National Bank of Rwanda

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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EXECUTIVE SUMMARY

In 2011, Rwanda's economy evolved in a challenging international and regional economic environment. The world economy was marked by high oil and food prices, a sovereign debt crisis in the Euro zone and a debt ceiling crisis in the USA, while in the East Africa sub-region, inflationary pressures have been increasing at a very high pace, never recorded in the last decade.

In the EAC region, inflation continued to rise in 2011 mainly owing to the increase in oil and food prices. In December 2011, on annual basis, inflation hit 27.0 percent in Uganda, 18.9 percent in Kenya from respectively 3.1 percent and 4.5 percent in December 2010. During the same period, headline inflation reached 19.8 percent in Tanzania and 14.9 percent in Burundi from 5.6 percent and 4.9 percent in December 2010 respectively.

Similarly, inflation in Rwanda has been increasing as well but maintained at moderate levels. The annual headline inflation reached 8.3 percent in December 2011 from 0.23 percent in December 2010. Moderate inflation has been achieved due mainly to good harvest that kept domestic food markets stable, a relatively stable exchange rate, as well as well coordinated Government policies to mitigate the exogenous inflationary pressures.

Despite the challenging international and regional economic environment, Rwanda managed to sustain dynamic economic activities in 2011, recording high performance in all sectors. Real GDP growth is estimated at 8.8 percent higher than 7.0 percent initially projected and 7.5 percent achieved in 2010. This growth was driven by agriculture sector (+8.2 percent) reflecting the impact of ongoing Government reforms and favorable climatic conditions. It was also pushed by the industry sector (+15.1 percent) and services sector (+8.5 percent) both boosted by significant improvement in credit market conditions.

The dynamism in the Rwandan economic activities was also marked by a strong improvement in the external sector. The export sector in 2011 continued to perform better, sustained by traditional exports; where formal exports of goods covered 23.8 percent of imports in 2011, from 18.3 percent in the previous year, as a result of more rapid increase in exports. Indeed, exports value increased by 52.8 percent against 17.3 percent for imports.

Rwanda has ended the year 2011 with a positive balance of payments, estimated at USD 120.13 million, continuing the trend observed during the past years. Positive balance of payments resulted from a significant increase in official and private capital inflows which counterbalanced the significant structural current account deficit.

Regarding the developments in the monetary sector, broad money supply recorded an annual increase of 26.7 percent by end 2011, driven mainly by the credit to the private sector (+28.4 percent). The increase in monetary aggregates has been significantly higher than initially projected, in line with the increase in money demand associated to higher-than-projected economic growth.

Regarding the perspectives in 2012, the BNR monetary and exchange rate policy will remain prudent enough to continue limiting the impact of likely persistent regional inflationary pressures. By end 2012, the monetary program projects a Reserve Money increase of 17 percent, in line with nominal GDP growth and allowing for some moderate increase in the monetization of the economy. The real GDP is projected to increase by 7.6 percent while end 2012 headline inflation is projected at 7.5 percent. The exchange rate is expected to remain market driven, while the BNR will continue to intervene on forex market only to smoothen the exchange rate volatility.

The financial sector stability has been sound and stable in 2011. The banking sector demonstrated positive stance with an increase in the balance sheet of 24.5 percent. The sector has been profitable, liquid and well capitalized to sustain growth but also resilient to external shocks as a result of strengthened legal, regulatory and supervisory framework. For instance, the Capital Adequacy Ratio (CAR) increased to 27.2 percent in 2011 from 24.4 percent 2010.This is well above the minimum required Capital Adequacy ratio of 15%, which shows the stability of the financial sector.

The microfinance sector recorded a positive performance with the continued expansion of its balance sheet, realizing 12.1 percent annual growth. The introduction of UMURENGE SACCOs enhanced the growth of this sector. In the year under review, UMURENGE SACCOs contributed to 37.6 percent of the sector's total assets. Additionally, the SACCOs played a significant role

in expanding financial inclusion. By end December 2011, UMURENGE SACCOs registered deposits and gross loans amounting to RWF 22.5 billion and RWF 4.7 billion respectively.

During the year under review, the insurance sector performance improved progressively. The total assets of the Rwandan insurance sector as at December 31, 2011, increased by 12.1%, reaching RWF 143.7 billion compared to RWF 128.21 billion as at December 31, 2010. The Gross premiums also increased, as well as the net profit, due to a better performance of the Rwandan economy. The liquidity position of the insurers is also satisfactory. This good performance is a reflection of the impact of the supervisory reforms undertaken in the last three years. Major developments are related to prudent underwritings, investments and improved professionalism.

The pension sector assets (excluding private pension schemes) continued to grow with a positive trend reaching RWF 189.39 billion in 2011 from RWF 166.78 billion in 2010; indicating an increase of 14 percent on annual basis. Positive prospects are expected after the enactment of the new pension law that will give rise to the establishment of private pension schemes.

Briefly, financial sector as a whole was stable; a factor that was also confirmed by the Financial Sector Assessment program (FSAP) conducted by both the IMF and World Bank experts in the first quarter of 2011. Going forward, the BNR is committed to continue fostering competition, efficiency and growth of the financial sector. In addition, ensuring that cost effective services are provided, and promoting financial inclusion as a critical success factor to poverty reduction, are two important items on the BNR agenda.

I. OVERVIEW OF ECONOMIC ENVIRONMENT IN 2011

I.1 GLOBAL ECONOMY

I.1.1 Economic growth and outlook

After an increase of 5.2 percent in 2010, the global economic activity decelerated to 3.8 percent in 2011 and is expected to further decelerate to 3.3 percent in 2012 due to the mixed adverse developments across countries including Tsunami and earthquake in Japan, renewed concerns about the debt crisis in Europe and USA and political unrest in the Arab countries whose effects dampened oil supply.

According to the IMF, real GDP growth in developed countries was estimated at 1.6 percent in 2011 and 1.2 percent in 2012 after 3.2 percent increase in 2010. In the USA, it fell to 1.8 percent in 2011 on the lessening of the policy stimulus effect and is expected to remain unchanged at 1.8 percent in 2012 after 3.0 percent in 2010. In the Euro Area, real GDP growth decelerated to 1.6 percent in 2011 against 1.9 percent in 2010. In 2012, the Euro Area economic growth is expected to slide to -0.5 percent as some countries took rigorous fiscal consolidation and austerity measures. In Japan, the economy declined by 0.9 percent in 2011 after 4.4 percent in 2010 due to a sharp appreciation of the yen and following the earthquake.The Japanese economy is expected to recover by 1.7 percent in 2012 helped by the recovery in both output and domestic spending, and on improvement in business confidence.

In the emerging and developing economies, real GDP growth is estimated at 6.2 percent in 2011 after 7.3 percent recorded in 2010, while projected to slow down to 5.4 percent in 2012. This slow down is due to capacity constraints, policy tightening and slowing foreign and domestic demand. In developing Asia, economic activity remained solid. China's real GDP growth is estimated at 9.2 percent in 2011 against 10.4 percent in 2010 and projected to decelerate to 8.2 percent in 2012 as a result of a tightened monetary policy and the low contribution from exports.

For the African continent, economic growth is estimated at 5 percent in 2011 up from 4.7 percent recorded in 2010. Furthermore, In line with this trend, economic growth in Sub-Saharan Africa is estimated at 4.9 percent in 2011 from 5.3 percent in 2010. However, in 2012, economic growth is projected to rebound at 5.5 percent on account of economic activities supported by favorable prices of export commodities, large scale infrastructure development, improvement in services and industries, good performance of agriculture and improved economic policies.

I.1.2 Inflation

The world inflation increased from 2.6 percent in 2010 to 3.5 percent in 2011 due to low economic recovery. In 2011, it stood at 2.7 percent in advanced economies and at 7.2 percent in emerging and developing countries after 1.6 percent and 6.1 percent respectively in 2010. In 2012, inflation is projected to draw back to 1.6 percent in developed economies and to 6.2 percent in emerging and developing countries. Headline inflation reached 3.0 percent and 2.7 percent respectively in the USA and the EURO area from 1.6 percent in both economies in 2010. Inflationary pressures have been more pronounced in emerging economies on accommodative monetary policy and associated to high economic recovery.

In the EAC countries, inflation continued to rise througout 2011 caused by high oil and food prices and the drought in the horn of Africa. In December 2011, annual headline inflation stood at 27.0 percent in Uganda, 19.8 percent in Tanzania, 18.9 percent in Kenya, 14.9 percent in Burundi and 8.3 percent in Rwanda from respectively 3.1 percent, 5.6 percent, 4.5 percent, 4.9 percent and 0.2 percent in December 2010.

