



National Bank of Rwanda
Banki Nkuru y'u Rwanda

**MONETARY POLICY AND FINANCIAL
STABILITY STATEMENT**

John RWANGOMBWA
Governor

25th August 2016



Monetary Policy and Financial Stability Statement, 25th August 2016

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LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|-----------|---|
| ACH | : Automated Clearing House |
| ATM | : Automated Teller Machine |
| BIF | : Burundian Franc |
| BNR | : Banque Nationale du Rwanda |
| BPR | : Banque Populaire du Rwanda |
| BRD | : Banque Rwandaise de Développement |
| CAR | : Capital Adequacy Ratio |
| CBA | : Commercial Bank of Africa |
| CIC | : Currency in Circulation |
| CIEA | : Composite Index for Economic Activities |
| CIF | : Cost, Insurance and Freight |
| CPS | : Credit to the Private Sector |
| CSD | : Central Securities Depository |
| DRC | : Democratic Republic of Congo |
| EAC | : East African Community |
| ECB | : European Central Bank |
| EUR | : Euro |
| FOB | : Freight on Board (or Free on Board) |
| FOREX | : Foreign Exchange |
| FRW | : Franc Rwandais |
| GBP | : Great British Pound |
| GDP | : Gross Domestic Product |
| H1 | : Half one |
| IMF | : International Monetary Fund |
| JPY | : Japanese Yen |
| KES | : Kenyan Shilling |
| M3 | : Broad money |
| MoM | : Month-on-Month |
| MFIs | : Microfinance Institutions |
| MPC | : Monetary Policy Committee |
| MINECOFIN | : Ministry of Finance and Economic Planning |
| NBFIs | : Non-Bank Financial Institutions |
| NCG | : Net Credit to Government |
| NDA | : Net Domestic Assets |
| NFA | : Net Foreign Assets |

| | |
|----------|---|
| NISR | : National Institute of Statistics of Rwanda |
| NPISHS | : Non Profit Institutions Serving Households |
| NPLs | : Non Performing Loans |
| OPEC | : Organization of the Petroleum Exporting Countries |
| P2G | : Person to Government |
| P2P | : Personal to Personal |
| POS | : Point of Sale |
| Q1 | : Quarter one |
| Q2 | : Quarter two |
| Q3 | : Quarter three |
| Q4 | : Quarter four |
| QoQ | : Quarter-on-quarter |
| REPO | : Repurchase Agreement |
| RIPPS | : Rwanda Integrated Payment Processing System |
| ROA | : Return on Assets |
| ROE | : Return on Equity |
| RTGS | : Real Time Gross Settlement System |
| SACCOs | : Saving and Credit Cooperatives |
| SMEs | : Small and Medium Enterprises |
| T- Bills | : Treasury Bills |
| TZS | : Tanzanian Shilling |
| UGS | : Ugandan Shilling |
| UK | : United Kingdom |
| US | : United States |
| USA | : United States of America |
| USD | : American dollar |
| WEO | : World Economic Outlook |
| YoY | : Year-on-year |

EXECUTIVE SUMMARY

The world economy continues to grow at a slowing pace amid renewed financial and political turbulences and still sluggish global demand. From 3.4% in 2014, global economic growth decelerated to 3.1% in 2015 and to 2.5% in 2016Q1.

Supported by an accommodative monetary policy, low but recovering energy prices and improving confidence, real GDP growth in advanced countries is expected at 1.8% in 2016, slightly lower than 1.9% and 2.2% initially forecasted in April 2016 and October 2015 respectively.

Emerging and developing economies are still facing setbacks related to the effects of the Chinese economic rebalancing.

EAC economies performed well in 2015 with a growth of 5.8% compared to 5.9% achieved in 2014 and are expected to grow by 6.1% in 2016.

Global inflation fell from 3.2% in 2014 to 2.8% in 2015, the lowest since the global financial crisis of 2008, due to still sluggish economic activity and low but recovering commodity prices. By end 2016, inflation is foreseen to slightly go up to 2.9% globally and to 0.7% in advanced countries from 0.3% in 2015.

Monetary policy in developed countries remained accommodative to boost economic activities and keep inflation closer to the Central Banks' target.

Commodity prices increased for the fifth consecutive month in June 2016 but still remain lower than their 2015 levels. For most

commodities, prices increased on the back of improved market sentiments and a weakening though still strong US dollar.

For the Rwandan economy, it grew by 7.3% in 2016Q1 from 7.0% and 7.6% recorded in 2015Q4 and 2015Q1 respectively. The economic performance in 2016Q1 was driven by high growth in the industry sector (+10.0%) as well as in services and agriculture sectors, which grew by 7.0% each.

Annual economic growth is projected to 6.0% in 2016 from 6.9% recorded in 2015 as the sluggish global economy and the still lower levels of commodity prices continue to weigh down Rwanda's external sector.

Leading economic indicators of the real sector such as the composite index of economic activities (CIEA) and total turnovers of industry and services indicate good economic performance in the first half of 2016, albeit slow pacing, as initially projected, compared to the same period of 2015. Between December 2015 and June 2016, the CIEA in real terms rose by 13.7% from 14.4% while the total turnovers of industry and services increased by 11.1% from 13.6%.

On the external sector, Rwanda's trade deficit widened by 5.1% in the first half of 2016, from USD 858.98 million to USD 902.69 million, as formal imports grew by 3.3% in value while formal exports value contracted by 2.4%.

In the first half of 2016, BNR maintained a prudent monetary policy with the objective of supporting the financing of economic activities by the banking sector in a context of subdued inflationary pressures.

As a result, new authorized loans increased by 17.3% in the first half of 2016 against 10.8% recorded in the same period of 2015, standing at FRW 423.2 billion from FRW 360.8 billion. Total outstanding loans to the private sector increased by 7.9% between December 2015 and June 2016.

Though food inflation slightly reduced from 8.6% in 2015Q4 to 8.2% and 7.0% in 2016Q1 and 2016Q2 respectively, it remained the highest contributor to headline inflation especially after the jump in vegetables inflation observed in November 2015.

Other notable upward pressures came from transport inflation, which surged from 1.0% in 2015Q4 to 4.6% in 2016Q1 and to 7.3% in 2016Q2. As inflation started stabilizing, another food price shock cropped up in June 2016, pushing up headline inflation to 5.5% from 4.6% of the previous month.

Looking ahead, upward pressures are likely to come from high food prices, rising costs for clothing and footwear and increasing transport inflation.

The FRW has been quite stable for the last ten years as annual average depreciation stood below 5%. This stability was a result of high foreign inflows such as foreign aid and a moderate trade deficit.

In line with economic growth, supported by different companies and government projects, the imports bill has increased substantially since 2005 while export receipts remained relatively low, leading to the widening of the trade deficit putting pressure on the Rwandan Franc. As a result, the FRW depreciated by 4.8% end June 2016 compared 3.6% recorded end June 2015.

The Rwandan financial sector keeps growing and remains sound and stable. The size of the financial sector, as measured by total assets relative to GDP, increased to 55% in June 2016, up from 53.8% in June 2015 and 38.4% in June 2011. Assets of financial sector are mainly loans to private sector. Combined loans and advances to private sector (by both Banks and MFIs) make-up 42.4% of total financial sector assets and grew by 19.9% (year-on-year) in June 2016.

Financial institutions are moving closer to people through network expansion and digital financial services. The number of commercial bank branches, sub-branches, client accounts, ATMs, mobile money accounts have steadily increased in the last 3 years, building an inclusive financial system in line with Rwanda's medium-term financial sector development goals.

The banking sector; microfinance sector and other non-bank financial institutions continue to hold significant capital buffers and higher liquidity positions, significantly above regulatory requirements. These capital and liquidity buffers not only depict current stability but also ensures future financial stability as banks can fall back on these buffers during times of financial stress.

Going forward, BNR will continue to implement its monetary and exchange rate policy to keep inflation low and stable, and will ensure that all requirements for the use of the interest rate as an operational objective are in place before the end of 2018.

In order to maintain stability and efficiency in the financial sector, the National Bank of Rwanda will continue to conduct prudent surveillance

of the entire financial sector through regular onsite inspections and offsite analysis.

I. OVERVIEW OF ECONOMIC ENVIRONMENT

1.1 GLOBAL ECONOMY

1.1.1 Economic Growth and Outlook

The world economy continues to grow at a slowing pace amid renewed financial and political turbulences and still sluggish global demand. From 3.4% in 2014, global economic growth decelerated to 3.1% in 2015 and to 2.5% in 2016Q1. Mindful of the current global headwinds, the IMF revised downwards the world real GDP growth forecast for 2016 to 3.1% in July 2016, lower than the April 2016 and October 2015 projections by 0.1% and 0.5% respectively. The decision by the British to leave the European Union (Brexit) adds to concerns over the global economic prospects.

Table 1: Economic growth developments (in %)

| | 2015 | 2016 | | 2012 | 2013 | 2014 | 2015 | 2016 Proj. | | |
|------------------------------------|------------|------------|------------|------------|------------|------------|------------|-----------------|-----------------|-----------------|
| | Q4 | Q1 | Q2 est. | | | | | Oct.15 proj. | Apr-16 proj. | Jul-16 proj. |
| World (YOY) | 2.6 | 2.5 | 2.5 | 3.5 | 3.3 | 3.4 | 3.1 | 3.6 | 3.2 | 3.1 |
| Advanced economies | - | - | - | 1.2 | 1.2 | 1.9 | 1.9 | 2.2 | 1.9 | 1.8 |
| USA (QoQ) | 0.9 | 0.8 | 1.2 | 2.2 | 1.5 | 2.4 | 2.4 | 2.8 | 2.4 | 2.2 |
| Euro area (YoY) | 1.7 | 1.7 | 1.6 | -0.3 | 0.9 | 0.9 | 1.7 | 1.6 | 1.5 | 1.6 |
| Japan (QoQ) | -1.7 | 2.0 | 0.2 | 1.7 | 1.4 | 0.0 | 0.5 | 1.0 | 0.5 | 0.3 |
| UK (YoY) | 1.8 | 2.0 | 2.2 | 1.2 | 2.2 | 3.1 | 2.2 | 2.2 | 1.9 | 1.7 |
| Emerg.&Developing Econ. | - | - | - | 5.3 | 4.9 | 4.6 | 4.0 | 4.5 | 4.1 | 4.1 |
| China (YoY) | 6.8 | 6.7 | 6.7 | 7.7 | 7.7 | 7.3 | 6.9 | 6.3 | 6.5 | 6.6 |
| India (YoY) | 7.2 | 7.9 | 7.5 | 5.6 | 6.6 | 7.2 | 7.6 | 7.5 | 7.5 | 7.4 |
| Sub-Saharan Africa | - | - | - | 4.3 | 5.2 | 5.1 | 3.3 | 4.3 | 3.0 | 1.6 |

Source: BLOOMBERG & IMF WEO, Oct.2015, April 2016 & July 2016

Supported by the accommodative monetary policy, low but recovering energy prices and improving confidence, real GDP growth in advanced countries is expected at 1.8% in 2016, slightly lower than 1.9% and 2.2% initially forecasted in April 2016 and October 2015 respectively.

The anticipated slight slowdown is due to low productivity growth, still weak external demand as well as the likely impact of the Brexit.

Real GDP growth for the United States is estimated at 1.2% in 2016Q2 on the back of improving personal consumption expenditure, up from 0.8% and 0.9% realized in 2016Q1 and 2015Q4 respectively. However, the IMF revised downwards its 2016 forecast for US GDP growth to 2.2%, from 2.4% forecasted in April 2016 as a still stronger US dollar hurt exports and investors cut oil investments due to lower oil prices. Compared to the same period of 2015, US exports fell by 4.7% in the first six months of 2016.

Though still constrained by weak external demand, the Eurozone economy continues to improve, supported by improving domestic demand, expansionary monetary and fiscal policies together with low energy prices and growing manufacturing production. In 2016Q2, GDP growth was 1.6% from 1.7% recorded in 2016Q1 and 2015Q4. After the Brexit, the IMF revised down its projection for the Eurozone GDP growth in 2016 to 1.6% from 1.7% projected in January 2016 but in line with October 2015 forecast.

Emerging and developing economies are still facing setbacks related to the effects of the Chinese economic rebalancing. The growth outlook in commodity exporting countries is still clouded by lower commodity prices and by political turmoil in some countries. Real GDP growth decelerated to 4.0% in 2015 from 4.6% recorded in 2014 but is projected to slightly improve to 4.1% in 2016 as higher growth prospects in India are likely to offset the expected gradual slowdown in China.

China's real GDP growth was 6.7% in both 2016Q2 and 2016Q1, down from 6.8% recorded in 2015Q4, reflecting a slowdown in industrial production, weak property investments and negative contribution from net exports. For 2016, GDP growth is expected at 6.6% in 2016, slightly higher than 6.5% and 6.3% forecasted in April 2016 and October 2015 respectively. This upward revision reflects resilient domestic demand, a rebound in the property sector, robust infrastructure spending, accelerated credit growth and a strong performance of the services sector that overcompensated weaknesses in the manufacturing sector.

In Sub-Saharan Africa, economic growth slowed to 3.3% in 2015 from 5.1% in 2014 due to still low commodity prices, deteriorating terms of trade as well as conflicts and epidemic diseases. Looking ahead, growth is expected to deteriorate further to 1.6% in 2016, significantly lower than 3.0% and 4.3% initially projected. The growth outlook is mostly undermined by the slowdown in oil and other non-energy resource exporting countries as well as droughts experienced in some countries like Ethiopia, Malawi, Zimbabwe, Zambia and Lesotho.

The downside risks to the growth outlook for Sub-Saharan Africa are likely to be amplified by the Brexit impact, especially on the largest African economies including Nigeria, South Africa and Kenya, adding to the negative effect of the ongoing Chinese economic rebalancing especially on Africa's commodity exports.

Table 2: Economic growth in EAC countries (in %)

| | 2015 | | | | 2016 | Annual average | |
|-----------------|------|-----|-----|-----|------|----------------|------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | 2015 | 2016 proj. |
| Burundi | 0.3 | - | - | - | - | -4.1 | 3.4 |
| Kenya | 5.0 | 5.9 | 6.0 | 5.7 | 5.9 | 5.6 | 6.0 |
| Rwanda | 7.6 | 7.1 | 5.9 | 7.0 | 7.3 | 6.9 | 6.0 |
| Tanzania | 6.5 | 7.9 | 6.3 | 7.1 | - | 7.0 | 6.9 |
| Uganda | 5.4 | 5.1 | 6.8 | 5.7 | 3.5 | 5.5 | 5.3 |

Source: National Bureau of Statistics Websites and IMF WEO, April 2016

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Apart from Burundi whose economy contracted by 4.1% due to internal conflicts, other EAC economies performed well in 2015 compared to 2014 and are expected to continue growing through 2016 as the Burundian economic growth is foreseen to rebound to 3.4%. From 5.9% in 2014, EAC economy increased by 5.8% in 2015 and expected to further improve by 6.1% by end 2016.

1.1.2 Inflation and Commodity Prices

Global inflation fell from 3.2% in 2014 to 2.8% in 2015, the lowest since the global financial crisis of 2008, due to still sluggish economic activity and to low but recovering commodity prices. By the end 2016, inflation is foreseen to slightly go up to 2.9% globally and to 0.7% in advanced countries from 0.3% in 2015, pointing to continuous accommodative monetary policy aimed at boosting these economies.

Table 3: Inflation in advanced countries (%)

| | 2015 | | | | 2016 | | | | | | 2015 | 2016 proj. |
|------------------|------|-----|------|-----|------|------|------|------|------|------|------|------------|
| | Mar | Jun | Sep | Dec | Jan | Feb | Mar | Apr | May | Jun | | |
| USA | -0.1 | 0.1 | 0.0 | 0.7 | 1.4 | 1.0 | 0.9 | 1.1 | 1.0 | 1.0 | 0.1 | 0.8 |
| Euro Zone | -0.1 | 0.2 | -0.1 | 0.2 | 0.3 | -0.2 | 0.0 | -0.2 | -0.1 | 0.1 | 0.0 | 0.4 |
| Japan | 2.3 | 0.4 | 0.0 | 0.2 | 0.0 | 0.3 | -0.1 | -0.3 | -0.4 | -0.4 | 0.8 | -0.2 |
| China | 1.4 | 1.4 | 1.6 | 1.6 | 1.8 | 2.3 | 2.3 | 2.3 | 2.0 | 1.9 | 1.4 | 1.8 |

Source: National Bureau of Statistics, IMF, World Economic Outlook, April 2016

In EAC, inflation remained moderate due to reducing pressures on regional currencies despite growing upward pressures from food prices.

