National Bank of Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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EXECUTIVE SUMMARY

During the first half of the year 2011, the Rwandan economy has been evolving in an international environment, marked by higher global oil and food prices, although the country has been benefiting from a significant improvement in terms of trade.

In Rwanda, economic activities have been significantly improving compared to the first half of 2010, as evidenced by growth in agricultural production (+11.3%) and leading indicators of economic activities such as the BNR Composite Index (+9.5%) and total turnover registered by large companies in the Industry and Services sectors (+23.9%) on annual basis. External trade also performed well, recording an increase in exports and imports. Export volume and value increased by 58.23% and 48.09% respectively, driven by traditional exports. Strong performance in exports led to a significant improvement in imports cover by exports, standing at 21% in the first half of 2011 from 16.2% during the same period of 2010.

Regarding consumer prices developments, headline inflation has been increasing, but maintained at moderate levels. From 0.2% in December 2010, it stood at 4.1% in March and 5.8% in June 2011, driven mainly by food, energy and education prices.

The BNR has been implementing a proactive monetary policy to continue supporting the provision of credit to the economy, as long as inflation pressures are well anchored. In addition, the RWF stability has been maintained by a flexible exchange rate regime.

During the first half of 2011, overall financial industry performance recorded positive growth while financial sector supervisory actions continued to strengthen the regulatory framework aiming to enhance financial stability. Furthermore, the sector is experiencing significant improvement in competition brought about by entry of new players.

During the period under review, banks' balance sheets registered a growth of 13.9%. Similarly, Banks have built significant capital buffers over the years and remain well capitalized with Capital adequacy ratio of 24.6% end June 2011, well above the regulatory required capital of 15%.

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Concerning the implementation of the UMURENGE SACCO Program, deposits collected and loans granted under the program amounted to RWF 14.7 Billion and RWF 1.8 Billion, respectively as at June 30, 2011. Regarding the monitoring and supervision of SACCOs, a Technical Control Unit, which is a team of 2 inspectors appointed in each district, has been operational from May 2011.

In its endeavors to promote financial inclusion, BNR is monitoring the establishment of Access to Finance Forums (AFF) in each district. The AFF is a platform where local authorities, financial institutions, the Technical Control Unit of SACCOs and development partners meet and discuss the constraints relating to access to finance on both demand and supply sides and working out how to address them.

With regard to Non Bank Financial Institutions, prudential meetings were held with insurers, and a number of recommendations were reached in the area of meeting new capital and solvency regulatory requirement as provided in the new Insurance Act. It is hoped that by the end of the year 2011, all insurance companies will be in compliance with the entire regulatory and supervisory requirement.

Regarding the pension sector, some of the required regulations have been worked out and others are in pipeline. Thus, it is expected that by the end of the year, all pension regulations shall be finalized.

The capital market has experienced new developments ranging from regulatory framework to new products listed on the Rwanda Stock Exchange. Capital Market Authority (CMA) and Rwanda Stock Exchange (RSE) have been established to replace the Capital Market Advisory Council.

With regard to Payment System Modernization, the Central Securities Depository (CSD), the second component of Rwanda Integrated Payments Processing System (RIPPS) has been completed and launched. The CSD is a centralized electronic system for registering and tracking the ownership of both Government and private securities. On retail payment systems, the banks continued to issue payment cards and deploy ATMs and POS. Mobile payments have also taken off dramatically by TIGO and MTN. Concerted effort is being put on the deployment of POS and the acquiring of the major international cards on our infrastructure (POS and ATMs).

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I. OVERVIEW OF ECONOMIC ENVIRONMENT IN 2011

I.1. INTERNATIONAL ECONOMIC ENVIRONMENT

I.1.1. ECONOMIC GROWTH

According to the IMF estimates of June 2011, the global economy continues its recovery process led by emerging and developing countries, while in developed countries, economic activity remained sluggish. In 2011, the global economy is expected to grow by 4.3% down from 5.1% in 2010. In developed countries, economic growth is projected at 2.2% while in the emerging and developing economies it is expected to reach 6.6%, as compared to 3.0% and 7.4% respectively in 2010. Economic growth may decline to 2.5% in the USA compared to 2.9% in 2010 and to -0.7% from 4.0% in Japan. In the Euro Zone, moderate growth is expected from 1.8% in 2010 to 2.0% in 2011.

In the first quarter of 2011, real GDP growth stood at 1.9% and 2.5% respectively in the USA and in the Euro area after 3.10% and 2.0% in the last quarter of 2010. In the second quarter of 2011, economic growth was projected to slow down to 1.8% in the Euro area, while in the USA it was expected to rise slightly to 2.0%. In Japan, the economy remained in recession in the first half of 2011 (-3.5% in first quarter and -3.0% in second quarter), due to a decline in the industrial production after the earthquake and Tsunami.

I.1. 2 INFLATION

Due mainly to expected higher commodity prices, inflation was forecast to reach 2.6% in 2011 after 1.6% in 2010 in the developed countries and 6.9% from 6.1% in emerging and developing economies. World inflation slightly decelerated to 3.1% on an annual basis in June 2011, from 3.5% in the last quarter 2010.

In the EAC region, inflation continued to rise during the first half of 2011, driven by oil and food prices. In June 2011, on an annual basis, inflation hit 15.8% in Uganda, 14.5% in Kenya, 10.9% in Tanzania, 5.8% in Rwanda and 8.6% in Burundi, after 3.1%, 4.5%, 5.6%, 0.2% and 4.1% in December 2010 respectively.

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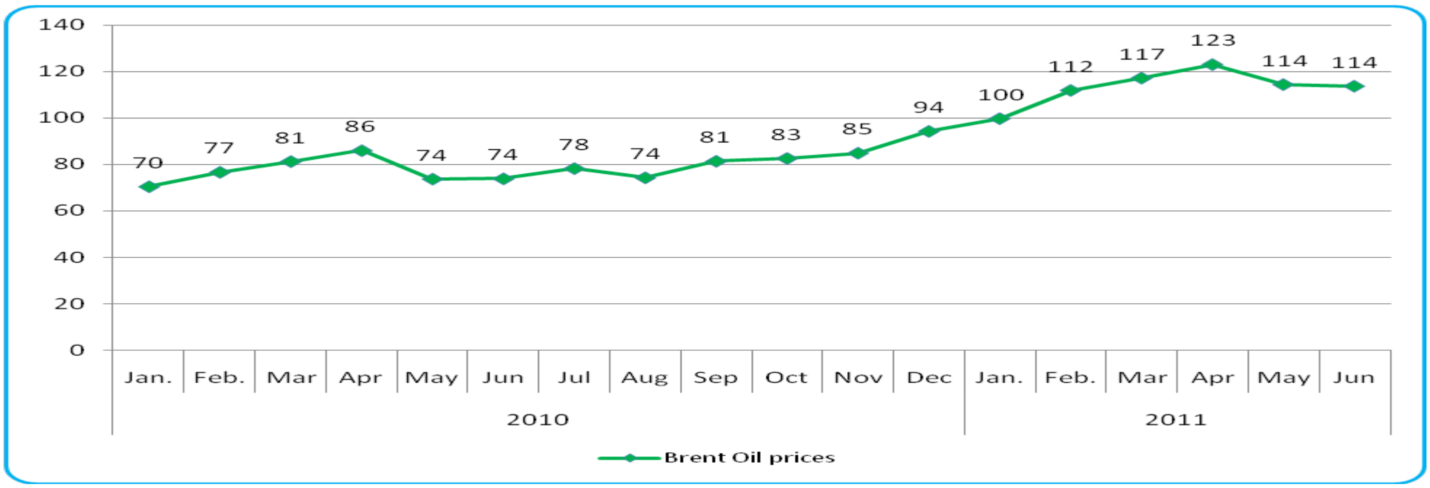
Table 1: Annual headline inflation in EAC countries (% change)

	2010	2011				
	Dec.	Jan.	Mar.	Apr.	May	Jun.
Uganda	3.10	5.03	5.96	14.11	16.0	15.80
Kenya	4.50	5.42	6.54	12.05	12.95	14.49
Tanzania	5.60	6.40	7.50	8.60	9.7	10.90
Burundi	4.10	4.80	5.0	8.40	7.50	8.60
Rwanda	0.23	1.09	2.56	4.98	4.54	5.82

Source: BNR, Statistic Department

With regard to commodity markets, oil prices have been increasing due to the ongoing political concerns in Arab countries which impacted oil supplies and following high demand in emerging economies. Compared to the first half of 2010, the average Brent oil prices rose by 42.9% in the first half of 2011.

