NATIONAL BANK OF RWANDA
BANKI NKURU Y'IGIHUGU

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

AUGUST
2021

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

August 2021

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LIST OF ACRONYMS AND ABBREVIATIONS

ACH	: Automated Clearing House
ATM	: Automated Teller Machine
BIF	: Burundian Franc
CAD	: Current Account Deficit
CAR	: Capital Adequacy Ratio
CIEA	: Composite Index of Economic Activities
CPS	: Credit to the Private Sector
EAC	: East African Community
ERF	: Economic Recovery Fund
EUR	: Euro
FOB	: Freight on Board (or Free on Board)
FOREX	: Foreign Exchange
FRW	: Franc Rwandais
FX	: Foreign Exchange
GBP	: Great British Pound
GDP	: Gross Domestic Product
H1	: Half 1
H2	: Half 2
IMF	: International Monetary Fund
JPY	: Japanese Yen
KES	: Kenyan Shilling
LCR	: Liquidity Coverage Ratio
M3	: Broad money
MFIs	: Microfinance Institutions
MNOs	: Mobile Network Operators
MPC	: Monetary Policy Committee
MSMEs	: Micro, Medium and Small Enterprises
NALs	: New Authorized Loans
NBR	: National Bank of Rwanda

NDFIs	: Non-Deposit Taking Lending Financial Institutions
NFA	: Net Foreign Assets
NISR	: National Institute of Statistics of Rwanda
NPLs	: Non-Performing Loans
NSFR	: Net Stable Funding Ratio
PSPs	: Payment Service Providers
ROAPLCs	: Public Limited Companies
POS	: Point of Sale
Q1	: Quarter one
Q2	: Quarter two
Q3	: Quarter three
Q4	: Quarter four
REPO	: Repurchase Agreement
RIPPS	: Rwanda Integrated Payment Processing System
ROA	: Return on Assets
RNPS	: Rwanda National Payments System
ROE	: Return on Equity
RTGS	: Real Time Gross Settlement
RSSB	: Rwanda Social Security Board
SMEs	: Small and Medium Enterprises
T- Bills	: Treasury Bills
TA	: Total Assets
TZS	: Tanzanian Shilling
UGS	: Ugandan Shilling
UK	: United Kingdom
US	: United States
U-SACCOs	: Umurenge SACCOs
USD	: United States Dollar
WEO	: World Economic Outlook

EXECUTIVE SUMMARY

The objective of this August 2021 Monetary Policy and Financial Stability Statement is to assess economic developments for the first half of the year 2021 and give an outlook for the second half of the year and beyond. This statement first presents the global economic developments to contextualize the domestic economic and financial performance before concluding with the outlook.

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO update) published in July 2021, the world economy is projected to recover from a contraction of 3.2 percent in 2020, growing by 6.0 percent in 2021 and 4.9 percent in 2022. Advanced economies are projected to recover by 5.6 percent in 2021 after a contraction of 4.6 percent in 2020, reflecting the recovery in all major economies. Emerging market and developing economies are projected to recover by 6.3 percent in 2021, after contracting by 2.1 percent in 2020. The Sub-Saharan African economy is projected to grow at 3.4 percent in 2021, compared to a contraction of 1.8 percent in 2020, reflecting economic recovery mainly in Nigeria and South Africa.

In 2021H1 (y-o-y), global commodity prices increased, reflecting a rebound in global demand. Energy prices rose by 63.1 percent from a drop of 36.6 percent in 2020H1, attributed mainly to the rise in crude oil prices by 59.2 percent compared to a decline of 36.8 percent in 2020H1. Crude oil prices are projected to increase by 56.6 percent on average in 2021, reflecting rising oil consumption. Non-energy commodity prices increased by 36.5 percent in 2021H1, after a decline of 3.4 percent in 2020H1, owing to higher prices for all non-energy commodities, and projected to increase by 26.5 percent on average in 2021.

World annual average inflation is projected at 3.5 percent in 2021 from 3.2 percent in 2020, following a rebound in global demand and rising commodity prices, but projected to ease to 3.2 percent in 2022.

On the domestic front, Rwanda's economy continues to recover from the impact of the COVID-19 pandemic. The real GDP increased by 3.5% in the first quarter of 2021, after three consecutive quarters of recession. The recovery is being supported by sizeable monetary and fiscal policy measures, as well as the ease of COVID-19 containment measures. High-frequency economic indicators suggest a good overall economic performance for the first half of 2021, with a CIEA increase of 22.1 percent from a contraction of 2.3 percent in the same period of 2020.

The vaccine rollout as well as monetary and fiscal policy interventions will be the backbone for the continuance of the recovery in the second half of 2021.

Rwanda's exports receipts rose by 16.0 percent in 2021H1, amounting to USD 672.2 million, up from USD 579.5 million a year earlier, reflecting a continued recovery of merchandise exports. On the other hand, in 2021H1, imports of goods increased by 6.1 percent, y-o-y, amounting to USD 1,618.1 million from USD 1,524.6 million in 2020H1. As a result, Rwanda's trade deficit widened by 0.1 percent, y-o-y, in 2021H1, amounting to USD 946.0 million, from USD 945.1 million in 2020H1.

In 2021H1, headline inflation eased to 1.4 percent on average compared to 8.5 percent and 7.0 percent recorded in 2020H1 and 2020H2, respectively. The current disinflationary environment is mainly reflected in highly volatile CPI components, mostly food, as well as a base effect from the transport component. In the outlook, headline inflation is projected at an average of 0.7 percent in 2021, before picking up to around 5 percent in 2022.

The monetary policy stance remained accommodative in 2021H1, with the Central Bank Rate (CBR) kept at 4.5 percent. This stance, along with other implemented policy measures, aimed at supporting commercial banks to *continue financing the economy and to mitigate the COVID-19 shock on the Rwandan economy, amid low inflationary pressures. Besides, the Economic Recovery Fund (ERF) put in place by the Government of Rwanda continued to cushion businesses affected by the COVID-19 pandemic. All these measures have contributed to increasing liquidity in the economy, which sustained the falling trend in the market lending rates like in recent years. The average lending rates fell by 34 basis points, to 15.91 percent in the first half of 2021 from 16.25 percent in the first half of 2020 and this fall was recorded for both individual and corporate loans.*

Broad money (M3) grew by 9.8 percent in 2021H1 compared to 10.4 percent recorded in 2020H1. Credit to the Private Sector (CPS) was the main positive contributor to that growth in M3. The expansion in outstanding CPS (+7.5 percent) was essentially driven by new authorized loans disbursed in the first half of 2021.

The FRW depreciated by 1.51 percent against the USD by end of June 2021 slightly lower than the 1.58 percent recorded in the same period of 2020. This slow depreciation rate reflects the gradual improvement in foreign exchange inflows despite high demand for forex to cater for growing imports needs. In 2021, the foreign exchange market is expected to remain stable, with adequate foreign exchange reserves held by NBR covering 5.1 months of prospective imports.

The financial sector continued to grow in 2021, despite the challenges posed by the COVID-19 crisis. Total assets of the financial sector expanded by 20.3 percent to FRW 6,914 billion in June 2021 underpinned by the growth of deposits, borrowings from international lenders and shareholder funds.

COVID has facilitated the adoption of digital payments spurring increased usage as evidenced in the increases in numbers of subscribers of mobile payments, mobile banking and internet banking. Values and volumes also *spiked in the period ended June 2021 mainly driven by the adoption of merchant payments.*

Incomes of individuals, households and firms were affected by the pandemic, which led to a contraction of the economy in 2020 and a mild growth in 2021Q1. Some of the most affected sectors like hotels, transport and commercial real estate are also significant borrowers from banks. As result, credit risk has increased in the financial sector, though NPL ratio has so far registered a modest increase to 5.7 percent in June 2021 from 5.4 in June 2020.

The financial sector held sufficient capital and liquidity buffers at the on-set of the pandemic on the back of recent regulatory reforms as well as past profitable performance. The timely fiscal, monetary and supervisory policy interventions were also supportive in maintaining these buffers. As a result, the banking sector total capital adequacy ratio was 22.5 percent and 35.4 percent for microfinance sector, both compared to the minimum requirement of 15 percent. Liquidity in the banking sector, represented by the Liquidity Coverage Ratio (LCR) was 226.2 percent compared to the required minimum of 100 percent. In the microfinance sector, liquidity ratio was 106 percent compared to the minimum required of 30 percent. The solvency ratio for private insurers was 147 percent compared to the required minimum of 100 percent. The financial sector is expected to remain sound and stable throughout 2021.

INTRODUCTION

The objective of this August 2021 Monetary Policy and Financial Stability Statement is to assess economic developments of the first half of 2021 and give an outlook for the remaining period of 2021 and beyond. This statement first presents the global economic developments to contextualize the domestic economic and financial performance before concluding with the outlook.

I. GLOBAL ECONOMIC ENVIRONMENT

1.1 Economic growth and outlook

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO update) published in July 2021, the world economy is projected to recover from a contraction of 3.2 percent in 2020, growing by 6.0 percent in 2021 and 4.9 percent in 2022. The contraction for 2020 was the worst contraction since the global financial crisis, owing to the outbreak of the COVID-19 pandemic. Even though the 2021 forecasts are unchanged from April projections, there are offsetting revisions across advanced economies and emerging market and developing economies reflecting differences in pandemic developments and policy shifts.

The projected growth for 2022 is 0.5 percentage points higher than in the April forecasts, resulting largely from the forecast upgrade for advanced economies, particularly the United States, reflecting the anticipated legislation of additional fiscal support in the second half of 2021 and improved health metrics more broadly across the advanced economies group. However, uncertainty surrounding the global projections remains high, primarily related to the prospects of emerging market and developing economies.

Concerning pandemic related downside factors, global growth would be weaker than projected if logistical hurdles in procuring and distributing vaccines in emerging market and developing economies lead to an even slower pace of vaccination than assumed. Such delays would allow new variants to spread, with possibly higher risks of breakthrough infections among vaccinated populations. In addition to pandemic-related downside factors, social unrest, geopolitical tensions, cyberattacks on critical infrastructure, or weather-related natural disasters could further weigh on the global recovery.

Furthermore, the assumed fiscal impulse in the United States may be weaker than expected if legislated infrastructure and family support packages turn out smaller than announced or if the multiplier effect on activity is weaker than assumed. This would lead to lower US growth than in the baseline, with smaller spillovers to trading partners. Growth could also disappoint relative to the forecast if financial conditions were to tighten abruptly, for instance if inflationary pressures persist longer than expected and lead to another reassessment of the monetary policy outlook.

On the *upside*, better global cooperation on vaccines could help prevent renewed waves of infection and the emergence of new variants, end the health crisis sooner than assumed, and allow for faster normalization of activity, particularly among emerging market and developing economies. Moreover, a sooner-than-anticipated end to the health crisis could lead to a faster-than-expected release of excess savings by households, higher confidence, and more front-loaded investment spending by firms.

Table 1: Global GDP Growth (p.a)

	2020				2021	IMF WEO			
	Q1	Q2	Q3	Q4	Q1	2019	2020	2021 proj	2022 proj
World	-	-	-	-	-	2.8	-3.2	6.0	4.9
Advanced economies	-	-	-	-	-	1.6	-4.6	5.6	4.4
United States (y-o-y)	0.3	-9.0	-2.8	-2.4	0.4	2.2	-3.5	7.0	4.9
Euro area (y-o-y)	-3.3	-14.6	-4.1	-4.9	-1.8	1.3	-6.5	4.6	4.3
Japan (y-o-y)	-2.2	-10.2	-5.5	-1.0	-1.8	0.0	-4.7	2.8	3.0
United Kingdom (y-o-y)	-2.2	-21.4	-8.5	-7.3	-6.1	1.4	-9.8	7.0	4.8
Emerging market & developing economies	-	-	-	-	-	3.7	-2.1	6.3	5.2
China (y-o-y)	-6.8	3.2	4.9	6.5	18.3	6.0	2.3	8.1	5.7
India (y-o-y)	4.1	3.1	-23.9	0.6	4.1	4.0	-7.3	9.5	8.5
Sub-Saharan Africa	-	-	-	-	-	3.2	-1.8	3.4	4.1

Source: IMF, July 2021 WEO update and OECD

In 2021, economic growth in advanced economies is projected to recover by 5.6 percent after a contraction of 4.6 percent in 2020, reflecting a recovery in all major economies. These economies include the United States (7.0 percent after -3.5 percent), Eurozone (4.6 percent after -6.5 percent), United Kingdom (7.0 percent from -9.8 percent), and Japan (2.8 percent from -4.7 percent). The GDP growth prospect for 2021-2022 has been revised up by 0.5 and 0.8 percentage points, respectively, from expected further normalization in the second half of 2021 as vaccine rollout proceeds and with additional fiscal support.

Relative to the April WEO projections, the US growth projections for 2021-2022 are revised upwards by 0.6 percentage points in 2021 and 1.4 percentage points in 2022, reflecting anticipated further fiscal support. The significantly improved outlook for the US economy derives from the impact of anticipated legislation boosting infrastructure investment and strengthening the social safety net in the second half of 2021. The additional support is expected to lift US GDP growth by 0.3 percentage points in 2021 and by 1.1 percentage points in 2022, with positive spillovers to trading partners.

However, Japan's 2021 projections are revised down by 0.5 percentage points, primarily reflecting tighter restrictions in the first half of the year as caseloads picked up, but anticipated to see a more robust rebound in the second half of 2021, as vaccination proceeds and the economy fully reopens, improving its growth forecast for 2022 to 3.0 percent.

Emerging market and developing economies are projected to recover by 6.3 percent in 2021, after contracting by 2.1 percent in 2020, and projected to grow by 5.2 percent in 2022. The forecast for the group as revised down by 0.4 percentage points in 2021 compared with the April WEO projections, attributed mainly to growth markdowns for emerging Asian economies, while growth forecasts for other regions have generally been revised up for 2021, largely reflecting the stronger-than-anticipated outturns in the first quarter.

In China, GDP growth is projected at 8.1 percent in 2021, from 2.3 percent recorded in 2020. Compared to the projected growth of 8.4 percent in the April 2021 WEO forecast, the projected growth for 2021 was revised downwards by 0.3 percentage points on scaling back of public investment and overall fiscal support. In 2022, the Chinese economic growth is projected at 5.7 percent.

According to the IMF July 2021 WEO update, India's economy is projected to recover by 9.5 percent in 2021, from a contraction of 7.3 percent recorded in 2020, and projected to grow by 8.5 percent in 2022. The projections for 2021 have been revised downwards by three percentage points, following the severe second COVID-19 wave during March – May 2021.

The Sub-Saharan African economy is projected at 3.4 percent in 2021, compared to a contraction of 1.8 percent in 2020, reflecting economic recovery mainly in Nigeria (2.5 percent) and South Africa (4.0 percent). The unchanged revision reflects an upgrade for South Africa following a strong positive surprise in the first quarter of 2021 offset by downward revisions in other countries. The worsening pandemic developments in Sub-Saharan Africa are expected to weigh on the region's recovery, and tourism-reliant economies will likely be the most affected. However, projections for 2022 were slightly revised up by 0.1 percentage point to 4.1 percent.

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021 proj	2022 proj
Sub-Saharan Africa	5.2	5.1	3.2	1.5	3.1	3.2	3.2	-1.8	3.4	4.1
Angola	5.0	4.8	0.9	-2.6	-0.2	-2.0	-0.6	-4.0	0.4	2.4
Nigeria	5.4	6.3	2.7	-1.6	0.8	1.9	2.2	-1.8	2.5	2.6
South Africa	2.5	1.8	1.2	0.4	1.4	0.8	0.2	-7.0	4.0	2.2
South Sudan	29.3	2.9	-0.2	-13.5	-5.8	-1.9	0.9	-6.6	5.3	6.5
Egypt	3.3	2.9	4.4	4.3	4.1	5.3	5.6	3.6	2.5	5.2
Libya	-36.8	-53.0	-13.0	-7.4	64.0	17.9	13.2	-59.7	131.0	5.4

Source: IMF, April 2021 and July 2021 WEO update

The economic performance in the East African Community (EAC-5) countries is projected to recover by 5.7 percent in 2021 and to moderate to 5.3 percent in 2022 after a contraction of 0.2 percent recorded in 2020, following a projected recovery in all member countries compared to the previous year.

Table 3: Real GDP Growth in EAC (p.a)

	2020				2021	Annual average			
	Q1	Q2	Q3	Q4	Q1	2019	2020	2021 proj	2022 proj
EAC	-	-	-	-	-	6.5	-0.2	5.7	5.3
Burundi	-	-	-	-	-	1.8	-1.3	2.8	3.7
Kenya	5.1	-5.5	-1.1	-0.1	-	5.4	-0.1	7.6	5.7
Rwanda	3.7	-12.4	-3.6	-0.6	3.5	9.5	-3.4	5.7	6.8
Tanzania	5.9	4.0	4.4	4.8	4.9	7.0	4.8	5.7	4.6
Uganda	-0.7	-5.5	-0.3	-1.5	6.2	8.0	-2.1	6.3	5.0

Source: IMF, Regional Economic Outlook April 2021 & Country Bureau of statistics

1.2 Inflation and commodity prices

1.2.1 Inflation

World annual average inflation is projected at 3.5 percent in 2021 from 3.2 percent in 2020, following a rebound in global demand and rising commodity prices. In some emerging market and developing economies (Sub-Saharan Africa and the Middle East and Central Asia), food prices have increased significantly amid shortages and the rise in global food prices. Currency depreciation has also lifted prices of imported goods, further adding to overall inflation. Global inflation is projected to ease to 3.2 percent in 2022.

In advanced economies, consumer price inflation is expected to increase to 2.4 percent in 2021 from 0.7 percent in 2020, reflecting more robust economic activities and higher commodity prices. The annual average inflation is projected to rise to 2.3 percent in 2021 from 1.2 percent in 2020 in the United States, at 1.4 percent from 0.3 percent in the Euro zone, and at 1.5 percent after 0.9 percent in the United Kingdom, over the same period, giving room to Central Banks for further monetary easing.

Table 4: Annual Average Inflation Developments (p.a)

	2020 (Y-o-Y)				2021 (Y-o-Y)			Annual Average			
	Mar	Jun	Sep	Dec	Mar	May	Jun	2019	2020	2021 proj	2022 proj
World	-	-	-	-	-	-	-	3.5	3.2	3.5	3.2
Advanced economies	-	-	-	-	-	-	-	1.4	0.7	2.4	2.1
United States	1.5	0.6	1.4	1.4	2.6	5.0	5.4	1.8	1.2	2.3	2.4
Euro area	0.8	0.3	-0.3	-0.3	1.3	2.0	1.9	1.2	0.3	1.4	1.2
Japan	0.4	0.1	0.1	-1.2	-0.2	-0.1	-0.5	0.5	0.0	0.1	0.7
United Kingdom	1.5	0.8	0.7	0.8	1.0	2.1	2.4	1.8	0.9	1.5	1.9
Emerging and dev. economies	-	-	-	-	-	-	-	5.1	5.1	5.4	4.7
China	4.3	2.5	1.7	0.2	0.4	1.3	1.1	2.9	2.4	1.2	1.9
India	5.8	6.2	7.3	4.6	5.5	6.3	6.3	4.8	6.2	4.9	4.1
Sub-Saharan Africa	-	-	-	-	-	-	-	8.5	10.8	9.8	7.8

Source: IMF, April & July WEO update 2021 and official numbers from countries

In emerging market and developing economies, inflation is projected to rise to 5.4 percent in 2021, from 5.1 percent in 2020, but projected to decrease to 4.7 percent in 2022. The Chinese annual average inflation is projected to ease at 1.2 percent in 2021, from 2.4 percent in 2020, and projected at 1.9 percent in 2022.

In Sub-Saharan Africa (SSA), annual headline inflation is projected to ease to 9.8 percent in 2021, from 10.8 percent in 2020, following projected falling inflation rates in Zimbabwe (99.3 percent from 557.2 percent), Ethiopia (13.1 percent from 20.4 percent), Democratic Republic of Congo (10.9 percent after 11.3 percent), and Senegal (2.0 percent from 2.5 percent). Sub-Saharan Africa inflation is projected to ease further to 7.8 percent in 2022.

In the five countries of the East African Community (EAC-5), annual headline inflation is estimated to ease at 4.4 percent in 2021, from 4.5 percent in 2020, reflecting the projected lower inflation rate in Burundi (4.1 percent from 7.3 percent in 2020), Rwanda[1] (0.7 percent from 7.7 percent), and Kenya (5.0 percent compared to 5.3 percent). The EAC-5 stable and low inflation is

[1] National Bank of Rwanda's projection, August 2021.

attributed to the good agriculture production owing to favorable weather conditions, and effective monetary policies implemented by Central Banks.

Table 5: Annual Average Inflation in EAC Countries (p.a)

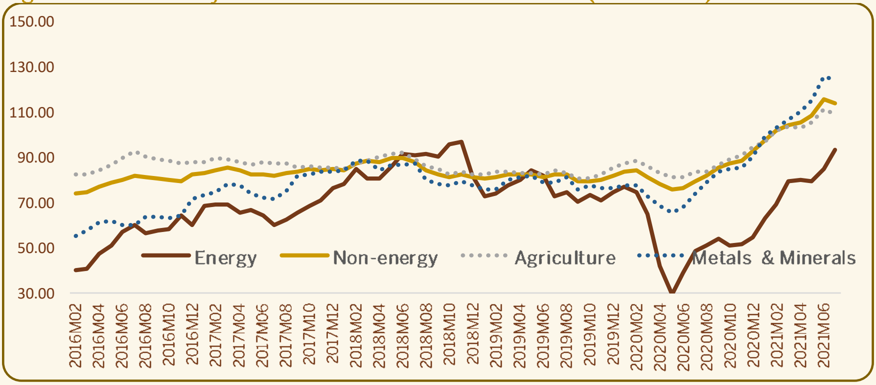
	2020 (Y-o-Y)				2021 (Y-o-Y)				Annual Average			
	Mar	Jun	Sep	Dec	Jan	Mar	May	Jun	2019	2020	2021 proj	2022 proj
EAC -5	-	-	-	-	-	-	-	-	4.0	4.5	4.4	4.6
Burundi	7.1	8.5	6.3	8.0	7.6	7.6	5.1	9.1	-0.7	7.3	4.1	2.0
Kenya	5.5	4.6	4.2	5.6	5.7	5.9	5.9	6.3	5.2	5.3	5.0	5.0
Rwanda	8.5	9.0	8.9	3.7	2.8	2.0	-0.1	-0.2	2.4	7.7	0.7	5.6
Tanzania	3.4	2.9	3.1	3.2	3.5	3.2	3.3	3.6	3.4	3.0	3.3	3.6
Uganda	3.0	4.1	4.5	2.4	2.0	2.7	1.9	2.0	2.9	3.8	5.2	5.5

Source: IMF, April 2021 WEO projections & Official numbers from countries

1.2.2 Commodity Prices

In 2021H1 (y-o-y), global commodity prices increased, reflecting a rebound in global demand. Energy prices rose by 63.1 percent from a drop of 36.6 percent in 2020H1, attributed mainly to the rise in crude oil prices. Non-energy commodity prices increased by 36.5 percent in 2021H1, after a decline of 3.4 percent in 2020H1, owing to higher prices for metals & minerals, agricultural commodities, and fertilizers. In June 2021 (y-o-y), energy commodity prices increased significantly by 92.6 percent compared to a drop of 33.8 percent, while non-energy commodity prices increased by 43.2 percent after a decline of 3.5 percent in June 2020 (y-o-y).

