National Bank of Rwanda

Banki Nkuru y'u Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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Governor

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EXECUTIVE SUMMARY

After some moderation in 2014Q1, the world economy ended the first half of the year 2014 on a positive growth path and it is projected to further strengthen in the second half of 2014 on the account of improving economic fundamentals in advanced economies particularly the US, Japan and Europe. It is estimated to grow by 2.4% in 2014Q2 from 1.8% in 2014Q1 and reach 3.4% by end 2014 compared to 3.2% recorded in 2013.

The Rwandan economy is recovering from the slowdown of 4.7% registered in 2013 and evolves toward achieving or even surpassing the projected growth rate of 6.0% by end 2014. In 2014Q1, real GDP grew by 7.4%. This economic recovery is expected to continue in 2014Q2 driven mainly by the services sector as evidenced by total sales of services sector which rose by 22.4% in 2014Q2 from 12.6% recorded in 2014Q1.

These performances are supported by significant increase in banking system financing to the private sector as new loans to the private sector rose by 47.8% in January – June 2014 from a decline of 12.4% recorded in the same period of 2013.

Regarding the external sector performance, in the first half of 2014, Rwanda's trade deficit continued to widen due to the increased imports relative to exports. Consequently, the cover rate of imports by exports slightly decelerated to 24.6% from 27.5% achieved in the same period last year.

During the first half of 2014, inflation in Rwanda remained subdued and was maintained below this year's objective of 5%. It is further expected to remain low during the second half of 2014 due to sustained and well-

coordinated monetary and fiscal policies and limited inflationary pressures from trading partners including stable international oil prices. Headline Inflation slid to 1.4% in June from 3.4% in March 2014 and is expected to be around 3% in 2014Q3.

Regarding market rates, deposit interest rates and lending rates declined in line with the BNR monetary policy stance aiming at stimulating credit to the private sector and with good banking system liquidity conditions. Deposit interest rates stabilized at around 8.5% in the first half of 2014 from 10.9% recorded in the same period of 2013 while the lending interest rate remained stable at around 17.2% from 17.3% in the period under review.

With regard to the performance of the Rwandan financial sector, it continued to be sound, stable and expanding throughout the first half of 2014. The sector continued to support the growth momentum of the economy.

The banking sector, which dominates the Rwandan financial sector, grew by 21.0% in assets. The banking industry remained profitable, liquid and well capitalized to sustain growth. Banks were also resilient to external shocks as a result of strengthened legal, regulatory and supervisory framework.

The Capital Adequacy Ratio (CAR) stood at 23.6%; well above the minimum required Capital Adequacy ratio of 15%, while the non-performing loans (NPL) ratio stood at 6.6% at end June 2014 from 6.9% in December and June 2013

The microfinance sector recorded a positive performance with 14.5% asset growth from end December 2013 to end June 2014. The increase was *mainly driven by the liquid assets and gross loans. Over the same period, the sector registered an increase in deposits (18.3%) and gross loans (10.4%), respectively.*

The insurance sector recorded good performance as well, with total assets for the sector increasing by 13% in the first half 2014 (December 2013 – June 2014) and the gross premiums increased by 14%. The liquidity position of the insurers was strong with the current ratio of 368%, from 308% as of end June 2013. The claims settlement pattern was satisfactory at 77% and 54% for end June 2014 and December 2013 respectively.

Also, the pension sector recorded positive performance during the period under review increasing by 18% in assets, 1% in contributions received from members, and 25% in benefits paid.

Concerning the payment systems modernization, there has been improvement in the use of Rwanda Integrated Payments Processing System (RIPPS) in the first half 2014 as interbank transfers increased by 0.2% in volume and 4% in value compared to the first half of 2013. Cheques transactions decreased by 9% in volume and 7% in value thanks to introduction of e-tax payment. In the same period, the number of POS increased by 33% while the number of ATMs, debit cards and credit cards increased by 6%, 21% and by 32% respectively.

Looking forward, BNR will maintain its accommodative monetary policy to continue stimulating the credit to the private sector as long as inflationary pressures remain contained. The Monetary Policy Committee will progressively monitor the domestic and international economic environment to take appropriate decision in due course.

BNR will also ensure that the financial sector in Rwanda remains stable, by monitoring the soundness of financial institutions under its supervision regime.

Concerning the payment systems development, BNR will focus on increasing payment transactions efficiency by promoting security and accessibility. This will be done through the establishment of the cheque truncation, interoperability of payment systems and regional connectivity (East African Payment System- EAPS).

I. OVERVIEW OF ECONOMIC ENVIRONMENT

I.1 Global economy

I.1.1 Economic growth and outlook

After some moderation in 2014Q1, the global economy performed well in the first half of the year 2014 and is expected to further strengthen in the second half owing to gradually improving economic activity in advanced countries. The world economy is expected to expand year-on-year by 2.4% in 2014 Q2 from 1.8% and 2.5% in 2014 Q1 and 2013 Q4 respectively and by 3.4% for 2014 against 3.2% recorded in 2013.

In advanced economies, despite the US weather-related contraction in 2014 Q1, Real GDP growth is gaining momentum and projected to reach 1.8% in 2014 and 2.4% in 2015 from 1.3% in 2013. The USA economy contracted by 2.1% quarter-on-quarter in 2014 Q1 from an increase of 2.6% in 2013 Q4, mainly due to a harsh winter which led to a decline in business investments, reduction in government spending and a larger trade deficit. The economy rebounded unexpectedly by 4% in 2014 Q2 as investors resumed investments delayed by the first quarter unfavourable weather. Looking ahead, the US economic growth is foreseen to slow down from an annual growth of 1.9% in 2013 to 1.7% in 2014, but will improve to 3.0% in 2015 as business investment and consumers' confidence increase.

Table 1: Economic growth developments (in %)

	2011	2012	2013	2014	2015
World	**3.9**	**3.5**	**3.2**	**3.4**	**4.0**
Advanced Economies	1.7	1.4	1.3	1.8	2.4
United-States	1.8	2.2	1.9	1.7	3.0
Japan	-0.5	1.9	1.5	1.6	1.1
Euro Zone	1.6	-0.6	-0.4	1.1	1.5
United Kingdom	1.1	0.3	1.7	3.2	2.7
Emerging and Developing Countries	6.3	5.1	4.7	4.6	5.2
Asia	7.9	6.7	6.6	6.4	6.7
China	9.3	7.7	7.7	7.4	7.1
India	6.6	4.7	5.0	5.4	6.4
Sub-Saharan Africa	5.5	5.1	5.4	5.4	5.8

Source: BLOOMBERG& IMF WEO, July 2014.

In the Euro area, the recovery remained moderate and unbalanced across member countries. From 0.5% in 2013Q4, the Euro area economic growth increased by 0.9% year-on-year for both 2014 Q1 and 2014 Q2 on account of structural reforms and fiscal consolidation, an accommodative monetary policy and improving financing conditions. The recovery is expected to further broaden real GDP growth to reach 1.1% by end 2014 and 1.5% by end 2015.

In Japan, the economy grew by 6.7% in 2014 Q1, but projected to contract in the 2014 Q2 by 5.2% partly due to the increase in sales tax from 5% to 8% in April 2014. The economy is expected to grow by 1.6% in 2014 but to slightly slow down to 1.1% in 2015 as fiscal stimulus is planned to decrease.

In Asia, growth remained robust and mainly driven by China and India despite some moderation in the Chinese economy with an expansion of 7.5% in the 2014 Q2 and 7.4% in 2014 Q1 from 7.7% in 2013 Q4. The Chinese economy is projected to increase at a slowing pace in 2014 and

2015 growing by 7.4% and 7.1% respectively because of expected weak external demand and tighter credit conditions.

In Sub-Saharan Africa, economic activity remained dynamic and is projected to grow by 5.4% and 5.8% in 2014 and 2015 respectively supported by commodity related projects and exchange rate adjustments.

In EAC, countries recorded mixed economic performances in 2013 with Uganda and Rwandan economies slowing down compared to the previous year while the remaining countries kept increasing growth rates. Looking ahead, all regional economies are expected to improve by end 2014.

Table 2: Economic growth developments in Sub- Saharan Africa and EAC countries (in %)

	2012	2013	2014
Sub-Saharan Africa	**5.1**	**5.4**	**5.4**
Burundi	4.2	4.8	5.3
Kenya	4.6	4.7	5.8
Rwanda	8.0	4.7	6.0
Tanzania	6.9	7.0	7.0(*)
Uganda	5.8	5.7	6.1(*)

Source: Central Bank Publications

I.1.2. Inflation and Commodity Prices

Inflationary pressures remained contained in 2014 owing to declining commodity prices, underutilized capacity of production in developed economies and weak domestic demand in emerging markets. In developed countries, inflation is projected to reach 1.6% in 2014 and 1.7% in 2015 from 1.4% in 2013.

In the Euro area, inflation slid to 0.5% in June 2014 from 0.8% in January 2014 due to capacity under-utilization and was projected at

0.9% end 2014. In USA, inflation rose to 2.1% in June 2014 from 1.6% in January 2014 due to strengthening demand and to rising gasoline prices particularly in June, and is projected to 1.4% end 2014. Similarly, annual inflation in Japan hiked to 3.6% in June 2014, from 3.4% and 1.4% respectively in April and January 2014 following a sales tax hike in April 2014, and is expected at 2.8% end 2014.

In emerging and developing economies, inflation is expected at 5.4% in 2014 and 5.3% in 2015 from 5.9% in 2013.

In Sub-Saharan Africa, inflation slowed down in most countries as result of stable global commodity prices, favourable weather conditions and tight monetary policy. From 9.0% in 2012, inflation slid to 6.3% in 2013 and is projected to further decelerate to 6.1% and 5.9% in 2014 and 2015 respectively.

