NATIONAL BANK OF RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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I. EXECUTIVE SUMMARY

The year 2012 has been marked by economic turbulences which any central bank world-wide had to deal with. The present Monetary Policy and Financial Stability Statement of the Governor of the National Bank of Rwanda (BNR) reviews how BNR has managed the different risks paused by the global, regional and domestic economic environment while sustaining the high economic growth and low inflation that Rwanda has registered in 2012.

According to IMF estimates, the world economic activity has slowed down in 2012 due to escalating sovereign debt crisis in Europe and concerns about the fiscal cliff in the USA. The world real GDP increased by 3.2% in 2012, lower than 3.9% achieved in 2011 and 3.5% projected in 2013. These increased global uncertainties have negatively impacted economic performance in emerging and developing countries due to the decline in their exports to advanced economies.

Furthermore, IMF has estimated that real GDP growth would slow down to 5.1% in 2012 in emerging & developing countries as a group from 6.3% in 2011 and is projected at 5.5% in 2013. In Sub-Saharan Africa, economic growth decelerated to 4.8% in 2012 from 5.3% in 2011.

Despite these challenges, the Rwandan economy continued to be resilient, performing well in line with 7.7% initial projections for 2012. Real GDP growth was 7.5%, 9.9% and 7.3% respectively in Quarter 1 (Q1), Q2 and Q3 2012, mainly driven by Services and Industry. Agriculture performance has been modest due to unfavorable weather conditions.

Good economic performance in 2012 was associated with a high increase in imports by 28.1% in volume and 24.1% in value, mainly dominated by capital and intermediary goods. Regarding the export sector, exports value increased by 24.8% compared to 2011, while its volume rose by 73.0%. Exports covered 22.9% of imports CIF from 20.5% in 2011. Including informal cross border trade, imports cover by exports improved to 27.7% from 24.2% in 2011.

With regard to inflation, Rwanda has continued to achieve moderate inflation as a result of sustained improvement in economic performance, efficient and well-coordinated monetary and fiscal policies, relatively stable Rwandan franc, progressively easing inflationary pressures in EAC countries and stability of international oil prices. Annual headline inflation has decelerated to 3.9% in December 2012 from 5.9% in June 2012 and 8.3% in Dec 2011.

Regarding the developments in the monetary sector, the banking system has continued to support economic activities. Broad money increased by 14% in 2012, lower than 26.8% recorded in 2011. This development is due to a decline in Net Foreign Assets by 16.3% while Net Domestic Assets increased by 186.3%. The high increase in Net Domestic Assets was driven by high growth in Domestic Credit (82.3%), of which credit to the Private Sector increased by 33.9% by end 2012 against 28.4% end December 2011. New authorized loans distributed by the banking system from January to December 2012 stood at FRW 498.9 billion against 358.9 billion authorized in 2011.

The good performance of financing to the economy was achieved while keeping money market interest rates relatively stable. Average repo rate increased from 6.5% in December 2011 to 7.5% in December 2012. T- Bill rates were stable at around 8% in the first five months of 2012 before increasing to 12.4% in December 2012 due to significant increase in domestic borrowing. Lending rates have been relatively stable in 2012 fluctuating around 17.0% while the average weighted deposit rate increased from 8.0% in December 2011 to 10.7% in December 2012. This trend reflects increasing competition among commercial banks and the latter's effort to mobilize deposits.

With regard to exchange rate policy, 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. Due to the higher-than expected increase in forex demand to finance imports and the slowdown in external aid, FRW *depreciated against the USD by 4.5% in 2012, higher than 1.6% recorded in 2011.*

The Rwandan financial sector stability continued to be sound and stable throughout the year 2012 and all sectors complemented each other in the national development. The banking sector, which dominates the Rwandan financial sector, demonstrated an increase in the balance sheet of 15.1%. The banking industry has been profitable, liquid and well capitalized to sustain growth, but also resilient to external shocks as a result of strengthened legal, regulatory and supervisory framework. For instance, the Capital Adequacy Ratio (CAR) stood at 23.9% far above the 15% the minimum regulatory requirement, and the non-performing loans (NPL) stands at 6.1%.

The microfinance sector recorded a positive performance with the continued expansion of its balance sheet, realizing 28.8% asset growth. By end December 2012, the sector registered deposits and gross loans amounting to FRW 54.15 billion and FRW 58.93 billion respectively. Additionally, the SACCOs continued to play a significant role in expanding financial inclusion.

During the period under review, the insurance sector performance improved progressively. The total assets of the Rwandan insurance sector as at end December 2012 reached FRW 214 billion compared to FRW 157 billion end December 2011 indicating a growth of 36%. The Gross premiums increased by 67% from FRW 46 billion by end December 2011 to FRW 77 billion at end December 2012. This good performance is a reflection of the impact of the supervisory reforms undertaken in the insurance industry. Major developments are related to prudent underwritings, investments and improved professionalism.

The pension sector assets increased by 45% from FRW 231 Billion by end 2011 to FRW 334 Billion at the end of 2012. Likewise, the contributions received increased from FRW 34 Billion by end 2011 to FRW 46 Billion at the end 2012, which is an increase of 35%. Benefits for the year 2012 remained unchanged at 7 billion, excluding private pension schemes.

Payment systems registered tremendous improvements in the past year and a lot is in store for 2013 as well. The Real Time Gross Settlement (RTGS) is stable and closely linked to the Central Securities Depository (CSD-Rwanda) that operates a settlement cycle of T+2, making it the fastest settlement cycle for the stock exchange in the region. The value of transactions using international Visa cards has increased in excess of USD 3 million as e-commerce, mobile payments and e-banking are taking root. There is a noted improvement in international acquiring as ten banks are currently Visa members (3 principal members, 3 associate members and 4 cash disbursement members). Alongside accepting Visa cards, the Banks have further introduced three other international brands (Mastercard, China Union Pay and Diners' club) onto the Rwandan market.

On the 3rd of October 2012, the National Bank of Rwanda linked the Rwanda Integrated Payments Processing System (RIPPS) to the COMESA Regional Payments and settlement system (REPSS) so as to facilitate the cross border payments in the COMESA region. Work is in earnest to link the East African region as well through the East African Payment System (EAPS) which will go live in 2013 alongside cheque truncation. The National Bank of Rwanda will also support the implementation of the commodities exchange and implement a robust core banking system to buttress the other entire IT infrastructure that is already in place.

Looking forward, Rwanda, like other developing countries, is likely to be affected by the consequences of unsolved sovereign debt crisis in Europe and concerns about the fiscal cliff in USA through the decline in commodity prices, slowdown in FDI, NGOs transfers and remittances from the Rwandan diaspora, and the decline in official transfers, including budget support. Such decrease in external inflows would create challenges to maintain adequate liquidity in the banking sector and also have an adverse impact on FRW exchange rate. The stability of international oil prices and prospects for low global and regional inflation in 2013 will contribute to mitigate the negative effects of the above mentioned risks.

In addition, BNR will continue to closely monitor developments in underlying factors of inflation and monetary aggregates developments so as *to take appropriate measures, using the monetary policy instruments. A permanent coordination of macroeconomic policies, in particular between monetary and fiscal policy, will be maintained to avoid inconsistencies and increase their effectiveness.*

II. Overview of economic environment in 2012

This section reviews the performance of global and domestic economy in 2012. Generally, most economies were affected in one way or another by the first and second round effects of crises in Europe, the United States as well as in North Africa and the Middle East. Rwanda like other East African Countries has shown resilience despite the uncertainties just mentioned.

II.1 Global economy

II.1.1 Economic growth and outlook

After signs of recovery from the global financial crisis of 2008-2009, the world economic activity has again slowed down in 2012 due to escalating sovereign debt crisis in Europe and following concerns about the fiscal cliff in the USA. IMF estimates show that, the world real GDP increased by 3.2% in 2012, lower than 3.9% achieved in 2011 and 3.5% projected in 2013.

In the USA, economic activity continued to gradually improve in 2012 driven by private consumption expenditure, government spending and residential private investment. Real GDP growth is estimated at 2.3% in 2012 compared to 1.8% in 2011. However, according to recent developments, the fiscal cliff might cause large decline in consumption spending, high unemployment rate, and declining government receipts and saving rate thus translating into a slowdown of the economy. Economic activity is expected to moderately slow down to 2.0% in 2013 thanks to the agreed changes in tax increase and spending cuts.

In Japan, real GDP growth is estimated at 2.0% in 2012, compared to -0.6% in 2011, boosted by the private consumption and public spending together with changes in private investment. Going forward, survey indicators point to the occurrence of economic stagnation in the light of weak external demand particularly Chinese demand, decline in industrial production and deterioration in business sentiment index for large manufacturing industries. Real GDP is expected to recede to 1.2% in 2013 due to a likely decline in exports, as well as in private business investment and private consumption.

In the Euro zone, economic activity has weakened due to the persistent sovereign debt crisis and weak economic situation, leading to a recession of -0.4% in 2012 compared to a growth of 1.4% in 2011. Despite a slight improvement following undertaken policy stimulus, economic activity is expected to contract by - 0.2% in 2013. Nevertheless, risk to the economic perspectives is on downturn as a result of slow implementation of structural reforms and persistent imbalances in the major developed countries which may delay further the recovery of private investments, employment and consumption.

The spill-over effects of Euro zone crisis continue to affect large European economies. According to IMF forecasts released in January 2013, the real GDP growth in 2013 is estimated at 0.6% in Germany and 0.3% in France from 0.9% and 0.2% respectively in 2012. Italy and Spain would remain in recession for the second year and would record a respective economic contraction of -1.0% and -1.5% in 2013 compared to -2.1% and -1.4% in 2012 on account of weaker global demand. Similarly in Belgium, according to IMF estimates released in October 2012, real GDP growth is expected to stagnate in 2012 following an increase of 1.8% in 2011 and is projected to slightly increase by 0.3% in 2013.

Emerging and developing countries are likely to see their economic growth contract due to weakening external demand and increased global uncertainties. According to the IMF estimates, real GDP growth would slow down to 5.1% in 2012 in emerging & developing countries as a group from 6.3% in 2011 and is projected at 5.5% in 2013. In developing Asia, real GDP growth remains high at 6.6% in 2012 and projected at 7.1% in 2013, driven by strong growth in China and India.

In Sub-Saharan Africa, economic growth is decelerating though still strong supported by large scale infrastructure, development in services and industries, good performance of agriculture and improved economic policies. Real GDP growth is estimated at 4.8% by end 2012 after 5.3% in 2011 while forecasted at 5.8% in 2013.

Table 1: **Economic growth rates in the neighbouring countries (annual growth rate, in %)**

	2008	2009	2010	2011	2012	2013(for)
Sub-Saharan Africa (*)	**5.6**	**2.8**	**5.3**	**5.3**	**4.8**	**5.8**
Of which, Burundi	5	3.5	3.8	4.2	4.2	4.5
Kenya	1.5	2.7	5.8	4.4	5.1	5.6
Rwanda	11.2	4.1	7.2	8.6	7.7	7.5
Tanzania	7.4	6.0	7	6.4	6.5	6.8
Uganda	7.7	7.0	6.1	5.1	4.2	5.7

Source: *IMF, World Economic Outlook, October 2012*
(*) IMF, WEO Update January 2013

In the East African Community region, economic activity was estimated to remain robust in 2012, led by Rwanda at 7.7% in 2012 following 8.6% in 2011 and significant improvement in Kenya, from 4.4% recorded in 2011 to 5.1% estimated for 2012. Also, the economic growth remains high in Tanzania standing at 6.5% in 2012 from 6.4% in 2011 whereas it stands at 4.2% in both Uganda and Burundi from 5.1% and 4.2% in 2011 respectively.