Figure 1: Commodity Prices Index in Nominal US Dollar (2010=100)

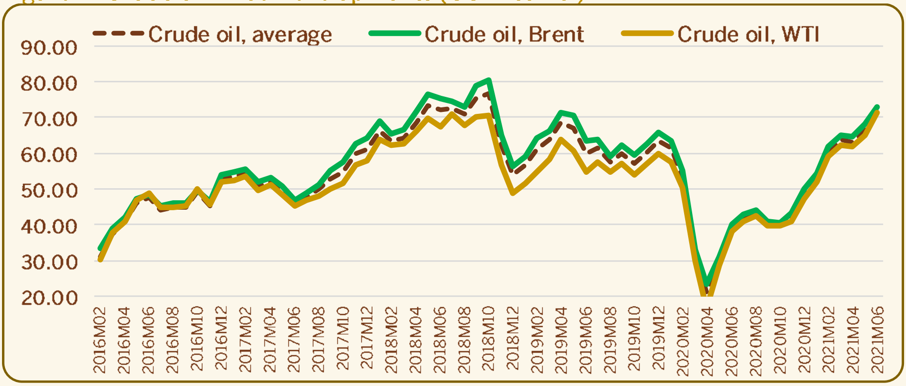


Source: World Bank, June 2021

Global energy prices are projected to increase by 36.2 percent in 2021 and by 6.1 percent in 2022 attributed mainly due to the projected rise in crude oil prices. Non-energy prices are projected to increase by 26.5 percent, following the projected increase for metals & minerals, and agricultural commodities, mostly food prices.

In 2021H1, crude oil prices increased by 59.2 percent on average compared to a decline of 36.8 percent in 2020H1, following the rebound in global demand. In June 2021 (y-o-y), crude oil prices rose considerably by 82.0 percent compared to a drop of 42.5 percent in the same period of the previous year. In July 2021, IMF projects oil prices to increase by 56.6 percent, from USD 41.30/barrel in 2020 to USD 64.68/barrel in 2021, reflecting an expected rise in oil consumption.

Figure 2: Crude Oil Price Developments (USD/barrel)



Source: World Bank commodity prices, June 2021

In 2021H1, average prices for agricultural commodities increased by 26.1 percent from 0.6 percent in 2020H1, driven by supply shortfalls and stronger-than-expected demand for some oils and meals. In June 2021 (y-o-y), agriculture commodities rose by 30.6 percent after dropping by 1.3 percent in June 2020 (y-o-y) due to the rising prices of food (+38.7 percent); of which oils & meals, grains, and other foods prices rose by 56.9 percent, 40.4 percent and 17.9 percent, respectively. Agricultural commodity prices are projected to increase by 13.5 percent on average in 2021, attributed mainly to the projected rising food prices (+17.1 percent), and beverages (+1.4 percent), of which coffee Arabica (+5.4 percent), and coffee Robusta (+5.3 percent).

Metals & mineral prices went up significantly by 60.5 percent in 2021H1, compared to a decline of 10.3 percent in 2020H1, reflecting the impact of rising demand that favored industrial production activities. Prices increased for precious metals as uncertainties overshadowed prospects for the global economy and increased the demand for safe-haven assets. Precious metals rose by 16.5 percent after an increase of 23.1 percent in 2020H1. Metals & mineral prices are projected to increase further by 30.5 percent in 2021, attributed mainly to the projected increase of tin prices by 46.0 percent, but will later drop by 12.1 percent in 2022.

Prices for fertilizers rose by 45.2 percent in 2021H1 from a drop of 16.8 percent in 2020H1. In June 2021 (y-o-y), prices increased by 79.3 percent, after a decline of 20.3 percent in the corresponding month of 2020. The World Bank projects an increase of 27.0 percent in 2021 and a decrease of 4.9 percent in 2022.

Table 6: Commodity prices (in percent change)

			2020			2021			Forecast, % changes	
	2019	2020	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	Q1 (YoY)	Q2 (YoY)	H1 (YoY)	2021	2022
Energy	-12.7	-31.6	-21.5	-51.3	-36.6	25.9	121.1	63.1	36.2	6.1
Crude oil, average	-10.2	-32.8	-18.9	-53.4	-36.8	20.9	121.3	59.2	56.6*	-2.6*
Non-energy	-4.1	2.9	-1.0	-5.7	-3.4	27.8	45.6	36.5	26.5*	-0.8*
Agriculture commodities	-3.8	4.5	2.8	-1.5	0.6	20.1	32.4	26.1	13.5	1.0
Beverages	-3.7	5.5	6.3	2.7	4.5	5.7	13.1	9.4	1.4	1.6
Arabica coffee	-1.6	15.4	11.9	20.1	15.9	16.0	22.7	19.4	5.4	1.4
Robusta coffee	-13.2	-6.5	-11.9	-11.6	-11.7	5.8	23.7	14.4	5.3	1.9
Tea auction (*)	-9.8	5.1	-4.1	-3.0	-3.5	9.8	5.1	7.2	-7.4	2.0
Food	-3.8	6.4	4.5	0.1	2.3	25.7	41.8	33.7	17.1	0.8
Cereals	0.2	4.6	4.5	0.2	2.3	25.3	37.8	31.5	13.7	0.8
Oils and Meals	-8.9	16.1	8.1	3.7	5.9	46.1	64.9	55.4	29.0	0.9
Agriculture raw materials	-3.6	-1.0	-3.5	-7.9	-5.7	11.5	16.0	13.5	9.8	0.9
Metals & Minerals	-5.0	1.0	-7.4	-13.2	-10.3	45.6	76.3	60.5	30.5	-12.1
Tin	-7.4	-8.2	-22.7	-20.4	-21.6	54.3	97.2	75.4	46.0	-8.0
Gold	9.7	27.1	21.4	30.6	26.0	13.6	6.1	9.7	-4.0	-5.9
Fertilizers	-1.4	-10.1	-15.9	-17.8	-16.8	33.5	57.4	45.2	27.0	-4.9

Source: World Bank commodity prices, June 2021

*IMF July projections

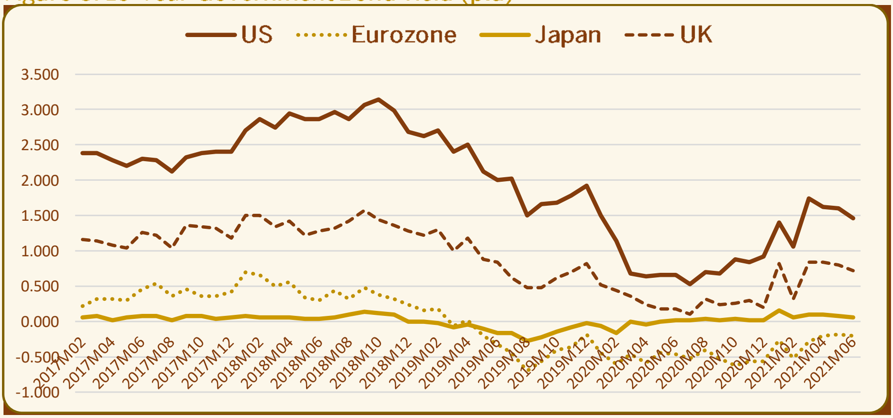
1.3 Monetary policy and financial markets

Many Central Banks and Governments across the World took targeted policy measures to support their economies in response to the decline in global demand and falling business confidence due to the Covid-19 pandemic.

The US Federal Reserve cut the Federal Funds rate two times in March 2020, (3rd and 11th March by 50 and 100 basis points, respectively), and the Bank of England also cut its policy rate twice in March (11th and 19th by 50 and 15 basis points, respectively). They also implemented Quantitative Easing (QE) to restore confidence and support their economies. The European Central Bank maintained its policy rate at zero percent since March 2016, and the Bank of Japan continued to apply a negative interest rate since January 2016.

In June 2021, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.560 percent and -0.125 percent, respectively, affecting banks' deposits in the Central Bank and encouraging economic financing. In the US and UK, deposit rates decreased to 0.154 percent from 0.340 percent in December 2020, while increasing for the UK to 0.1500 percent from 0.101 percent in December 2020.

Figure 3: 10-Year Government Bond Yield (p.a)



Source: Bloomberg database, June 2021

The ten-year government bond rate increased in the US, Japan, and the UK to 1.468 percent, 0.052 percent and 1.716 percent, respectively, from 0.913 percent, 0.017 percent and 0.197 percent in December 2020. In the United States, this increase reflected bullish economic recovery amid stronger fiscal stimulus, higher inflation expectations, and the Federal Reserve's intention to keep an easy monetary policy stance to achieve maximum employment and price stability objectives. However, the ten-year government bond rate decreased in the Eurozone to -0.569 percent in June 2021 from -0.207 percent in December 2020.

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

Table 7: Units Currency per 1 US Dollar (p.a)

	2020					2021		
	Jan	Mar	Jun	Sept	Dec	Jan	Mar	Jun
USD/GBP	0.7572	0.8056	0.8064	0.7738	0.7318	0.7180	0.7255	0.7229
USD/EUR	0.9015	0.9064	0.8902	0.8532	0.8186	0.8283	0.8525	0.8434
USD/JPY	108.35	107.54	107.93	105.48	103.25	106.57	110.72	111.11
USD/CNY	6.911	7.082	7.065	6.791	6.530	6.479	6.553	6.457

Source: Bloomberg, June 2021

By end June 2021 (y-o-y), the US dollar appreciated by 7.61 percent against the Japanese Yen and by 3.03 percent against the Euro, reflecting optimism about the US growth outlook; but weakened by 1.22 percent against the British Pound and by 1.12 against the Chinese Yuan.

II. NATIONAL ECONOMIC PERFORMANCE

This section discusses Rwanda's economic growth and external sector performance during the first half of 2021. The Rwandan economy has been recovering from the adverse effects of the COVID-19 pandemic, as evidenced by real GDP growth that increased by 3.5 percent in 2021Q1 after three consecutive quarters in recession. According to recent forecasts, GDP is projected to grow by 5.1 percent in 2021 from a contraction of 3.4 percent in 2020.

2.1. Economic growth

2.1.1 GDP Growth in 2021Q1

Rwandan economy has been gradually recovering from the adverse effects of the COVID-19 pandemic, which led to a contraction in economic activity of 3.4 percent in 2020.

Despite the second wave of infections that prompted a partial lockdown between January and February 2021, real GDP growth stood at 3.5 percent in 2021Q1 mainly due to good performance in agriculture and industry sectors, after three consecutive quarters of contraction.

The agriculture sector grew by 6.8 percent in 2021Q1 from a decline of 0.5 percent in 2020Q1. The good harvest of food crops led to this better than previous performance during 2021 agricultural season A, supported by favorable weather conditions and increased use of agricultural inputs, notably fertilizer and improved seeds. Food production increased by 7.0 percent and represented 64.8 percent of 2021Q1 agriculture's value-added. While, export crops production rose by 7.0 percent from a decrease of 15.7 percent, led by coffee representing 42.3 percent of the subsector and whose production grew by 30.3 percent against a contraction of 37.7 percent in 2020Q1.

Table 8: Rwanda Real GDP growth (percent)

	2018	2019	2020	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1
GDP	8.6	9.5	-3.4	3.7	-12.4	-3.6	-0.6	3.5
Agriculture	**6.1**	**5.0**	**0.9**	**-0.5**	**-1.6**	**2.2**	**3.4**	**6.8**
Food crops	5.9	4.0	0.3	-1.8	-1.8	2.6	2.6	7.0
Export crops	6.9	4.5	-9.4	-15.7	-18.7	-8.3	0.2	7.0
Livestock & livestock products	10.7	11.2	8.2	8.0	7.8	8.3	8.9	8.9
Forestry	4.3	5.6	3.7	3.9	2.5	3.9	4.3	5.2
Fishing	5.4	3.7	-15.5	4.8	-48.0	-20.0	1.1	1.1
Industry	**8.7**	**16.6**	**-4.2**	**1.9**	**-18.9**	**-1.4**	**1.8**	**9.7**
Mining & quarrying	3.1	-0.3	-31.2	-26.3	-52.8	-24.3	-19.1	3.3
Manufacturing	13.6	11.3	2.0	5.5	-12.7	6.5	9.7	8.3
Electricity	9.8	7.2	1.9	3.8	-5.9	1.7	7.7	2.1
Water & waste management	2.1	2.1	2.4	2.1	1.2	2.8	3.4	3.1
Construction	4.8	32.8	-5.7	5.3	-19.9	-5.5	-2.4	14.4
Services	**9.7**	**8.3**	**-5.5**	**5.6**	**-16.3**	**-7.4**	**-3.3**	**-0.4**
Trade & transport	18.3	14.2	-10.6	7.0	-29.0	-11.6	-7.3	-3.9
Maintenance and repair of motors	6.6	6.9	-3.1	0.6	-42.8	14.1	14.5	28.6
Wholesale & retail trade	18.2	15.7	-3.3	11.4	-21.7	0.0	-1.5	-0.5
Transport services	19.7	12.4	-23.7	0.2	-41.0	-32.6	-19.2	-13.9
Other services	6.6	5.9	-3.3	5.1	-10.8	-5.4	-1.5	1.1
Hotels & restaurants	7.3	9.7	-40.2	3.3	-62.5	-54.7	-44.4	-34.4
Information & communication	14.2	9.1	29.2	33.7	33.4	42.7	11.8	18.2
Financial services	10.0	8.4	-2.4	-5.0	-8.4	-2.5	5.8	10.4
Real estate activities	4.8	3.9	0.3	-0.1	-7.5	1.5	7.8	3.0
Professional, scientific & technical activities	9.5	9.8	-0.8	-0.8	-5.9	2.1	1.4	10.1
Administrative & support service activities	4.1	4.7	-6.8	0.5	-7.5	-9.4	-10.5	-3.6
Public administration & defense; compulsory social security	7.1	4.6	2.9	14.5	-3.0	1.0	0.5	-1.7
Education	3.6	2.2	-37.5	-2.8	-66.6	-57.5	-23.1	5.3
Human health & social work activities	-0.2	3.4	15.9	31.6	4.8	5.5	24.1	-12.1
Cultural, domestic & other services	9.3	8.2	-1.2	-0.5	-3.6	0.9	-1.6	6.4
Taxes less subsidies on products	**9.4**	**15.1**	**-1.7**	**9.1**	**-8.8**	**-3.7**	**-2.1**	**3.1**

Source: Rwanda National Institute of Statistics (NISR)

Industrial production recorded a growth of 9.7 percent in 2021Q1 from 1.9 percent in 2020Q1, supported by fiscal and monetary policy measures undertaken to help the economy to recover from the adverse effects of the COVID-19 pandemic. The recovery process is observed across all industrial sub-sectors. Mining and quarrying grew by 3.3 percent from a decline of 26.3 percent, mainly supported by increasing mineral prices on international markets. The price index for metals and minerals increased by 45.6 percent in 2021Q1 from a contraction of 7.4 percent in 2020Q1.

Manufacturing and construction grew by 8.3 percent and 14.4 percent in 2021Q1, respectively, benefiting from the aforementioned measures, which included infrastructure projects that led to increased demand for locally produced construction materials such as metal products (+28.8 percent) together with paints and varnishes (+63.1 percent), therefore contributing to a fast recovery of industry sector. The good performance of manufacturing industries was also linked to positive output from food processing (+7.2 percent), beverages (+4.1 percent), and furniture as well as other manufactured products (+15.6 percent).

The services sector, though recovering (-0.4 percent in 2021Q1 from -3.3 percent in 2020Q4), remained constrained by the adverse effect of COVID-19, especially tourism-related services. The global evolution of the pandemic and related containment measures have led to a decline of 83 percent in international tourist arrivals in 2021Q1 worldwide. This led to poor performance of domestic air transport (-54.6 percent in 2021Q1 from -15.3 percent in 2020Q1), travel agents and tour (-43.3 percent in 2021Q1 from +24.4 percent in 2020Q1), as well as hotel and restaurant (-34.4 percent in 2021Q1 from +3.3 percent in 2020Q1) subsectors. In 2021Q1, overall transport services contracted by 13.9 percent, mostly reflecting the poor performance of air transport (-54.6 percent) coupled with the impact of the partial lockdown that caused a decline of 1.3 percent in land transport outcomes. The partial domestic lockdown has also contributed to the poor performance of the hotel and restaurants subsector.

The recovery of the services sector was supported by the good performance of information and communication (+18.2 percent), financial services (+10.4 percent), real estate (+3.0 percent), education (+5.3 percent), and professional, scientific & technical services (+10.1 percent).

2.1.2 High-Frequency Economic Indicators

The high-frequency indicators of economic activities point to further economic recovery during the second quarter of 2021. The real composite index of economic activities (CIEA) increased by 32.4 percent in 2021Q2 from a decline of 9.4 percent in the same period of 2020. For the first six months of the year 2021, the real CIEA rose by 22.1 percent against a decline of 2.3 percent in the corresponding period of 2020.

Table 9: CIEA (Percent change, y-o-y)

CIEA	Real		Nominal	
	2020	2021	2020	2021
Q1	5.4	12.7	13.0	13.0
April	-20.2	49.0	-11.6	43.2
May	-16.0	34.3	-8.8	36.9
June	8.4	18.8	13.6	23.1
Q2	-9.4	32.4	-2.5	30.3
H1	-2.3	22.1	5.0	22.9

Source: NBR, Monetary Policy and Research Directorate

The economic recovery is also reflected in the improving total turnovers of industry and service sectors, which increased by 49.7 percent in 2021Q2 against a drop of 20.9 percent in 2020Q2 . In 2021H1, total turnovers of industry and service sectors grew by 26.3 percent, compared to 13.4 percent recorded in the corresponding period of 2020.

Table 10: Turnovers of industry & services (Real percent change, y-o-y)

	2020	2021		2020 H1	2021 H1
	Q2	Q1	Q2		
Total turnovers	-20.9	6.5	49.7	-13.4	26.3
Industries	-1.5	10.4	37.1	3.7	23.2
Mining and Quarrying	-39.8	22.2	185.8	-22.3	83.8
Manufacturing	7.6	14.2	31.7	13.6	23.0
Energy, water & Sanitation	-13.3	22.6	71.3	0.4	44.4
Construction	-8.1	-1.3	22.8	-6.7	9.6
Services	-26.9	5.1	54.9	-18.6	27.5
Trade services	-26.0	9.7	53.6	-20.2	30.1
Transport and Storage	-49.6	-6.0	188.3	-13.1	45.7
Hotels and Restaurants	-57.2	-47.9	138.8	-25.3	5.9
Information and Communication	0.9	11.5	46.0	8.0	29.1
Financial services	-18.8	8.8	31.6	-15.6	19.7

Source: NBR, Monetary Policy and Research Department

The recovery is observed in both the industry and service sectors. During the first half of 2021, the industry sector turnovers grew by 23.2 percent from 3.7 percent recorded in the same period of 2020, helped by government's economic recovery plan and eased containment measures. The mining and quarrying subsector's growth was also underpinned by rising metal and mineral prices on the international market (+ 60.5 percent during the 2021H1 after - 10.3 percent in 2020H1).

Likewise, the negative effect of the Covid-19 pandemic on the services sector is dissipating, as indicated by the sector's turnovers; which increased by 27.5 percent in 2021H1 from a decline of 18.6 percent in the same period of 2021. This positive trend is mainly associated with the performance of trade services (+30.1 percent), transport and storage (+45.7 percent), Information and communication (+29.1 percent) as well as financial services (+19.7 percent). However, the recovery of tourism-related services is very slow. For instance, hotels and restaurants' sales increased by 5.9 percent in 2021H1, slower compared to other subsectors. The slow recovery of these subsectors reflects the global trend, where hotel bookings fell by 35 percent on average in 2021H1 globally, improving from an average decline of 45 percent in 2020H1, while in Africa, they decreased by 60 percent and 53 percent respectively during the same periods. UNWTO states that the devastating impact of the COVID-19 pandemic on global tourism has been carried on into 2021 such that the international tourist arrivals would fall by 55 percent up to 67 percent.

Averall, Rwanda's economic recovery is foreseen to continue over the second half of 2021, supported by easy monetary policy and fiscal stimulus such as manufacture and build to recover program in addition to the vaccine rollout. Real GDP is projected to grow by 5.1 percent in 2021.
However, uncertainties rising from the domestic and global evolution of the pandemic continue to threaten the pace of the recovery.

2.2 External trade performance

Rwanda's exports receipts rose by 16.0 percent in 2021H1, amounting to USD 672.2 million, up from USD 579.5 million a year earlier, reflecting a continued recovery of merchandise exports from the virus-induced collapse that bottomed out in the second quarter of last year. Traditional exports rose by 30.2 percent, non-traditional exports by 63.6 percent, and re-exports by 54.3 percent, while exports earnings from refined gold reduced by 35.8 percent.

On the other hand, imports of goods increased by 6.1 percent in 2021H1, y-o-y, amounting to USD 1,618.1 million from USD 1,524.6 million in 2020H1. The rise in imports is attributable to increased demand for intermediary goods (+22.4 percent), consumer goods (+10.7 percent), and capital goods (+16.5 percent), reflecting a rebound in domestic economic activities, outweighing the decreased imports of energy & lubricants (-27.4 percent) and gold (-29.7 percent). As a result, Rwanda's trade deficit widened by 0.1 percent, y-o-y, in 2021H1, amounting to USD 946.0 million, from USD 945.1 million in 2020H1. The coverage of imports by exports increased to 41.5 percent in 2021H1 from 38.0 percent in 2020H1, with informal cross-border trade included.