Table 4: Headline inflation in EAC countries, in %

| | 2015 | | | | 2016 | | | | | | 2015 | 2016 proj. |
|-----------------|------|-----|-----|-----|------|-----|-----|-----|-----|-----|------|------------|
| | Mar. | Jun | Sep | Dec | Jan | Feb | Mar | Apr | May | Jun | | |
| Uganda | 1.9 | 4.9 | 7.2 | 8.4 | 7.7 | 7.0 | 6.2 | 5.1 | 5.4 | 5.9 | 5.8 | 6.7 |
| Kenya | 6.3 | 7.0 | 6.0 | 8.0 | 7.8 | 6.8 | 6.5 | 5.3 | 5.0 | 5.8 | 6.6 | 6.3 |
| Tanzania | 4.3 | 6.1 | 6.1 | 6.8 | 6.5 | 5.6 | 5.4 | 5.1 | 5.2 | 5.5 | 5.6 | 6.1 |
| Burundi | 4.7 | 7.7 | 4.1 | 7.1 | 6.3 | 6.7 | 4.3 | 2.6 | 2.7 | 3.9 | 5.6 | 7.6 |
| Rwanda | 0.8 | 2.8 | 3.7 | 4.5 | 4.5 | 4.4 | 4.6 | 4.7 | 4.6 | 5.5 | 2.5 | 4.8 |

Source: National Bureaus of Statistics

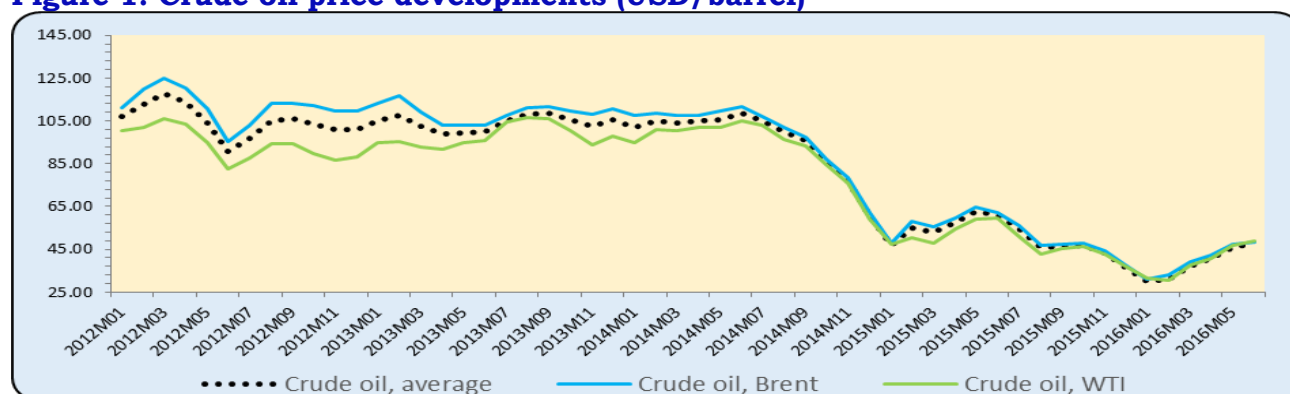
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On monthly basis, commodity prices increased for the fifth consecutive month in June 2016 but still remain lower than their 2015 levels. For most commodities, prices increased on the back of improved market sentiment and a weakening though still strong US dollar. Compared to May 2016, the commodity price index rose by 3.1% in June 2016. The increase was more noticeable in energy prices by 5.1% after 10.9% in May, and in non-energy prices by 2.1% against 1.6% during the same period.

Compared to June 2015, oil prices dropped by 22.1% in June 2016 while non-energy prices fell by 1.8% mostly drawn by declines of 23.5% and 14.5% in prices of fertilizers and metals and minerals respectively. Prices recovered by 4.3% in June 2016 for agriculture commodities, of which food increased by 8.9%.

The recent month on month hike in crude oil prices is due to a decline in oil production in OPEC and non-OPEC countries, the outages in Nigeria together with a weakening US dollar and increased global oil demand. Brent crude oil prices rose month on month by 2.9% in June 2016, to USD 48.48/barrel from USD 47.13/barrel in May 2016, after it hiked by 12.7% a month before. However, Brent prices dropped by 22.2% on annual basis as markets remained well supplied.

Figure 1: Crude oil price developments (USD/barrel)



Source: World Bank

In June 2016, non-energy prices rose by 2.1% on monthly basis, mostly driven by agriculture prices which increased by 2.9% due to weaker supply. Prices went up for beverages by 2.8%, for food by 4.1% while prices for raw materials slid by 0.7% against respective increases of 1.3%, 4.5% and 1.9% in May 2016.

Coffee prices went up in June 2016 (+6.4% for Arabica and 2.3% for Robusta) due to a slowdown in Brazilian exports and an appreciation of the Brazilian Real against the US dollar. In the Mombasa Auction, the price of tea fell on annual basis by 24.4% in June 2016 due to the increase in Kenyan tea production. For the four months up to April 2016, Kenyan tea production hiked by 71.7% compared to the same period of the previous year. However, tea prices rose by 7.3% on monthly basis in June after 3.0% in May 2016.

Metals and mineral prices slightly recovered by 0.3% after a decline of 3.3% in May 2016 helped by rising prices of zinc (+8.2%), Nickel (+2.8%), silver (+2.0), Aluminium (+2.6%) and to a small extent by tin prices (+1.5%) while prices kept declining mostly for Iron ore (-5.5%), Platinum (-5.0%) and Potassium (-3.0%) among others.

Table 5: Commodity prices (in % change)

| | 2016 (QoQ) | | 2016 (MoM) | | | | | | 2016 (YoY) | | | | | | Annual Average | | |
|------------------------------|---------------|-------|---------------|------|------|------|------|------|---------------|-------|-------|-------|-------|-------|----------------|-------|---------------|
| | Q1 | Q2 | Jan | Feb | Mar | Apr | May | Jun | Jan | Feb | Mar | Apr | May | Jun | 2014 | 2015 | 2016 proj. |
| OIL | -22.5 | 36.9 | -18.6 | 4.2 | 20.3 | 9.1 | 12.7 | 3.8 | -36.8 | -43.4 | -29.3 | -29.2 | -26.5 | -22.2 | -7.5 | -47.3 | -15.2 |
| BEVERAGES | -7.5 | 5.9 | -7.8 | -1.3 | 4.3 | 1.6 | 1.3 | 2.8 | -11.3 | -10.4 | -0.9 | -1.7 | -2.8 | -3.0 | 22.2 | -8.1 | -4.2 |
| Coffee, Arabica | 0.1 | 5.4 | -2.4 | 1.8 | 6.6 | -2.1 | 0.6 | 6.4 | -23.7 | -17.4 | -2.0 | -6.0 | -2.1 | 3.3 | 43.8 | -20.3 | -5.0 |
| Coffee, Robusta | -8.0 | 11.4 | -5.8 | -0.9 | 2.1 | 6.1 | 4.7 | 2.3 | -23.8 | -24.7 | -18.0 | -12.9 | -4.1 | -4.9 | 6.8 | -12.4 | -12.4 |
| Tea, Mombasa auctions | -18.0 | -10.2 | -9.6 | -8.1 | -6.5 | -7.9 | 3.9 | 7.3 | 20.8 | 4.8 | -12.9 | -20.3 | -26.0 | -24.4 | -14.7 | 34.1 | -4.0(*) |
| METALS & MINERALS | -1.3 | 4.6 | -2.0 | 4.5 | 6.0 | 1.4 | -3.3 | 0.3 | -25.2 | -20.3 | -14.8 | -14.0 | -19.6 | -14.5 | -6.6 | -21.1 | -11.0 |
| Tin | 2.4 | 9.5 | -6.0 | 13.1 | 8.2 | 0.8 | -1.9 | 1.5 | -29.0 | -14.4 | -3.0 | 7.1 | 5.7 | 12.6 | -1.7 | -26.6 | 3.3 |
| Iron Ore | 2.8 | 15.9 | 2.4 | 11.9 | 19.1 | 8.9 | -9.8 | -5.5 | -38.2 | -25.4 | -3.4 | 17.3 | -8.3 | -17.5 | -28.4 | -42.4 | -10.4 |
| Gold | 6.7 | 6.7 | 2.1 | 9.3 | 3.8 | -0.2 | 1.5 | 1.2 | -12.2 | -2.2 | 5.6 | 3.6 | 5.2 | 8.0 | -10.3 | -8.3 | 7.7 |
| FERTILIZERS | -11.6 | -6.6 | -5.1 | -5.2 | -5.2 | -0.2 | -0.7 | -2.2 | -16.3 | -18.1 | -19.4 | -17.2 | -20.3 | -23.5 | -11.6 | -5.0 | -18.0 |

Sources: <http://www.worldbank.org/en/research/commodity-markets>¹

¹ Average price of tea in Mombasa, Colombo and Kolkata

Looking ahead, commodity prices are expected to decline in 2016 compared to the year 2015, though less than previously forecasted, as market sentiment improved and the US dollar has started to weaken.

1.1.3 Monetary Policy and Financial Markets

Monetary policy in developed countries remained accommodative to boost economic activities and keep inflation closer to the central banks' target of 2%. The central bank rate remained unchanged at 0.50% in UK, 0.00% in the Eurozone and Japan while it was kept in the range between 0.25% and 0.50% in USA. European and Japanese Central Banks continue to use the unconventional monetary easing program to reflate their economies and push inflation close to the target. The Bank of England expects to lower the policy rate effective August 2016 to mitigate the likely effect from the Brexit.

In June 2016, the 3-month deposit rate remained negative in Japan and Eurozone standing at -0.12% and -0.27% respectively from -0.285% and -0.235% in May 2016. Ten-year interest rates declined to reflect: rising market uncertainty over a weakening global economy, growing political turmoil which fuel demand for safe havens, the uncertainty about the Federal Reserve's monetary policy, and, recently concerns over the Brexit.

Table 6: 10-year Government Bond rate end of period (% p. a)

| | 2015 | | | | 2016 | | | |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Mar | Jun | Sep | Dec | Mar | Apr | May | Jun |
| USA | 1.9231 | 2.3549 | 2.0368 | 2.2694 | 1.7687 | 1.8333 | 1.8458 | 1.4697 |
| Euro | 0.180 | 0.764 | 0.587 | 0.629 | 0.153 | 0.271 | 0.139 | -0.130 |
| Japan | 0.405 | 0.465 | 0.356 | 0.265 | -0.029 | -0.075 | -0.105 | -0.217 |
| UK | 1.576 | 2.024 | 1.762 | 1.960 | 1.415 | 1.596 | 1.429 | 0.867 |

Source: Bloomberg database

On the foreign exchange market, the dollar is weakening against the Euro and the Yen while it remains strong against the pound. Relative

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to end December 2015, the US dollar strengthened by 10.7% versus the Pound in June 2016, undermined by political turmoil which followed the Brexit vote on June 23rd 2016. It depreciated by 14.2% against the Yen, as the latter was seen as a safe haven currency, and by 2.2% versus the Euro.

Table 7: Exchange rate (dollars/unit currency inversely for Yen)

| | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Apr-16 | May-16 | Jun-16 |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| USD/GBP | 0.6748 | 0.6367 | 0.661 | 0.6786 | 0.6963 | 0.6844 | 0.6905 | 0.7512 |
| USD/EUR | 0.9318 | 0.8979 | 0.8947 | 0.921 | 0.8787 | 0.8733 | 0.8983 | 0.9004 |
| USD/JPY | 120.13 | 122.5 | 119.88 | 120.22 | 112.57 | 106.5 | 110.73 | 103.2 |

Source: Bloomberg

In nominal effective terms, the dollar fell for the fourth consecutive month by 1.0% in June 2016 compared to end 2015.

1.2 NATIONAL ECONOMIC PERFORMANCE

1.2.1 Economic Growth

The Rwandan economy grew by 7.3% in 2016Q1 from 7.0% and 7.6% recorded in 2015Q4 and 2015Q1 respectively, supported by the accommodative monetary policy implemented by BNR since 2013 which led to the increase in the financing of the private sector by the banking sector. The economic performance in 2016Q1 was driven by high growth in the industry sector (+10.0%) as well as in services and agriculture sectors, which grew by 7.0% each.

Economic growth is projected to be 6.0% in 2016 from 6.9% recorded in 2015 as the sluggish global economy and the still lower levels of commodity prices continue to weigh down Rwanda's external sector.

Table 8: Rwanda Real GDP growth, in %

| | 2011 | 2012 | 2013 | 2014 | 2015 | | | | | 2016 | |
|---|-------------|-------------|-------------|------------|-------------|-------------|------------|-------------|-------------|-------------|------------|
| | | | | | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Proj. |
| GDP | 7.8 | 8.8 | 4.7 | 7.0 | 7.6 | 7.1 | 5.9 | 7.0 | 6.9 | 7.3 | 6.0 |
| AGRICULTURE | 5.0 | 6.0 | 3.0 | 5.0 | 4.0 | 6.0 | 6.0 | 5.0 | 5.0 | 7.0 | 4.3 |
| Food crops | 5.0 | 7.0 | 4.0 | 6.0 | 4.0 | 4.0 | 5.0 | 5.0 | 4.0 | 4.0 | 4.7 |
| Export crops | 3.0 | 9.0 | -5.0 | -2.0 | -2.0 | 32.0 | 16.0 | 8.0 | 13.0 | 86.0 | -2.6 |
| Livestock & livestock products | 3.0 | 6.0 | 7.0 | 8.0 | 10.0 | 9.0 | 8.0 | 9.0 | 9.0 | 9.0 | 8.5 |
| Forestry | 3.0 | 4.0 | 3.0 | 2.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 2.5 |
| Fishing | 3.0 | -2.0 | 5.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.7 |
| INDUSTRY | 18.0 | 8.0 | 9.0 | 6.0 | 7.0 | 10.0 | 3.0 | 6.0 | 7.0 | 10.0 | 5.6 |
| Mining & quarrying | 50.0 | -7.0 | 20.0 | 11.0 | -12.0 | -2.0 | -15.0 | -4.0 | -9.0 | -5.0 | -10.1 |
| Manufacturing | 8.0 | 6.0 | 5.0 | 1.0 | 8.0 | 10.0 | 7.0 | 6.0 | 8.0 | 10.0 | 7.0 |
| Electricity | 15.0 | 17.0 | 8.0 | 9.0 | 8.0 | 9.0 | 8.0 | 7.0 | 8.0 | 25.0 | 8.3 |
| Water & waste management | 15.0 | 8.0 | 5.0 | 3.0 | 2.0 | 0.0 | 0.0 | 1.0 | 1.0 | 3.0 | 17.9 |
| Construction | 24.0 | 15.0 | 11.0 | 8.0 | 11.0 | 15.0 | 6.0 | 9.0 | 10.0 | 13.0 | 7.6 |
| SERVICES | 8.0 | 12.0 | 5.0 | 9.0 | 9.0 | 6.0 | 7.0 | 8.0 | 7.0 | 7.0 | 7.1 |
| Trade & Transport | 7.0 | 15.0 | 6.0 | 9.0 | 6.0 | 5.0 | 5.0 | 8.0 | 6.0 | 10.0 | 6.6 |
| Maintenance and repair of motor vehicles | 8.0 | 8.0 | 6.0 | 3.0 | 6.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 5.0 |
| Wholesale & retail trade | 8.0 | 14.0 | 6.0 | 10.0 | 7.0 | 5.0 | 5.0 | 9.0 | 7.0 | 11.0 | 6.5 |
| Transport services | 4.0 | 19.0 | 7.0 | 8.0 | 3.0 | 4.0 | 5.0 | 4.0 | 4.0 | 7.0 | 7.0 |
| Other services | 9.0 | 10.0 | 5.0 | 9.0 | 10.0 | 7.0 | 8.0 | 8.0 | 8.0 | 5.0 | 7.4 |
| Hotels & restaurants | 4.0 | 6.0 | 3.0 | 4.0 | 3.0 | 3.0 | 2.0 | 6.0 | 4.0 | 5.0 | 4.3 |
| Information & communication | 4.0 | 33.0 | 0.0 | 17.0 | 35.0 | 7.0 | 17.0 | 10.0 | 16.0 | 0.0 | 10.0 |
| Financial services | 20.0 | 13.0 | 10.0 | 5.0 | 10.0 | 7.0 | 18.0 | 7.0 | 10.0 | 7.0 | 9.5 |
| Real estate activities | 0.0 | 0.0 | 1.0 | 8.0 | 5.0 | 11.0 | 5.0 | 6.0 | 7.0 | 4.0 | 7.5 |
| Professional, scientific and technical activities | 0.0 | 6.0 | 4.0 | 3.0 | 8.0 | 7.0 | 6.0 | 7.0 | 7.0 | 0.0 | 4.7 |
| Administrative and support service activities | 0.0 | 6.0 | 4.0 | 6.0 | 7.0 | 5.0 | 8.0 | 12.0 | 8.0 | 6.0 | 7.0 |
| Public administration | 15.0 | 22.0 | 9.0 | 6.0 | 10.0 | -3.0 | 0.0 | 9.0 | 5.0 | 7.0 | 6.1 |
| Education | 18.0 | 7.0 | 4.0 | 8.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 4.0 | 6.1 |
| Human health and social work activities | 2.0 | 23.0 | 6.0 | 9.0 | 10.0 | 17.0 | 16.0 | -12.0 | 8.0 | 11.0 | 6.1 |
| Cultural, domestic & other services | -1.0 | 11.0 | 12.0 | 19.0 | 11.0 | 9.0 | 8.0 | 16.0 | 11.0 | 12.0 | 9.4 |
| Taxes less subsidies on products | 2.0 | 2.0 | -3.0 | 3.0 | 21.7 | 14.2 | 6.5 | 12.9 | 14.0 | 3.5 | 6.9 |

Source: Rwanda National Institute of Statistics (NISR)

Leading economic indicators of the real sector economic activities such as the composite index of economic activities (CIEA) and total turnovers of industry and services indicate good economic performance in the first half of 2016, albeit slow pacing compared to the same period of 2015.