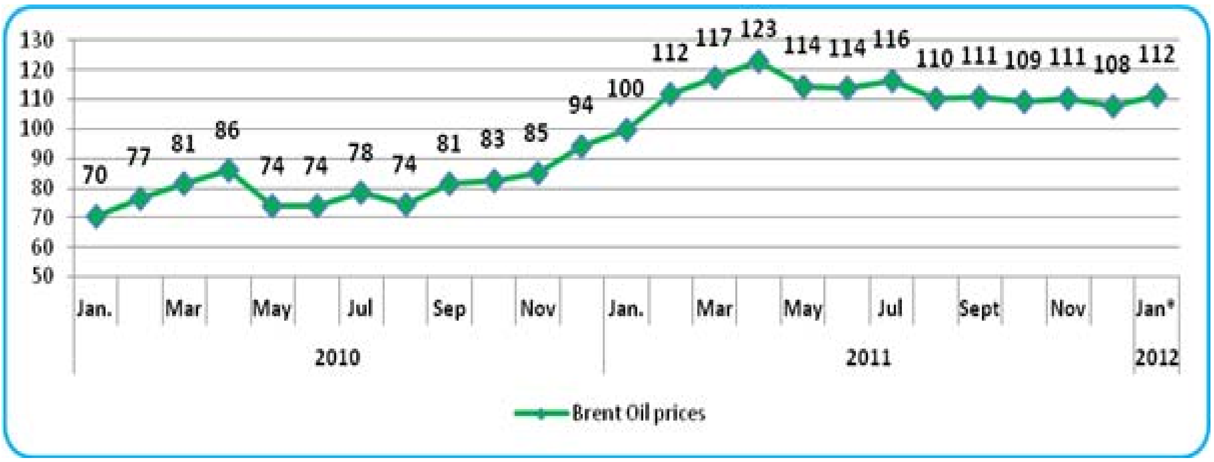
Table 1: Annual inflation in EAC countries in percent

	2010	2011				
	Dec.	Mar.	Jun.	Sept.	Nov.	Dec.
Uganda	3.1	11.1	15.8	28.3	29.0	27.0
Kenya	4.5	9.2	14.5	17.3	19.7	18.9
Tanzania	5.6	8.0	10.9	16.8	19.2	19.8
Burundi	4.9	5.7	8.6	11.7	16.4	14.9
Rwanda	0.2	4.1	5.8	6.6	7.4	8.3

Source: Central Banks' website

With regard to commodity prices in 2011, oil prices continued their strong rebound during the first half of the year due to the unrest in oil-producing countries but also following the high demand in emerging economies. According to IMF estimates in January 2012, crude oil average price rose by 31.9% to USD 104.23 in 2011 after 27.9 percent increase in the previous year. In the medium term, oil prices are expected to slow down with futures contracts for December 2013 trading at USD 103.6 per barrel (ECB Bulletin, January 2012).

Chart 1: Average Oil price developments (USD per barrel of Brent oil)



Source: BNR, Monetary Policy and Economic Analysis Department

During the last quarter of 2011, non-energy prices recorded strong declines on improved supply conditions but also commodity prices were affected by concerns about the debt crisis and their impact on the global demand. In aggregate terms, the price index for non-energy commodities denominated in US dollars was 14.8 percent lower at the end of December 2011 compared to the beginning of the same year (ECB bulletin, January 2012).

However, in terms of annual average, prices for non-energy primary commodities increased by 17.7 percent in 2011 compared to 26.3 percent recorded in 2010. In this regard, Coffee prices on international market rose by 38.3 percent on average while tea prices (Mombasa Auction) gained 6.2 percent.

I.1.3 Financial Markets

Financial markets in developed countries have been in turmoil following the debt crisis in USA and Europe. As one of the serious consequences of this crisis, after the downgrading of the USA credit rating in August 2011 from AAA to AA+ over Congress' handling of the federal debt, Standard & Poor's revised down France's credit rating from AAA to AA and lowered eight other euro zone countries' credit ratings. Further still, on Friday January 13th, 2012, Fitch downgraded the sovereign credit ratings of Belgium, Cyprus, Italy, Slovenia and Spain, indicating that there was a 50 percent chance of further cuts in the next two years on concerns about worsening European economic outlook. Therefore, these countries will have to cut their spending, their deficits and improve their competitiveness to ensure the return to growth. In addition, the European Financial Stability Fund (EFSF) was downgraded from AAA to AA+. This indicates that the continent's debt crisis would take time to be resolved since the policy packages that have been set by European policymakers are found insufficient to fully address ongoing financial concerns in the Euro zone.

With regard to interest rates developments in 2011, money market interest rates remained low to give a boost to the economic activity. Central banks' policy rate remained unchanged or slightly fluctuating in most of developed countries. It varied between 0 and 0.25 percent in the USA and around 0.1 percent and 0.5 percent respectively in Japan and UK while in the Euro Area the ECB rate was revised four times in 2011. From 1.0 percent it went up to 1.25 percent in April, 1.50 percent in July, came back to 1.25 percent in November, before it was finally revised to 1.0 percent in December, 2011.

Three months deposit rates have been increasing standing at 0.58 percent after 0.30 percent in the USA, 1.36 percent after 1.01 percent in the Euro Area, 0.20 percent after 0.19 percent in Japan respectively in 2011 and 2010. Ten year government bond rates were lower in all the three developed economic zones reflecting both the concerns about the sovereign debt crisis and the uncertainty about the global economic outlook. They stood at 1.88 percent after 3.30 percent in the USA, 1.83 percent after 2.96 percent in the Euro Area and 0.99 percent against 1.13 percent in Japan respectively in 2011 and 2010.

As regards to the exchange rates in 2011, the US dollar extended its appreciation against the Euro by 3.0 percent after 6.3 percent and the GBP by 0.6 percent after 3.7 percent while it strongly depreciated against the Yen by 8.1 percent after 18.5 percent in 2011 and 2010 respectively. The main drivers were changes in the perception of the sustainability of public finances in some countries of the Euro zone and in the United States as well as the movements in the yield differentials between the two economies. The Japanese Yen was regarded as a "safe haven" currency amid market volatility.

I.2 NATIONAL ECONOMIC PERFORMANCE

I.2.1 Economic growth

Rwanda's economy continued to demonstrate resilience to regional and global shocks due to the country's stable macroeconomic framework resulting from important economic reforms and more coordinated macroeconomic policy management.

In 2011, the Rwanda's economy is estimated to grow by 8.8 percent which is higher than 7.0 percent initially projected and 7.5 percent achieved in 2010. This growth is significantly higher than the expected average growth of 5.2 percent for Sub-Saharan countries. This high growth was driven by good performance in all economic sectors in which agriculture grew by (+8.2 percent), significant recovery in the services by (7.2 percent) and industry sector growth by (15 percent).

Table 2: Real GDP Growth, in percentage

	2006	2007	2008	2009	2010	2011 est.
GDP	*9.2*	*7.7*	*11.5*	*6.1*	*7.5*	*8.8*
Agriculture	*2.8*	*2.7*	*6.4*	*7.7*	*4.9*	*8.2*
Food Crop	*1.4*	*4.0*	*6.2*	*9.4*	*4.9*	*9.0*
Industry	*11.7*	*9.1*	*15.1*	*1.4*	*8.4*	*15.0*
Mining	*-13.8*	*42.8*	*-15.7*	*-17.9*	*-10.8*	*15.5*
Manufacturing	*13.4*	*0.8*	*5.6*	*3.0*	*9.3*	*6.8*
Construction	*13.1*	*15.0*	*28.2*	*1.4*	*8.8*	*22.3*
Services	*13.3*	*12.3*	*14.7*	*5.9*	*9.6*	*7.2*
Wholesale and Retail	*18.2*	*14.8*	*19.4*	*4.0*	*8.4*	*4.9*
Transport & Communication	*22.5*	*15.0*	*23.8*	*9.2*	*8.7*	*5.6*
Finance	*9.5*	*11.6*	*1.8*	*-4.1*	*23.6*	*10.3*
Activities non elsewhere classified	*7.8*	*4.5*	*12.0*	*9.4*	*5.1*	*10.3*

Source: MINECOFIN, Macroeconomic Policy Unit

a. Agriculture sector

The good performance recorded in agriculture over the past three years has been sustained during the year 2011 as a result of ongoing investments under the crop intensification program (CIP). The programme has focused on facilitating access to fertilizers and selected seeds, land use consolidation and increase in irrigation.

Harvests for 2011 seasons A and B performed better (10.4 percent) than the harvest recorded in the same seasons of the previous year (9.5 percent). The production of tradable coffee decreased by 7.5 percent in 2011 from 19.32 to 17.87 thousand tons, mainly due to the low production of green coffee during the first semester 2011 compared to the first semester 2010. Tea production increased by 10.2 percent, from 19.89 thousand tons in 2010 to 21.90 thousand tons in 2011.

b. Non-agriculture activities

Concerning non agricultural activities, both industry and services recorded significant improvement in 2011 compared to the previous year. The industry sector's value addition grew by 15.0 percent led by construction (+22.3 percent), mining (+15.5 percent) and manufacturing industries (+6.8 percent). The construction sector was boosted by major infrastructure projects, as well as commercial, administrative and residential buildings. The performance in manufacturing industry was driven by beverages and tobacco (+14.0 percent) and food processing (+4.9 percent). The strong performance recorded by the mining sector is mainly stimulated by higher prices for minerals on international markets.

In the services sector, business climate significantly improved particularly in finance and insurance sector which have recorded the highest increase (10.3 percent) followed by transport and communication (5.6 percent) and the wholesale and retail trade (4.9 percent).

I.2.2 External sector

a. External trade

With regard to formal external trade in 2011, exports value increased by 52.8 percent compared to 2010, while its volume rose by 48.4 percent. Imports value rose by 17.3 percent while its volume increased by 12.1 percent. Exports covered 23.8 percent of imports from 18.3 percent in 2010 as a result of a more rapid increase in exports. This coverage becomes 27.4 percent when including cross border trade and is estimated at 43.0 percent when services are included.

Exports

In 2011, driven by minerals and export crops, Rwandan exports recorded strong performances increasing both in value and volume by 52.8 percent and 48.4 percent respectively between 2010 and 2011. However, exports in Rwanda are still less diversified and dominated by traditional export products such as coffee, tea and minerals, which represented 74.8 percent of total export earnings in 2011.

The value of major mineral exports was USD 151.4 million representing 39.1 percent of total export earnings, while coffee and tea amounted to USD 138.5 million, representing 35.7 percent.