Graph1: Oil prices developments on international markets (USD per barrel)



Source: World Bank

According to the World Bank, non-energy commodity prices rose in the period under review. Fertilizers' prices increased by 26%, driven by a high demand, while prices for agricultural based commodities and metals increased by 3% and 1% respectively.

I.1. 3 FINANCIAL MARKETS

For almost two years, most Central Banks in developed countries have maintained their policy rates unchanged, and low enough to boost economic recovery. However, to curb inflation, the European Central Bank increased its key rate in July 2011 from 1.25% to 1.5%. In the same month, the US Federal Open Market Committee decided to maintain the

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federal funds rate in the range of 0.0% to 0.25%. In May 2011, the Bank of Japan decided to maintain its target range between 0.0% and 0.1%.

In the USA, the three month rate fell to 0.25% in the second quarter of 2011 from 0.3% in the previous quarter, while it remained constant at 0.2% in Japan. In the Euro Area, the 3-month rate rose to 1.55% in the second quarter 2011 from 1.24% in the first quarter 2011. During the second quarter 2011, the US ten year Government bond yield reduced to 3.16% from 3.47% in the previous quarter, due to lower than expected job creation and slowing performance in manufacturing industry. Similarly, in the Euro zone, the ten-year bond rate declined to 3.02% from 3.35% in the first quarter, following expectations about inflation and macroeconomic performance.

With regard to exchange rates, the US dollar strongly depreciated against the Euro (2.11%) and the Yen (3.09%) and depreciated slightly against the GBP (0.63%) in the second quarter 2011. Foreign exchange markets experienced high volatility following the Japanese earthquake in March 2011, due to renewed concerns about debt crisis in Europe.

I.2. NATIONAL ECONOMIC PERFORMANCE

I.2.1. ECONOMIC GROWTH

For the year 2011, economic growth was initially expected to decline marginally to 7% from 7.5% achieved in 2010, reflecting the expected adverse impact of rising fuel and food prices. However, according to current developments in key indicators of economic activities during the first half of this year, economic performance in 2011 is likely to rise beyond the initial projection.

1. Agriculture Sector

According to the Ministry of Agriculture and Animal Resources (MINAGRI), the agriculture sector performed better than last year due to overall favorable weather conditions and the Government Crop Intensification Programme. The food crop production for 2011 recorded an increase of 11.3% compared to 2010 harvests, driven mainly by roots and tubers (15.31%) and cereals (10.36%).

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Table 2: Food crop production for 2008-2011 seasons A and B (in % change)

	2008	2009	2010	2011
Total Food Crop	*19.24*	*12.56*	*9.13*	*11.30*
Cereals	*29.70*	*36.41*	*21.39*	*10.36*
Legumes	*-3.09*	*9.90*	*1.16*	*-2.91*
Roots & Tubers	*50.00*	*11.79*	*17.87*	*15.31*
Bananas	*-3.49*	*14.96*	*-3.43*	*6.09*
Fruits & Vegetables	*6.44*	*-1.20*	*4.95*	*13.16*

Source: Ministry of Agriculture and Animal Resources (MINAGRI)

Performance in food production is attributed mainly to 2011B agriculture season which recorded a high growth of 15.3% compared to 2010B harvests (8.8%). This performance was driven mainly by cereals (24.4%), of which maize production increased by 42.4%.

Regarding export crops, production of green coffee decreased by 19.9% in the first half of 2011compared to the same period of the previous year due to low coffee production cycle. Tea production also declined by 3%, from 13,306 tons realized in the first half of 2010 to 12,9 11 tons in the first half of 2011.

2. Non agricultural Activities

As evidenced by developments in key indicators of economic activities, non agricultural economic activities performed better during the first half of 2011 compared to the corresponding period of the previous year. On annual basis, the Composite Index of Economic Activities (CIEA) in nominal terms increased by 9.5% in June compared to 8.7% recorded in the same month of 2010. On average, it rose by 8.7% during the first half of 2011 against 5.8% in same period of 2010. Total turnover of large companies in Industry and Services rose by 23.9% on annual basis in the first half of 2011 against 20.9% recorded during the same period of 2010. This performance was attributed mainly to a significant increase in industry's turnover (31.8%).

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Table 3: Developments in Industry and Services sector's turnovers

	Monthly % change						Annual % change	
	Jan	Feb	Mar	Apr	May	June	Jan-June 2010	Jan-June 2011
Industry	30.7	23.3	56.6	36.3	25.4	23.6	17.4	31.8
Manufacturing	25.1	7.4	21.2	27.5	13.9	16.0	11.6	18.1
Energy	21.6	7.0	35.9	22.3	13.1	32.1	7.1	21.5
Mining	-11.6	28.4	176.3	61.5	-16.7	94.2	37.0	54.4
Construction	81.0	70.9	84.2	48.2	82.0	6.2	28.7	54.6
Services	23.3	10.6	21.2	18.5	24.4	25.1	22.4	20.6
Trade services	15.3	7.5	19.2	23.4	21.1	25.2	19.7	18.8
Banks and insurance	29.8	24.3	16.0	17.3	14.0	6.5	22.3	17.4
Transport and storage	6.1	-22.5	-15.3	11.3	14.0	-0.2	33.7	-2.3
Garage services	75.7	-4.9	26.0	33.1	32.4	32.5	-42.4	30.2
Petroleum companies	56.8	48.7	58.2	42.0	64.8	56.7	28.1	54.5
Posts and telecommunication	13.3	-20.7	-5.7	-17.6	-13.6	5.4	22.5	-7.6
Other services	9.9	14.1	28.8	-4.9	39.8	32.6	24.6	19.6
Total	**25.4**	**14.1**	**30.4**	**23.7**	**24.7**	**24.6**	**20.9**	**23.9**

Source: BNR, statistics department

I.2.2 EXTERNAL SECTOR

The first half of 2011 was marked by an increase in exports and imports, both in volume and value. Export volume and value recorded a significant increase of 58.2% and 48.1% respectively while imports volume and value increased by respectively by 13.2% and 14.6%. Despite the strong increase in exports, the trade deficit deteriorated to USD 587.5 million against USD 543.7 million recorded end June 2010. However, the coverage of imports by exports has increased to 20.9% end June 2011 from 16.2% end June 2010. When informal cross border trade is included, this coverage rate of imports by exports rises to 25%.

1. Exports

The main Rwanda export commodities remain the traditional ones such as coffee, tea and minerals representing 72% of total export values during the first half of 2011.