In the first half of 2016, the CIEA increased by 13.7% in real terms from 14.4% in the same period of 2015 while the nominal CIEA rose by 18.5% from 14.5% during the same period due to recent uptick in inflation.

Table 9: CIEA (% change, YoY)

| | Nominal | | Real | |
|-----------|---------|------|------|------|
| | 2015 | 2016 | 2015 | 2016 |
| Q1 | 15.5 | 19.3 | 15.3 | 15.1 |
| Q2 | 13.6 | 17.7 | 13.5 | 12.3 |
| H1 | 14.5 | 18.5 | 14.4 | 13.7 |

Source: Monetary Policy and Research Department

Total turnovers for industry and service sectors rose by 11.1% in the first half of 2016 from 13.6% recorded in the same period of 2015. The industry sector gained by 8.4%, supported by the energy sector (+65.9%) and manufacturing (+14.4%) but constrained by the poor performance of mining (-36.7%) and construction (-0.7%) sectors. The mining sector continued to weigh down the performance of the industry sector as international commodity prices continued to fall while the decline in the construction sector is linked to the on-going phasing out of some building projects. The energy sector was supported by new plants such as KIVUWATT and MUKUNGWA 1 that boosted electricity production.

Table 10: Turnovers for the industry and services sectors

| | % Annual changes | | | | | |
|-------------------------------|------------------|-------------|-------------|-------------|---------------------|-------------|
| | 2015Q1 | 2015Q2 | 2016Q1 | 2016Q2 | 2015H1 ² | 2016H1 |
| INDUSTRIES | 17.9 | 9.7 | 13.4 | 4.2 | 13.3 | 8.4 |
| Mining and Quarrying | -15.5 | -51.4 | -48.2 | -21.6 | -36.0 | -36.7 |
| Manufacturing | 17.8 | 21.9 | 24.9 | 5.0 | 20.0 | 14.4 |
| Energy | 4.9 | 9.7 | 57.5 | 73.5 | 7.4 | 65.9 |
| Construction | 42.6 | 25.6 | 6.5 | -6.0 | 32.3 | -0.7 |
| SERVICES | 15.5 | 12.2 | 11.4 | 12.3 | 13.7 | 11.9 |
| Wholesale and retail trade | 28.8 | 35.2 | 9.4 | 4.2 | 32.1 | 6.6 |
| Petroleum Distributors | -11.5 | -14.3 | 1.9 | 22.7 | -13.0 | 12.3 |
| Transport and Storage | 5.6 | 6.1 | 12.8 | 25.6 | 5.8 | 19.3 |
| Hotels and Restaurants | 11.4 | 11.7 | 18.2 | 14.7 | 11.6 | 16.3 |
| Information and Communication | 28.0 | -38.3 | 11.4 | 30.0 | -16.7 | 20.7 |
| Financial and insurance | 3.2 | 13.8 | 29.5 | 27.1 | 8.2 | 28.3 |
| Real Estate Activities | 35.4 | 261.9 | -13.0 | 14.0 | 94.3 | 0.1 |
| Other Services | 20.7 | 12.9 | 7.2 | 3.2 | 16.4 | 5.1 |
| TOTAL TURNOVERS | 16.1 | 11.5 | 12.1 | 10.2 | 13.6 | 11.1 |

Source: BNR, Statistics Department

The services sector gained by 11.9%, supported by the financial sector (+28.3%), information and communication sector (+20.7%), petroleum

² H1: first half of the year

distributors (+12.3%) as well as by hotels and restaurants (+16.3%). The good performance of hotels and restaurants is linked to various recent international events. However, the services sector's performance was reduced by the poor performance of wholesale and retail trade, real estate activities and other services as their respective growth slowed to 6.6%, 0.1% and 5.1% in 2016H1 from 32.1%, 94.3% and 16.4% recorded in 2015H1.

1.2.2 Formal External Trade Performance

The share of earnings from re-exports in total exports receipts increased to 40.0% in the first half of 2016, from 30.8% recorded in the first half of 2015, surpassing that of traditional exports (36.7%) and non-traditional exports (23.3%). Traditional exports are composed of tea, coffee, minerals, pyrethrum, as well as hides and skins. The change observed in the exports structure was mainly due to the poor performance recorded in the mining sector, in both value and volume, as international commodity prices remain low compared to last year.

Table 11: Evolution of % share of exports: Jan-June 2014 – Jan.-June 2016

| | Jan-June 2014 | Jan-June 2015 | Jan-June 2016 |
|----------------------------|---------------|---------------|---------------|
| TOTAL EXPORTS | 100.0 | 100.0 | 100.0 |
| Traditional exports | 49.2 | 46.2 | 36.7 |
| Coffee | 4.4 | 6.2 | 5.8 |
| Tea | 9.7 | 13.9 | 13.5 |
| Cassiterite | 13.2 | 7.3 | 5.8 |
| Coltan | 13.9 | 12.1 | 7.2 |
| Wolfram | 4.7 | 4.0 | 2.2 |
| Hides and Skins | 2.8 | 2.3 | 1.2 |
| Pyrethrum | 0.5 | 0.4 | 1.0 |
| Re-exports | 34.1 | 30.8 | 40.0 |
| Other exports | 16.7 | 23.0 | 23.3 |

Source: BNR, Statistics Department

Total exports dropped in value by 2.4% in the first half of 2016, to USD 268.57 million from USD 275.12 million, after a decline of 6.3% in the same period of 2015, as a result of poor performance recorded by the mining sector (-36.6%), tea (-5.7%), coffee (-9.2%) and other

exports (-0.9%). However, exports volume rose by 16.5%, mainly attributed to coffee exports (+10.9%) and re-exports (+54.1%).

Table 12: Major exports developments (Value FOB in USD millions, Volume in thousands of tons, Price in USD/Kg)

| | Jan – June 2014 | Jan – June 2015 | Jan –June 2016 | % Change |
|-------------------------------|-----------------|-----------------|----------------|----------|
| Coffee | | | | |
| - Value | 12.79 | 17.15 | 15.56 | -9.2 |
| - Volume | 4.77 | 5.32 | 5.91 | 10.9 |
| - Price | 2.68 | 3.22 | 2.63 | -18.2 |
| Tea | | | | |
| - Value | 28.56 | 38.33 | 36.14 | -5.7 |
| - Volume | 12.25 | 14.32 | 14.28 | -0.3 |
| - Price | 2.33 | 2.68 | 2.53 | -5.4 |
| Mining | | | | |
| - Value | 93.45 | 64.24 | 40.73 | -36.6 |
| - Volume | 5.22 | 3.79 | 3.13 | -17.4 |
| Cassiterite | | | | |
| - Value | 38.79 | 20.19 | 15.54 | -23.0 |
| - Volume | 3.11 | 2.03 | 1.68 | -17.4 |
| - Price | 12.47 | 9.94 | 9.26 | -6.8 |
| Coltan | | | | |
| - Value | 40.85 | 33.16 | 19.40 | -41.5 |
| - Volume | 0.98 | 0.76 | 0.60 | -21.8 |
| - Price | 41.63 | 43.38 | 32.44 | -25.2 |
| Wolfram | | | | |
| - Value | 13.82 | 10.89 | 5.79 | -46.9 |
| - Volume | 1.13 | 0.99 | 0.86 | -14.0 |
| - Price | 12.22 | 10.95 | 6.76 | -38.2 |
| Hides and Skin | | | | |
| - Value | 8.32 | 6.24 | 3.32 | -46.8 |
| - Volume | 5.25 | 4.59 | 3.05 | -33.7 |
| - Price | 1.58 | 1.36 | 1.09 | -19.8 |
| Pyrethrum | | | | |
| - Value | 1.45 | 1.17 | 2.76 | 137.2 |
| - Volume | 0.01 | 0.01 | 0.01 | 116.3 |
| - Price | 169.93 | 173.90 | 190.69 | 9.7 |
| I. Traditional Exports | | | | |
| - Value | 144.58 | 127.12 | 98.51 | -22.5 |
| - Volume | 27.50 | 28.04 | 26.38 | -5.9 |
| II. Re-exports | | | | |
| - Value | 99.99 | 84.78 | 107.42 | 26.7 |
| - Volume | 53.00 | 69.60 | 107.25 | 54.1 |
| III. Other Exports | | | | |
| - Value | 49.04 | 63.23 | 62.63 | -0.9 |
| - Volume | 70.49 | 92.28 | 87.58 | -5.1 |
| Total Exports | | | | |
| - Value | 293.61 | 275.12 | 268.57 | -2.4 |
| - Volume | 150.99 | 189.92 | 221.21 | 16.5 |

Source: BNR, Statistics Department

Coffee exports increased by 10.9% in volume but contracted by 9.2% in value due to the fall in the unit price by 18.2%, from USD 3.22/Kg to USD 2.63/Kg in the first half of 2016. The increase in the volume of coffee exports resulted mainly from the good production observed in 2016H1, especially in the Northern Province, reaching 5,956.9 tons

compared to 5,141 tons in 2015H1 as rainfalls were quite favorable and the number of operational coffee washing stations increased from 216 in 2015H1 to 234 in 2016H1. Tea exports decreased in both value and volume by 5.7% and 0.3% respectively due to the fall in unit price (-5.4%) from USD 2.68/kg to USD 2.53/Kg. This reduction in unit price led exporters to keep some of their production in the stocks, leading to a slight decline in volume exported.

The mining sector continued to record poor performance, declining by 36.6% in value and 17.4% in volume mainly due to falling international prices. Cassiterite and Coltan plunged respectively by 23.0% and 41.5% in value as a result of the fall in their unit prices by 6.8% and 25.2% respectively. The unit price for wolfram fell by 38.2% leading to a decline in its exports value by 46.9%, while its volume decreased by 14.0%. Export value and volume for hides & skins also dropped by 46.8% and 33.7% respectively due to the decelerating Chinese demand as well as a legislation that was adopted by the EAC to increase tax on exports of hides and skins to discourage their exportation. This contributed to support “Kigali Leather Limited”, a newly established factory in Bugesera that transforms hides and skins into different finished products.

Pyrethrum exports volume edged up by 116% in 2016H1, from 6.70 tons in 2015H1 to 14.49 tons in 2016H1. At the same time, its unit price recorded an increase of 10% from 173.90 USD/kg in 2015H1 to 190.69 USD/kg in 2016H1 leading its value to increase by 137%, from USD 1.17 Million in 2015H1 to 2.79 USD Million in the same period of 2016. The good performance in pyrethrum exports is on the account of both the rise in unit prices as well as increased volume of pyrethrum

exported as a result of 7 new markets including China, Germany, Italy, South Korea, Netherlands and USA.

Non-traditional exports (other exports), which are dominated by milling industries especially maize flour, wheat flour and cassava flour, edible vegetables, roots & tubers and live animals exported to DRC, decreased by 0.9% in value and by 5.1% in volume. The poor performance is mainly attributed to the significant drop in exports of edible vegetables, roots & tubers (-40.8% in value and -46.7% in volume), as well as exports of live animals (-9.5% in value and -50.4% in volume). Exports of products of the milling industry which represent a big share of other exports (19.3% in value and 38.9% in volume) declined by 22.9% in value but increased by 10.8% in volume.

Re-exports which are dominated by petroleum products, vehicles and machines as well as engines that are re-exported to DRC and Burundi expanded by 54.1% in volume and 26.7% in value as a result of the surge in exports of petroleum products (+16.7% in value and +49.5% in volume). In the first half of 2016, petroleum re-exports accounted for 51% and 43% of the total imports of petroleum products in value and volume respectively. The increase in total re-exports is on the account of increased share of re-exported petroleum products to Burundi which increased in volume and value from 2.4% and 2.3% respectively in the first half of 2015 to 17.8% and 18.4% in the corresponding period of 2016. This increase is mainly driven by re-exports of petroleum products by Kobil Rwanda.

1.2.2.2 Formal Imports Developments

In the first half of 2016, formal imports recorded an increase of 3.3% in value, amounting to USD 1,171.25 million from USD 1,134.10

million, after a decrease of 5.1% in the same period of 2015, while it decreased by 5.1% in volume. The decrease in volume was driven by intermediary goods (-16.6%) and energy and lubricants (-1.9%). The rise in total imports CIF value is attributed to the increase in imports of consumer goods (+3.2%), capital goods (+35.1%), despite the decrease in imports of energy and lubricants (-20.3%) as well as in intermediary goods (-14.8%). The increase in capital goods is mainly driven by the high growth in imports of machines, devices and tools as well as transport materials that grew by 46% and 40% respectively in the first half of 2016.

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

| | Jan-Jun 2014 | | Jan-Jun 2015 | | Jan-Jun 2016 | | % change | |
|--|---------------|----------------|---------------|----------------|---------------|----------------|--------------|--------------|
| | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| CONSUMER GOODS | 266.67 | 321.81 | 332.56 | 351.01 | 357.91 | 362.23 | 7.6 | 3.2 |
| CAPITAL GOODS | 29.85 | 316.00 | 32.16 | 299.52 | 38.92 | 404.58 | 21 | 35.1 |
| INTERMEDIARY GOODS | 407.60 | 373.81 | 480.34 | 344.64 | 400.82 | 293.69 | -16.6 | -14.8 |
| ENERGY AND LUBRICANTS | 133.60 | 183.43 | 151.33 | 138.93 | 148.39 | 110.76 | -1.9 | -20.3 |
| Petroleum products | 129.06 | 175.52 | 136 | 129.24 | 128.68 | 101.41 | -5.4 | -21.5 |
| TOTAL IMPORTS | 837.72 | 1195.04 | 996.39 | 1134.1 | 946.04 | 1171.25 | -5.1 | 3.3 |
| TRADE BALANCE (exports less imports) | | -901.43 | | -858.98 | | -902.53 | | -5.1 |
| Cover rate of imports/exports, % | | 24.6 | | 24.3 | | 22.9 | | -5.4 |
| Cover rate of imports/exports in % (including cross border trade | | 28.7 | | 28.5 | | 28.2 | | |

Source: BNR, Statistics Department

Imports of consumer goods increased by 7.6% in volume and 3.2% in value. The increase in volume was mainly attributed to the increased imports of food products (+9.6%), articles of clothing (+6.5%) and health and care products (+10.3%). The increase in value was mainly due to the rise in articles of clothing (+15.5%) and other consumer goods (+66.2%). The increase in articles of clothing is on the account of increased imports clothes in anticipation of increased tax on second hand clothes which was effected at the start of the financial year

2016/2017. Considering month on month, articles of clothing increased by 39.1% between May 2016 and May 2015 as May was the end of the transition period.

Imports of food products increased by 9.6% in volume, but decreased by 5.9% in value. The rise in volume was attributed to the increased imports for meat and fish (+14.6%), vegetables, fruits and spices (+93.5%) and cereals, flours and seeds (+39.7%). The drop in value was mainly due to the fall in salt (-14.1%) and sugar (-40.5%), while the increase of volume was due to the rise in imports of cereals, flour and seeds (+39.7%), fats and oil animals (+34.5%) and meat & fish (+14.6%).

Capital goods, dominated by machines, devices & tools, and transport materials, increased in both volume and value by 21.0% and 35.1%, respectively mainly due to the imports of machines, devices and tools which rose by 16.5% in volume and 40.2% in value. The imports of transport materials also grew by 58.5% in volume and 46.4% in value due to the increase in imports of trucks (+115.1% in volume and +77.4% in value) and small trailers (+127.6% in volume and +75.9% in value). This upsurge has been occasioned by the EAC decision to increase tax on used cars that led to high importation of used cars in anticipation of the implementation of this law as well as due to the new investment code that was signed on 27th May 2015, removing exemptions on importers of construction materials such as machines used to undertake big construction projects. Since they were given a transition of one year, they have decided to import more of these machines before the legislation is put into practice.

Intermediary goods, which accounted for 42.4% of total imports and mainly composed of construction materials, industrial products, fertilizers, decreased by 16.6% in volume and 14.8% in value. The decrease was mainly due to the fall in imports of construction materials which went down by 30.6% in volume and 23.3% in value, driven by the imports of cement and other similar products which declined in both volume and value by 39.3% and 40.2% respectively as a result of the high increase (+135.2) in the local production of cement during the first half of 2016 compared to the same period of 2015. Domestic demand also declined by 3.8% to 253.16, thousands of tons in the first half of 2016 from 263.15 thousands of tons in the first half of 2015.

Imports of energy and lubricants (of which more than 90% is fuel) decreased in value by 20.3% and in volume by 1.9% mainly due to the fall in the price of imports of petroleum products which dropped by 21.5% in value.

