

# NATIONAL BANK OF RWANDA

## *Monetary policy and financial stability statement*

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# OVERVIEW

I. Economic Outlook in 2008

II. Monetary Developments and Financial Stability in 2008

III. Monetary Policy and Financial Sector Reforms in 2009

# I. ECONOMIC OUTLOOK IN 2008

# I.1. INTERNATIONAL ECONOMIC ENVIRONMENT

- Inflationary shock in the first half of year: 3.5% in 2008 against 2.1% in 2007 (advanced economies); 9.2% in 2008 against 6.4% in 2007 (emerging and developing economies)
- Unprecedented global financial crisis
- Global economic recession:

2007: 5.2%

2008: 3.4%

2009: 0.5%

# I.1. INTERNATIONAL ECONOMIC ENVIRONMENT (CTD)

- Interest rates cut in advanced economies
- High volatility in financial markets, including exchange rates.

## I.2. NATIONAL ECONOMIC ENVIRONMENT

### 1.2.1. Economic Growth

- Sustained Economic growth:
  - 2007: 7.9%
  - 2008: 11.2%
- A strong recovery in Agriculture sector: 15% in 2008 from 0.7% in 2007.

## I.2. NATIONAL ECONOMIC ENVIRONMENT (Ctd)

### 1.2.2. External Trade and Balance of payments

- Most of the exports sectors performed well: 37.5% increase in value, mainly due to high prices until September 2008;
- Good performance in the hospitality industry: 30% increase in number of foreign visitors;
- Non traditional exports products performed particularly well: 132.3% increase in value;

## I.2. NATIONAL ECONOMIC ENVIRONNEMENT (Ctd)

- The global economic recession is however affecting some exports sectors like mining industry since last quarter 2008
- The imports bill increased by 54.2%, mainly due to the global inflation
- The current account deficit excluding grants widened from 18.8% of GDP in 2007 to 21.3 % in 2008;
- The global balance of payments was positive (+52.0 millions dollars).

## **II. MONETARY DEVELOPMENTS IN 2008**

## II.1. INFLATION

- Rwanda has experienced high inflationary pressures due to both international and local factors.
- Annual inflation: from 6.6% in December 2007 to 22.3% in December 2008;
- However, the inflation is stabilizing: 0.7% between September and December 2008 and 0.2% in January 2009

## II.2. Monetary Aggregates, Liquidity Management and Interest Rates

- **Monetary Aggregates**
- Broad money: increased moderately by only 9.6% against an average increase of 25.7% in 2005 - 2007. This development was due to:
  - ✓ Increase in the absorption capacity of the economy as reflected in the significant increase in foreign exchange sells to commercial banks (+59.7%);
  - ✓ Increase in capital component of public spending which resulted in increased government spending in foreign exchange (59.2%).

## II.2. Monetary Aggregates, Liquidity Management and Interest Rates (ctd)

- Currency in circulation increased by 28% in 2008 as compared to 20% in 2007 as consequence of high inflation;
- Deposits increased moderately by 6.4% in 2008 against 35% in 2007.

## Liquidity trend and interest rates

- The excess liquidity has been declining over the year 2008.
- The outstanding amount of 58.6 billion NBR domestic debt by end December 2007 reduced to 16.6 billion end December 2008;
- Outstanding stock of short term government T-bills reduced by 17 billion in 2008 as well;

## Liquidity trend and interest rates (ctd)

- In this context, NBR introduced in August 2008 a new money market policy rate to guide the market: The key Repo rate was fixed at 8% with an interbank corridor set at ]6.75%, 9.25%[;
- The new policy rate has been effective as inter bank rates fluctuated within the defined band;
- Interest rates in the money market took an upward trend since last quarter 2008 : the interbank rate moved from 6.97 % in September 2008 to 7.74 % in December 2008.

## II.3. EXCHANGE RATE AND FOREX MANAGEMENT

- The RWF exchange rate against the US Dollar continued to be quite stable: the overall behavior was 2% depreciation in 2008;
- General trend of appreciation against the Euro (6.2%) and GBP (24.9%);
- NBR maintained its policy of selling forex to commercial banks on demand.