In EAC, since 2013, headline inflation has remained moderate because of efficient monetary and fiscal policies and good agricultural performance, despite some seasonal shocks. For 2014, headline inflation declined in Uganda to 4.9% in June from 5.4% in May. In Kenya, headline inflation slightly rose to 7.4% in June 2014 from 7.3% in May mainly due to rising food prices. In Rwanda, inflation declined to 1.4% in June from 1.9% in May 2014 as result of slowing pace of food inflation as well as decline in the cost of transport and communication. Burundi inflation slid to 3.3% in June from 3.4% in May 2014 on the back of declining prices of alcoholic beverages and tobacco while prices rose in food and non-alcoholic beverages.

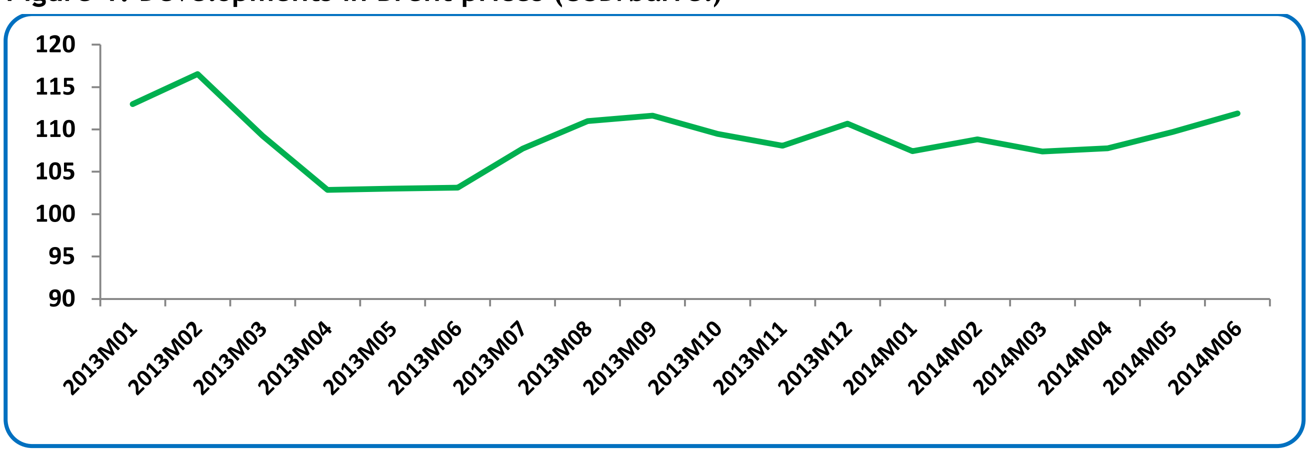
Table 3: Annual headline inflation in EAC countries, in %

	2012	2013	2014					
	Dec.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Uganda	5.5	6.7	6.9	6.8	7.1	6.7	5.4	4.9
Kenya	3.2	7.2	7.2	6.9	6.3	6.4	7.3	7.4
Tanzania	12.1	5.6	6.0	6.0	6.1	6.3	6.5	6.4
Burundi	11.8	9.0	6.0	5.9	3.8	4.8	3.4	3.3
Rwanda	3.9	3.7	2.4	3.5	3.4	2.7	1.9	1.4

Source: Central Banks Websites

On commodity markets, energy prices slightly rose by 1% in the 2014 Q2 compared to 0.5% of 2014 Q1, driven by crude oil prices (+2.6%) which were particularly affected by rising tensions between Western countries and Russia over the Ukrainian conflict and by Iraq uprising as well as upward pressures on US natural gas prices due to particularly cold winter. Brent prices rose by 1.7% averaging USD 109.78/barrel in the 2014 Q2 from USD 107.88/barrel and USD 109.41/barrel in 2014 Q1 and 2013 Q4 respectively. Oil prices are projected to slightly increase by 0.1% in 2014 from a decline of 0.9% in 2013.

Figure 1: Developments in Brent prices (USD/barrel)



Source: IMF, July 2014.

Non-energy prices remained almost stable during the first and the second quarter of 2014, increasing by 0.6% and 0.1% respectively mainly due to good performances in agriculture sector and low demand for industrial raw materials particularly by China. Metals and minerals prices fell on average by 1.0% in 2014Q2 on excess supply conditions after a decline of 3.2% in 2014 Q1. However, prices of base metals increased by 2.1% in the 2014Q2 while precious metals fell by 1.0%: Nickel price increased by 26.0%, Tin prices by 2.3%, Aluminium by 5.3% while gold lost 0.4%. Prices for fertilizers also fell by 6.5% in 2014Q2 after an increase of 4.7% in 2014Q1.

Food prices rose by 0.6% in 2014 Q1 on the back of adverse weather and crop diseases in USA and Asia but fell again by 0.4% in the second quarter 2014 following improved weather conditions. The Increase in beverages prices was sustained in 2014 Q2 standing at 10.8% from 13.7% in Q1 mainly led by higher prices of Arabica coffee (+22.1%) owing to drought in Brazil and disease in Central America. Meanwhile, tea prices fell by 13.4% in the Mombasa auction in 2014 Q2 on higher supply and relatively weak demand.

Globally, commodity prices are projected to decrease further in 2014 as aggregate demand in China is expected to decline. Moreover, there are signs of better agricultural production except for coffee which production is expected to reduce particularly in Brazil, the biggest producer. Non-fuel commodity prices are expected to continue falling in 2014 (-1.7% from a drop of 1.2% in 2013) whereas metals prices are projected to further drop in 2014 by 6.8% from a decline of 3.5% and 14.3% in 2013 and 2012 respectively.

I.1.3. Financial Markets

Monetary policy in many countries remained accommodative to boost economic activities. In the Euro area, on June 5th 2014, the ECB further reduced its key policy rate from 0.25% to 0.15% and revised down to -0.1% its deposit facility to give a boost to the faltering European economic recovery and to shift inflation closer to the objective. Central bank rates remained at 0.25% in USA, 0.50% in UK and 0.10% in Japan. The 10-year interest rates have been declining since the beginning of this year in all the major economies following geopolitical tensions and due to mixed economic data releases especially in USA and Euro area. However, monetary policy in the US is expected to tighten as high employment and rising inflation are sufficient for the Fed to continue its tapering program and this will have repercussions on some emerging economies.

On the foreign exchange market, the dollar weakened versus the Pound (0.6%), the Yen (2.0%) and the Euro (0.2%) in 2014 Q1. In 2014 Q2, the dollar recovered by 0.6% versus the Euro supported by a relative economic growth and a continuous accommodative monetary policy in USA, but continued to depreciate versus the Yen (1.8%) and the GBP (2.7%). The Yen was supported by strong trade surplus and the policy stimulus in Japan while the GBP was supported mainly by strengthening economic outlook and rising interest rate differentials compared to the Euro area.

I.2 National economic performance

I.2.1 Economic growth

The Rwandan economy is recovering from the slowdown of 4.7% registered in 2013 and is evolving toward achieving or even surpassing the projected growth rate of 6.0% by end 2014. In 2014Q1, it grew by 7.4% (year on year) in real terms compared to 4.7% recorded in 2013Q1.

This good result was due to good performance in the three sectors of the economy. The service sector realised the biggest growth of 8% compared 4% registered in 2013Q1. Agriculture and industry sectors also performed well, growing by 5% and 9% in 2014Q1 from 6% and 13% in 2013Q1 respectively.

Table 4: Rwanda Real GDP growth (in %, YoY)

	2009	2010	2011	2012	2013				2014
					Q1	Q2	Q3	Q4	Q1
GROSS DOMESTIC PRODUCT (GDP)	**6.4**	**7.3**	**7.8**	**8.9**	**4.7**	**7.4**	**2.9**	**4.1**	**7.4**
AGRICULTURE, FORESTRY &	**7.7**	**5.0**	**4.5**	**6.8**	**6.0**	**7.0**	**1.0**	**-1.0**	**5.0**
Food crops	9.4	4.9	5.0	7.5	7.0	7.0	1.0	1.0	6.0
Export crops	-15.0	14.0	0.3	7.8	8.0	30.0	-4.0	-22.0	10.0
Livestock & livestock products	3.3	4.6	3.0	6.0	6.0	5.0	8.0	7.0	7.0
Forestry	2.4	3.2	2.5	3.5	4.0	3.0	3.0	2.0	3.0
Fishing	2.7	2.7	2.8	-2.3	4.0	4.0	5.0	5.0	4.0
INDUSTRY	**1.7**	**8.3**	**17.8**	**8.3**	**13.0**	**14.0**	**9.0**	**3.0**	**9.0**
Mining & quarrying	-16.8	-9.9	56.5	-7.0	7.0	38.0	21.0	16.0	20.0
Manufacturing	2.9	9.4	8.3	6.0	5.0	6.0	5.0	3.0	7.0
Electricity	14.5	15.5	15.0	17.3	10.0	7.0	6.0	9.0	9.0
Water & waste management	14.5	15.5	15.3	8.5	4.0	7.0	5.0	3.0	4.0
Construction	2.2	8.8	23.8	15.0	21.0	16.0	9.0	0.0	8.0
SERVICES	**6.6**	**9.1**	**7.8**	**11.5**	**4.0**	**6.0**	**4.0**	**7.0**	**8.0**
Wholesale & retail trade	5.4	9.1	7.5	14.5	3.0	7.0	2.0	11.0	12.0
Transport	9.9	9.1	4.3	19.0	13.0	4.0	3.0	7.0	7.0
Hotels & restaurants	-5.5	7.9	3.8	5.5	2.0	4.0	3.0	4.0	4.0
Information & communication	9.8	8.7	3.5	33.8	0.0	0.0	-4.0	3.0	4.0
Financial services	-0.6	24.9	22.5	14.0	15.0	19.0	6.0	7.0	4.0
Real estate activities	8.5	1.2	0.0	-0.3	-3.0	-3.0	4.0	5.0	9.0
Public administration	7.4	14.4	14.5	23.3	7.0	19.0	5.0	6.0	5.0
Education	15.5	8.6	18.0	7.0	4.0	4.0	4.0	4.0	8.0
Human health & social work	15.1	15.7	1.8	25.3	9.0	-9.0	15.0	11.0	2.0
Cultural, domestic & other	-5.3	7.0	-0.8	11.0	7.0	22.0	13.0	8.0	18.0
Adjustments	10.0	5.1	1.8	2.0	-13.0	3.0	-12.0	11.0	6.0

Source: Rwanda National Institute of Statistics (NISR)

The economic recovery in 2014 is further affirmed in 2014Q2 by the trend of turnovers for services and industry, the Composite Index of Economic Activities (CIEA) as well as in the new authorized loans. In 2014Q2, total turnovers of industry and services increased by 20.1% from 12.6% and 15.6% recorded in 2014Q1 and 2013Q2 respectively.