Coffee exports performed poorly, falling by 14.5 percent in volume. However, due to a significant increase of 55.5 percent in prices following higher demand as production in some countries declined, the coffee exports value increased by 33 percent amounting to USD 74.6 million in 2011 from USD 56.1 million realized the previous year. Tea exports have continued to perform well as both the value and volume increased by 10.2 percent and 14.2 percent respectively.

Table 3: Export developments (Value in million of USD, Volume in thousands of tons)

	2009		2010		2011		Percentage change	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
EXPORTS	***103.1***	***191.0***	***113.1***	***253.7***	***167.8***	***387.7***	***48.4***	***52.8***
Coffee	15.0	37.3	18.2	56.1	15.6	74.6	-14.5	33.0
Tea	18.7	48.2	21.5	55.7	23.7	63.9	10.2	14.7
Tin	4.3	28.6	3.9	42.2	7.0	96.8	79.4	129.4
Coltan	0.9	20.2	0.7	18.5	0.9	38.6	18.9	108.8
Wolfram	0.9	5.8	0.8	7.1	1.0	16.0	19.3	125.7
Hides and Skins	1.8	2.0	3.7	3.7	6.2	7.6	66.7	103.4
Pyrethrum	0.0	0.6	0.0	1.4	0.0	4.5	196.7	220.9
Re-exports	4.1	20.6	7.4	35.9	20.4	37.3	174.0	3.8
Other export products	57.5	27.7	56.7	33.0	93.1	48.4	64.2	46.4

Source: BNR, Statistics Department

The exports in the mining sector have recorded a significant improvement in 2011 compared to the previous year mainly driven by the overall increase in international prices of the major minerals exported by Rwanda, namely tin, coltan and wolfram.

Their total value and volume increased by 123.4 percent and 61.9 percent respectively. The prices of all minerals have significantly increased, by 89.2 percent for wolfram, 75.6 percent for coltan and 27.8 percent for tin.

Re-export products slightly rose by 3.8 percent in value while increasing highly by 174.0 percent in volume, on account of petroleum products which represented 84 percent of total volume of re-exports in 2011. Their volume increased more than 5 times in 2011 compared to 2010. However, this strong increase was not reflected in total value as the impact of petroleum products was offset by a fall in other re-exported products, especially minerals.

Indeed, Rwanda re-exports include mainly tin, coltan, wolfram, other minerals, petroleum products, machines and engines, vehicles and others.

Other export products composed among others by live animals, vegetables, fruits, cereals, milling products and beverages increased by 46.4 percent in value and 64.2 percent in volume.

Table 4: Export shares by destination in percent of volume

	2006	2007	2008	2009	2010	2011
EUROPE	47.3	26.0	24.4	19.0	20.0	13.5
EAC	42.1	51.9	52.4	58.8	56.0	54.4
OTHER AFRICA COUNTRIES	2.4	15.2	18.3	18.3	18.9	26.1
ASIA	5.9	5.1	4.5	3.2	3.6	2.9
AMERICA	2.3	1.7	0.3	0.7	1.5	0.9
OCEANIA	0.0	0.0	0.0	0.0	0.0	0.1
TOTAL	100	100	100	100	100	100

Source: BNR, Statistics Department

Regarding the geographic destination of exports, in recent years, Rwanda has experienced more diversification in terms of its export destination, with the share to Europe declining. The share of exports to Europe has decreased from 47.3 percent of total exported volume in 2006 to 13.5 percent in 2011. In the same period, the share of exports to EAC countries increased from 42.1 percent to 54.4 percent while the share of exports to other African countries increased from 2.4 percent to 26.1 percent. The shares of exports to Asia and America decreased from 5.9 percent and 2.3 percent to 2.9 percent and 0.86 percent respectively. However, these numbers have to be treated with caution.

Indeed, the final destinations of tea exported to EAC (representing over 60 percent of the total value exports to EAC countries) are Europe (UK), Asia (Pakistan, Afghanistan, Yemen and Saud Arabia) and African countries (Egypt and Sudan).

Imports

Dominated by intermediary goods representing 46 percent of the total volume of imports, followed by consumer goods (34 percent), Energy and Lubricants (16.5 percent) and capital goods (4 percent), imports of goods increased both in value and volume respectively by 17.3 percent and 12.1 percent in 2011. The significant increase in volume of intermediary reflects good performance in industry and services sectors.

In 2011, importation of intermediary goods increased by 23.1 percent in value, while their volume rose by 26.5 percent. This performance is attributed to construction materials which rose by 15.5 percent in value and by 24.2 percent in volume. The main products are cement and other similar products as well as metallic construction materials which respectively increased by 22.0 percent and 28.6 percent in value. The imported cement represented 75 percent of domestic consumption, showing the existing gap between the local demand for cement and the domestic production capacity. For the industrial products, their value rose by 41.1 percent while their volume increased by 38.0 percent.

Dominated by machines, devices and tools, capital goods account for 24 percent of the total value of imports, and rose by 9.8 percent and 17.3 percent in value and volume respectively. Transport materials show an increase both in value and volume with growth rates of 39.7 percent and 69.9 percent respectively, while machines, devices and tools declined by 5.5 percent in value, and by 0.8 percent in volume.

Table 5: Imports Developments (Value CIF in million of USD, Volume in thousands of tons)

	2009		2010		2011		percent change	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
TOTAL IMPORTS	***1 010.5***	***1 246.8***	***1188.939.0***	***1389.38***	***1333.3***	***1629.9***	**12.1**	**17.3**
Consumer goods	359.3	364.0	468.5	439.01	453.1	478.0	**-3.3**	**8.9**
Capital goods	53.1	372.4	43.08	357.56	50.5	392.4	**17.3**	**9.7**
Intermediary goods	408.7	332.5	481.6	381.96	609.1	470.2	**26.5**	**23.1**
Energy and lubricants	189.3	178.0	195.7	210.83	220.49	289.1	**12.7**	**37.1**

Source: BNR, Statistics Department

Consumer goods dominated by food and health care products (pharmaceutical and perfumes) increased by 8.9 percent in value while the volume declined by 3.3 percent. This decline in volume is attributed to food products which declined by 8 percent due partly to good performance in domestic food production. Imports of energy and lubricants of which about 96 percent is fuel, rose by 12.7 percent in volume while their value increased by 37.1 percent mainly due to the high cost of petroleum products.

b. Trade with EAC countries

Rwanda's total trade with EAC partner states has significantly expanded in both exports and imports. Since 2006 the total trade value with EAC recorded more than a double increase from USD 278.2 in 2010 to USD 755.5 million in 2011, mainly driven by imports.

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

	2006	2007	2008	2009	2010	2011
Exports to EAC	36.51	45.03	46.25	47.34	54.16	80.70
Imports from EAC	241.73	316.17	461.10	449.65	513.35	674.65
Trade balance	**-205.22**	**-271.14**	**-414.85**	**-402.31**	**-459.19**	**-593.95**

Source: BNR, Statistics Department

C. Informal Cross-border trade

With regard to the informal cross-border trade which is becoming quite significant in the Rwandan external trade, total exports in 2011 amounted to USD 71.51 million from USD 51.7 million in 2010 and account for about 18 percent of formal exports. Informal imports rose by 14.24 percent from USD 20.57 million in 2010 to USD 23.50 million in 2011, leading to improvement in Rwanda's positive trade balance with neighboring countries. Informal cross border exports and imports are dominated by crop products and live animals and the main trading partners are DRC and Uganda. More than 78% of these exports are destined to DRC.

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

	2010					2011				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Exports	12.56	12.10	12.43	14.64	**51.74**	13.51	17.46	17.46	21	71.51
Imports	4.70	4.80	5.61	5.47	**20.57**	4.41	8.09	8.09	5.13	23.50
Trade balance	**7.86**	**7.29**	**6.83**	**9.18**	**31.16**	**9.10**	**9.36**	**14.51**	**15.87**	**48.01**

Source: BNR, Statistics Department

D. Overall Balance of Payments:

Continuing the trend observed in previous years, Rwanda has ended 2011 with a positive balance of payments standing at USD 120.13 million from 72.01 million in 2010, leading to a buildup of official reserves at the BNR. This comfortable external position resulted from a significant increase of official and private capital inflows which continued to offset the structural current account deficit mainly coming from a huge trade deficit, estimated at USD 1194.3 million.

Table 8: Net Current Transfers (in USD millions)

	2007	2008	2009	2010	2011	*Change(%)*
Current transfers (net)	**461.32**	**518.57**	**604.02**	**657.36**	***790.69***	***20.28***
Current private transfers (net)	**98.82**	**72.61**	**79.71**	**90.68**	**194.32**	**114.29**
Remittances from Diaspora	98.50	63.31	88.13	**98.21**	**166.18**	**69.21**
Private transfers for churches	29.34	41.54	26.62	**25.61**	**28.14**	**9.9**
Current officials transfers	**366.38**	**450.08**	**531.67**	**580.04**	**596.37**	**2.82**
Current support net	259.27	339.76	415.84	479.52	507.47	5.83
Humanitarian aid	107.11	110.32	115.84	100.52	88.90	-11.56

Source: BNR, Statistics Department

With regard to capital and financial accounts balance, it increased in 2011 compared to 2010, mainly attributed to high public external debt disbursement, increasing from USD 61.71 million to USD 138.9 million, and to FDI and portfolio inflows increasing from USD 63.71 million to USD 137.50 million. By end 2011, official reserves are estimated at 7.7 months of goods imports from 7.0 months of goods imports in 2010.