II.1.2. Inflation

Global inflation kept low due to subdued economic growth. In 2012, world inflation was 2.8% compared to 3.7% in 2011. Over the same period, inflation in advanced economies and in emerging and developing countries declined to 2.0% and 6.1% from 2.7% and 7.2% respectively.

Headline inflation fell to 1.7% from 1.8% in the USA, stabilized at 2.2% in Euro area while it slightly rose to 2.7% from 2.6% in United Kingdom. In Japan, deflationary pressures eased to -0.1% in December 2012 from -0.2% in December 2011.

With regard to the EAC countries, high inflation pressures that were observed in 2011 are waning due to better economic performance and efficient monetary and fiscal policies. In December 2012, inflation in Kenya, Uganda, Tanzania, Rwanda and Burundi respectively fell to 3.2%, 5.3%, 12.1%, 3.9% and 11.8% from 18.9%, 27.0%, 19.8%, 8.3% and 14.9% respectively in December 2011.

Table 2: Annual inflation in EAC countries %

	2011	2012											
	Dec.	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**Jun**	**Jul.**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**
Uganda	27	25.7	25.4	21.2	20.3	18.6	18	14.3	11.9	5.5	4.5	4.9	5.3
Kenya	18.9	18.3	16.7	15.6	13.1	12.2	10.1	7.7	6.1	5.3	4.1	3.3	3.2
Tanzania	19.8	19.7	19.4	19	18.7	18.2	17.4	15.7	14.9	13.5	12.9	12.1	12.1
Burundi	14.9	21.6	22.0	24.5	25.2	22.5	17.3	17.6	15.8	14.2	15.9	11.7	11.8
Rwanda	8.3	7.8	7.9	8.2	7.0	8.3	5.9	5.6	5.8	5.6	5.4	4.6	3.9

Source: EAC, Central Bank Websites

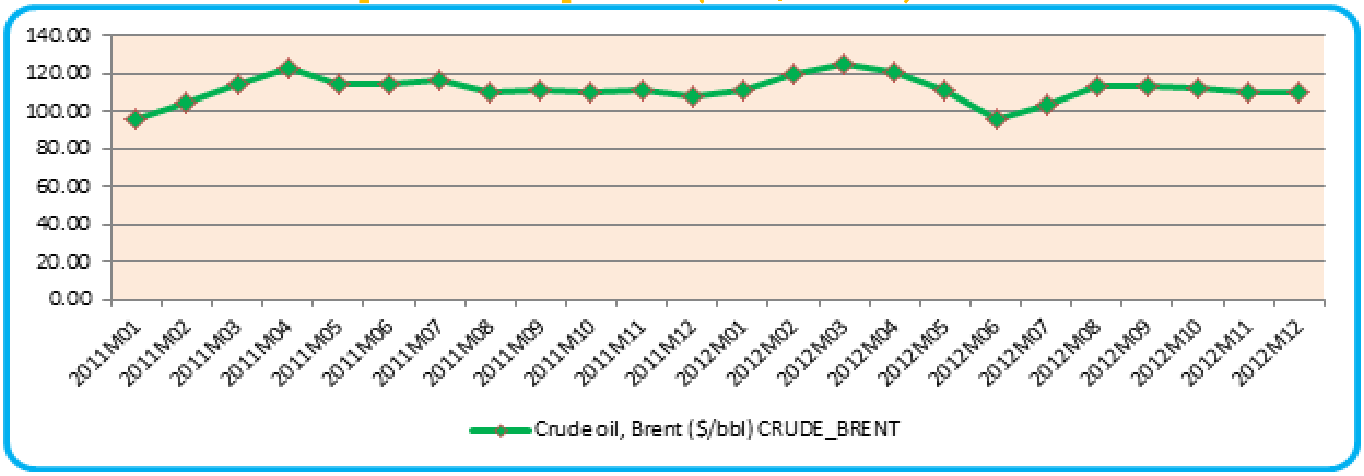
Regarding commodity prices, after a rebound in 2010 and at the beginning of 2011, energy and non-energy prices have been declining during the year 2012 due to concerns about the global economic outlook following escalating Euro-zone crisis. According to World Bank estimates, energy prices slightly declined by 0.4% in 2012 compared to an increase of 31.1% in 2011 while non-energy prices fell by 9.5% during the same period.

With regard to energy, oil prices, which rebounded in 2011 on the account of the unrest in oil-producing countries and following the high oil demand in emerging economies, sharply declined in 2012 following demand and supply factors. Poor global economic perspectives and weaker oil demand jointly with increased oil production in Iraq and Libya in the aftermath of political upheavals have put downward pressures on oil prices.

After high record of USD 124.93/barrel in March 2012, Brent crude oil prices dropped to USD 95.59/barrel in June 2012, recovered to USD 113.34/barrel in August 2012 before they stabilized around USD 110/barrel during the remaining part of the year. For the near future, oil prices are expected to decrease with futures the contracts for December 2013 trading at USD 106 per barrel.

However, the latest data on China's high exports (end December 2012) which increased trade surplus by $ 29.2 billion may create high demand and hence a rise in energy prices.

Chart 1: Brent crude price developments (USD/ barrel)



Source: World Bank database.

Non-energy prices fell by 9.5% in 2012 led by prices of agriculture commodities (-7.2%), fertilizers (-2.9%) and metals and minerals (-20.0%). Food prices slightly rose by 0.7% on average in 2012 boosted by grains (+2.4%); fats and oils (+3.3%) while other food stuff prices declined by 5.9%. Beverage prices dropped by 20.2% in 2012 led by sharp drop in coffee prices, both Arabica (-31.2%) and Robusta (-5.8%) on plenty supply in Brazil, Colombia and Central America while tea price rose in Mombasa auction by 5.9%. Sugar prices have also fallen by 17.1% in 2012.

II.1.3 Financial markets

In 2012, financial markets in developed countries have been in turmoil following the global financial crisis in the USA and the debt crisis in Europe. As a consequence of this crisis, after a downgrading of the USA credit rating in August 2011 from AAA to AA+ over Congress' handling of the federal debt, Standard and Poor's revised down France's credit rating from AAA to AA and lowered eight other Euro zone countries' credit ratings. In addition, the European Financial Stability Fund (EFSF) was downgraded from AAA to AA+. Similarly, early 2012, Fitch downgraded again the sovereign credit ratings of Belgium, Cyprus, Italy, Slovenia and Spain, indicating that the situation might be more complicated in the near future due to concerns about worsening European economic outlook.

Concerning interest rates, central bank rates remained unchanged at 0.25% in USA, 0.1% in Japan and 0.5% in the United Kingdom while in Euro Area the European Central Bank rate has been revised down to

0.75% in July 2012. 3-month and 10-year government interest rates have been declining over the years and remained very low compared to pre-crisis levels.

On the foreign exchange market, the Dollar weakened against the Euro and the Pound on the account of improved economic sentiment index in the Euro zone while it appreciated against the Yen. Compared to 2011, the Dollar lost 1.8% by end 2012 versus the Euro and 4.5% versus the Pound while it gained 12.6% against the Yen.

II.2 National economic performance

II.2.1 Economic growth

Despite uncertainties in the global and regional environment, the Rwandan economy has remained resilient, with high economic growth and moderate inflation. The real economic growth rate was 7.5% in the first quarter 2012, 9.9% in Q2 and 7.3% in Q3, in line with the initial projection of 7.7% for the whole year 2012.

High GDP growth was attributed to good performance in Services and in Industry sectors which increased by 13.7% and 5.8% respectively on average in the first three quarters, supported by a continuing improvement in the financing of the economy by the banking system. Construction, transport and communication, finance and insurance are among the key activities which have continued to perform well on a sustained basis.

Agriculture sector production was moderate in 2012 compared to other sectors as it increased by 3.0% on average in the first 3 quarters of 2012, due to unfavorable weather conditions prevailing in the last quarter of 2011 and the first half of 2012.

Table 3: Rwanda Real GDP growth, in %

	2008	2009	2010	2011	2012			
					Q1	Q2	Q3	Annual proj.
GDP	**11.2**	**6.2**	**7.2**	**8.6**	**7.5**	**9.9**	**7.3**	**7.7**
Agriculture	**6.5**	**7.7**	**5.0**	**4.7**	**3.4**	**3.8**	**1.7**	**6.1**
Food Crops	6.2	9.4	4.9	5.0	4.1	4.1	2.5	6.0
Export crops	28.9	15.1	14.2	2.7	-24.1	-17.3	-27.4	22.5
Livestock	2.8	3.1	4.8	2.8	4.7	7.0	4.9	3.0
Forestry	3.7	2.3	3.2	2.7	3.2	5.1	4.3	2.7
Fisheries	1.6	3.2	3.1	3.0	2.7	2.7	2.7	2.7
Industry	**15.1**	**1.3**	**8.4**	**17.6**	**1.2**	**9.2**	**7.3**	**11.2**
Mining and	15.4	18.2	10.2	49.5	1.1	-0.4	-15.6	10.8
Manufacturing	5.6	2.9	9.3	8.0	3.6	0.0	-11.0	8.6
Electricity and Water	20.0	14.3	14.6	16.4	23.0	16.1	15.5	11.0
Construction	28.1	1.4	8.8	23.6	-0.7	16.8	25.1	13.2
Services	**13.8**	**6.2**	**9.0**	**8.9**	**13.8**	**14.5**	**12.8**	**8.7**
Wholesale and Retail	19.4	4.0	8.4	10.2	14.9	11.1	14.1	8.8
Hotels and	5.5	5.7	8.0	3.8	13.3	13.3	4.4	2.9
Transport &	23.8	9.2	8.7	5.3	19.4	20.5	20.6	6.0
Finance and	1.6	4.1	23.6	20.4	8.6	16.4	3.9	12.4
Real estate &	15.5	8.2	1.0	0.2	12.9	10.2	10.7	3.0
Public Administration	4.9	7.3	14.5	14.9	10.8	22.7	1.6	6.6
Education	6.9	15.5	8.6	17.9	14.4	14.4	14.4	20.3
Health	11.9	15.1	15.8	2.3	10.7	6.0	9.4	17.9
Other personal	1.9	5.2	7.1	0.7	-2.1	2.7	0.7	4.0
Adjustments	11.5	9.6	4.8	7.9	-1.2	10.0	4.6	0.6

Source: MINECOFIN

II.2.2 Formal external trade performance

In 2012, formal exports value amounted to USD 482.7 million, a growth of 24.8% on annual basis, while its volume increased by 73.0%. With formal imports FOB value for the same period amounting to USD 1,759.3 million, there was a widening of formal goods trade deficit of USD 1,276.6 million from USD1, 031million recorded in 2011. Import CIF cover by export has slightly increased to 22.9% in 2012 from 20.5% in 2011. Including informal cross border trade, exports covered 27.7% of imports CIF from 24.2% in 2011.

The Gross international reserves position of BNR amounted to USD 843.45 million end 2012 against USD 1,049.80 million in 2011, translating into 4.8 months of CIF goods imports. The decrease in gross international reserves was mainly due to two reasons. On the one hand, there was an increase of 39% in BNR sales to banks due to high demand for foreign currency to finance imports which have increased in line with economic activities. On the other hand, the country registered a reduction in general and sector budget support compared to the level of 201, due to the suspension of donor aid disbursement in the second half of 2012.

a. Formal exports developments

Rwandan exports remain dominated by few traditional agriculture export products such as tea, coffee and pyrethrum as well as some minerals. This concentration of exports makes the Rwanda export sector vulnerable due to different factors including weather conditions and fluctuations in international prices.

