National Bank of Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

John RWANGOMBWA
Governor

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I.EXECUTIVE SUMMARY

The Governor's statement covers a brief account of the global and domestic economic performance which underpinned the Bank's policy response in 2013. The statement also provides the outlook for 2014.

The world economy embarked on a recovery path in 2013, which is likely to continue for the current year 2014. According to IMF World Economic Outlook released in January 2014, global real GDP was estimated to have grown by 3.0% in 2013 against 2.9% initially projected, but still lower than 3.1% recorded in 2012. Real GDP growth for 2014 is projected at 3.7%. Global inflation will also remain contained.

The Rwandan economy continued to grow in 2013 but at slower pace compared to recent past as the impact of the cuts and delays in budget support which occurred in 2012 was felt. Real GDP growth slowed down to 6.4%, 5.7% and 3.9% in the first three quarters of 2013 respectively. Based on these developments, MINECOFIN has revised downward the annual growth projection to likely fall below 6% for the whole year.

The Rwandan export sector has continued to record good performance in 2013 with formal exports value standing at USD 573 million, representing an annual increase of 18.7%, while the volume increased by 6.8%. In the same period, formal imports FOB slightly increased by 2.2% in value amounting to USD 2247.4 million and by 4.3% in volume. As a consequence, the trade deficit reduced from USD 1276.6 million recorded in 2012 to USD 1224.9 million in 2013 and Import CIF cover by exports increased to 25.4% against 22.9% recorded in 2012. Including informal cross border trade, exports covered 30% of imports from 27.7% in 2012.

In 2013, the overall balance of payments recovered from a deficit of USD 205.5 million recorded in 2012 to a surplus of USD 223.4 million following the resumption of donors' inflows, the Eurobond issuance.

Inflation was contained at 3.7% in December 2013 due to effective monetary policy; good coordination between economic actors, particularly between fiscal and monetary policies; easing inflationary pressures in trading partners; overall stability of international oil prices; relatively good food harvests as well as limited exchange rate pass-through to domestic prices.

Regarding market rates, deposit interest rates and lending rates declined in line with the BNR monetary stance aiming at stimulating the credit to the private sector and with good banking system liquidity conditions. The lending rate followed the same trend but with some lags, declining from 17.8% in September to 16.9% in December 2013.

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

With regard to the performance of the Rwandan financial sector, it continued to be sound, stable and expanding throughout last year 2013. The sector continued to support the growth momentum of the economy.

Considerable expansion of the financial sector was sustained with risk absorption capacity that further increased as financial institutions enjoyed higher capital levels, adequate liquidity buffers and healthy earnings. In addition, the supervisory and regulatory framework was strengthened and banks were directed to manage risks in an integrated manner while the financial safety nets in place also helped build confidence in the financial sector and promote financial system soundness.

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.

For instance, the Capital Adequacy Ratio (CAR) stood at 23.1%; well above the minimum required Capital Adequacy ratio of 15%, while the non-performing loans (NPL) ratio stood at 7.0% at end December 2013.

The microfinance sector recorded a positive performance with 27.4% asset growth from December 2012 to December 2013, rising from FRW 101.0 billion to FRW 128.7 billion. By end December 2013, the sector registered an increase in deposits (27.6%) and gross loans (24.2%) from FRW 54.5 billion to FRW 69.5 billion and from FRW 59.2 billion to FRW 73.5 billion, in the same period respectively. Additionally, the SACCOs continued to play a significant role in expanding financial access as their loan portfolio almost doubled in 2013 (from 13.9billion to 21.5billion) although at a cost of a slight deterioration in NPL ratio by two percentage points to 7.3 in December 2013.

The insurance sector recorded good performance as well, with total assets for the sector as of end December 2013 increasing by 16%, from FRW 199 billion end December 2012 to FRW 230 billion. The gross premiums increased by 16% from FRW 68 billion end December 2012 to FRW 78 billion end December 2013. This high performance was achieved as a result of two new licensed insurance companies. The liquidity position of the insurers was strong with the current ratio of 485% from 329% as of end December 2012 and this reflects the insurers' ability to pay claims and other current obligations as and when they fall due.

Also, the pension sector recorded positive performance during the period under review increasing by 21% in assets, 23% in contributions received from members, and 22% in benefits paid. The sector is projected for better performance following the enactment of the pension draft law that is currently in Parliament.

Concerning the payment systems modernization, there has been remarkable improvement in the use of Rwanda Integrated Payments Processing System (RIPPS) which allows automatic gross settlements in real time.

Retail payment system has also improved; new international payment cards (MasterCard, China Union Pay, Dinners Club and Japanese Credit Bureau) joined the visa on the domestic market while mobile financial services (MFS) and internet banking services registered tremendous development. Looking forward, work will continue to improve the efficiency of the payment systems through the establishment of the cheque truncation and interoperability of payment systems. Furthermore, regional integration through East African Payment System (EAPS) and promotion of usage of electronic payments in Rwanda will be among the key priorities in this area.

II. OVERVIEW OF ECONOMIC ENVIRONMENT IN 2013

II.1 The Global economic activity

II.1.1 Economic growth and outlook

Although the world economic growth has slightly increased in 2013 compared to the initial projection, it underperformed compared to 2012. According to IMF World Economic Outlook releases in January 2014, global real GDP grew by 3.0% in 2013 against 2.9%initially projected and 3.1% recorded in 2012. The world economy is projected to growth at 3.7% in 2014.

In the US, while slightly down to 1.9% in 2013 after 2.8% in 2012, the economic growth is forecast to grow by 2.8% in 2014 driven by domestic demand as the fiscal drag eased.

In the Euro Area, economies remained weak as austerity measures were still far from ending. Real GDP contracted by 0.4% in 2013 after a decline of 0.7% in 2012 and it is projected to grow by 1.0% in 2014 supported by improvement in domestic and external demand owing to accommodative monetary policy.

In Japan, the economy grew by 1.7% in 2013 from 1.4% in 2012 and foreseen at 1.7% in 2014 as result of expansionary fiscal and monetary policies.

In emerging and developing countries, the economy continued to perform well but at a lower pace as it grew by 4.7% in 2013 from 4.9% in 2012 owing to weaker growth prospects and rising vulnerabilities. In developing Asian countries, the economy rose by 6.5% in 2013 and was expected to grow by 6.7% in 2014, from 6.4% in 2012, driven by high growth in China and India. China economic growth in 2013 was 7.7%, same level as in 2012, and is projected at 7.5% in 2014.

In Sub-Saharan Africa, economic activity remained quite dynamic as it grew by 5.1% in 2013 against 4.8% in 2012 while projected to grow by 6.1% in

2014. The recorded good performance was mainly backed by improved economic policies and high investment.

II.1.2 Inflation and Commodity Prices

Inflationary pressures have eased in most developed and emerging economies particularly due to lower energy and food prices as well as sustained production capacity in developed economies. In developed countries, inflation fell to 1.4% in 2013 from 2.0% in 2012 while projected to slightly rise to 1.7% in 2014. In emerging and developing economies, inflation stood at 6.1% in 2013 after 6.0% in 2012 whilst expected at 5.6% in 2014.

In December 2013, the US annual inflation was down to 1.5% from 1.7% in December 2012 as a result of low energy cost. Similarly in the UK, inflation fell to 2.0% in December 2013 from 2.7% in December 2012. In the Euro zone, inflation drastically declined to 0.9% in December 2013 compared to 2.0% end 2012 and projected to 1.1% in 2014. In Japan, for the seventh consecutive month, inflation stood positive, standing at 1.6% in December 2013 against -0.1% in December 2012, mainly driven by monetary policy stimulus to support the economy, and rising energy prices.

In Sub-Saharan Africa, inflation slowed down in most countries as a result of the decline in commodity prices and the slowdown in economic growth despite high domestic demand, persistent capacity constraints and exchange rates depreciation. Sub-Saharan Africa’s inflation was estimated to have significantly slowed down to 6.9% by end 2013 and projected to continue to 6.3% end 2014 from 9.0% recorded end 2012.

Inflationary pressures remained globally moderate in EAC member countries owing to good economic performance and efficient monetary policy. However, compared to December 2012, inflationary pressures rose in some EAC countries (Kenya and Uganda) as a result of seasonal shocks associated with food production.