Table 5: Turnovers for the industry and services sectors (in %, YoY)

	2013Q1	2013Q2	2014Q1	2014Q2
INDUSTRIES	**11.2**	**19.1**	**13.0**	**14.6**
Manufacturing	3.6	7.8	18.8	13.1
Energy	12.1	21.5	-1.0	9.1
Mining	74.0	106.8	0.1	3.1
Construction	1.5	5.8	15.8	27.2
SERVICES	**12.7**	**14.2**	**12.5**	**22.4**
Trade services	11.5	12.5	17.6	20.6
Banks & insurance companies	24.1	36.8	14.2	11.8
Post & telecommunication	7.8	16.8	12.4	101.1
Other services	-9.0	-12.1	5.1	3.6
TOTAL TURNOVERS	**12.3**	**15.6**	**12.6**	**20.1**

Source: BNR, Statistics Department

The increase in turnovers for the service sector is due to good performance in trade services (20.6%), posts and telecommunications (101.1%) and banking & insurance companies (11.8%) which altogether represent 72% of the service sector.

In the industry sector, the increase in turnovers is mainly due to the good performance in construction (27.2%) and manufacturing (13.1%) with a collective share of 74% of the industry sector while energy and mining increased by 9% and 3,1% respectively.

The Composite Index of Economic Activities (CIEA) also shows an increase in economic activities during the first half of 2014, rising in real terms by 6.4% from 4.6% and 0.3% in the first and second half of 2013 respectively.

Table 6: CIEA (% change, YoY)

	Nominal CIEA	Real CIEA
January - June 2013	7.2	4.6
July - December 2013	4.1	0.3
January - June 2014	9.7	6.4

Source: BNR, Monetary Policy and Research Department

These performances are supported by significant increase in bank financing to the private sector. In the first half of 2014, new authorized loans by the banking sector increased by 47.8% compared to a decline of 12.4% in the same period of 2013. However, the pace of recovery is likely to be limited by the developments in agriculture.

The lack of sufficient rainfalls during this season B (-24.7%) may lead to low food crops output for the season.

I.2.2 External trade performance

In the first half of 2014, total exports increased by 1.2% in value, while imports value increased by 13.0%. As a result, the trade deficit widened by 17.4% from USD 765.4 million to USD 898.6 million, and the export cover of imports fell to 24.6% from 27.5% in the first half of 2013.

Table 7: Trade balance 2009-June 2014 in USD millions (formal total trade)

	2009	2010	2011	2012	2013	Jan-June 2013	Jan-June 2014	% Change Jan-June14/13
Exports	192.9	254.5	387.7	482.7	573.0	289.9	293.5	1.2
Imports	1246.8	1389.4	1890.6	2200.0	2247.4	1055.3	1192.1	13.0
Trade	-	-1134.9	-1502.9	-	-1674.4	-765.4	-898.6	17.4

Source: BNR, Statistics Department

1. Formal exports

During the first half of 2014, Rwanda's formal exports sector was dominated by non-traditional exports and re-exports with a share of

50.8% in total exports compared to 49.2% for traditional exports. Traditional exports include coffee with a share of 8.9%, tea (19.7%), minerals (64.7%), hides and skins (5.8%) and pyrethrum (1.0%). Traditional exports declined in both value and volume by 18.8% and 0.9% respectively due to the decrease values of coffee (-36.7%), tea (-10.2%), Coltan (-40.8%), wolfram (-4.1%) and pyrethrum (-62.1%). Non-traditional exports and re-exports increased in value by 10.9% and 47.4% respectively.

The decline in tea prices from USD 2.85/Kg in January to USD 2.12/Kg in June 2014, led to the contraction of the value of tea exports by 10.2% in value despite an increase of 5.1% in volume. This resulted from high increase in tea supply at the Mombasa auction, where 71% of Rwanda's tea was traded, following high production in most of the tea growing countries.

The value of Rwanda's exports contracted by 36.7% given that coffee export volume declined by 31.2% as a result of bad weather especially lack of rainfall in the fourth quarter of 2013 and the level of stocks end 2013 was low (2,560 tons) compared to the stock of end 2012 (3,262 tons). In addition, the price of coffee declined by 8% in the first half of 2014 to USD 2.68 from USD 2.92 in the same period of 2013.

The mining sector composed mainly of cassiterite, wolfram and coltan, increased in volume by 14.2% but decreased by 18.6% in value mainly due to the decrease in price (-30.5%) of Coltan, main contributor in value exports of the sector.

Non-traditional exports increased in value by 10.9%, dominated by manufactured and agriculture products exported to the neighboring countries especially Eastern DRC, apart from hand craft products which are mainly exported to developed countries. Re-exports recorded a high increase in value by 47.4% and were dominated by Petroleum products and vehicles. Petroleum products are mainly Jet Air sold to air companies refuelling at Kigali International Airport and other petroleum products re-exported to Eastern DRC. Vehicles are re-exported to Eastern DRC and Burundi.

Table 8: Major exports developments (Value FOB in millions of USD, Volume in thousands of tons)

	Jan-June 2013	Jan-June 2014	% change
Coffee			
- Value	20.21	12.79	-36.7
- Volume	6.93	4.77	-31.2
- Price, USD/KG	2.92	2.68	-8.0
Tea			
- Value	31.70	28.48	-10.2
- Volume	11.52	12.11	5.1
- Price, USD/KG	2.75	2.35	-14.5
Mining			
- Value	114.9	93.5	-18.6
- Volume	4.6	5.2	14.2
Cassiterite			
- Value	31.43	38.79	23.4
- Volume	2.36	3.11	32.0
- Price, USD/KG	13.34	12.47	-6.5
Coltan			
- Value	69.04	40.85	-40.8
- Volume	1.15	0.98	-14.9
- Price, USD/KG	59.89	41.63	-30.5
Wolfram			
- Value	14.41	13.82	-4.1
- Volume	1.06	1.13	6.4
- Price, USD/KG	13.55	12.22	-9.9
Hides and Skin			
- Value	7.25	8.32	14.7
- Volume	4.56	5.25	15.2
- Price, USD/KG	1.59	1.58	-0.4
Pyrethrum			
- Value	3.82	1.45	-62.1
- Volume	0.02	0.01	-45.8
- Price, USD/KG	242.99	169.93	-30.1
I. Sub Total Main Exports			
- Value	177.85	144.50	-18.8
- Volume	27.59	27.36	-0.9
II. Reexports			
- Value	67.85	99.99	47.4
- Volume	45.24	53.00	17.2
III. Other Exports			
- Value	44.23	49.04	10.9
- Volume	80.71	70.49	-12.7
Total General			
- Value	**289.92**	**293.53**	**1.2**
- Volume	**153.54**	**150.85**	**-1.8**

Source: BNR, Statistics Department

2. Formal imports

During the first half of 2014, imports CIF value recorded an increase of 13.0% and 0.9% in volume compared to the first half of 2013. Consumer goods represented 27.4% of total imports while capital goods, intermediary goods, and energy and lubricants accounted for 26.5%, 30.9% and 15.2% of total imports respectively.

Table 9: Formal imports developments (Value CIF in millions of USD, Volume in thousands of tons)

	Jan-June 2013		Jan-June 2014		% change	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**
TOTAL	**831.4**	**1055.3**	**838.6**	**1192.1**	**0.9**	**13.0**
Consumer goods	**270.0**	302.1	272.2	327.0	0.8	8.3
Capital goods	**25.6**	277.0	29.9	315.9	17.1	14.0
Intermediary goods	**407.9**	291.1	402.7	368.6	-1.3	26.6
Energy and lubricants	**128.0**	185.2	133.8	180.6	4.6	-2.4
TRADE BALANCE		**-765.4**		**-898.6**		**17.4**
Imports cover by exports in		**27.5**		**24.6**		

Source: BNR, Statistics Department

The slight increase in the volume of imports was due to the increase in imports of consumer goods (+0.8%) and capital goods (+17.7%), while import of intermediary goods declined by 1.3%. The increase in consumer goods was due to high imports volume of sugar and sweets which increased by 51.2% due to low domestic production, decreased by 9.2% in the first half of 2014, as KABUYE SUGAR WORKS closes during the second quarter for maintenance of machinery. In the period under review, sugar and sweets represent 12.3% of total imports of consumer goods and 34.2% of food products.

Concerning capital goods, the increase in volume was mainly due to imports of machinery which represent 67.0% in total imports of capital goods, and were dominated by imports of phones and material for network as well as imports of items ordered by different companies including former EWSA, CIMERWA and RWANDAIR.

Total intermediary goods composed by industrial products and construction materials with a share of 43.7% and 32.0% respectively decreased by 1.3% in volume but increased by 26.6% in value.

This development was mainly due to high increase (23.5%) in import value of construction materials while its volume declined by 1.4%. The import of industrial material products increased both in volume and in value by 3.9% and 9.1% respectively.

The higher increase in value of construction materials was driven by increase of metallic construction material (33.6%) and other construction materials (70.7%). Import of cement and other similar products declined in volume (-4.2%) and in value (-4.7 due to good performance (+0.9%) recorded in local production of cement during the first half of 2014 compared to the same period of last year.