Table 4. **Major exports developments (Value FOB in millions of USD, Volume in thousands of tons)**

	2011	2012	% change
Coffee			
- Value	74.6	60.9	-18.4
- Volume	15.6	17.0	8.9
- Price, USD/KG	4.8	3.6	-25.1
Tea			
- Value	63.9	65.7	2.9
- Volume	23.7	22.5	-5.4
- Price, USD/KG	2.7	2.9	8.7
Cassiterite			
- Value	96.8	52.9	-45.4
- Volume	7.0	4.6	-33.3
- Price, USD/KG	13.9	11.4	-18.1
Coltan			
- Value	38.6	56.9	47.5
- Volume	0.9	1.1	28.6
- Price, USD/KG	43.4	49.7	14.7
Wolfram			
- Value	16.0	26.3	63.9
- Volume	1.0	1.8	74.0
- Price, USD/KG	15.9	15.0	-5.8
Hides and Skin			
- Value	7.6	14.4	88.7
- Volume	6.2	10.0	61.2
- Price, USD/KG	1.2	1.4	17.1
Pyrethrum			
- Value	4.5	9.7	115.1
- Volume	0.0	0.0	100.6
- Price, USD/KG	240.4	257.9	7.3
I. Sub Total Main Exports			
- Value	302.1	286.8	-5.1
- Volume	54.4	57.0	4.8
II. Other Exports			
- Value	48.4	88.0	82.0
- Volume	93.1	174.6	87.6
III. Reexports			
- Value	36.5	108.0	195.8
- Volume	19.4	57.0	194.4
Total General			
- Value	386.9	482.7	24.8
- Volume	166.9	288.7	73.0

Source: *BNR, Statistics Department*

In 2012, despite an increase of 4.8% in its volume, traditional exports value decreased by 5.1% amounting to USD 286.8 million from USD 302.1 million in 2011, mainly due to significant drop in prices of coffee

(-25.1%) and Cassiterite (-18.1%). The decline in prices of coffee was mainly due to increased production in Brazil and Colombia. However, good performance in hides and skins, pyrethrum and non-traditional exports has contributed to offset the weak performance in coffee, tea and minerals.

In the period under review, coffee exports value declined by 18.4% due to lower international prices despite an increase of 8.9% in its exported volume. Tea exports have also performed poorly due mainly to a decline of 5.4% in its exported volume affected by unfavourable weather conditions.

Regarding the mining sector, the export value declined by 10.1% due to sharp decrease (-45.4%) in export value of cassiterite as its volume declined by 33.3% from 6,952.4 tons to 4,636.6 tons and its price dropped by 18.1% from USD 13.9/KG to USD11.4/KG. The share of Cassiterite in total mining export revenues reduced from 64% in 2011 to only 39% in 2012.

Non-traditional exports (other than coffee, tea, minerals, hides and pyrethrum) recorded a good performance, increasing by 82.0% in value from USD 48.4 million in 2011 to USD 88.0 million in 2012, mainly due to an increase in export of milling products, beverages, iron and steel. Companies like BRALIRWA, BAKHRESA, INYANGE and STEEL RWANDA contributed a lot to this increase. The major part of these non-traditional exports went to the DRC and Burundi.

Re-exports, dominated by petroleum products, minerals, machines and engines and vehicles increased by 195.8% in value and 194.4% in volume. They are mostly sent to the DRC and Burundi.

b. Formal imports developments

In 2012, total imports FOB increased both in value and volume by 24.1% and 28.1% respectively triggered by all categories of imports.

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

	2011		2012		% change	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**
TOTAL	**1333.4**	**1417.9**	**1708.5**	**1759.3**	**28.1**	**24.1**
Consumer Goods	453.2	414.8	577.0	500.9	27.3	20.7
Capital Goods	50.5	349.0	68.1	471.4	34.8	35.1
Intermediary Goods	609.2	394.9	810.3	498.0	33.0	26.1
Energy And Lubricants	220.5	259.2	253.2	289.1	14.9	11.6

Source: BNR, Statistics Department

Formal import of consumer goods increased by 27.3% in volume and by 20.7% in value. They are dominated by food products (36%), of which oil, cereals and sugar represent a share of 77% of total Food import FOB value in 2012. During this period, imported food products increased in value by 17% and in volume by 25.9% driven mainly by an increase in imports value of sugar and sweets (36.2%) and cereals (15%).

Imports of health and care representing 20.8% of the total FOB value of consumer goods increased by 22.6% in volume and declined by 1.7% in value as a result of the sharp decline in import value of pharmaceutical products by 8.7%. Import FOB value of cosmetic products, representing 31.0% of total Health care imports increased by 18.7%.

Capital goods which are dominated by transport materials and machines, devices and tools increased in both value and volume, respectively by 35.1% and 34.8%. Transport materials rose in both value and volume by 30.3 % and 60.5% respectively. Import of machines, devices and tools, representing 62% of Capital goods import FOB value, increased by 54.5% and 59.5% in value and volume respectively compared to their level of 2011.

The imports of intermediary goods in 2012 rose by 26.1% in value and by 33.0% in volume, driven by industrial products and construction materials. The imports of construction materials increased by 26.7% in volume and 12.8% in value, of which a big part is attributed to cement increasing by 32.5% in volume and 33.0% in value as well as metallic construction materials increasing by 12.4% in volume but declining by 3.0% in value. The share of imported cement (in volume) increased to 82.0% of the domestic demand in 2012 from 76.0% in 2011.

The imports of industrial products increased in both value and volume by 23.5% and 40.3% respectively, largely attributed to import of raw materials for food industries (+48.4%) and chemical industries (+44.3%). The import of fertilizers increased also both in value and volume by 74.1% and 47.8%, respectively.

Imports of energy and lubricants rose in volume by 14.9% and by 11.6% in value; due to an increase in import of petroleum products which account for about 95.0% of total imports of energy and lubricants.

The developments recorded in imports of Capital and Intermediate goods are translated in industrial sector growth whose turnovers increased by 17.0% in 2012 compared to the year 2011.

c. Formal trade with EAC

Concerning formal trade with EAC countries, Rwandan exports amounted to USD 115.30 million in 2012 from USD 80.70 million in 2011; an increase of 42.9%. Imports from EAC member countries have declined by 32.2%, amounting to USD 532.56 million, narrowing the trade deficit to USD 417.26 million from USD 705.07 million in 2011.

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

	2008	2009	2010	2011	2012	% Change 2012/2011
Exports to EAC	46.25	47.34	54.16	80.7	115.3	42.87
Imports from EAC	461.1	449.65	513.35	785.77	532.56	-32.23
Trade balance	**-414.85**	**-402.31**	**-459.19**	**-705.1**	**-417.3**	**-40.83**

Source: BNR, Statistics Department

Rwanda's main exports to EAC countries in 2012 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, worn clothing and other worn articles, cane or beet sugar and chemically pure sucrose, among others.

II.2.3 Informal cross border trade

With regard to the informal cross-border trade which is becoming quite significant in the Rwandan external trade, total exports increased by 45.8% and amounted to USD 101.8 million from USD 71.5 million in 2011 and represented about 21.1% of formal exports. Conversely, informal imports decreased by 3.7% from USD 23.51 to USD 22.63 million in 2012, leading to an increase of about 65% in Rwanda's positive informal trade balance (USD 79.14 million) with neighbouring countries.

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

	2010	2011	2012	% Change 2012/11
Exports	48.85	71.51	101.77	42.3
Imports	35.17	23.51	22.63	-3.7
Trade balance	**13.68**	**48.00**	**79.13**	**64.8**

Source: BNR, Statistics Department

During the year 2012, informal cross border exports were dominated by transactions with the DRC accounting for 75% of total cross border exports while imports are dominated by Uganda with a share of 45%. In general, agriculture products and livestock are the major commodities traded in informal cross border exports. They include dried beans, bovine cattle, maize flour and beef. The main imported products from neighboring countries are sorghum, Irish potatoes, whiskies, cassiterite, dried beans and husked coffee for 35% of total cross border imports FRW 13,907.5 million.

Informal cross border exports of industrial products have also recorded good performance in 2012. Products such as maize flour, wheat flour, domestic metals, plastic products, petroleum products, sugar were dominating, representing 25.7%. Of these, maize flour, plastic products and domestic metals have consistently increased from 2009, while others have shown an erratic movement.

On import side, whiskies, modern beer, maize flour, soaps & cosmetics, construction material and other manufacturing products were dominating with a share of 19% of the total imports of FRW 13.9 billion.

II.2.4 Balance of Payment (BOP)

BOP provisional numbers show that Rwanda has ended the year 2012 with a negative balance of payments, due to the decline in budget support and private borrowing compared to 2011. However, the country has recorded an increase of 12% in tourism receipts, that is, from USD 251.8 million in 2011 to USD 281.8 million in 2012, mostly dominated by leisure (46.0%) and business travel (37.3%). Foreign direct investments increased by 50% amounting to USD 159.8 million in 2012 mainly due to new investments in energy and banking sectors. Diaspora transfers also increased by 5% to USD 175.27 million in 2012. All these developments contributed to maintaining a comfortable level of reserves at 4.8 months of imports.

Table 8: **Key capital inflows, in USD million**

	2008	2009	2010	2011	2012 estim.
Direct investments	103.4	118.7	42.3	106.2	159.81
Portfolio investments	-	-	21.4	31.3	Na
Remittances	63.3	88.1	98.2	166.2	175.27
Private foreign borrowing LT	9.5	42.7	129	148.8	74.43
Tourism receipts	186	174.5	201.7	251.8	281.8
Total Private Flows	362.2	424	492.6	704.3	691.31
Total Grants	549.9	615.8	765.1	825.1	604.95
Ordinary budgetary grants	339.8	415.8	479.5	628.4	423.05
Capital grants	210.1	200	285.6	196.7	181.9

Source : BNR, Statistics Department

III. MONETARY SECTOR DEVELOPMENTS

This section covers the work of the National Bank of Rwanda in delivering its mission of ensuring price stability. Thanks to effective use of monetary policy instruments and good coordination of monetary and fiscal policies, the economy managed to achieve low and declining inflation rate, stable market interest rates and strong support to economic growth through increased financing to the private sector.

III.1 Monetary policy stance

In 2012, the National Bank of Rwanda (BNR) implemented a tight monetary policy to minimize risks of monetary inflation while continuing to support the financing of the economy. In response to persistent uncertainties in international and regional environment, the BNR Monetary Policy Committee (MPC) raised the Central Bank policy rate from 7.0% in November 2011 to 7.5% in May 2012 and decided to keep it unchanged at 7.5% in July 2012 and December 2012 as risks for high inflation were limited.

In addition, with the aim to improve the money market efficiency, BNR decided to use the central bank rate as a reference rate for its operations on money market by fixing repo and reverse repo transactions at only 7 days maturity and operating within a corridor of which the lower and upper limits are respectively overnight deposit and lending standing facilities.

In a bid to improve the monetary policy transmission mechanism and increase the effectiveness of its monetary policy, BNR moved to a more flexible monetary targeting framework since October 2012, by introducing a reserve money band of ± 2% around a central reserve money target. In addition, BNR continued to enhance its communication strategy by exchanging information with different stakeholders aiming at further building and shaping market expectations.

III.2 Inflation

In 2012, inflation has been declining compared to 2011 due to different factors, including sustained improvement in economic performance, efficient and well-coordinated monetary and fiscal policies, progressively easing inflationary pressures in EAC countries and the stability of international oil prices.

Headline inflation declined to 3.9% in December 2012 from 5.9% in June 2012 and 8.3% in December 2011. Core inflation (excluding fresh food and energy) also declined to 2.5% in December 2012 from 8.3% in December 2011. The major drivers of headline inflation were food and non-alcoholic beverages, followed by housing (including water, electricity, gas and other fuels). This indicates that most of the inflationary pressures came from the supply side.

In terms of origin, both imported inflation and domestic inflation declined as they stood respectively at 3.2% and 4.1% in December 2012 from 8.6% and 8.3% in December 2011.