Table 11: Developments in Trade Balance (Value in millions of USD, Volume in 000' tons)

		2017	2018	2019	2020	2020H1	2021H1	% Change 21H1/20H1
Exports	Value	1037.1	1121.8	1240.1	1407.5	579.5	672.2	16.0
	Volume	799.5	973.9	1127.5	859.4	385.6	538.9	39.7
Imports	Value	2348.6	2636.2	3094.1	3373.5	1524.6	1618.1	6.1
	Volume	2716.6	3026.8	3117.9	3264.6	1375.9	1507.0	9.5
Trade balance	Value	-1311.6	-1514.3	-1854.0	-1966.0	-945.1	-946.0	0.1
% Exports/Imports	%	44.2	42.6	40.1	41.7	38.0	41.5	3.5

Source: NBR, Statistics Department

2.2.1 Exports Developments

The 16.0 percent increase in export value is attributable to the recovery in global economic activities and rising commodity prices, which increased revenues from traditional exports. In addition, increased trade with neighboring countries combined with improvement of domestic manufacturing activities resulted in soaring receipts from non-traditional exports and re-exports.

Regarding the composition of Rwanda's export revenues, re-exports leads with a share of 33.3 percent in 2021H1 from 25.0 percent in 2020H1, followed by processed gold (21.9 percent from 39.3 percent), non-traditional (19.5 percent from 13.9 percent), traditional (19.5 percent from 17.3 percent) and informal cross-border trade (6.0 percent from 4.5 percent).

Table 12: Major Exports Developments (Value FOB in USD millions, Volume 000' tons)

	2017	2018	2019	2020	2020H1	2021H1	%change
Coffee							
- Value	64.1	69.6	69.8	53.9	10.9	16.8	**54.3**
- Volume	18.7	21.3	23.4	16.0	4.3	5.4	**25.3**
- Price USD/KG	3.4	3.3	3.0	3.4	2.5	3.1	**23.1**
Tea							
- Value	84.3	90.5	86.9	90.3	51.2	50.9	**-0.7**
- Volume	26.2	30.9	31.2	32.7	17.8	19.4	**9.2**
- Price USD/KG	3.2	2.9	2.8	2.8	2.9	2.6	**-9.1**
Mining							
- Value	123.7	143.0	100.3	83.1	34.8	60.8	**74.8**
- Volume	8.0	8.4	7.1	5.7	2.3	3.3	**45.5**
Cassiterite							
- Value	50.2	49.9	37.9	31.4	8.6	26.0	**201.2**
- Volume	4.8	4.8	3.8	2.8	1.0	1.7	**65.5**
- Price USD/KG	10.5	10.4	9.9	11.1	8.6	15.7	**82.0**
Coltan							
- Value	60.9	71.6	45.6	34.0	18.9	22.2	**17.5**
- Volume	1.7	1.6	1.4	1.0	0.5	0.6	**14.3**
- Price USD/KG	35.9	43.6	33.7	33.1	35.0	36.0	**2.8**
Wolfram							
- Value	12.6	21.5	16.8	17.8	7.3	12.6	**73.3**
- Volume	1.5	2.0	1.9	1.8	0.7	1.0	**41.0**
- Price USD/KG	8.3	10.9	8.9	9.8	9.8	12.1	**22.9**
Hides and Skin							
- Value	7.5	3.1	2.5	1.5	0.6	0.8	**36.5**
- Volume	7.0	5.5	3.9	2.8	1.0	1.4	**37.8**
- Price USD/KG	1.1	0.6	0.6	0.5	0.6	0.6	**-1.0**
Pyrethrum							
- Value	3.2	4.7	6.2	5.0	3.0	1.7	**-45.4**
- Volume	0.07	0.1	0.1	0.0	0.0	0.1	**543.6**
- Price USD/KG	48.1	54.5	64.4	149.3	147.4	12.5	**-91.5**
I. Traditional exports							
- Value	282.7	310.9	265.6	233.9	100.5	130.9	**30.2**
- Volume	59.9	66.2	65.7	57.2	25.4	29.6	**16.8**
II. Re-exports							
- Value	267.3	313.4	351.9	314.8	144.9	223.6	**54.3**
- Volume	299.5	350.8	412.2	395.8	175.7	248.4	**41.4**
III. Non-traditional exports							
- Value	298.0	298.6	237.5	176.0	80.3	131.4	**63.6**
- Volume	264.2	298.4	329.4	303.8	132.4	194.0	**46.5**
IV. Informal cross-border trade							
- Value	98.4	125.3	108.9	36.6	26.1	40.1	**53.7**
- Volume	175.9	258.6	320.2	102.5	52.2	66.8	**28.1**
V. Non-monetary gold							
- Value	90.6	73.6	276.3	646.2	227.6	146.1	**-35.8**
- Volume	0.002	0.002	0.01	0.01	0.0	0.0	**-41.5**
TOTAL EXPORTS							
- Value	**1,037.1**	**1,121.8**	**1,240.1**	**1,407.5**	**579.5**	672.2	**16.0**
- Volume	**799.5**	**973.9**	**1,127.5**	**859.4**	**385.6**	538.9	**39.7**

Source: NBR, Statistics Department

Traditional exports - comprising coffee, tea, minerals, pyrethrum, and hides & skins - rose by 30.2 percent y-o-y, to stand at USD 130.9 million in 2021H1 from USD 100.5 million in 2020H1. The growth was primarily driven by a significant rise in revenues from minerals exports and coffee, albeit recorded decreases in receipts from tea and pyrethrum.

The earnings from minerals amounted to USD 60.8 million in 2021H1 from USD 34.8 million, an increase of 74.8 percent, while quantities exported rose by 45.5 percent to 3.3 thousand tons from 2.3 thousand tons in 2020H1. Specifically, export earnings from Cassiterite, Coltan, and Wolfram increased by 201.2 percent, 17.5 percent, and 73.3 percent, respectively, due to the increase in unit prices and volume exported. Overall, the growth of mineral exports is a combination of increased domestic supply reflecting the ease in pandemic-related restrictions and the increase in international commodity prices resulting from the global economic rebound.

Receipts from coffee increased to USD 16.8 million in 2021H1 from USD 10.9 million in the same period of last year, as a result of increased volume (+25.3 percent) to 5.4 thousand tons from 4.3 thousand and the rise in unit prices (+23.1 percent) to 3.1 USD/KG from 2.5 USD/Kg.

Tea exports amounted to USD 50.9 million, slightly lower than USD 51.2 million registered in 2020H1, despite higher export volume partly due to increased production. Tea export volumes rose to 19.4 thousand tons in 2021H1, 9.2 percent higher than 17.8 thousand tons recorded in 2020H1, while tea unit prices declined by 9.1 percent, to 2.6 USD/KG from 2.9 USD/KG.

Furthermore, receipts from hides and skins rose by 36.5 percent y-o-y, to USD 0.81 million in 2021H1, higher than USD 0.59 million registered in 2020H1 due to the increase of exported volume by 37.8 percent that outweighed the fall in the unit price (-1.0 percent). Earnings from pyrethrum dropped by 45.4 percent to USD 1.7 million in 2021H1 from USD 3.0 million in 2020H1, due to the decrease of unit price by 91.5 percent, while the volume highly increased by 543.6 percent.

Non-traditional exports (other ordinary exports) comprising horticulture, agro-processing, locally manufactured products, and other minerals (gemstones) rose by 63.6 percent, amounting to USD 131.4 million in 2021H1, up from USD 80.3 million in 2020H1. The upward trend from non-traditional exports was mainly driven by the good performance of horticulture exports (flowers, vegetables and fruits) and industrial products like cement and metallic construction materials, agro-processing, among others, partially attributable to the "Made in Rwanda" program.

Finally, re-exports mainly composed of petroleum products, foodstuffs, vehicles, machinery, and electronics, increased by 54.3 percent to USD 223.6 million in 2021H1, from USD 144.9 million the previous year. The rise in the re-exports category was mainly driven by the increase in re-exports of petroleum products by 10.0 percent in value and 11.2 percent in volume, and other re-exports mainly composed of foodstuffs by 82.4 percent and 56.8 percent in value and volume, respectively. These products are mainly re-exported to DR Congo.

2.2.2 Imports Developments

Rwanda's import payments rose to USD 1,618.1 million in 2021H1 from USD 1,524.6 million last year, an increase of 6.1 percent, mainly owing to a rise in domestic demand for consumer goods, intermediate goods, and capital goods, albeit a decrease in energy products and gold.

During the first half of 2021, Rwanda imports are dominated by consumer goods representing 24.1 percent of total imports value from 23.1 percent last year, followed by intermediate goods (23.9 percent, from 21.7 percent), capital goods (23.6 percent, from 20.4 percent), energy and lubricants (9.7 percent, from 14.2 percent), gold (9.6 percent, from 14.5 percent), imports for re-exports (9.1 percent, from 5.9 percent), and lastly ICBT (0.1 percent, from 0.1 percent).

Imports of consumer goods increased by 10.7 percent to USD 389.9 million in 2021H1, higher than USD 352.2 million a year earlier, attributable to increased demand for food and non-food imports. Imports of food products rose by 7.4 percent in value and 4.3 percent in volume, while non-food imports increased by 13.3 percent and 3.6 percent in value and volume, respectively.

Table 13: Formal imports developments (Value in millions of USD, Volume in thousands of tons)

		2017	2018	2019	2020	2020H1	2021H1	%change
Total imports	Value	2,348.6	2,636.2	3,094.1	3,373.5	1,524.6	1,618.1	6.1
	Volume	2,716.6	3,026.8	3,117.9	3,264.6	1,375.9	1,507.0	9.5
Consumer goods	Value	656.9	690.0	714.6	771.0	352.2	389.9	10.7
	Volume	793.9	843.6	715.2	821.3	348.2	362.7	4.2
Capital goods	Value	504.1	583.7	692.5	660.0	311.5	381.2	22.4
	Volume	60.2	67.9	88.0	84.2	35.4	66.6	88.2
Intermediary goods	Value	563.6	628.5	730.6	761.9	331.5	386.3	16.5
	Volume	914.3	1,023.9	1,175.1	1,428.0	506.6	603.8	19.2
Energy and lubricants	Value	487.1	562.3	521.5	348.7	216.3	157.0	-27.4
	Volume	782.4	881.8	902.3	691.4	376.4	316.5	-15.9
Non-monetary gold	Value	-	-	239.3	626.8	220.8	155.1	-29.7
	Volume	-	-	0.005	0.0	0.0	0.0	-41.2
Imports of nonfuel re-exports	Value	113.5	151.5	183.8	202.5	90.2	146.7	62.6
	Volume	127.7	175.1	213.6	235.8	105.0	154.4	47.0
Informal cross-border trade	Value	23.3	20.3	11.8	2.5	2.1	1.8	-16.2

Source: NBR, Statistics Department

Imports of intermediary goods, categorized into industrial products, construction materials, and fertilizers, rose by 16.5 percent in value, to USD 386.3 million in 2021H1, owing to increased imports of construction materials and industrial products, partly reflecting a continued recovery of manufacturing activities.

Imports of capital goods increased by 22.4 percent to USD 381.2 million in 2021H1 from USD 311.5 million in 2020H1. The increase in capital goods imports is attributed to surged payments of electrical equipment to support power sector growth as government plans to increase access to electricity.

Imports of energy and lubricants, dominated by petroleum products representing over 94 percent of the total category value, fell by 27.4 percent to stand at USD 157.0 million in 2021H1, from USD 216.3 million last year. In volume terms, energy imports declined by 15.9 percent, to 316.5 thousand tonnes in 2021H1, down from 376.4 thousand tonnes recorded the previous year.

2.2.3 Formal trade with other EAC countries

Rwanda's exports to other EAC member countries, which represents 2.8 percent of the total exports in 2021H1, dropped by 35.0 percent in value, standing at USD 18.5 million. On the other hand, imports from EAC grew by 14.9 percent, driven by higher imports of food products and construction materials. As a result, Rwanda's trade deficit with EAC widened to USD 205.5 million in 2021H1, from USD 166.5 million a year earlier.

Table 14: Trade flows with EAC (in USD million)

		2017	2018	2019	2020	2020H1	2021H1
Exports to EAC	Value in USD millions	90.3	80.3	116.2	54.4	28.5	18.5
	percent change	16.4	-11.1	44.8	-53.2	-70.0	-35.0
	Share to total exports	8.7	7.2	9.4	3.9	4.9	2.8
Imports from EAC	Value in USD millions	429.3	522.2	472.6	490.0	195.0	224.0
	percent change	-8.7	21.6	-9.5	3.7	-10.9	14.9
	Share to total imports	18.3	19.8	15.3	14.3	12.8	13.8
TRADE BALANCE (USD million)		-339.0	-441.9	-356.4	-435.6	166.5	-204.1

Source: NBR, Statistics Department

2.2.4 Informal cross border trade

Informal Cross-Border Trade (ICBT) improved in 2021H1, reflecting the re-opening of some borders that were closed during the first wave of the Covid-19 pandemic. Rwanda remains a net exporter in informal cross-border trade (ICBT), recording a surplus of USD 38.3 million in 2021H1, up from USD 24.0 million recorded in 2020H1, an increase of 59.9 percent. In 2021H1, ICBT exports increased by 53.7 percent, amounting to USD 40.1 million, while imports decreased by 16.2 percent, standing at USD 1.8 million.

Table 15: Rwanda informal cross border trade (USD million)

		2017	2018	2019	2020	2020H1	2021H1
Exports	Value in USD millions	98.4	125.3	108.9	36.6	26.1	40.1
	Percent change	*-25.8*	*27.3*	-13.1	-66.4	-8.1	53.7
	Share of total exports	9.5	11.2	8.8	2.6	4.5	6.0
Imports	Value in USD millions	23.3	20.3	11.8	2.5	2.1	1.8
	Percent change	*-23.9*	*-12.8*	-41.7	-79.2	-40.0	-16.2
	Share of total imports	1.0	0.8	0.4	0.1	0.1	0.1
Trade balance (USD million)		75.1	105.0	97.1	34.2	24.0	38.3

Source: NBR, Statistics Department

2.2.5 Balance of payments and external sector outlook

Rwanda's balance of payments (BOP) recorded a deficit of USD 44 million in the first quarter of 2021, owing to a significant decline of the surplus in the financial account, albeit a narrowing current account deficit.

The Current account deficit (CAD) improved to USD 198 million in the first quarter of 2021 compared to USD 405 million registered a year earlier. The improvement in the CAD was driven by an improved merchandise trade deficit and increased secondary income surplus. The balance on goods and services improved significantly by 31.1 percent on lower import payments (-21.1 percent), albeit a decrease of exports receipts from services (-17.2 percent) and goods (-8.4 percent). Merchandise exports have been recovering since the second half of last year, and the uptick continued in 2021. However, the increase in the number of Covid-19 infections in many countries and uncertainties caused by the new variants, which push some countries to re-impose some restrictions, could derail this performance and delay the recovery of services.

Table 16: Rwanda Balance of payments (USD million)

					Jan-March		Projection		
	2017	2018	2019	2020	2020	2021	2021	2022	2023
Current account balance	**-875**	**-975**	**-1231**	**-1234**	**-405**	**-198**	**-1395**	**-1348**	**-1335**
Goods and services, net	-1167	-1298	-1482	-1648	-476	-328	-1963	-1947	-1930
Exports	1904	2043	2255	1929	486	430	2321	2841	3310
Imports	3071	3341	3737	3577	961	758	4284	4788	5240
Primary income, net	-291	-344	-330	-207	-82	-51	-248	-290	-321
Dividend	-25	-26	-18	-24	-12	-6	-15	-35	-39
Interest	-140	-179	-191	-150	-37	-30	-198	-205	-212
Secondary income, net	582	668	581	621	152	181	816	888	916
General government	362	356	268	289	75	92	452	469	459
Remittances, inflows	208	253	252	274	63	81	294	334	363
Capital account	190	245	260	313	70	80	374	285	268
Financial account excl. reserves, net	**-687**	**-811**	**-926**	**-1074**	**-207**	**-29**	**-950**	**-1036**	**-1037**
FDI, net	-258	-348	-258	-100	-66	-36	-402	-418	-417
Portfolio investment	74	15	30	-28	-34	0	10	30	30
Other investment	-503	-477	-698	-945	-107	7	-558	-648	-650
Reserve assets	157	96	112	333	-52	-133	-71	-27	-29
Net errors and omission	156	15	157	181	75	-44	0	0	0

Source: BNR, Statistics Department

The financial account surplus decreased significantly to USD 29.3 million in 2021Q1, down from USD 207.3 million a year earlier due to an accumulation of deposits by commercial banks and lower government loan disbursements. In addition, FDI inflows remain weak as the pandemic continues to weigh on business sentiment and companies' profitability. A reduction in official reserves offset this decrease in the financial account surplus. However, despite this reduction of official reserves in 2021Q1, the stock of foreign exchange reserves remain adequate, covering 5.4 months of prospective imports of goods and services as of end March 2021. The short-term external sector outlook is marred by continued weakness in trade in services, lagging vaccination rollout, and uncertainties brought by the new variants. COVID-19 continues to be the major risk to the outlook for the external sector as new waves of infections, virus mutations, and difficulties in accessing the vaccine in many developing countries might delay the recovery in trade, travel, and tourism. On the financing side, FDI and private borrowing are likely to remain subdued, but Rwanda could attract additional donor inflows and disbursements for the existing project loans. Projections indicate that the CAD will widen to 13.4 percent of GDP in 2021, up from 11.9 percent estimated in 2020. However, Rwanda's external vulnerability remains marginal, partly owing to adequate coverage of international official reserves. The coverage of foreign reserves is estimated at 5.1 future months of imports in 2021, before decelerating towards 4.0 in the medium term.

III. MONETARY SECTOR AND INFLATION DEVELOPMENTS

In the first half of 2021, the NBR continued to implement an accommodative monetary policy stance. The Monetary Policy Committee meetings held in February and May 2021 maintained the CBR at 4.5 percent to continue supporting the banking sector in the effort to finance economic recovery, amid global and domestic economic challenges caused by the COVID-19 pandemic.

Besides, the Economic Recovery Fund (ERF) established by the Government of Rwanda continued to bolster businesses affected by the COVID-19 pandemic. All these measures have contributed to stabilizing liquidity in the economy.

3.1 Inflation developments

3.1.1. Introduction

In 2021H1, headline inflation eased to 1.4 percent on average compared to 8.5 percent and 7.0 percent recorded in 2020H1 and 2020H2, respectively. The drop in headline inflation was reflected in its main components. Fresh food inflation fell to -1.1 percent in 2021H1 from 21.4 percent in 2020H1, while energy inflation reduced to -0.1 percent in 2021H1 from 10.2 percent in 2020H1. Core inflation declined to 2.2 percent from 5.5 percent during the same period.

Table 17: Inflation developments for key items (annual average, percent)

	2018		2019		2020		2021	Annual average		
	H1	H2	H1	H2	H1	H2	H1	2018	2019	2020
Headline	1.8	1.0	0.7	4.2	8.5	7.0	1.4	1.4	2.4	7.7
Domestic	0.9	0.1	0.1	4.1	9.1	7.3	0.1	0.5	2.1	8.4
Food:	-0.6	-4.6	-3.1	8.5	15.5	8.8	0.1	-2.6	2.7	12.1
-Vegetables	-1.5	-8.1	-7.9	10.9	27.4	15.6	-7.0	-4.8	1.5	21.5
-Meat	1.5	4.3	10.4	16.3	19.7	13.0	4.4	2.9	13.4	16.4
-Fruits	-6.1	-11.5	-11.4	8.4	11.3	5.4	6.0	-8.8	-1.5	8.4
-Bread & Cereal	3.1	-2.1	0.5	7.0	11.8	4.5	-2.9	0.5	3.7	8.2
Housing	3.4	3.3	0.6	0.9	4.6	4.9	1.9	3.3	0.8	4.7
Transport	5.6	10.0	5.5	1.6	9.7	14.2	-1.9	7.8	3.5	11.9
Imported	4.7	4.1	2.6	4.5	6.3	6.1	5.8	4.4	3.5	6.2
Core	1.8	1.4	1.6	3.0	5.5	5.7	2.2	1.6	2.3	5.6
Energy	10.0	9.7	-1.0	-0.6	10.2	5.5	-0.1	9.8	-0.8	7.8

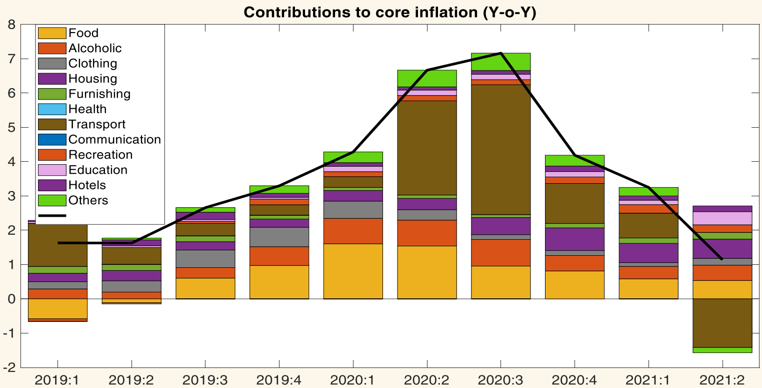
Source: NBR, Statistics Department

3.1.2 Contributors to headline inflation

a. Core inflation

In 2021H1, the decline in core inflation was reflected in core transport and food inflations. The former fell to -2.0 percent in 2021H1 from 11.1 percent in 2020H1, as the uptick in transport fares that hiked transport inflation in May 2020 faded away. The latter dropped to 3.4 percent in 2021H1 from 9.6 percent in 2020H1 on the back of a base effect.

Figure 4: Development of core inflation (%, Y-o-Y)

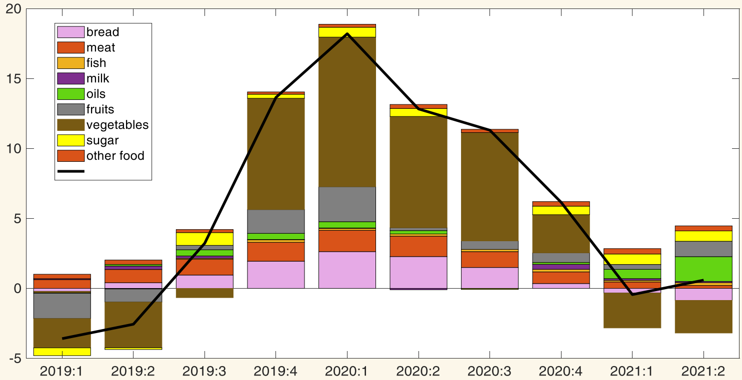


Source: NBR, Monetary Policy and Research Directorate

b. Fresh food inflation

In 2021H1, fresh food inflation declined, mainly reflecting decreases in vegetables and fruit inflations owing to favorable weather conditions that supported the good performance of domestic agricultural production for seasons A and B 2021.