Table 1: Annual headline inflation in EAC countries, in %

	2012	2013											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Uganda	5.5	4.9	3.4	4.0	3.4	3.6	3.4	5.1	7.3	8.4	8.1	6.8	6.7
Kenya	3.2	3.7	4.5	4.1	4.1	4.1	4.9	6.0	6.7	8.3	7.8	7.4	7.2
Tanzania	12.1	10.9	10.4	9.8	9.4	8.3	7.6	7.5	6.7	6.1	6.3	6.2	5.6
Burundi	11.8	7.6	9.4	5.9	3.0	8.2	11.4	10.1	10.4	12.1	8.5	9.7	9.0
Rwanda	3.9	5.7	4.8	3.3	4.4	3.0	3.7	3.5	4.0	5.1	5.1	4.6	3.7

Source: EAC, Central Bank Websites

On commodity markets, recent global economic slowdown has affected commodity prices particularly metals. Prices of metals and minerals fell by 5.5% of which precious metals dropped by 16.9% due to lower demand in China and a continuous rise in supplies from large new investments in recent years.

Energy prices also recorded a slight overall decline by 0.1% in 2013 but by end of the year, it had shown signs of rebound, led by crude oil. Indeed, in December 2013, crude oil prices rose by 2.8% on monthly basis owing to stronger refining runs subsequent to heavy maintenance but also following further outages in Libya on rising violence and attacks at oil fields and ports. Brent prices rose on monthly basis by 2.4% to stand at USD 110.67/barrel from 108.08/barrel in November 2013.

Non-energy prices significantly declined by 7.2% led by beverages prices (-10.1%), food prices (-7.1%) agriculture raw materials (-5.9%) and fertilizers (-17.4%). The downward trend in agriculture prices was due to a rebound in production from 2012drought in the US, Eastern Europe and Central Asia.

For 2014, oil prices are expected to ease by 3.0%slowing down with December 2015 Brent futures contracts trading at USD 101/barrel. Moreover, there is optimism regarding oil supply following the recent agreement with Iran about its nuclear program even if the impact will be limited given that key sanctions have not been lifted. Non-fuel commodity prices are expected to fall by 4.2%.

Fig. 1: Developments in Brent prices (USD/barrel) from 31 Dec-12 to 31st Dec-13

Source: Bloomberg website

II.1.3 Financial Markets

Central Banks in advanced countries kept accommodative monetary policy stance to boost the economic activity. Policy rates remained unchanged over the year 2013 at 0.25% in the US, 0.5% in the United Kingdom and 0.1% in Japan. In the Euro Zone, the European Central Bank has even enhanced its accommodative policy stance, reducing twice its policy rate from 0.75% to 0.5% in May and to 0.25% in November 2013.

Three-month deposit rate in the US decreased to 0.25% from 0.31% in 2012 while expected to remain unchanged at 0.25% in 2014. Three-month deposit rates went up in the Euro Area to 0.29% from 0.19% in 2012 and are expected to further rise to 0.31% by end 2014. In the UK, 3-month deposit rate was up to 0.53% in 2013 from 0.52% in 2012 while in Japan, it slowed to 0.15% from 0.18% recorded in 2012.

10-year Government bonds rates increased in December as the US economy improved, leading the Fed to cut the monetary stimulus, but also following mixed macroeconomic announcements in the Euro Area. The 10-year government bond yield in the US rose to 3.03% in December 2013 from 1.76% in December 2012, to 3.02% from 1.83% in the UK, to 1.93% from 1.32% in the Euro Area, while it was slightly down to 0.74% from 0.79% in Japan.

On the foreign exchange market, compared to 2012, the dollar continued to weaken versus the Euro and the GBP, depreciating respectively by 4.5% and 2.0% in 2013. The Fed cutting its bond purchase weakened the dollar versus the Euro. The pound was strong on the back of UK’s economic recovery led by increase in consumption, that itself has been driven by rising house prices. Versus the yen, the dollar strengthened by 21.5% in 2013 following the release of a set of positive US economic data. The Yen weakened also after the Japanese Bank implemented unprecedented stimulus to support the economy.

II.2 National economic performance

II.2.1 Economic growth

The Rwandan economy continued to grow in 2013 but with a slower pace compared to the recent past, following reduction in public spending due to cuts and delays in budget support which occurred in 2012. As a consequence, real GDP growth slowed down to 6.4%, 5.7% and 3.9% in the first three quarters of 2013 respectively, compared to8% annual growth for 2012.As a result, MINECOFIN has revised downward the annual growth projection to likely fall below 6% for the whole year.

Table 2: Rwanda Real GDP growth, in %

	2009	2010	2011	2012	2013			
					Q1	Q2	Q3	Annual proj.
GDP	**6.2**	**7.2**	**8.2**	**8.0**	**6.4**	**5.7**	**3.9**	**6.6**
Agriculture	**7.7**	**5.0**	**4.7**	**3.0**	**5.3**	**5.3**	**1.2**	**3.6**
Food Crops	9.4	4.9	5.0	3.2	5.2	5.2	1.1	3.3
Export crops	-15.3	14.2	2.9	-9.3	27.8	29.3	0.5	18.2
Livestock	3.3	4.6	2.9	4.9	2.0	1.1	1.9	3.8
Forestry	2.4	3.2	2.6	4.0	3.2	2.1	2.2	2.9
Fisheries	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.9
Industry	**1.3**	**8.4**	**17.6**	**7.2**	**14.3**	**13.1**	**7.5**	**12.8**
Mining and Quarrying	-17.9	-10.8	49.7	-9.8	5.6	72.9	43.2	41.2
Manufacturing	3.0	9.3	8.1	-3.0	0.0	2.4	1.2	2.9
Electricity and Water	14.6	15.3	15.2	16.9	10.0	9.9	6.6	6.6
Construction	1.3	8.8	23.6	15.4	23.5	17.2	9.6	16.7
Services	**6.2**	**9.0**	**8.9**	**12.2**	**5.0**	**4.2**	**4.7**	**6.5**
Wholesale and Retail	4.0	8.4	10.2	12.2	6.5	8.6	1.1	6.7
Hotels and Restaurants	-5.8	7.9	3.9	7.5	-7.6	4.2	2.8	0.5
Transport & Communication	9.2	8.7	5.3	19.3	3.8	10.1	5.7	6.9
Finance and Insurance	-4.1	23.6	20.3	17.5	6.9	12.9	7.5	26.0
Real estate & business services	8.2	1.0	-0.2	9.3	-4.2	-9.6	-1.9	1.8
Public Administration	7.3	14.4	14.7	12.1	18.7	-2.9	13.7	7.4
Education	15.5	8.6	18.0	6.3	7.2	7.2	7.2	4.2
Health	15.1	15.7	2.1	10.1	3.5	-5.9	16.3	-0.9
Other personal services	-5.3	7.0	-0.7	1.1	2.1	2.2	3.1	1.6
Adjustments	9.6	4.8	2.0	5.1	2.6	2.6	3.6	3.0

Source: Rwanda National Institute of Statistics (NISR)

The Services sector output increased only by 4.6% on average in the first 3 quarters of 2013, against 12.2% recorded in the whole year 2012. This moderate performance was due to cuts in government expenditures and slowdown in credit distribution to the private sector. This has partially offset the good performance recorded by the Industry sector which grew by 11.6% on average in the first 3 quarters of 2013.

Indeed, Government current expenditures, which are among key drivers of the services sector performance in Rwanda, only increased by 4.5% in 2013 against 12.7% in 2012. New loans authorized to finance leading services activities increased by7.2% in commerce and hotels from a high increase of 47.3% recorded in 2012, while declining by 3.2% in transport and warehousing against an increase of 23.3% in 2012.

II.2.2 Formal external trade performance

The export sector has continued to record good performance in 2013 with formal exports value standing at USD 573 million, representing an annual increase of 18.7%, while the volume increased by 6.8%. In the same period, formal imports CIF slightly increased by 2.2% in value amounting to USD 2247.4 million and by 4.3% in volume. As a consequence, the trade deficit reduced from USD 1717.2 million recorded in 2012 to USD 1674.4 million in 2013 and Import CIF cover by exports increased to 25.4% against 21.9% recorded in 2012. Including informal cross border trade, exports covered 30% of imports from 27.7% in 2012.

Table 3: Trade balance 2009-2013

	Formal total trade					
	2009	2010	2011	2012	2013	% change 13/12
Exports	192.9	254.5	387.7	482.7	573.0	19%
Imports	1246.8	1389.4	1890.6	2200.0	2247.4	2%
Trade balance	-1054.0	-1134.9	-1502.9	-1717.2	-1674.4	-2%

In 2013, Rwanda recovered from a BOP deficit of USD 205.5 million recorded in 2012 to a surplus of USD 223.4 million following resumption in donors' inflows and the Eurobond issuance. Thus, gross international reserves increased to 4.5 months of imports of goods, CIF value, from 3.8 months of imports of goods in 2012.