Table 9: **Headline annual inflation by origin and category, in %**

	2011	2012			
	Dec.	**Mar.**	**Jun.**	**Sept.**	**Dec.**
Overall inflation	**8.3**	**8.2**	**5.9**	**5.6**	**3.9**
Local Goods	8.3	9.0	6.8	6.8	4.1
Food and non-alcoholic beverages	11.2	15.5	11.3	13.7	10.0
Fresh food	8.3	22.3	16.9	25.7	10.0
Vegetables	8.7	26.5	21.3	28.9	8.3
Imported Goods	8.6	4.9	2.7	1.2	3.2
Energy	9.3	8.3	6.6	2. 8	5.7
Underlying inflation	**8.3**	**5.3**	**3.7**	**2.1**	**2.5**

Source: *BNR, Statistics Department*

III.3 Money supply and demand

In 2012, broad money (M3) increased by 14.0% against 26.8% recorded in 2011 and 17.0% initially projected. This development was due to the decline in net foreign assets (-16.3%) as compared to the increase of 27.9% in 2011 and to a strong increase in net domestic assets (186.3%) explained by high expansion in domestic credit (+82.3%) and in credit to private sector (+33.9%). The outstanding credit to the private sector was more concentrated in individual businesses with 62% of the total loans against 38% owned by corporate.

Table 10: Monetary aggregates developments (end period, in FRW billion)

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	% change	
						Dec-11/Dec-10	Dec-12/Dec-11
Net foreign assets	**663.8**	**579.2**	**513.7**	**468.8**	**555.8**	**27.9**	**-16.3**
Net domestic assets	**116.7**	**235.0**	**365.0**	**371.3**	**334.1**	**20.3**	**186.3**
Domestic credit	299.2	417.6	550.2	565.9	545.6	11.6	**82.3**
Central Government (net)	-212.3	-138.5	-52.3	-101.0	-137.2	-61.7	35.4
Public enterprises	2.8	2.1	2.6	5.0	2.5	-12.9	-11.8
Private sector[1]	**509.8**	**555.6**	**602.2**	**663.9**	**682.5**	**28.4**	**33.9**
Other items net (Assets: +)	-182.5	-182.6	-185.2	-194.6	-211.5	-6.6	-15.9
Broad Money, M3	**780.7**	**814.1**	**878.8**	**840.2**	**889.9**	**26.8**	**14.0**
Currency in circulation	**102.8**	**99.3**	**111.6**	**102.2**	**107.0**	**13.6**	**4.1**
Deposits	**678.0**	**714.9**	**767.2**	**737.9**	**782.9**	**29.0**	**15.5**
of which: Demand deposits	279.1	310.2	332.0	315.3	318.7	16.3	14.2
Time deposits	263.3	279.3	302.9	286.0	299.6	41.5	**13.8**
Foreign currency deposits	135.6	125.4	132.3	136.6	164.6	36.6	21.4

Source: BNR, Statistics department

New authorized loans distributed by the banking system in 2012 increased to FRW 498.9 billion from FRW 358.9 billion recorded in 2011, that is an increase of 39% against 23.6% recorded last year. In terms of loans distribution by economic activities, 40.7% of the total new loans went to commerce, restaurant and hotels, followed by public works and building (22.4%) and manufacturing sector (7.4%).

New authorized loans in primary agriculture activities have remained relatively high since 2011 compared to historical low levels, though they declined from FRW 12.5 billion in 2011 to FRW 10.6 billion in 2012 mainly due to less financing requirement for the coffee season (more and more financing coming from buyers' pre-financing). However, when financing to agriculture related activities is included, loans to the agriculture sector increased to FRW 25.07 billion in 2012 from FRW 20.4 billion in 2011.

[1] Not include BRD loans

Table 11: **New cash loans by activity (in FRW billion)**

ACTIVITY BRANCH					% change	
	2009	2010	2011	2012	2011/10	2012/11
Activities not classified elsewhere	18.6	32.2	51.1	83.0	58.5	62.5
Agriculture, animal husbandary & fishing	4.2	5.5	12.5	10.6	127.6	-15.7
Mining industries	0.1	0.0	0.0	0.0	-	-
Manufacturing industries	20.2	26.6	20.1	37.0	-24.4	84.5
Of which Agriculture related			7.9	14.47		
Energy and Water	3.3	1.5	1.7	3.9	8.6	136.4
Public works and Building industry	44.6	50.4	90.3	111.9	79.1	24.0
Commerce, Restaurant & Hotels	95.6	129.8	137.9	203.1	6.2	47.3
Transport, Warehousing & Communications	33.1	27.8	24.7	30.4	-11.3	23.3
O.F.I,Insurances and Other Non-Financial Services	7.5	8.6	12.5	4.6	45.6	-63.1
Services Provided to the Community	5.0	8.0	8.3	14.4	4.4	73.5
TOTAL	**232.1**	**290.4**	**358.9**	**498.9**	**23.6**	**39.0**

Source: BNR, Financial Stability Directorate

With regard to money demand, currency in circulation out of the banking system increased by 4.1% in 2012 on annual basis compared to 13.6% recorded in 2011. The deceleration of currency in circulation is partially explained by the slowdown in Government expenditures in the last quarter of 2012 due to the suspension of budget support on the one hand, and the increase in the use of financial services and modern payment systems on the other hand.

Indeed, the currency in circulation to broad money (M3) ratio decreased to 12.0% in 2012 from 14.6% and 13.1% in 2010 and 2011 respectively indicating good progress in reducing cash utilization in the Rwandan economy and in mobilization of domestic savings. There has been significant progress in the payment system modernization and extension of banks' branch network as well as roll-out of microfinance institutions including SACCOs across the country.

The roll out of ATMs recorded substantial growth of over 77.3% from 167 ATMS in December 2011 to 292 ATMs in December 2012 while the transactions more than tripled (increased by 191%) in number and 47.4% in value over the same period. The number of bank branches, sub branches and outlets located outside of Kigali increased by 7.2% reaching

296 in 2012 from 276 in 2011, while it increased by 7.6% in Kigali, from 132 in 2011 to 142 in 2012. Deposits of the microfinance institutions in the banking sector were FRW 28.9 billion in 2011 and FRW 29.2billion end December 2012, while deposits of SACCOs amounted to FRW 22.1 billion end 2011 and FRW 21.4 billion end 2012.

As a result, banks deposits have significantly increased by 15.5% attributed to all categories of deposits as demand deposits increased by 14.2% while time deposits and foreign currency deposits increased by 13.8% and 24.3% respectively.

III.4 Banking system liquidity conditions

In 2012, the liquidity conditions in the banking system remained comfortable as evidenced by the level of banks' deposits with BNR which increased from FRW 38.2 billion in December 2011 to 55.4 billion end December 2012. In addition, total outstanding Repo operations and T-bills amounted to FRW 154.7 billion end December 2012, with treasury bills accounting for 66.1% against 33.9% for Repos.

In 2012, a structural shift was taking place in T-bills market whereby the investment by banks in T-bills has declined from FRW 113.6 billion end June 2012 to FRW 62.5 billion end December 2012, following increasing interest of non-bank financial institutions and individuals to diversify their investment opportunities. The share of banks in T-bills declined from 99% end June 2012 to 61.2% end December 2012 while the share of other investors increased to 38.8%.

III.5 Interest rates developments

Money market interest rates have been relatively stable and well in line with BNR monetary policy stance. Average repo rate evolved closely to the central bank rate, increasing from 6.5% in December 2011 to 7.5% in December 2012. T- Bill rates were stable at around 8% in the first five months of 2012 before increasing to 12.4% in December 2012 due to significant increase in domestic borrowing.

Table 12: Interest rates (in %)

	2011	2012											
	Dec	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
BNR Policy Rates													
Key Repo Rate	7.0	7.0	7.0	7.0	7.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Discount Rate	11.0	11.0	11.0	11.0	11.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Money Market Rates													
Repo rate	6.5	6.4	6.0	6.9	6.9	7.4	7.4	7.4	7.3	7.5	7.3	7.5	7.5
Standing Deposit Facility	-	-	-	-	-	-	-	-	-	-	5.5	5.5	5.5
Standing Lending Facility	-	-	-	-	-	-	-	-	-	-	9.5	9.5	9.5
Treasury Bills Rate	7.6	7.6	7.6	7.7	7.9	8.3	9.3	9.8	11.1	12.3	12.1	12.4	12.4
Commercial Banks Rates													
Interbank Rate	8.1	7.3	6.9	7.7	8.0	8.6	9.0	9.1	9.5	10.8	10.9	11.9	11.1
Deposit Rate	8.0	7.4	8.3	8.2	8.1	9.9	7.9	8.8	8.6	8.5	9.3	11.2	10.7
Lending Rate	16.7	16.9	16.7	16.3	16.9	16.7	16.8	16.5	17.1	17.1	16.6	16.7	16.5

Source: BNR, Statistics Department

Regarding market rates, lending rates have been relatively stable in 2012 fluctuating around 17.0% while the average weighted deposit rate increased from 8.0% in December 2011 to 10.7% in December 2012. This trend reflects increasing competition among commercial banks and their effort to mobilize deposits.

IV. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

In relation with price stability, the National Bank of Rwanda is also responsible for exchange rate policy making and implementation. Being market driven, the exchange rate has been under relative pressure resulting from a rapidly increasing demand in response to imports. Through its policies and measures, including effective communication and market discipline, the National Bank of Rwanda managed to ensure the stability of the currency was achieved.

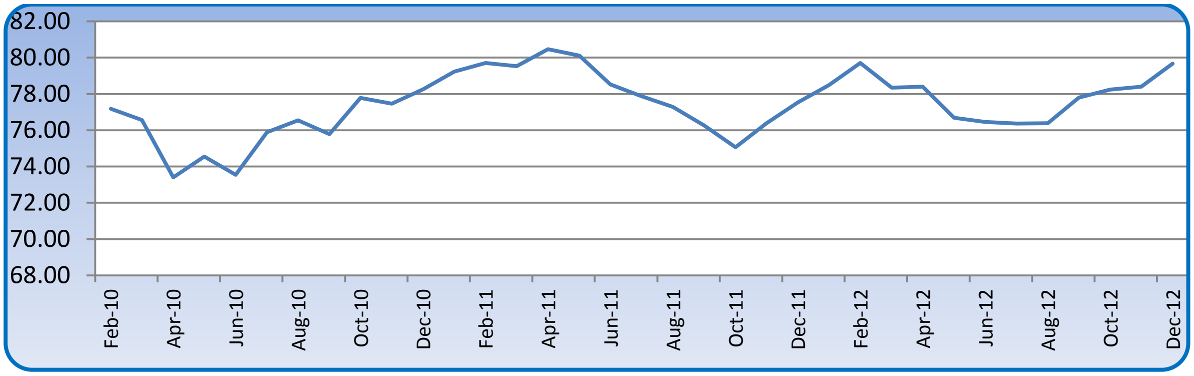
IV.1 Exchange rate developments

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. Due to the higher-than expected increase in forex demand to finance imports and to the slowdown in external inflows, FRW depreciated against the USD by 4.5% in 2012, higher compared with 1.6% recorded in 2011.

In the same period, FRW also depreciated by 8.6% against the GBP and by 5.2% versus the EURO. Concerning the East African region, FRW depreciated against Kenyan and Tanzanian shillings by 2.6% and 3.4% respectively while it appreciated by 3.9% and 10.4% against the Ugandan shilling and Burundian franc.

The FRW Real Effective Exchange Rate (REER) depreciated by 1.6% in December 2012 mainly attributed to the depreciation of the nominal value of the FRW against the currencies of major trading partners as well as the higher level of inflation in those countries compared to Rwanda.