Tea exports recorded good performance with an increase of 4.1% in volume from 12,811 tons in January-June 2010 to 13,331 tons in January-June 2011 and an increase of 10.1% in value. This increase in value is mainly due to high international prices which rose by 5.8% from an average of 2.58 USD/KG in the first half 2010 to an average of 2.73 USD/kg in first half 2011.

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Coffee sector has performed poorly, declining both in volume (-36.7%) and value (-11.5%). This trend is mainly due to a decline in production during the period under review.

Good performance observed since 2010 in mining sector has continued in the first half of 2011. During this period under review, the Rwanda mining exports volume increased by 54% and by 163.2 % in value reaching USD 72.5 million from USD 27 million in the corresponding period of 2010. This good performance is due to a significant increase in global prices by more than 70% in average

Table 4: Major exports developments

Product/Period	Jan-June 10	Jan - June 11	% Change
Coffee			
- Value in USD	9,196,303	8,135,455	-11.54
- Volume in KG	3,551,240	2,247,660	-36.71
-Price USD/KG	2.59	3.62	39.77
Tea			
- Value in USD	32,995,411	36,333,758	10.12
- Volume in KG	12,811,431	13,331,331	4.06
-Price USD/KG	2.58	2.73	5.82
Cassiterite			
- Value in USD	15,261,809	46,714,535	206.09
- Volume in KG	1,682,963	2,952,023	75.41
-Price USD/KG	9.07	15.82	74.50
Coltan			
- Value in USD	8,078,192	17,023,450	110.73
- Volume in KG	389,909	456,741	17.14
- Price USD/KG	20.72	37.27	79.90
Wolfram			
- Value in USD	2,376,220	3,969,328	67.04
- Volume in KG	337,589	303,518	-10.09
- Price USD/KG	7.04	13.08	85.80
Hides and Skin			
- Value in USD	1,346,762	3,193,038	137.09
- Volume in KG	1,327,132	2,684,592	102.29
- Price USD/KG	1.01	1.19	17.21
Pyrethrum			
- Value in USD	1,265,203	3,282,774	159.47
- Volume in KG	5,687	14,084	147.65
-Price USD/KG	222.47	233.09	4.77
Other Exports			
-Value in USD	**15,915,618**	**21,230,892**	**33.40**
REEXPORTS			
- Value in USD	**18,965,777**	**16,207,189**	**-14.55**
Total value, in USD	**105,401,295**	**156,090,419**	**48.09**

Source: BNR, Statistics Department

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

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Table 5: Evolution of some non traditional exports, in USD

	Jan-June 2010	Jan-June 2011	% Change
Mineral Water & Beer	862,486	2,512,694	191.3
Livestock	1,814,421	2,199,863	21.2
Edible vegetables, roots and	720,980	1,775,023	146.2
Footwear	824,276	755,611	-8.3
Cement	676,866	564,517	-16.6
Cosmetic products	672,278	791,165	17.7
Hand crafts	41,320	166,220	302.3

Source: BNR, Statistics Department

2. Imports

During the first half of 2011, imports CIF value increased by 14.6% from USD 649.1 million to USD 743.8 million. This trend is mainly due to the increase of 30.4%, 20.2% and 10% in imports value of energy, intermediary goods and final consumer goods respectively. It is important to note that the imports volume of final consumer goods has declined by 12.8% showing that the increase in value is due to price effect. Compared to the first half of 2010, import volume of food products declined by 20.2% mainly due to drought in neighbouring countries and increased domestic production.

The imports value of capital goods increased moderately by 4% due to a decline by 19.1% of import of machinery, devices and tools.

Table 6: Evolution of imports (value in USD million and volume in tons)

	Jan-June 10		Jan-June 11		% change	
	Volume	Value	Volume	Value	Volume	Value
IMPORTS	**546,149**	**649.17**	**617,943**	**743.84**	**13.15**	**14.58**
FINAL CONSUMER GOODS	**231,403**	**202.02**	**201,680**	**222.90**	**-12.84**	**10.34**
of which: - Foodstuffs	189,749	77.54	151,461	78.85	-20.18	1.68
- Pharmaceutical products	1,584	26.45	2,599	41.39	64.15	56.47
CAPITAL GOODS	**19,181**	**167.18**	**23,841**	**173.89**	**24.30**	**4.02**
of which: - Transport materials	3,203	30.34	4,755	36.83	48.46	21.39
- Machinery, devices and tools	9,012	104.65	9,186	84.67	1.92	-19.09
INTERMEDIATE GOODS	**199,639**	**178.17**	**285,432**	**214.24**	**42.97**	**20.24**
of which: - Construction materials	108,740	72.78	156,456	76.16	43.88	4.65
- Industrial products	79,658	77.57	98,625	102.84	23.81	32.57
- Fertilizers	3,624	2.24	21,396	16.16	490.40	621.76
ENERGY AND LUBRICANTS	**95,926**	**101.81**	**106,990**	**132.82**	**11.53**	**30.46**
of which fuel	91,735	95.94	102,364	126.58	11.59	31.93

Source: BNR, Statistics Department

3. Trade with EAC countries

Since 2006, the total trade value with EAC recorded an increase from USD 278 million to USD 567.5 million in 2010, driven mainly by imports. So far in 2011, the EAC imports

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seem to have slowed down due to a decline in imports of cereals and vegetables resulting from the drought that affected the region, and the increase in the domestic production.

Table 7: Evolution of Rwanda's trade with EAC (2006-2011) in USD million

	2006	2007	2008	2009	2010	2011 (end June)
EXPORTS TO EAC	36.51	45.03	46.25	47.34	54.16	36.05
IMPORTS FROM EAC	241.73	316.17	461.1	449.65	513.35	209.20
TRADE BALANCE	-205.22	-271.14	-414.85	-402.31	-459.19	-173.15
TOTAL TRADE EAC	278.24	361.2	507.35	496.99	567.51	245.25

Source: BNR, Statistics Department

4. Cross border trade

The Rwanda informal trade balance is overall in surplus. It is dominated by DRC on export side and Uganda on import side. Globally, the main export products are dominated by agriculture and animal products while imports are dominated by products such as coffee "parche", maize flour, sugar, onion, banana for cooking, ground nuts, soap products and other cleaning products, cement etc….

Table 8: Rwanda informal Cross Border Trade April-June 2011in RWF billion, except otherwise indicated

	BURUNDI	DRC	TANZANIA	UGANDA	TOTAL	
					In RWF	In USD millions
Exports	1.52	7.74	0.02	1.17	10.45	17.42
Imports	1.21	1.05	0.04	2.55	4.86	8.10
Trade balance	0.31	6.69	-0.02	-1.38	5.60	9.33

Source: BNR, Statistics Department

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II. MONETARY SECTOR DEVELOPMENTS IN 2011

II.1 MONETARY AND EXCHANGE RATE POLICY IMPLEMENTATION

Since last year, the BNR has been implementing its monetary and exchange rate policy under the Policy Support Instrument (PSI) program. By implementing a monetary aggregates targeting regime, quantitative targets are set on Reserve Money and Net Foreign Assets (NFA). Quarterly targets set for end June 2011 were RWF 137.5 billion for Reserve money and RWF 391.2 billion for NFA, and were all met.

The BNR continued to use its Key Repo Rate to support an efficient management of liquidity by banks and to stimulate further the lending to the economy, as long as underlying inflationary pressures remain moderate. Therefore, the Monetary Policy Committee (MPC) decided in July 2011 to maintain the BNR policy rate at 6% since November 2011.

Regarding exchange rate policy, the Rwandan Franc exchange rate remained fundamentally market driven, depending on the demand and supply of foreign exchange on the domestic market. However, the BNR continued to intervene on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the RWF exchange rate volatility.