Formal exports developments

Traditional export products such as tea, coffee, pyrethrum as well as minerals have continued to dominate the sector in 2013, representing 62.1% of total export against 59.4% in 2012. This dependency on few primary commodities remains one of the main challenges for Rwanda to reduce the high structural external trade deficit and build resilience to external shocks.

Table 4: Major exports developments (Value FOB in USD millions, Volume in tons and Price in USD/KG)

	2012	2013	% Change
Coffee			
- Value	60.9	54.9	-9.8
- Volume	16989.7	19988.9	17.7
-Price	3.6	2.8	-23.4
Tea			
- Value	65.7	55.5	-15.6
- Volume	22453.4	21010.3	-6.4
-Price	2.9	2.6	-9.8
Cassiterite			
- Value	52.9	61.1	15.5
- Volume	4636.6	4895.3	5.6
-Price	11.4	12.5	9.4
Coltan			
- Value	56.9	134.6	136.5
- Volume	1144.7	2466.0	115.4
-Price	49.7	54.6	9.8
Wolfram			
- Value	26.3	30.1	14.4
- Volume	1750.6	2217.9	26.7
-Price	15.0	13.6	-9.7
Hides and Skin			
- Value	14.4	16.0	11.5
- Volume	10025.1	10298.3	2.7
-Price	1.4	1.6	8.5
Pyrethrum			
- Value	9.7	4.0	-59.0
- Volume	37.7	16.7	-55.8
-Price	257.9	238.9	-7.4
I. Sub Total Principal Exports			
- Value	286.8	356.1	24.2
- Volume	57037.7	60893.4	6.8
II. Other Exports			
- Value	88.0	81.9	-6.9
- Volume	174585.1	149887.3	-14.1
III. Re-exports			
- Value	108.0	135.0	25.0
- Volume	57049.6	97587.5	71.1
Total General			
- Value	**482.8**	**573.0**	**18.7**
- Volume	**288672.5**	**308368.3**	**6.8**

Source: *BNR, Statistics Department*

Traditional exports value increased by 24.2% amounting to USD 356.08 million from USD 286.76 million in 2012, attributed mainly to minerals representing 63.4% of total traditional exports. Good performance in exports of minerals was due to ongoing reforms and substantial investments in the sector (USD 46.8million in 2012) and high prices for some minerals on the international market. Total value of exported minerals in 2013 amounted to USD 225.7 million from USD 136.1 million in 2012, which is an increase of 65.9%, largely dominated by coltan which increased by 136.5% in value and 115.4% in volume to reach 2466.02 tons from 1144.68 tons in 2012. The good performance in export of minerals has offset the decline in coffee and tea value. Total coffee export increased by 17.7% in volume while decreasing by 9.8% in value between 2012 and 2013 due to a fall in prices by 23.4%. Prices of coffee declined due to fears of oversupply on international market after some Latin American producers overshoot their production estimates.

Similarly, tea exports have declined by 6.4% in volume mainly due to unfavorable weather conditions and by 15.6% in value as the price declined by 9.8%. Rwanda sells around 60% of its tea production at the Mombasa auction, while 37% are bought by individual buyers from different countries and about 3% was sold locally.

In 2013, Pyrethrum exports declined by 59% and 56% in value and in volume respectively compared to 2012, due especially to unfavorable condition for agriculture sector of US which is the main destination of Rwandan Pyrethrum exports. The current stock ready for export is 20,000 tons equivalent to around USD 4 million and new markets have been identified. Contracts have been signed with 3 new companies (KFI located in South Korea, La General Chemical located in Italy to sell to the European market and ANSA located in Mexico to serve the South America).

Other exports dominated by non-traditional products such as agro-processed products, flowers, hides and skins, handcrafts, etc. declined by 6.9% and 14.1% in value and volume respectively, mainly due to the insecurity prevailing in East DRC. In addition, there was a base effect following the high performance recorded in 2012 due to the effort of new agro-processing companies such as BAKHRESA milling company and INYANGE Dairy to enter the regional market. The main destination of non-traditional exports remained DRC and Burundi.

Re-exports have continued to perform well in 2013 as in the previous year, increasing by 25% in value and by 71% in volume. This category has remained dominated by petroleum products and vehicles re-exported to the DRC, Burundi and since recently, South Sudan.

Formal imports developments

Total imports in 2013 increased slightly both in value and volume respectively by 2.2% and 4.3% consistent with the slowing down in economic activities. By category, imports in 2013 were dominated by intermediary goods which rose by 1.7% in value and by 8.5% in volume, driven by industrial products and construction materials. Industrial products imported in 2013 increased in both value and volume by 8% and 4% respectively. The main products were raw materials for food industries (+11%) and chemical industries (+12%), as well as fertilizers which increased both in value and volume by 2% and 17%, respectively. The construction materials imported increased by 11.1% in volume and 0.4% in value and were dominated by cement which increased by +11.3% in volume while declining in value by 0.3%.

Capital goods dominated by transport materials and machines, devices and tools decreased in volume by 13.3% and increased by 1.2% in value. Transport materials dropped both in value and volume by 23 % and 24% respectively. Import of machines, devices and tools, representing 64% of capital goods, declined by 8% in volume while increasing by 5% in value. The category of machines and devices for industrial sector production that made 62% of this category's value in 2013 declined by 10% in volume but increased by 6% in value.

Table 5: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

	2012		2013		% change	
	Volume	Value	Volume	Value	Volume	Value
Consumer Goods	577.0	626.1	574.4	633.6	-0.4	1.2
Capital Goods	68.1	589.2	59.0	596.3	-13.3	1.2
Intermediary Goods	810.3	622.4	878.9	632.9	8.5	1.7
Energy & Lubricants	253.2	361.4	269.7	384.6	6.5	6.4
TOTAL	**1708.5**	**2199.1**	**1781.9**	**2247.4**	**4.3**	**2.2**

Source: BNR, Statistics Department

Concerning imports of consumer goods, they remained quite stable, declining only by 0.4% in volume compared to 2012, while increasing slightly by 1.2% in value. As in the previous periods, the most imported consumer goods have been food products representing 36% of total. The main products are cereals, sugar and cooking oil. Imports of fats and oil declined by 23% and 28% in volume and value respectively, sugar increased by 1% in volume but decreased by 11% in value, while cereals mainly composed of rice and maize declined by 13% in volume, but increased by 28% in value.

With regard to energy and lubricants, they increased by 6.5% and 6.4% respectively in volume and value and remained largely dominated by petroleum products (95.6%).

Formal trade with other EAC countries

In 2013, Rwandan exports to other East African Community (EAC) member countries increased by 6.6 % to stand at USD 122.9million from USD 115.3 million in 2012. With regards to imports from these countries, a decline of3.0% from USD 532.6 million recorded in 2012 to USD 516.39 million was recorded.

Like in the previous periods, Rwanda's main exports to other EAC member countries remained tea sold at Mombasa commodity exchange, raw hides and skins of bovine, coffee, bars and rods of iron or non-alloy steel, leguminous vegetables and beer. With regard to imports, the main products were cement, refined and non-refined palm oil and other cooking oils, cane sugar, vegetable fats, animals, mineral or chemical fertilizers and clothing.

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

	2009	2010	2011	2012	2013	% Change 2013/2012
Exports to EAC	47.3	54.2	80.7	115.3	122.9	6.6
Imports from EAC	449.7	513.4	785.8	532.6	516.4	-3.0
Trade balance	**-402.3**	**-459.2**	**-705.1**	**-417.3**	**-393.5**	**5.7**

Source: BNR, Statistics Department

II.2.3 Informal cross border trade

Rwandan informal cross-border exports to neighboring countries continued to gain momentum increasing by 7.4% from USD 101.8 million in 2012 to USD 109.3 million in 2013, making it to 19% of formal exports. Conversely, informal cross-border imports decreased by 22.1% from USD 22.63 to USD 17.61 million in 2013, leading to an even bigger positive informal trade balance.