Figure 5: Development of food inflation (%, Y-o-Y)

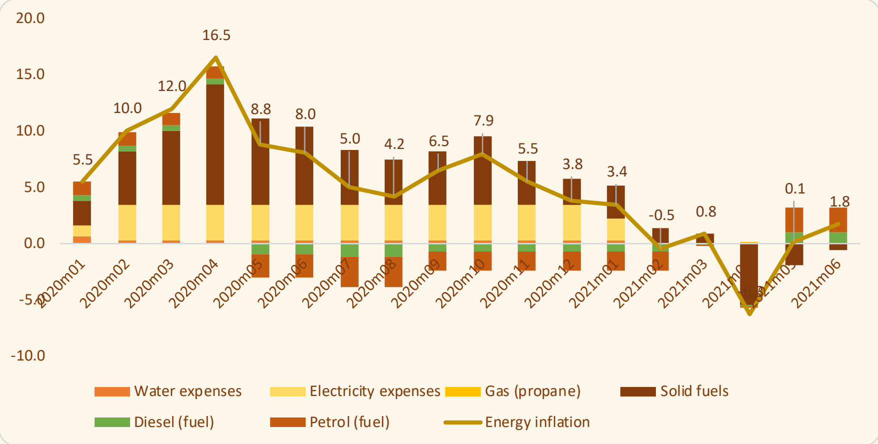


Source: NBR, Monetary Policy and Research Directorate

c. Energy inflation

A downward trend in energy inflation to -0.1 percent in 2021H1 from 10.2 percent recorded in 2020H1 reflected decreases in solid fuels inflation to -1.0 percent from 12.6 percent. The drop in solid fuels inflation reflected the base effect, offsetting the surge in international oil prices transmitted into local pump prices.

Figure 6: Energy inflation (%, Y-o-Y)



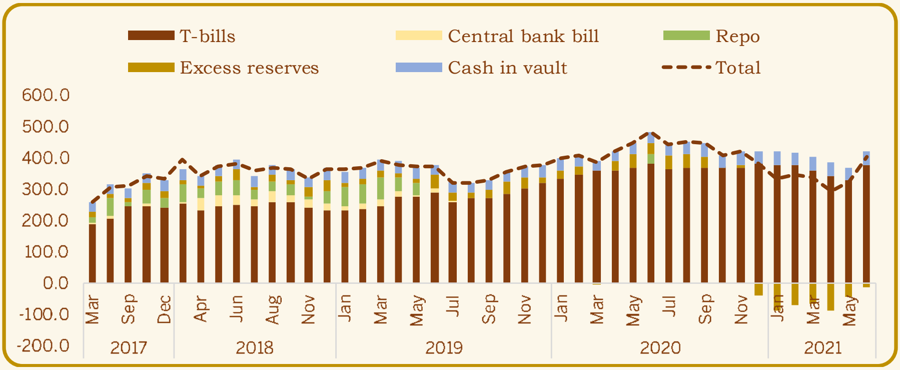
Source: NBR, Monetary Policy and Research Directorate

3.2 Monetary sector developments

3.2.1. Banking System Liquidity Conditions

Banks' most liquid assets grew by 5.0 percent to FRW 404.7 billion in June 2021 from FRW 383.4billion in December 2020, compared to a growth of 28.0 percent recorded in the corresponding period of the previous year. This growth is attributed to the rebound in excess reserves on the back of the increase in government spending recorded in June.

Figure 7: Most liquid assets of commercial banks (FRW billion)



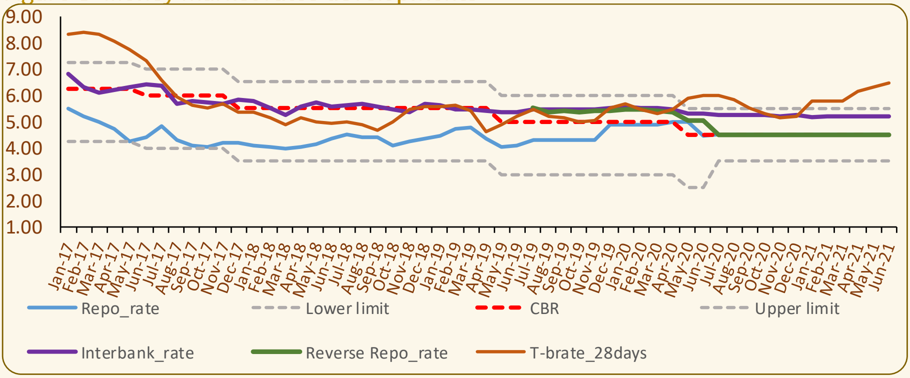
Source: NBR, Monetary Policy and Research Directorate

3.2.2 Monetary Policy and Interest Rates

In February and May 2021, the Monetary Policy Committee (MPC) decided to maintain an accommodative monetary policy stance by keeping the central bank rate (CBR) at 4.5 percent to continue supporting the economy during the period of the COVID-19 pandemic.

As a result of this decision and other measures taken to ensure ample liquidity in banks, the interbank rate was steered around the central bank rate in the symmetric corridor of ±1 percent, dropping by 26 basis points to 5.19 percent in 2021H1, compared to the same period of 2020. The repo and reverse repo rates were at the CBR following the revised monetary policy framework, which set them at the policy rate since July 2020.

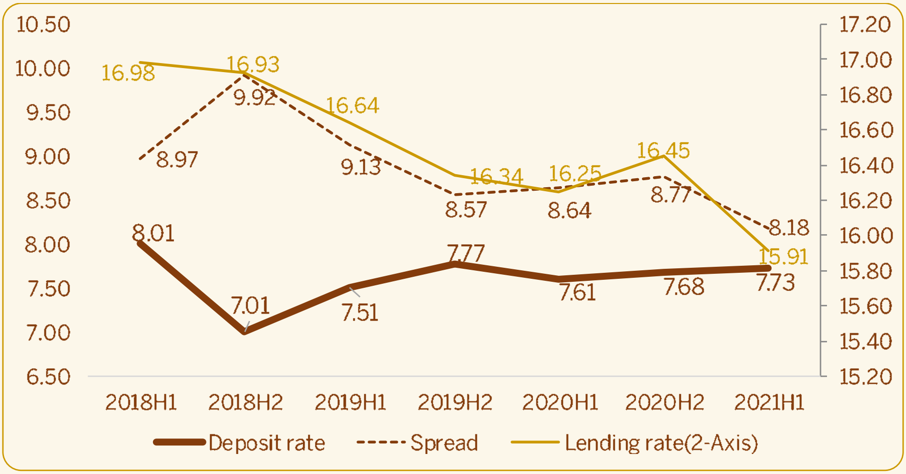
Figure 8: Money market rates developments



Source: NBR, Monetary Policy and Research Directorate

The lending rate also kept its downward trend, averaging 15.91 percent during the first half of 2021, from 16.25 percent in the same period of 2020, owing to a significant share of long-term loans usually priced at a lower cost. The decline in lending rates was observed for both corporate and individual loans. Conversely, the deposit rate rose by 12 basis points to 7.73 percent, mostly linked to increased shares of corporates with large amounts having higher rates. As a result, the spread between the lending and deposit rates dropped by 46 basis points to reach 8.18 percent, which is advantageous for the banks' customers.

Figure 9: Market Interest rates (percent average)

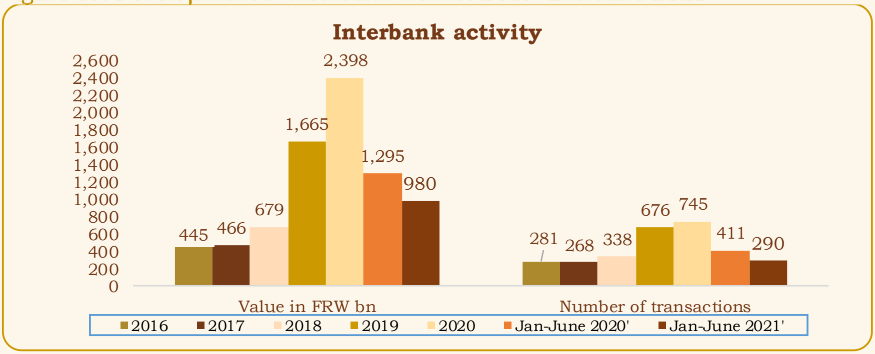


Source: NBR, Monetary Policy and Research Directorate

3.2.3 Money market development

The interbank market is a market where banks lend funds to each other generally for a short period and plays a critical role in the monetary policy transmission and price-discovery mechanism of liquidity in the money market. In 2021 H1, the interbank market was relatively less active than in the same period of 2020 as both the number of transactions and amount exchanged decreased by 121 and FRW 315 billion, respectively.

Figure 10: Development of interbank market 2016- End June 2021



Source: Financial Markets Department

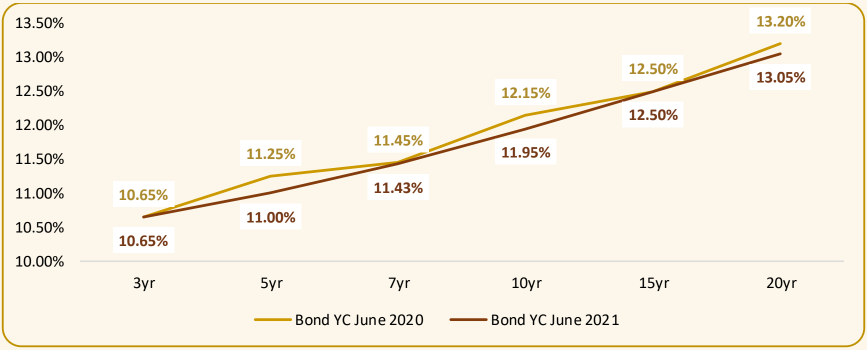
The slow activity of the interbank market during the first half of 2021 compared to the same period of 2020 H1 is attributed to the decrease in banks' most liquid assets, especially excess reserves.

3.2.4 Bond primary market development

In 2021H1, the Government of Rwanda, through the National Bank of Rwanda, successfully issued three new bonds and reopened four bonds with an average subscription of 116.9% from 172.5% in the same period of 2020. The reduction in the bond subscription echoes a relatively tighter liquidity condition in the banking sector, as reflected in the decline of banks' excess reserves and the slowdown of economic activities induced by the COVID-19 pandemic.

The trend in the bond yields remained stable, with minor corrections on 5-year, 10-year and 20-year bonds yields that reduced marginally.

Figure 11: T-Bonds yield curves (December 2019 vs. December 2020)

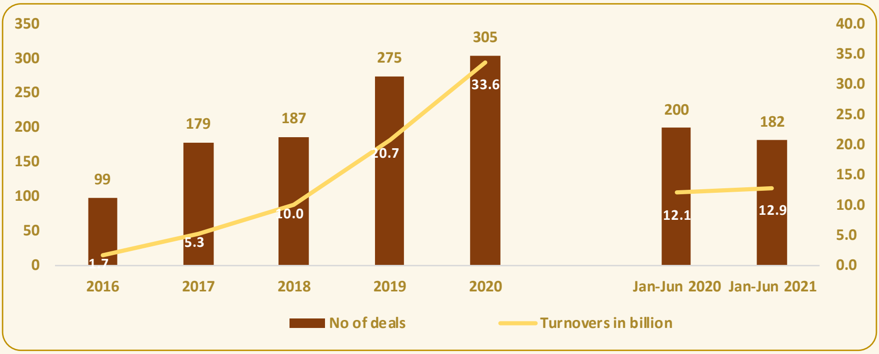


Source: BNR, Financial Markets Department

3.2.5 Bond secondary market development

In 2021H1, the bond secondary market activity was pretty similar to that of the same period of 2020. The Rwandan Stock Exchange recorded bond turnovers worth FRW 12.9 billion in 2021H1, from FRW 12.2 billion in 2020 H1, while the number of deals recorded was 182 in 2021 from 200 in 2020.

Figure 12: Bond trading on the Rwanda Stock Exchange 2016- June 2021



Source: Rwanda Stock Exchange

3.2.6 Money Supply

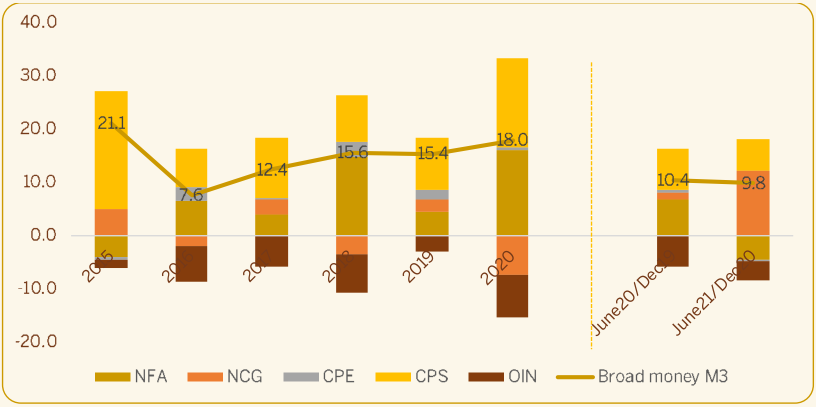
In the first half of 2021, broad money M3 grew up by 9.8 percent against a growth of 10.4 percent recorded in the same period of the year before. Net Credit to Government contributed the most to that growth in M3, with a contribution of 12.3 percent, followed by Credit to Private Sector (+5.9 percent). However, Net Foreign Assets pulled down the growth of M3 with a negative contribution of 4.5 percent.

The increase in outstanding credit to the private sector was mainly driven by new authorized credit distributed in the first half of 2021 and other policy support measures.

The growth in net credit to the government was attributed to government spending by end of the fiscal year. In this respect, credit to the government from the banking system increased by 14.2 percent in the first six months of 2021 from a rise of 33.7 percent in the corresponding period of the previous year. Government deposits went down by 28.3 percent in the six months of 2021 from a buildup of deposits of 23.7 percent in the first six months of 2020.

The negative contribution of Net Foreign Assets was attributed to the decline in foreign inflows.

Figure 13: Contributors to M3 growth on assets side

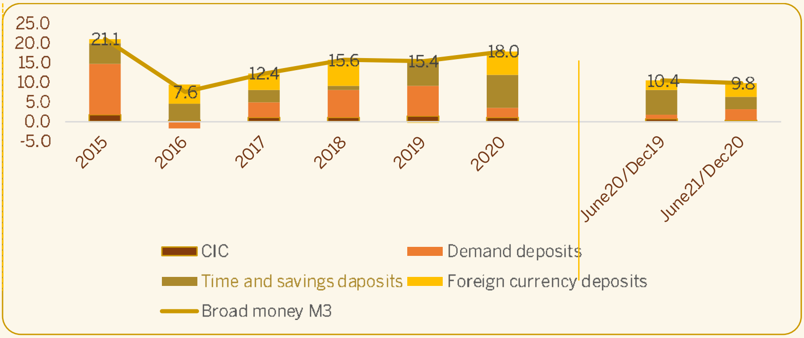


Source: NBR, Monetary Policy and Research Department

From the liabilities side, M3 growth was mainly attributed to the time and saving deposits that contributed 3.4 percent in the first six months of 2021, followed by foreign currency deposits (3.3 percent), and demand deposits (2.7 percent).

The high increase in time and saving deposits reflects increased term deposits from some big depositors such as RSSB. The rise in foreign currency deposits was driven by foreign exchange inflows accumulated by private corporations, NGOs, and individuals.

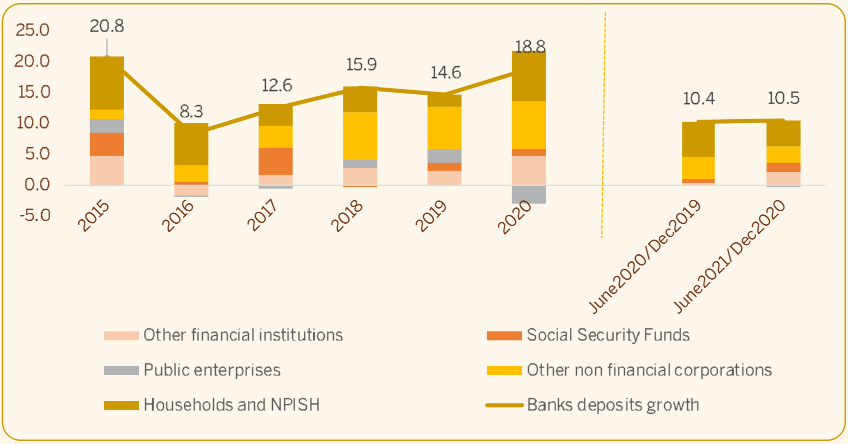
Figure 14: Contributors to M3 growth on the liabilities side



Source: NBR, Monetary Policy and Research Directorate

Banks' deposits, constituting the main component of M3, grew by 10.5 percent between December 2020 and June 2021, from 10.4 percent in the same period of the previous year. The primary contribution to that growth was from households and Non-Profit Institutions Serving Households (4.3 percent), followed by other non-financial corporations (2.5 percent), other financial institutions (2.1 percent), and social security funds (1.6 percent). Public enterprises have a negative contribution of -0.1 percent.

Figure 15: Contributions of depositors in the growth of deposits

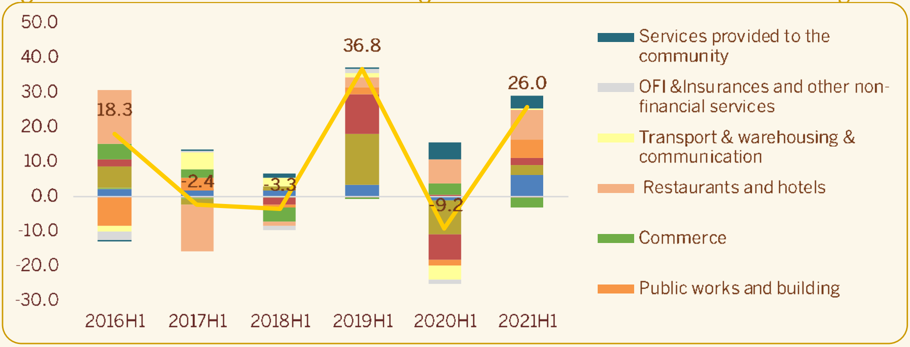


Source: NBR, Monetary Policy and Research Directorate

3.2.7 Credit

In the first half of 2021, new authorized loans (NALs) picked up by 26.0 percent, from a contraction of 9.2 percent recorded in the first half of 2020. The major sectors that contributed to the growth in NALs in 2021H1 are restaurants and hotels (+8.7 percent), personal loans (+6.4 percent), public works and buildings (+5.3 percent), and services provided to the community (+3.6 percent).

Figure 16: Contributions of sectors to the growth of new authorized loans in % changes



Source: NBR, Monetary Policy and Research Directorate

Considering the share of each sector in total NALs, commerce (23.4 percent), public works and building (20.3 percent), restaurant and hotel (15.4 percent), and personal loans (14.5 percent) are the most financed sectors, all totaling 73.6 percent of total NALs in 2021H1.

Table 18: Distribution of NAL by sector in % share

Economic sector	Amount in FRW billion			% share		
	2019	2020	2021	2019	2020	2021
	H1	H1	H1	H1	H1	H1
Person loans	65.8	59.4	91.4	11.9	11.9	14.5
Agricultural, fisheries& livestock	5.2	8.1	6.7	0.9	1.6	1.1
Mining activities	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing activities	91.5	37.6	51.7	16.6	7.5	8.2
Water & energy activities	45.8	5.2	14.8	8.3	1.0	2.3
Public works and building	110.1	101.4	127.8	20.0	20.3	20.3
Commerce	143.2	161.4	147.6	26.0	32.3	23.4
Restaurants and hotels	14.9	53.5	97.2	2.7	10.7	15.4
Transport & warehousing & communication	52.5	30.5	31.4	9.5	6.1	5.0
OFI &Insurances and other non-financial services	7.1	1.0	1.6	1.3	0.2	0.3
Services provided to the community	14.8	42.1	59.9	2.7	8.4	9.5
Total	550.8	500.1	630.1	100	100	100

Source: NBR, Financial Stability Directorate

IV. FOREIGN EXCHANGE MARKET DEVELOPMENTS

This section analyses developments in the exchange rate for the first half of the year 2021. Compared to the same period of last year, the depreciation of the FRW was relatively muted in 2021H1, owing to improvement in foreign inflows despite higher demand for forex compelled by recovering economic activities and rising imports.

4.1 Exchange rate developments

The Rwandan franc depreciated by 1.51 percent versus the US dollar end June 2021, slower than 1.58 percent in the corresponding period of last year. This slow depreciation rate reflected the gradual improvement in foreign inflows despite high demand for forex to cater for growing imports needs.

In June 2021, the local currency also depreciated by 3.26 percent against the Pound after a gain of 4.74 percent in June 2020. The franc advanced by 1.73 percent and 5.23 percent versus the Euro and the Yen respectively, against the respective decline of 1.94 percent and 2.84 percent in the corresponding period last year.