II.2 INFLATION

Pushed mainly by higher energy and food prices on international markets, inflation in Rwanda has been increasing during the first half of 2011 but has nevertheless remained at moderate levels. On an annual basis, headline inflation reached 5.8% in June from 4.1% in March 2011, after 0.2% in December 2010. This development in inflation was mainly attributed to the rising prices of food and non alcoholic beverages which contributed 2.5% at the end June 2011, followed by Transport (1.4%) and education (0.7%).

Despite a significant improvement in food production, food prices on domestic markets have been pushed higher by a rising regional demand due to the drought faced by countries in the sub-region.

In terms of annual average, inflation has remained quite stable at 2.5% in June, against 2.2% in March 2011 and 2.3% in December 2010. Underlying inflation, which excludes

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fresh foods and energy from the overall CPI, rose to 5.77% on annual change from 3.65% in March 2011 and 0.15% in December 2010.

The price index for locally produced goods increased by 5.12% in June from 3.86% in March, after a decline of 0.07% in December 2010, while prices for imported goods rose from 5.1% in March to 8.65% in June 2011.

Table 9: Inflation by origin and category (% change in CPI, base 2009:100)

	Weights	Annual Headline Inflation							Monthly Inflation					
		2010	2011						2011					
		Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Jan.	Feb.	Mar.	Apr.	May	June
Overall inflation	**10 000**	**0.2**	**1.1**	**2.6**	**4.1**	**5.0**	**4.5**	**5.8**	**0.1**	**1.0**	**1.9**	**1.4**	**0.1**	**1.5**
Local Goods	7,947	-0.1	0.9	2.5	3.9	4.8	4.0	5.1	0.1	1.0	1.8	1.5	-0.2	1.6
Imported Goods	2,053	1.5	1.7	2.9	5.1	5.8	6.9	8.7	0.4	1.1	2.3	1.2	1.3	1.5
Fresh Food Products	1,403	-1.1	2.2	7.4	10.7	12.1	5.5	6.5	-3.1	2.0	6.2	3.9	-3.8	0.9
Energy	767	3.6	2.4	3.7	5.0	4.5	4.9	5.0	-0.5	0.1	2.2	2.5	2.3	0.9
Underlying inflation	**7,829**	**0.2**	**0.8**	**1.6**	**2.8**	**3.7**	**4.3**	**5.8**	**0.9**	**0.9**	**1.1**	**0.8**	**0.7**	**1.7**

Source: BNR, Statistic Department

II.3 MONETARY AGGREGATES AND LIQUIDITY CONDITIONS

II.3.1 MONEY SUPPLY AND DEMAND

The broad money M3 increased by 15.4 % between end December 2010 and end June 2011 against an increase of 5.4% in the same period of 2010 and 16.0% projected for the whole year 2011. This development is due to the significant increase in Net Domestic Assets (+132.6%) while Net foreign assets of the banking system have declined by 6.5% mainly due to delays in external budget support, increased BNR sales of foreign exchange to commercial banks (+31%) and increased Government spending in foreign currency (+10.1%). The increase in net domestic assets resulted from both credit to government (+52.2%) and credit to the private sector (+12.6%).

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

	2009	2010				2011		Change (%)	
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jun-10/Dec 09	Jun-11/Dec-10
Net foreign assets	442.9	407.7	474.4	484.8	518.9	464.4	485.3	7.1	-6.5
Net domestic assets	81.6	95.0	80.5	86.1	97.0	162.0	225.6	-1.3	132.6
Domestic credit	217.0	246.8	244.0	244.0	268.2	323.4	386.0	12.4	43.9
Central government (net)	-141.3	-119.9	-125.8	-132.5	-131.3	-98.6	-62.7	11.0	52.2
Private sector	**357.3**	**365.9**	**371.2**	**378.0**	**397.1**	**421.4**	**446.9**	**3.9**	**12.6**
Other items net (Assets: +)	-135.5	-151.8	-163.5	-157.9	-171.2	-161.4	-160.4	20.7	-6.3
Broad money M3	**526.6**	**502.8**	**554.9**	**571.1**	**615.9**	**626.5**	**710.9**	**5.4**	**15.4**
Currency in circulation	77.0	68.4	83.5	81.8	90.5	83.9	101.6	8.4	12.2
Deposits	447.5	434.4	471.5	489.3	525.5	542.5	609.4	5.4	16.0

Source: BNR, Statistics Department

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New authorized loans by the banking system significantly increased during the first half 2011 amounting to RWF 137.8 billion, which is higher than RWF 121.9 billion authorized in the first half of the year 2010. The new authorized loans continued to be granted mainly to Commerce, Restaurants and Hotels, public works and building industry and manufacturing industries with 36.5%, 25.4% and 7.4% respectively. Regarding coffee season financing, new authorized loans to this sector stood at RWF 16.2 billion in June this year against RWF 8.3 billion last year.

Table 11: New loans authorized by commercial banks and BRD, in % of total, except otherwise indicated

	2009		2010		2011
	First half	*Second half*	*First half*	*Second half*	*First half*
Agriculture, Animal Husbandry & Fishing	2.4	1.5	2.0	1.8	4.2
Mining industries	0.1	0.0	0.0	0.0	0.0
Manufacturing industries	11.6	9.1	10.4	10.1	7.5
Energy and water	0.0	2.8	0.3	0.7	0.1
Public works and Building Industry	16.3	20.1	13.2	20.7	25.4
Commerce, Restaurants & Hotels	43.3	32.0	46.8	39.1	36.5
Transport, Warehousing & Communications	11.0	19.8	10.5	7.0	4.2
O.F.I, Insurances and other non financial	2.5	4.7	2.4	4.0	6.0
Services provided to the community	2.6	2.1	3.8	3.6	2.8
Activities not classified elsewhere	10.2	7.9	10.5	12.9	13.3
Total new authorized loans (RWF billion)	***83.8***	***114.6***	***121.9***	***140.1***	***137.8***
Outstanding amount, end period	***353.8***	***357.3***	***371.2***	***397.1***	***446.9***

Source: BNR, Financial Stability Directorate

On Money demand side, deposits with the banking system increased by 15.1% between December 2010 and June 2011 and Currency in circulation outside banks increased by 12.2%. The current trend of currency in circulation is driven by dynamic economic activities, mainly the coffee season; some Government projects injecting money in rural area (roads, irrigation….) and cash utilization in increasing informal cross border trade.

II.3.2 BANKING SYSTEM LIQUIDITY CONDITIONS

During the first half of 2011, the banking system liquidity has been significantly improving, giving more confidence to the banks in treasury management, while continuing to invest in short term instruments. The total amount of outstanding liquidity resulting from mopping up operations amounted to RWF 99.1 billion end June 2011 from 79.3 billion end December 2010. By June 30, 2011, Repos continued to dominate the money market operations with 55.8% against 44.2% for t-bills. In addition, the Government long-term deposit facility amounting to RWF 19.2 billion by end June 2011 was used mainly for financing mortgages and equipments with 52.0% and 40.0% respectively.