Table 9: Estimate BOP 2011 summary (in USD millions)

	2007	2008	2009	2010	2011 Est.
Trade balance	-404.40	-613.05	-762.06	-786.70	-1194.27
Services and income (net)	-140.38	-135.67	-214.49	-292.06	-259.61
Current account balance	-83.45	-230.15	-372.54	-421.40	-663.19
Capital and Financial account	196.70	316.10	433.55	499.36	783.32
Overall balance	**110.6**	**58.01**	**57.05**	**72.07**	**120.13**

Source: BNR, Statistics Department

II. MONETARY SECTOR DEVELOPMENTS IN 2011

II.1 INFLATION

Inflation in Rwanda has been increasing over the year 2011 but was maintained at moderate levels despite global and regional high inflationary pressures. In December 2011, headline inflation reached 8.3 percent on annual basis, from 6.6 percent in September, 5.8 percent in June and 4.1 percent in March. In terms of annual average, it has increased to 5.6 percent in December 2011 from 2.3 percent in December 2010. Inflation has been contained at moderate levels mainly due to the improved food production, efficient management of the monetary policy, a stable exchange rate which limited the pass-through of imported inflation to domestic market and a good coordination of fiscal and monetary policies.

Table 10: Inflation by origin and category (percentage change in CPI, base 2009:100)

	Weights	2010	2011			
		Dec.	Mar.	Jun.	Sept.	Dec.
Annual average headline	***10 000***	***2.3***	***2.2***	***2.5***	***3.7***	***5.6***
Overall inflation, year on year	**10 000**	**0.2**	**4.1**	**5.8**	**6.6**	**8.3**
Local Goods	*7947*	*-0.1*	*3.9*	*5.1*	*5.7*	*8.3*
Imported Goods	*2053*	*1.5*	*5.1*	*8.7*	*10.7*	*8.6*
Fresh Food Products	*1403*	*-1.1*	*10.7*	*6.5*	*-4.3*	*8.3*
Energy	*767*	*3.6*	*5.0*	*5.0*	*7.3*	*9.3*
Underlying inflation	***7829***	***0.2***	***2.8***	***5.8***	***9.0***	***8.3***
Annual average underlying	***7829***	***1.5***	***1.4***	***1.9***	***3.7***	***5.7***

Source: BNR, Statistics Department

The underlying inflation which excludes fresh foods and energy from the overall CPI, reached 8.3 percent in December on annual basis, from 8.95 percent in September, 5.77 percent in June and 2.78 percent in March. On annual average, underlying inflation increased to 5.7 percent in December from 1.5 percent in December 2010.

II.2 MONETARY AND EXCHANGE RATE POLICY

In 2011, the National Bank of Rwanda has been implementing a prudent monetary policy to avoid risks of exacerbation of inflationary pressures while continuing to support the financing of the economy. In response to rising inflation and persistent uncertainties in international and regional environment, the BNR Monetary Policy Committee raised the

Central Bank policy rate twice from 6.0 percent to 6.5 percent in October and 7.0 percent in November. Previously, the policy rate was kept unchanged at 6.0 percent since November 2010. In addition to further build and shape market expectations, the BNR continued to enhance its communication strategy by exchanging information with all stakeholders, with a particular focus on financial institutions and the business community.

With regard to exchange rate policy, the BNR continued to maintain a flexible exchange rate regime and only intervened on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the RWF exchange rate volatility. During the whole year 2011, the Rwanda franc remained quite stable; depreciating only by 1.6 percent against the US dollar, the most used foreign currency in transactions with the rest of the world.

II.3 MONETARY AGGREGATES AND LIQUIDITY CONDITIONS

II.3.1 Money supply and demand

During the year 2011, development in key monetary aggregates was in line with the dynamics in economic activities. The broad money (M3) increased by 26.7 percent against 19.6 percent initially projected and 17.0 percent achieved in 2010. The growth of M3 was driven by the increase of Net Foreign Assets (NFA) by 29.4 percent and that of Net Domestic Assets (12.8 percent). At the same time, the domestic credit was driven by the credit to private sector which increased by 28.4 percent in 2011 from 11.1 percent recorded in 2010.

Table 11: Monetary aggregates developments (in RWF billion, at end period)

	2009	2010	2011				*Change (percent)*	
			Mar	June	Sep	Dec	*2010/2009*	*2011/2010*
Net Foreign Asset	442.9	518.9	464.4	485.3	520.0	671.2	*17.2*	*29.4*
Net domestic assets	81.6	97.0	161.5	227.3	201.8	109.4	*18.9*	*12.8*
Domestic credit	217.0	268.2	323.4	400.9	379.3	287.9	*23.6*	*7.3*
Central Government net	-141.3	-131.3	-98.6	-48.2	-114.6	-223.6	*7.1*	*-70.3*
Public Enterprises	3.0	3.2	1.1	2.6	4.4	2.8	*6.7*	*-12.5*
Private sector	357.3	397.1	421.3	447.0	490.3	509.8	*11.2*	*28.4*
Other items net	-135.5	-171.2	-161.4	-173.5	-177.5	-178.5	*26.4*	*-4.3*
Broad money M3	526.6	615.9	626.4	712.6	721.8	780.6	*17.0*	*26.7*
Currency in circulation	77.0	90.5	83.9	101.5	93.4	102.8	*17.5*	*13.6*
Deposits	447.5	525.4	542.5	611.1	628.4	678.0	*17.4*	*29.0*

Source: BNR, Statistics Department

In 2011, total new authorized loans by commercial banks and BRD stood at RWF 336.0 billion in 2011 from RWF 262.0 billion authorized during the year 2010, that is an increase of 28.0 percent against 32.0 percent a year ago. In terms of loans distribution by economic activities, commerce, restaurant and hotels have the highest share (36.7 percent), followed by public works and building (24.7 percent). It is worth to highlight that the new authorized loans to the agriculture sector has continued to increase from RWF 5.1 billion in 2010 to RFW 11.9 billion in 2011.

Table 12: New loans authorized by commercial banks and BRD (in RWF billion)

	2009	2010	2011				
			Q1	Q2	Q3	Q4	Total
AGRICULTURE,ANIMAL, HUSBANDARY&FISHING	3.7	5.1	3.8	2.0	4.2	1.9	11.9
MINING INDUSTRIES	0.1	0.1	0.0	0.0	0.0	0.0	0.0
MANUFACTURING INDUSTRIES	20.1	26.8	2.5	7.8	3.4	5.0	18.7
ENERGY AND WATER	3.2	1.4	0.0	0.1	0.0	0.4	0.6
PUBLIC WORKS AND BUILDING & INDUSTRY	36.7	45.1	14.3	20.7	26.7	21.4	83.1
COMMERCE, RESTAURANT & HOTELS	73.0	111.8	20.8	29.5	35.5	37.6	123.4
TRANSPORT, WAREHOUSING & COMMUNICATIONS	31.9	22.7	2.6	3.2	7.6	4.7	18.2
O.F.I, INSURANCES AND OTHE R NON FINANCIAL SERVICES	7.5	8.5	7.0	1.3	8.2	2.7	19.2
SERVICES PROVIDED TO THE COMMUNITY	4.7	9.8	1.6	2.2	1.3	4.5	9.6
ACTIVITIES NOT CLASSFIED ELSEWHERE	17.6	30.9	8.3	10.1	14.7	18.4	51.5
TOTAL	198.4	262	60.9	76.9	101.4	96.6	336

Source: BNR, Financial Stability Directorate

Regarding the money demand in 2011, deposits in the banking system have increased by 29.0 percent from 17.4 percent in 2010 while the currency in circulation increased by 13.6 percent. This upward trend was backed by strong economic activities, supported by government spending and the increase in credit to the private sector.

II.3.2 Banking system liquidity conditions

The liquidity in the banking system has been improving continuously throughout 2011 following the recovery of the economy in 2010, as evidenced by the level of liquid assets which have been expanding considerably. To regulate this liquidity, REPO (Repurchase Agreement Operations) operations were used more frequently to absorb the excess liquidity due to its flexibility in terms of investment maturity and its role to steer the markets rates.

Commercial banks' outstanding investments in REPO amounted to RWF 85.0 billion by end 2011 compared to RWF 60.6 million by end December 2010.

The Central Bank has also been issuing debt securities to sterilize excess liquidity and to finance short term Government treasury needs. The outstanding T-Bills by end December 2011 amounted to 76 billion RWF against 56 Billion in 2010. Going forward, the BNR will continue to manage liquidity by issuing T-Bills and availing at the same time the securities needed to promote interbank market. The Central Bank is also developing other instruments that would help in the implementation of the Monetary Policy.

Within the framework of developing the capital market, BNR issued Government Treasury Bonds and by end 2011, the total Bonds listed on Rwanda Stock Exchange amounted to RWF 15 billion.

II.4 INTEREST RATES DEVELOPMENTS

Developments in money market interest rates have been consistent with the change in the banking system liquidity, significantly influenced by the level of the reserve money targets. Repo rates were stable around the central bank rate during the first 3 quarters of the year 2011 due to tight reserve money targets.

Table 13: Interest rates (in percentage)

	2010	2011											
	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
BNR Policy Rates													
Key Repo Rate	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.50	7.00	7.00
Discount Rate	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.50	11.00	11.00
Money Market													
Repo rate	5.47	5.95	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.37	6.62	6.53
Refinancing Facility	8.83	-	-	8.40	-	-	-	-	-	-	-	-	-
Treasury Bills Rate	7.32	7.14	7.02	7.22	7.11	7.11	6.78	6.80	6.74	6.71	7.21	7.82	7.62
Commercial													
Interbank Rate	6.84	6.71	6.74	6.74	6.86	6.86	7.00	6.93	6.87	6.93	7.36	7.48	8.08
Deposit Rate	7.10	7.51	7.50	7.49	8.65	7.93	8.03	7.22	7.67	7.70	7.36	7.97	7.96
Lending Rate	16.94	15.63	16.90	16.59	16.59	16.89	16.97	16.58	16.98	17.01	17.04	16.48	16.73

Source: BNR, Statistics Department

However, from October, Repo rates have been fluctuating as a result of the adjustment of reserve money targets to respond to higher economic activities and the increase in the policy rate. Thus, the average repo rate moved to 6.53 in December from 6.0 percent in September while the average t-bill rate increased to 7.62 from 6.71 percent and interbank rate rose to 8.08 percent from 6.93 percent during the same period.