Table 19: Appreciation/Depreciation rate of FRW against selected currencies

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGS	FRW/BIF
Dec-18	4.04	-1.96	-0.07	6.20	5.46	1.24	1.77	1.93
Dec-19	4.94	8.48	2.81	6.25	4.53	3.73	5.13	-0.24
Dec-20	5.42	9.42	15.71	11.43	-1.34	5.66	7.17	2.53
Jan-21	0.28	0.94	-1.29	-1.00	-0.49	0.40	-0.82	0.18
Feb-21	0.46	2.94	-0.69	-2.39	-0.04	0.46	-0.27	0.27
Mar-21	0.70	1.52	-4.09	-6.29	0.42	0.70	0.15	0.31
Apr-21	0.99	3.48	-0.43	-4.25	2.31	0.99	2.83	0.50
May-21	1.22	5.54	0.45	-4.78	2.76	1.22	3.98	-0.45
Jun-21	1.51	3.26	-1.73	-5.23	2.83	1.51	4.10	-0.56
Jun-20	1.58	-4.74	1.94	2.84	-2.52	1.81	0.64	0.24

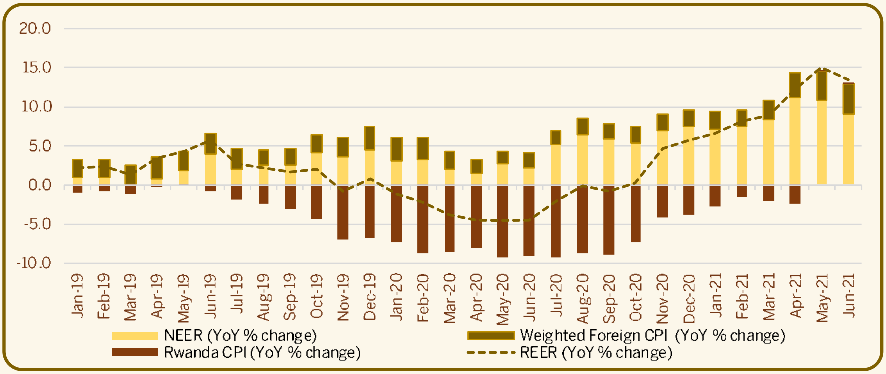
Source: NBR, Monetary Policy Department

Compared to regional currencies, the FRW lost ground against the Kenyan Shilling, depreciating by 2.83 percent against an appreciation of 2.52 percent in June 2020. It depreciated further versus the UGS, losing 4.10 percent after 0.64 percent recorded in the previous year. The national currency erased some previous losses versus the Tanzanian shilling and gained against the Burundian franc. The franc lost 1.51 percent compared to the TZS and added 0.56 percent vis-à-vis the Burundian Franc, while it lost 1.81 percent and 0.24 percent in the corresponding period last year.

Compared to a basket of currencies of Rwanda's main trading partners, the FRW depreciated in real terms by 13.5 percent (y-o-y) end June 2021, against a 4.5 percent appreciation recorded during the corresponding period in 2020.

This was mainly attributable to higher nominal depreciation of the franc against some major trading partners' currencies and higher prices of foreign goods than domestic ones. In nominal effective terms, the FRW depreciated by 9.0 percent in June 2021, compared to a depreciation of 2.2 percent end June 2020. Weighted foreign inflation rose to 3.9 percent from 1.9 percent in June 2020, while domestic inflation stood at negative 0.2 percent compared to 9.0 percent in June 2020.

Figure 17: Drivers of REER movement



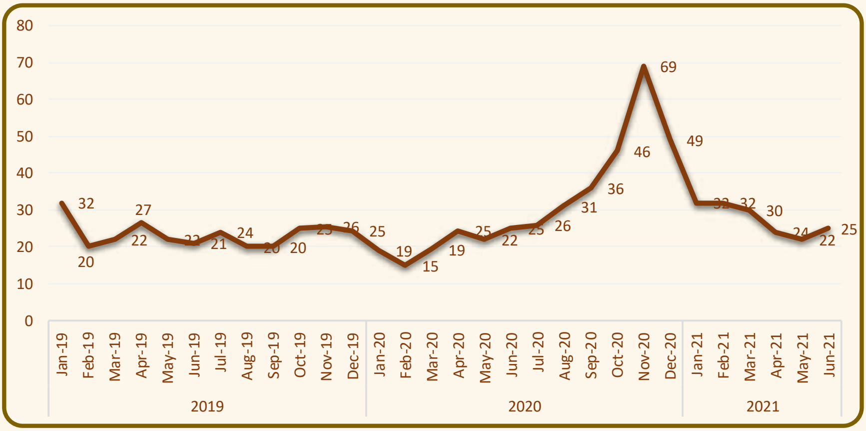
Source: NBR, Monetary Policy Department

4.2 Foreign exchange market developments

Compared to the same period of last year, net foreign assets of commercial banks increased by 119.9 percent to FRW 107.2 billion in June 2021. This improvement reflected higher growth in foreign assets (+35.6 percent) that outperformed the increase in foreign liabilities (+15.8 percent). The rise in foreign assets was backed by improving export proceeds in line with recovering global demand, rising international commodity prices, and the reopening of borders for cross-border transactions.

Conversely to the second half of the year 2020, the first half of 2021 recorded a slowdown in forex sales to banks, following the improvement in NFA of commercial banks that reduced demand pressures. For the six months ending June 2021, NBR sales to banks decreased by 35.8 percent to USD 165.0 million from USD 257.0 million in the second half of 2020, but 32.2 percent higher than the corresponding period of last year as the recovering economic activity propelled the need for imports.

Figure 18: NBR Forex Sales to banks in millions of USD



Source: BNR, Monetary Policy Department

V. THE STABILITY OF THE FINANCIAL SYSTEM

5.1 Introduction

The economic environment in which the financial sector operates has been uncertain with elevated risks associated with the COVID-19 pandemic and the accompanying containment measures. Rwanda experienced a second wave of the pandemic between 2020Q4 and 2021Q1, which led the Government of Rwanda to implement a three (3) week lockdown in January.

A third wave during 2021Q2 resulted in a 2-week for Kigali and 8 districts in July. Curfews, social distancing and capacity limits in business premises have been the norm for most of 2020 and 2021. These necessary measures have been critical in containing the health crisis but have also affected economic activity through reduction in supply and demand, lower productivity and in some cases pay of workers, disruptions in supply chains and ultimately financial performance of firms and households.

The financial sector has however so far been resilient to the pandemic shock. Regulatory reforms implemented in the recent past have enabled financial institutions to build up capital and liquidity buffers. For example, banking sector reforms implemented since 2018 ensured that the sector's capital base and structure is in compliance with Basel III best practices. Insurance sector reforms implemented since 2016 dealt with industry pricing malpractices that eroded capital as well as ensured injection of capital where required. In addition, timely fiscal, monetary and prudential policy interventions at the on-set of the pandemic have also been crucial in safeguarding the sector's stability. These interventions included availing FRW 50 billion support to any solvent banks that would require short-term liquidity, reduction of the reserve ratio requirement from 5 percent to 4 percent, reduction of the Central Bank Rate by 50 basis points to 4.5 percent as well as regulatory forbearance for the exceptional restructuring of loans to borrowers affected by COVID-19.

Vulnerabilities are however building in the financial sector. The non-performing loans ratio in the banking sector increased from 5.5 percent in June 2020 to 5.7 percent in June 2021. Watch category loans almost tripled and represent 13.2 percent of the loan portfolio. A significant proportion of restructured loans have resumed payment but a portion representing about 7.9 percent of total loans were still under moratorium. Most of these are related to the sectors most affected by the pandemic notably hotels and restaurants, commercial real estate, transport and education.

In spite of the credit risk outlook, the financial sector is expected to remain stable on account of the above-mentioned sufficient capital and liquidity buffers. The economy is also expected to rebound during the second half of 2021 as activities open up following the massive vaccination campaign.

The sections that follow discuss the structure, performance and soundness of the financial sector based on June 2021 financial data (banking, microfinance, insurance, pension and payment systems), access and usage of financial services as well as recent regulatory reforms.

5.2 The Structure and Performance of the Financial Sector

The number of financial institutions regulated and supervised by the NBR reduced from 601 to 599 between June 2020 and 2021. During the period under review, the NBR licensed 1 micro-insurance company bringing the total number of insurance companies to 15 (3 life and 11 non-life insurers of which, 2 are public institutions and 10 private, and 1 micro insurance company). 3 non-deposit taking, credit only institutions were also licensed during the period and as at end June 2021, a total of 7 institutions were operating as credit only institutions as provided by Regulation N° 2100 /2018 – 00011 [614]. The Central Bank also revoked licenses of 6 forex bureaus due to operational malpractices reducing the number of licensed foreign currency dealers and remittance companies to 91. The number of banks, microfinance, and pension institutions remained unchanged – 16 banks of which 11 are commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank; 457 microfinance including 416 Umurenge SACCOs, 19 public limited companies and 22 other SACCOs; and 13 pension schemes (1 public pension fund and 12 private pension schemes).

The financial sector is dominated by the banking sub-sector. Banks accounted for about 66.9 percent of total financial sector assets as at end June 2021, followed by pensions (dominated by the public mandatory scheme) representing 17.9 percent. Insurance and microfinance are the third and fourth largest components of the sector representing 9.2 percent and 5.6 percent of total assets, respectively.

Financial sector assets continued to grow despite the challenges posed by the COVID-19 pandemic. Total assets of the financial sector expanded by 20.3 percent to FRW 6,914 billion in June 2021, higher than the growth of 16.2 percent registered in June 2020. The improved growth of the financial sector was underpinned by the growth of deposits, borrowings from international lenders as well as increased capital base.

The sector continued to deepen. The proportion of financial sector assets to GDP has been steadily increasing for 33.8 percent in 2010 to 56.6 percent in 2019 (pre-COVID), compared to an average of 58 percent in Sub-Saharan Africa2. The increase continued to 61.1 percent in June 2020 and 69.8 percent in June 2021. During the same period, credit to GDP increased to 29.8 percent from 26.4 percent.

[2] The average for Sub-Saharan Africa is as of 2018. EIB. 2018. Banking in Africa: Delivering on Financial Inclusion, Supporting Financial Stability.

Table 20: Structure of the Financial Sector

Regulated Financial Institutions (Assets in FRW Billion)	June 2020			June 2021		
	Number	Assets	% of TA	Number	Assets	% of TA
Banks	**16**	**3,854**	**67.0**	**16**	**4,623**	**66.9**
Commercial Banks	11	3,142	54.7	11	3,768	54.5
Microfinance Banks	3	66	1.15	3	70	1.0
Development Banks	1	265	4.6	1	301	4.4
Cooperative Banks	1	381	6.6	1	484	7.0
Pension Schemes	**13**	**990**	**17.2**	**13**	**1,235**	**17.9**
Public	1	941	16.4	1	1,171	17.0
Private	12	49	0.8	12	64	0.9
Insurers	**14**	**544**	**9.5**	**15**	**639**	**9.2**
Life	3	52	0.9	3	63	0.9
Non-Life	11	492	8.6	11	575	8.3
Micro Insurance Companies	0.0	0.0	0.0	1	1.2	0.0
Microfinances	**457**	**330**	**5.7**	**457**	**386**	**5.6**
U-SACCOs	416	139	2.4	416	161	2.3
Other SACCOs	22	97	1.7	22	114	1.7
Limited Companies	19	94	1.6	19	111	1.6
Foreign Currency Dealers & Remittances	**97**	**9**	**0.2**	**91**	**8**	**0.1**
Forex Bureau	83	9	0.2	77	8	0.1
Remittance Companies	8	0.0	0.0	8	0.0	0.0
Money Transfer Agencies	6	0.0	0.0	6	0.0	0.0
Lending only Institutions	**4**	**20**	**0.3**	**7**	**23**	**0.3**
Grand Total	**601**	**5,747**	**100%**	**599**	**6,914**	**100.0**

Source: Financial Stability Directorate

5.3 Banking Sub-Sector

5.3.1 Structure of the Banking Sub-Sector

The banking sector operates across the country through various channels. The banking system consists of 11 commercial banks, 3 microfinance banks, 1 cooperative bank and 1 development bank. These banks operated a network of 473 branches across the country as at end June 2021 (June 2020: 462), and offer mobile and internet banking. The sector directly employed 5,374 staff as at end June 2021 (June 2020: 5,393).

Banks are largely private owned. As at June 2021, the sector constituted of 2 domestic public banks with 36.9 percent share of banking sector assets. On the other hand, there were 11 foreign private banks, mainly pan-African banking groups, that held 46 percent of total assets and 3 domestic private banks with 17.1 percent.

The sector is highly concentrated. The structure of the banking sector has changed over the years with the entry of several new players. However, the sector remains highly concentrated with the largest bank holding 30.4 percent of total assets as at end June 2021, up from 29.8 percent in June 2020 and 26.9 percent in June 2019. The top 5 banks held 67.3 percent of total sector assets while the top 3 banks held 50.1 percent.

5.3.2 Performance of the Banking Sub-Sector

Despite challenging economic conditions, the banking sector continued to grow during the period under review. Total assets of banks increased by 20 percent year-on-year to FRW 4,624 billion in June 2021, higher than the growth of 18.5 percent registered in June 2020. The improved growth of assets of banks is mainly reflective of the expansion of customer deposits, borrowing from international lenders considering the favorable low interest environment as well as growth in the capital base on the back of capital injections as well as retained earnings.

Lending remains the main business of banks. Net loans accounted for 55.2 percent of total assets of banks in June 2021, declining from a share of 56.6 in June 2020. The share of government and other securities increased to 18.5 percent from 18.3 percent as banks continue to seek risk free investments during this period economic uncertainty. Similarly, the share of placements in domestic banks increased to 7.4 percent from 6.7 percent as banks increased interbank lending. Reserves at the NBR represented 5.3 percent of total assets (June 2020: 5.2 percent), placements abroad 4.6 percent (June 2020: 4.7 percent), fixed assets 3.7 percent (June 2020: 4.2 percent), other assets 2.8 percent (June 2020: 2.4 percent) and cash 2.5 percent (June 2020: 1.9 percent).

Banks continued to lend in the midst of the pandemic. Gross outstanding loans of banks increased by 18.6 percent, from FRW 2,301 billion in June 2020 to FRW 2,729 billion in June 2021, higher than the growth of 14.6 percent registered in June 2020. This trend was mainly driven by new lending. During the first half of 2021, new authorised loans increased by 26 percent to FRW 630 billion, having declined by 9.2 percent in first half of 2020. The growth of new loans was anchored on increased credit demand as a result of the recovery of business activities in 2021H1 compared to 2020H1 in which the country was under a lockdown of close to 2 months (March to May) with economic activities almost at a standstill.

Lending by banks is diversified but exposed to some of the sectors most affected by the COVID crisis (Table 21). Residential real estate and commercial real estate represented about 15 percent and 10 percent of outstanding loans against 15.7 and 10 percent in June 2020. Residential mortgages are diversified over a wide spectrum of borrowers thereby spreading the risks. Commercial real estate, on the other hand, is concentrated among few borrowers and has been severely affected by slow economic activity, capacity restrictions in premises and a shift to remote working/work from home. A prolonged lower demand could negatively impact commercial real estate prices especially on retail and office space that could lead to higher NPLs in this segment. Trade, manufacturing, transport & communication as well as hotels are the other top financed sectors by banks representing about 14.8, 11.8, 10.7 and 10.4 percent respectively of outstanding loans. Hotels & restaurants as well as transport have been two sectors most affected by the pandemic having contracted for four consecutive quarters 2020Q2, 3 and 4 as well as 2021Q1. Real output in hotels and restaurants contracted by 62.5 percent in Q2 2020, 55.8 percent in Q3 2020, 45.5 percent in Q4, 2020 and 35 percent in Q1, 2021. During the same period, real output in transport contracted by 41.1 percent, 32.6 percent, 19 percent and 13.9 percent respectively. This also poses a financial stability risk with regard to the asset quality of loans in these sectors. Loans in these sectors have been restructured in response to the pandemic and significant proportion is still under moratorium. The turnaround in performance of these sectors will be crucial in averting any underlying risks.

Table 21: Outstanding Loans by Activity Sector

Activity Sector	Outstanding Loans (FRW Billion)			Annual Growth Rate	
	Jun-19	Jun-20	Jun-21	% Change 20/21	% Change 19/21
Personal Loan	161	167	208	3.9	24.8
Agricultural & Livestock	28	26	30	-9.1	17.7
Mining	3	3	1	-10.4	-75.5
Manufacturing	222	262	304	18.1	15.9
Water & Energy	83	106	116	28.1	9.4
Mortgage	708	761	839	7.6	10.3
Public Work	149	191	195	28.0	2.1
Residential Houses	295	348	386	17.9	11.1
Commercial Houses	264	223	258	-15.6	15.9
Trade	289	332	383	14.9	15.5
Hotels	146	199	268	36.1	34.9
Transport &Communication	214	246	276	14.9	11.9
OFI	24	26	7	11.4	-72.1
Other Services	53	90	144	69.8	60.4

Source: NBR, Financial Stability Directorate

Banks have been operationally resilient through the COVID pandemic. Banks demonstrated operational resilience by being able to continue serving their customers through digital and other channels with an increased uptake of remote working practices in response to the pandemic containment measures. However, greater digitisation as well as the remote working practices expose banks to greater business continuity risks (uptime of services and channels as well as cybersecurity threats). Banks have been required to update their business continuity plans to reflect effects of the pandemic in order to ensure that they are able to respond to any threats and incidents in a timely, effective and efficient manner, undertake rescue operations and minimize losses, facilitate a fully integrated multidisciplinary approach in the event of an external disaster and ensure safety and security of staff and assets. The NBR is in the process of implementing a Financial Sector Security Operation Centre (FSOC) to ensure sector-wide real-time incident detection, analysis, containment and proactive response on 24/7 basis in a bid to achieve operational resilience through cyber resilience.

The NBR remains proactive in ensuring that the banking sector continues to operate smoothly during this period of the pandemic. The guidelines on treatment of IFRS 9, regulatory capital and relief measures to limit the impact of the COVID-19 pandemic issued in June 2020 and due to expire in May 2021 were extended to September 2021 considering that the pandemic and the containment measures had lasted longer than expected. These guidelines allowed banks to exceptionally restructure loans of borrowers affected by the COVID-19 pandemic without necessarily downgrading them to non-performing category except if there were clear indications of the borrower being unlikely to meet the rescheduled repayments. In March 2021, the NBR issued an instruction to banks forbidding the declaration and payment of 2020 dividends. This was on the back of the 2020 decision against the distribution of 2019 dividends in order to build up sufficient capital buffers to absorb any shocks that may arise from a deterioration in asset quality especially in relation to loans in the most affected sectors of the economy. The six (6) months' extended lending facility established by the NBR in March 2020 was extended in order to support to any solvent bank that may require temporary liquidity support. To date, only 2 banks have used this facility to the tune of FRW 12.2 billion (FRW 5 billion in 2020 that has been fully repaid and FRW 7.2 billion in 2021 that remains outstanding). This is indicative that the banking system does not have any liquidity concerns.

5.3.3 Soundness of the Banking Sub-Sector

The banking sector was adequately capitalised at the onset of this COVID-19 crisis. Banks came into this crisis with sufficient capital buffers and these have been crucial in safeguarding the stability of the sector against any shocks so far. The aggregate core CAR stood at 21.4 percent in June 2021 (June 2020: 22.3 percent) higher than the minimum regulatory requirement of 12.5 percent, while the total CAR stood at 22.5 percent as at end June 2021 (June 2020: 23.6 percent) compared to the minimum prudential requirement of 15 percent. The stable capitalization of banks is mainly explained by capital injection and retained earnings. Paid up capital increased by FRW 37 billion to FRW 371 billion in June 2021 as some banks enhanced their capital positions to match risks undertaken as well as meet the minimum required paid up capital in line with the 2019 Licensing Regulation that requires commercial banks to have increased minimum paid up capital to FRW 15 billion by end 2021 and FRW 20 billion by 2023.

Domestic Systemically Important Banks (D-SIBs) held sufficient capital buffers including the Higher Loss Absorbency (HLA) Requirement. As a macro prudential authority, the NBR also imposes specific capital requirements on Domestic Systemically Important Banks (D-SIBs) in order to enhance their resilience, taking into account the high financial and economic costs of their failure. According to the NBR framework for identifying D-SIBs, a bank designated as a D-SIB is required to maintain higher capital buffers to meet regulatory capital requirements that include a Higher Loss Absorbency (HLA) requirement. This serves to increase a D-SIB's capacity to absorb losses thereby reducing its probability of distress or failure during periods of stress. The capital surcharge imposed depends on the systemic importance of the bank and ranges between 0.5 percent and 1 percent of Risk-Weighted Assets (RWA). The recent D-SIBs identification exercise that was conducted in June 2021 has indicated that all banks designated as D-SIBs comply with HLA requirement.

Going forward, banks are expected to remain adequately capitalized though capital buffers could reduce in the near term as credit impairments increase. Banks prepared and submitted their Internal Capital Adequacy Assessments (ICAAP) which were then reviewed and discussed with the supervisors under the Supervisory Review and Evaluation Process (SREP) to ensure that banks effectively assess challenges and risks to capital posed by the crisis and implement sufficient mitigating controls.

Liquidity of the banking sector remains healthy. The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the key liquidity indicators of banks, were above the minimum prudential requirement. Prescribed at a minimum level of 100 percent, the LCR stood at 226.2 percent compared to 253 percent in June 202, while the NSFR stood at 157.4 percent as at end June 2021 compared to 164 percent in June 2020. The LCR and NSFR act as safeguards against short-term funding outflows and excessive maturity transformation risks respectively. The compliance with both LCR and NSFR suggests that banks have sound short term and long-term funding profiles.

Banks operate conventional business models in which the balance sheet is primarily funded by customer deposits. Customer deposits represented 61.3 percent of total assets of banks (June 2020: 63.3 percent) and 74.1 percent of total liabilities (June 2020: 76.8 percent). Deposits increased by 16.2 percent to FRW 2,836 billion as at end June 2021, albeit slower than 17.8 percent growth registered in June 2020. Demand deposits represented 60.3 percent of total deposits while term deposits accounted for 39.7 percent. 90.9 percent of the term deposits have a maturity of less than one year. The share of borrowings from domestic banks and the NBR increased from 14.9 percent to 15.7 percent. This is reflective of the easing of interbank funding costs in line with the reduction in the Central Bank Rate to 4.5 percent in April 2020. Consequently, the average interbank rate declined from 5.5 percent in June 2020 to 5.2 percent in June 2021. During the same period, shareholders' funds increased by FRW 120 billion (y-o-y) to FRW 677 billion mainly supported by the increase of profits and capital injections.

Banks are expected to remain liquid. Based on the above-mentioned liquidity buffers, banks are expected to remain liquid. However, there are downside risks associated with loans still under moratorium that continue to hold up liquidity in the medium term, the potential increase in non-performing loans as well as delayed realisation of collaterals held that could further reduce cash inflows and increase liquidity risk. The NBR remains ready to support solvent banks that may experience any short-term liquidity challenges.