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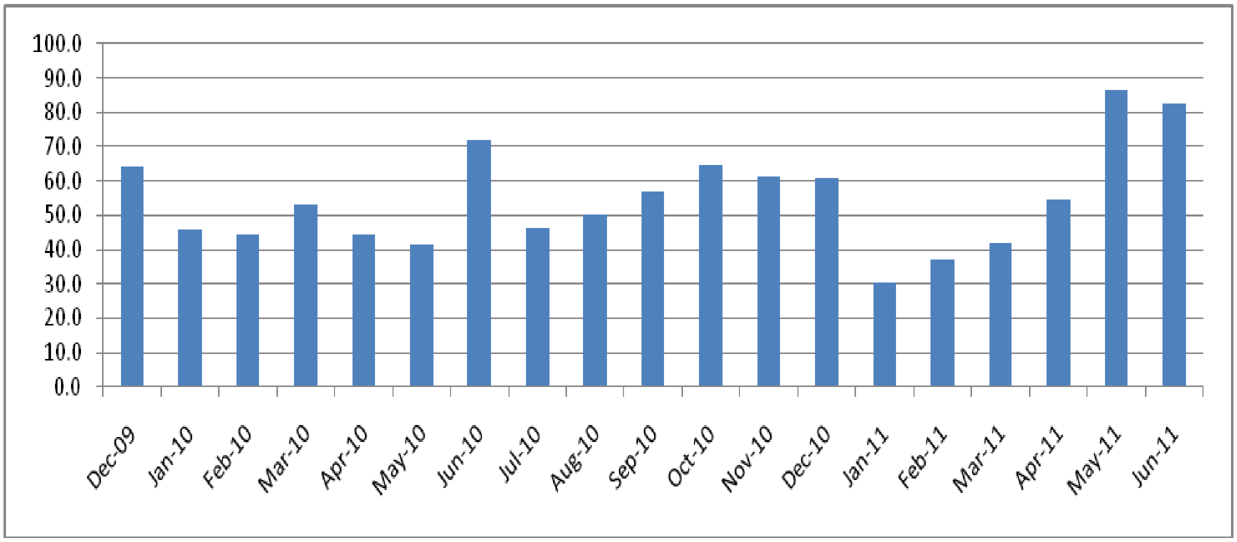
Fig. 1: Liquidity absorption (RWF billion)



Source: Research and Policy analysis Department

II.4 INTEREST RATE DEVELOPMENTS

Repo rates have been stable at around the KRR (6%) since January this year, following the higher demand from the Central Bank to regulate the liquidity in the banking system. Both t-bills and interbank rates fluctuated respectively between 6.7% and 7.0% and between 6.8% and 7.2%. Commercial banks' deposit interest rates increased from 7.1% in December 2010 to 8.0% in June 2011, as a result of aggressive policy of banks to attract big depositors. Regarding lending rates, they have been fluctuating around 17.0%.

Table 12: Interest rates (in percentage)

	2010				2011					
	Mar	*June*	*Sept*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*June*
BNR Policy Rates										
Key Repo Rate	7.5	7.0	7.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Discount Rate	11.5	11.0	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Money Market Rates										
Repo rate	4.4	5.2	5.5	5.5	5.9	6.0	6.0	6.0	6.0	6.0
Treasury Bills Rate	8.4	7.3	7.6	7.3	7.2	7.0	7.2	7.1	7.1	6.8
Commercial Banks										
Interbank Rate	6.8	6.6	7.4	6.8	6.7	6.7	6.7	6.9	6.9	7.0
Deposit Rate	7.2	6.3	6.2	7.1	7.5	7.5	7.5	8.7	7.9	8.0
Lending Rate	16.9	17.4	16.8	16.9	15.6	16.9	16.6	16.2	16.9	17.0

Source: BNR, Statistics Department

II.5 EXCHANGE RATE AND FOREX MARKET

The BNR continued to maintain a flexible exchange rate regime in 2011 only intervening at the margins of the market to smoothen the volatility in the exchange market. For the first half of the year 2011, the Rwandan franc depreciated by 0.8% against USD. However, RWF significantly depreciated against both EUR and GBP by 10% and 7% respectively in

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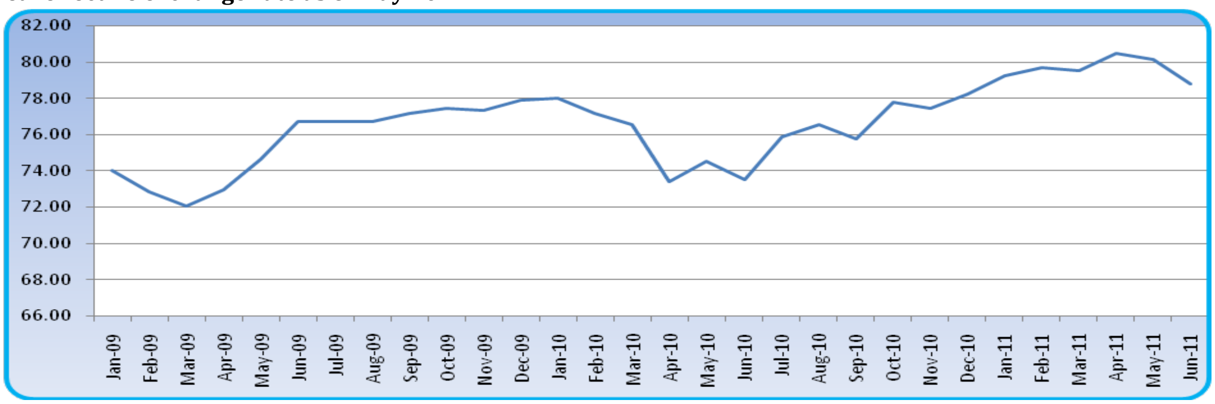
the same period. Against regional currencies, RWF appreciated by 9%, 7% and 3% versus Kenyan, Tanzanian and Ugandan shillings respectively, while depreciating by 1% vis-à-vis Burundi franc between December 2010 and June 2011.

The Real Effective Exchange Rate (REER) has slightly depreciated between December 2010 and April 2011 (2.9%), before slightly appreciating between May and June 2011 (2.1%). These developments have been consistent with the trend of Rwandan Franc nominal exchange rate against the USD, the most used currency in Rwanda's transactions of Rwanda with its main trade partners.

Figure 2: Real effective exchange rate as of May 2011



Source: BNR, Research and Policy Analysis Department

II.6 MONETARY AND EXCHANGE RATE POLICY SHORT TERM ORIENTATION

Considering the current developments and outlook in economic fundamentals, the BNR Monetary Policy will remain accommodative to sustain lending to the economy consistent with the growth objective in 2011. In this regard, the BNR Monetary Policy Committee decided on 8th July 2011 to maintain unchanged the policy rate at 6% for the third quarter 2011. BNR will regularly assess and closely monitor the developments in external and domestic sources of inflation to ensure underlying inflationary pressures are well anchored.

Regarding the exchange rate policy orientation during the remaining period of 2011, the BNR remains committed to maintain a market driven exchange rate, intervening on forex market to smoothen the exchange rate volatility. Also, it will continue to ensure that the exchange rate policy remains supportive of external sector competiveness and prospects for export diversification.

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III. FINANCIAL SYSTEM STABILITY IN 2011

The NBR continued to employ rigorous regulatory and supervisory reforms throughout the period under review. Rwanda's financial system comprises mainly banking sector, microfinance institutions and non banking financial institutions (insurance and pensions). The financial sector continued to show good financial health.

III.1. FINANCIAL SOUNDNESS

III.1.1 BANKING SECTOR

In the period under review, the industry's total assets grew by 13.9% from RWF 869.8 billion in December 2010 to RWF 990.8 billion in June 2011. The annualized growth in assets is 38.4% (RWF 990.8 billion in June 2011 compared to RWF 710.9 billion in June 2010). Bank deposits increased from RWF 565 billion in December 2010 to RWF 665.80 billion end June 2011, that is, an increase of 17.8% in six months. Loans increased from RWF 449.40 billion end December 2010 to RWF 516.80 end June 2011; an increase of 15%.