With regard to market rates, commercial banks deposit interest rates slightly went up to 7.17 percent in November 2011 from 6.84 percent in December 2010 while lending rates have been fluctuating between 17.04 percent and 15.63 percent.

II.5 EXCHANGE RATE AND FOREX MARKET

II.5.1 Exchange rate developments

In 2011, the Rwandan franc remained stable, depreciating only by 1.6 percent against the US dollar, trading between RWF 594.45 end-December 2010 and 604.14 end-December 2011. This stability was explained by the sufficient capacity of the banking system to respond to high demand for forex. It also depreciated by 1.5 percent vis-à-vis GBP, while it was quite stable against EUR with an appreciation of 0.4 percent.

However, against other EAC currencies, RWF appreciated by 2.0 percent, 5.8 percent, 3.9 percent and 2.2 percent versus Kenyan shilling, Tanzanian shilling, Ugandan shilling and Burundi franc respectively. This appreciation against regional currencies has been one of the key factors that limited the pass-through of higher regional inflation to domestic market, as Rwanda remains a net importer.

Chart 2: Real effective exchange rate as on November 2011

Source: Monetary policy and economic analysis department

Therefore, the Real Effective Exchange Rate (REER) appreciated by 0.93 percent between December 2010 and December 2011. This REER appreciation was consistent with the trend of Rwandan Franc against regional currencies.

II.5.2 Foreign Exchange Market Developments

Over the year 2011, domestic foreign exchange market activity has been boosted by a substantial increase both in resources and expenditures by 24.1 percent and 24.0 percent reaching the total amounts of USD 4.67 billion and 4.52 billion respectively.

To this end, it is important to highlight that the private sector's demand for forex maintained the pace as they increased by 43.3 percent for imports of goods and 12.5 percent for transfers. At the same time Government spending in forex increased by 11.7 percent. Furthermore, to respond to the overall increasing demand for forex, the BNR sold USD 327.8 million in 2011 against USD 232.7 million to commercial banks in 2010, while on the other side, operations on FOREX interbank market recorded USD 86.4 million in 2011 against USD 44.7 million recorded in 2010 which indicates that forex interbank market has been more active in 2011 than in 2010.

Table 14: Revenue and expenditure in Forex (In USD millions)

	2009	2010	2011	percent Change 2011/10
Resources	*3303.7*	*3767.2*	*4674.2*	*24.1*
BNR	976.8	1049.2	1323.6	26.1
Of Which Budget Support	409.6	466.0	625.3	34.2
Bank deposits	175.4	225.8	280.8	24.4
Government Projects	199.9	290.0	307.8	6.1
Commercial Banks	1952.5	2276.7	2876.8	26.4
Of which Exports receipts	198.3	249.0	329.5	32.3
Receipts on services	250.8	222.3	304.4	36.9
Private transfers received	1275.3	1572.4	1915.1	21.8
Purchases forex from BNR	228.1	232.9	327.8	40.7
Forex Bureaus	374.5	441.3	473.8	7.4
Forex Bureaus purchases	225.5	282.1	303.8	7.7
Forex Bureaus purchases	148.9	159.2	170.0	6.8
Expenditure	*3170.5*	*3644.8*	*4517.8*	*24.0*
BNR	836.7	979.2	1086.8	11.0
Of which Government Spending	845.2	989.9	1105.5	11.7
Non Banking Clients	107.5	117.7	105.9	-10.1
Sales to banks (interbank	228.3	232.9	327.8	40.8
Commercial Banks	1934.0	2215.6	2923.4	31.9
Imports of goods	1025.4	1227.6	1758.5	43.3
Imports of services	361.6	354.6	463.2	30.6
Private transfers paid	398.0	472.4	531.6	12.5
Sales to Forex Bureaus	148.9	161.0	170.0	5.6
Forex Bureaus	399.7	450.0	507.7	12.8
Sales to public	399.7	450.0	507.7	12.8

Source: BNR, Financial Market Department

II.6 CAPITAL MARKET DEVELOPMENTS

Within the framework of further developing the Capital Market in Rwanda, a law regulating Collective Investment Schemes in Rwanda (Law N°40/2011of 20/09/2011) was published and the Trust Law will be published soon as it is currently under discussion in Parliament.

Transactions at the Secondary Market for Treasury Bonds were very minimal. The turnover only recorded RWF 500 million as the security holders (over 90 percent are commercial banks) prefered to keep them till maturity. This trend will change this year with new measures to be taken by the BNR in tearms of security allocation. On equity market, Bank of Kigali listed its shares on the RSE market on September 1st, 2011 following a successful Initial Public Offer (IPO) which was oversubscribed by 276 percent.

Bank of Kigali's IPO attracted 6,721 applicants compared to 3,939 applicants for BRALIRWA and this shows the increasing interest in public to invest in the capital market. Since September 1st, 2011 to the end of 2011, the equity market recorded a turnover of more than RWF 12.7 billion from about 14.5 million BRALIRWA shares and 61.4 million BK shares traded in 1,038 transactions.

In August 2011, BNR launched a Central Securities Depository (CSD) System and all transactions have been successfully settled through a paperless system and the settlement period has been reduced from T+5 to T+2.

III. PAYMENT SYSTEM MODERNIZATION

In 2011, BNR and stakeholders continued to work together to modernize Rwanda payment systems, ensuring that they are efficient and reliable. The main development was the implementation of the Rwanda Integrated Payment Processing System (RIPPS) and the introduction of new payment instruments by the banks.

III.1 RWANDA INTEGRATED PAYMENTS PROCESSING SYSTEM

RIPPS has been put in place to reduce time lag in payments and notably to mitigate systemic risk in the financial system of Rwanda. All its components were implemented in 2011. These are the Automated Transfer System (ATS) and the Central Securities Depository (CSD). The ATS is operational since February 2011 and comprises the Real Time Gross Settlement system (RTGS) function for large value and time critical payments and the Automated Clearing House (ACH) which provides clearing and netting facilities for a range of low value electronic instruments including direct debits, direct credits and cheques. The ATS has 16 participants including 14 banks, RSwitch and BNR. On the other hand, the CSD is operational since July 2011 and has 20 participants namely banks, brokers and Rwanda Stock Exchange. Currently, the CSD holds both debt securities and equities. On the debt side, the CSD handles Treasury Bills and Treasury Bonds. On the equity side, the CSD handles BRALIRWA and Bank of Kigali shares.

Table 15: Transactions settled through RIPPS.

	ATS					CSD	
	RTGS		ACH				
	Customers transactions	Interbank transactions	Cheques	Credit transfer	Total	N/A	
Total Messages	270,768	24,120	32,103	69,410	396,401		
Volume of instructions	270,768	24,120	296,595	730,599	1,322,082	1,569	
Value (millions RWFs)	977,286	4,179,446	750,217	446,206	6,353,155	Shares traded	Turnover
						75.700	12,726

Source: BNR, Payment System Department

Most of the participants are implementing full straight-through processing (STP); the only issue for ATS (Automated Transfer System) concerns the participants whose interfaces are not yet installed or stable; hence obliged to post transactions manually.

III.2 CARD- BASED PAYMENT SYSTEM

Regarding the card based payment system, the banks continued to issue payment cards and RSwitch (former SIMTEL) as a common platform ensures that the infrastructure is interoperable. On one hand, RSwitch continued to issue proprietary cards to banks. On the other hand, several initiatives are being taken by banks in order to provide electronic banking services to their clients. More effort has been put on improving ATMs up time which increased from 58 percent in January 2011 to 85 percent in December 2011. The ATMs transactions have increased significantly as well.

Table 16: Evolution of card based payments

Instruments	2010	2011
Number of Automated Teller Machines (ATMs)	84	167
Number of Point of Sale (POS) terminals	99	227
Number of debit cards	41,377	208,767
Number of credit cards	172	526
Number of prepaid cards	0	3,270
Number of transactions		
Debit cards	393,088	1,933,811
Credit cards	20,036	42,545
Transactions on POS		38,440
Value settled (*Rwandan francs millions)*		
Debit cards	26,983	117,838
Credit cards	2,897	4,698
Balance on prepaid Prepaid cards		73
Transactions on POS		6,438

Source: BNR, Payment System Department

Additionally, concerted effort was put on the interoperability of the ATMs. Thus, most of all ATMs are interoperable except EQUITY Bank ATMs, the new comer to the market. Regarding international acquiring, 43 ATMs and 202 POS are accepting VISA cards. Some banks are working with different international Payment Card Service Providers to ensure all international cards are accepted on Rwanda payment terminal.

III.3 MOBILE PAYMENT AND MONEY TRANSFER SERVICES

In 2011 TIGO RWANDA joined MTN Rwanda to provide mobile payment services and was fully licensed to operate the "TIGO Cash." In the domain of remittances, three companies have been licensed as money transfer service providers, bringing the total number of companies to twelve. One local Remittance Service Provider (Virunga Express, Ltd) started to operate international remittances as well. Moreover, several banks offer mobile banking services to their clients, though on an intra bank basis.