3. Formal trade with EAC

Rwandan exports to other EAC countries amounted to USD 97.8 million in the first half of 2014 from USD 70.7 million in the same period of 2013, which is an increase of 38.6%. Imports from EAC region slightly increased by 3.7%; amounting to USD 247.8 million from USD 239 million in the period under review. These developments have narrowed the trade deficit with EAC countries to USD 150 million from USD 168.5 million.

Rwanda's main exports to EAC countries were tea (Mombasa auction), raw hides and skins of bovine, coffee, bars and rods of iron or non-alloy steel, leguminous vegetables, and beer made from Malt. On the other hand, major imports from EAC countries were cement, refined and non-refined palm oil, animals or vegetable fats and oils, mineral or chemical fertilizers, second hand clothing and other second hand articles, cane or beet sugar and chemically pure sucrose, among others.

Table 10: Trade flow of Rwanda within EAC bloc (USD million)

	2011	2012	2013	Jan-June 13	Jan-June 14	% Change
Exports to EAC	80.7	115.3	122.9	70.6	97.8	38.6
Imports from EAC	501.1	554.6	516.4	239.0	247.8	3.7
Trade balance	**-420.4**	**-439.3**	**-393.5**	**-168.5**	**-150.0**	**-11.0**

Source: BNR, Statistics Department

4. Informal cross-border trade

With regard to the informal cross-border trade, total exports declined by -6.6% in the first half of 2014, amounting to USD 52.5 million from USD 56.1 million due to trade barriers imposed by DRC on exports from Rwanda. In general, agriculture products and livestock were the major commodities traded in informal cross border exports.

Informal cross border exports of industrial products recorded good performance in the first six months of 2014. Dominating products were maize flour which increased by 15.7%, plastic products (+53.9%), sugar (+25.4%), shoes and articles of leather (+99.1%) and textile products (+2.9%). In terms of destination, exports to DRC decreased by 9.5% due to trade barriers introduced by DRC on products from Rwanda, while exports to Uganda and Burundi increased by 43.8% and 0.6% respectively.

Table 11: Rwanda informal cross border trade (in USD millions)

	2011	2012	2013	Jan-Jun 2013	Jan-Jun 2014	% Change
Exports	71.5	101.8	109.3	56.1	52.4	-6.6
Imports	23.5	22.6	17.6	9.3	8.9	-4.3
Trade balance	48	79.1	91.7	46.8	43.6	-7.0

Source: BNR, Statistics Department

Informal imports also decreased by 4.3% from USD 9.3 million to USD 8.9 million, leading to a deterioration of about 7.0% in Rwanda's positive informal trade balance from USD 46.8 million to USD 43.6 million. The main imported products from neighbouring countries are coffee, Irish potatoes, husked rice, sorghum, bananas for cooking, poultry live, and other manufactured and recycled products.

II. MONETARY SECTOR DEVELOPMENTS

During the first half of 2014, the National Bank of Rwanda continued to implement an accommodative monetary policy decided since June 2013 to support the country's economic recovery. This has led to the uptick in total liquidity, measured by the broad monetary aggregates (M3). In line with this policy orientation, the credit to the private sector grew by 7.3% in first half of 2014 compared to 5% recorded in first half of 2013.

II.1 Inflation

During the first half of 2014, Rwanda has registered low inflation owing to well-coordinated monetary and fiscal policies, good performance in agriculture, easing inflationary pressures from trading partners and deceleration in international oil prices.

Table 12: Inflation developments

Type	2013						2014					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Headline	**3.5**	**4.0**	**5.1**	**5.1**	**4.6**	**3.7**	**2.4**	**3.5**	**3.4**	**2.7**	**1.9**	**1.4**
Food	4.0	4.9	7.7	8.3	6.4	3.9	2.5	4.9	5.3	3.8	2.9	1.9
Vegetables	8.7	9.6	15.9	16.1	10.5	4.3	-1.3	4.6	5.0	1.8	0.3	-4.7
Housing	-0.2	0.3	0.6	0.0	-0.2	0.0	0.0	0.1	0.2	-0.4	-1.4	0.8
Transport	-1.8	-1.6	-1.3	-0.6	-0.6	-0.3	-0.8	-1.8	-1.5	-1.7	-1.5	-3.4
Communication	4.3	4.9	3.7	5.5	5.9	6.7	8.9	8.7	6.9	9.8	7.9	-0.9
Domestic	4.0	4.4	5.7	6.1	5.1	4.2	2.4	3.7	3.8	3.1	2.3	2.1
Imported	1.5	2.7	2.5	1.2	2.3	1.6	2.6	2.5	1.7	1.2	0.9	-0.4
Core	**3.6**	**3.6**	**3.3**	**3.2**	**3.4**	**3.8**	**2.7**	**2.8**	**2.6**	**2.3**	**2.3**	**2.0**
Energy	5.1	7.0	13.6	15.3	11.7	4.9	1.6	7.6	8.3	6.2	3.0	0.2
Fresh products	5.1	7.0	13.6	15.4	11.7	4.9	1.6	7.6	8.3	6.2	3.0	-0.5

Source: BNR, Statistics department

On average, headline inflation decelerated to 2.6% during the first six months of 2014 compared to 4.3% in the same period of 2013 while food inflation dropped from 5.9% to 3.7%. Core inflation which excludes fresh food and energy has been less volatile and marginally above 2% during the first semester of 2014. It dropped from 3.5% to 2.5% in average in the period under review.

Food inflation slowed from 2.9% in May to 1.9% in June mainly due to the decline in prices for fresh products from 3% to -0.5% as prices of vegetables which account for 36% of the food basket declined by 4.7%.

Transport[1] costs contracted further on annual basis in June 2014 to -3.4% from -0.7% in May as a result of the deceleration in prices for some categories of cars and also the decline in local pump prices by 1.5%.

II.2 Money Supply and Demand

Between December 2013 and June 2014, the broad money supply (M3) rose by 19.2% compared to 8.1% recorded in the same period of 2013. On annual basis, M3 grew by 27.5% in June 2014 against 9.2% recorded in June last year.

The growth of M3 has been supported by high increase of Net Domestic Assets (NDA) of the banking system offsetting the decline of Net Foreign Assets (NFA). The NFA for the banking system slightly declined by 1.4%, a trend attributable to a decline in BNR NFA (-11.6%) despite a high increase of 57.7% in commercial banks NFA mainly explained by the

[1] The transport category is comprised of the purchase of vehicles, spare parts, parking fees, repair fees & all transport fares and account for 18% of CPI basket.

purchase of “MTN telecommunication towers” for a total amount of USD 100 million. The Net Domestic Assets grew by 73.1% due to high increase in net credit to government (91.2%) and the increase in the outstanding credit to the private sector which increased by 7.3% against 5.0% recorded in the first half of 2013.

Table 13: Monetary aggregates developments (in FRW billion, unless otherwise indicated)

	2012	2013			2014		% Change	
	Dec	Jun	Sep	Dec	Mar	Jun	Jun-13/ Dec-12	Jun-14/ Dec-13
Net foreign assets	**555.8**	**642.8**	**683.5**	**744.0**	**669.6**	**733.5**	**15.6**	**-1.4**
Foreign assets	685.4	799.1	859.5	923.1	858.0	943.3	16.6	2.2
Foreign liabilities	129.6	156.3	176.0	179.1	188.3	209.8	20.6	17.1
Net domestic assets	**334.3**	**319.1**	**292.3**	**284.7**	**375.6**	**492.8**	**-4.5**	**73.1**
Domestic credit	544.4	551.0	540.8	567.1	679.2	794.0	1.2	40.0
Central government (net)	-136.9	-164.0	-192.2	-187.3	-105.1	-16.5	19.7	91.2
Credit	106.5	150.3	165.6	193.7	195.5	205.2	41.2	5.9
Deposits	243.4	314.3	357.8	381.0	300.6	221.7	29.1	-41.8
O/w Gvt long term deposit facility	22.4	22.4	21.7	21.7	21.7	21.7	0.0	0.0
Autonomous Agencies	-2.3	-3.0	-4.7	-4.8	-5.7	-4.7	33.7	0.8
Public enterprises	1.0	1.0	1.0	1.3	1.8	2.0	-2.5	56.0
Private sector	**682.5**	**717.0**	**736.6**	**758.0**	**788.3**	**813.3**	**5.0**	**7.3**
O/W in foreign currency	6.1	11.0	11.4	15.8	24.2	35.4	81.0	124.3
Other items net (Assets: +)	-210.1	-231.9	-248.5	-282.5	-303.6	-301.2	10.4	6.6
Broad money M3	**890.2**	**961.9**	**975.8**	**1028.7**	**1045.3**	**1226.3**	**8.1**	**19.2**
Currency in circulation	107.0	116.3	106.4	116.6	109.4	120.2	8.7	3.1
Deposits	783.1	845.6	869.3	912.1	935.8	1106.1	8.0	21.3
of which: Demand deposits	318.4	389.8	385.8	378.7	384.7	449.5	22.4	18.7
Time deposits	300.1	295.2	322.4	339.2	348.9	391.6	-1.6	15.5
Foreign currency deposits	164.6	160.6	161.2	194.2	202.2	265.0	-2.4	36.5

Source: BNR, Statistics department

With regard to new authorized loans, they increased by 47.8% in the first half of 2014, amounting to FRW 325.7 billion from a decline of 12.4% recorded in the corresponding period of last year. Out of the total authorized loans, 42% were short term, 28% medium term while 30% are long term loans.

Concerning the distribution of loans by sectors of economic activity, 40.5% of the total loans went to commerce, restaurant and hotels followed by public works and buildings (21.1%) and manufacturing sector (13.7%) mainly due to fixed assets loans authorized to some big companies.

The share of authorized loans to the energy and water sector significantly increased, reaching 4.9% in the first half of 2014 compared to 0.2% and 0.8% recorded in the same period of 2013 and 2012 respectively due to loans granted to finance electricity generation.