Credit risk escalated during the pandemic and remains one of the main threats to the stability of the banking sector. The Non-Performing Loans (NPLs) ratio, the key indicator of asset quality of banks, increased to 5.7 percent in June 2021 against 5.4 percent in June 2020. In nominal terms, NPLs increased by 27 percent to FRW 179 billion. Banks wrote off long outstanding NPLs of FRW 22.3 billion during the six months ended June 2021 resulting in a share of written off loans to gross loans of 12.1 percent. In addition, watch category loans (loans whose repayment is late by 30 to 90 days) increased by FRW 265 billion, from FRW 157 billion in June 2020 (6.0 percent of total loans) to FRW 422 billion in June 2021 (13.2 percent of total loans). These trends are indicative of the significant increase in credit risk.

Banks responded to the pandemic by offering loan repayment deferrals for customers affected by the crisis through loan restructuring. As at end June 2021, restructured loans amounted to FRW 776.7 billion (28.5 percent of total banks loans) out of which FRW 215.3 billion (7.9 percent of total loans) were still under moratorium. The initial guideline provided to banks in June 2020 with regard to COVID-19 loan restructuring was due to expire in June 2021 but was extended to September 2021. In addition to the extension, banks were required to strengthen the governance framework around COVID restructured loans to ensure thorough analysis of the borrowers' likeliness to repay the rescheduled payments and other related risk management frameworks, classify all restructured loans still under moratorium as watch category loans considering the significant increase in credit risk, consider 3 years for commercial properties, 2 years for residential properties and 1 year for movable properties as the collateral realization period in the computation of Expected Credit Loss (ECL) as well as extend the deadline for the disposal of assets held for sale to end December 2021.

NPL ratio is already elevated in some of the sectors that have been the most affected by the pandemic notably hotels, commercial real estate and trade (Table 22). In anticipation of increased future losses, banks have increased provisions by FRW 59 billion to FRW 177 billion in June 2021 from FRW 118 billion in June 2020. As a result of the faster increase of provisioning reserves compared with the stock of non-performing loans, the provisioning coverage ratio increased to 99 percent in June 2021 from 83.3 percent in June 2020. The increase of the provision coverage ratio signals that banks are cognizant of heighted risks and are prepared to strengthen safeguards against such risks.

Table 22: Assets Quality of Banking Sector

Activity Sectors	NPLs Ratio (Percent)			Percentage Share in Total NPLs
	Jun-19	Jun-20	Jun-21	
Personal Loan	6.0	7.4	5.9	8.2
Agricultural & Livestock	5.0	4.8	2.6	0.5
Mining	88.4	80.4	0.1	0.0
Manufacturing	1.4	0.6	0.8	1.6
Water & Energy	0.0	0.0	0.0	0.0
Mortgage	3.8	5.5	8.0	45.4
Public Work	*2.3*	*3.2*	5.9	7.7
Residential Houses	*4.9*	*4.3*	3.7	9.8
Commercial Houses	*3.6*	*9.3*	16.0	27.9
Trade	15.6	10.8	8.1	20.9
Hotels	8.8	3.8	9.0	16.2
Transport&Communication	2.3	1.4	1.5	2.8
OFI	1.7	1.1	2.4	0.1
Other Services	6.7	8.2	4.3	4.2

Source: NBR, Financial Stability Directorate

The banking sub-sector was profitable during the period under review. The aggregate net profits of banks increased by FRW 23 billion (69 percent increase) to FRW 56 billion for the first half of 2021, compared to the growth of FRW 7 billion (26 percent growth) during the first half of 2020. As result, the Return on Assets (ROA) increased to 2.5 percent in the first half of 2021 from 1.8 percent in first half of 2020. During the same period, the Return on Equity (ROE) increased to 14.4 percent from 9.9 percent.

Banks' revenues continued to increase in 2021. Revenues increased by 21 percent in the first half of 2021 to FRW 297 billion compared to the 10 percent growth recorded for the same period in 2020. Interest income on loans, which represents 64 percent of total bank revenues increased by 20 percent in 2021 compared to 11 percent in 2020. The growth in interest income on loans is in line with the growth of outstanding loans. Similarly, interest on government and other securities increased by 39 percent (FRW 10 billion) in accordance with the growth in amounts invested in these securities. Non-funded income represents only 20 percent of banks' incomes and increased by 14.4 percent having declined by 3.9 percent in June 2020. The growth was driven by a recovery in fee and commission income as a result of the uptick in lending activity which generated additional loan processing and related fees, resumption of digital payments related fees following the expiration of the 90 waivers in June 2020 in order to promote cashless payments, and pick up of trade which generated trade finance incomes.

Expenses on the other hand, increased by 10 percent, slower than the growth in income. Total expenses of banks increased by FRW 20 billion, from FRW 196 billion in H1 2020 to FRW 216 billion in H1 2021, compared to the increase of FRW 15 billion in H1 2020. This increase was mainly driven by additional provisions for bad loans which increased by FRW 7.8 billion (20 percent increase) to FRW 47 billion compared to an increase of FRW 2 billion (6 percent) in June 2020. This is on the back of the increase in NPLs, write offs and watch category loans mentioned earlier. Other interest expenses increased by FRW 4.9 billion (33 percent increase) to FRW 19.5 billion compared to the FRW 848 million (6 percent) increase in June 2020 in line with the increase in interbank and other borrowings mentioned in the previous section. Salaries, wages and staff costs increased by FRW 4 billion (10 percent increase) to FRW 45 billion having declined by FRW 929 million (2 percent) in June 2020. The increase of staff costs is mainly linked accruals for bonuses. Similarly, interest on customer deposits increased by FRW 4 billion (10 percent) to FRW 46 billion having increased by FRW 7.6 billion (22 percent) in June 2020. This was due to the moderation of the growth of deposits to 16.2 in June 2021 compared to the growth of 17.8 percent in June 2020.

Banks' efficiency improved in 2021. Total cost to total income ratio reduced to 72 percent from 80 percent in June 2020 on the back of faster increase in revenue than in expenditure. The ratio of operating expenses (staff costs, premises and depreciation and other expenses) reduced from 41 percent to 35 percent while operating expenses to net income (total income less interest expense) reduced from 53 percent to 44 percent. Continued operational efficiency will be a key driver in improved profitability of the sector going forward which is crucial for the internal generation of capital.

Table 23: Key Financial Soundness Indicators for Banks (Percent).

Indicators	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21
Total CAR (min 15 %)	20.8	21.9	23.3	23.6	22.5
Tier 1 CAR (Core CAR)	19.2	20.1	21.8	22.3	21.4
NPLs Ratio	8.2	6.9	5.6	5.5	5.7
Provisions / NPLs	44.9	67.4	80.2	82.6	99.0
Return on Average Assets	1.7	1.6	1.6	1.8	2.5
Return on Average Equity	9.6	9.5	9.3	9.9	14.4
LCR (min 100%)	-	299.5	180.5	253	226.2
NSFR (min 100%)	-	224.7	164.3	164.3	157.4
FX Exposure/Core Capital (± 20%)	-6.1	-6.1	-8.6	-6.6	-4.7

Source: NBR, Financial Stability Directorate

5.4 The Microfinance Sub-Sector

5.4.1 Structure of the Microfinance Sub-Sector

The microfinance sector is dominated by the Umurenge SACCO network. The 416 U-SACCOs that operate in every administrative sector of the country held 41.8 percent of the sector's total assets, 43.4 percent of total deposits and 27.1 percent of net loans. Non-Umurenge SACCOs (22 institutions), dominated by 1 large SACCO, represented 26.6 percent of total assets, 24.7 percent of total deposits and 39.4 percent of net loans. The 19 Public Limited

Companies (PLCs) on the other hand held 28.7 of total assets, 31.9 of total deposits and 33.6 percent of net loans.

The microfinance sector has played a critical role in financial inclusion and poverty alleviation. The sub-sector serves nearly 4.2 million individuals (56 percent of the adult population) and 397,759 group entities across the country. 90 percent of Rwandans live within a 5km radius of a U-SACCO[3].

5.4.2 Performance of the Microfinance Sub-Sector

The balance sheet of the microfinance sector continued to grow during the period under review. Total assets of the microfinance sector increased by 16.8 percent in June 2021 to FRW 386 billion, higher than the 5.4 percent growth registered in June 2020. The improved growth of assets of MFIs is mainly reflective of growth of deposits and equity. On one hand, total deposits of MFIs increased by 18.9 percent (from FRW 179 billion in June 2020 to FRW 213 billion in June 2021), up from 7 percent growth registered in June 2021. The growth of deposits of MFIs is associated with the reopening of the economy, improved performance of the agriculture sector backed by favourable weather conditions and policy initiatives including the increased use of improved seeds and fertilizers. These measures boosted the incomes of the primary customers of microfinance institutions especially those engaged in farming activities. On the other hand, total shareholders' funds expanded by 20.1 percent to FRW 137 billion in June 2021 from FRW 114 billion in June 2020, against the growth of 7.4 percent registered in June 2020. The growth of MFIs' equity was underpinned by capital injection (+ FRW 6 billion), retained earnings (+ FRW 2 billion), profits of the current period (+ FRW 8 billion) and other equity (+ FRW 7 billion).

MFIs also continued to lend during 2021. During the period ended June 2021, the outstanding credit of MFIs increased by 18.5 percent to FRW 215

[3] Finscope 2012

billion in June 2021, up from the 8.3 percent growth recorded in June 2020. The pace of lending improved in all categories of MFIs. In U-SACCOs, the outstanding credit increased by 21 percent to FRW 59.2 billion in June 2021 from FRW 48.9 billion in June 2020, higher than the growth of 3.6 percent registered in June 2020. Outstanding loans in non U-SACCOs increased by 14.9 percent (to FRW 83.7 billion from FRW 72.8 billion), against the growth of 11.5 percent registered in June 2020 while in PLCs, outstanding credit grew by 20.9 percent to FRW 72 billion in June 2021 from FRW 60 billion in June 2020. Generally, the improved lending in MFIs mirrors the improved credit demand amidst the reopening of the economy and rebound of businesses that created investment opportunities for customers of microfinances. Lending is expected to pick up in the second half of 2021 as the economy continues to recover from the COVID-19 pandemic.

5.4.3 Soundness of the Microfinance Sub-Sector

The microfinance sub-sector remains adequately capitalized. As at end June 2021, the aggregate CAR of MFIs stood at 35.4 percent, higher than 15 percent minimum prudential requirement. The solid capitalization of MFIs is associated with the expansion of the capital base and improved asset quality. Total equity of MFIs increased by FRW 23 billion to FRW 137 billion in June 2021. The upturn of capital of MFIs came from paid up capital (FRW 6 billion), retained earnings (FRW 2 billion), current profits (FRW 8 billion) and other equity that includes reserves (FRW 7 billion). The capitalization of MFIs is expected to remain sound on account of profitable operations of MFIs and the extension of the NBR directive restricting the distribution of dividends to shareholders. This directive has been extended to ensure that MFIs preserve capital buffers to absorb pandemic related shocks.

The liquidity position of MFIs also remains strong. The industrywide liquidity ratio of MFIs stood at 106 percent, against 30 percent minimum prudential requirement. The liquidity buffers will help MFIs to absorb any shocks associated with the current COVID 19 crisis.

Asset quality continued to improve during the period under review. NPLs of MFIs dropped by FRW 9 billion to FRW 14 billion in June 2021 from FRW 23 billion in June 2020. During the same period, the NPL ratio declined to 6.6 percent from 12.8 percent mirroring the economic recovery in the first half of 2021 following the resumption of business activity. It is worth noting that unlike banks, most of the MFI loans are short term in nature and are predominantly in the agriculture sector which was not significantly affected by the pandemic. Asset quality improved in all other categories of MFIs. In U-SACCOs, NPLs dropped by FRW 4.4 billion to FRW 6.2 billion in June 2021. During the same period, NPLs ratio in U-SACCOs declined to 10.6 percent from 21.8 percent. In PLCs, NPLs dropped by FRW 3.1 billion to FRW 4.3 billion in June 2021 from FRW 7.4 billion in June 2020. Similarly, NPLs ratio in PLCs reduced to 6 percent from 12.4 percent. In non U-SACCOs, NPLs dropped by FRW 1.6 billion to FRW 3.5 billion in June 2021 from FRW 5.1 billion in June 2020. During the same period, NPLs ratio in non U-SACCOs declined to 4.3 percent from 7.1 percent. The other aspect that contained the growth of NPLs in MFIs relates to the credit restructuring. Like in banks, MFIs were also allowed to provide credit payment reliefs to their customers affected by the pandemic. As at end June 2021, MFIs had restructured loans worth FRW 12.3 billion (5.7 percent of total loans).

The microfinance sector remains profitable. During the period under review, net profit of MFIs increased by FRW 8 billion to FRW 9 billion in the first half of 2021 from the profit of FRW 1 billion in first half of 2020. The increase of the profit of MFIs is mainly linked to the reduction of operating expenses and provisions for bad debts. On one hand, the operating expenses reduced by FRW 1.3 billion to FRW 22.9 billion during the first half of 2021 from FRW 24.2 billion during the first half of 2020. On the other hand, provisions expenses reduced by FRW 2.1 billion during the first half of 2021 compared to the increase of FRW 5.4 billion during the first half of 2020. The reduction of provisions for bad debts is reflective of improved assets quality of the sub-sector as explained above. With increased profits, the ROA increased to 4.8 percent in June 2021 from 0.7 percent in June 2020 while the ROE on equity increased to 13.5 percent from 1.9 percent.

Table 24: Performance Indicators of Microfinances

Microfinance Sector	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21
Assets (FRW billion)	247.7	279.0	313.1	330.2	385.8
Loans (FRW billion)	127.4	149.3	167.6	181.5	215.1
Deposits (FRW billion)	133.4	153.6	167.2	178.9	212.7
Equity (FRW billion)	82.5	90.7	105.9	113.8	136.7
Net profit/Loss (FRW billion)	-0.1	3.2	6.6	1.1	9.0
Capital Adequacy Ratio (%)	33.3	32.5	33.8	34.5	35.4
NPLs Ratio (%)	12.3	8.0	6.7	12.8	6.6
Liquidity Ratio (%)	99.1	103.3	108.8	110.1	106.1
U-SACCOs	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**
Assets (FRW billion)	121.4	127.9	138.4	139.3	161.2
Loans (FRW billion)	37.7	42.4	47.2	48.9	59.2
Deposits (FRW billion)	70.1	68.3	73.1	77.8	92.3
Equity (FRW billion)	38.1	41.2	44.2	45.7	54.2
Net profit/Loss (FRW billion)	2.0	1.8	2.9	0.3	3.9
Capital Adequacy Ratio (%)	31.4	32.2	31.9	32.8	33.6
NPLs Ratio (%)	13.1	12.3	12.5	21.8	10.6
Liquidity Ratio (%)	112.8	117.7	117.5	113.2	106.9
Public Limited Companies	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**
Assets (FRW billion)	58.1	68.9	85.6	93.5	110.7
Loans (FRW billion)	46.0	46.3	55.1	59.7	72.2
Deposits (FRW billion)	33.6	44.7	53.5	56.9	67.8
Equity (FRW billion)	13.8	14.1	19.9	20.8	27.6
Net profit/Loss (FRW billion)	-3.6	-0.7	1.1	-1.1	0.7
Capital Adequacy Ratio (%)	23.8	20.5	23.2	22.2	24.9
NPLs Ratio (%)	20.9	8.7	5.2	12.4	6.0
Liquidity Ratio (%)	61.6	72.6	77.6	82.1	78.6
Other SACCOs	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**
Assets (FRW billion)	68.3	82.3	89.2	97.4	114.0
Loans (FRW billion)	55.0	60.6	65.4	72.9	83.8
Deposits (FRW billion)	29.7	40.6	40.6	44.2	52.6
Equity (FRW billion)	30.6	35.5	41.9	47.5	54.9
Net profit/Loss (FRW billion)	1.5	2.1	2.5	1.9	4.4
Capital Adequacy Ratio (%)	44.8	43.1	47.0	48.7	48.2
NPLs Ratio (%)	4.6	4.2	3.7	7.1	4.3
Liquidity Ratio (%)	96.5	102.5	138.5	157.8	165.7

Source: NBR, Financial Stability Directorate

5.5 Insurance Sub-Sector

5.5.1 Structure of the Insurance Sub-Sector

NBR licensed the first micro-insurance company in Rwanda. In December 2018, the NBR issued a Micro-insurance Regulation aimed at facilitating the extension of insurance services to low income individuals, households and firms.

The insurance sector is dominated by public insurers. As at end June 2021, the sector constituted 13 private insurers operating both life and non-life insurance businesses (9 non-life and 3 life Insurers and 1 Micro insurance company) and 2 public medical insurers. In terms of asset size, the 2 public insurers remained dominant with an asset size equivalent to 63 percent of total assets and 43 percent of gross written premiums (GWP) of the insurance sector. On the other hand, the 13 private insurers held 37 percent of total assets and 57 percent of gross written premiums.

Private insurers are mainly domestic companies. Of the 13 private insurers, 7 are domestic representing an asset and GWP share of 15 percent and 25 percent respectively of the total sector. The 6 foreign private insurers are mainly subsidiaries of pan-African insurers and held 22 percent and 32 percent of total assets and GWP respectively.

Insurance business is dominated by non-life insurance. Non-life insurance (including public insurers) represented 88 percent of gross written premiums. Among the private insurers, non-life or general insurance represented 78 percent of GWP. Life insurance on the other hand, provided by 3 insurers, represented 12 percent of total sector premiums and 20 percent of private insurers GWP.

Insurers are heavily dependent on motor and medical insurance products. Motor and medical insurance products contributed 63 percent of total private insurer's premiums as at end June 2021, reflecting the product concentration risk. Property represented 11 percent, guarantees 4 percent, engineering 4 percent, accident and health 2 percent, liability 2 percent, transportation 1 percent, and other non-life insurance products 6 percent. On other hand, public insurers providing medical insurance business accounted for 77 percent of total premiums of medical insurance products collected by (both private and public Insurers) and 43 percent of total premiums of insurance sector.

Insurance is still provided through traditional channels. Private insurers served policyholders through a network of 914 insurance agents (June 2020: 776), 14 insurance brokers, 1 reinsurance broker licensed during the period under review and 18 loss adjusters (June 2020: 19).

The insurance sector is still very shallow. Insurance penetration, measured by gross premiums as a percentage of GDP, stood at 1.7 percent in June 2021 compared to the leader in the region, Kenya at 2.4 percent and the leader on the continent, South Africa at 13.4 percent[4].This low level of insurance penetration suggests significant opportunities for insurance expansion. It is imperative that insurers widen their client base, product offering and channels in order to close the penetration gap and reduce the reliance on a few products.

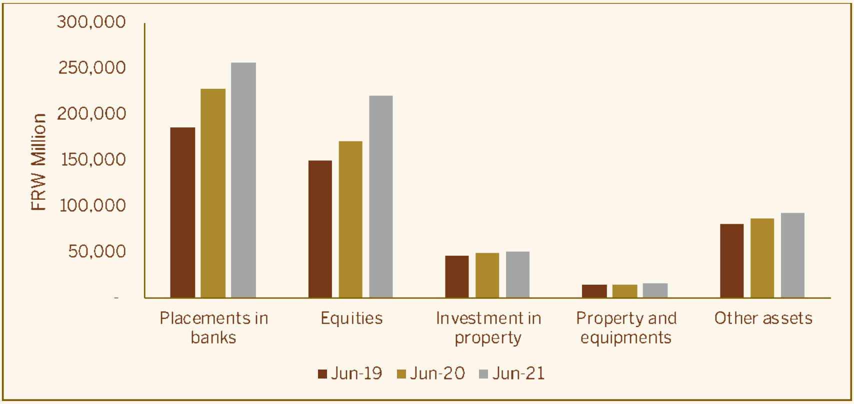
5.5.2 Performance of the Insurance Sub-Sector

Assets of the insurance sector continued to grow in the first half of 2021. Total assets of the insurance sub-sector increased by 16.3 percent (from FRW 548.4 billion to FRW 637.8 billion), higher than the 14.9 percent growth observed in June 2020. All asset classes recorded growth between June 2020 and June 2021 (Figure 19). Private insurers recorded a higher growth in assets - 17.4 percent (against 15.4 percent last year) than public insurers by

[4] Africa's Insurance Potential: Trends, Drivers, Opportunities and Strategies (November 2020).

15.7 percent (against 14.6 percent last year). This growth in assets was mainly supported by growth in business (premiums) and retained earnings (+ FRW 66.4 billion in June 2021, compared + FRW 47.2 billion in June 2020).

Figure 19: Investments Mix



Source: NBR, Financial Stability Directorate

The asset mix of insurers varies depending on the line of business. From an industry-wide perspective, placements in banks continued to be the main asset category of insurers with around 40 percent of total insurers' assets as at June 2021, followed by government securities (23 percent), equity investments (12 percent), receivables (9 percent), investment in property (8 percent), other assets (5 percent) and fixed assets (2 percent). However, life insurers, with long- term liabilities, held the majority of their assets in longer term assets – 47 percent in government securities and equities and 22 percent as investments in properties. On the other hand, non-life insurers (short-term insurers) held most of their assets in short term maturities, to cater for their short-term liabilities – placements in banks with average one-year maturity represented 27 percent of total assets and government securities—majority treasury bills (21 percent).

Similar to assets, the growth of premiums of the insurance sector also improved during the period under review. Premiums increased by 26.2

percent in June 2021 (from FRW 78.9 billion to FRW 99.5 billion), compared to the growth of 7.2 percent registered as at June 2020. Growth of premiums was more apparent in private insurers—(both life and non-life) compared to public medical insurers.

Growth of premiums outweighed the growth of claims and operational expenses, resulting in improved underwriting returns of the insurance sector. During the period, underwriting returns (profitability on core business of insurers) increased by 53.9 percent, from FRW 7.6 billion to FRW 11.6 billion. For private insurers, the underwriting losses have consistently been reducing over several years, from FRW 4.2 billion in 2017, FRW 0.9 billion in 2019, FRW 0.4 billion in 2020 to FRW 0.2 billion in 2021. Underwriting losses among many private insurers remained the key risk facing this sub-sector. NBR measures to revive the performance of private insurers (underwriting returns), notably containing unhealthy competition such as price undercutting, encouraging operational efficiency, co-insurance and stopping market malpractices have paid off. These measures, along with the 2018 industry review of the motor insurance premiums — the largest product by premiums, improved the underwriting returns over the years. On the other hand, in the same period both claims and management expenses of the insurance sector increased by FRW 10.2 billion (from FRW 60.4 billion to 70.6 billion). Consequently, the combined ratio of the insurance sector that compares combined claims incurred and operating expenses to net premiums earned, stood at 101 percent in June 2021, the same registered in June 2020, compared to the 90 maximum prudential standard.