Table 17: Mobile financial service development Jan – Nov 2011

	Agents/branches	Subscribers	Number of Transactions	Value (Million RWF)
Mobile Payments	1,387	639,673	697,497	7,955
Mobile Banking	215	155,986	527,300	5,215

Source: BNR, Payment System Department

IV. FINANCIAL SECTOR STABILITY IN 2011

One of the National Bank of Rwanda's (BNR) core mission is ensuring stability and growth of the financial system. In the period under review (2011), BNR continued to employ radical reforms to ensure that the financial system (mainly composed of the banking, microfinance and non banking financial institutions) is robust and strong to stimulate the economic growth. The reforms included: establishment of appropriate market infrastructure (efficient legal and regulatory framework, supervisory tools, modern payment systems and the private credit reference bureau).

The data discussed in the subsequent paragraphs demonstrates the stability and positive outlook of the system. Additionally, the outcome of the IMF/World Bank, Financial Sector Assessment Mission (FSAP) conducted in February 2011 substantiates that Rwanda's financial system is sound and stable and able to mitigate systemic risks.

IV.1 FINANCIAL SOUNDNESS

IV.1.1 Banking Sector

The banking sector continues to dominate Rwanda's financial sector, controlling over 73 percent of the total assets.

Currently, Rwanda's banking sector is composed of nine (9) commercial banks, one (1) development bank which merged with the mortgage financing bank during the year 2011, three (3) microfinance banks (Urwego Opportunity Bank, UNGUKA Bank Ltd and AGASEKE Bank Ltd) and one (1) cooperative bank (Zigama CSS); all supervised under the banking law.

The banking sector's (commercial banks and specialized banks) balance sheet outlook was remarkable with an annual total asset growth of 24.5 percent from RWF 869.8 billion in December 2010 to RWF 1,083.3 billion in December 2011. The increase of the asset base was mainly attributable to new entrants (one commercial bank and the two MFIs that upgraded to microfinance banks). The breakdown of the total assets for commercial banks and other specialized banks indicated that commercial banks had the largest share, that is, 82.4 percent of the total banking sector assets. The main drivers of the banking sector asset base in December 2011 (RWF 1,083.3 billion) included; loans and advances (53.8 percent), placements in local banks and other financial institutions (11.9 percent), placements in foreign banks (9.8 percent) and investments in both government securities and others (6.8 percent).

The banking institutions' participation in resources mobilization and reallocation to the private sector was positive. Commercial banks controlled 90.9 percent and 77.9 percent respectively of the total sector deposits and gross loans. During the year under review, 88.1 percent of deposits financed the credit to private sector and ultimately impacting the banking sector asset size.

Results from the macro-prudential assessments and stress testing indicate that the banking sector is well capitalized, profitable, improved asset quality and with strong liquidity. In the period under review the capitalization levels as measured by total capital to risk weighted assets stood at 27.2 percent compared to 24.4 percent realized in December 2010 and the ratio is well above the regulatory capital of 15 percent. Through close supervision and monitoring of banks, the quality of assets improved significantly as measured by the Non performing loans to total gross loans (NPL ratio).

The NPL ratio reduced to 8.0 percent in December 2011 compared to 10.8 percent in December 2010. In absolute figures, the NPL stood at RWF 50.5 billion in December 2011 against RWF 54.8 billion in December 2010. The banking sector also proved to have sufficient income to grow with market demands and to build capital buffers for safety nets purposes in the year under review. The sector's profitability (net profit after tax) increased by 42.4 percent, that is, RWF 22.8 billion in December 2011 compared to RWF 16.0 billion in December 2010. Similarly, the sector's return on assets and equity stood at 2.2 percent and 10.6 percent respectively in December 2011 compared to 2.0 percent and 11.2 percent in December 2010. The sector's liquidity position over its obligation stood at 19.6 percent liquid assets to short term liabilities in December 2011 compared to 16.2 percent realized in December 2010.

Table 18: Key consolidated performance indicators, in percent

Indicators	2010	2011			
	December	March	June	September	December
Solvency ratio (total capital)	24.4	25.6	24.4	25.7	27.2
NPLs / Gross Loans	10.8	10.2	9.2	9.3	8.0
NPLS net/Gross loans	9.3	8.7	7.5	7.3	7.0
Provisions / NPLs	50.6	46.9	49.5	49.4	50.8
Earning Assets / Total Assets	79.5	80.8	80.5	71.2	77.2
Large Exposures / Gross Loans	13.1	14.7	10.2	10.1	9.8
Return on Average Assets	2.0	2.7	2.89	2.3	2.2
Return on Average Equity	11.2	14.4	15.17	11.9	10.6
Cost of deposits	2.7	2.5	2.4	2.4	2.4
Liquid assets/total deposits	58.2	51.7	55.9	49.3	45.3
Forex exposure/core capital	5.0	5.4	4.8	3.0	6.6

Source: BNR, Banking Supervision Department

With continuous and improved adjustment of risk based supervision by BNR, improved regulation and compliance with corporate governance by the market players will further strengthen the financial stability in the country. This will go hand in hand with the implementation of good macroeconomic policies.

IV.1.2 Microfinance Sector

The microfinance sector is comprised of microfinance institutions and SACCOs. As at end December 2011, the sector registered total deposits of RWF 46.5 billion and total gross loans of RWF. 42.5 billion.

The total assets of the microfinance sector (UMURENGE SACCOs excluded) increased by 12.1 percent from December 31, 2010 to December 31, 2011, that is, from RWF 43.0 billion to RWF 48.2 billion. Gross loans and deposits increased by 17.0 percent and 4.3 percent, moving from RWF 32.3 billion to RWF 37.8 billion and from RWF 23.0 billion to RWF 24 billion, respectively for the same period. The sector continued to register good performance despite the upgrading of the two (2) microfinance institutions (UNGUKA IMF, S.A and CFE AGASEKE, SA) from the microfinance sector to the micrifinance bank status.

By end December 2011, UMURENGE SACCOs registered deposits and gross loans amounting to RWF 22.5 billion and RWF 4.7 billion respectively.

Table 19: MFIs Consolidated financial performance indicators, UMURENGE SACCOs excluded (in RWF billion)

	31-Dec-10	31-Dec-11	% Change
Total Assets	43.0	48.2	12.1
Cash and Cash Equivalent	8.5	8.8	3.5
Gross Loans (Before Provisions)	32.3	37.8	17.0
Non Performing Loans	3.6	4.2	16.7
Provisions	1.8	2.9	61.1
Loans (Net of Provisions)	30.5	34.9	14.4
Deposits	23.0	24.0	4.3
Equity	14.9	15.3	3.4
Non Performing Loans rate, in percent	11.0	11.3	2.7
Liquidity ratio, in percent	55.5	56.9	2.5
Capital adequacy (Solvency), in percent	34.5	31.7	-8.1

Source: BNR, Microfinance Supervision Department

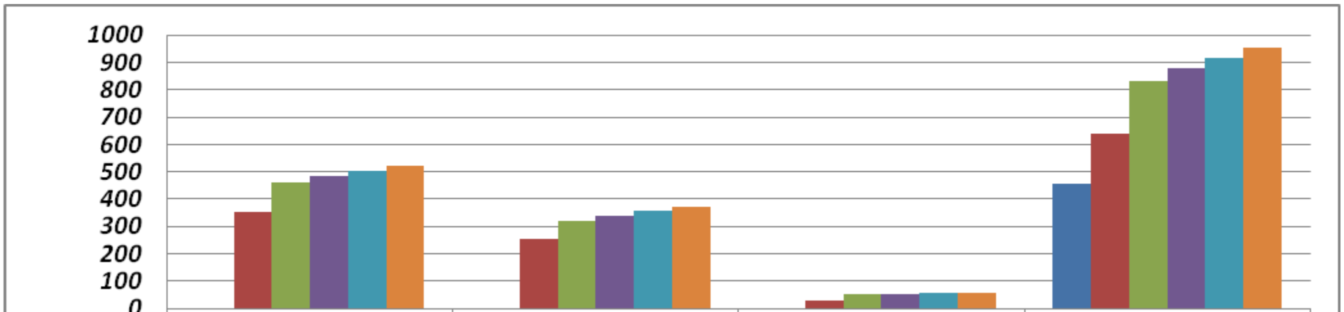
Financial soundness indicators of the microfinance sector indicated a slight deterioration measured in terms of capital adequacy and NPLs ratios, while a slight improvement is observed in liquidity ratio. The capital adequacy ratio decreased from 34.5 percent to 31.7 percent while NPLs ratio increased from 11 percent to 11.3 percent from 2010 to 2011. Compared to the minimum prudential norms of 15 percent and 30 percent, the capital adequacy and liquidity ratios stood at 31.7 percent and 56.9 percent respectively. The NPL ratio remained high compared to the generally acceptable limit of 5 percent in microfinance best practice.