Table 14: New cash loans authorized (FRW billion, unless otherwise indicated)

ACTIVITY BRANCH	2012		2013		2014			% change	
	Tot	Jan-Jun	Tot	Jan-Jun	Q1	Q2	Jan-Jun	H1-13/ H1-12	H1-14/ H1-13
ACTIVITIES NOT CLASSFIED ELSEWHERE	83	43.5	56.5	26.3	15.3	18	33.8	-39.5	28.6
AGRICULTURE, ANIMAL HUSBANDARY & FISHING	10.6	5	8.8	4.1	2.1	1.2	3.4	-19.2	-16.9
MINING INDUSTRIES	0	0	0.2	0	0	0	0	-	-
MANUFACTURING INDUSTRIES	37	12	44.5	14.9	35.2	9.3	44.6	24.5	198.7
of which agriculture related activities	*14.47*	*2.1*	*17.2*	*2.9*	-	-	2.6	-	-
ENERGY AND WATER	3.9	0.2	5.6	0.4	16	0.1	16.1	135.2	3882.1
PUBLIC WORKS AND BUILDING INDUSTRY	111.9	60.4	93.5	43.5	26	36.8	68.7	-27.9	57.8
COMMERCE, RESTAURANT & HOTELS	203.1	108.2	217.6	107.5	61	69.4	132	-0.7	22.9
TRANSP., WAREHOUSING & COMMUNICATIONS	30.4	15.5	29.5	14.9	5.6	9.8	15.5	-4	4.1
O.F.I, AND OTHER NON-FINANCIAL SERVICES	4.6	1.4	6	4.7	0.4	0.8	1.2	232.7	-74.7
SERVICES PROVIDED TO THE COMMUNITY	14.4	5.6	10.4	4.2	4.5	3.4	10.4	-25.2	149
TOTAL OF NEW LOANS	**498.9**	**251.7**	**472.5**	**220.4**	**166**	**148.9**	**325.7**	**-12.4**	**47.8**

Source: BNR, Financial Stability Directorate

In the period under review, 4,946 loan applications were rejected representing 4.2% of total applications against 5,940 recorded in the same period of 2013, equivalent to 8.2% as rate of rejection. In terms of amount, FRW 325.7 billion were approved against FRW 380.5 billion requested, which is a rate of rejection of 14.4% against 12% and 8% recorded in 2013 and 2012 respectively. In addition, out of the FRW 54.8 billion not approved in 2014; 60% equivalent to FRW 32.7 billion were from companies while 40% (FRW 22.1 billion) were from individuals of which 71% (FRW 15.7 billion) were from male while 29% (FRW 6.5 billion) were from female.

The main reasons for rejection were poor repayment capacity due to lack of project profitability (40%), lack of collateral (18%), outstanding loans in various banks (16%) and bad credit history (14%). Commercial banks in Rwanda have been improving their lending decisions supported by the private credit reference bureau through the provision of credit information.

On the money demand side, total deposits increased by 21.3% between end December 2013 and June 2014 compared with 8.0% in the same period of 2013. Demand deposits went up by 18.7%, term deposits by 15.5% and foreign currency deposits by 36.5% following significant foreign exchange inflows including the USD 100 million for purchase of MTN telecommunication towers.

Currency in circulation grew moderately by 3.1% during the first half of 2014 against 8.7% in the same period of last year. This situation is partly explained by continuing improvement in cashless transactions as modern payment systems are gaining momentum, by increasing the use of currency substitutes for payment such as credit/debit cards and internet banking, and the use of financial services offered by banks and microfinance institutions particularly to the population in rural area. MFIs & SACCOs deposited FRW 50.0 billion in commercial banks as of June 2014 from FRW 42.9 billion the same period of last year. As results, the currency in circulation to broad money (M3) ratio has been declining since 2010, reaching 10.4% in the first half of 2014 from 11.5%, 12.3%, 13.3% and 14.2% in 2013, 2012, 2011 and 2010 respectively.

The currency to total deposit ratio also declined to 11.5% on average in the period under review from 13.4%, 14.1% and 15.8% in 2012, 2011 and 2010 respectively. This structural change has been contributing to the increase of the liquidity in the banking system. It has also contributed to improve the effectiveness of BNR monetary policy by increasing the efficiency of the financial system and facilitating the operation of monetary policy.

II.3. Banking system liquidity conditions

In the first half of 2014, the banking system liquidity conditions continued to improve as result of accommodative monetary policy and liquidity injection from fiscal operations, especially towards the end of fiscal year 2013/2014, with an increase in Government net liquidity injection of FRW 142.3 billion between December 2013 and June 2014. The banks most liquid assets increased by 28.1% standing at FRW 297.3 billion end June 2014 from FRW 229.0 billion end December 2013 due to banks' cash in vault (+5.3%), outstanding repos (+191.5%) and outstanding T-bills (+2.6%).

Table 15: Most liquid assets of commercial banks (FRW billion)

	2013					2014					
	Jun	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
T-bills	103.0	118.7	132.7	148.0	**156.2**	155.6	154.9	158.5	158.8	158.8	**160.2**
Repo	90.2	53.5	34.5	33.5	**29.5**	13.5	20.1	28.0	12.0	44.0	**86.0**
Excess reserves	17.4	20.3	21.7	27.4	**19.0**	30.8	25.8	25.3	27.6	23.0	**25.5**
Cash in vault	21.4	25.0	22.5	20.0	**24.3**	21.4	23.5	23.9	22.6	21.7	**25.6**
Total	**232.0**	**217.6**	**211.4**	**228.9**	**229.0**	**221.3**	**224.3**	**235.7**	**221.0**	**247.5**	**297.3**

Source: BNR, Monetary Policy & Research Department

II.4 Interest rates developments

In the first half of 2014, short term-interest rates on the money market continued to be low as a result of sound liquidity in the banking system and the current accommodative monetary policy stance. Repo rates, T-bills and interbank rates declined respectively to 3.7%, 5.7% and 5.7% end June 2014 from 6.7%, 10.8% and 9.6% end June 2013.

Table 16: Interest rates developments (in %)

	2013							2014					
	Jun	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
BNR Policy Rates													
Key Repo Rate	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.5
Discount Rate	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.5
Money Market Rates													
Repo rate	6.7	6.4	5.6	5.5	5.0	4.4	4.0	4.3	3.7	3.3	3.1	3.6	3.7
T-Bills Rate	10.8	9.7	8.6	7.1	6.8	6.1	5.6	6.36	6.1	6.0	6.0	5.9	5.7
Commercial Banks Rates													
Interbank Rate	9.6	9.6	7.6	7.0	6.7	6.1	5.6	5.59	5.8	5.8	5.7	5.7	5.7
Deposit Rate	10.6	8.5	10.5	9.0	9.2	8.0	8.6	8.9	8.0	8.3	8.1	9.3	8.7
Lending Rate	17.7	17.2	17.5	17.8	17.4	17.2	16.9	17.45	17.1	16.8	17.4	17.2	17.5

Source: BNR, Statistics Department

Commercial banks deposit interest rates stabilized around 8.5% in the first half of 2014 from 10.9% recorded in the same period of 2013 while the lending interest rate remained stable around 17.2% from 17.3% in the period under review.

The rigidities in lending rates to change in central bank rate is mainly due to limited though increasing competition and high operating costs in the banking sector, representing 72.1% of total interest income in average in the first half of 2014 as well as information asymmetry between banks and borrowers.

III. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

The Rwandan Franc has been under relative pressure in the first half of 2014 resulting from high demand of forex to finance imports and this led to slight depreciation of 1.9% compared to the USD. The BNR kept the FRW exchange rate fundamentally market driven, while continuing to intervene on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the FRW exchange rate volatility.

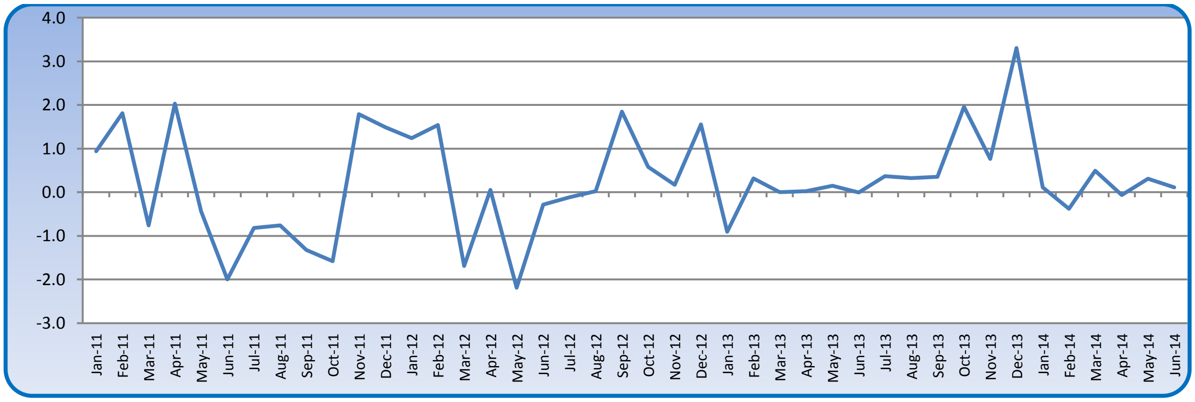
III.1 Exchange rate developments

During the first half of 2014, FRW depreciated against the USD by 1.9% end June 2014, trading between FRW 670.08 end December 2013 and FRW 682.54 per dollar. This depreciation recorded against USD end June 2014 is almost similar to 1.8% recorded end June 2013.

In the same period, the FRW appreciated by 5.3% against the GBP and by 1.0% versus the EURO, as USD strengthened against those currencies. Concerning the East African region, FRW appreciated against all regional currencies, except Burundi francs. It appreciated by 0.9% against the Kenya shilling, 2.5% versus the Ugandan shilling, and 5.3% against the Tanzanian shilling and depreciated by 0.6% versus the Burundi franc. The appreciation of FRW against shillings was due to the fact that regional currencies weakened against USD.

The Rwanda Real Effective Exchange Rate (REER) slightly depreciated by 0.11% in June 2014 mainly driven by a slight depreciation of the nominal value of FRW against some currencies of major trading partners as well as the increase of relative prices due to higher level of inflation in foreign countries relative to domestic inflation.