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

	2010	2011	2012	2013	% Change 2013/2012
Exports	48.8	71.5	101.8	109.3	**7.40**
Imports	35.2	23.5	22.6	17.6	**-22.1**
Trade balance	**13.6**	**48.0**	**79.2**	**91.7**	**15.8**

Source: BNR, Statistics Department

Representing around 75% of total informal cross border exports, DRC continued to dominate this category of transactions while Uganda remained dominant with 45% of total informal imports. Informal exports included mainly dried beans, bovine cattle, maize flour and beef while the main imports were sorghum, Irish potatoes, dried beans and husked coffee. These items represent 35% of total cross border imports.

It is important to highlight that next to agricultural products, the share of processed products such as maize flour, wheat flour, domestic metals, plastic products, petroleum products and sugar continued to increase in Rwandan informal cross-border exports. Similarly, the main processed products informally imported were whiskies, modern beer, maize flour, soaps & cosmetics and construction material.

III. MONETARY SECTOR DEVELOPMENTS

III.1 Monetary policy stance in 2013

The BNR has been implementing the monetary policy in a challenging environment. Cut in budget support coupled with high demand for import in 2012 has put high pressures on FRW exchange rate. To limit the exchange rate pass through to domestic prices aiming at preserving the macroeconomic stability, BNR deliberately increased its sales of Foreign exchange to commercial banks. In the first half of 2013, BNR kept unchanged its monetary policy stance to limit pressures on exchange rate by limiting risks associated with rapid credit expansion and uncertainties around external capital inflows.

Following the increase in foreign inflows due to the resumption of donors' aid and the Euro bond issue in April 2013 and private inflows as well as limited inflationary risks, BNR decided to ease its monetary policy in June 2013 by reducing its rate to 7% from 7.5% to stimulate the credit to the private sector, which was needed to speed up economic growth.

The BNR proactive monetary policy in such challenging context was supported by good analytical work and improved capacity of the Bank staff to produce reliable near term and medium term forecasts on key macroeconomic variables to guide the monetary policy decision making process, as well as BNR communication with the market concerning monetary policy decisions.

III.2 Inflation

Despite some seasonal volatility mainly associated with domestic food production, inflation has been kept at moderate levels over the year 2013, below the annual forecasts of 6.0%. Annual headline inflation was 3.7% in December 2013, below 3.9% achieved in December 2012.

The good performance in inflation management is attributable to effective monetary policy, good coordination between economic actors, particularly between fiscal and monetary policies; easing inflationary pressures in trading partners; overall stability of international oil prices; relatively good food harvests as well as limited exchange rate pass through to domestic prices.

The domestic inflation stabilized to 4.2% in December 2013 against 4.1% in December 2012, despite significant volatility in prices of fresh food in line with unfavorable weather conditions. Imported inflation also slowed down to 1.6% in December 2013 from 3.2% a year ago as inflationary pressures eased in main trading partner countries, including in EAC countries. Furthermore, as reflected in the developments in the core inflation, the second-round effects of exogenous shocks were well contained by an effective monetary policy. The underlying inflation, which excludes fresh foods and energy, was quite stable in 2013 declining from 4.7% in January to 4% in December 2013.

Table8: Inflation by origin and category (% change in CPI, base 2009:100)

	2012			2013			
	Dec.	Jan.	Mar.	Jun.	Sept.	Nov.	Dec
Headline inflation	**3.9**	**5.7**	**3.3**	**3.7**	**5.1**	**4.6**	**3.7**
Domestic Goods	4.1	6.3	3.2	4.1	5.7	5.1	4.2
Imported Goods	3.2	3	3.4	1.9	2.5	2.3	1.6
Fresh Food Products	10	10.7	-3.8	6.3	13.6	11.7	4.9
Energy	5.7	5.6	4.6	0.9	2.8	0.2	0.0
Core inflation	**2.5**	**4.7**	**4.8**	**3.4**	**3.3**	**3.4**	**4.0**

Source: BNR, Statistics Department

III.3 Money supply and demand

In 2013, broad money (M3) increased by 15.7% against 14.0% recorded in 2012. This upturn trend in M3 was due to high expansion in net foreign assets by 33.9%, boosted by a 30.2% increase in foreign budget support disbursements and Eurobond proceeds amounting to USD 400 million, but offset by a decline in net domestic assets (NDA) by 14.5%. NDA decreased in 2013 due to a decrease in net credit to government (36.3%) and, to some extent, with a low growth in credit to private sector compared to 34.8% recorded in 2012. Including BRD, total outstanding credit to the private sector increased by12.9% from FRW 744 billion in 2012 to FRW 844 billion in 2013.

Table9: Monetary aggregates developments (end period, in FRW)

	2012	2013				% changes		
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Dec-11/ Dec-10	Dec-12/ Dec-11	Dec 13/ Dec-12
Net foreign assets	**555.8**	**475.6**	**642.8**	**683.5**	**744.0**	**29.7**	**-17.4**	**33.9**
Net domestic assets	**334.1**	**409.5**	**318.5**	**292.6**	**285.6**	**10.5**	**211.7**	**-14.5**
Domestic credit	544.1	627.1	551.0	540.8	566.0	8.1	87.8	4.0
Central government (net)	-137.2	-76.4	-164.0	-192.2	-187.0	-66.3	37.1	-36.3
Public enterprises	1.0	0.8	1.0	1.0	1.3	-12.5	-63.5	22.5
Private sector	**682.5**	**705.4**	**717.0**	**736.6**	**756.5**	**27.5**	**34.8**	**10.8**[1]
Other Items Nets (Assets: +)	-210.1	-217.5	-232.5	-248.2	-280.4	6.7	15.0	33.5
Broad money	**889.9**	**885.1**	**961.3**	**976.1**	**1029.9**	**26.7**	**14.0**	**15.7**
Currency in circulation	**107.0**	**105.6**	**116.3**	**106.4**	**116.6**	**13.6**	**4.1**	**9.0**
Deposits	**782.9**	**779.5**	**845.0**	**869.6**	**913.3**	**28.9**	**15.5**	**16.7**
of which: Demand deposits	319.2	318.7	390.0	386.0	379.7	16.1	14.5	18.9
Time deposits	299.1	303.6	294.3	322.4	339.4	41.5	13.6	13.5
Foreign currency deposits	164.6	157.2	160.6	161.2	194.2	36.7	21.4	17.9

Source: Statistics Department

New authorized loans in 2013 amounted to FRW 472.5 billion lower than FRW 498.9 billion recorded in 2012. The Slowing down in lending activities in 2013 was mainly attributed to lower level of government spending and to banks' policy to enhance their risk management following the high increase in credit distribution registered in 2012.

During the year under review, 5 940 loan applications were rejected representing 7.5% of total applications against 4 865 recorded in 2012, equivalent to 6.7% as rate of rejection. In terms of amount, FRW 472.5 billion were approved against FRW 544.3 billion requested, which is a rate of rejection of 13.3% against8.5% recorded in 2012.

The main reasons for rejection were: repayment ability not proved; lack of collateral and weak cash-flows; bad credit history; lack of project profitability and low equity/ low owner's contribution.

The private credit reference bureau has helped managers of commercial banks to take informed lending decisions through the provision of credit information such as credit history and multiple borrowing with arrears in different banks.

[1] Not including BRD

All financial institutions (Banks, MFIs/SACCOs, Insurance companies and UMURENGE SACCOs) are compulsorily integrated in credit information system as well as voluntary participants such as the Utility company (EWSA) and telecom companies (MTN &TIGO) which are sharing credit information regarding their clients. Furthermore, BNR with the support of AfDB has conducted a public awareness campaign on credit reference services in March-April 2013, to sensitize lenders, consumers, participants and policy makers on the role of credit information sharing and consumer rights. As a result, the private credit bureau coverage increased to 19.1% of adult population in December 2013 from 17.2% in June 2013.

Concerning the distribution of loans by sector of economic activity, commerce and hotels were the most financed, followed by Public works and buildings and Activities not classified elsewhere with a share of 77.8% of total new authorized loans against 79.8% recorded in 2012.