Table 20: Consolidated financial performance indicators of UMURENGE SACCOs (in RWF billion)

	Jun-11	Sep-11	Oct-11	Nov-11	Dec-11
Total Assets	19.89	25.27	26.86	28.76	29.02
Total Liquid Assets	17.58	20.14	22.29	23.60	23.22
Gross loans	1.66	3.36	3.75	4.19	4.72
Provisions	0.13	0. 11	0.14	0.13	0.11
Net Loans	1.52	3.25	3.60	4.05	4.60
NPLs	0.26	0.24	0.32	0. 31	0.26
Total Deposits	15.15	19.47	21.10	22.88	22.50
Total Equity	3.41	3.81	4.11	4.34	4.70
NPL Ratio	**16.0**	**7.3**	**8.8**	**7.5**	**5.6**
Liquidity ratio, in percent	**116.1**	**103.4**	**105.6**	**103.2**	**103.2**
Capital Adequacy Ratio , in percent	**17.2**	**15.1**	**15.3**	**15.1**	**16.1**

Source: BNR, Microfinance Supervision Department

Chart 3: Growth by gender in number of accounts (in thousands)



	Men	Women	Group	Total
Dec-10				454.0
Jun-11	353.2	253.1	31.4	637.7
Sep-11	459.7	321.5	50.6	831.7
Oct-11	483.3	341.1	52.3	876.8
Nov-11	504.9	357.8	55.2	917.8
Dec-11	521.4	371.9	58.2	951.5

Source: BNR, Microfinance Supervision Department

Both banks and MFIs play a key role in financing all segments of the economy with the financing of SMEs in particular. Both sectors have recorded an upward trend for the last five years from 2006 to 2010. There is no doubt that financing to SMEs done in 2011 is much higher compared to 2010.

Table 21: Financing of SMEs by banks and MFIs

Sector	2006	2007	2008	2009	2010
Banks	45,234,156	67,620,359	77,200,670	108,733,789	108,015,099
MFIs	624,962	830,897	815,038	2,732,746	3,470,400

Source: BNR, Financial Stability Directorate

IV.1.3 Non Bank Financial Institutions (NBFIS)

The non bank financial institutions under the supervision of National Bank of Rwanda are composed of insurance and pension sectors. The National Bank of Rwanda is mandated to regulate and supervise these institutions in order to protect the interest of pensioners and policy holders by ensuring that these institutions are financially sound and stable.

Insurance sector

The insurance sector is composed of eight insurers of which six are private and two public Insurers (RSSB, former RAMA and MMI), five insurance brokers, 102 insurance agents and four loss adjusters. The insurance sector in Rwanda is developing as depicted by insurance penetration which is about 2.3 percent though still less than the 10 percent for middle income economies.

During the year under review, the insurance sector performance improved progressively. The total assets of the Rwandan insurance sector as at December 31, 2011 reached RWF 143.7 billion compared to RWF 128.21 billion as at December 31, 2010. The Gross premiums increased as well as the net profit due to the boom in the Rwandan economy. The liquidity position of the insurers is also satisfactory. The return on assets and returns on equity continue to improve as most of the insurers continue to invest prudently.

Table 22: Financial soundness indicators for the insurance sector in RFW billions

Indicators	2010		2011	
	September	December	September 2011	December (est.)
Total assets	118.9	128.2	138.2	143.7
Total capital	69.9	85.0	88.7	94.9
Total gross premiums	40.4	50.0	45.1	60.2
Underwriting profit	6.2	7.1	8.9	11.9
Total net profit	13.5	16.0	16.1	21.4
Claims ratio in percent	45.9	44.0	41.1	41.9
Combined ratio in percent	73.5	81.0	77.3	78.0
Current ratio (percent)	208.1	272.0	240.5	242.9
Return on equity ratio(ROE) in percent	19.4	17.0	18.2	18.5
Return on assets ratio(ROA) in percent	15.2	11.0	11.6	11.8

Source: BNR, Non Bank Financial Institution Supervision Department

Pension sector

The Pension Sector is comprised of the National Social Security Fund (NSSF/CSR), which merged with RAMA to form Rwanda Social Security Board (RSSB) and about 40 private pension schemes.

The National Social Security Fund covers largely salaried workers representing 8 percent of the working population in Rwanda. The pension coverage is still low compared to middle income economies' coverage of at least 25 percent.

The pension sector assets (excluding private pension schemes) continued to grow with a positive trend reaching RWF 189.39 billion in 2011 from RWF 166.78 billion in 2010, indicating a 14 percent increase; as shown in the table below:

Table 23: Pension sector assets and contributions (RWF billion)

indicators	2007	2008	June2009*	End June 2010	End June 2011(prov.)	percent change
Total assets	112.98	129.04	142.38	166.78	189.39	14
Total Contributions	18.96	23.25	9.3	28.23	35.84	27

Source: BNR, Non Bank Financial Institution Supervision Department
**** Means data for sixth months period***

V.2 REGULATORY FRAMEWORK AND SUPERVISION

V.2.1 Banking Sector

In the year 2011, the BNR continued to improve its supervisory roles by conducting off site surveillance and onsite inspection. During the year, nine onsite inspections were conducted against seven carried out in 2010.

The BNR continued to reinforce the supervisory legal framework to accommodate new market developments such as agent banking, mobile banking among others, all aiming to widen financial access. Banks have expressed interest in these new innovations and so far three banks have been licensed to offer agent banking, while almost all banks do mobile banking.

In addition to encouraging product innovations and network expansion, one new regional bank (Equity Bank) started its operation in the third quarter of 2011. Licensing new entrants aims at increasing competition, innovation, efficiency and growth while fostering reasonable prices within the banking sector.

The BNR continued to implement the banking law by putting in place new regulations; fifteen regulations were published in the Official Gazette and two were drafted in 2011.

Fourteen new forex bureaus were licensed in the year under review, recording a total of 131 forex bureaus. The BNR issued a new regulation on the operation of forex bureaus with the aim of streamlining the business and to ensure adherence to best practices in the sector.

Through rigorous surveillance and close monitoring of NPLs in the banking sector, asset quality significantly improved and the NPL ratio decreased from 10.8 percent end December 2010 to 8.0 percent recorded end December 2011.

A feasibility study on Deposit Insurance fund for banks and MFIs was completed, and the draft laws on the establishment of the Fund were prepared.

V.2.2 Microfinance Sector

During 2011, off-site and on-site inspections were performed on regular basis. The microfinance supervision activity mainly concentrated on the licensing of SACCOs established in line with UMURENGE SACCO Program where 414 SACCOs out of 416 received authorization to grant loans and 139 were fully licensed against 56 authorized to grant loans and 4 fully licensed in 2010. By 31st January 2012, 220 SACCOs were fully licensed.

Regarding the supervision and monitoring of SACCOs, a Technical Control Unit (a team of 2 inspectors) was put in place in each district and became operational since May 2011. Their mandate was extended to all MFIs and SACCOs in the 4th quarter of 2011.

The consolidation process of small SACCOs into viable SACCOs is ongoing. In this regard, some SACCOs were merged either with UMURENGE SACCOs or their respective networks.

The “SACCOs sustainability study” is ongoing to determine adequate organizational structure and supervisory approach of the SACCOs. The consultant is working on the financial model of the proposed cooperative bank structure.

In line with the recovery of NPLs, a committee in charge of assisting the recovery was set up at district level and the ministerial instruction governing its organization was published in the Official Gazette no. 33 of 15th August, 2011.

V.2.3 Non Bank Financial Institutions

During the period under review BNR accomplished a number of activities relating to strengthening the legal framework and conducting inspections for Non Bank Financial institutions. Activities accomplished included Regulations to implement the Insurance law especially that related to mergers and acquisition that were finalized and published in the official Gazette. Regulations to implement the pension law were also drafted while waiting for the pension law enactment. In addition, composite insurers were required to expedite the separation of life and non life insurance businesses, meet minimum capital and solvency requirements and observe corporate governance standards as envisaged in the provisions of the insurance legal framework.

V.3 ACCESS TO FINANCE

During the year 2011, actions to facilitate access to banking services were performed through expansion of banks’ branch networks and the introduction of Automated Teller Machines (ATMs). In the same year, the number of bank branches and outlet networks was 683 countrywide, supplemented by 170 ATMs from 84 in 2010

The positive impact of extending services to clients was realized whereby the number of accounts opened increased by 14.4 percent from 1.77 million accounts to 2.03 million accounts in the banking sector.

In line with the promotion of financial inclusion, Access to Finance Forums (AFF) were launched in all districts and are now in operation. AFF is a platform where local authorities, commercial banks, MFIs, SACCOs and other 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 work out solutions. Issues discussed in AFF include the problem of financial exclusion, SMEs financing and the rationale for strategic linkages with commercial banks, MFIs and SACCOs and the possible mutual benefits.

Under the National SME development policy, Business Development Fund (BDF) was assigned two main objectives: Access to Finance and Capacity building for MSMEs.

BNR exercises close follow up of the BDF strategy implementation aiming to ensure that its programs and services are effectively delivered to beneficiaries; especially the youth and women through participant financial institutions including SACCOs.

BDF currently manages 5 funds namely: SME Guarantee Fund; Agriculture Guarantee Fund; Rural Investment Facility; Women Guarantee Fund and Retrenched Civil Servants Guarantee Fund.

These funds are mainly managed through comprehensive agreements with the participant financing institutions. BDF has strong Government and stakeholder support which has been demonstrated by the GoR's willingness and actual transfer of funds to the tune of RWF 9.3 billion to BDF detailed as in the table below:

Table 24: Government transfers to BDF (In RWF)

Fund	Amount
Agricultural Guarantee Fund	911,340,000
Retrenched Civil Servants Fund	511,295,000
Women Guarantee Fund	122,625,000
SME Guarantee Fund	3,700,000,000
Rural Investment Facility II	4,090,724,758
Total	**9,335,984,758**

Source: BNR, Financial Stability Directorate

Following the consolidation of all Government guarantee and refinancing facilities in the Business Development Fund (BDF), the Fund reviewed the scheme and altered its key features with an aim to make the facilities more attractive to the lending institutions and to encourage increased utilization of the guarantees.