Figure 2: Real effective exchange rate with ten major trading partner countries (in % change)



Source: BNR, Monetary Policy and Economic Analysis Department

III.2 Domestic foreign exchange market

In the first half of 2014, the banking system recorded an increase of 14.8% and 6.8% respectively in forex resources and expenditures compared to the same period of 2013, leading to a cash excess of USD 25.4 million in commercial banks. This created a room for BNR to reduce its forex sales to banks to USD 128 million compared to USD 158 million initially planned.

IV. FINANCIAL SECTOR STABILITY

Rwanda's financial system remains dominated by banking sector which represents 67.6% of the system's total assets. The microfinance has 5.6% and the non-banking financial institutions account for 26.7% (insurance 9.4% and pension 17.3%).

Other important players include capital market and payment systems. The financial system continued to be robust and healthy during the first half of 2014 due to mainly the strengthened financial regulation and supervision role played by BNR and the good macroeconomic environment which continued to increase the effective functioning of the sector.

Besides, the good performance and stability of financial sector was also achieved as a result of the improved efficiency of financial institutions that continue to increase their network countrywide, introducing new products in the market as well as the efforts made in terms of asset quality and liquidity management.

To ensure the stability of the sector, the BNR Financial Stability Committee (FSC) meets on quarterly basis to assess likely vulnerabilities in the financial sector and take corrective measures.

IV.1 Financial Sector Performance Indicators

1. Banking sector

During the first half of the year 2014, one new commercial bank and one new microfinance bank started their operations and the sector is now composed of ten (10) commercial banks, four (4) microfinance banks, one (1) development bank and one (1) cooperative bank.

The sector's performance in terms of growth and stability continued to improve. The industry balance sheet measured by total assets grew by 17.0% from FRW 1,510.7 billion end December 2013 to FRW 1,767.6 billion end June 2014.

This growth is mainly attributed to the loans to the private sector which increased by 7.2% (including loans from the other specialized banks such as BRD and microfinance banks) from FRW 843.9 end December 2013 to FRW 904.5 end June 2014. On the liability side, deposits grew by 20.6% from FRW 1,019.9 billion end December 2013 to FRW 1,230.2 billion end June 2014.

The sector remains resilient as demonstrated by financial soundness indicators: the capital adequacy ratio (CAR) stood at 23.6% end June 2014 compared to 23.1% recorded in December 2013 well above the regulatory minimum requirement of 15%.

Similarly, the quality of assets remains good with a slight reduction of non-performing loan ratio (NPL ratio) from 6.9% end December 2013 to 6.6% end June 2014. The improvement is mainly due to the effort deployed by banks in loan recovery and cleaning up of the balance sheet through write offs of impaired loans.

Table 17: Key soundness indicators, in percent

Indicator	2013			2014	
	June	September	December	March	June
Solvency ratio (total capital)	23.1	22.9	23.1	22.6	23.6
NPLs / Gross Loans	6.9	7.2	6.9	6.7	6.6
NPLS net/Gross loans	3.2	6.5	6.0	5.7	5.5
Provisions / NPLs	54.8	50.3	53.3	56.4	50.0
Earning Assets / Total Assets	80.8	79.1	78.6	82.1	80.7
Large Exposures / Gross Loans	8.0	9.9	11.6	15.1	15.9
Return on Average Assets	2.1	1.7	1.5	2.3	2.1
Return on Average Equity	9.9	8.3	7.4	11.9	12.2
Cost of deposits	3.5	3.8	3.8	4.1	3.3
Liquid assets/total deposits	46.2	48.8	49.4	46.3	51.4
FOREX exposure/core capital	-3.1	-3.0	-2.2	-12.6	-1.7

Source: *BNR, Bank Supervision Department*

The sector has also recorded a total profit of FRW 17.4 billion for the first six months of 2014 compared to FRW 14.0 billion in the same period of last year. Consequently, return on assets (ROA) and return on equity (ROE) stood at 2.1% and 12.2% end June 2014 respectively compared to 2.1% and 9.9% recorded end June 2013. From the liquidity point of view, the sector remains well liquid as it registered the liquid assets to total deposits ratio of 51.4% end June 2014 against 46.2% end June 2013 and well above 20% regulatory benchmark.

2. Microfinance Sector

The microfinance sector in Rwanda is comprised of 493 institutions including 13 limited companies and 480 SACCOs of which 416 UMURENGE SACCOs. The sector plays a critical role in fostering economic development by offering financial services, particularly loans and opportunities for savings to economic agents with limited aces to commercial banks services.

The sector's asset size registered an increase of 14.5% between December 2013 and June 2014, rising from FRW 128.7 billion to FRW 147.4 billion. The increase was mainly driven by the liquid assets and gross loans which increased from FRW 42.1 billion to FRW 53.4 billion and from FRW 73.5 billion to FRW 81.2 billion, respectively.

Table 18: MFIs performance indicators (UMURENGE SACCOs included, in billions of FRW, unless otherwise indicated)

Indicator/Benchmark	31-Dec-2013	31-Mar-2014	31-Jun-14	Jun14/Dec.13 (%)
Total Assets	128.7	132.3	147.4	14.5%
Total Liquid Assets	42.1	44.0	53.4	27.0%
Gross loans	73.5	75.4	81.2	10.4%
NPLs	5.0	5.9	6.2	23.8%
Total Deposits	69.5	71.7	82.2	18.3%
Demand Deposits	52.3	53.4	62.0	18.6%
Net Equity	43.0	43.8	47.0	9.2%
NPL Ratio (5% Max)	6.8%	7.8%	7.6%	-
Liquidity Ratio-Quick (30% Min)	80.5%	82.4%	86.2%	-
Capital Adequacy Ratio (15% Min)	33.4%	33.1%	31.9%	-

Source: *BNR, Microfinance Supervision Department*

The Microfinance Sector continues to grow while remaining sufficiently liquid and well capitalized. The Capital Adequacy Ratio (CAR) stood at 31.9% well above the minimum regulatory requirement of 15% while the liquidity ratio stands at 86.2% against the minimum required of 30%. However, the non-performing loans ratio deteriorated to 7.6% at end June 2014 from 6.8% end December 2013 due to poor performance of the loan portfolio reported by some big MFIs.

UMURENGE SACCOs (U-SACCOs) constitute an important part of the MFI sector with assets representing 46.7% of the total sector's asset base. In the period under review, U- SACCOs total asset size increased by 19.9% from FRW 57.4 billion end December 2013 to FRW 68.8 billion end June 2014. Deposits increased by 20.4%, reaching FRW 44.4 billion at end June 2014 from FRW 36.9 billion end December 2013 while the loans granted increased to FRW 24.2 billion from FRW 21.5 billion, that is an increase of 12.5%.

In addition, the asset quality of U-SACCOs improved as their NPLs ratio reduced to 7.0% end June 2014 compared to 7.3% registered in December 2013 while the capital adequacy ratio stood at 30.0% compared to 30.9 % in the period under review and remains above the regulatory threshold of 15%. For the same period, the U-SACCOs' liquidity ratio increased to 88.6% from 82.0% well above the regulatory threshold of 30%.

Table 19: UMURENGE SACCO performance indicators (in billions of FRW unless otherwise indicated)

Indicator	Dec-13	Mar-14	Jun-14	Jun 14/Dec.13
Total Assets	57.4	59.9	68.8	19.9%
Liquid Assets	26.8	28.9	35.0	30.6%
Gross loans	21.5	21.6	24.2	12.5%
NPLs	1.6	1.9	1.7	7.5%
Net Loans	20.8	20.7	23.4	12.4%
Total Deposits	36.9	38.4	44.4	20.4%
Demand Deposits	32.7	34.0	39.5	20.8%
Total Equity	17.7	18.7	20.6	16.4%
NPL Ratio (%)	*7.3%*	*8.6%*	*7.0%*	-
Liquidity ratio (%)	*82.0%*	*85.2%*	*88.6%*	-
Capital Adequacy Ratio (%)	*30.9%*	*31.3%*	*30.0%*	-

***Source:** BNR, Microfinance Supervision Department*

U- SACCOS continued to become subsidy independent as 376 (90.4%) are able to manage operations without Government support compared to 356 end December 2013. The Microfinance outstanding loans amounts to FWR 81.2 billion, the largest share financing commerce, restaurant and hostels representing 35.8%, followed by public works (31.2%) and agriculture (12.6%). On gender distribution, 29.0% of the outstanding loans were granted to women.

Table 20: MFI's Outstanding Loans by Economic Sector

MFIs/SACCOs Outstanding loans 30 June 2014	UMURENGE SACCOs		Other MFIs		TOTAL	
	Amount (Billion)	%	Amount (Billion)	%	Amount (Billion)	%
Agriculture, Livestock, Fishing	4.78	19.7%	5.47	9.6%	10.25	12.6%
Public Works (Construction), Buildings, Residences/Homes	2.98	12.3%	22.37	39.3%	25.35	31.2%
Commerce, Restaurants, Hotels	12.54	51.7%	16.50	29.0%	29.04	35.8%
Transport, Warehouses, Communications	1.42	5.8%	1.75	3.1%	3.17	3.9%
Others	2.53	10.5%	10.83	19.0%	13.36	16.5%
Total	24.3	100%	56.9	100%	81.2	100%

Source: *BNR, Microfinance Supervision Department*

3. Non-Bank Financial Institutions (NBFIs)

The non-bank financial institutions are comprised of insurance and pension institutions. The main objective of the NBFIS supervision by BNR is to ensure that the policyholders and pensioners' interests are well safeguarded. Thus, the National Bank of Rwanda has to ensure that both insurance and pension sectors are sound and stable.

Insurance sector performance

As at end June 2014, the insurance sector was composed: 12 private insurers (8 non-life and 4 life insurers); 2 public medical insurers;10 insurance brokers; 256 insurance agents and 11 loss adjusters. In the first half of 2014, the sector continued to perform well as the total assets grew by 13%, capital by 15% and gross premiums by 14% compared to the first half of 2013.