Overall, consolidated profits (after tax) of insurance sector increased from FRW 21.1 billion as at June 2020 to FRW 32.2 billion as at June 2021. Public insurers account for 78 percent of the total profits. This profit came largely from investment income. During the period, investment income increased from FRW 12.6 billion to FRW 19.6 billion, due to stable income on fixed income securities (government securities and deposits in Banks). Net profits improved across insurers both private and public. Profits of public insurers during the period under review increased from FRW 15.1 billion to FRW 25 billion. Similarly, profits of private insurers increased from FRW 6.0 billion to FRW 7.1 billion.

Table 25: Key Financial Performance Highlights of the Insurance Sector

Description (In FRW billion)	Private Insurers			Public Insurers			Insurance sector		
	Jun-19	Jun-20	Jun-21	Jun-19	Jun-20	Jun-21	Jun-19	Jun-20	Jun-21
Gross written premiums	41.0	44.3	56.9	32.6	34.6	42.6	73.6	78.9	99.5
Net written premiums	33.7	35.1	44.1	32.6	34.6	42.6	66.3	69.6	86.7
Total Claims	20.6	20.8	25.5	16.8	19.0	20.7	37.4	39.8	46.2
Management expenses	13.6	13.1	14.4	4.8	7.5	10.0	18.4	20.6	24.3
Underwriting profit (loss)	(0.9)	(0.4)	(0.2)	11.0	8.0	11.9	10.2	7.6	11.7
Investment Income	5.1	5.9	6.9	7.4	6.7	12.7	12.5	12.6	19.6
Other Income	2.1	2.1	2.4	0.1	0.3	0.5	2.2	2.4	2.8
Net profit after taxes	4.7	6.0	7.1	18.5	15.1	25.0	23.2	21.1	32.2
Assets	174.5	201.4	236.4	302.9	347.0	401.4	477.3	548.4	637.8
Technical provisions	95.9	104.8	122.3	1.3	1.4	1.7	97.2	106.3	124.0
Liabilities	23.9	31.2	36.0	2.3	5.9	4.9	26.2	37.0	40.9
Capital and reserves	55.5	65.4	78.1	299.2	339.7	394.8	354.8	405.1	472.9

Source: Financial Stability Directorate

5.5.3 Soundness of the Insurance Sub-Sector

The insurance sector remained adequately capitalized during first half of 2021. Private insurer's solvency ratio stood at 147 percent as at end June 2021 compared to 156 percent in June 2020 and well above the regulatory minimum of 100 percent. Factors that supported the insurer's solvency position in June 2021 include increase of retained earnings (+ FRW 11.2 billion) and fresh capital injections (+ FRW 1.5 billion). The solvency position of public insurers remained far above solvency requirements, in line with stable business of these Insurers (Table 26).

The sector also held adequate liquidity buffers. Aggregate liquidity and current ratios were 238 percent and 293 percent respectively, against 100 percent minimum prudential requirement. However, private insurers' liquidity of 94 percent was below the prudential benchmark of 100 percent. The issue was more prominent in non-life insurers whose liquidity ratio stood at 81 percent in June 2021 due to the increase in premium and other receivables as well as other illiquid assets like investments in property. Life insurers' liquidity stood at 145 percent above the 100 percent prudential benchmark.

Credit risk is also increasing in the insurance sector. Premium receivables represented 6.6 percent of private insurers' assets as at end June 2021, compared to 3.7 percent in March 2021 and 6.1 percent in June 2020. A significant proportion of these receivables, 61 percent were overdue for less than 90 days, 10 percent between 90 to 180 days and 28 percent are above 180 days. Corporates represented 70 percent of the total premium receivables, public institutions 23 percent, individuals 5 percent, and NGOs and international agencies 2 percent. The NBR granted regulatory forbearance to allow insurers to sell on credit and with admissibility of premium receivables less than 90 days until June 2021. Going forward, admissibility of premium receivables will revert to less than 60 days for government institutions and 30 days for corporates.

Table 26: Financial Soundness of the Insurance Sector

Description (Ratios %)	Private Insurers			Public Insurers			Insurance sector		
	Jun-19	Jun-20	Jun-21	Jun-19	Jun-20	Jun-21	Jun-19	Jun-20	Jun-21
Solvency margin (Min. 100%)	174	156	147	2,297	2,463	2,765	1,190	1,228	1,374
Claims ratio (max.60%)	62	62	64	52	55	49	57	59	56
Expenses ratio (max. 30%)	41	39	36	15	22	23	28	30	30
Combined ratio (max.90%)	103	101	101	66	77	72	85	89	86
ROE (Min.16%)	17	18	18	12	9	13	13	10	14
ROA (Min.4%)	5	6	6	12	9	12	10	8	10
Current Ratio (min. 120%)	76	74	81	4,928	2,998	3,489	241	243	238
Liquidity ratio (min. 100%)	91	90	94	5,305	3,189	4,413	268	234	293

Source: Financial Stability Directorate

5.6 Pension Sub-Sector

5.6.1 Structure of Pension Sub-Sector

The pension sector is dominated by the mandatory public pension fund. The Fund, which operates as a defined benefit scheme, is mandatory for all salaried workers and open to voluntary contributors. Pension contributions are collected at 3 percent by the employee, 3 percent by the employer and another 2 percent by the employer to cover occupational hazards and guarantee pension benefits to retirees at 60 years of age who have contributed for a minimum of 15 years. Retirees who contribute for less than 15 years receive a lump sum payment. The Fund also administers the Ejo-Heza long-term savings scheme that was developed to extend pension services to workers in the informal sector not covered by the mandatory pension scheme. The mandatory scheme holds 95 percent of total pension sector assets and 17 percent of total financial sector assets. The 2015 Pension Law made way for the licensing of voluntary pension schemes and as at end June 2021, there were 12 registered schemes of which 7 were Complementary Occupational Pension Schemes (COPS) established by agreement between employers and their employees as well as 5 Personal Pension Schemes (PPS) operated by financial institutions that provide retirement savings accounts. Voluntary pension schemes held 5 percent of the sector's assets and are operated as Defined Contribution schemes (DC), which provide pension benefits based on the contributions collected and the performance of the investment of those contributions.

5.6.2 Performance of Public Pension Fund

Assets of the public pension fund continued to increase. Total assets of the public pension fund increased by FRW 230.7 billion, a 25 percent increase to FRW 1,171.5 billion in June 2021, higher than the growth of FRW 104 billion (12 percent) registered in the corresponding period of 2020. The main drivers of growth of assets were changes in market value of investments in quoted and unquoted equities, as well as plots of land plus additional investments in equities, land and property, government securities and bank deposits supported by a growth in investment income as well as additional pension contributions collected.

Pension contributions continued to grow, albeit at a slower pace. In June 2021 pension contributions increased by 6.1 percent to FRW 109 billion compared to the 9 percent growth recorded in June 2020. The reduction was mainly as a result reduction in employees' salary base following the impact of the COVID pandemic. Alternately, the number of contributing employers increased by 6 percent to 16,875 and employees by 19 percent to 699,041.

Investment income of the public pension also continued to increase. Investment income increased by FRW 11.3 billion, a 44 percent to FRW 38.9 billion in June 2021 having declined by 23 percent in June 2020. During the period, interest on fixed income investments (Government securities and placements in banks) remained the main investment earners representing up to 90 percent of total investment income. Interest income on government securities represented 57 percent of total earned income from pension investments, reflecting increased stock of government securities; followed by interest income on placements in banks with 33 percent.

Benefits paid also continued to increase but at a slower pace than contributions. During the period under review, pension fund benefit payments increased by 16 percent to 34.7 billion in June 2021, reflecting the increased number of beneficiaries from 42,192 to 44,169. Pensioners (retirees) represented 55 percent of total beneficiaries and 83 percent of total benefit payments in June 2021. Deceased members' beneficiaries represented 38 percent of beneficiaries and 7 percent of benefit payments; occupational hazard beneficiaries were 6 percent with 3 percent of payments and incapacitated members 1 percent both of number of beneficiaries and of benefit payments.

Table 27: Key financial highlights of Public Pension Fund

DESCRIPTION (in FRW Billion)	Jun-18	Jun-19	Jun-20	Jun-21	%change Jun-20/19	%change Jun-21/20
Total assets	749.2	836.8	940.8	1,171.50	12.4	24.5
Total contributions	89	93.5	102.6	108.8	9.7	6.1
Total benefits paid	21.1	26.9	29.9	34.7	11.3	16
Operating expenses	5.9	7.4	9.1	4.3	22.6	-52.4
Investment income	29.3	35.2	27.1	38.9	-23.2	43.9
Net asset (Profit)	100.3	97.6	91.3	125.8	-6.4	37.7

Source: Financial Stability Directorate

The Fund's investment mix is well diversified. 40 percent of total investments were held in equities. Domestic unquoted equities in a variety of sectors including manufacturing, banking, insurance, construction and hotels represented 49 percent of total equity investments and 20 percent of total investments. On the other hand, domestic listed equities held 23 percent of total equities and 9 percent of the Fund's investment portfolio. These have been crucial in facilitating the development of the local capital market and are across a variety of sectors including manufacturing, telecommunication and banking. Offshore equity investments represented 29 percent of total equity investments and 11 percent of total investments. 23 percent of these are held in equities listed in the region in banking and telecommunication while 77 percent are unquoted equities in banking, pharmaceuticals and technology sectors. Bank deposits represented 19.5 percent of the investment portfolio. These deposits are diversified across all the banks in the sector. Investments in properties represented 19 percent of the Fund's investment portfolio and increased by 59 percent due to the acquisition of additional land for development across different parts of Kigali.

Table 28: Investment allocation of Public Pension Fund

Description (Billion FRW)	Jun-19	Jun-20	Jun-21	Share	%change Jun-21/20	%change Jun-20/19
Government Securities	154	185	210	18.2%	14%	20%
Equities	375	406	464	40.2%	14%	8%
Investment in properties	117	138	219	19.0%	59%	18%
Deposits in banks	155	174	225	19.5%	29%	12%
Other Investments	17	20	36	3.1%	86%	17%
Total investments	**818**	**922**	**1,153**	**100%**	**25%**	**13%**

Source: NBR, Financial Stability Directorate

5.6.3 Performance of the Long-Term Saving Scheme (LTSS) Ejo-Heza

LTSS Ejo Heza is public defined contribution pension scheme established by the Government of Rwanda in June 2017 with a view of increasing pension coverage to the population in the informal sector as well as an opportunity for complementary savings for those already covered by the mandatory scheme. It is voluntary in nature and is established by one opening a savings account with the scheme administrator, currently the Rwanda Social Security Board (RSSB). It is accessible by self-employed individuals working in the informal sector who wish to save for the long-term, salaried employees regardless of their status as a member of any other social security scheme, anyone that is no longer an active member of a social security scheme to which he/she was affiliated but who receives benefits under the laws regulating that scheme, and who transfers them to a long-term savings account, children below the age of sixteen (16) years benefiting from a long-term saving account opened by his/her parent or guardian and any other person not included in the categories listed above.

Assets of the Ejo-Heza Fund continued to grow in 2021. As at end June 2021, total assets of the Fund increased by 25 percent to FRW 16.5 billion. High growth of assets was mainly driven by steady increase of savers of the fund following mobilization campaigns in different regions of the country and beyond. During the period, the number of savers increased from 348,026 contributing FRW 4 billion in June 2020 to 1,135,148 contributing FRW 15.7 billion in June 2021. With regard to collection of contributions by geographical locations, southern province had the largest share of savers (32 percent), followed by western province (26 percent), eastern province (19 percent), Northern Province (18 percent) and Kigali city (6 percent). On asset allocation, the fund invests all its assets in fixed income securities to secure its stability and performance as a newly established fund. In June 2021, the share of government securities was 94 percent and placements in Banks 6 percent.

Table 29: Key Financial Highlights of LTSS Ejo Heza

Description (In Billion FRW)	Jun-20	Jun-21
Assets	4.8	16.6
Liabilities/payables	0.0	0.0
Technical Reserves	4.8	16.6
Contributions received	4.1	15.8
Investment income	0.0	0.0
Other income (Government subsidies)	1.3	1.5
Expenses	0.9	1.1

Source: NBR, Financial Stability Directorate

5.6.4 Voluntary Pension Schemes

During the period under review, the assets of voluntary pension schemes continued to expand despite the COVID-19 outbreak. As at end June 2021, the number of private pension schemes remained unchanged as 12, served by 3 custodians, 8 administrators, and 6 investment managers compared to 3 custodians, 7 administrators, and 6 investment managers in June 2020. Total assets of private pension schemes increased by FRW 14.7 billion to FRW 63.7 billion as at June 2021. The growth of the assets is linked to growing members' contributions that increased from FRW 4.3 billion in June 2020 to FRW 5.1 billion in June 2021, while contributors increased from 43,344 to 63,053. Investment income also supported the growth of assets and increased from FRW 2.0 billion to FRW 2.6 billion (Table 30). Voluntary pension schemes continued to invest heavily in fixed income securities (to the tune of 86 percent) with a large share in government securities, followed by placements in banks. Investment in government securities increased from 69 percent to 74 percent of total investments of private pension schemes, followed by placements in banks (12 percent). Increased investment in government securities (mainly on long term bonds) was connected to the higher yields gained on this investment class compared to yields on placements in banks observed during the period. On the other hand, the share of equities and properties remained low during the period, mainly reflecting the risks associated with these two investments.

Figure 20: Highlight of Voluntary pension scheme

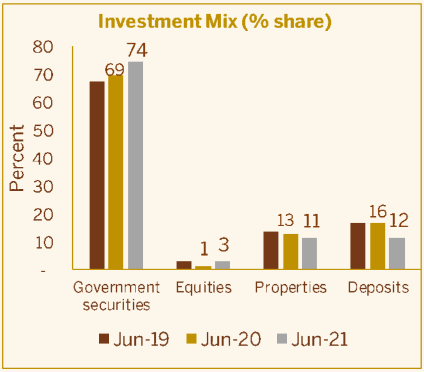


Table 30: Key financial highlights of Voluntary Pension Scheme

Description (In Billion FRW)	Jun-19	Jun-20	Jun-21
Assets	39.8	49.0	63.7
Liabilities	0.1	0.1	0.1
Technical Reserves	39.8	48.9	63.6
Contributions received	3.6	4.3	5.1
Benefits paid	2.4	1.9	3.6
Investment income	1.6	2.0	2.6
Operating expenses	0.3	0.4	0.3
Net Increase in net asset (Profit)	2.7	4.0	3.8

Source: NBR, Financial Stability Directorate

5.7 Credit Reporting System

The National Bank of Rwanda (NBR) is also mandated to supervise the Credit Reporting System by the Law No 73/2018 and Regulation No 27/2019, published in the Official Gazette in September 2018 and October 2019 respectively. Currently, one private credit bureau (TransUnion Rwanda) is licensed to carry out credit reference services. It collects information from mainly mandatory participants (Banks, Microfinance Institutions, SACCOs; Insurance companies, Telecommunication companies and Utility agencies) as well as voluntary participants, which include traders that are selling goods and services on deferred payments. As at end June 2021, the credit bureau had 508 subscribed data providers and users.

The information provided by the credit bureau is continuously enhanced. The credit bureau has designed and implemented the credit score, which is now accessed online by all subscribers. The credit score maps the credit risk and uses past credit information to scrutinize the repayment ability of a borrower. The usage report indicated that data users accessed credit information from the credit bureau database at 94 percent in June 2021 from 93.2 percent in June 2020 and 82.7 percent in June 2019. In addition, the credit coverage (percentage of reported adult population) continued to increase to reach 31.6 percent in June 2021 from 27.7 percent in June 2020 and 24.4 percent in June 2019.The increase was driven by student loans and micro loans including those are provided through digital platform.

5.8 Payment Systems

Payment systems are an important component of the financial system, and their proper functioning boosts overall economic performance by facilitating the release of payment obligations emerging in the financial markets and across the economy by providing channels for funds transfer between individuals, businesses and financial institutions. The Rwanda National Payments System (RNPS) is made up of wholesale and retail payment systems, instruments, and Payment Service Providers (PSPs). As evidenced by the activities of various financial market systems, the RNPS, particularly mobile financial services, has improved over the period under review.

5.8.1 Wholesale Payment Systems

Customer transfers dominated RIPPS activities. The Rwanda Integrated Payment Processing System (RIPPS), which includes the Real Time Gross Settlement System (RTGS) and the Automated Clearing House (ACH), supports Rwanda's wholesale payment system. During the period under review, customer transfers represented 94 percent in terms of number of transactions and 62 percent in terms of value. However, RIPPS transactions decreased by 9 percent in volume and 17 percent in value during the year 2021 compared to the previous year. The decrease is due to the impact of slower economic activity in the period June 2020 – June 2021 compared to June 2019 -June 2020 as a result of the COVID crisis.

Table 31: RIPPS Transactions

	June 2020 to June 2021				June 2019 to June 2020				Change	
	Volume	Value FRW 'M	Share of volume	Share of value	Volume	Value FRW 'M	Share of volume	Share of value	% volume	% value
Customer credit transfers	3,829,131	7,650,920	94%	62%	4,208,000	6,510,882	94%	44%	-9%	18%
Interbank transactions	6,530	3,620,066	0%	29%	7,336	7,321,594	0%	50%	-11%	-51%
Cheques	258,273	1,010,845	6%	8%	270,485	952,967	6%	6%	-5%	6%
Total	**4,093,934**	**12,281,831**	**100%**	**100%**	**4,485,821**	**14,785,443**	**100%**	**100%**	-9%	-17%

Source: Financial Stability Directorate

5.8.2 Retail Payment Services

5.8.2.1 Key trends in payment instruments

The COVID-19 pandemic has been an enabler for the faster adoption of digital financial services. As movements were restricted either by lockdowns or curfews as well as capacity limitations in physical banking premises financial service providers, businesses and individuals had to adopt in order to make and accept payments. The waiver of fees on some services, notably mobile merchant payments has also contributed to the adoption of these payment channels further enabled by the roll out of payment touch points and on boarding of subscribers and merchants.

Table 32: The use of various cashless payment instruments

Period	H1 2021			H1 2020		
Instrument	Subscribers	Transactions Volume	Transactions Value M/FRW	Subscribers Volume	Transactions Volume	Transactions Value M/FRW
Cards	657,477	8,938,646	611,120	488,399	5,382,771	307,270
mobile banking	2,080,549	2,951,186	209,882	1,882,168	2,604,052	105,865
mobile payment	6,129,624	424,792,238	5,169,962	4915320	299,013,452	2,580,948
internet banking	106,312	819336	1,605,708	87,614	712,430	1,295,610

Source: Financial Stability Directorate

5.8.2.2 Mobile Financial Services and Internet Banking

The number of mobile banking subscribers increased. The number of banks that provide mobile banking remained unchanged as 11, but the number of mobile banking subscribers increased by 11 per cent from 1,882,168 in June 2020 to 2,080,549 in June 2021. Similarly, the number of transactions increased by 13 per cent from 2,604,052 in H1 2020 to 2,951,186 in H1 2021 while the value of transactions increased by 98 per cent from FRW 105.8 to 209.8 billion.

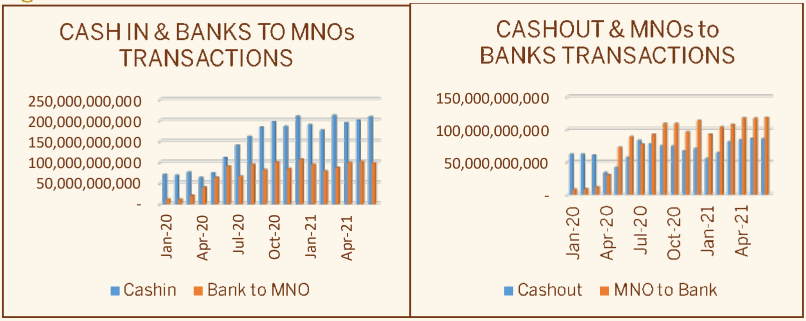
Internet banking also continued to grow during 2021. Internet banking subscribers increased by 21 per cent from 87,614 in June 2020 to 106,312 in June 2021, the number of transactions by 15 per cent from 712,430 in H1 2020 to 819,336 in H1 2020 and the value of transactions by 24 per cent from FRW 1,295 in H1 2020 to 1,605 billion in 2021. 9 banks provided internet-banking services.

Mobile payments recorded exponential growth. Active mobile payments subscribers increased by 25 per cent from 4,915,320 in June 2020 to 6,129,624 in June 2021 while the number of agents increased by 29 per cent from 111,422 in June 2020 to 144,250 in June 2021. The number of mobile payment transactions increased by 42 per cent from 299,013,452 in H1 2020 to 424,792,238 in H1 2021 while the value of transactions increased by 100 per cent from FRW 2,580 to 5,169 billion.

Cash-in transactions dominate the mode of entry of funds into the mobile payments system. Cash-in transactions had a volume of 68,477,499 transactions as at end June 2021 and value of FRW 1,184,417 million compared to digital loading of e-wallets through transfers from bank accounts, which accounted for 10,344,478 transactions in June 2021 with a value of FRW 563,750 million.

E-wallet to bank transfers continued to grow in 2021. MNO to bank transfers continued to increase during the pandemic mainly facilitated by the zero-rated merchant payments that allow them to accumulate funds on the e-wallets which they eventually push their bank accounts (Figure 21).