Table10: New cash loans by activity (in FRW billion)

					Changes (%)	
	2010	2011	2012	2013	2012/	2013/
ACTIVITY BRANCH					2011	2012
Commerce & hotel	129.8	137.9	203.1	217.6	47.3	7.2
Publics works & Building Industries	50.4	90.3	111.9	93.5	24.0	-16.5
Activities not classified elsewhere (personal loans)	32.2	51.1	83.0	56.5	62.5	-31.9
Manufacturing activities	26.6	20.1	37.0	44.5	84.5	20.3
Transp. & warehousing	27.8	24.7	30.4	29.5	23.3	-3.2
Service sector	8.0	8.3	14.4	10.4	73.5	-28.1
Agri., fisheries& livestock	5.5	12.5	10.6	8.8	-15.7	-17.0
OFI &Insurance	8.6	12.5	4.6	6.0	-63.1	29.7
Water & energy activities	1.5	1.7	3.9	5.6	136.4	44.1
Mining activities	0.0	0.0	0.0	0.2	0.0	0.0
Total of new loans	**290.4**	**358.9**	**498.9**	**472.5**	**39.0**	**-5.3**

source: Financial Stability Directorate

With regard to money demand, currency in circulation out of the banking system went up by 9.0% in 2013 compared to 4.1% in 2012. In addition, the currency in circulation to broad money (M3) ratio continued to decline from 14.7% in 2010 to 13.2%, 12.0% and 11.3% in 2011, 2012 and 2013 respectively indicating the positive impact of payments system modernization and extension of the financial sector network, particularly in the rural area.

Banks' deposits increased by 16.7% and are dominated by demand deposits representing 41.6% of total deposits in 2013 against 40.8% in 2012 while time deposits and deposits in foreign currency represented 37.2% and 21.3% in 2013 and 2012, from 38.2% and 21.0% respectively.

III.4 Banking system liquidity conditions

Banking system liquidity conditions remained comfortable throughout the year of 2013. By end December 2013, banks most liquid assets composed of repos and T-bills increased by 58% to FRW 228.9 billion from FRW 145.0 billion by end December 2012.This is explained mainly by the increase in Government net liquidity injection of FRW 98.3 billion and the fact that banks were reluctant to significantly increase loans to the private sector amid the increase of non-performing loans ratio.

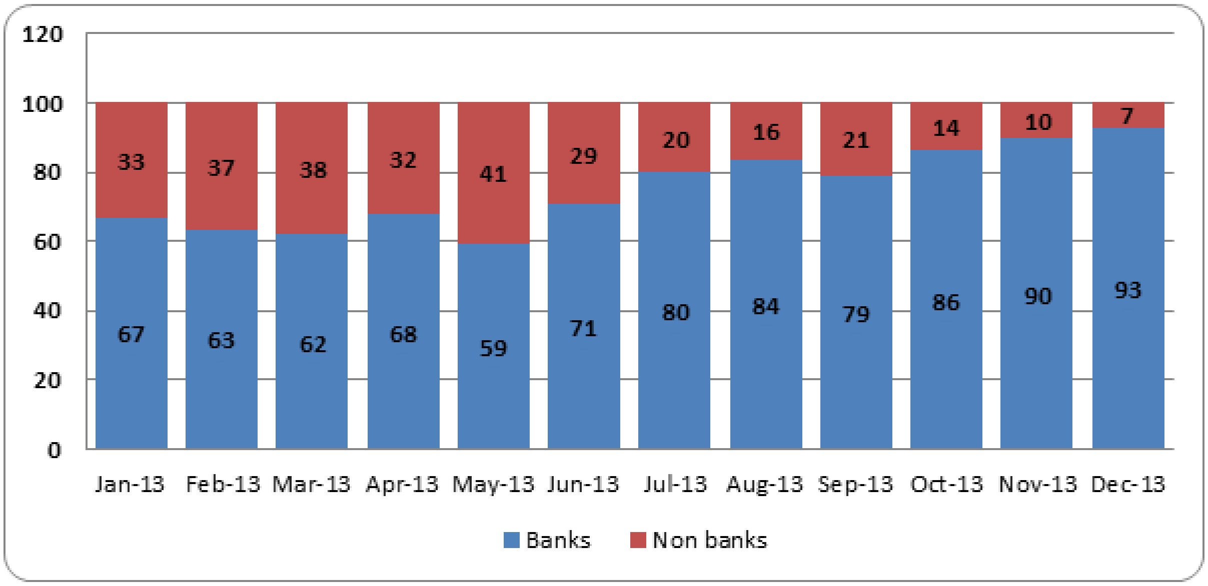
Table 11: Most liquid assets of commercial banks (FRW billion)

	2012	2013											
	Dec	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
T-bills	55.5	72.2	74.5	76.5	83.1	74.2	103.0	108.0	124.4	118.7	133.7	145.5	156.2
Repo	52.5	20.0	27.5	17.1	25.4	54.0	90.2	41.5	54.5	53.5	34.5	33.5	29.5
Ex. reserves	14.8	16.4	14.6	18.8	13.0	15.6	17.4	18.8	20.2	20.3	19.4	27.4	19.0
Cash in vault	22.3	20.8	22.7	20.2	22.7	22.3	21.4	23.8	21.7	25.0	22.5	20.0	24.3
Total	**145.0**	**129.5**	**139.3**	**132.5**	**144.2**	**166.1**	**232.0**	**192.1**	**220.8**	**217.5**	**210.2**	**226.4**	**228.9**

Source: Monetary Policy and Economic Analysis Department

In terms of category of subscribers in T-bills, banks regained their ground since mid-year 2013 as non-banks chose to keep their money in deposits with banks rather than investing in T-bills securities. The latter were less attractive as interest rate on T-bills fell significantly in the last half of 2013.

Fig 2: Shares of banks and No-banks in T-bills outstanding, in %



III.5 Interest rates developments

Short-term interest rates have been declining since June 2013 following eased monetary conditions which led to increased short term liquidity. As a result, T-bills, repo and interbank interest rates fell respectively to 5.6%, 3.9% and 5.6% in December 2013, from respectively 10.8%, 6.7% and 9.6% in June 2013, and respectively 12.4%, 7.5% and 11.1% in December 2012. The BNR has deliberately reduced its mopping up of the liquidity to encourage banks continuing to finance the economy. As a result, total stock of repos declined from FRW 90.2 billion in June 2013 to FRW 29.5 billion in December 2013.

Table 12: Interest rates developments (%)

	2012	2013										
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
BNR Policy Rates													
Key Repo Rate	7.5	7.5	7.5	7.5	7.5	7.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Discount Rate	11.5	11.5	11.5	11.5	11.5	11.5	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Money Market Rates													
Repo rate	7.5	7.4	7.3	7.0	7.2	7.1	6.7	6.4	5.6	5.5	5.0	4.4	3.9
Standing Dep. Facility	5.5	5.5	5.5	5.5	5.5	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Standing Lend. Facility	9.5	9.5	9.5	9.5	9.5	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Treasury Bills Rate	12.4	12.4	12.2	12.1	12.0	11.9	10.8	9.7	8.6	7.1	6.8	6.1	5.6
Commercial Banks Rates													
Interbank Rate	11.1	11.1	10.4	10.0	10.9	11.1	9.6	9.6	7.6	7.0	6.7	6.1	5.6
Deposit Rate	10.0	11.8	10.3	10.4	10.7	11.6	10.6	8.5	10.5	8.9	9.5	8.5	8.6
Lending Rate	16.5	17.1	17.1	17.2	17.3	17.6	17.7	17.2	17.5	17.8	17.4	17.2	16.9

Source: BNR, Statistics Department

Regarding market rates, deposit interest rate has been declining mainly in the second half of the year in line with money market interest rates. The lending rate followed the same trend but with some lags, declining from 17.8% in September to 16.9% in December 2013.The impact of changes in BNR policy rate on deposit and lending rates is expected to progressively increase as the banking system is becoming more competitive due to new banks entering the market and the strategy of banks to increase their market shares by extending their networks in rural area.

The three largest banks shares in loan market, deposits and assets declined from 66.4%, 75.9% and 73.9% in 2002 to 50%, 50.5% and 48.7% in2012 respectively. The Herfindahl Index (HI), most used indicator to measure the industry concentration, indicates also an increase in the banking sector competition in Rwanda, from high concentration (between 2002 and 2009) to moderate concentration after 2009.

Apart from limited though increasing competition, the rigidities in lending rates are also explained by operating costs representing 76.7% of total interest income in average in 2012-2013; and high provisions for bad loans. The result has been a widening interest rate spread that increased from 6.5% in December 2012 to 8.3% in December 2013.

IV. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

The exchange rate has been under relative pressure since 2012 resulting from a persistent high demand for imports while the country was facing decline in foreign inflows. However BNR has managed to ensure that the stability of the currency was maintained through its policies and measures, including intervention on forex market to sell forex and effective communication with all market players to limit speculation.