Table 14: Imports energy and lubricants (Value in millions of USD, Volume in thousands of tons)

| | Jan-Jun 2014 | | Jan-Jun 2015 | | Jan-Jun 2016 | | % change | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|-------------|--------------|
| | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| ENERGY AND LUBRICANTS | 133.60 | 183.43 | 151.33 | 138.93 | 148.39 | 110.76 | -1.9 | -20.3 |
| Piles and Electrics accumulators | 2.86 | 4.78 | 3.07 | 5.6 | 2.41 | 5.38 | -21.4 | -4 |
| PETROLEUM PRODUCTS | 129.06 | 175.52 | 136 | 129.24 | 128.68 | 101.41 | -5.4 | -21.5 |
| Motor spirit (Essence) | 37.29 | 51.94 | 43.74 | 43.41 | 46.47 | 39.1 | 6.2 | -9.9 |
| Gas oils | 68.51 | 98.38 | 68.57 | 68.39 | 68.11 | 52.63 | -0.7 | -23 |
| Other | 23.26 | 25.20 | 23.69 | 17.44 | 14.1 | 9.68 | -40.5 | -44.5 |
| Lubricating oils | 1.69 | 3.13 | 2.01 | 3.02 | 2 | 3.19 | -0.9 | 5.6 |

Source: BNR, Statistics Department

1.2.2.3 Formal Trade with other EAC countries

Rwanda's exports to other East African Community (EAC) member countries, which represented 33.3% of total exports in the first half of

2016 against 22.5% in the same period of 2015, increased by 25.7%, to USD 83.48 million from USD 66.4 million in the first half of 2015. Imports decreased by 7.4%, from USD 201.2 million recorded in the first half of 2015 to USD 186.3 million in the first half of 2016. As a result, the trade deficit eased by 24.4%, to USD 143.3 million in the first half of 2016 from USD 189.6 million in the same period of 2015.

Table 15: Trade flow of Rwanda within EAC bloc (USD million)

| | | 2014 | 2015 | Jan-Jun 2015 | Jan-Jun 2016 |
|-------------------------|-----------------------|---------------|---------------|---------------|---------------|
| Exports to EAC | Value in USD millions | 142.5 | 120.2 | 66.4 | 83.5 |
| | % change | 15.9 | -15.7 | -27.8 | 25.7 |
| | Share of total formal | 23.8 | 21.5 | 22.5 | 33.3 |
| Imports from EAC | Value in USD millions | 546.8 | 519.4 | 201.2 | 186.3 |
| | % change | 5.9 | -5.0 | 1.4 | -7.4 |
| | Share of total formal | 22.9 | 22.4 | 24.1 | 31.1 |
| Trade balance | | -404.3 | -399.2 | -134.8 | -102.8 |

Source: BNR, Statistics Department

The increase in Rwanda's exports to other EAC member countries is driven by high increase of re-exports of petroleum products to Burundi. With regard to imports, the main products are cement, refined and non-refined palm oil and other cooking oils, sugar cane, vegetable fats, animals and clothing.

1.2.2.4 Formal trade balance deficit

The Rwandan trade deficit has been widening as the import bill has continued to outpace export receipts. Among other consequences of this high and persistent trade deficit are the shrinking of import coverage by exports and pressures on FRW exchange rate.

The mismatch between imports and exports is mainly due to the reliance on low-value export products, whose prices depend on the global market, and the continued high demand of foreign produced

goods, notably capital and intermediate goods, to sustain the ongoing economic growth.

However, strategic measures to increase domestic production for some categories of goods such as rice, wheat, sugar and cement whose contribution to the import bill is high should be reinforced. Table 15 shows that imports of cement, sugar, wheat and rice exceed combined earnings from coffee and tea exports for the last five years.

Table 16: Evolution of Imports and exports of some items and their import coverage

| Imports (USD million) | 2011 | 2012 | 2013 | 2014 | 2015 | Jan-June 2015 | Jan-June 2016 |
|---------------------------------|---------------|--------------|--------------|--------------|--------------|----------------------|----------------------|
| Cement | 68.4 | 85.3 | 85.0 | 85.6 | 82.7 | 43.9 | 26.3 |
| Sugar | 53.1 | 67.8 | 60.3 | 66.6 | 67.1 | 54.0 | 32.1 |
| Wheat | 43.7 | 62.0 | 63.3 | 53.1 | 39.2 | 24.8 | 22.3 |
| Rice | 21.2 | 25.7 | 38.8 | 31.1 | 37.0 | 52.5 | 17.7 |
| Total | 186.3 | 240.8 | 247.4 | 236.5 | 226.0 | 175.1 | 98.3 |
| Exports (USD million) | | | | | | | |
| Coffee | 74.6 | 60.9 | 54.9 | 59.7 | 62.0 | 17.1 | 15.6 |
| Tea | 63.9 | 65.7 | 55.5 | 51.8 | 72.5 | 38.3 | 36.1 |
| Minerals | 151.4 | 136.1 | 225.7 | 203.3 | 117.8 | 64.2 | 40.7 |
| Total (without minerals) | 138.5 | 126.6 | 110.4 | 111.4 | 134.5 | 55.5 | 51.7 |
| Import coverage | 74.3% | 52.6% | 44.6% | 47.1% | 59.5% | 31.7% | 52.6% |
| Total (with minerals) | 289.9 | 262.7 | 336.1 | 314.8 | 252.3 | 119.7 | 92.4 |
| Import coverage | 155.6% | 109.1 | 135.9 | 133.1 | 111.6 | 68.4% | 94.0% |

Source: BNR, Statistics Department

1.2.2.3 Informal Cross Border Trade

Accounting for 24.6% of formal exports, Rwanda's informal cross-border exports to neighboring countries increased by 28.3%, amounting to USD 66.2 million in the first half of 2016 from USD 51.6 million in the same period of 2015.

In terms of shares, exports to the Democratic Republic of Congo (DRC) represent a big share of 65.8% of the total informal cross border exports, followed by exports to Uganda (26.9%). Exports to Burundi and Tanzania account for 7.3% and 0.03% respectively.

Despite the increase in informal imports by 39.5%, to USD 14.8 million from USD 10.6 million in the first half of 2015, the good performance in informal exports lead to a 25.4% increase in Rwanda's informal trade surplus with neighboring countries, from USD 41.0 million to USD 51.4 million in the first half of 2016. The main trading partners are Uganda, Burundi and Democratic Republic of Congo (DRC) which represent a share of 58.6%, 32.1% and 6.9% respectively. The good performance in informal cross border trade exports is due to the high exportation of livestock as well as mobile phones to Uganda.

Table 17: Rwanda informal cross border trade (in USD million)

| | | 2014 | 2015 | Jan-June 2015 | Jan-June 2016 |
|----------------------|-------------------------------|-------------|-------------|----------------------|----------------------|
| Exports | Value in USD millions | 107.5 | 108.3 | 51.6 | 66.2 |
| | % change | -1.7 | 0.8 | -1.6 | 28.3 |
| | Share of total formal exports | 17.9 | 19.4 | 18.8 | 24.6 |
| Imports | Value in USD millions | 19.2 | 21.7 | 10.6 | 14.8 |
| | % change | 9.2 | 13.1 | 19.1 | 39.5 |
| | Share of total formal imports | 0.8 | 0.9 | 0.9 | 1.3 |
| Trade balance | | 88.3 | 86.6 | 41.0 | 51.4 |

Source: BNR, Statistics Department

The major commodities traded in informal cross border exports are agriculture products, telecommunication equipment and livestock, while the main imported products from neighboring countries are maize flour, agriculture products, fresh fish, modern beer, cement and other manufactured and recycled products.

II. MONETARY SECTOR AND INFLATION DEVELOPMENTS

2.1 Monetary Policy Stance

In the first half of 2016, BNR maintained a prudent monetary policy with the objective of supporting the financing of economic activities by the banking sector in a context of subdued inflationary pressures. As a result, new authorized loans increased by 17.3% in the first half of 2016 against 10.8% recorded in the same period of 2015. Between December 2015 and June 2016, total outstanding loans extended to the private sector and broad money (M3) increased by 7.9% and 6.1% respectively against +15.0% and 16.7% recorded between December 2014 and June 2015.

2.2 Inflation Developments

In the first half of 2016 headline inflation evolved around 4.7% on average standing at 5.5% in June and 6.9% in July. It increased to 4.5% and 4.9% in 2016Q1 and 2016Q2 respectively from 1.0% and 2.0% recorded in 2015Q1 and 2015Q2. The 2016Q2 increase was mostly reflected in transport inflation, which surged on average from 1.0% in 2015Q4 to 4.6% in 2016Q1 and to 7.3% in 2016Q2.

In addition, food inflation stood at 8.2% in 2016Q1 and 7.0% in 2016Q2 compared to 0.5% in 2015Q1 and 3.1% in 2015Q2. Upward pressures on food prices, which started in November 2015 mainly due to the jump in prices for vegetables, cropped up once again in 2016 as vegetables inflation rose from 11.3% in May to 20.2% and 30.8% in June and July 2016 respectively, leading to a hike in food inflation from 6.1% in May to 9.4% and 13.8% in June and July 2016

respectively and thus pushing up headline inflation from 4.6% to 5.5% and 6.9% during the same period.

Domestic inflation stood at 5.3% in 2016Q1 and 5.2% in 2016Q2, up from 1.4% in 2015Q1 and 2.3% in 2015Q2. It rose from 4.7% in May to 6.1% in June before settling at 7.5% in July 2016. Imported inflation rose from 2.1% in 2016Q1 to 4.1% in 2016Q2 compared to -0.1% in 2015Q1 and 1.2% in 2015Q2. For the last three months, imported inflation edged up to reach 5.2% in July from 3.9% in June and 4.1% in May 2016.

The rise in domestic inflation reflects the increase in domestic food prices, while imported inflation continues to be driven by transport costs which were affected by purchase of vehicles and bus fares. The purchase of vehicles, mainly imported from Japan, edged up due to the effect of the FRW depreciation and appreciation of the Yen against the US dollar.

Core inflation, which excludes fresh products and energy, also went up on average from 2.8% in 2016Q1 to 3.8% in 2016Q2 after 1.7% in 2015Q1 and 2.2% in 2015Q2. Though rising, core inflation stabilized at 4.2% in June and July 2016, after standing at 3.2% in April and May 2016. The surge in core inflation is linked to the increase in prices of some products classified as core such as milk products, some imported foods as well as imported oils. Import prices are currently rising, partly reflecting the exchange rate pressures that has effects especially on prices for imported cars.

Table 18: Inflation developments for key items (annual % change)

| | 2015 | | | | | | | 2016 | | | | | | |
|-------------------|------|------|-----|------|------|------|------|------|------|------|------|------|------|------|
| | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July |
| Headline | 2.8 | 2.3 | 3.0 | 3.7 | 2.9 | 4.8 | 4.5 | 4.5 | 4.4 | 4.6 | 4.7 | 4.6 | 5.5 | 6.9 |
| Domestic | 2.6 | 1.9 | 3.1 | 4.3 | 3.8 | 6.1 | 5.7 | 5.3 | 5.2 | 5.4 | 4.8 | 4.7 | 6.1 | 7.5 |
| Food: | 2.9 | 0.7 | 3.2 | 5.6 | 5.7 | 10.5 | 9.7 | 8.6 | 8.1 | 7.8 | 5.6 | 6.1 | 9.4 | 13.8 |
| Vegetables | 4.6 | -0.1 | 6.0 | 11.9 | 12.4 | 22.5 | 23.3 | 20.8 | 18.4 | 18.4 | 11.2 | 11.3 | 20.2 | 30.8 |
| Housing | 4.5 | 4.2 | 4.5 | 5.7 | 4 | 3.6 | 2.9 | 3.0 | 2.8 | 3.0 | 3.9 | 2.9 | 2.9 | 2.8 |
| Transport | 1.5 | 2.7 | 2 | 0.4 | -1.4 | 2.0 | 2.4 | 4.1 | 5.1 | 4.8 | 7.6 | 7.4 | 7.0 | 8.7 |
| Imported | 3.3 | 3.4 | 3 | 1.8 | 0.1 | 1.0 | 1.3 | 1.9 | 2.3 | 2.1 | 4.2 | 4.1 | 3.9 | 5.2 |
| Core | 3 | 3 | 2.7 | 2.3 | 1.3 | 2.3 | 2.3 | 2.6 | 2.9 | 2.9 | 3.6 | 3.6 | 4.2 | 4.2 |
| Energy | 0.9 | 0.3 | 1.9 | 4.4 | 3.8 | 3.4 | 1.6 | 4.0 | 3.3 | 5.2 | 7.4 | 7.1 | 4.1 | 6.0 |

Source: BNR, Statistics Department

2.3 Monetary Developments

2.3.1 Money Supply

Money supply (M3) increased by 6.1% between December 2015 and June 2016, less than 16.7% recorded in the corresponding period of 2015. This development was mainly due to the lower growth in Net Domestic Assets (NDA) and the decline in net foreign assets.

Growth in Net Domestic Assets slowed to 19.6% in June 2016 from 55.3% recorded in the corresponding period of 2016. This deceleration in NDA growth was driven by the slowdown in both net credit to government (NCG) and in the stock of credit to the private sector, which stood at 214.9% and 7.9% respectively between December 2015 and June 2016 from 688.8% and 15.0% recorded in the corresponding of 2015.

The slowdown in outstanding credit to the private sector between December 2015 and June 2016 can be explained by the base effect and the slowdown in the economic activity, particularly during the second quarter of the year and short maturity of new authorized loans by the banking sector.

Between December 2015 and June 2016, Net Foreign Assets (NFA) of the banking system declined by 11.5% against 13.2% recorded in the corresponding period of 2015. This trend in NFA is mainly explained by the contraction in BNR's NFA by 6.3% against 8.7% during the same period, reflecting a bigger increase in external budget support disbursement (+23.9%) compared to 5.8% in the same period of 2015.

Furthermore, expenditure in foreign currency declined by 6.0% compared to 8.6% in the corresponding period of 2015. Again, the commercial banks' NFA sharply declined between December 2015 and June 2016 by 109.5% against 38.8% in the same period of the year before, reflecting uncertainties in the external sector.

Table 19: Monetary aggregates developments (FRW billion)

| | 2013 | 2014 | | 2015 | | 2016 | | % change | | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|-------------------|-------------------|
| | Dec | Jun | Dec | Jun | Dec | Mar | Jun | Jun-14/ Dec-13 | Jun-15/ Dec-14 | Jun-16/ Dec-15 |
| NET FOREIGN ASSETS | 744.0 | 733.0 | 690.4 | 599.5 | 642.6 | 559.3 | 567.5 | -1.5 | -13.2 | -11.5 |
| o/w BNR | 634.3 | 559.7 | 585.7 | 535.0 | 609.1 | 545.6 | 570.8 | -11.8 | -8.7 | -6.3 |
| Commercial banks | 109.6 | 173.3 | 104.6 | 64.5 | 33.5 | 13.6 | -3.3 | 58.1 | -38.3 | -106.9 |
| NET DOMESTIC ASSETS | 284.7 | 490.9 | 533.5 | 828.3 | 839.5 | 920.7 | 1004.6 | 72.5 | 55.3 | 19.6 |
| Domestic credit | 567.1 | 801.6 | 890.9 | 1172.1 | 1221.9 | 1315.2 | 1418.2 | 41.3 | 31.6 | 16.1 |
| Central government (net) | -187.3 | -18.2 | -21.2 | 125.0 | 39.5 | 73.2 | 123.3 | 90.3 | 688.8 | 214.9 |
| Public enterprises | 1.3 | 2.0 | 5.8 | 5.0 | 4.3 | 22.6 | 22.8 | 61.7 | -13.9 | 425.7 |
| Private sector | 758.0 | 817.8 | 906.3 | 1042.1 | 1178.1 | 1219.5 | 1272.1 | 7.9 | 15.0 | 7.9 |
| o/w in foreign currency | 15.8 | 29.5 | 63.6 | 85.4 | 134.9 | 171.0 | 196.6 | 87.0 | 34.3 | 45.8 |
| Other items net (Assets: +) | -282.5 | -310.7 | -357.4 | -343.8 | -382.4 | -394.6 | -413.7 | -9.9 | 3.8 | -8.5 |
| BROAD MONEY (M3) | 1028.7 | 1224.0 | 1223.9 | 1427.8 | 1482.1 | 1479.9 | 1572.2 | 19.0 | 16.7 | 6.1 |
| Currency in circulation | 116.6 | 119.4 | 118.5 | 134.9 | 142.6 | 133.0 | 150.8 | 2.4 | 13.9 | 5.7 |
| Deposits | 912.1 | 1104.5 | 1105.3 | 1292.9 | 1339.5 | 1347.0 | 1421.4 | 21.1 | 17.0 | 6.1 |
| o/w Demand deposits | 378.7 | 453.9 | 456.2 | 616.2 | 614.6 | 617.8 | 639.0 | 19.8 | 35.1 | 4.1 |
| Term deposits | 339.2 | 391.2 | 407.3 | 441.1 | 469.0 | 472.8 | 515.3 | 15.3 | 8.3 | 9.3 |
| Foreign currency deposits | 194.2 | 259.5 | 241.8 | 235.6 | 255.9 | 256.4 | 267.2 | 33.6 | -2.6 | 5.2 |

Source: BNR, Statistics Department

New authorized loans expanded by 18.3%, standing at FRW 426.7 billion in the first half of 2016 against FRW 360.8 billion in the corresponding period of 2015. The increase in the authorized loans did not translate into a higher credit stock due to the predominance of short maturity loans in the former.

