cheque payment process with a more secure and trusted method of processing as more security features have been added to the new cheque. Besides, the cheques will be cleared efficiently because all account structures will be harmonized facilitating the integration between RIPPS and banks' core banking applications.

In addition, the RIPPS system has been upgraded to enable linkage to Regional Payment Systems; the East Africa Payment systems (EAPS) and the COMESA Regional Payment and settlement system (REPSS) so as to facilitate the cross border payments in the East African Community and COMESA region.

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Paul VI Avenue, PO Box 531 Kigali
Tel. :(250) 252 574282, Fax: (250) 252 577391
Email: info@bnr.rw
Web: www.bnr.rw
Swift code: BNRWRWRW