As at June 2011, the total equity of banks increased from RWF 159.4 to 184.6 billion, recording an increase of 15.8%. Capital adequacy ratio was 24.6% end June 2011 compared to 22.3% end December 2010, well above the regulatory required capital of 15%. This implies that banks have built significant capital buffers over the year and results from stress testing indicate that the banking sector is well capitalized.

NBR's supervisory role among others is to continuously review and assess if banks have sufficient income to grow with markets and to build capital base over time in order to have the necessary cushion for stability.

By end June 2011, the sector's profitability was quite good with a net profit of RWF 13.8 billion compared to RWF 4.1 billion in June 2010. Similarly, in the period under review the sector's return on assets and return on equity stood at 2.9% and 15.3% respectively compared to 1.2% and 6.8% in June 2010.

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The banks continued to clean up their loan books and recorded a reduction in NPL ratio during the first half of 2011 from 10.8% in December 2010 to 9.2% in June 2011, and from 12% in June of the last year. Similarly, the net non-performing loans ratio improved from 9.3% in December 2010 to 6.6% in June 2011.

Banking industry concentration is continuously decreasing showing an improvement in the banking sector competition. As of end June 2011, the market share of the 3 largest banks in total assets represented 49.9% against 54.7% in June 2010. The change in the market share observed was mainly due to upgrading of IMF UNGUKA and CFE AGASEKE from the status of microfinance institutions to that of microfinance bank in addition to CSS-Zigama which became a cooperative bank. The competition in the banking sector is likely to increase since Equity Bank launch is scheduled in the third quarter of 2011.

Table 13: Key consolidated performance indicators in Rwanda's banking sector, in %

Indicators	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Solvency ratio	19.8	22.0	22.3	22.5	24.6
NPLs / Gross Loans	12.0	12.4	10.8	10.2	9.2
NPLS net/Gross loans	10.2	10.6	9.3	8.7	6.6
Provisions / NPLs	55.2	56.7	50.6	46.9	49.5
Earning Assets / Total Assets	81.9	78.8	79.5	80.8	74.9
Large Exposures / Gross Loans	17.4	14.9	13.1	14.7	10.2
Return on Assets	1.2	1.0	2.0	2.7	2.9
Return on Equity	6.8	5.6	11.2	14.4	15.3
Cost of deposits	2.7	2.6	2.7	2.5	2.4
Liquid assets/total deposits	62.7	51.2	58.2	51.7	52.0
Forex exposure/core capital	1.2	2.0	5.0	5.4	4.1

Source: BNR, Banking Supervision Department

III.1.2 MICROFINANCE SECTOR

In the first half of 2011, the total assets of the sector decreased by 6.3% from December 31, 2010 to June 30, 2011 moving from RWF 42.9 billion to RWF 40.2 billion. Gross loans and deposits decreased by 5.8% and 8.6%, moving from RWF 32.3 billion to RWF 30.5 billion and from RWF 23 billion to RWF 21 billion, respectively for the same period. This trend is due to the fact that 2 microfinance institutions, UNGUKA IMF, SA and CFE AGASEKE, SA upgraded to microfinance banks and the licensing of CSS-Zigama as a cooperative bank.

Financial soundness indicators of the microfinance sector measured in terms of capital adequacy, liquidity and delinquency ratios show an improvement. Compared to the

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minimum prudential norm of 15%, the capital adequacy ratio stands at 32.7% and the liquidity ratio at 56.6% compared to the required minimum liquidity ratio of 30%. On a consolidated basis, the NPL rate decreased slightly from 11.0% at the end of December 2010 to 10.8% at the end of June 2011. However, the delinquency rate remained very high compared to the generally acceptable limit of 5% in microfinance best practice.

Table 14: MFIs Consolidated financial situation (in RWF billion, except otherwise indicated)

	31-Dec-09	31-Dec-10	30-Jun-11	% change	
				Dec-10/ Dec-09	June-11/ Dec-10
Total Assets	78.0	43.0	40.2	-44.9	-6.3
Cash and Cash Equivalent	16.9	8.5	7.7	-49.7	-9.2
Gross Loans (Before Provisions)	50.1	32.3	30.5	-35.5	-5.8
Non Performing Loans	4.6	3.6	3.3	-22.9	-6.7
Provisions	2.1	1.8	1.7	-14.6	-7.6
Loans (Net of Provisions)	48.0	30.5	28.8	-36.5	-5.7
Deposits	48.9	23.0	21.0	-53.0	-8.6
Equity	22.2	14.8	13.2	-33.1	-11.2
Non Performing Loans rate, in %	9.2	11.0	10.9		
Liquidity ratio, in %	68.8	55.5	56.6		
Capital adequacy (Solvency), in %	28.4	34.5	32.7		

Source: BNR, Microfinance Supervision Department

Taking into account SACCOs established in line with UMURENGE SACCO Program, the deposits collected and gross loans, as at June 30th, 2011, increased from RWF 21 billion to RWF 35.7 billion and from RWF 30.5 billion to RWF 32.2 billion respectively. Indeed, deposits collected and loans granted by the only SACCOs of the program amount to RWF 14.6 billion and RWF 1.8 billion respectively as at June 30, 2011.

Table 15: Indicators regarding the implementation of UMURENGE SACCO Program:

	Population >=16 years old	Membership Subscription	Nbr of members who paid Shares	Nbr of Account Opened	Shares Subscripted Mio.RWF	Shares Paid up Mio. RWF	Deposits Collected Mio. RWF	Loans Granted Mio. RWF
31-Dec-10	5,028,577	1,069,675	695,095	471,036	4,116.69	2,111.83	6,322.27	813.72
30-Jun-11	5,083,905	1,212,192	959,976	723,188	4,809.84	2,789.15	14,647.90	1,765.13
% Change	**1.1**	**13.3**	**38.1**	**53.5**	**16.8**	**32.1**	**131.7**	**116.9**

Source: BNR, Microfinance Supervision Department

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III.1. 3 NON BANK FINANCIAL INSTITUTIONS (NBFIS)

The non bank financial institutions cover the insurance and pension sectors in Rwanda. The National Bank of Rwanda is mandated to ensure such institutions are financially sound and stable. This is done through monitoring their financial performance and market conduct.

1. Insurance Sector

The insurance sector is composed of 8 insurers of which 6 are private (SONARWA, SORAS General Ltd, SORAS Life Ltd, COGEAR, CORAR and Phoenix) and 2 public Insurers (RAMA & MMI), the latter exclusively doing medical insurance. Three of the above insurers (SONARWA, CORAR and COGEAR) are still composite insurers, meaning they offer both general and life insurance services. There are four licensed insurance brokers (ASCOMA Rwanda, AFRICA Risk, AIB and Reliance insurance brokers) and 102 insurance agents. Today insurance penetration is around 2.3% which is still far less than the middle income economies such as South Africa with 10%. Insurance sector performance has been progressively improving as depicted by the table below.