Table 20: New authorized loans (FRW billion)

| | 2014 | | 2015 | | 2016 | | | % Change | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|
| | Total | Jan-Jun | Total | Jan-Jun | Q1 | Q2 | Jan-Jun | H1-15/ H1-14 | H1-16/ H1-15 |
| Non-classified Activities | 62.6 | 33.8 | 67.1 | 30.6 | 19.0 | 18.79 | 37.8 | -9.5 | 23.4 |
| Agricultural, Fisheries & Livestock | 8.8 | 3.4 | 13.9 | 6.7 | 3.43 | 2.84 | 6.3 | 97.1 | -7.0 |
| Mining Activities | 0.2 | 0.01 | 0.3 | 0.33 | 0.69 | 1.04 | 1.7 | 3200.0 | 431.4 |
| Manufacturing Activities | 72.5 | 44.6 | 51.2 | 12.3 | 13.3 | 22.49 | 35.8 | -72.4 | 191.3 |
| Water & Energy Activities | 25.6 | 16.07 | 1.29 | 1.26 | 7.78 | 0.23 | 8.0 | -92.2 | 537.6 |
| Public works and building | 138.4 | 68.7 | 237.3 | 119.4 | 60.6 | 64.8 | 89.9 | 73.8 | -24.8 |
| Commerce, Restaurant and Hotels | 272.1 | 132 | 279.7 | 144.2 | 103.88 | 73.19 | 216.1 | 9.2 | 49.8 |
| Transport & Warehousing & Communication | 42.2 | 15.5 | 53.8 | 24.6 | 8.66 | 10.05 | 18.7 | 58.7 | -23.0 |
| OFI & Insurances and Other Non-financial Services | 4.5 | 1.2 | 14.8 | 2.5 | 3.0 | 0.52 | 3.5 | 108.3 | -71.7 |
| Services provided to the Community | 26.1 | 10.4 | 22.6 | 18.9 | 3.85 | 5.06 | 8.9 | 81.7 | -0.4 |
| Total | 653.0 | 325.7 | 742.1 | 360.8 | 224.2 | 199.0 | 426.7 | 10.8 | 18.3 |

Source: BNR, Financial Stability Directorate

Considering the distribution of new loans by gender of borrowers, loans to men represented 79% of total new loans compared to 21% for women in the first half of 2016. In the last six years, new loans to men represented 77.5% on average against 22.5% for women.

Table 21 Distribution of new loans by gender

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016H1 |
|------------------------------------|--------|--------|--------|--------|---------|---------|--------|
| Women (share of loans in %) | 21 | 22 | 22 | 22 | 25 | 23 | 21 |
| Men (share of loans in %) | 79 | 78 | 78 | 78 | 75 | 77 | 79 |
| Number women financed | 10,054 | 10,920 | 19,190 | 14,376 | 90,796 | 87,337 | 38,282 |
| Number men financed | 26,922 | 29,595 | 45,825 | 37,273 | 133,505 | 170,378 | 94,343 |

Source: Financial Stability Directorate

Considering the new loans by age of borrowers, 29% of total loans to individuals went to youth (below 35 years) and 71% to non-youth (above 35 years) in the first half of 2016. In the last six years, on average 72.5% of total loans to individuals went to non- youth compared to 27.5% authorized to youth.

Table 22 Distribution of new loans by ages (in % share)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016H1 |
|-----------------------|------|------|------|------|------|------|--------|
| Below 35 years | 19 | 23 | 29 | 30 | 32 | 32 | 29 |
| Above 35 years | 81 | 77 | 71 | 70 | 68 | 68 | 71 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Financial Stability Directorate

With regard to loans distribution by sectors of economic activity, Commerce, restaurants and hotels still dominate with a share of 50.6% in the first half of 2016, which is higher than 40.0% recorded in the corresponding period of 2015. These are followed by Public works and building with a share of 21.1% in total new authorized loans compared to 33.1% recorded last year.

Activities not classified elsewhere, mainly composed of personal loans were allocated 8.9%, slightly higher compared to 8.5% recorded in the same period of 2015 while loans authorized to Manufacturing activities accounted for 8.4%, higher than 3.4% recorded in 2015H1.

The high growth in loans authorized to commerce, restaurants and hotels sector was mainly caused by the financing of a big hotel for 9.1% of total new authorized while the increase in loans authorized to the manufacturing sector was mainly driven by the financing of the three big companies representing 4.5% of total new authorized loans.

The decrease in new authorized loans to Public works and building was due to the high expansion of new authorized loans in the same sector last year especially four big companies which obtained 8.2% of total new authorized loans.

The reduction in the share to transport & warehousing & communication sector observed in the first half of 2016 was due to the fact that a big loan worth 3.3% of total new loans was authorized to a company in transport activities in the first half of 2015.

It is important to note that the share of Water and energy activities sector rose to 1.9% from 0.3% of total new authorized loans in the corresponding period of 2015 on the back of a big loan equivalent to 1.6% of total loans authorized to power generation activities.

The share of Agricultural sector financing remained low, standing at 1.5% of total loans in the first six months of 2016 against 1.9% recorded in the same period of 2015.

Table 23: Distribution of new authorized loans by sector of activities (% share)

| Activity branch | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan-Jun | Jan-Jun | Jan-Jun | Jan-Jun | Jan-Jun | Jan-Jun | Jan-Jun |
| Non-classified Activities | 9.6 | 12.2 | 17.3 | 11.9 | 10.4 | 8.5 | 8.9 |
| Agricultural, Fisheries& Livestock | 1.9 | 4.2 | 2.0 | 1.8 | 1.0 | 1.9 | 1.5 |
| Mining Activities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.4 |
| Manufacturing Activities | 9.5 | 7.6 | 4.8 | 6.8 | 13.7 | 3.4 | 8.4 |
| Water & Energy Activities | 0.3 | 0.8 | 0.1 | 0.2 | 4.9 | 0.3 | 1.9 |
| Public works and building | 13.0 | 25.3 | 24.0 | 19.8 | 21.1 | 33.1 | 21.1 |
| Commerce, Restaurant and Hotels | 50.8 | 37.9 | 43.0 | 48.8 | 40.5 | 40.0 | 50.6 |
| Transport & Warehousing & Communication | 10.8 | 7.9 | 6.2 | 6.7 | 4.8 | 6.8 | 4.4 |
| OFI & Insurances and Other Non-financial Services | 2.1 | 1.7 | 0.6 | 2.1 | 0.4 | 0.7 | 0.8 |
| Services provided to the Community | 2.1 | 2.5 | 2.2 | 1.9 | 3.2 | 5.2 | 2.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Financial stability Directorate

2.3.2 Money Demand

Currency in circulation (CIC) increased by 5.7% between December 2015 and June 2016 against 13.9% recorded in the same period of the previous year. This deceleration in currency in circulation is due to the base effect, a slight slowdown in economic activities compared to the same period of 2015, and financial sector developments such as the extension of the banking network, the expansion of MFIs as well as the modernization and increased use of payment systems. Consequently, currency in circulation (CIC) as a percentage of broad money (M3) dropped from 27.3% in 2008 to 9.62% in December 2015 and 9.59% in June 2016.

Total deposits increased by 6.1% against 17.0% recorded in the same period of 2015, in line with a slight slowdown in economic activity. Demand deposits increased by 4.1% lower than 35.1% recorded in the corresponding period of the previous year, while term deposits grew by 9.3% from 8.3%. Foreign currency deposits increased by 5.2% versus a decline of 2.6% registered in the corresponding period of last year.

Demand deposits continued to have the biggest share of total deposits, reaching 45% on average compared to 43% recorded in the same period of 2015. Term deposits and foreign currency deposits accounted for 36% and 19% respectively, against 37% and 20% recorded in the same period of the previous year.

In the last six years, the share of demand deposits, term deposits and foreign currency deposits averaged 43%, 37% and 20% respectively.

Table 24: Share of different types of deposits in total deposits (%)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016H1 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Demand deposits | 46 | 41 | 41 | 42 | 41 | 46 | 45 |
| Term deposits | 35 | 39 | 38 | 37 | 37 | 35 | 36 |
| Foreign currency deposits | 19 | 20 | 21 | 21 | 22 | 19 | 19 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Statistics Department

Considering the structure of term deposits by maturity, it is important to note that most of those deposits have maturity not exceeding one year.

Table 25: New term deposits by maturity in FRW billion

| Maturity | 2012 | 2013 | 2014 | 2015 | 2016H1 |
|--------------------------|-------------|-------------|-------------|-------------|---------------|
| 1 month | 66.3 | 47.8 | 45.4 | 27.6 | 14.9 |
| 3 months | 43.9 | 44.5 | 47.6 | 63.5 | 16.6 |
| 6 months | 41.7 | 45.6 | 99.0 | 158.2 | 35.5 |
| 1 year | 127.5 | 163.6 | 281.8 | 322.9 | 202.4 |
| 2 years | 1.6 | 29.1 | 10.0 | 12.7 | 0.5 |
| 3 years | 0.0 | 0.0 | 0.5 | 0.0 | 0.6 |
| 5 years | 0.0 | 2.8 | 1.1 | 0.0 | 0.0 |
| More than 5 years | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Statistics Department

With regard to deposits by category of depositors, Households and Non-Profit Institutions Serving Households (NPISHs) dominate in demand and time deposits while a big share of foreign currency deposits is held by other non-financial corporations.

Table 26 Monetary deposits by category of depositors (% share)

| | Demand deposits | | | | | Time deposits | | | | | Foreign currency deposits | | | | |
|---------------------------------|-----------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|---------------------------|-------------|-------------|-------------|-------------|
| | 2012 | 2013 | 2014 | 2015 | Jun-16 | 2012 | 2013 | 2014 | 2015 | Jun-16 | 2012 | 2013 | 2014 | 2015 | Jun-16 |
| Other financial institutions | 2.1 | 2.4 | 2.4 | 3.4 | 2.7 | 6.1 | 4.6 | 3.8 | 5.8 | 5.5 | 0.3 | 0.2 | 0.1 | 0.3 | 0.1 |
| Social security funds | 1.7 | 1.7 | 1.2 | 3.7 | 2.2 | 9.6 | 13.3 | 14.0 | 12.0 | 13.0 | 0.1 | 0.1 | 0.1 | 0.3 | 0.1 |
| Public enterprises | 1.9 | 1.6 | 2.4 | 0.8 | 0.8 | 0.2 | 0.3 | 0.2 | 0.4 | 0.1 | 0.4 | 0.5 | 0.4 | 0.7 | 0.7 |
| Other nonfinancial corporations | 13.3 | 11.3 | 11.8 | 14.0 | 14.1 | 3.8 | 4.0 | 4.6 | 3.1 | 3.1 | 11.8 | 12.1 | 13.4 | 9.5 | 9.6 |
| Households and NPISH | 21.6 | 24.5 | 23.5 | 22.5 | 23.8 | 18.5 | 15.1 | 14.3 | 14.6 | 15.2 | 8.5 | 8.4 | 8.0 | 8.9 | 9.0 |
| Total (%) | 40.6 | 41.5 | 41.3 | 44.4 | 43.5 | 38.2 | 37.3 | 36.9 | 35.9 | 36.9 | 21.1 | 21.3 | 22.0 | 19.6 | 19.6 |

Source: Statistics Department

The predominance of demand deposits in total deposits and short term maturity of term deposits is a constraint for banks to extend the maturity of their loans to the private sector. In addition, term deposits are concentrated among few institutions (RSSB, Insurance companies and MFIS) accounting for more than 50% of total term deposit on average, which constitute a liquidity risk for banks.

Table 27: Share of RSSB, Insurance and MFIs in term deposits (%)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| RSSB | 22.7 | 25.1 | 35.7 | 37.9 | 33.4 |
| Insurance | 12.1 | 12.6 | 8.3 | 4.1 | 11.1 |
| MFIs³ | 11.1 | 9.7 | 11.0 | 13.0 | 15.3 |
| Total | 45.9 | 47.4 | 55.0 | 55.0 | 59.9 |

Source: BNR, Financial Stability Directorate

At the current stage of development in Rwanda, the economy will need more long term loans. Commercial banks shall be more innovative to transform a part of demand deposits into term deposits and introduce

³ Including SACCOs. All MFIs deposits are term deposits

financial instruments to mobilize long term resources from the domestic market in addition to deposits. In addition, it is important to continue raising awareness on the saving culture.

2.3.3 Banking system liquidity conditions

2.3.3.1 Liquidity Conditions of the Banking System

In the last five years, the banking system liquidity improved significantly. Commercial banks continued to have sufficient liquidity to finance economic activities and invest in different financial instruments such as repurchase agreements and government securities (both short and long-term).

Table 28: Most liquid assets of commercial banks (FRW billion)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Jun-16 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| T-bills | 55.6 | 74.3 | 62.5 | 171.6 | 172.3 | 225.1 | 214.0 |
| Repo | 79.3 | 85.9 | 52.5 | 63.0 | 47.5 | 26.5 | 34.0 |
| Excess reserves in FRW | -3.2 | 2.0 | 9.5 | 9.9 | 17.2 | 17.1 | 31.7 |
| Cash in vault | 13.7 | 15.2 | 22.3 | 31.9 | 35.4 | 34.2 | 32.0 |
| Total | 145.4 | 177.3 | 146.8 | 276.4 | 272.4 | 302.9 | 311.7 |

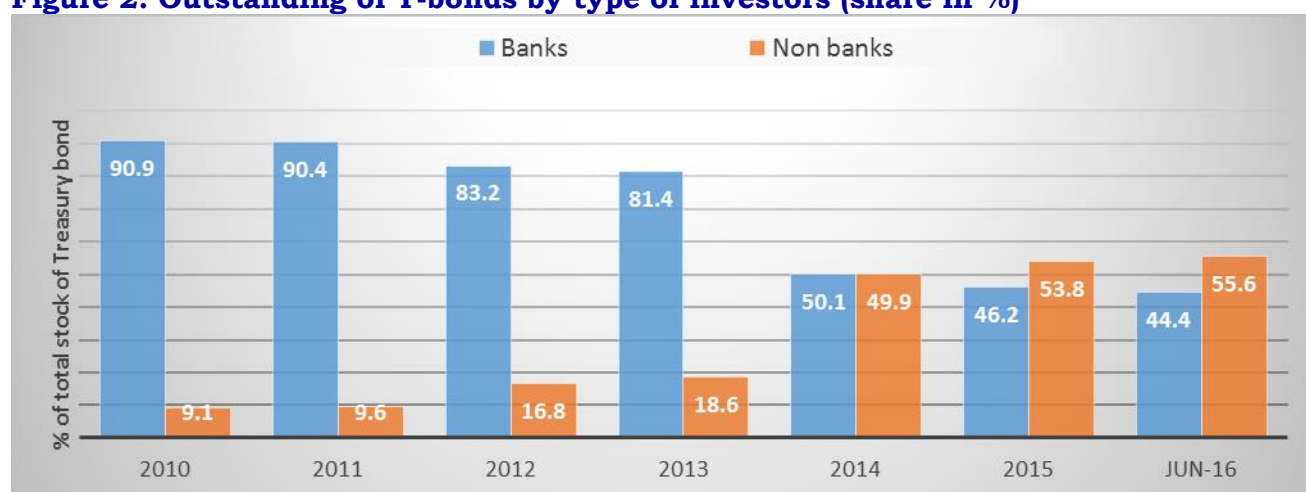
Source: BNR, Monetary Policy & Research Department

Improvement of BNR liquidity management has progressively contributed to the development of interbank market which is key for the efficiency of monetary policy. While the market is not yet very active, good progress was noted in the last 3 years. Total volume of transactions increased to FRW 281.5 billion in the first six months of 2016 from FRW 242.5 billion recorded in the whole year 2015 and FRW 224.5 billion in 2014. The number of transactions increased to 172 from 150 and 167 in the period under review. However, the banking sector in Rwanda continues to be characterized by structural short term excess liquidity. In its effort to move to inflation targeting framework, BNR is developing different strategies (correctly measure involuntary excess liquidity and optimally mix different monetary policy instruments) to ensure that banks keep only excess liquidity for

precautionary purposes which is associated to liquidity services to depositors.

In the recent past, good competition among investors in the government bond market is noticeable. The share of commercial banks' investments considerably reduced to 44.4% in June 2016 from 90.9% in 2010, while non-bank (financial institutions and retailers) investors share reached 56.0% from 9.1% during the period under review.

Figure 2: Outstanding of T-bonds by type of investors (share in %)



Source: BNR, Monetary Policy & Research Department

2.3.4 Interest Rates Developments

In 2016H1, money market interest rates remained stable with slight upward trend. T-bills, repo and interbank interest rates increased respectively to 7.29%, 3.62% and 5.93% in June 2016 from 6.76%, 2.36% and 3.73% in December 2015.