Chart 2: The trend of Real effective exchange rate



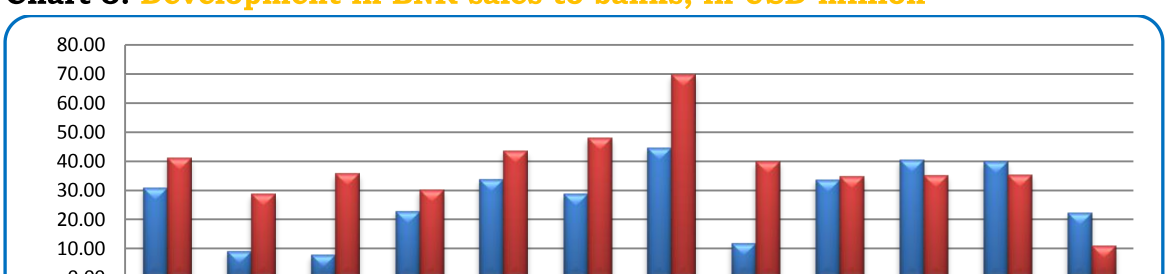
Source: BNR, Monetary Policy and Economic Analysis Department

IV.2 Domestic foreign exchange market

There have been a number of developments in the domestic foreign exchange market. The Central Bank has spearheaded the establishment of the Dealers' Association in order to ensure an organized domestic foreign exchange market. This has not only enforced rules of the game, but also provided the platform for information sharing and capacity building.

Besides, the foreign exchange resources in the banking system have increased by 10.5%. However, this increase was not sufficient in the context of increasing demand for imports to support economic activities. To respond to the high demand of forex, BNR intervened on Forex market by selling to banks USD 455.51 million in 2012 versus USD 327.82 million sold in 2011, which is an increase of 39.0%.

Chart 3: Development in BNR sales to banks, in USD million



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	30.90	9.30	8.10	23.00	33.90	28.90	44.67	12.00	33.80	40.75	40.00	22.50
2012	41.25	28.95	35.95	30.40	43.75	48.20	69.90	40.00	35.00	35.38	35.55	11.18

Source: BNR, Monetary Policy and Economic Analysis Department

During the last two years, BNR has invested a lot in the development of its capacity to conduct policy oriented research to support the formulation and implementation of the monetary policy. In 2011, a department of research was created and since then a number of in-house models have been developed to forecast different macro-economic variables including inflation and monetary aggregates. To increase its capacity in forecasting, BNR is developing a macroeconomic model for Rwanda in collaboration with the IMF and a small model in collaboration with MEFMI and the Reserve Bank of South Africa.

To guide decisions of the BNR monetary policy committee and discussions with international partners like the IMF, policy oriented research papers are produced by staff in the research department. In addition to widening the range of information for its monetary policy management, BNR launched its quarterly market expectations survey focusing on different macroeconomic variables, including inflation.

In 2012, BNR in collaboration with the IMF, the World Bank and the International Growth Center (IGC) organized an international conference on monetary policy frameworks for Central Bank Governors with the objective of learning and sharing experience on how central banks implement monetary policy, especially in current changing environment whereby economic conditions and innovations such as the development of electronic transactions are likely to reduce the relevancy of monetary targeting regimes used by many African Central Banks.

VI. FINANCIAL SECTOR STABILITY

The developments within the Rwandan financial sector in 2012 relate to the banking and microfinance sectors and non-banking financial institutions. Implementation of strong and robust financial infrastructure in form of legal and regulatory frameworks for the supervised sectors and the payment system continued to be among BNR priorities.

VI.1 Financial sector soundness

VI.1.1 Banking Sector

The Banking sector is comprised of 9 commercial banks, 3 microfinance banks, one development bank and one cooperative bank. During the year 2012, the banking sector remained liquid, well capitalized and profitable as a result of strengthened legal and supervisory reforms as well as good macroeconomic environment.

In the period under review, the sector recorded growth in its balance sheet. The banking size measured in terms of total assets registered a growth of 15.1% from FRW 1,084.2 billion in December 2011 to FRW 1,247.6 billion end December 2012.

The major components of the banking sector balance sheet are loans and deposits. Outstanding loans and advances reached to FRW 747.3 billion end December 2012 from FRW 556.9 billion end December 2011; thus an increase of 27.8%. Deposits increased to FRW 844.0 billion during the year 2012 from FRW 732.6 billion end 2011, recording an increase of 15.2%.[2]

The quality of assets in terms of NPL ratio decreased from 8% in December 2011 to 6.1% in December 2012. The sector remains profitable by end December 2012, with a net profit after tax of FRW 27.3 billion.
The macro-prudential assessments and stress testing results indicate that the banking sector remains well capitalized and liquid with sufficient

[2] Figures include also BRD data which are not captured in monetary survey.

capital buffers to mitigate risks. In the period under review, the capitalization levels as measured by total capital to risk weighted assets, stood at 23.9% compared to 25.0% realized in December 2011, well above the regulatory minimum capital of 15% and above 10% for G20 and Basel Committee new benchmark.

The sector's profitability (net profit after tax) indicators show return on assets (ROA) and return on equity (ROE) of 2.2% and 10.4% respectively in December 2012 compared to 2.2% and 10.5% in December 2011. The sector's liquidity position stood at 41.2% in December 2012 compared to 45.3% achieved in December 2011, still higher than the 20% benchmark.

Table 13: Key soundness indicators, in percent

Indicators	2011	2012			
	December	March	June	September	December
Solvency ratio (total capital)	25.0	26.6	25.1	24.1	23.9
NPLs / Gross Loans	8.0	6.3	5.8	6.3	6.1
NPLS net/Gross loans	6.2	5.1	4.3	5.0	5.5
Provisions / NPLs	50.8	52.8	51.1	49.3	53.4
Earning Assets / Total Assets	77.2	79.9	81.4	79.0	79.5
Large Exposures / Gross Loans	9.8	7.7	9.5	11.8	9.1
Return on Average Assets	2.2	2.5	2.3	2.3	2.2
Return on Average Equity	10.5	11.6	10.9	11.1	10.4
Cost of deposits	2.4	2.8	2.8	2.5	2.6
Liquid assets/total deposits	45.3	48.9	47.2	40.2	41.2
Forex exposure/core capital	6.6	5.6	-1.5	0.2	-0.2

Source: BNR, Banking Supervision Department

VI.1.2 Microfinance Sector

The microfinance sector is comprised of 490 Institutions of which 11 are limited companies and 479 SACCOs (including 416 UMURENGE SACCOs).

The asset size for the microfinance sector registered an increase of 28.8% from end December 2011 to end December 2012; from FRW 77.42 billion to FRW 99.69 billion. The total assets for the sector were mainly increased by Gross loans and deposits that increased by 44.7% and 18.1%, moving from FRW 40.72 billion to FRW 58.93 billion and from FRW 45.85 billion to FRW 54.15 billion, respectively in the same period. This performance was mainly driven by the growth of UMURENGE SACCOs.

UMURENGE SACCOS recorded a growth of 25.8% in deposits; reaching FRW 28.2 billion end December 2012 from FRW 22.4 billion end December 2011 while loans increased to FRW 13.8 billion end December 2012 from FRW 4.8 billion end December 2011.
In addition, total assets increased from FRW 29.1 billion to FRW 40.9 billion representing an increase of 40.5% for the period under review.

Table 14: **MFIs performance indicators, UMURENGE SACCOs included (in FRW billion)**

MFIs + Umurenge SACCOs	31-Dec-11	31-Dec-12	% Change
Total Assets	77.42	99.69	28.8
Total Liquid Assets	32.79	32.36	-1.3
Gross loans	40.72	58.93	44.7
Net Loans	38.59	56.27	45.8
Total Deposits	45.85	54.15	18.1
Demand Deposits	36.61	39.61	8.2
Total Equity	20.18	29.53	46.3

Performance Indicators in %

MFIs + Umurenge SACCOs	31-Dec-11	31-Dec-12
NPL Ratio, in percent	12.0	8.5
Liquidity ratio, in percent	89.5	81.7
Capital Adequacy Ratio, in percent	26.1	29.6

Source: *BNR, Microfinance Supervision Department*

Similarly, the financial soundness indicators of the microfinance sector indicated a significant improvement. NPLs ratio- the measure of asset quality reduced from 12% to 8.5%. The improvement was mainly driven by the good performance of UMURENGE SACCOs that recorded a NPL rate of 5.3% end December 2012 from 5.6% at end December 2011 while the NPL rate for other MFIs stood at 9.5% in December 2012 decreasing from 12.9% in December 2011. All institutions in the microfinance sector are compliant to prudential norms.

In 2012, UMURENGE SACCOs realized impressive progress in terms of building their own premises and equipping themselves with necessary IT facilities paving the way for their computerization and consolidation process.

Table 15: UMURENGE SACCOs Premises and IT equipment

Denomination	31-Dec-12	%
SACCOs operating in own offices	111	27
SACCOs with unfinished buildings	180	43.3
SACCOs with plots	66	15.9
SACCOs operating in Government Offices	215	51.7
SACCOs renting	83	20
SACCOs with Laptops	313	75.2
SACCOs with Desktops	416	100
SACCOs with printers	416	100
SACCOs with scanners	35	8
SACCOs with Management Software	0	0
SACCOs with Electricity	345	82.9
SACCOs with internet (Modem included)	364	87.5

Source: BNR, Microfinance Supervision Department

VI.1.3 Non-Bank Financial Institutions (NBFIs)

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

By the end of 2012, the insurance sector was composed of six non-life insurers, three life insurers and two public insurers, making a total of 11 insurers in the market. In addition, the sector has market players in terms of insurance intermediation mainly composed of insurance brokers, agents and loss adjusters and by the end of 2012 the sector had 6 insurance brokers, 152 insurance agents and 9 loss adjusters.

End December 2012, the insurance sector performance improved progressively. The total assets of the Rwandan insurance sector as at end December 2012 reached FRW 214 billion compared to FRW 157 billion end December 2011 indicating a growth of 36%. The Gross premiums increased by 67% from FRW 46 billion by end December 2011 to FRW 77 billion at end December 2012.

Table 16: Financial soundness indicators for the insurance sector in FRW millions

Performance indicators in value				
Particulars	**2011**		**2012**	
	Sept	**Dec**	**Sept**	**Dec**[3]
Total assets	138.527	157.528	184.214	214.990
Total capital	88.758	104.381	128.503	144.266
Total gross premiums	45.166	46.288	49.039	77.293
Underwriting profit	8.935	6.756	8.626	11.523
Total net profit	**16.127**	**12.564**	**24.282**	**35.944**

Performance indicators in Ratio, in %				
Particulars	**2011**		**2012**	
	Sept	**Dec**	**Sept**	**Dec**
Claims ratio	41	41	49	52
Combined ratio	77	79	81	85
Current ratio	241	190	290	241
Return on equity ratio (ROE)	18	13	19	25
Return on assets ratio (ROA)	12	9	13	17

Source: BNR, Non-Bank Financial Institution Supervision Department

Subsequent to the existing strong regulatory and legal framework, the insurance sector is continuously becoming profitable. In the period under review, the profitability (after tax) increased by 192% from FRW 12 billion end December 2011 to FRW 35 billion end December 2012.

Similarly, the liquidity position of the insurers is considered strong as the current ratio stood at 241%. The return on assets increased from 9% to 17% and the return on equity increased from 13% to 25% in the period under review as most of the insurers continue to invest prudently.

The Pension Sector is comprised of the National Social Security Fund (NSSF/CSR), which merged with RAMA to form Rwanda Social Security Board (RSSB) and about 40 private pension schemes. The National Social Security Fund covers largely salaried workers representing 8% of the working population in Rwanda.

[3] These figures include Data from: SONARWA Life, SONARWA Non-life and SORAS AG of which data were computed using extrapolation method.

The pension sector assets increased by 74% from FRW 192 billion recorded during the quarter ended December 2011 to FRW 334 billion recorded in the quarter ended December 2012, excluding private pension schemes.

VI.2 Regulatory framework and supervision

VI.2.1 Banking Sector

During the year 2012, the BNR continued to improve its supervisory roles through regularly conducting off-site surveillance and on-site inspection and strengthening regulatory framework. During the period under review, ten on-site inspections were conducted as planned.