Table 16: Financial soundness of insurance sector (in RWF billions, except otherwise indicated)

	2010		2011	
	June	December	March	June (Est)
Total assets	102.9	128.0	130.2	151.8
Total capital	58.1	85.0	87.4	101.8
Total Gross Premiums	31.0	50.0	32.4	64.8
Underwriting profit	6.9	7.1	9.3	10.8
Total net profit	10.3	16.0	14.2	28.4
Claims ratio, in %	42.0	44.0	32.0	64.0
Combined ratio, in %	76.0	81.0	59.3	108.0
Current ratio, in%	181.0	272.0	289.2	289.2
Return on equity ratio (ROE), in %	18.0	17.0	16.0	30.0
Return on assets ratio (ROA), in %	10.0	11.0	11.0	22.2

Source: BNR, Non Bank Financial Institutions Supervision Department

The total assets of the Rwandan insurance sector as at March 31, 2011 reached RWF 130.24 billion compared to RWF 128.21 billion as at December 31, 2010. The Gross premiums keep on increasing as well as the net profit due to the boom in the Rwandan economy. The return on assets and returns on Equity continue to improve as most of the insurers invested their assets in highly profitable businesses such as real estate (rent) and investments in equities.

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2. Pension Sector

The Pension Sector is comprised of the National Social Security Fund (NSSF/CSR), which operates the country's public pension scheme, and some private sponsored pension funds operated by large employers, estimated at about 40 schemes.

The Public pension scheme commonly known as CSR (NSSF) covers about 274,062 salaried workers representing 7% of the working population in Rwanda. The pension coverage is still low compared to middle income economies such as South Africa at 25%.

In this sector, the main performance indicators are assets and contributions, and a positive trend of growth in both assets and contributions has been observed.
The table below shows the trend of main variables selected from the financial statements of NSSF but does not capture data from private pension funds.

Table 17: Selected major variables in pension sector (Amounts in billions of Frw)

	2006	2007	2008	2009*	June, 2009/2011
1. Total assets	79.48	112.98	129.04	142.38	166.78
2. Contributions	11.41	18.96	23.25	9.30	28.23
3.Total expenses	2.56	4.25	6.21	2.93	6.71
4. Benefits	3.17	3.68	4.22	3.10	6.47

* Data for the first semester 2009.

Source: BNR, Non Bank Financial Institutions Supervision Department

III.2 REGULATORY FRAMEWORK AND SUPERVISION

III.2.1. BANKING SECTOR

In the first half of 2011, various regulations were published in the Official Gazette. The enforcement of these regulations will improve monitoring and recovery of loans, hence reducing the level of NPLs. BNR continued to enhance banking supervision efficiency, competition and stability. In this regard, Equity Bank was licensed in March 2011 and two microfinance institutions were licensed to operate as microfinance banks.

Supervisory mechanisms to improve risk management of banks was intensified in the first half of 2011. Actions aiming at fully implementing FinA software were carried out to

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improve off-site surveillance. This is expected to enhance capacity of monitoring banks, especially monitoring assets quality.

In addition, during the period under review three on-site inspections out of nine planned for 2011 were conducted and close follow up of the implementation of the recommendations of the onsite inspections performed in 2010 is ongoing.

III.2.2. MICROFINANCE SECTOR

Licensing of new MFIs, off-site and on-site examinations were performed on regular basis. In order to improve the efficiency of MFI's operations, 21 full scope inspections were conducted and 11 targeted inspections were completed in the first semester of 2011.

Among the 416 SACCOs established in line with UMURENGE SACCO Program, only 5 had definitive operating license and 355 were licensed for granting loans by June 2011, which represents 86.4% of SACCOs provisionally licensed for collecting savings and share capital. The key difficulties hindering SACCOs from getting license to start granting loans include failure of some SACCOs to mobilize the minimum deposits of RWF 10 million and lack of capacity to prepare a reliable business plan and procedures manual to be fully licensed.

Regarding the monitoring and supervision of SACCOs, a Technical Control Unit which is a team of 2 inspectors appointed in each district is operational from May 2011. As of end June 2011; 55.4% of the 416 SACCOs were visited while at least one meeting was held at each District level.

The consolidation process of small SACCOs into viable SACCOs is ongoing. In this regard, 11 small SACCOs including 4 COOJADs were merged with UMURENGE SACCOs while 21 other SACCOs were identified to start the merging process either within their own networks or with UMURENGE SACCOs.

III.2.3 NON BANK FINANCIAL INSTITUTIONS

During the period under review NBR accomplished a number of activities ranging from strengthening NBFI sector legal infrastructure and supervisory framework. These include drafting laws and regulations while ensuring that composite insurers are separated by end June 2011. Licensing new agents (102 agents), and insurance brokers (4), conducting Off-site surveillance and prudential meetings with insurers were held. Furthermore, four on-site inspections are envisaged (CORAR, PHOENIX, SORAS General Ltd and SORAS Life Ltd.) in the second half of 2011.

Off-site analysis for NSSF was conducted and pension draft law is currently in Parliament while a number of pension regulations including licensing investments regulations were drafted.

III.3 ACCESS TO FINANCE

Financial inclusion remains on BNR's key agenda. In this regard, since January 2011 the Central Bank received 17 applications from banks to open-up new branches and counters mainly up country of which 9 became operational by end June 2011. Overall, bank's network operated 136 branches and 254 sub-branches or counters. Furthermore, 355 SACCOs of UMURENGE SACCO Program were granted license for granting loans.

Consequently, the number of clients bank accounts increased from 1 695 902 end December 2010 to 1 872 812 end June 2011, that is, a growth of 10.4%. Regarding microfinance industry, the number of MFIs clients accounts increased by 13%, from 1 170 623 end December 2010 to 1 328 071 end June 2011.

In its endeavors to promote financial inclusion, BNR is monitoring the establishment of Access to Finance Forums (AFF) in each district. AFF is a platform where local authorities, commercial banks, MFIs, SACCOs and others financial institutions, the Technical Control Unit of SACCOs and development partners meet and discuss the constraints relating to access to finance both on demand and supply side and working out how to address them. Issues discussed in AFF include the problem of financial exclusion, SMEs financing and the rationale of strategic linkages between commercial banks and MFIs and SACCOs and the possible mutual benefits.

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III.4 CREDIT INFORMATION SYSTEM

During the period under review, the developments achieved include ensuring that all mandatory participants provide data to CRBAfrica and use credit report issued by the bureau. According to CRBAfrica report, from December 2010 to June 2011, the usage of credit report by mandatory participants improved significantly for banks and microfinance while the process to subscribe to CRBAfrica by insurance companies is ongoing. The scope of information to be shared improved to cover not only mandatory participants (financial sector) but also voluntary participants such as utility companies (telecoms & EWSA).

In this regard, the number of participants in providing data to CRBAfrica has increased by 66%, 33% and 1% for banks, microfinance and utilities respectively between December 2010 and June 2011. This has contributed to significantly improve doing business in Rwanda as evidenced by getting credit analysis for 2011 where Rwanda was ranked among major reformers.

III. 5 THE WAY FORWARD FOR THE SECOND HALF OF 2011

During the second half of 2011, activities will mainly focus on efforts to strengthen supervision of the financial institutions by conducting off-site and on-site inspections. Enhancing monitoring of asset quality to reach the threshold of less than 7% for banks as well as follow up of the NPLs recovery of MFIs through the recovery committee in each district by end 2011 is another area to be focused on. In addition, the exercise of separating life and non-life insurance businesses is expected to be completed by end September 2011 with adequate capitalization.

A special emphasis will be put on actions aiming at completing licensing of SACCOs established in line with UMURENGE SACCO Program and their monitoring and supervision. Regarding financial access, the key actions to be undertaken include monitoring of the establishment of Access to Finance Forum in each district and the launch of the National Financial Literacy Strategy as well as a road map for its implementation.

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Furthermore, drafting and publication of the remaining laws and regulations for effective supervision will continue. The process for enactment of the pension law is also envisaged to be finalized by end December 2011. BNR will also endeavor to improve quality and coverage of credit information sharing with mandatory as well as voluntary participants to include retail traders (supermarkets) and other credit granting institutions.