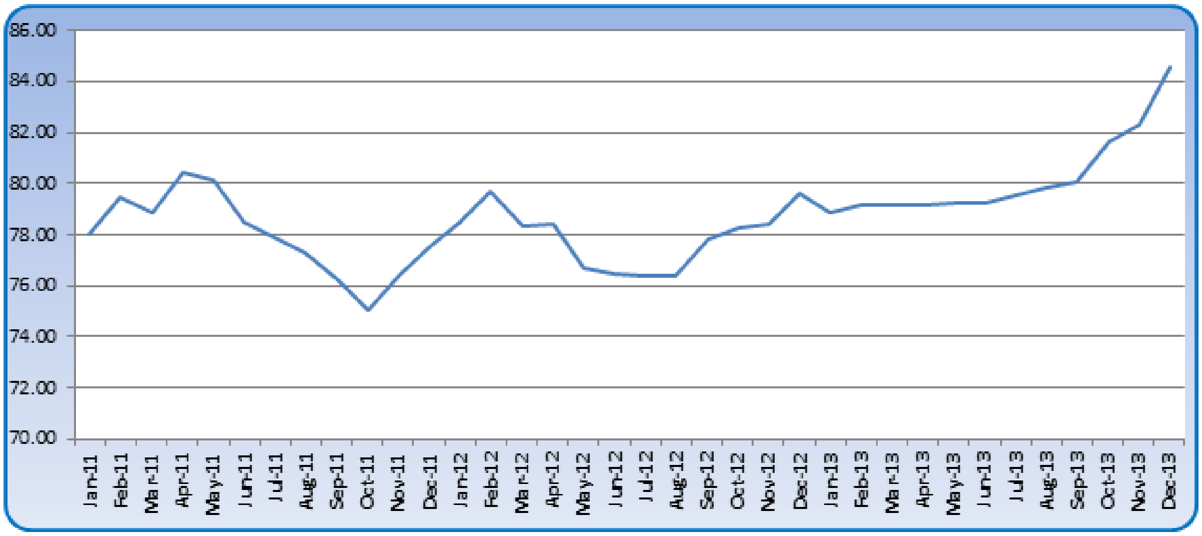
IV.1 Exchange rate developments

The exchange rate in Rwanda is market driven; BNR intervenes from time to time on the domestic foreign exchange market by selling foreign exchange to banks in order to smoothen the FRW exchange rate volatility. Due to the higher-than-expected increase in foreign exchange demand, the FRW depreciated against the USD by 6.1% in 2013, slightly higher compared to 4.5% recorded in 2012, but lower than 6.5% initially projected.

With regard to other hard currencies, the FRW also depreciated by 8.0% against the GBP and by 10.1% versus the EURO. Against currencies of EAC member countries, the FRW depreciated by 5.3% versus the Kenyan shilling; 6.2% against the Tanzania shilling; 11.7% versus Ugandan shilling and 4.9% against the Burundian Franc.

In real terms, the FRW Real Effective Exchange Rate (REER) depreciated by 2.7% in December 2013 mainly attributed to the depreciation of the nominal value of the FRW against currencies of the major trading partners.

Fig 3: The trend ofReal effective exchange rate



Source: BNR, Monetary Policy and Economic Analysis Department

IV.2 Domestic foreign exchange market

There have been a number of developments in the domestic foreign exchange market. The Government of Rwanda issued for the first time an international bond amounting to USD 400 million end April 2013 and the budget support resumed and increased by 63%, from USD 282 million in 2012 to USD 461.2 million in 2013. This has contributed to the improvement in the level of official reserves, and therefore the capacity of BNR to intervene on the market in case of need.

In 2013, the banking system recorded a significant increase of 12.4% in forex resources compared to 2012, but expenditures increased more rapidly (22.9%) leading to a cash deficit of USD 64.3 million by end 2013 at the level of commercial banks.

Table 13: Commercial banks forex resources and expenditures in USD million

	2012	2013	Absolute change	% change
Resources	**3177.9**	**3572.9**	**395.0**	**12.4**
Exports receipts	394.6	537.1	142.5	36.1
Receipts on services	335.4	418.4	83.1	24.8
Private transfers received	1992.5	2296.9	304.4	15.3
Enterprises	1107.9	1461.6	353.7	31.9
NGOs	275.1	244.8	-30.3	-11.0
Individuals	496.5	489.9	-6.6	-1.3
Government projects	27.6	20.9	-6.7	-24.4
Churchs	57.2	60.4	3.1	5.5
Associations	14.6	13.5	-1.1	-7.5
Banks	13.5	5.7	-7.8	-57.6
Purchases forex from NBR	455.5	320.5	-135.0	-29.6
Expenditure	**2960.1**	**3637.2**	**677.2**	**22.9**
Imports of goods	1911.8	2506.6	594.9	31.1
Imports of services	428.4	472.8	44.4	10.4
Private transfers paid	504.0	601.9	97.9	19.4
Sales to Forex Bureaus	115.9	55.9	-60.0	-51.8
Excess (- : deficit)	**217.8**	**-64.3**	**-282.1**	**-129.5**

Source: BNR, Statistics Department

Increase in resources was mainly attributed to private transfers which increased by USD 304.4 million, exports' receipts by USD 142.5 million and services' receipts by USD 83.1 million. The increase in resources created room for BNR to reduce its forex sales to banks from USD 455.5 to 320.5 million between 2012 and 2013.

Regarding the banking system forex expenditure, they remained largely dominated by transfers for imports of goods. In 2013, these transfers increased by USD 594.9 million, followed by private transfers which increased by USD 97.7 million and imports of services by USD 44.4 million.

V. FINANCIAL SECTOR STABILITY

Rwanda's financial landscape continued to be dominated by banks, microfinance and non-banking financial institutions such as insurance and pension. The financial system remained robust and healthy during the year under review. The financial system resilience and stability is owed to the implementation of the strengthened legal and regulatory frameworks for the supervised sectors and payment systems modernization that continued to be among BNR top priorities.

As evident from the Financial Sector Development Program- Phase II, the Rwanda's financial sector has a positive outlook. To ensure the stability of the sector, the BNR Financial Stability Committee (FSC) was operationalized and met on quarterly basis to assess likely vulnerabilities in the financial sector and take corrective measures.

V.1. Financial sector soundness

Banking Sector

In 2013, one new commercial bank and one new microfinance bank were licensed, bringing the banking sector in Rwanda to ten commercial banks, four microfinance banks, one development bank and one cooperative bank. The sector is dominated by commercial banks accounting for 78.6% of the total banking sector's assets.

In terms of balance sheet growth measured by changes in total assets, the sector grew by 21.0% from FRW 1,247 billion end December 2012 to FRW 1,509 billion end December 2013. This growth was mainly driven by the gross loans to the private sector that increased by 12.9% from FRW 747 billion end December 2012 to FRW 844 billion end December 2013,and the deposits which grew by 20.6% from FRW 844.0 billion end December 2012 to FRW 1,018 billion end December 2013.

The sector's resilience to the vulnerabilities and unforeseen shocks remains strong as reflected in the good financial soundness indicators as shown in the table below. The capital adequacy ratio (CAR) that measures the sector's capital strength to withstand risks stood at 23.1% end December 2013 compared to 23.9% recorded in December 2012 and far above the BNR's regulatory minimum capital of 15% and the Basel Committee benchmark of 10%. Although the non-performing ratio (NPL ratio) has slightly increased to 7.0% end December 2013 compared to 6.0% end December 2012, the quality of assets remains ensured.

Table 14: Key soundness indicators, in percent

Indicator	2012	2013			
	December	March	June	September	December
Solvency ratio (total capital)	23.9	24.6	23.1	22.9	23.1
NPLs / Gross Loans	6.0	6.7	6.9	7.2	7.0
NPLS net/Gross loans	5.4	5.9	3.2	6.5	6.1
Provisions / NPLs	53.6	49.0	54.8	50.3	52.8
Earning Assets / Total Assets	79.5	80.6	80.8	79.1	78.7
Large Exposures / Gross Loans	9.1	8.4	8.0	9.9	11.9
Return on Average Assets	2.2	2.5	2.1	1.7	1.5
Return on Average Equity	10.4	11.9	9.9	8.3	7.3
Cost of deposits	2.9	3.5	3.5	3.8	3.8
Liquid assets/total deposits	41.2	40.5	46.2	48.8	49.5
Forex exposure/core capital	-0.3	-1.1	-3.0	-3.0	-2.2

Source: *BNR, Bank Supervision Department*

Similarly, the sector remained profitable and liquid to take up more risks through loan issuance and expansion as well as attract product innovation. The sector recorded a total profit of FRW 22.6 Billion in 2013 from FRW 27.3 billion in 2012. Return on assets (ROA) and return on equity (ROE) stood at 1.5% and 7.3% respectively compared to 2.2% and 10.4% recorded end December 2012. The liquid assets to total deposits ratio which measures liquidity position of the sector stood at 49.5% end December 2013 against 41.2% end December 2012 and higher than 20% benchmark required by BNR.