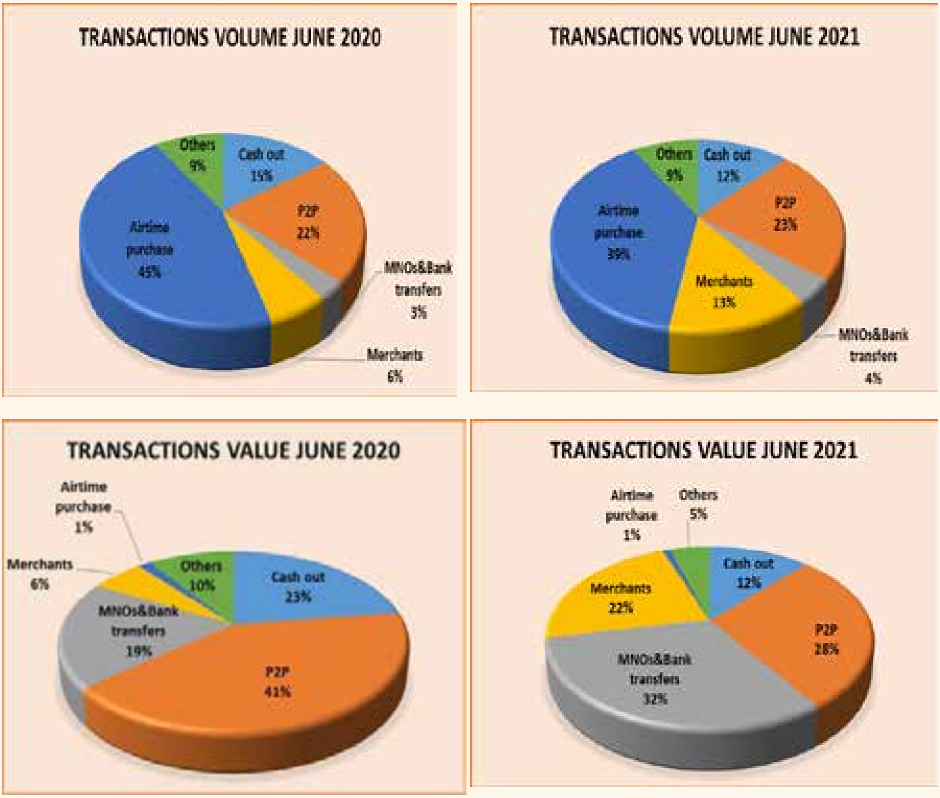
Figure 21: Cash in and Cash Out Transactions



Source: Financial Stability Directorate

The composition of mobile payments continued to transform during 2021. Whereas airtime purchase continued to dominate the number of mobile payments transactions, the share reduced from 45 percent to 39 percent. On the other hand, the share of merchant transactions to total transactions increased from 6 percent to 13 percent. In terms of value. Person to Person (P2P) and cash out transactions dominated mobile payments in 2020 with a share of 41 percent and 23 percent but these declined to 28 percent and 21 percent respectively. In 2021, transfers between MNOs and Banks (32 percent), P2P (28 percent) and merchant payments (22 percent) dominated the mobile payments transactions in terms of value. This trend demonstrates continuous digitization of payments with more use-cases on-boarded into the system thereby contributing to a cashless economy.

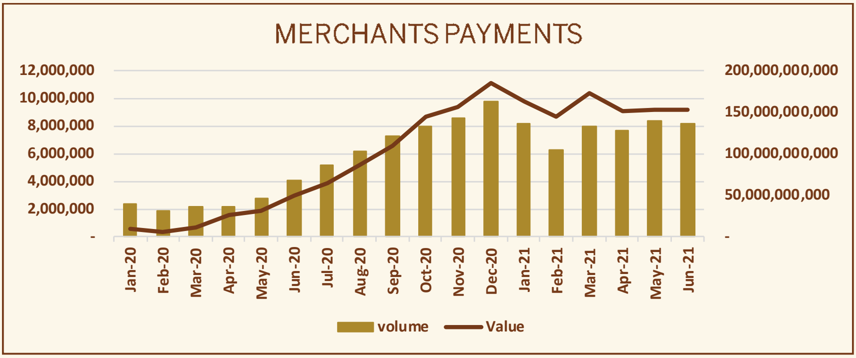
Figure 22: Mobile Payment Services



Source: Financial Stability Directorate

Merchant payments continued to grow in 2021. The value of merchant payments increased from FRW 64 billion in June 2020 to FRW 152 billion in June 2021 mainly supported by the waiver of transaction fees since March 2020. In the same period, the volume of transactions also increased significantly from 4 million to 8.1 million. Below figure indicates trend in merchant payments:

Figure 23: Merchant Payments



Source: Financial Stability Directorate

5.8.2.3 Card Based Payment Services

Card based transactions also continued to grow. The number of traditional Point of Sale (POS) machines increased from 3,929 in June 2020 to 4,635 in June 2021. POS transactions increased by 80 percent in volume from 1,524,908 in H1 2020 to 2,752,070 in H1 2021, while in value they increased by 107 percent from FRW 47 billion in H1 2020 to FRW 98 billion in H1 2021. The increase of POS transactions was due to increased deployment of POS devices and adoption of cashless means of payment which contributes in an increase of economic growth in general. Automated Teller Machines (ATM) increased from 331 in June 2020 to 338 in June 2021. In terms of usage, ATM transactions increased by 60 percent in volume from 3,857,863 in H1 2020 to 6,186,576 in H1 2021 while the value increased by 97 percent in value from FRW 260 billion to FRW 513 billion.

5.8.2.4 Payment access points

Mobile POS recorded significant usage compared to other types of POS during the period under review. Modern Points-of-Sale include Mobile POS (USSD based) and Virtual POS (QR Code based). The number of mobile POS increased to 45,627, in June 2021 from 33,341 in 2020 due to the businesses acceptance of mobile payments such as supermarkets, retail shops, health centres and microbusinesses. Mobile POS transactions increased significantly by 627 percent in volume from 6 million to 45 million, while in value increased by 705 percent from FRW 115 billion to FRW 925 billion due to various policies taken including free merchant services, intensive awareness campaign and merchants' on-boarding to encourage digital payment. On the other hand, virtual POS and near field communication (NFC) POS decreased during the period under review. The number of virtual POS decreased from 4,437 in June 2020 to 4,280 in June 2021 while Mobile POS replaced NFC POS due to low adoption by merchants. The virtual POS transactions decreased in volume by 70 percent from 2,956 to 893 while they decreased in value by 83 percent from FRW 29 million to FRW 5 million due to the fact that the virtual POS is not yet interoperable which resulted in low adoption.

Table 33: Penetration of Touch Points per 100,000 Adult Population and Cards per Bank accounts

Instruments	Penetration rates of cards usage	June 2020	June 2021
ATM	Number of devices	331	338
	Penetration rate of ATMs per 100,000 adult population	4.4	4.3
Traditional POS	Number of devices	3,929	4,635
	Penetration rate of Traditional POS per 100,000 adult population	51.7	59.1
Card	Total Number of Cards	492,241	662,427
	Percentage of Cards over bank accounts	11.2%	12.8%
Modern POS	Number of devices	37,829	62,838
	Penetration rate of Modern POS per 100,000 adult population	497.9	800.7

Source: NBR, Financial Stability Directorate

5.9 Access to Finance

Improving financial inclusion while safeguarding financial stability is one of the key objectives of the National Bank of Rwanda's financial sector policy and supervisory framework. The NBR adopted the World Bank definition of financial inclusion as a financial sector environment where majority of individuals and businesses (including MSMEs) in the economy have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. The NBR's focus on financial inclusion is based on the strong belief that access to finance is a stepping-stone to high economic growth and fast & deeper poverty reduction. As the poor, small business, and most vulnerable segments of the population get access to capital, risk management schemes, and saving instruments to store their wealth, then their livelihoods improve. The supervisory approach of NBR therefore extends beyond prudential supervision to supporting financial inclusion and financial sector development in general. This short section elaborates of Rwanda's financial inclusion trends, using FinScope surveys and high frequency supply side data from regulated financial institutions.

The target of the Government of Rwanda is to increase the proportion of formally served adults to 90 percent by 2024 and gains achieved in the last 10 years is a testimony that Rwanda is on track, despite the current disruption of COVID-19. According to the last three Fin Scope5 Financial Inclusion Surveys, the percentage of financially included (combining formal and informal) adult Rwandans increased from 72 percent (3.2 million) in 2012, to 89 percent (5.2 million individuals) in 2016 and, to 93 percent (7 million adults) in 2020. The formally included adult Rwandans increased from 42 percent (1.9 million adults), to 68 percent (4 million individuals) and, 77 percent (5.5 million) in 2012, 2016 and 2020 respectively. The increase in

[5] Fin Scope is a demand side financial inclusion survey done every after 4 years to measure financial inclusion progress and show remaining gaps.

formal inclusion was driven by increased uptake in commercial bank products and services (1 million adults banked in 2012 to 1.5 million in 2016 and 2.6 million in 2020); increased uptake of mobile money (2.3 million in 2016 to 4.4 million in 2020); U-SACCOs (1 million served by U-SACCO in 2012 to 2 million in 2016 and 2.4 million in 2020); more insured adults (0.3 million in 2012 to 0.5 million in 2016 and 1.2 million in 2020) and; increased account holders/users in other MFIs (0.2 million in 2012 to 0.3million in 2016 and 0.7 million in 2020). The main driver of the financial inclusion gains over the last 9 years has been increased uptake and usage of U-SACCO services and, more recently the increased uptake of mobile financial services, especially mobile payment services offered by MNOs.

5.9.1 Recent trends in access and usage of formal financial services

Since the emergence of COVID-19 pandemic, the subscription to mobile financial services have picked-up. The number of active mobile payments subscribers (on Airtel money and MTN mobile money) increased by 1,214,304 (from 4,915,320 in June 2020 to 6,129,624 in June 2021). During the same period, the number of mobile banking subscribers increased by 198,381 (from 1,882,168 to 2,080,549). The necessary social distancing measures, lockdowns and mini-lockdowns, digital payment awareness campaigns and digital payment fee waiver implemented by FSPs during the first 3 months into the pandemic, all led to increased uptake and usage of mobile financial services. From a financial inclusion perspective, this increasing mobile money accounts is important, particularly when it involves the underserved or unserved segment of the population. As people open a mobile money account or a bank/MFI account, it opens access to other formal financial services, including enabling them to save, to send and receive payments, and to start accumulating data in the credit information system. Sustaining and accelerating digital payment services is among the key priorities of the National Bank of Rwanda.

Accounts in banks and MFIs and SACCOs also continued to increase in 2021. Bank accounts increased from 4.4 million in June 2020 to 5.1 million in June 2021 (i.e17 percent increase). In MFIs and SACCOs, accounts increased from 4.1 million in June 2020 to 4.6 million in June 2021 (i.e., 12 percent increase). The FinScope surveys indicated that barriers to account opening was ranked the lowest financial inclusion barrier by respondents. This is so because 90 percent of Rwandans are within the 5km radius reach to a formal financial inclusion and the only requirement for account opening is a national ID.

Table 34: Client Accounts in Formal Financial Institutions

	Number of Bank client accounts	Number of MFI and SACCOs accounts	Number of mobile money subscribers	mobile banking subscribers
Q1 2019	3,339,474	3,729,683	12,406,534	1,898,052
Q2 2019	4,018,938	3,779,860	11,947,213	1,921,450
Q3 2019	3,723,449	3,824,300	11,228,096	1,947,465
Q4 2019	3,850,584	3,907,518	15,923,248	1,947,465
Q1 2020	3,886,208	3,954,165	15,638,644	1,804,851
Q2 2020	4,400,718	4,108,365	15,626,844	1,882,168
Q3 2020	4,632,713	4,269,361	16,342,271	1,934,636
Q4 2020	4,518,779	4,369,706	15,701,257	1,854,424
Q1 2021	**4,846,792**	4,458,705	16,160,566	2,082,082
Q2 2021	5,161,473	4,597,116	16,111,250	2,080,549

Source: NBR, Financial Sector Development and Inclusion Department

Although the number of borrowers increased in banks largely due to micro-digital loan borrowers, it dropped in the microfinance sector. The number of borrowers in banks increased from 352,058 in June 2020 to 428,417 (6 percent of adult population) in June 2021. In the microfinance sector, the number of borrowers dropped from 526,484 in June 2020 to 333,144 in June 2021 (Table 34). The uptick in bank borrowers largely came from micro-digital loans offered by 6 banks, mainly for consumption purpose. Generally, access to credit from formal financial institutions remain a key financial inclusion challenge highlighted by FinScope 2020- with around 61 percent of total adult population reported to be getting credit from the informal groups (such as savings groups, use shop credit and moneylenders). The objective of financial sector policy makers today is to graduate individuals and firms from informal sources to formal sources. Key challenges identified to be limiting access to credit include: high credit risk for small firms/Agriculture sector, lack of collateral; limited financial literacy. To address these challenges, NBR (in collaboration with other Government agencies) is working on the following initiatives: designing an agriculture de-risking and financing facility; conducting financial literacy campaigns targeting the unserved segments of the population; putting in place enablers for alterative lending products like leasing; promoting Agriculture insurance; and encouraging regulated financial institutions to adopt innovative products to reach the unserved.

Table 35: Depositors and Borrowers in Bank and MFIs

	Mar-20	Jun-20	Jun-21
Number of Depositors in Banks	2,242,007	2,429,500	2,726,935
Amount of bank deposits (FRW, billions)	2,270	2,441	2,836
Number of borrowers in Banks	373,622	352,058	428,417
Amount of new loans (FRW, billions)	221.1	500.1	630.1
Number of Deposits Accounts in MFIs	3,954,165	4,108,365	4,597,116
Amount of MFI deposits (FRW, billions)	171.5	178.9	212.7
Number Loans in MFIs	521,844	526,484	333,144

Source: NBR, Financial Sector Development and Inclusion Department

Since the emergence of the pandemic, the Government has supported firms to access finance for resiliency and recovery. The pandemic and related containment measures negatively affected businesses (including MSMEs), halted the debt service capacity of firms and, increased credit risk of businesses. The high debt and credit risk imposed by the pandemic firms remain a financial inclusion challenge that the Government has tried to address since last year. For example, the payment deferrals that NBR encouraged financial institutions (Banks and MFIs) to offer to their clients aimed to support businesses navigate through this pandemic period. Designing and implementing the Economic Recovery Fund (ERF) to refinance loans in severely affected sectors (hotel, education and transport) and to provide working capital to both small and large firms has been the main

Government access to finance support given to business. As COVID-19 abates, access to finance will remain key for the recovery of businesses and the economy.

5.10 Recent Regulatory Reforms

The NBR continued to strengthen the legal and regulatory framework through the issuance of new and revised instruments during the period under review. The purpose and provisions of these regulations and directives are summarized below:

New Insurance Law (published in the official gazette)

The new Law has extended its scope to new types of insurance like mutual insurance, micro insurance, captive insurance and Health Maintenance Organizations. The new Law also ensures compliance with insurance core principles mainly the adoption of risk-based capital and strengthens the recovery and resolution mechanisms by providing for a policyholder compensation scheme.

Prime Minister Order No 015/03 governing the Advisory Credit Reporting Council (published in the Official Gazette):

The PMO establishes a governance body whose role is to ensure a credit reporting system that effectively promotes the sound and fair extension of credit in the Rwandan economy as a foundation for robust and competitive credit markets. The Council consists of representatives from various stakeholder institutions including the NBR, the Ministry of Finance, the Competition and Consumer Protection Authority, the Utilities Regulatory Authority, the Registrar General of Companies, the National ID Authority, the Bankers' Association, Association of Microfinance Institutions, Insurers Association, Private Sector Federation, operators of credit bureaus, telecommunication companies and Consumers organizations.

New Payment Systems Law (adopted by Parliament)

This Law provides for the oversight, supervision, management, operation, administration and regulation of the payment system and payment services.

The amendment of the 2010 Payment System Law was aimed at alignment with the current developments in the payment services landscape, addressing some legal ambiguities in the Law with regard to designation of payment system and licensing of payment services and strengthening the Central Bank's regulatory power with regard to consumer protection and promotion of financial inclusion.

New Negotiable Instrument Law (adopted by Parliament)

The current Law governing negotiable instruments was enacted in 2009. The new Law aims to take cognizance of the technological advancements as well as simplify or elaborate on certain provisions. The new changes in the current law will facilitate the negotiability of instruments provided in this law not only physically but also electronically. The new law also facilitates negotiable instruments to be negotiated internationally. The law also has provided penal provisions for the mis usage of negotiable instruments.

New Deposit Taking Microfinance Law (adopted by Parliament)

This Law is repealing Law n° 40/2008 of 26/08/2008 establishing the organization of microfinance activities as amended to date. The new draft is aligned with key developments in the microfinance sector by allowing deposit taking microfinance institutions to provide digital financial services and to update the law with the current supervisory best practices such as corporate governance, risk management, loan classification, recovery and resolution measures. The law further, provides specific requirements for deposit taking microfinance cooperative mainly by requiring them to have an independent board member, the inequality of shares as well as minimum the number to establish a deposit taking microfinance cooperative.

Reviewed Regulation governing e-money issuers

This regulation incorporates rules governing the activities of the electronic money issuers and the safeguarding measures of money that belong to e-money holders. The proposed amendment of the regulation intends to cement the continuous change in the e-money industry creating a loophole in the existing regulation, and provide clarity on unclear provisions that were observed in the current regulation mainly the management of trust funds by trustees, responsibilities and obligation of trustees.

Reviewed Cyber Security Regulation

While the existing cybersecurity regulation was mainly for banks yet other regulated financial institutions equally face challenges to Cyber risks, it was judged necessary to apply the regulation to all regulated financial institutions. This regulation provides best practices that regulated instruction should strive to attain on information security management such as ISO / IEC27001, cybersecurity governance, penetration testing as well as vulnerably assessment.

Reviewed Regulation on Outsourcing

The existing regulation was applicable only to banks but in the recent review this regulation will be applicable to all institutions and regulated and supervised by Central Bank. It is beyond doubt that outsourcing arrangements can bring cost and other benefits and on the other hand, it may increase the risk profile of a financial institution due to, for example, reputation and compliance risks ascending from failure of a service provider in providing the service, breaches in security, or its ability to comply with legal and regulatory requirements. This regulation removes the requirements of not hosting primary data outside Rwanda but another hand has strengthened the measures to mitigate any risk related to data hosting. The regulation also considers the cloud computing as an outsourced service.

Reviewed Regulation on foreign exchange operations

This regulation was in place since 2013 in order to liberalize the foreign exchange market. The review aims at updating the regulation to the current dynamics in the foreign exchange market and ensure it complies with the new laws that were enacted. The draft is introducing the professionalism in foreign market business by requiring bank to appoint professional foreign exchange dealers. To avoid market distortion, the regulation also requires intermediaries to avoid engaging in speculative transactions that tend to mislead other participants in the market and avoid misuse of any privileged information.

New Sandbox Regulation

To strike a balance between increasing consumer appetite for financial services and products innovators and safeguarding financial consumers, the Central Bank of Rwanda has deemed it pertinent to putting in place regulatory sandbox regime in 2018. However, the recent sand box regime has been scattered in three different regulations (payment system provider regulation, Non-Deposit Taking financial institution regulation as well as Micro insurance regulation) and was not facilitating market players. The reviewed regulatory sand box was put in the unified regulation to facilitate market players. In addition, the new regime allows an applicant to test innovative financial products and services as well as related solutions that do not clearly correspond to products or services currently regulated under existing laws and regulations; or represent a hybrid product or services or that will be provided differently.

VI. MONETARY POLICY AND FINANCIAL SECTOR OUTLOOK

6.1 Monetary policy outlook

The world economy is projected to recover in 2021. The global real GDP growth is projected to recover from the COVID-19 related contraction of 2020, growing by 6.0 percent in 2021, before moderating to 4.9 percent in 2022. Consistently with the global demand, international commodity prices are expected to continue rising mostly led by both energy and non-energy prices. Crude oil prices are projected to go up by 56.6 percent in 2021 reflecting rising global demand. Non-energy prices are foreseen to rise, mostly driven by the projected increase in prices of metals and minerals. In line with the recovering global demand and rising energy prices, global inflation is projected at 3.5 percent in 2021 before a return back to 3.2 percent in 2022.

Domestic economy to close the gap left behind by Covid-19. The economic recovery is expected to continue in the second half of 2021, fueled by fiscal and monetary stimuli and the deployment of vaccines. Overall, real GDP is projected to grow by 5.1% in 2021 after a contraction of 3.4 percent in 2020. However, the uncertainty around the Covid-19 pandemic continues to threaten the pace of economic recovery on the domestic and global levels.

The FRW is expected to depreciate moderately amid projected high in flows. The trade deficit is projected to widen due to rising imports, albeit an increase in exports. Merchandise trade recovery is expected to continue in the second half of 2021 reflecting the strengthening of global economic activities amid easing Covid-19 restrictions. However, expected high inflows from remittances and government external disbursements are expected to reduce pressures on the forex market.

Headline inflation is expected to evolve around 0.7 percent, lower than previous projections. In line with current subdued domestic pressures, headline inflation is expected to be lower compared to previous projections. In 2021, headline inflation is projected to evolve around 0.7 percent. In 2022, headline inflation is expected to pick up to around 5 percent, on the back of expected global and domestic economic recovery and prospects in international commodity prices. Risks that may divert the headline inflation from this projected baseline path include the performance of agriculture that affects volatile food prices.

The monetary policy will remain supportive during the recovery. Given that inflation is projected to remain modest in the coming quarters while there is still a need to support the economy, the MPC is expected to maintain an accommodative monetary policy to continue supporting the financing of the economy. The Bank's economic analysis and research functions will continue to play a pivotal role in monitoring dynamics in the economy in this Covid-19 context and to undertake appropriate policy actions.

6.2 Financial stability outlook

The economy is expected to rebound in 2021 by 5.1 percent. Vaccines are becoming increasingly available and the ongoing vaccination campaign is expected to make it easier for businesses to operate with minimum disruptions associated with lockdowns and curfews. On the downside, there are still global uncertainties with regard to the possibility of new variants and the length of vaccine immunity. As such, the economic environment in which the financial sector is operating is still prone to uncertainty depending on the path of the COVID-19 pandemic.

The financial sector is however still expected to remain sound and stable. Financial institutions hold sufficient capital and liquidity buffers to absorb potential losses associated with the COVID crisis.

NBR will continue to update the financial sector legal and regulatory framework. Regulations implementing the new Laws mentioned above will be updated to ensure consistency. The Regulatory framework will continue to be updated to better position Rwanda as a Financial Services Hub (Kigali International Financial Center) as well as to ensure compliance with international norms. Laws and Regulations to be updated in the near term include the banking law, the regulation on operational and other requirements for pension schemes, the regulation on Non-Deposit lending Financial Institution, the regulation on licensing requirements for insurers and reinsurers, the regulation on insurance intermediaries, the regulation on payment service providers, the regulation for Market conduct for insurers and intermediaries among others.

Supervisory priority in the near term will be the smooth unwinding of relief measures. Existing relief measures were provided on a blanket basis to all customers affected by the COVID crisis. As economic activity picks, it is imperative that these measures are unwound to prevent a moral hazard in loan repayment. However, this will be done smoothly, with due regard to sectors and borrowers that have had a deeper impact from the pandemic and to avoid cliff effects of a sudden steep increase in NPLs as well as widespread insolvencies and unemployment.

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