The market is experiencing product innovations such as electronic banking, mobile banking and agent banking contributing to improve financial inclusion. BNR continued to reinforce the supervisory legal framework to accommodate the new market developments.

Furthermore, in the spirit of encouraging product innovations, four banks are using banking agents during the year 2012 and 844 banking agents were licensed by end 2012. Overall, banks' network expanded from 408 to 1,282 branches, sub-branches, outlets and agents as detailed in the table below. The significant increase in the network is mainly due to enhanced use of banking agents.

Table 17: Banking outreach indicators

	City of Kigali		Other Provinces		Total	
	2011	2012	2011	2012	2011	2012
Number of Branches	54	56	88	93	**142**	**149**
Number of Sub Branches	36	42	115	130	**151**	**172**
Number of Outlets	42	44	73	73	**115**	**117**
Total branch & outlets	**132**	**142**	**276**	**296**	**408**	**438**
Banking agents	-	-	-	-	-	**844**
Total Network	**132**	**142**	**276**	**296**	**408**	**1,282**
Number of clients accounts	**610,316**	**974,094**	**1,416,422**	**1,574,193**	**2,026,738**	**2,548,287**

Source: BNR, Banking Supervision Department

Consequently, clients' accounts recorded substantial growth of 25.7% from 2,026,738 end December 2011 to 2,548,287 end December 2012.

With regard to the implementation of the banking law, BNR put in place new regulations; two directives were approved and are currently being implemented and two other regulations were published in the Official Gazette in the first half of 2012. Concerning the supervision of forex bureaus, the new regulation no 13/2011 on Foreign Exchange Bureaus was published and became effective end January 2013. To enforce the implementation of the new regulation, on-site inspections were conducted to existing Forex Bureaus before renewing their licenses.

VI.2.2 Microfinance Sector

During the year 2012, off-site and on-site inspections were performed on regular basis. The microfinance supervision activity was mainly concentrated on the licensing and on-site inspections of SACCOs established in line with UMURENGE SACCO Program where 407 SACCOs out of 416 were fully licensed against 139 in 2011, meaning 98 % end December 2012 against 33.4 % end of December 2011. Regarding the supervision and monitoring of MFIs, on-site inspections were conducted countrywide by Inspectors from BNR headquarters jointly with Inspectors appointed in Districts.

BNR Management attended Access to Finance Forum meetings organized by 3 provinces and Kigali-City with a focus on the recovery of loans granted by MFIs defaulted in 2006 and after. The meetings came up with a new deadline of June 2013 whereby the recovery process of these loans will be completed. The District Loan Recovery Committees established by the Instructions relating to the recovery of debt arrears of MFIs from defaulters as published in Official Gazette n0 33 of 15/08/2011 were requested to work within the new timeframe for recovering the said loans.

VI.2.3 Non-Bank Financial Institutions

During the period under review, BNR accomplished a number of activities relating to strengthening the legal framework and conducting inspections for Non-Bank Financial institutions. Activities accomplished include finalization of insurance regulation on dissolution and winding up of insurance companies, merging and acquisition of insurers which were published in the official Gazette. In addition, BNR has been following up the legislative process of the pension law in the Parliament.

Also BNR required underwriters of life insurance business to conduct the actuarial valuation for life products and this has facilitated the separation of life and non-life insurance businesses. A number of prudential meetings were conducted to ensure that the non-bank financial institutions meet minimum capital and solvency margin requirements and observe corporate governance best practices. BNR started the initiatives for establishing appropriate supervisory framework for Special Guarantee Fund and Mutuelles de Santé.

VI.3 Access to finance

VI.3.1. FinScope Survey Rwanda 2012

The FinScope survey Rwanda (2012), the second in Rwanda after the one of 2008, was conducted and has provided real picture of financial inclusion levels. Findings show that the percentage of total adult population (18 years plus) having access to formal financial services increased from 21.1% in 2008 to 42% in 2012; while adult population formal and informal financially included increased from 47.5% in 2008 to 71.8% in 2012. Adult population total financially excluded decreased from 52.4% to 28.1% between 2008 and 2012. Insurance uptake has increased from 3% in 2008 to 7% in 2012.

The BNR has been actively advocating for financial inclusiveness and equality through the financial awareness campaigns being undertaken and innovation of products relevant to majority rural population.

Following the Financial Sector Assessment Program (FSAP) conducted early 2012 by World Bank and IMF, the second Financial Sector Development Plan-Phase two (FSDPII) was developed to guide the sector development plans in the next five years.

VI.3.2 SMEs financing

The loans granted to SMEs by banking sector increased by 29% from FRW 118.4 billion in 2011 to FRW 152.6 billion in 2012 while the total financing to SMEs recorded an increase of 29.45% including financing of SMEs by the Microfinance sector that increased from FRW 6,523,902 to FRW 9,133,462 end 2011 and 2012 respectively.

Table 18: Financing of SMEs by banks and MFIs/SACCOs (in billions FRW)

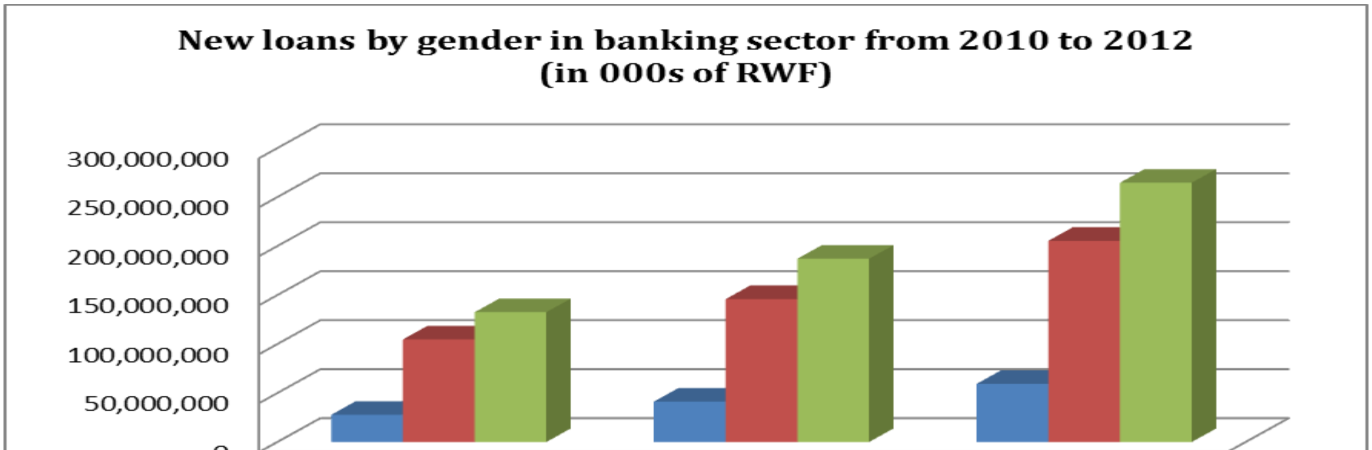
Sector	2011	2012	Change in %
Banks	118.47	152.62	29.00
MFIs/SACCOs	6.52	9.13	39.95
Total	124.95	161.75	29.45

Source: BNR, Financial Stability Directorate

VI.3.3 Women access to finance

Assessment of gender equality in access to finance indicates an upward trend for women's uptake of loans. By end December 2012, the loans granted to women by the banking sector increased by 43.9% from FRW 41.2 billion in 2011 to FRW 59.3 billion end 2012. Furthermore, annual comparison indicates that 77.6% (FRW 205.3 billion) and 22.4% (FRW 59.3 billion) of loans issued by banks were disbursed to men and women respectively in December 2012 compared to the 78.0% and 22.0% recorded in December 2011.

Chart 4: **New loans by gender**



	2010	2011	2012
Women	27,773,725	41,224,762	59,342,153
Men	104,689,811	145,836,108	205,338,113
Total	132,463,536	187,060,870	264,680,266

In the microfinance sector, the number of accounts opened in 2012 increased by 29.0% compared to 2011 with 40% belonging to women. The number of outstanding loans increased by 120.5% compared to December 2011 level; loans granted to women represent 33.5%.

Table 19: Women access to finance in MFIs & U-SACCOs

		31-Dec-11	31-Dec-12	% Change Dec.12/ Dec.11	% of each group
Accounts	Men	855,270	1, 078,476	26.09	55.0
	Women	604,114	784,434	29.84	40.0
	Group & Entities	58558	96,744	65.21	5.0
	Total	1,517,941	1,959,654	29.09	100.0
Number of Loans outstanding	Men	85,435	193,494	126.48	65.8
	Women	47,014	98,379	109.25	33.5
	Group & Entities	890	2,141	140.56	0.7
	Total	133,339	294,014	120.50	100.0

Source: BNR, Microfinance Supervision Department

VI.3.4 Geographical distribution of loans

Considering the geographical distribution of loans, Kigali City takes the highest share of 71.1% (FRW 354.9 billion) for new loans disbursed as of end 2012 followed by Western province with 9.5% (FRW 47.3 billion), Southern province with 7.7% (FRW 38.3 billion), Eastern province with 6.7% (FRW 33.3 billion) and Northern province with 5.0% (FRW 24.8 billion).

However, the trend of the distributed loans between 2011 and 2012 indicate that the Western province registered the highest annual increase of 64.6% followed by Southern province (60.5%), Northern Province (47.7%), Eastern province (45.0%) and Kigali City (33.2%).

Chart 5: New authorized loans geographical distribution

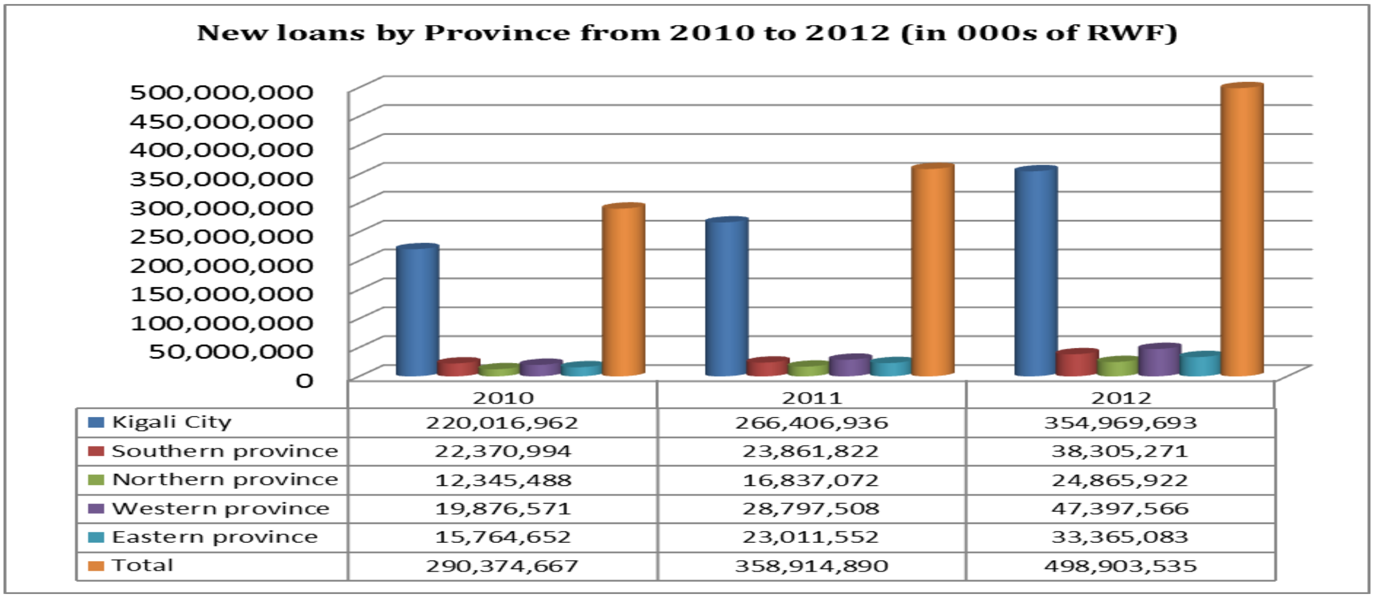


Table 20: Loan distribution by Provinces

	2011	2012	% change
Kigali City	266,406,936	354,969,693	33.2
Southern Province	23,861,822	38,305,271	60.5
Northern Province	16,837,072	24,865,922	47.7
Western Province	28,797,508	47,397,566	64.6
Eastern Province	23,011,552	33,365,083	45.0
Total	**358,916,901**	**498,905,547**	**39.0**

Source: BNR, Financial Stability Directorate

VI.4 Credit information system

The private credit reference bureau (CRB Africa) came to supplement the public credit reference bureau managed within the National Bank of Rwanda in order to gather quality credit information for the purpose of minimizing credit moral hazards and adverse credit underwriting. All financial institutions (Banks, MFIs/SACCOs and Insurance companies) have signed memorandum of understanding with CRB Africa and regularly provide data to CRB Africa. Recently, 57% of UMURENGE SACCOs registered to share credit information with CRB Africa.