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IV. PAYMENT SYSTEMS

Considering that an efficient and smooth National Payment System is a necessary precondition for business development and economic growth, in 2011, NBR and stakeholders continued to work on the payment system modernization program to ensure that payment systems are efficient and reliable. This program involves introduction of new payment instruments, mechanisms and improving the legal environment.

IV.1 PROGRESS MADE IN 2011

IV.1.1 PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Following the implementation of the Automated Transfer Systems (ATS) which encompasses the Automated Clearing House (ACH), the Real Time Gross Settlement (RTGS), concerted effort was put in its stabilization. The Central Securities Depository (CSD), the second component of Rwanda Integrated Payments Processing System (RIPPS), was implemented in July 2011.

The CSD is a centralized electronic system for registering and tracking ownership of Government and BNR securities as well as private securities traded at the Rwandan Stock Exchange. This is the first of its kind in the region to handle both Government and private securities. The depository implements Delivery versus Payment, whereby the ownership of securities is only transferred once payment has been irrevocably received by the seller. The CSD-Rwanda is operating a settlement cycle of T+2 for equities, which is the fastest in East Africa.

At the regional level, the Automated Transfer System (ATS) will be connected to other Real Time Gross Settlement Systems (RTGS) in East Africa and to Regional Payments Processing System, a COMESA interbank system.

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IV.1.2 RETAIL PAYMENT SYSTEMS

1. Payment cards

Concerning the retail payment systems, the banks continued to issue payment cards and SIMTEL as a common platform ensures that the infrastructure is interoperable. On one hand, SIMTEL continued to issue to banks a proprietary card. On the other hand, several initiatives are being run by banks in order to provide electronic banking services to their clients.

Based on the Service Level Agreement signed between SIMTEL and banks, the number of ATMs continued to increase significantly as indicated by the table below.

Table 18: Evolution of payment cards usage in Rwanda in 2011.

	2010	June 2011
Number of Automated Teller Machines (ATMs)	73	126
Number of Point of Sale (POS) terminals	98	146
Number of debit cards	48702	115 200
Number of credit cards	458	516
Number of transactions		
Payments by debit cards	107656	114994
Payments by credit cards	10980	21910
Value settled (*Rwandan francs millions)*		
Payments by debit cards	5428	32069
Payments by credit cards	2736	3171

Source: BNR, Payment System Department

2. E-money and mobile banking initiatives

TIGO RWANDA has joined MTN Rwanda to provide mobile payment service and was fully licensed to operate the "TIGO Cash" service. Within the two months that TIGO Cash has operated, they have acquired 9127 subscribers, with an average of 1917 transactions per day. Several banks offer internet/online banking services to their clients, albeit on an intra bank basis.

Table 19: Mobile financial service developments Jan – June 2011

Mobile money	Agents/branches	Subscribers	Number of Transactions	Value (Million RWF)
Mobile Payment s (MTN and TIGO)	647	285,527	212,012	4,185
BPR Mobile banking	70	79,000	8,488	549

Source: BNR, Payment System Department

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V. CAPITAL MARKET DEVELOPMENTS

The capital market industry registered some notable developments over the last 5 months mainly in the legal framework.

V.1 SECONDARY MARKET TRADING

During the period under review, one Treasury bond worth RWF 5 billion matured and another one valued at RWF 3.5 billion was listed on Rwanda stock exchange (RSE). Currently 5 Treasury Bonds worth RWF 13.5 billion and one Corporate Bond (BCR Bond), whose face value is RWF 1 billion, are listed on RSE. The secondary market for bonds remained illiquid as no transaction was recorded in that period. On the other hand, the RSE market is more active with the listing of BRALIRWA shares with a total turnover of RWF 8,031,451,000 recorded from 42,439,700 BRALIRWA shares traded in 702 deals up to July 25th, 2011.

There was little activity in the trading of cross listed securities. The Rwanda Stock Exchange (RSE) is addressing the problem of cross border trading by looking into ways of automating the handling of cross border transactions.

As a second IPO in the Rwandan Capital Market, Bank of Kigali (BK) launched its IPO on June 30th, 2011 and the offer period ended on July 29th, 2011. The listing of its shares on RSE is planned on August 29th, 2011. The Government of Rwanda has sold to the public 20% of its shareholding while BK offered 25% of its shareholding to raise new capital at the offer price of RWF 125 per share.

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V.2 LEGAL FRAMEWORK

Two pieces of legislation were published in the official gazette; the law regulating capital market in Rwanda and the law establishing Capital Market Authority (CMA) were gazetted on March 28th, 2011 and June 9th, 2011 respectively. CMA has been born after the conversion of Capital Market Advisory Council (CMAC) into a full regulatory authority for Rwandan capital market. Prior to this, CMAC had been established as a transitional body tasked by the Government to guide in the development of a capital market in Rwanda and it operated as both the regulator and market operator. The enactment of the law establishing CMA has led to the splitting of CMAC into CMA whose focus will be on the regulatory side of the market and Rwanda Stock Exchange (RSE) as the market operator.

The Capital Market Authority (CMA) plans to launch the RSE index in the first quarter of 2011-2012. The index is aimed at being the flagship of stock market performance indicator for the Rwandan market.

As part of its Financial Literacy Campaigns, a university challenge will be launched in September 2011. This university challenge is aimed at raising awareness among the youth and introducing the culture of mobilising savings and investing in capital market products. CMA has already embarked on the process of automating the RSE trading by acquiring an Electronic Trading. The go live date for the Automated Trading System (ATS) on the RSE is set for June 2012. This is in line with the national objective of creating an efficient securities market that is transparent, fair and accessible by all investors.

CMA is planning to apply for the IOSCO (International Organization of Securities Commissions) assessment and membership by June 2012. The more compliant to the IOSCO principles the market is, the more attractive it becomes for international investors.

Plans are underway to have the first Unit Trust established in Rwanda by June 2012.The Unit Trust will help in nationwide mobilization of savings and promotion of professional fund management into the industry. CMA plans to adopt a Corporate Governance Code for the industry and have it signed by 2012.

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VI. BNR COMMUNICATION STRATEGY

In 2011, BNR is committed to increasing public awareness of monetary and exchange rate policies for improving the policy actions transmission mechanism to markets. In addition, the communication will be expanded to financial literacy and public awareness campaign on the ongoing financial deepening reforms like credit information system, Umurenge Sacco program, capital market development and payment systems modernization.

The communication strategy will also contribute to create a robust interactive platform of exchanging information with all stakeholders, in particular financial institutions and business community.

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VII. CONCLUSION

In the first half of 2011, the National Bank of Rwanda has registered positive results towards achieving the set objectives for 2011. In light of this, the Bank implemented a proactive monetary policy for further stimulating the banks' lending capacity to the private sector, while keeping moderate inflationary pressures. Furthermore, a stable exchange rate and improved food production contributed to a lower level of inflation compared to other EAC countries. For the second half of the 2011, the National Bank of Rwanda is committed to keep momentum for achieving the remaining targets for the whole year.

With regard to financial sector, the banking system sustained its financial soundness, the microfinance industry continued to grow and a number of non financial institutions made progress towards complying with the new regulatory and supervisory requirements.

In a nutshell, the financial sector is more stable today, as evidenced by the financial soundness indicators of the first half of 2011.

Regarding the financial sector stability, the BNR will improve further the regulatory framework, off and onsite inspections of financial institutions. Furthermore, special focus will be put on measures to expand financial inclusion.

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