Table 29: Interest rates developments (in %)

| | 2014 | 2015 | | | | | | | | 2016 | | | | | |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | Dec | Mar | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| Key Repo Rate | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| Discount Rate | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| Repo rate | 2.8 | 1.9 | 2.0 | 2.1 | 1.9 | 1.9 | 1.8 | 1.8 | 2.4 | 3.9 | 3.5 | 3.1 | 3.1 | 3.1 | 3.6 |
| T-Bills Rate | 4.9 | 4.3 | 4.1 | 4.6 | 4.6 | 4.6 | 4.9 | 5.4 | 6.8 | 7.3 | 7.0 | 6.4 | 7.2 | 6.9 | 7.3 |
| Interbank Rate | 4.7 | 3.8 | 4.0 | 3.4 | 3.4 | 3.7 | 3.5 | 3.5 | 3.7 | 4.9 | 4.8 | 5.2 | 5.6 | 5.9 | 5.9 |
| Deposit Rate | 7.8 | 8.1 | 8.8 | 8.2 | 8.2 | 8.3 | 7.9 | 8.1 | 7.6 | 7.6 | 8.2 | 7.3 | 8.1 | 8.7 | 7.9 |
| Lending Rate | 17.7 | 17.7 | 17.3 | 17.4 | 17.4 | 17.2 | 17.2 | 17.1 | 17.0 | 16.7 | 17.6 | 17.1 | 17.2 | 17.3 | 17.0 |
| Spread | 9.9 | 9.3 | 8.5 | 9.2 | 9.3 | 8.9 | 9.3 | 8.9 | 9.4 | 9.1 | 9.4 | 9.8 | 9.1 | 8.7 | 9.0 |

Source: BNR, Statistics Department

Market interest rates (deposit and lending rates) in Rwanda have been very stable and predictable in the last decade, which is key in investment and saving decisions.

During the first six months of 2016, both lending and deposit interest rates remained stable declining slightly to 17.2% and 7.9% respectively on average in compared to their levels during the same period in the previous year 2015 where they stood at 17.5% and 8.4% on average.

Table 30: Interest rates by type of borrowers (in %)

| Borrowers | 2014 | 2015 | | | | | | | | 2016 | | | | | |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Dec | Mar | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| Corporate | 16.9 | 16.5 | 16.6 | 16.4 | 16.4 | 16.3 | 16.4 | 16.6 | 16.3 | 16.3 | 17.4 | 16.7 | 16.6 | 16.5 | 16.1 |
| Individual | 18.7 | 18.4 | 18.0 | 18.1 | 18.1 | 18.0 | 18.0 | 18.2 | 18.2 | 17.4 | 17.7 | 17.8 | 17.7 | 18.1 | 18.1 |
| Overall | 17.7 | 17.4 | 17.3 | 17.4 | 17.4 | 17.2 | 17.2 | 17.1 | 17.0 | 16.7 | 17.6 | 17.1 | 17.2 | 17.3 | 17.0 |

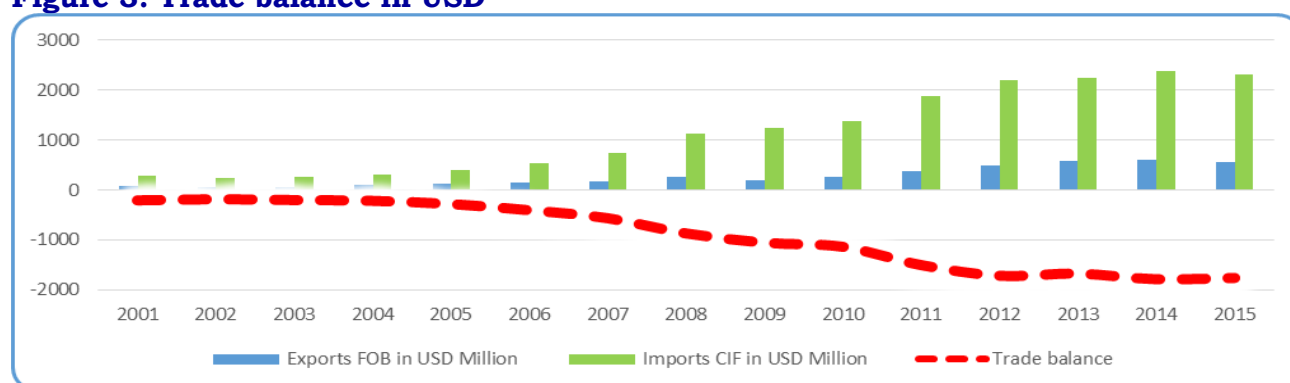
Source: BNR, Financial Stability Directorate

III. EXCHANGE RATE AND FOREX MARKET DEVELOPMENTS

For more than ten years, the FRW has been stable, with annual average depreciation below 5%, as a result of high foreign inflows such as foreign aid and moderate a moderate trade deficit.

In line with economic growth, imports bill has increased substantially since 2005 while export receipts remained low, leading to the widening of the trade deficit.

Figure 3: Trade balance in USD



Source: BNR, Monetary Policy and Research Department

In addition, the decline since 2013 in budgetary and capital grants (as share of GDP) from 9.3% to 7.8% in 2014 and 6.4% in 2015 which were important sources of financing the trade deficit has contributed to recent high depreciation of Rwandan franc.

In 2015, the FRW depreciated by 7.5%, the highest depreciation recorded in Rwanda in last decades and in the first half of 2016, the Rwandan Franc continued to be under pressure due to low export revenues and high import demand and demand for dollars from different companies and government projects under the Public Private Partnership (PPP) framework which needs to mobilize hard currency from the domestic market.

As a result, the FRW depreciated by 6.9% on August 16th 2016, to 799.20 per dollar against FRW 747.41 end December 2015, while it depreciated by 4.6% end August 2015.

In the same period, the FRW depreciated by 9.4%, 7.8%, 5.5% and 6.7% against EURO, the Kenyan shilling, the Tanzanian shilling and the Ugandan shilling respectively, while it appreciated by 2.0% versus the Burundian franc and by 7.0% versus the GBP.

To support commercial banks, BNR increased its sales to banks by 40.8% from USD 111.5 million in June 2015 to USD 157.0 million in June 2016.

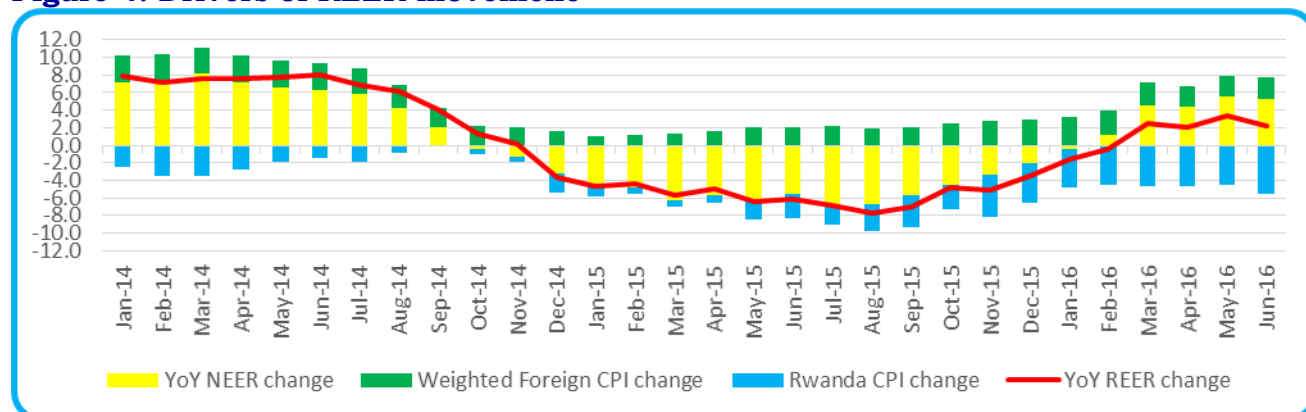
Table 31: Evolution of nominal exchange, leading and Regional currencies against FRW

| | USD/FRW | GBP/FRW | EUR/FRW | KES/FRW | TZS/FRW | UGS/FRW | BIF/FRW |
|------------------|---------|---------|---------|---------|---------|---------|---------|
| Dec-11 | 1.6 | 1.5 | -0.4 | -2 | -5.8 | -3.9 | -2.2 |
| Dec-12 | 4.5 | 10 | 7.7 | 3.4 | 4.7 | -2.6 | -11.5 |
| Dec-13 | 6.1 | 8 | 10.2 | 5.3 | 6.2 | 11.7 | 4.9 |
| Dec-14 | 3.6 | -2.4 | -8.5 | -2.8 | -7 | -6.7 | 1 |
| Mar-15 | 2 | -2.7 | -9.1 | 0.3 | -4.6 | -4.7 | 2.4 |
| Jun-15 | 3.6 | 5.1 | -4.2 | -4.7 | -9 | -12.9 | 4.4 |
| Sep-15 | 5.2 | 2.7 | -2.6 | -9.4 | -15.5 | -20.9 | 6.3 |
| Dec-15 | 7.6 | 2.8 | -3.2 | -4.6 | -13.5 | -11.6 | 10 |
| Jan-16 | 0.9 | -2.2 | 1 | 1 | -0.5 | -2.1 | 0.1 |
| Feb-16 | 2 | -4.5 | 2 | 2.5 | 0.6 | 2.7 | 1.8 |
| Mar-16 | 2.8 | -0.2 | 6.3 | 3.9 | 1.4 | 2.8 | 1.5 |
| Apr-16 | 3.5 | 2.1 | 7.5 | -2 | 2 | 4.9 | 3.1 |
| May-16 | 4 | 2.4 | 6.6 | 5.7 | 2.5 | 4.7 | 3.5 |
| Jun-16 | 4.8 | -5 | 6.6 | 6.1 | 3.3 | 3.7 | -3.7 |
| Jul-16 | 6.1 | -5.7 | 7.5 | 7.1 | 4.6 | 6.1 | -2.6 |
| 16-Aug-16 | 6.9 | -7.0 | 9.4 | 7.8 | 5.5 | 6.7 | -2.0 |

Source: BNR, Monetary Policy and Research Department

Looking at the basket of currencies for Rwanda's main trading partners, it is worth mentioning that by end June 2016, the FRW real effective exchange rate depreciated by 2.3% (y-o-y), while it depreciated by 5.3% in nominal effective terms.

Figure 4: Drivers of REER movement



Source: BNR, Monetary Policy and Research Department

IV. FINANCIAL SECTOR STABILITY

The Rwandan financial sector continues to expand and to finance the private sector. As of June 2016, total assets of the financial sector expanded by 13.7% to reach FRW 3.4 trillion. Assets of the financial sector have grown at an average of 23% in the last 5 years. The size of the financial sector, as measured by total assets, relative to GDP increased to 55% in June 2016, up from 53.8% in June 2015 and 38.4% in June 2011. Growth in financial sector assets is mainly attributable to private financing by both Banks and MFIs. Combined Loans and advances to private sector (by both Banks and MFIs) make-up 42.4% of total financial sector assets and grew by 19.9% (year-on-year) in June 2016.

The financial sector continue to be sound and stable. The banking sector, with largest share in total assets, continue to hold significant capital buffers and higher liquidity positions, way above regulatory requirements. The higher capital positions not only depicts current stability but also ensures future financial stability as banks can fall back on these buffers during times of financial stress. Similar to banks, the microfinance sector also hold capital and liquidity buffers. In June 2016, asset quality of banks slightly deteriorated compared to 2015. Nevertheless, with adequate capital positions, high liquidity and adequate provisioning of Rwandan banks, stability of the financial system is still guaranteed.

Financial system network expansion is promoting access to finance for many Rwandans. The number of commercial bank branches, sub-branches, client accounts, ATMs, mobile money accounts have steadily increased in the last 3 years. This means the financial sector is getting closer to people and a good sign of financial inclusion.

4.1 Financial Sector Performance Indicators

1. Banking Sector

The banking sector is composed of twelve (12) commercial banks, three (3) microfinance banks, one (1) development bank and one (1) cooperative bank. The sector continues to attract new Investors; after Atlas Mara Group acquired the majority stake in BRD-C in 2015, the newly formed bank merged with BPR in January 2016.

1.1. Banking Sector Performance

The banking sector remains generally sound and performed satisfactorily in the quarter ended 30 June 2016. Total assets of banks increased by 13.9% in June 2016 (year-on-year) - from FRW 2.0 trillion in June 2015 to FRW 2.3 trillion in June 2016. Loans account for 60% of total assets of banks.

On the other hand, total liabilities of banks grew by 13.4% from FRW 1.6 trillion in June 2015 to FRW 1.9 trillion by end June 2016. Customer deposits account for 81% of total liabilities of banks.

Table 32: Banking sector performance as at end June 2016 compared to June 2015 (amount in billions of FRW)

| | Jun-15 | Jun-16 | % change |
|---------------------------------|---------------|---------------|-----------------|
| Total assets | 2,000.0 | 2,278.1 | 13.9% |
| Total deposits | 1,366.5 | 1,507.0 | 10.3% |
| Loans (on balance sheet) | 1108.8 | 1,322.6 | 19.3% |
| Profit after tax | 23.6 | 19.3 | -18.2% |
| Government Securities | 216.7 | 229.2 | 5.8% |

Source: BNR, Bank Supervision Department

The banking sector also continued to be characterized by enhanced competition, with the reduction of the level of concentration in the sector over the last 5 years. The share of three largest banks in loans, deposits and total assets declined from 52%, 58% and 54% in 2010 to

44%, 47% and 45% in June 2016, respectively. This level of competitiveness was due to generic growth of new banks entering the market and favorable legal environment on financial services which is coping with international and regional dynamism in the banking area.

BNR will continue to ensure that Rwandan enjoy the benefits of increased competition through support of innovative financial products and services, which in turn will increase access to finance.

All operating banks were adequately capitalized in the period under review, with the Capital Adequacy and Core Capital Ratios surpassing the minimum prudential of 15%. The banking sector's capitalization levels continued to remain high with capital adequacy ratio (CAR) recording 23.3% during the quarter under review compared to 24.3% recorded in June 2015. The change was largely due to increased appetite for loans and advances by banks.

The banking sector's average liquidity ratio was at 42.8 % as at June 2016, down from 49.5% in June 2015. This liquidity level is significantly above the minimum prudential liquidity ratio of 20%. The slight drop in liquidity level between June 2015 and June 2016 reflects increased loans and advances provided by banks.

The banking sector remained profitable during the year to end 30 June 2016. Banks' net profit was FRW 19.4 billion in June 2016, a decrease of 18.2% compared to FRW 23.6 billion reported for the same period in 2015. The decline in profits is attributable to high growth in expenses (increase in remunerated savings, deposits and operating costs). Consequently, the return on assets (ROA) and return on equity (ROE) declined to 1.7% and 9.2% respectively as at June 2016 from 2.4% and 13.1% in June 2015.

The asset quality of the industry slightly deteriorated with non-performing loan ratio (NPLs ratio) increasing to 7.0% end June 2016 compared to 5.9% recorded end June 2015, mainly due to prudent measure on loan classification and workout plans by banks as well as enhanced supervision to ensure compliance with prudential standards. However, banks are able to absorb related risks due to strong capital buffers which re-assures safety on depositors' funds and stability of the banking system.

Table 33: Key soundness indicators, in percent

| Indicator | 12-Jun | 13-Jun | 14-Jun | 15-Jun | 16-Jun |
|---|--------|--------|--------|--------|--------|
| Capital Adequacy Ratio (total capital) | 25.1% | 23.1% | 23.6% | 24.3% | 23.3% |
| NPLs / Gross Loans | 5.8% | 6.9% | 6.6% | 5.9% | 7.0% |
| Large Exposures / Gross Loans | 9.5% | 8.0% | 15.8% | 22.5% | 25.6% |
| Return on Average Assets | 2.2% | 2.1% | 2.1% | 2.4% | 1.7% |
| Return on Average Equity | 10.6% | 9.9% | 12.1% | 13.1% | 9.2% |
| Liquid assets/total deposits | 47.2% | 46.2% | 54.2% | 49.5% | 42.8% |
| FOREX exposure/core capital | -1.5% | -3.1% | -1.5% | -7.1% | -1.8% |

Source: BNR, Bank Supervision Department

2. Microfinance Sector

The Microfinance sector's assets grew by 22.8% from FRW 187.5 billion in June 2015 to FRW 230.3 billion in June 2016. Gross loans accounting for 54% of MFIs' total assets increased by 28.1% from FRW 97.2 billion to FRW 124.5 billion. The Capital Adequacy Ratio (CAR) stood at 30.3% in June 2016 from 31.4% end June 2015 but it remains well above the minimum regulatory requirement of 15%. The liquidity ratio of MFIs stood at 95.1% in June 2016, down from 95.4% in June 2015. Despite this slight decline, it remained significantly above the regulatory requirement of 30%. The NPL ratio of microfinance institutions slightly increased from 7.4% in June 2015 to 7.5% in June 2016.