In addition to mandatory participants (financial institutions), voluntary participants such as the utility companies (Telecom companies & EWSA) continue to share credit information regarding their clients.

Table 21: **Compliance status with CRBAfrica as at December 2012**

Participants	Number of institutions	Submissions of credit information	Usage of CRBAfrica database		
			Total searches	Successful searches	Successful searches in %
Mandatory:					
1. Banks	14	427,360	5,461	3,861	71%
2. MFIs/SACCOs	44	201,160	1,944	993	51%
3. Insurance Companies	7	13,391	31	24	77%
Voluntary:					
EWSA	1	378	-	-	
Utilities (MTN&TIGO)	2	6,305	82	50	61%

Source: CRBAfrica Rwanda

Going forward, the National Bank of Rwanda will continue to ensure improved quality and coverage of credit information sharing with voluntary participants to include retail traders (supermarkets), new licensed banks, all UMURENGE SACCOs as well as other credit granting institutions. From March 2013, 237 UMURENGE SACCOs will start providing data to CRB and by end June 2013 all UMURENGE SACCOs are expected to participate.

Furthermore, BNR with the support of AfDB will run a public awareness campaign to sensitize lenders, consumers, participants and policy makers on the role of credit information sharing and consumer rights.

VI.5 Payment systems modernization

A payment system is usually defined as a set of institutions, instruments and procedures that are involved in making a payment-from payment initiation to finality. As technology is fast sweeping through the world, financial institutions are cutting down on their operational costs through the use of technology. Technological innovations contribute to the distribution channels of Banks and hence improve their positions to better finance businesses. Payment System issues have become more and more prominent in recent years, in particular because of the increased use of new technologies, and the associated increase in the value of payments. Furthermore, payment systems have important implications for monetary policy implementation and for the efficiency of the financial sector.

As Rwanda moves to attain a middle income level status, the emergence of an efficient financial system becomes a top priority. An efficient financial system will spar private sector savings to be retained in the financial sector; this promotes investment and hence ensures sustainable growth and competitiveness. The linchpin to the above developments resides in an efficient and secure National Payment System that ensures smooth and risk free transfers of funds among buyers and sellers.

VI.5.1 The Rwanda Integrated Payments Processing System

The Rwanda Integrated Payments Processing System (RIPPS) comprises three main components: an Automated Clearing House (ACH- a netting system), A Real Time Gross Settlement System Transfer System (RTGS) and a Central Securities Depository (CSD). The CSD-Rwanda is closely integrated with the RTGS and operates a settlement cycle of T+2, making it the fastest settlement cycle for the stock exchange in the region. RIPPS has improved the payment lag where in the past before the RTGS was introduced payment orders took a minimum of three days for the beneficiary to obtain funds, but today it takes a maximum of one day (for banks without an interface) and a maximum of two hours for banks with a properly functioning interface.

VI.5.2 The card based payment systems and E-commerce

Regarding E-commerce, Rwandair is offering e-commerce facilities to its clients through I & M Bank. One bank in Rwanda has obtained an e-commerce license from Visa and is in the preparation for testing. The value of transactions using VISA international cards is currently running in excess of USD 3 million. This has implications on the physical (cash) sale of forex in bureaus and will in the near future turn around the foreign exchange market.

Regarding the ATMs availability (up-time), it has increased from 86% end December 2011 to 92% end December 2012. The level of ATMs interoperability has significantly increased and 87% of ATMs accept both RSwitch proprietary cards and Visa Cards with only one bank which is not fully interoperable. Three banks are operating POS devices with one of the banks accepting Visa, Mastercard, and China Union Pay; however, for the moment they only accept international cards-both internationally and locally issued (the POS have not yet integrated Rswitch cards). Efforts are being made so that they can accept also local RSwitch cards in the near future.

The statistics in the table below show the developments in card-based payment system from December 2011 to December 2012.

Table 22: Cards payment infrastructure and performance

Period	Number of ATMs	Number of POS terminals	Number of debit cards	Total number of credit cards	ATM transactions		POS transactions	
					Volume	Value (million FRW)	Volume	Value (million FRW)
Dec-11	167	168	115 200	516	1, 976,376	122,536	38,440	73
Dec-12	292	666	389,269	418	5, 753,163	180,566.6	54,632	8,487
% change	**74.9**	**296.4**	**237.9**	**-19.0**	**191.1**	**47.4**	**42.1**	**11,526.0**

Source: BNR, Payment Systems Department

VI.5.3 The Visa National Net Settlement System and International Acquiring

Visa National Net Settlement System (NNSS) has been operational since the 1st March 2012. This system facilitates domestic transactions made with Visa cards to be settled in local currency and the Central Bank is the settlement agent.

Eight banks representing 86% of ATMs in Rwanda are already participants in NNSS; and the other two Banks licensed by VISA are in the certification process.

The resultant effect is that the foreign exchange loss that has been experienced by Rwanda banks' clients that use VISA cards does now no longer exist.

With regard to international acquiring, ten banks are currently Visa members (3 principal members, 3 associate members and 4 cash disbursement members).

Moreover, apart from Visa cards that are operated by ten banks, in order to increase the acceptance of other international cards banks are introducing different cards on the market as follows, one Bank accepts Mastercard on its POS, two banks have introduced China union pay and another bank operates Diners club.

VI.5.4 Mobile Financial Services and Internet Banking

Mobile financial services comprise two components namely mobile payment and mobile banking services where instead of paying with cash, cheque, or cards, a consumer can use mobile phone to pay for a wide range of services or goods. Mobile payment service is operated by a Telecommunication Company without involvement of a bank. The bank only hosts a trust account in which users' funds are deposited. While for mobile banking schemes, the banks operate the service and a consumer can have access to his/her banking account by using the mobile phone.

Mobile financial services have taken root in Rwanda as all the three Telecom companies have been licensed to offer mobile payment services by the Central Bank and seven banks are offering mobile banking services. The transaction figures have registered tremendous growth and it is easily becoming a way of payment for the population, as currently many motor cycle transporters are being paid through mobile money.

On the other hand, Internet banking allows a bank customer to conduct financial transactions on a secure website operated by the bank. Currently there are seven banks offering internet banking services.

Table 23: Mobile payment and mobile banking developments

Period	Number of subscribers	Number of transactions	Value in FRW million
Mobile Payment			
2011	639,673	3,420,885	51,024
2012	1,440,541	22,191,674	161,808
% change	125	549	217
Mobile Banking			
2011	155,986	527,300	5,215
2012	297,537	1,458,063	3,926
% change	91	177	-25
Internet banking			
2011	-	1,493	708
2012	3411	10,036	12,746.44
% change		572	1,700

Source: BNR, Payment Systems Department

VI.5.5 Remittances service providers

Many families in the developing world depend on funds sent to them by migrant relatives working abroad or working in urban centers in those very countries. This is fast becoming a big source of livelihood to cover day to day living, construct residential housing and often make small investments. Both national and international remittance services are part of the national payment system and heavily rely on payment systems infrastructure for settlement.

Conversely, public policy objectives for remittances are closely interrelated with those for payment systems. In that regard, the National Bank of Rwanda put in place a regulation that opened doors to "stand alone" remittance companies other than the traditional ones. Currently there are 12 licensed remittance companies, which have brought competition into the market, evened out prices and increased in-ward remittances to USD 175.2 million in 2012.

VI.5.6 Regional connectivity

The Rwanda Integrated Payments Processing System (RIPPS) has been upgraded to enable linkage to Regional cross border Payment Systems; the East Africa Payment systems (EAPS) and the COMESA Regional Payments and settlement system (REPSS) so as to facilitate the cross border payments in the East African Community and COMESA region.

In this regard, Rwanda started operations with REPSS on 3rd October 2012 and was officially launched in the 18th COMESA Governor's meeting that took place from the 10th-11th December 2012 in Kigali. REPSS has several advantages in terms of reducing transfer costs and reducing on the payment lag. REPSS aims at providing payments through secure and reliable systems; payments are originated and received in the formats of the financial institutions' existing payment systems resulting in minimal system modifications.

There is also predictability in payment timing and reduced payment cycle time as compared to the usual correspondent banking. The cost effectiveness of REPSS payments translate into savings for the payer and it provides one easy process for making cross-border payments and the system is very secure as the funds reside at the Settlement Bank which is also a member of COMESA.

Using the usual correspondent banking, the estimated transaction cost has been on average up to 5% of the trade value with 1% paid for letters of credit confirmation. With REPSS, confirmation of letters of credit will be free, while every transfer will be charged at 0.25%, thus generating significant savings to the region. While launching REPSS in Kigali the COMESA committee of Central Bank Governors agreed to waive the charges for the initial stage so as to promote its usage. The East African Payment Systems is under test and is expected to be operational within the first half of 2013.

VI.5.7 Cheque truncation and combatting fraud

To further enhance the developments in payment systems, the BNR together with the Rwanda Bankers Association, have embarked on the Cheque Truncation Project. This project will help to fast track the cheque payment process with more security and trusted method of processing as more security features have been added to the standardized cheques. Besides, the cheques will be cleared efficiently because all account structures will be harmonized facilitating the integration between RIPPS and banks' core banking applications (straight through processing), thus reducing the payment lag. The full implementation of cheque truncation system will be operational by end of 2013.

VI.5.8 Oversight of payments and securities systems

While the National Bank of Rwanda has been involved in the development of payment and securities settlement system as the operator of RIPPS, it has put much efforts to reinforce the oversight function of the payment systems to ensure they are safe and efficient by monitoring existing and planned systems, assessing them and where necessary inducing change.