The liquidity position also improved as the ratio of current assets over current liabilities improved from 308% end June 2013 to 368% end June

2014, well above the minimum prudential requirements of 150%. The claims ratio slightly increased by 5% from 44% to 49% but is still below the maximum prudential benchmark of 60%. The claims settlement pattern which is reflected by the ratio of claims paid over claims outstanding provisions was satisfactory at 77% and 54% for end June 2014 and December 2013 respectively.

Table 21: Financial soundness indicators for the insurance sector (in billions of FRW unless otherwise indicated)

Indicator	Jun-2013			Jun- 2014		
	Private	Public	Industry	Private	Public	Industry
Total assets	93	126	219	103	144	247
Total capital	36	122	158	40	140	180
Total gross premiums	22	17	39	25	20	45
Underwriting profit	(0.02)	8	8	(4)	10	6
Total net profit	4	12	16	0.09	14.5	14.6
Claims ratio (%)	51	37	44	64	34	49
Combined ratio (%)	92	52	74	105	49	78
Current ratio (%)	125	1871	308	120	2,913	368
Return on equity ratio – ROE (%)	12	10	10	0.2	10.4	8
Return on assets ratio - ROA (%)	5	10	8	0.1	10.1	6
Insurance risk ratio -GP/CAP (%)	61	14	25	63	14	25

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

In the period under review, net profit declined by 11%, particularly due to new market prayers that entered the market in the mid 2013 with more injection of equity and assets but had not yet generated significant revenues from their operations.

In addition, private insurers continued to make underwriting losses due to persistent price undercutting especially on short term insurance products such as motor insurance business that comprises more than 40% of total underwritten premium of private insurer. Following the motor insurance study done by the ActServ in 2013, the National Bank of Rwanda worked with the insurers' association (ASSAR) to ensure that the 2008 agreed[2] minimum motor insurance tariff are complied with. To avoid recurrence in price undercutting, the National Bank of Rwanda also recommended to the Insurers' association to put in place a clear market code of conduct which was signed by all the members.

However, the sector still faces other challenges which hamper its growth and these include: limited innovation and new products development; high operating costs leading to a decreasing profitability in insurance sector and low public awareness about the insurance activities.

To address these challenges, BNR will continue to encourage insurers to develop products which are aligned with the customers' needs such as micro insurance products (micro-loans insurance, agriculture and weather index insurance) and to ensure that the policyholders rights are well safeguarded through clear contractual terms and conditions; to sensitize insurers to exploit telecommunication technologies to increase access to insurance services and to work with industry associations and other stakeholders to build the capacity of the insurance players and build professionalism in the market. The National Bank of Rwanda will also continue to review the insurance legal and regulatory framework to align with the market changes.

Pension sector performance

The Pension Sector is made up of one public social security fund, the Rwanda Social Security Board (RSSB) and at least 55 private pension schemes managed by insurers. The sector's performance increased by 18% in assets, 1% in contributions received from members, 18% in

[2] Agreement was reached by the representative of consumer associations, Insurer's association, Ministry of Commerce and Civil Society.

benefits paid and 27 % in investment income between June 2013 and June 2014.

Table 22: Public pension sector financial indicators (in billions of FRW unless otherwise indicated)

Indicator	Jun-2013	Mar-2014	Jun-2014	% Change (Jun-14/Jun-13)
Total assets	383.5	435.7	453.5	18%
Total Contributions Received	55.2	40.3	55.5	1%
Total benefits paid	9.9	8.5	11.7	18%
Total investment income	15.8	11.1	20.1	27%

Source: *BNR, Non-Bank Financial Institutions Supervision Department*

IV.2 Money and capital markets developments

BNR has continued to play its role to support money and capital markets development. A well-developed money market plays a central role in the monetary policy transmission mechanism by providing a key link in the operations of monetary policy to financial markets and ultimately, to the real economy.

Regarding the recent development in money market, interbank transactions have increased substantially in the first half of 2014 resulting from an improved monetary policy framework allowing more flexibility in liquidity management.

In the period under review, total transactions in interbank market increased by 63% reaching FRW 117.11 billion from FRW 71.85 billion recorded in the same period in 2013 while the number of transactions increased from 53 to 103. The interbank rate has also decreased following the Monetary Policy Committee decision to lower the Key Repo Rate.

In a bid to develop the Rwandan bond market, the Government of Rwanda in collaboration with BNR has published its quarterly bond issuance program in February 2014. In this context a 3 year Treasury bond with a face value of FRW 12.5 billion was successfully issued in February 2014.

The intensive mobilization across the country and within the region has increased the participation of individuals, pension and insurance companies, microfinance institutions and regional investors. The transaction was oversubscribed by 140% recorded in 56 applications in contrast of less than 15 bids recorded in average per auction in previous years.

In addition, the International Finance Corporation (IFC) issued in May 2014, a 5 year local currency Bond worth FRW 15 billion, the first issuance by a non-resident in Rwanda's domestic market. The introduction of an international organization rated AAA on domestic market has raised more confidence to foreign investors while creating additional investment opportunity to domestic investors and upgraded the bond market to another level.

In line with the calendar issuance program, a new five year Government Bond worth 15 Billion Rwandan will be issued on 27th August 2014 whereas a seven year Bond will come in November 2014. The awareness campaign is planned in a bid of bringing on board more institutional investors both local and international.

On the Rwanda Stock Exchange (RSE), equities trading continued on an upward trend. The counters of BRALIRWA and Bank of Kigali are still dominating in volume, transactions and price changes. From January to June 2014, RSE equity market recorded a total turnover of FRW 17.7 billion from 45.8 million shares traded in 853 transactions while bonds worth FRW 57 million in 8 transactions. RSE Rwanda share Index (RSI) and RSE All Share Index (ALSI) went up by 17.15% and 11.34%, respectively in the period under review.

Regarding the legal framework, guidelines for issue of municipal bonds in Rwanda and regulation on book building process were published in May 2014. These guidelines will facilitate the issuance of Municipal Bonds in Rwanda and address the issue of limited long term capital to finance long term projects.

In addition, the EAC capital markets have agreed to harmonize their legal framework by way of directives. This harmonization process is aimed at implementing the requirements of the Common Market Protocol in matters of free movement of Capital, and services in the region.

In the last 6 months, 7 directives were developed and published by EAC Secretariat and they include the EAC Directive on Public offers (Equity); the EAC Directive on Public offers (Debt); the EAC Directive on Collective Investment Schemes, the EAC Directive on Public Asset Backed Securities; the EAC Directive on Corporate Governance for securities intermediaries; the EAC Directive on admission to secondary trading and the EAC Directive on listing.

These directives will facilitate cross border trading and free movement of services which will have a direct impact on the regional economies. The harmonization will specifically facilitate access to capital at regional level, increase trading thanked to linked platforms and will bring more efficiency and secure markets since the region will be operating as one market.

In addition, the East Africa Commodities Exchange was officially launched in the recent EAC Heads of State Summit for Northern Corridor projects held in Kigali in July 2014. The Rwandan Government is committed to introducing a commodity exchange trading system designed to provide a fair, orderly, efficient, transparent and cost effective commodity exchange for the trading of commodities.

The new platform offer the opportunity of trading standardized contracts thereby eliminating the costs and risks associated with contract negotiation, and enabling a maximum number of buyers to bid on known conditions and therefore increase market liquidity and enhance price discovery. In addition, a licensed commodity exchange will ensure the reliable and timely dissemination of information as this will lead to informed decisions by various parties, local and regional.

IV.3 Payment systems modernization

The Rwanda Integrated Payments Processing System (RIPPS) is composed of three main parts: an Automated Clearing House (ACH-a netting system), a Real Time Gross Settlement System Transfer System (RTGS) and a Central Securities Depository (CSD).

Comparing the first half of 2014 with the first half of 2013, customers' transactions through credit transfers have increased by 2% in volume from 1,065,967 transactions to 1,089,206 transactions and 12% in value from 1,325 billion FRW to 1,484 billion FRW. Interbank transfers increased slightly by 0.2% from 6,299 transactions to 6,315 transactions in volume and 4% in value from 950 billion FRW to 987 billion FRW. On the other side, cheques transactions decreased by 9% in volume from 163,578 transactions to 148,827 transactions and 7% in value from 366 billion FRW to 342 billion FRW. The decrease in cheque transaction is explained by the introduction of e-tax payment.

Concerning the card based payment system and E-commerce, much progress has been achieved in the period under review. The number of debit cards increased by 21% from 440 875 to 532,157 while the number of credit cards increased by 32% from 1,179 to 1,561; bringing the cards issuance rate at 27% in June 2014 from 17% of bank accounts in June 2013.

The number of POS increased by 33% from 797 in June 2013 to 1,057 in June 2014 while the number of ATMs increased by 6% from 323 in June 2013 to 343 in June 2014. ATM availability increased to 93% in June 2014 from 91% in June 2013 while ATM and POS transactions increased by 23% and 90% in the first half of 2014 compared with the same period of 2013.

Despite the significant development registered in card based payment system in the last two years, the number of cards and POS machines is still low to boost the usage of electronic payments.

In addition, existing payment terminals still concentrated in urban areas with 50% of ATMs and 81 % of POS in Kigali.

Table 23: ATMs and POS geographical distribution in June 2014

		East Province	Kigali Province	North Province	South Province	West Province	TOTAL
ATMs	**NUMBER**	48	170	31	48	46	343
	PERCENTAGE	14%	50%	9%	14%	13%	100%
POS	**NUMBER**	30	860	71	30	66	1057
	PERCENTAGE	3%	81%	7%	3%	6%	100%

Source: BNR, Payment system department

To further increase the use of electronic payment, BNR commissioned a study to investigate the root causes about the low usage of e-payment in Rwanda and propose the way forward.