Microfinance Sector

The Microfinance Sector comprises of 491 institutions including 13 limited companies and 478 SACCOs of which 416 UMURENGE SACCOs. Its asset size registered an increase of 27.4% between December 2012 and December 2013, rising from FRW 101.0 billion to FRW 128.7 billion. The good performance was mainly driven by the liquid assets and gross loans which increased by 27.2% and 24.2%, moving from FRW 33.1 billion to FRW 42.1 billion and from FRW 59.2 billion to FRW 73.5 billion, respectively between 2012 and 2013.

Table 15: MFIs performance indicators (UMURENGE SACCOs included, in billions of FRW, unless otherwise indicated)

Indicator/Benchmark	31-Dec-12	31-Dec-13	Dec13/Dec.12 (%)
Total Assets	101.0	128.7	27.4
Total Liquid Assets	33.1	42.1	27.2
Gross loans	59.2	73.5	24.2
NPLs	5.1	5.0	-2,0
Total Deposits	54.5	69.5	27.6
Demand Deposits	40.4	52.3	29.5
Net Equity	30.1	43.0	42.8
NPL Ratio (5% Max)	8.5	6.8	-
Liquidity Ratio-Quick (30% Min)	81.9	80.5	-
Capital Adequacy Ratio (15% Min)	29.8	33.4	-

Source: *BNR, Microfinance Supervision Department*

The Microfinance Sector continued to grow and remained liquid and well capitalized. The Capital Adequacy Ratio (CAR) stood at 33.4% end December 2013 well above the minimum regulatory requirement of 15%; the liquidity ratio stood at 80.5% against the minimum required of 30% and the asset quality significantly improved as the non-performing loans ratio declined to 6.8% in December 2013 from 8.5% in December 2012.

UMURENGE SACCOs recorded a growth of 31.0% in deposits, reaching FRW 36.9 billion end December 2013 from FRW 28.2 billion end December 2012. Loans granted by Umurenge Saccos increased by 54.7% to FRW 21.5 billion in December 2013 from FRW 13.9 billion in December 2012. As a result, total assets increased from FRW 41.0 billion to FRW 57.4 billion, that is an increase of 40.0% for the period under review. In the same period, the capital adequacy ratio stood at 30.9% and the liquidity ratio decreased to

82.0% from 87.5% but the two indicators were above the regulatory thresholds of 15% and 30% respectively.

However, the quality asset slightly deteriorated as the NPLs ratio for UMURENGE SACCOs increased to 7.3% in December 2013 from 5.3% end December 2012 mainly due to rapid growth of loans in the context of lack of skills in loan portfolio management and weak governance in some SACCOs.

UMURENGE SACCOs that have reached the breakeven point and no longer need government subsidy increased from 304 out of 416 SACCOs in December 2012 to 356 SACCOs in Dec 2013, representing 85.5% of the total number of SACCOs created in line with UMURENGE SACCO Program. This demonstrates how fast SACCOs are progressing in becoming subsidy independent.

Table 16: UMURENGE SACCO performance indicators (in billions of FRW unless otherwise indicated)

Indicator	Dec-12	Dec-13	Dec13/Dec.12 (%)
Total Assets	41	57.4	40.0
Liquid Assets	22.2	26.8	20.7
Gross loans	13.9	21.5	54.7
NPLs	0.7	1.6	128.6
Net Loans	13.6	20.8	52.9
Total Deposits	28.2	36.9	30.9
Demand Deposits	25.4	32.7	28.7
Total Equity	10.6	17.7	67.0
NPL Ratio (%)	5.3	7.3	-
Liquidity ratio (%)	87.5	82.0	-
Capital Adequacy Ratio (%)	25.9	30.9	-

Source: *BNR, Microfinance Supervision Department*

Non-Bank Financial Institutions (NBFIs)

The non-bank financial institutions are comprised of insurance and pension sectors. 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

In the year under review, new market prayers were licensed (three insurance companies and three insurance brokers) and as a result by 31st December 2013, the insurance sector was composed of 11 private and 2 public insurers, 9 insurance brokers and 192 insurance agents and 9 loss adjusters.

The sector continued to perform well; the total assets reached FRW 230 billion in 2013 from FRW 199 billion in 2012, which is a growth of 16%. The sector was well capitalized at 162 billion in 2013 from FRW 136 billion in 2012 which was a 19% increase in total capital.

Table 17: Financial soundness indicators for the insurance sector (in billions of FRW unless otherwise indicated)

Indicator		Dec-12			Dec-13[2]	
	Private	Public	Industry	Private	Public	Industry
Total assets	86	113	199	96	134	230
Total capital	26	109	136	32	130	162
Total gross premiums	37	30	68	42	36	78
Underwriting profit	-4	13	8	-0.04	17	17
Total net profit	4	33	37	6	24	30
Claims ratio (%)	62	41	52	56	40	48
Combined ratio (%)	114	59	86	103	78	90
Current ratio (%)	145	2413	329	194	1860	485
Return on equity ratio – ROE	18	34	31	18	18.2	18
Return on assets ratio - ROA (%)	5	33	21	6	17.6	13

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

At end 2013, the insurance sector was sound as shown by key indicators in table 19. The gross premiums rose by 16% from FRW 68 billion in 2012 to FRW 78 billion as at 31st December 2013. The underwriting profit increased by 101% from FRW 8 billion to FRW 17.12 billion and this was mainly due to good performance of public insurers.

The profit after tax amounted to FRW 30 billion reflecting returns on assets and equity of 13% and 18% respectively, well above the prudential

[2] These data are provisional awaiting for the audited accounts

benchmark of 10% and 5%. However, the two ratios decreased as indicated in the table above due to (i) new market prayers that entered the market in the mid 2013 with more injection of equity and assets but had not yet generated revenues from their operations, (ii) private insurers that made underwriting losses due to price undercutting of their motor insurance business that comprises more than 40% of total underwritten premium of private insurers, end (iii) gains made from revaluation of property investment in 2012.

In addition, the ratio of liquidity position stood at 485% well above the minimum prudential requirements of 150%.

Pension sector performance

The Pension Sector is made up of one public social security fund, the Rwanda Social Security Board (RSSB) and at least 53 private pension schemes managed by insurers. The sector's performance increased by 21% in assets, 23% in contributions received from members, 22% in benefits paid and 16 % in investment income.

Table 18: Public pension sector financial indicators (in billions of FRW unless otherwise indicated)

Indicator	31.12.2012	31.12.2013	% Change
Total assets	333.8	404.6	21
Total Contributions Received	47.1	58.1	23
Total benefitspaid	8.8	10.7	22
Total investmentincome	14.3	16.6	16

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

V.2. Access to finance

Access to finance refers to the possibility that individuals or enterprises have to access financial services including credit, deposit, payment, insurance and other risk management services. Securing access to finance for all, including the most vulnerable parts of the population and small entrepreneurs, accelerate inclusive growth.

BNR, in its mandate of enhancing and maintaining a stable competitive and inclusive financial sector, has played an important role in facilitating the access to finance in Rwanda through the development of microfinance institutions, extension of the banking system and branchless banking solutions in rural area and the use of information technology, particularly mobile phones.

Financial intermediation by the banking sector in Rwanda has been improving overtime. Banks have been collecting deposits from the public and lending much of these deposits to the private sector. The loan to deposit ratio has been increasing to reach 86.4% in December 2013 at par with the world average of 86%. Although much of the lending to the private sector went to large firms and economic agents with a certain level of revenue, good progress has been recorded in loans to SMEs and individuals. This is mainly through the extension of the banking sector network, the banking outlets in the rural area and the development of microfinance institutions.

In 2013, the total number of bank branches, sub-branches and outlets increased by 7.5% from 438 end December 2012 to 471 end December 2013 while banking agents rose by 100.9% from 844 end December 2012 to 1,696 end December 2013.