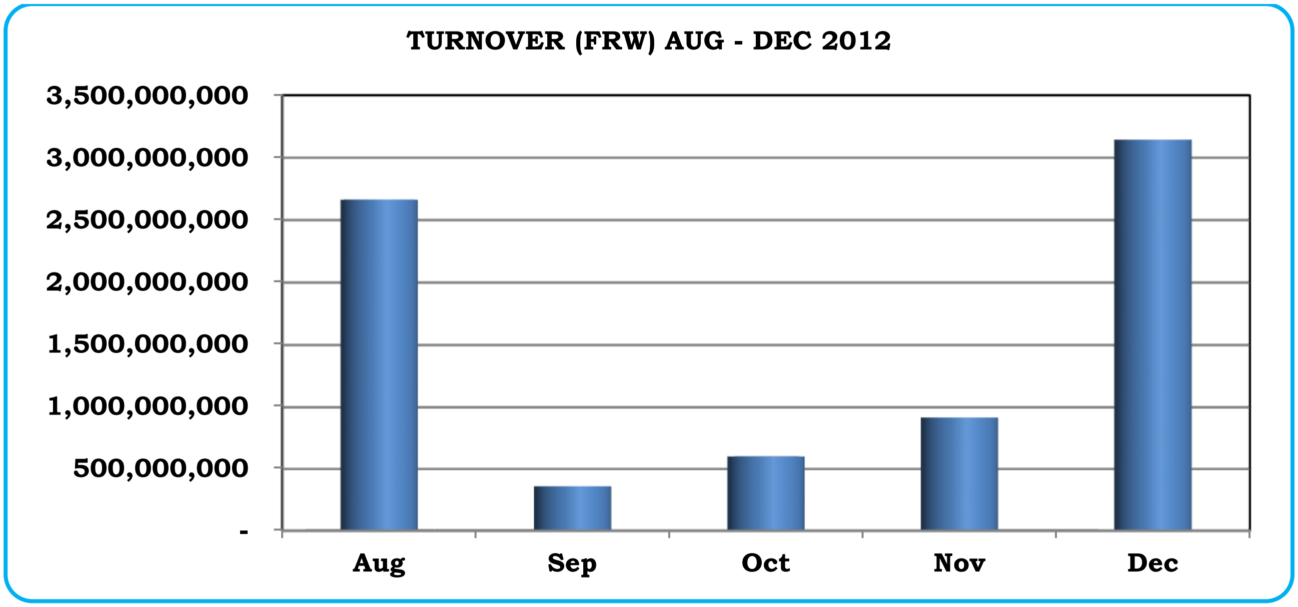
VI.6 Capital market activities

In a bid to help SMEs access long-term finances through the capital market, the African Development Bank (AfDB) funded a study entitled 'Leveraging capital market for SMEs financing in Rwanda'. One of the outcomes of the study is that the capital market should simplify the requirements and CMA has started the process. Under public education, the second Capital Market University challenge is ongoing where university students will be competing on essay writing and TV quiz.

On the Rwanda Stock Exchange (RSE), the bond market continued to be illiquid during the period under review as the market did not record any secondary market transactions and there was no new issuance. On the other hand, equities trading continued on an upward trend as the two counters of BRALIRWA and Bank of Kigali continued to dominate in volumes, transactions and price movements.

From August 2012 to the end of December 2012, RSE market recorded a total turnover of more than FRW7.68 billion from 37.3 million shares traded in 691 deals mainly driven by the share price of the country's main brewer, BRALIRWA.

Chart 6: **RSE turnover developments**

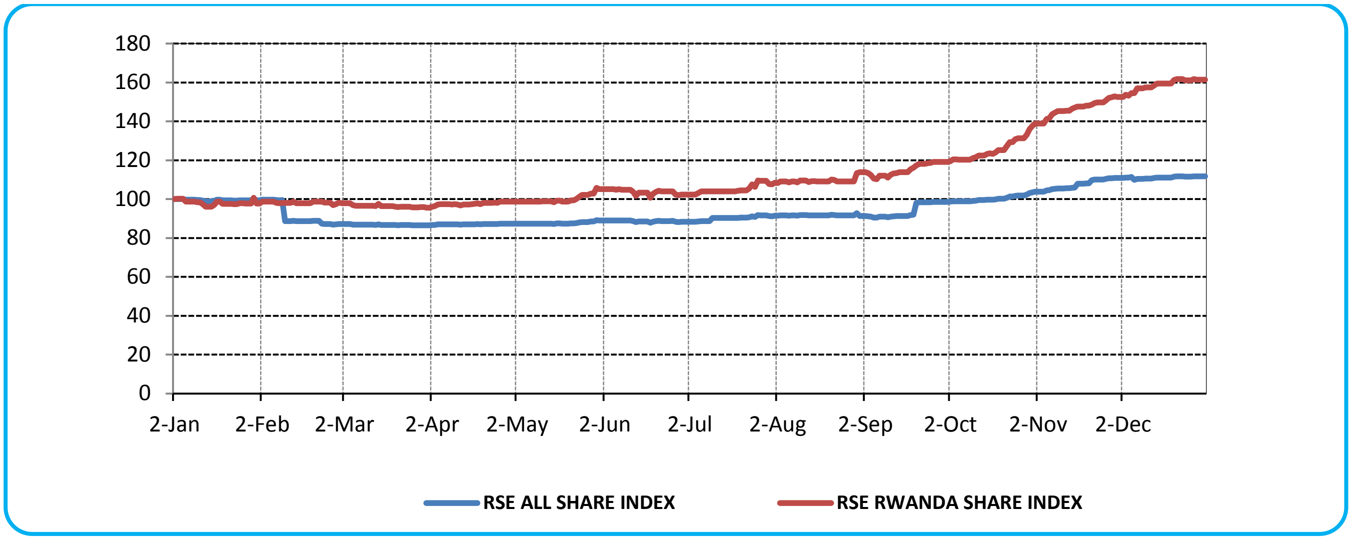


Source: Rwanda Stock Exchange

On other developments, on 7th December 2012 RSE launched the Rwanda Stock Exchange share Index, an independently calculated, rules-based performance benchmark for Rwanda Stock Exchange's equities. The market capitalization weighted index's major objective was to provide the market with a composite report on market performance of constituent stocks so as to highlight general trends in the market and the economy at large.

The RSE Rwanda share Index (RSI) and RSE All Share Index (ALSI) went up by 61.48% and 11.66%, respectively from January 2012 to end of December 2012(See the chart below).

Chart 7: **Rwanda Stock Exchange Share Index**



Source: Rwanda Stock Exchange

The stock exchange is also in the final stages of automation of its trading infrastructure which will automatically be linked to the Central Securities Depository (CSD) at BNR. Furthermore, Rwanda is working with CDSC Kenya on the inter depository transfer mechanism to allow smooth settlement of cross listed securities in the near future.

VII. POLICY ORIENTATION AND OUTLOOK FOR 2013

VII.1 Monetary and exchange rate policy orientation

In this year 2013, BNR will implement its monetary policy aiming at consolidating the achievements realized during the past years in macroeconomic and financial stability, maintaining conducive financial environment to high economic growth and keeping inflation in single digit.

However, the BNR monetary policy in 2013 is likely to be implemented in a very challenging international environment which might have a negative impact on the national economy. Rwanda is likely to be affected by the consequences that unsolved sovereign debt crisis in Europe and concerns about the fiscal cliff in USA can have on the global economy. The persistence of these crises is expected to induce a decline in commodity prices, slowdown in FDI, NGOs transfers and remittances from the Rwandan diaspora, and the decline in official aid transfers, including budget support.

Such decrease in external inflows would create challenges to maintain adequate liquidity in the banking sector, necessary to meet the increasing demand for credit to private sector. It would also have an adverse impact of sustaining pressures on the FRW exchange rate with the risk of significantly increasing the exchange rate pass-through to domestic prices as the country is a net importer.

All is not likely to be on the negative side, though. The stability of international oil prices and prospects for low global and regional inflation in 2013 will contribute to mitigate the negative effects of the above mentioned risks.

Against this outlook, BNR will continue to closely monitor developments in underlying factors of inflation and monetary aggregates developments so as to take appropriate measures, using the monetary policy instruments.

A permanent coordination between macroeconomic policies, in particular between monetary and fiscal policy will be maintained to avoid inconsistencies and increase their effectiveness.

As mentioned, the development of payment systems is expected in future to reduce the stability of money demand in Rwanda, which is one of the pillars of the monetary aggregates framework. Therefore, in 2013, an action plan will be drawn to chart the way of shifting to other monetary policy frameworks such as inflation targeting.

Concerning the exchange rate policy orientation, it will remain market driven and the BNR will continue to intervene on the foreign exchange market only to smoothen exchange rate volatility.

VII.2 Financial stability outlook

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

Going forward, the BNR is focused towards developing a more modern, competitive, open and inclusive financial system. It is in this line that the Financial Sector Development Program Phase II (FSDP II) has been developed and providing the five year strategic plan.
The objective of the FSDP II is to develop a stable and sound financial sector that is sufficiently deep and broad, capable of efficiently mobilising and allocating resources to address the development needs of the economy and reduce poverty. FSDP II is a five year programme (2013/14

to 2017/18) comprising four main components to be implemented in the period, namely; financial inclusion; developing financial institutions, markets and the supporting infrastructure; investment and savings to transform the economy; and protecting consumers and maintaining financial stability. The National Bank of Rwanda will focus on implementing reforms therein to further strengthen the financial stability and reinforce the supervisory legal framework to accommodate new market developments all aiming to widen financial access and financial stability.

It is expected that the Rwandan financial system will face some challenges due to the unfavorable global and regional economic outturn. Mindful of the potential risks to the financial stability, the BNR remains vigilant in its regular supervision of the financial system for any early warning and committed to take proactive actions accordingly. Through its Financial Stability Committee, the BNR will continue monitoring key developments in the financial sector in order to take timely measures to avoid any systemic crisis. BNR will continue to ensure that financial institutions remain prudent in their operations through on-site and off-site examinations as well as regular prudential meetings.

In 2013, BNR is intending to strengthen UMURENGE SACCOs by consolidating SACCOs at district level and link all sound districts SACCOs at national level. This process is expected to be completed by 2014.

VII.3 Payment systems modernization projects in 2013

In the area of payment systems and IT modernization, the National Bank of Rwanda will focus on four main projects. These are: upgrading cheque standards; implementing the Commodities exchange (settlement to be done at the Bank CSD); complete regional connectivity of RIPPS by linking to the East African Payment System (EAPS); and completing the last phase of BNR IT modernization by installing a new core banking software and Enterprise Resource Planning System. BNR will also follow up the implementation of the first ever branchless, fully interoperable, mobile service piloted by Visa.

Visa is testing a new mobile service designed to meet basic banking needs of Rwanda's unbanked and underserved population. The service, mVISA, mitigates the lack of access to physical bank branches and works across different financial institutions and mobile networks. The offer comes with optional outsourced processing services based on technology from Fundamo, a South African company acquired by Visa in 2011. mVisa will be launched initially with Bank of Kigali and Urwego Opportunity Bank.

Regarding cheque truncation, new standards for the cheques have been published and new printers willing to provide services to banks in Rwanda are being accredited by the BNR. The new standardized cheques are now being issued by banks to their clients. This project will help to fast-track the cheque payment process with more security and trusted method of processing as more security features have been added to the new cheque. Besides, the cheques will be cleared efficiently because all account structures will be harmonized facilitating the integration between RIPPS and banks' core banking applications (straight through processing), thus reducing the payment lag. Automated cheque processing will further improve the payment cycle for both private persons and businesses.

As to the commodities exchange, together with the Capital market Authority, and within the framework of promoting exports the East African Commodities Exchange (EAX) has been established and the

National Bank of Rwanda is participating in the implementation of this project. The EAX electronic platform will allow trading across all assets classes, agriculture commodities, minerals, metals and derivatives to establish a stronger, more attractive capital market for increased investment and liquidity. The EAX will be built as a national platform that links with the exchanges of other EAC members States in order to further regional economic integration and create a larger, more globally competitive market for Rwanda producers and consumers.

Further to regional integration, the East African Payment System (EAPS) is under internal tests and we will start cross border tests with the Bank of Tanzania thereafter. When the two systems (COMESA and EAPS) are up and running there will be choices for the traders who need to channel funds for their regional business. This will have an impact on the regional trade and doing business as correspondent banking will have been significantly circumvented.

Finally on IT modernization for the Bank, two major IT projects are planned for 2013, these are the Core Banking and ERP and the Data ware house. The Core Banking and ERP will be the foundation on which the other modern systems that have been launched will ride on. It is expected that Modern T24 and Oracle ERP system will ensure straight through processing for all transactions and operations of the Central Bank. Likewise, the Data warehouse to be put in place will link all the stakeholders in the economic sphere in the country.

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