Table 34: Performance indicators for Microfinance Sector (FRW billion, unless otherwise indicated)

| INDICATOR | Jun-15 | Dec-15 | Jun-16 | Change (in %) June 2016/15 |
|------------------------------------|---------------|---------------|---------------|-----------------------------------|
| Total Assets | 187.50 | 208.95 | 230.26 | 22.8 |
| Liquid Assets | 76.04 | 77.80 | 90.30 | 18.8 |
| Loan Portfolio (Net of Provisions) | 93.64 | 111.73 | 119.45 | 27.6 |
| Gross Loans | 97.19 | 116.58 | 124.54 | 28.1 |
| Non-Performing Loans | 7.18 | 9.22 | 9.30 | 29.6 |
| Provisions | 3.55 | 4.85 | 5.09 | 43.3 |
| Total Deposits | 104.93 | 117.29 | 126.02 | 20.1 |
| Current Accounts | 79.70 | 86.79 | 94.99 | 19.2 |
| Equity | 58.84 | 64.98 | 69.74 | 18.5 |
| Earnings | 13.68 | 17.10 | 18.04 | 31.8 |
| Paid up Capital | 23.49 | 24.87 | 26.59 | 13.2 |
| | | | | |
| NPL Ratio (Max 5%) | 7.4% | 7.9% | 7.5% | |
| CAR (Min 15%) | 31.4% | 31.1% | 30.3% | |
| Quick-Liquidity Ratio (Min 30%) | 95.4% | 89.6% | 95.1% | |

Source: BNR, Microfinance Supervision Department

UMURENGE SACCOs hold respectively 48% and 54.3% of the total assets and deposits of MFIs for the period under review. Their assets grew by 21.5% from FRW 90.8 billion to FRW 110.4 billion while their gross loans rose by 19% from 28.9 billion to FRW 34.5 billion.

The NPL ratio of UMURENGE SACCOs remains higher than the average of 7.5% NPL ratio of the microfinance industry at the end of June 2016. The NPLs of UMURENGE SACCOs 12.5% as at end June 2016, up from 8.2% end June 2015. The relatively higher NPLs in UMURENGE SACCOs is mainly due to weak loan portfolio management and loans re-classification that followed BNR's recent on-site inspection of UMURENGE SACCOs on loan portfolio management.

Table 35: UMURENGE SACCO performance indicators (in billions of FRW unless otherwise indicated)

| INDICATOR | 30-Jun-15 | 31-Dec-15 | 30-Jun-16 | Change (in %) June 2016/15 |
|------------------------------------|--------------|---------------|---------------|----------------------------|
| Total Assets | 90.82 | 100.90 | 110.36 | 21.5 |
| Liquid Assets | 51.33 | 56.28 | 65.26 | 27.1 |
| Loan Portfolio (Net of Provisions) | 27.77 | 32.30 | 32.36 | 16.5 |
| Gross Loans | 28.95 | 34.05 | 34.45 | 19.0 |
| Provisions | 1.17 | 1.75 | 2.08 | 77.2 |
| Total Deposits | 58.20 | 66.51 | 68.45 | 17.6 |
| Current Accounts | 51.75 | 59.08 | 60.95 | 17.8 |
| Equity | 26.68 | 29.37 | 32.09 | 20.3 |
| Earnings | 15.65 | 17.77 | 19.94 | 27.4 |
| Paid up Capital | 8.49 | 8.93 | 9.51 | 12.0 |
| | | | | |
| NPL ratio (Max 5%) | 8.2% | 10.7% | 12.5% | |
| CAR (Min 15%) | 29.4% | 29.1% | 29.1% | |
| Liquidity (Min 30%) | 99.2% | 95.3% | 107.1% | |

Source: BNR, Microfinance Supervision Department

In terms of loan distribution by sectors of economic activities, the largest share of 33.9% of the total outstanding credit was granted by MFIs to commerce, restaurants & hotels followed by public works and construction (30.1%) and agriculture (16.5%). Interestingly, 30.5% of loans granted by UMURENGE SACCOs financed the agriculture sector given their rural base.

Table 36: MFIs' Outstanding Loans by Economic Sector end June 2016 (in FRW billion)

| Economic Sector | UMURENGE SACCOs | | Other MFIs | | TOTAL | |
|---|-----------------|--------------|-------------|--------------|--------------|--------------|
| | Amount | % share | Amount | % share | Amount | % share |
| Agriculture, Livestock, Fishing | 10.5 | 30.5 | 10.1 | 11.2 | 20.6 | 16.5 |
| Public Works (Construction), Buildings, Residences/Homes | 3.8 | 11.0 | 33.7 | 37.4 | 37.5 | 30.1 |
| Commerce, Restaurants, Hotels | 15.3 | 44.5 | 26.9 | 29.8 | 42.2 | 33.9 |
| Transport, Warehouses, Communications | 1.8 | 5.2 | 3.3 | 3.7 | 5.1 | 4.1 |
| Others | 3.0 | 8.7 | 16.1 | 17.9 | 19.1 | 15.3 |
| TOTAL | 34.4 | 100.0 | 90.1 | 100.0 | 124.5 | 100.0 |

Source: BNR, Microfinance Supervision Department

3. Non-Bank Financial Institutions (NBFIs)

3.1. Structure of Non-Financial Institutions

The Non-Bank Financial institutions are comprised of mainly insurance companies and pension schemes. As at June 2016, the insurance sector was composed of 13 private insurers; 2 public insurers; 15 loss- adjusters; 15 insurance brokers and 385 insurance agents. The Pension sub-sector on the other hand was composed of 1 public pension scheme and 63 private pension schemes.

3.2. Insurance Sub-Sector Performance

Generally, the insurance sector remains sound and well capitalized. Between June 2015 and June 2016, the total assets of the sector increased by 11.6% from FRW 295 billion to FRW 329 billion. Similarly, the total capital improved by 9% from FRW 218 billion to FRW 238 billion in the period under review. For the same period, the total written premium increased by 16%, from FRW 47 billion (June, 2015) to FRW 55 billion (June, 2016).

However, private insurers' performance deteriorated as some insurance companies failed to observe prudential norms such as solvency and liquidity and the poor performance is mainly attributed to unhealthy competition, price undercutting, operational inefficiency, inadmissible insurance receivables, weak governance and a general lack of innovation.

Table 37: Performance indicators for the insurance sector (in FRW billions unless otherwise indicated)

| Key Performance Indicators | June - 2015 | | | June - 2016 | | | %Changes |
|----------------------------|-------------|--------|----------|-------------|--------|----------|----------|
| | Private | Public | Industry | Private | Public | Industry | Industry |
| Assets | 117 | 179 | 295 | 124 | 206 | 329 | 11.6% |
| Capital | 42 | 176 | 218 | 34 | 204 | 238 | 9% |
| Liabilities | 72 | 2.4 | 77 | 90 | 1.9 | 92 | 19 |
| Premiums written | 28 | 20 | 47 | 31 | 24 | 55 | 16% |
| Underwriting profit | (3) | 8.6 | 5.4 | (6.8) | 8.9 | 2 | (61) % |
| Net profit | 0.29 | 14 | 14.7 | (2.9) | 19 | 16 | 12% |
| Claims ratio | 63% | 43% | 54% | 76% | 43% | 59% | 6% |
| Expenses ratio | 47% | 13% | 32% | 46% | 20% | 34% | 2% |
| Combined ratio | 110% | 56% | 85% | 122% | 63% | 93% | 8% |
| Return on assets | 0.5% | 16.1% | 9.9% | (5.6)% | 22.6% | 12% | 2% |
| Return on Equity | 1.4% | 16.3% | 13.5% | (20.5)% | 22.8% | 16.6% | 3.1% |
| Current ratio | 106% | 5015% | 321% | 78% | 7525% | 260% | (60)% |
| Liquidity ratio | 74% | 4439% | 266% | 60% | 7337% | 236% | (30) % |

Source: BNR, NBFIS

To improve performance of private insurers, BNR continued to engage with the sector and the insurers have been required to observe the prudential norms by set deadlines.

3.3 Pension sector performance

The pension sector's assets, grew from FRW 529 billion to FRW 567 billion registering a growth of 7% between June 2015 and June 2016 and this increase in assets is mainly attributed to additional investments made from pension contributions that increased from FRW 61 billion to FRW 68 billion. The increase in contributions is related to the number of contributing employees which increased from 397,664 to 398,987 in June 2016.

Between June 2015 and June 2016, total benefits paid increased by 6% from FRW 15 billion to FRW 15.9 billion and the investment income increased by 36% from FRW 25 billion to FRW 34 billion

mainly due to income earned from investments in Fixed Term deposits and Treasury bills and Bonds.

Table 38: Pension Sector Performance indicators (figures in FRW billion)

| Description | June 2015 | June 2016 (prov. data) | % change |
|--------------------------------|------------------|-------------------------------|-----------------|
| Total assets | 529 | 567 | 7% |
| Total contributions | 61 | 68 | 11% |
| Total benefits paid | 15 | 15.9 | 6% |
| Total investment income | 25 | 34 | 36% |

Source: BNR, NBFIs

For the pension to continue growing, in 2015 the pension law was enacted and as a result the BNR will issue the licensing pension regulation this month, and awareness workshop on the registration process of the private pensions was conducted in May, 2016. It is expected that licensing private pension will boost saving mobilization in the country as well as access to finance.

4.2 Capital Market Developments

The long term debt security offers the investment opportunities to the capital holders to access to risk free investments with good return and very liquid instruments. For the issuer, the Bond market allows to access to affordable long term resources.

Since year 2014, BNR in collaboration with MINECOFIN announced the quarterly issuance calendar of Government Treasury Bonds. The program intends to promote capital market by availing more marketable financial instruments and shaping a long term yield curve for other private instruments. It is also a best alternative way to accessing medium and long domestic resources.

In line with the program, three Bonds were successfully issued in 2014 and four bonds issued in 2015. So far, two bonds that were

planned for the first half of 2016 were successfully issued— a 5 year and a 15 year bond, the longest Rwanda has issued.

Increased participation of institutional and retail investors is evident. The share of banks' investment in T-bonds has declined from 90% in 2014 to 44.4% in June 2016. The share of institutional and retail investors increased to 52.2% and 3.4% respectively. More recently, regional investors have shown appetite to invest in local bonds.

4.3. Credit Reference Bureau Development

Reducing credit information asymmetry through creating an efficient credit information sharing system is one channel to facilitate smart lending and promotes financial stability. Currently, the operating credit bureau (Transunion Rwanda) is providing credit score in addition to credit report previously delivered. The credit score indicates the probability of default of a borrower based on credit repayment history.

Usage of CRB services by financial institutions continue to increase. In the second quarter of 2016, a total of 51,880 searches were made and 45,448 data were found, making the successful rate at 87.6% against 77.6% in December 2015.

The number of subscribers to CRB increased and this increased the size of credit information covered by the bureaux. The number of subscribed institutions increased from 41 institutions in 2011 to 514 institutions in June 2016. In addition to the availability of credit information to lenders, the credit bureau coverage of adult population (from 15 years old and above) increased to 21.15% in June 2016 from 18.80% in June 2015.

4.4. The Payment System

In addition to the implementation of a robust financial, legal and regulatory frameworks over the past periods, the modernization of payment system has been a catalyst to ensuring financial sector stability and growth. The first half 2016 registered significant progress in payment system compared to the previous periods.

4.4.1. Rwanda Integrated Payments Processing System (RIPPS)

RIPPS is an integrated system comprising of Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH) and Central Securities Depository (CSD). The RIPPS continued to operate smoothly in the first half of 2016.

Comparing the first half of 2016 with the first half of 2015, customers' transactions increased by 11% in volume from 1,234,214 transactions to 1,374,887 transactions and increased in value by 16% from FRW 1,821 billion to FRW 2,115 billion. Bank transactions through interbank transfers increased by 65% from 6,242 to 10,314 in volume and by 37% from FRW 1,060 billion to FRW 1,450 billion in value. Cheque transactions remained almost the same with a slight change of 1% from 143,854 to 142,424 in volume and 4% from FRW 334 billion to FRW 348 billion in value.

4.4.2. Card based payment system

Between June 2015 and June 2016, the number of ATMs increased by 10% from 361 to 398 while the number of POS devices increased by 27% from 1,339 to 1,707. The increase came from increased demand from merchants like hotels and supermarkets. The number of cards remained almost the same with the slight increase of 4% from 658,024 in June 2015 to 685,385 in June 2016.

Monetary Policy and Financial Stability Statement, 25th August 2016

The number of transactions on ATMs and POSs increased between June 2015 and June 2016. Payment transactions at ATMs transactions increased slightly by 1% from 3,679,144 to 3,719,152 in volume and by 10% from 172 billion FRW to 188 billion FRW in value while the payment at POS transactions increased by 84% from 146,038 to 269,241 in terms of volume and 39% from 12 billion FRW to 16 billion FRW in terms of value.

Table 39: Penetration of touch points per 100,000 adult population and payment usage per capita 2013-2016

| Payment Instrument usage per capita | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|--|--------|--------|--------|--------|
| Rate of penetration of ATMs per 100,000 adult pop. | 5.3 | 5.4 | 5.6 | 5.9 |
| Rate of penetration of POS per 100,000 adult pop. | 13.0 | 16.8 | 20.6 | 25.5 |
| Rate of penetration of Cards per bank accounts | 17.2% | 26.8% | 28.9% | 29.6% |
| Average usage of card on ATM | 8.9 | 11.8 | 11.2 | 11.2 |
| Average usage of card on POS | 0.2 | 0.2 | 0.3 | 0.7 |

Source: BNR, Payment System Department

Despite the above progressive trend, the penetration of payment touch points is still limited compared to other countries in the region or the middle income country like South Africa as per below table.

Table 40: Comparison of ATMs and POS terminal penetration rate

| Countries | NO. OF ATMS (PER 100 000 ADULTS) | POINT-OF-SALE TERMINALS (PER 100,000 ADULTS) |
|--------------|----------------------------------|--|
| Kenya | 9.99 | 49 |
| Uganda | 4.77 | N/A |
| Tanzania | 5.79 | 16 |
| South Africa | 61.88 | 712 |
| Rwanda | 5.9 | 25.5 |

Source: BNR, Payment System Department

4.4.3. Mobile Financial Services and Internet banking

Mobile technology continues to play a big role in enhancing electronic payments with the aim of creating an inclusive cashless society in Rwanda. Between June 2015 and June 2016, the rate of active mobile money holders increased by 14% to 2,986,696 (36%). With regard to access points (agents), the penetration rate of agents per 100,000 adult population increased by 27%, from 453 to 577 agents between June 2015 and June 2016.

Similarly, between June 2015 and June 2016, the registered mobile money accounts increased by 22% to FRW 8.3 million and the volume of transaction increased by 21% to FRW 94.2 million. However, the value reduced by 17% from FRW 562 billion to FRW 469 billion between June 2015 and June 2016. From July 2015, one telecommunication company removed promotional fees on mobile money services, especially those that involve higher value transactions, and this caused a decline in value of these transactions. Fees applied to low value transactions (e.g. buying airtime) remained unchanged and were the main cause for overall increase in volume of mobile money transactions.

The usage of internet and mobile banking also registered an increase between June 2015 and June 2016 as outlined in the following table.

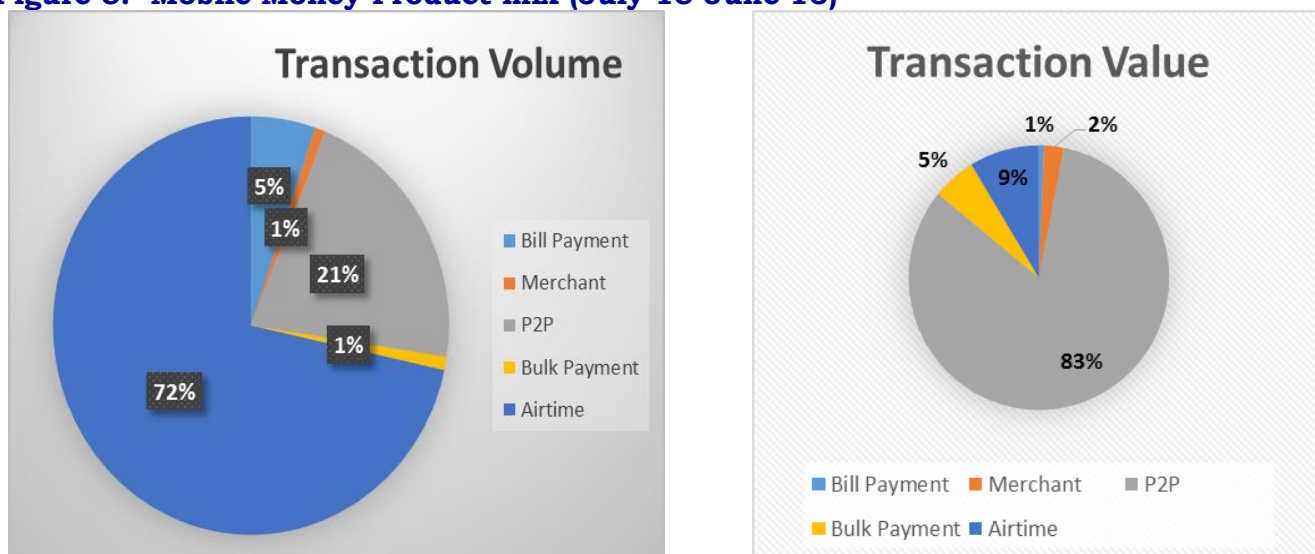
Table 41: Mobile financial Services and internet banking developments

| Period | Mobile Banking | | | Internet Banking | | | Mobile (Money) Payment | | |
|---------------|----------------|----------------------|---------|------------------|----------------------|--------|------------------------|------------------------|----------------------|
| | Volume | Value in FRW million | Users | Volume | Value in FRW million | Users | accounts | Number of transactions | Value in FRW million |
| Jan-June 2015 | 1,615,574 | 18,537 | 770,275 | 214,904 | 211,241 | 33,971 | 6,834,749 | 77,698,985 | 562,455 |
| Jan-June 2016 | 1,945,598 | 17,153 | 862,945 | 254,759 | 356,197 | 47,586 | 8,371,693 | 94,254,063 | 469,243 |
| Change | 20% | -7% | 12% | 19% | 69% | 40% | 22% | 21% | -17% |

Source: BNR, Payment system Department

The following figure indicates that mobile money usage is still dominated by airtime in terms of volume and P2P in value. Other payment services are still limited.