With regard to mobile financial services developments, the three Telecom companies operating in Rwanda have been licensed by BNR to offer mobile payment services. In addition, taxes are paid through internet and mobile banking channels. These developments contributed significantly to increase the use of electronic payment in terms of number of subscribers and transactions as well as value of transactions.

Table 24: Mobile financial services and internet banking developments

Period	Number of subscribers	Number of transactions	Value in FRW million
Mobile Payment			
Jan-June 13	2,048,260	21,052,075	134,119
Jan-June 14	3,826,997	43,482,135	260,702
Change	87%	107%	94%
Mobile Banking			
Jan -June 13	425,815	1,047,004	9,033
Jan -June 14	552,027	2,064,932	20,834
Change	30%	97%	131%
Internet banking			
Jan -June 13	8,229	9,207	7,547
Jan -June 14	32,460	147,095	152,997
Change	294%	1498%	1927%

Source: BNR, Payment system department

In the process of regional integration, BNR along with banks are carrying out tests on the linkage on EAPS (East African Payment System) and the system is expected to be ready by end August 2014. Furthermore, following the cross border arrangement between Tigo Rwanda and Tigo Tanzania, the volume of cross border transfers between Tigo-Cash and Tigo-Pesa amounted to 1459 transactions from Tanzania to Rwanda for a total value of FRW 51,7 million and 1638 transaction from Rwanda to Tanzania for a total value of FRW 69,6 million since February 2014.

Payment Systems Interoperability

Interoperability of payment system contributes to efficiency of payment system and to a greater financial inclusion. It is in that regards that BNR and the industry have established a policy on interoperability concerning both cards based payment system and mobile financial service. Currently, all stakeholders are engaged in its implementation.

Visa Rwanda Ltd has developed mVisa product to allow interoperability of mobile banking services and 3 banks are currently live on that platform. Two Mobile Network Operators are linked to two banks to enable fund transfer between bank account and mobile money account and cash out of mobile money through banks' ATMs.

Besides the acceptance of Visa cards on POS, banks and RSwitch are working together to allow acceptability of RSwitch proprietary card on POS. Currently, the three acquirers accept 60% of RSwitch cards on POS. This will help to reduce cash out of the banking system as more card holders will be able to pay goods and services on POS.

IV.4. Credit Reference Bureau Usage Performance

Following the establishment of the private credit reference Bureau, BNR continues to develop the appropriate supervisory framework aimed at ensuring increased participants and/or usage and accurate credit related information. Currently the coverage ratio is about 21% of the adult population.

Between December 2013 and June 2014, usage in terms of data searches increased by 87.0%. This increase is mainly driven by microfinance institutions for which data counts increased by 207.0%, followed by telecom companies (67.8%) and banks (61.4%). Insurers recorded a drop of 70.0%, indicating that these companies do not often use the CRB database in search of client/ policyholders' information for risk management.

On the other side, successful searches recorded an increase of 84.8% between December 2013 and June 2014. Similarly, microfinance institutions had the highest successful rate of 196.6% followed by banks (62.0%) and telecoms (29.3%).

Table 25: CRBAfrica Usage report December 2013 to June 2014

Sector	***December 2013***			***March (2014)***			**June 2014**		
	Data Counts	***Data Hits***	***Successful rate (%)***	***Data Counts***	***Data Hits***	***Successful rate (%)***	**Data Counts**	**Data Hits**	**Successful rate (%)**
Banks	16,001	14,547	90.91	23,720	22,011	**92.8**	25,820	23,567	**91.27**
MFIs	2,571	2,326	90.47	4,865	4,479	**92.07**	7,893	6,899	**87.4**
Insurance companies	30	29	96.6	35	32	**91.43**	9	9	**100**
UMURENGE SACCOs	1,100	914	83.09	2,111	1,839	**87.12**	3,140	2,489	**79.26**
Telecoms Companies	87	58	66.66	95	54	**56.84**	146	75	**53.36**
Total (all sectors)	**19,789**	**17,874**	**90.32**	**30,826**	**28,415**	**92.17**	**37,008**	**33,039**	**89.27**

Source: BNR, Financial Stability Directorate

To ensure increased usage of credit reference bureau, the CRBAfrica is in the process of introducing new products such as the "Credit Rating". This product will particularly help financial institutions, for example, banks in credit risk assessment and on the demand side (clients) should be used as a bargaining tool on loan pricing.

Much as there is progress in information sharing to CRBAfrica, a lot remains to see how the information is used by clients and lenders to influence loan prices. To this effect BNR introduced CRB awareness campaign in 2013 and will be strengthened going forward.

IV.5. Access to finance

The Government of Rwanda has set the target of formal financial inclusion at 80% of adult population by 2017 and 90% by 2020. BNR continues to support initiatives towards achieving these targets on financial inclusion through the development of microfinance institutions, the extension of the bank network and branchless banking solutions, and the use of information technology, particularly mobile financial services.

As at end June 2014, the total number of commercial bank branches, sub-branches and outlets increased by 4.5% from 471 end December 2013 to 492 end June 2014 while the number of bank agents increased by 4.2% from 2,047 in December 2013 to 2,133 end June 2014.

Table 26: Geographical banking financial services access end June 2014

	CITY OF KIGALI	**NORTHERN PROVINCE**	**EASTERN PROVINCE**	**WESTERN PROVINCE**	**SOUTHERN PROVINCE**	**TOTAL**
NUMBER OF BRANCHES	59	19	26	28	28	160
NUMBER OF SUB BRANCHES	47	30	43	46	44	210
NUNBER OF COUNTERS/OUTLETS	49	12	25	11	25	122
Total branch & sub branch network	*155*	*61*	*94*	*85*	*97*	*492*
NUMBER OF CLIENTS ACCOUNTS	857,054	297,254	327,042	261,367	250,838	1,993,555
BANKS' AGENTS	571	467	413	381	301	2,133

Source: *BNR, Bank Supervision Department*

This development contributed to increasing access to bank loans in different provinces. Kigali City continued to have the largest share (67.7%) of the total new authorized loans during the first half of 2014 followed by Western and Southern Provinces with 12.6% and 9.2%

respectively. However, in terms of growth in loans, the Western Province recorded the highest increase (293%) followed by Southern and Northern Provinces with 95% and 31 % respectively.

With regard to loans distribution by gender in the banking sector, the percent share of the number of loans to women in June 2014 was 39.4% from 27.8% end December 2013. Similarly, in terms of loan amounts as at end June 2014; 24.6% of total amount of new loans was granted to women compared to 21.7% as of end December 2013. By category of age, the percentage share of loans amounts to the youth (up to 35 years old) stabilized at 30.1% in the first half of 2014 compared to 30.4% at end 2013.

In Microfinance sector, the number of accounts opened increased by 1.5% between December 2013 and June 2014, of which 38.4% belong to women while the number of loans increased by 15.1% of which 30.9% of loans were granted to women.

In terms of loans to different categories of economic agents, outstanding loans to SMEs by banks increased by 19.7% amounting to FRW 231.2 billion in June 2014 from FRW 193.2 billion end December 2013, while the number of SMEs financed increased by 91.7% from 25,395 end December 2013 to 48,689 in June 2014.

V. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

V.1 Monetary policy orientation

The NBR will maintain its prudent monetary policy stance during 2014 in a bid to anchor inflationary expectations while supporting growth and containing pressures on the FRW exchange rate.

Monetary policy will aim to ensure adequate liquidity management to continue supporting the economic recovery and keep inflation rate around the medium term objective of 5%.

In order to progressively move towards the use of interest rate as the operational target for monetary policy and to improve the monetary transmission mechanism, BNR will continue to stimulate the development of the interbank market and secondary market for debt securities.

Furthermore, the BNR will continue to take the lead in the reorganization of the primary market by broadening the investor base and transforming the short-term monetary policy instruments into medium to long term maturities. With regard to improving communication strategy, BNR will pursue its efforts to continue produce and publish on BNR web site, inflation reports on quarterly basis as already started in the first quarter of 2014.

V.2 Financial sector reforms

To ensure that the financial sector in Rwanda remains stable, BNR will continue to monitor the soundness of financial institutions under its supervision regime. Since safeguarding financial stability calls for a macro-supervision of the financial system as a whole (covering banks, microfinance institutions, insurance and pension companies), BNR will continue to reinforce its legal, regulatory and supervisory framework that will make macro- prudential norms prevail.

In so doing, more attention will be brought to the banks which form the dominant section of the financial system. The National Bank will continue to ensure that banks remain prudent in their operations through on-site and off-site examinations, to maintain high asset quality with the objective of keeping the non-performing loans (NPLs) ratio at 5 percent maximum in 2014. The risk based supervision approach adopted by BNR and the implementation of Basel II&III are expected to contribute towards mitigating any emerging risks to financial sector stability.

The microfinance sector, SACCOs particularly contribute significantly to promoting financial access. The main challenges in this industry are automation of operations, weak governance and poor internal control system. More focus will continue to be put on off-site and on-site inspections on regular basis with emphasis on the on-site inspections of SACCOs established in line with UMURENGE SACCO program.

A special attention will be put on the aspects like automation of SACCOs operations, harmonization of internal policies and procedures and ensure SACCOs compliance with these policies and procedures, strengthening the supervisory framework of MFIs/SACCOs, consolidation of SACCOs at national level, review of the microfinance law and its implementing regulation for them to cope with new developments in the microfinance sector, regional and international standards, and capacity building of MFIs/SACCOs' supervisors.

Regarding the skill gap in the management of the microfinance institutions, BNR will collaborate with the Rwanda Institute of Cooperatives, Entrepreneurship and Microfinance (RICEM) to address the issue.

For Non-Bank financial institutions, further refinement of the regulatory regime in insurance sector will be worked out to foster the development of the business in Rwanda and the enactment of the Pension Law will establish the basis for private pension plans.

Concerning the payment systems development, the National Bank of Rwanda will focus on increasing payment transactions efficiency by promoting security and accessibility. This will be done through the establishment of the cheque truncation, interoperability of payment systems and regional connectivity (East African Payment System- EAPS).

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