In this regard the changes introduced include, the paradigm shift to provide guarantee risk coverage for both investment assets and working capital (working capital cover ranges between 30-50%), introduction of loan portfolio coverage (a participating financial institution is offered a “guarantee line”, i.e. the institution will be free to accept projects to the tune of that amount without submitting individual application to BDF for every single project), the move from a uniform guarantee risk coverage percentage to a wider range that considers loan risk profiles (for women and the youth coverage varies between 50-75%), the trigger point for claims which was revised to when a loan becomes non performing with a limited recovery period (currently, 90 days) and an integrated fund management framework was set up from the pre-existing single funds. These alterations were all designed to compel lending institutions to embrace the facilities and focus more on SMEs as the target borrowers.

V. 4 CREDIT INFORMATION SYSTEM

The coming of the private credit reference bureau (CRB Africa) to supplement the public credit reference bureau managed within the BNR in order to gather quality credit information for the purposes of minimizing credit moral hazards and adverse selections has started to pay off.

All financial institutions have signed memorandum of understanding with CRB Africa and have started to provide data to CRB Africa. Similarly, banks have begun to use CRB Africa data in client credit analysis.

During the period under review, the BNR achieved the following: ensuring that all mandatory participants provide data to CRB Africa and use credit reports issued by the bureau.

According to CRB Africa report, from December 2010 to December 2011, the usage (that is, institutions that use credit information from CRB database) of credit report by the mandatory participants increased by 88.6 percent; from 848 usage in December 2010 to 7,498 usage in December 2011.

All commercial banks are CRB Africa participants. MFIs and SACCOs participation also improved significantly from 14 institutions in 2010 to 32 in 2011.

The insurance companies started sharing information with CRB Africa in October 2011 and by end December information on 6,003 policy accounts was submitted. In addition to mandatory participants (financial institutions), voluntary participants such as the utility companies (telecoms & EWSA) have registered to share credit information.

Consequently, the reforms in the credit reference bureau significantly improved Rwanda's position on the "getting credit" indicator of doing business from the 32nd to 8th position out of 183 countries (World Bank Doing Business report, 2011).

VI. MONETARY AND EXCHANGE RATE POLICY ORIENTATION AND FINANCIAL SECTOR REFORMS IN 2012

VI.1 MONETARY AND EXCHANGE RATE POLICY IN 2012

VI.1.1 Monetary Policy Stance

The major objective of BNR in 2012 will be the consolidation of its achievements in 2011 and sustaining macroeconomic and financial stability despite the global risks that still persist. These include sovereign debt the Euro zone, debt ceiling crisis in the USA and the risk of inflationary pressures due to the expected international high oil prices. The current crisis in the euro zone and in US is likely to negatively impact Low Income Countries including Rwanda through different channels such as the slowdown in global demand for their exports, the reduction in Foreign Direct Investment and the slowdown in tourism and remittances.

However, the stable macro economic framework, the existing coordination between different stakeholders in charge of economic management as well as the good perspectives in the Rwanda's economy are likely to limit the above mentioned risks.

Thus, BNR monetary policy will remain prudent to contain the impact of persistent risk of inflationary exogenous shocks and continue to support the Government prospects of economic growth by at least 7.6 percent. To this end, the reserve money as the anchor of BNR monetary policy has been programmed to increase by 17 percent in 2012 lower than its increase (20.5 percent) in 2011. The broad money is also projected to grow by 17.0 percent by end 2012, less than its growth (26.7 percent) in 2011. Boosted by new comers in the sector, namely Equity Bank (one of the biggest regional banks), Unguka and Agaseke, 2 big microfinance banks, the banking system will continue to support the economic growth by an increase of 16.6 percent in credit to the private sector but much lower than 28.4 percent realized in 2011. As a result, the headline inflation is projected at 7.5 percent end December 2012.

The BNR will also continue to use all available monetary policy instruments, including the policy rate, to ensure that real interest rates in the economy remain positive to further support domestic savings mobilization and the financial sector deepening.

To further build and shape market expectations, the BNR will continue to enhance its communication strategy by creating an interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and the business community. In addition, the communication will focus on educating the public about the ongoing financial deepening reforms such as credit information reporting activities, the Umurenge SACCO program, capital market development and payment systems modernization.

VI.1.2 Exchange rate policy orientation

With regard to the exchange rate policy orientation in 2012, the BNR remains committed to maintaining a market driven exchange rate. The BNR will continue to only intervene from time to time on forex market to smoothen the exchange rate volatility. The Bank will also continue to ensure that the exchange rate policy remains supportive of external sector competiveness and prospects for export diversification.

VII.2 FINANCIAL SECTOR REFORMS IN 2012

VII.2.1 Financial sector soundness and access to finance

Going forward, the BNR will continue to enforce stability and the soundness of the sector by performing various activities including; streamlining the legal, regulatory and supervisory framework for the supervised institutions, close monitoring of strategies to reduce the level of NPLs in lending institutions, encouraging Financial Institutions to report and to use credit information, reinforcing of supervision tools for financial institutions, improving communication strategy, enhancing further access to financial services up country as well as network risk management, encouraging customer care within the financial sector, ensuring that all forex bureaus submit financial returns on quarterly basis, close monitoring forex bureaux for efficiency and finalizing the draft laws on the deposit insurance scheme for banks and microfinance institutions.

The National Bank of Rwanda will continue to ensure improved quality and coverage of credit information sharing with voluntary participants to include retail traders (supermarkets) as well as other credit granting institutions.

The National Bank of Rwanda plans to carry out a public awareness campaign to sensitize consumers, participants and policy makers on the role of credit information sharing and consumer rights. BNR is committed to ensure that the required regulations to implement the Law No.16/2010 on Credit information system in Rwanda are in place.

During 2012, a special emphasis will be put on actions aimed at completing the licensing of SACCOs established in line with UMURENGE SACCO Program by march 2012, as well as their monitoring and supervision.

BNR will continue to strengthen the supervision of SACCOs and MFIs by conducting off-site and on-site inspections, and following up their NPLs recovery through the recovery committees set up at district level. The liquidation of failed MFIs will be completed by end 2012

The consolidation of SACCOs as well as the establishment of Deposit Insurance Fund will be part of the priorities for 2012.

Regarding access to finance, the key actions to be undertaken include monitoring Access to Finance Forum (AFF) activities; embarking on a financial awareness campaign while working with stakeholders on a financial literacy and consumer protection baselines and the, FinScope survey 2012 prior to the elaboration of a National Financial Literacy and Consumer Protection Strategies and a National Financial Inclusion Policy.

The Bank will ensure that the legal infrastructure for Non-bank financial institutions is further strengthened which will be done by finalizing the draft insurance contract and mandatory insurance laws.

BNR will support the Ministry of Finance and Economic Planning and the parliamentary committee to fast-track the review of the draft pension law which is in parliament.

BNR will also ensure that all the remaining insurance and pension regulations are finalized and published in the Official Gazette.

These cover liquidation and dissolution of insurance business, licensing pension service providers and operating standards of the pension schemes. Furthermore, BNR will continue conducting off-site surveillance and on-site inspections to ensure the soundness of Non Bank Financial Institutions.

BNR will strengthen further partnerships with sister regulatory bodies in the region and internationally aiming at promoting professionalism and information sharing as one of the 2012 priorities.

VII.2.2 Capital Market development

The Government of Rwanda is keen on the development of domestic financial market. Plans are underway to increase the number of tradable securities as well as extending their maturities in order to avail more opportunities for long term investments. Before the end of the fiscal year 2011-2012, two bonds will be issued. These include a seven year Bond which will be issued end February 2012 and a specific Bond for the Diaspora community which will be issued by end June 2012.

The Central Bank together with the Capital Market Authority and other stakeholders have put in place new strategies to enhance the development of the financial market in Rwanda. These strategies include, among others:

- Financial awareness campaign to educate the public on investment and other financial issues through TV and Radio programs, newspapers, social media networks, road-shows, training, seminars and workshops,
- New products on the market to increase the number and types of securities listed on the market,
- The process of procuring an Electronic Trading Platform at the Rwanda Stock Exchange (RSE) whose go-live date is targeted to June 2012.
- Financing the development of the guidelines to support the issue of municipal bonds, commercial papers and infrastructure bonds,
- Putting in place regulations for Small and Medium Enterprises wishing to raise raising long-term capital through the capital market.

VII.2.3 Payment system modernization

To promote the use of electronic settlement and payment systems, by end of 2012, the Rwanda Integrated Payments Processing System (RIPPS) will be connected to EAPS (East African payment Systems) and to the COMESA REPSS (Regional Payments and Settlements System), which will facilitate regional trade .Cheque truncation system will be implemented. In addition, the Intraday Liquidity Facility (ILF) will be established in RIPPS. Unlike the current practice whereby all visa transactions are settled in foreign currency, The Visa National Net Settlement System that facilitate domestic transactions to be settled in local currency will be implemented and the Central Bank will be the settlement agent.

Regarding payment cards, efforts are being made to increase the number of payment cards and terminals. International cards like Visa, Master Card, American Express, China Union Pay (CUP), Diners Club, and others will be accepted on local ATMs and POS while local cards will be accepted at POS as well.

An important partnership between Visa inc. and the Government of Rwanda was signed in November 2011 aiming at developing localized payment solutions to extend access to financial services to local and international consumers throughout the country. This partnership covers 3 areas:

- Lay the Foundations for Electronic Payments – Install the basic infrastructure requirements to enable country-wide use of electronic payments, including: (1) facilitating the widespread issuance and acceptance of payment cards; and (2) localizing clearing and settlement services.
- Promote Electronic Payments Innovation – Enable Rwanda to take advantage of mobile phone technologies to reach Rwandans who are under-served by traditional payments infrastructure.
- Capacity Building – Develop training programs and facilitates knowledge-transfer in order to ensure the long-term sustainability of financial systems throughout the country.

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