Figure 5: Mobile Money Product mix (July 15-June 16)



Source: BNR, Payment system Department

New products including cross border transfers, government payment and saving are at nascent stage. The following table highlights transactions registered in the first half of 2016.

Table 42: Jan-June 2016

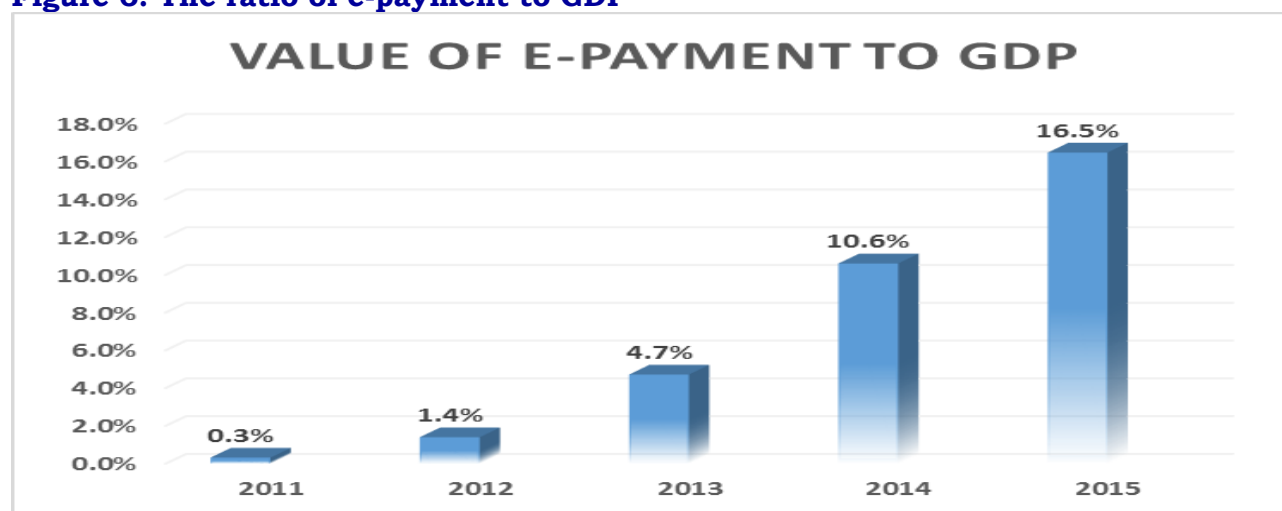
| Services | Volume | Value (FRW in Million) |
|--------------|---------|------------------------|
| Saving | 158,427 | 2,596 |
| Cross border | 26,882 | 1,002 |
| P2G | 71,655 | 492 |

Source: BNR, Payment system Department

4.4.4. The share of electronic payment to national economic growth

The following data indicates that the ratio of electronic payments transactions to GDP has increased from 0.3% in 2011 to 16.5% as of end December 2015.

Figure 6: The ratio of e-payment to GDP



Source: BNR, Payment system Department

4.4.5. Geographical distribution payment access points

As of end June 2016, the biggest number of payment access points (ATMs & POS terminals and mobile money agents) is located in Kigali City while the lowest number of ATMs and mobile money agents is located in Northern Province. Besides, the Eastern Province registered the lowest number of POS terminals.

Table 43: Payment access points

| Access Points | Geographic area | Eastern Province | Kigali City | Northern Province | Southern Province | Western Province | TOTAL |
|---------------------|-----------------|------------------|-------------|-------------------|-------------------|------------------|-------|
| ATMs | Number | 57 | 202 | 34 | 50 | 55 | 398 |
| | % | 15% | 49% | 9% | 13% | 14% | |
| POS | Number | 52 | 1,377 | 87 | 86 | 105 | 1,707 |
| | % | 2% | 84% | 4% | 4% | 6% | |
| Mobile money Agents | Number | 8216 | 18880 | 7116 | 9384 | 12233 | 55829 |
| | % | 15% | 34% | 13% | 17% | 22% | |

Source: BNR, Payment system Department

4.5. Access to Finance

In addition to ensuring a sound and stable financial sector, BNR also prioritizes access to finance. The findings from the FinScope Rwanda 2016 survey revealed that financial inclusion was at 89%, up from 72% in 2012. Financial exclusion declined from 28% in 2012 to 11% in 2016.

The banking network development, especially the bank agency network, continues to increase access to financial services. For the period under review, the number of commercial banks' branches & sub-branch network increased by 5% from 521 in June 2016 to 547 in June 2016. The number of accounts was 2,318,892 end June 2016 from 2,278,867 end June 2015. Further, the number of agents increased by 45.8% to 4,342, Kigali city hosting 27.2% of them.

Table 44: Geographical banking financial services access end June 2016

| DISTRIBUTION | CITY OF KIGALI | NORTH PROVINCE | EASTERN PROVINCE | WESTERN PROVINCE | SOUTHERN PROVINCE | TOTAL JUN-16 | TOTAL JUN-15 |
|---------------------------------|----------------|----------------|------------------|------------------|-------------------|--------------|--------------|
| NUMBER OF BRANCHES | 73 | 19 | 25 | 31 | 29 | 177 | 161 |
| NUMBER OF SUB BRANCHES | 45 | 28 | 33 | 42 | 39 | 187 | 196 |
| NUMBER OF COUNTERS/ OUTLETS | 78 | 19 | 34 | 21 | 31 | 183 | 164 |
| TOTAL | 196 | 66 | 92 | 94 | 99 | 547 | 521 |
| CLIENTS ACCOUNTS (In thousands) | 1,177 | 223 | 335 | 286 | 298 | 2,319 | 2,279 |
| NUMBER OF AGENT BANKING | 1182 | 945 | 743 | 777 | 695 | 4,342 | 2,978 |

Source: BNR, Bank Supervision Department

Further, the distribution of loans by Province indicated that the Eastern Province recorded the highest growth of new credit (45%), followed by the Northern Province (19%) and Kigali city (17%). While the overall increase was positive (18%) when compared to the same period in 2015.

Table 45: Distribution of new loans by Province (in FRW billion)

| PROVINCE | Jan-Jun-12 | Jan-Jun-13 | Jan-Jun-14 | Jan-Jun-15 | Jan-Jun-16 | Change Jun-16/ Jun-15 |
|------------------------|--------------|--------------|--------------|--------------|--------------|-----------------------------|
| NORTH | 12.2 | 10.5 | 13.8 | 18.1 | 21.7 | 19.4% |
| SOUTH | 19.4 | 10.6 | 20.6 | 21.0 | 24.1 | 15.1% |
| EAST | 15.3 | 17.1 | 30.0 | 18.9 | 27.3 | 45.0% |
| WEST | 27.3 | 10.4 | 40.9 | 21.9 | 24.2 | 10.5% |
| KIGALI CITY | 177.5 | 171.7 | 220.4 | 280.9 | 329.3 | 17.2% |
| TOTAL | 251.7 | 220.4 | 325.7 | 360.8 | 426.7 | 18.3% |

Source: BNR, Financial Stability Directorate

Considering distribution of loans by type of borrowers, 40% of the new loans were distributed to individuals in the first six months of 2016 and the value of new loans to individuals increased at an annual average of 8 % from FRW 146 billion in June 2012 to FRW 151 billion in June 2016.

Table 46: New financing to activity sector by type of borrowers

| Economic activities | Jan-Jun 2014 | | Jan-Jun 2015 | | Jan-Jun 2016 | |
|--|-------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | Corporates (% share) | Individuals (% share) | Corporates (% share) | Individuals (% share) | Corporates (% share) | Individuals (% share) |
| Non-classified activities | 4% | 96% | 2% | 98% | 0% | 100% |
| Agricultural, fisheries & livestock | 35% | 65% | 31% | 69% | 22% | 78% |
| Mining activities | 100% | 0% | 73% | 27% | 99% | 1% |
| Manufacturing activities | 97% | 3% | 91% | 9% | 98% | 2% |
| Water & energy activities | 100% | 0% | 92% | 8% | 100% | 0% |
| Mortgage industries | 56% | 44% | 61% | 39% | 41% | 59% |
| Commercial & hotel | 58% | 42% | 61% | 39% | 70% | 30% |
| Transport & warehousing | 68% | 32% | 76% | 24% | 64% | 36% |
| OFI & Insurance | 90% | 10% | 91% | 9% | 89% | 11% |
| Service sector | 81% | 19% | 93% | 7% | 77% | 23% |
| Total | 60% | 40% | 59% | 41% | 60% | 40% |

Source: BNR, Financial Stability Directorate

Furthermore, access to finance in Microfinance Institutions improved. The number of deposit accounts in microfinance institutions increased by 10.6% from 2.7 million in June 2015 to 3.0 million end June 2016 of which 38.3% are owned by females and 74% representing accounts opened with UMURENGE SACCOs. The number of loans increased by 13.6% from 167.1 thousand in June 2015 to 189.7 thousand by June 2016 of which 31.5% are loans granted to females.

Table 47: Deposit and Loan Accounts in Microfinance Institutions

| MFIs + USACCOs | Jun-15 | Dec-15 | Jun-16 | Change (in %) June 2016/15 |
|----------------------------------|----------------|----------------|----------------|-----------------------------------|
| No. of Accounts Owned by: | 2,718.9 | 2,793.9 | 3,008.3 | 10.6 |
| Females | 1,046.0 | 1,081.8 | 1,153.2 | 10.3 |
| Males | 1,440.8 | 1,463.3 | 1,580.1 | 9.7 |
| Groups/entities | 232.1 | 248.8 | 275.0 | 18.5 |
| No. of loans outstanding | 167.1 | 171.4 | 189.7 | 13.6 |
| Females | 49.3 | 63.1 | 59.8 | 21.4 |
| Males | 111.5 | 102.2 | 123.7 | 10.9 |
| Groups/entities | 6.3 | 6.1 | 6.2 | -1.4 |

Source: BNR, Microfinance Supervision Department

Considering SMEs financing, the outstanding loans to SMEs increased by 12.2% to FRW 282 billion between June 2015 and June 2016. However, the number of SMEs financed reduced by 28.3% to 43,483 from 60,634.

Table 48: SMEs banking sector financing levels by activity sectors

| Sector | Jun-2015 | | Jun-16 | | % Change (Jun-15/16) | |
|---|-----------------|--------------------------------------|-----------------|--------------------------------------|----------------------|---------------------|
| | Numbers of SMEs | Outstanding Amounts (in Million FRW) | Numbers of SMEs | Outstanding Amounts (in Million FRW) | Numbers of SMEs | Outstanding Amounts |
| Agriculture-Coffee | 27 | 1,596 | 34 | 699 | 25.9% | -56.2% |
| Agriculture-Tea | 8 | 133 | 9 | 245 | 12.5% | 84.5% |
| Other agriculture-Export | 6 | 100 | 7 | 100 | 16.7% | 0.0% |
| Agriculture-Livestock | 192 | 3,628 | 278 | 3,043 | 44.8% | -16.1% |
| Agriculture-Others | 4,509 | 8,774 | 1,504 | 25,325 | -66.6% | 188.6% |
| Fishing | 8 | 77 | 4 | 532 | -50.0% | 594.7% |
| Mining | 5 | 435 | 13 | 44 | 160.0% | -89.9% |
| Manufacturing-Agro Industries | 358 | 2,845 | 84 | 2,887 | -76.5% | 1.5% |
| Manufacturing-Other Industries | 106 | 5,410 | 135 | 3,050 | 27.5% | -43.6% |
| Water & energy activities | 2 | 683 | 19 | 619 | 850.0% | -9.4% |
| Mortgage-Residential houses | 7,800 | 64,490 | 6,944 | 76,768 | -11.0% | 19.0% |
| Mortgage-Commercial houses | 1,439 | 18,324 | 1,795 | 30,996 | 24.7% | 69.2% |
| Mortgage-Hotels | 10 | 15,221 | 56 | 13,056 | 460.0% | -14.2% |
| Mortgage-Others | 618 | 4,489 | 129 | 4,903 | -79.1% | 9.2% |
| Commerce | 40,715 | 92,561 | 27,596 | 63,401 | -32.2% | -31.5% |
| Hotels & Restaurants | 699 | 9,702 | 299 | 6,040 | -57.2% | -37.7% |
| Transport & Warehousing | 1,117 | 10,141 | 836 | 29,201 | -25.1% | 188.0% |
| Other financial Institutions & Insurance | 22 | 117 | 484 | 1,636 | 2148.6% | 1296.0% |
| Education | 268 | 2,053 | 577 | 6,686 | 115.3% | 225.6% |
| Health and social actions | 295 | 1,886 | 202 | 1,502 | -31.5% | -20.4% |
| Public administration & Defense | 138 | 316 | 97 | 696 | -29.7% | 120.4% |
| Other services activities | 246 | 6,517 | 403 | 6,490 | 63.7% | -0.4% |
| Non-classified activities | 2,048 | 2,282 | 1,978 | 4,562 | -3.4% | 99.9% |
| TOTAL | 60,634 | 251,780 | 43,483 | 282,482 | -28.3% | 12.2% |

Source: BNR, Financial Stability Directorate**Monetary Policy and Financial Stability Statement, 25th August 2016**

The level of risks limit the level of financing in SMEs. As at June 2016, out of 25,213 number of loans applied for, only 22,573 number of loans were financed, making the level of rejection rate at 9% in terms of numbers and 7% in terms of value of loans.

V. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

5.1. Monetary Policy Outlook

In the context of slowing global economic growth, BNR will continue to implement its monetary and exchange rate policy to keep inflation low and stable.

However, the continued strengthening of the USD and the decline in Rwanda's export earnings may continue to exert pressures on the value of the FRW and increase the exchange rate pass through to domestic prices, which, together with the volatility in food prices, may call for a more prudent monetary policy to ensure macroeconomic stability.

BNR will continue to increase its policy oriented research to ensure that developments on international, regional and domestic markets are well understood and taken into consideration when BNR decides on the monetary policy stance.

In addition, BNR will continue to ensure that the banking system liquidity is well managed to support the development of the money market, which is key for the future efficiency of monetary policy. Indeed, developments in the financial system during the last decade in line with the overall economic development in Rwanda calls for a more price based monetary policy to ensure optimal financing of economic activities.

BNR will also continue to ensure that all requirements for the use of the interest rate as an operational objective are in place before the end of 2018. These include: having active primary and secondary markets. Aiming to enhance the trading activities on the secondly market, BNR

is will put in place the framework of Market intermediaries for Government Securities by September 2016.

5.2 Financial Sector regulatory reforms and Way Forward

In order to maintain stability and efficiency in the financial sector, the National Bank of Rwanda intends to focus on the following activities in 2016 with regard to the financial sector.

1. Banking sector

- a. BNR issued a directive on general provision, which require banks to hold additional provisions for performing loans: 1% for loans in normal category and 3% for loans in watch category. This directive was published on 15th March 2016 and its purpose is to enhance capital position of banks for loss absorption
- b. BNR also issued a regulation requiring banks to publish their financial statements. This regulation was published on 27/07/2016 and aims to enhance disclosure and transparency in the banking sector.
- c. The Central Bank initiated the drafting of regulations governing the operations of Central Securities Depository (CSD) and electronic money issuance. The regulations will establish the safeguarding measures for the management of securities and electronic money respectively.
- d. BNR will continue to enhance the regulatory framework for ensuring that banking sector is safe and sound against any threat and vulnerabilities.

2. Microfinance Sector

- a. In addition to the follow up of the consolidation of SACCOs at district level and their computerization process, BNR will continue

to conduct a close supervision of microfinance institutions with focus on monitoring the implementation of recommendations provided for improving the quality of SACCOs' loan portfolio management;

- b. Continue the legal reforms to catch up with dynamism in the industry.

3. Insurance and Pension Sector

- a. The revised draft insurance law is being reviewed by the Law Reform Commission;
- b. A directive on market conduct of insurers was drafted in June 2016 and discussed with all stakeholders. This directive aims to provide guidelines on dividend payment, handling of insurance receivables, underwriting guidelines and regulatory reporting deadlines. This regulation is being finalised and shall be published for enforcement.
- c. Licensing pension regulation (Licensing and operating standards) have been sent to Prime Minister's office for Publication in the official gazette.
- d. Awareness workshop on the registration process of the private pensions was conducted in May, 2016. It is expected that licensing private pension will boost saving mobilization in the country as well as access to finance.

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