As consequence of this development, the number of client accounts in commercial banks increased by 6.1% from 2,548,287 end December 2012 to 2,701,493 end December 2013. In micro finances institutions, the number of accounts opened increased by 18.7% between December 2012 and December 2013; with 38.9% of accounts belong to women. In the same period the number of loans increased by 7.5% of which 29.7% of loans was granted to women.

Similarly, the access to financial services has been facilitated by the use of new technologies, like mobile money, Internet Banking and ATMs. In 2013, the number of ATMs increased by 14.0% from 292 ATMs recorded end December 2012 to 333 ATMs end December 2013. The volume of transactions has significantly increased by 35% from 5, 753, 163 in 2012 to 7, 774, 053 in 2013 while their values increased by 44% from FRW 180.6billion in 2012 to FRW 260.6billion in 2013

In terms of loans to different categories of economic agents, loans to SMEs recorded an increase of 19.3% amounting to FRW 193.2 billion in 2013 from FRW 161.9 billion in 2012, while the number of SMEs financed in 2013 increased by 84% from 13,822 in 2012 to 25,397 in 2013.

Concerning loans distribution by gender, there has been no change in terms of share in the total loans authorized to men and women in recent past years. A large number of new loans has been directed to men (78%) against 22% benefited by women.

When considering the share of loans authorized to the youth (under 35 years) in the total authorized loans, it increased from 9% in 2010 to 13% and 15% in 2011 and 2012 respectively whereas to 13% in 2013.Loans to the youth were concentrated in the four categories, namely Not Classified Activities sector, Commerce, Restaurant and Hotels, Mortgage, and Transport and Warehousing.

V.4 Capital Market Developments

On the Rwanda Stock Exchange (RSE), equities trading continued on an upward trend. The two counters of BRALIRWA and Bank of Kigali still dominated in volumes, transactions and price changes. From July to Dec 2013, RSE market recorded a total turnover of FRW 25.8 billion traded in 42.2 million shares compared to a total turnover of around FRW 11 billion traded in 58.2 million shares for the same period in 2012, that is respectively an increase of 133.18% in turnovers and a decrease of 27.44% in shares.

The RSE added a new listing in October from Uchumi Supermarket, a company primarily listed on Nairobi Stock Exchange. Concerning the price development, the RSE Rwanda share Index (RSI) and RSE All Share Index (ALSI) went up by 4.99% and 4.34%, respectively from July 2013 to Dec 2013 compared to the same period in 2012 where the RSI and ALSI went up by 50.05% and 22.40%, respectively.

On the regulatory framework, the Capital Market Authority started the implementation of the Law regulating the creation of trusts and trustees which was published in the Official Gazette nº 25 of 24/06/2013. In addition, three other pieces of regulations were published including the Capital Market regulation establishing the compensation scheme in Rwanda; the capital market regulation on institutions providing custodial services, and the capital market regulation for issuance of regional fixed income securities.

The publication of these regulations implementing the capital market laws will help improve investor protection and businesses not only in Rwanda but also at the regional level as Rwanda stands to gain from the wider capital base and instruments from around the region and the services provided mainly by regional and international players such as custodial services.

V. 5. Payment systems modernization

The Rwanda Integrated Payments Processing System (RIPPS) composed of an Automated Transfer System (ATS) and a Central Securities Depository (CSD) has operated smoothly in 2013 with an availability rate of 99.6%. Interbank transfers and cheques decreased respectively by 48.1% and 21.3% in value due to an improvement of the usage of the system through the development of the Straight Through Processing (STP) by almost all banks and the shifting to more efficient payment instruments.

Much progress has been realized in card based payment system during 2013. As was said earlier, between 2012 and 2013, the number of ATMs increased by 14.0% while the number of POs terminals also increased by 42% from 666 to 946and the number of credit cards increased by 102% from 418 to 845.

VI. MACROECONOMIC OUTLOOK AND POLICY ORIENTATION

VI.1 Monetary policy orientation

The Rwandan economy has been recovering from the negative impact of shortfalls in donors’ support occurred in 2012. The expected performance of the economy will be supported by sustained increase in loans to private sector by the banking system as liquidity conditions have considerably improved in line with the performance registered since August 2013. Loans to the private sector amounted to FRW 147.65 billion in the last quarter 2013, higher than loans authorized in the same periods of the last four years, and this trend is expected to continue.

For this to happen, BNR will maintain an accommodative monetary policy to stimulate the credit to the private sector as long as inflationary pressures will remain limited. Inflation in Rwanda is expected to be maintained at low levels, around 5 % in 2014 due to different factors including expected good food production and stable oil prices.

In 2014, BNR will also focus on increasing the effectiveness of the monetary policy through key actions aimed at improving the transmission mechanism of its policy. On one side, BNR communication with banks will focus on strategies to improve efficiency in the banking sector. On the other hand, BNR will focus on increasing the awareness of the population about their financial rights and obligations in order to increase their bargaining power with banks. These programs are expected to reduce the rigidity of lending rate and improve the interest rate pass-through in Rwanda.

Furthermore, BNR in collaboration with MINECOFIN and Capital Market Authority (CMA) will continue to play its role in the development of the financial market aiming at mobilizing more long-term resources to finance the economic development and to offer more investment opportunities to economic agents. Particularly, BNR will focus on the development of the interbank market and the secondary markets for Government debt securities. In addition, the BNR has started to progressively transform the short-term monetary policy instruments into medium to long-term maturities to improve liquidity management in the banking system.

It is in this line that a permanent bond committee was created, composed of members from CMA, RSE, MINECOFIN and BNR to work on Bond securities market development. The committee has produced a quarterly issuance calendar of T-Bond starting with the current fiscal year 2013/2014. The first issuance is scheduled on February 20th, 2014 amounting to 12.5 Billion FRW for a three years Bond. In addition, the IFC is planning to issue a five year-Bond denominated in local currency during this fiscal year. It is important to highlight that foreign investors will be allowed to invest in local Bonds denominated in Rwandan Francs.

It is worth noting that the implementation of the monetary policy in the short and medium term may continue to be challenged by the risk of high exchange rate depreciation of the RWF. The risk may arise from persistent uncertainties around capital inflows as the recovery of the global economy is still fragile.

With regard to exchange rate policy, the BNR will continue to ensure that the exchange rate of the FRW remains market driven. Its interventions on foreign exchange market will be with the objective to smoothen the volatility of the exchange rate, while keeping official reserves around a minimum level of 4 months of prospective imports of goods, in order to safeguard the viability of the country’s external sector position.

VI. 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 mitigation of any emerging risks to financial sector stability.

The microfinance sector and SACCOs particularly contribute significantly to promoting financial access. However, the SACCO sector operates in an environment of weak governance and low skills of its management. It is also exposed to higher operational risks because of poor management information system.

In order to cope with the skill gap issue in microfinance institutions, the BNR will collaborate with the Rwanda Institute of Cooperatives, Entrepreneurship and Microfinance (RICEM) which was created for the purpose. With regard to operational risks mitigation, BNR will play its advocacy role to ensure that SACCOs are equipped with adequate supporting infrastructures including a shared core banking system and harmonized internal policies and procedures.

For insurance industry, further refinement of the regulatory regime will be worked out to foster the development of the business in Rwanda. Moreover BNR will continue to working with the insurers' associations (ASSAR) to enhance market conduct and professionalism of the insurance market players.

Enactment of the Pension Law will establish the basis for private pension plans. This will meet the social objective of facilitating retirement savings, as well as playing an important role in mobilizing long-term savings and contributing to capital market development. BNR will put an appropriate licensing and supervision regime in place to protect consumers and ensure pension funds are able to meet their financial promises.

As far as the credit reference bureau is concerned, the BNR will continue to ensure improved quality and coverage of credit information sharing with voluntary participants, new licensed financial institutions as well as other credit granting institutions. Furthermore, the private credit bureau (CRBAfrica) plans to conduct awareness campaign on credit reference services during the period of February – March 2014, to complement one that was conducted by the National Bank of Rwanda in March-April 2013.

Concerning the payment systems development, the National Bank of Rwanda will focus on the improvement of the efficiency of the systems through the establishment of the cheque truncation and interoperability of payment systems. Furthermore, regional integration through East African Payment System (EAPS) and promotion of usage of electronic payments in Rwanda will be among the key priorities in this area.

KN 6 Avenue 4,
PO Box 531 Kigali, Rwanda
Tel: +250(0)252574282+250 Fax: +250 (0) 252577391
Email: Info@bnr.rw
Swiftcode: BNRWRWRW
Twitter: @Bnrinfo
Website: www.bnr.rw