# III. FINANCIAL SYSTEM STABILITY

## III.1 BANKING SYSTEM

### III.1.1. Banking Sector Performance

- The soundness of commercial banks was reinforced and all banks have strengthened their activities in 2008;
- The banks activity, measured by the total balance sheet increased by 33%;
- The Solvency ratio at a consolidated level stood at 15.6 %;
- The Non Performing Loan (NPL) level reduced significantly from 13.8% at the end of December 2007 to 9.3% at the end of December 2008

## III.1.2 Legal and regulatory framework Reforms

- A new banking law has been published on 15th June 2008 and several regulations have been drafted or updated to implement this new banking law

## III.1.3. Banks Restructuring

- The Union des Banques Populaires was converted into a commercial bank (BPR);
- The Rwanda Development Bank (BRD) was recapitalized and Government shares reduced at less than 50%;
- The privatization process of Banque de Kigali (BK) was not completed and has been temporarily postponed due to the current global financial environment;
- Restructuring of BHR is under discussion to convert it into a Mortgage Liquidity Facility.

## III.1.4. Access to banking services

- Significant improvement in term of access to financial services in Rwanda:
  - ✓ 6 new bank branches and 9 counters were opened by existing commercial banks;
  - ✓ A new commercial bank started its operations: Kenya Commercial Bank Rwanda (KCB Rwanda S.A);
  - ✓ The licensing of BPR as a commercial bank increased dramatically the access to banking services network: 18 large branches and 111 sub-branches;
  - ✓ Number of bank accounts increased by 46.6% from 751.142 at the end of December 2007 to 1.101.518 at the end of December 2008 (MFIs not included).

## III.2. Microfinance Sector

- Law governing microfinance activities adopted by the Parliament;
- A new regulation to implement the law has been completed and discussed with the industry;
- Two operational funds put in place by the Government to support the development of the microfinance industry;
- The supervision of operational MFIs has been strengthened;

## III.2. Microfinance Sector (ctd)

- The Governance of MFIs has significantly improved and the delinquency rate reduced significantly from 16.1% in 2007 to 8.2% in 2008;
- Consolidation of MFIs activities: total assets (+45.8% ), deposits (+35%), loans (+66.3% ) and number of clients (+20.9%);
- The consolidated solvency ratio stood at 30% at end December 2008;
- The liquidation process of the 9 MFIs closed in 2006 is still on-going but the loan recovery performance is very low. (Only 200 millions recovered in 2008 from an outstanding amount of 1.8 billion)

## III.3. Nonbank financial sector regulation

- New law governing organization and supervision of the activity of insurers and insurance intermediaries passed by the Parliament in August 2008;
- NBR is now busy drafting all Regulations and Directives provided within this law, and a number of them have been already drafted;
- NBR carried out off-site inspection for all insurance companies and on-site inspection for some companies;
- Risk Based Approach is being designed;
- Financial reporting framework developed;
- A law governing the pension industry has been drafted and discussed with stakeholders.

## III.4. Capital market developments

- The capital Market Advisory Council (CMAC) was launched in January 2008;
- Three Government bonds and one corporate bond issued in 2008;
- CMAC conducted a public education program on capital market business;
- The legal framework for the capital market has been drafted and discussed with stakeholders;
- CMAC initiated other key activities: listing of Governments shares in privatized companies; thinking of E-trading platform, follow up on SAFARICOM IPO, integration with other regional capital market entities.

## III.5. Payment System Modernization

- National Payment Council (NPC) was put in place and is operational;
- National Payment System Framework and Strategy finalised and passed by Government as well.;
- The National Payment Systems law presented to the parliament;
- A draft securities holding law has been finalised.

## III.5. Payment System Modernization (ctd)

- Card based payment systems are developing and the Rwandan banks have been issuing payment cards both debit and credit ;
- Several initiatives are being run by banks in order to provide electronic banking services.

# **IV. MONETARY POLICY AND FINANCIAL SECTOR DEEPENING IN 2009**

# IV.1. The global objective

- Consolidation of macroeconomic and financial stability by:
  - ✓ Safeguarding a stable financial environment conducive to high growth rates (+7% in 2009);
  - ✓ Containing inflation in single digit number;
  - ✓ Keeping the growth of broad money under control (17% increase in 2009);
- Increase access to financial services

## IV.2. Recent Developments and challenges in 2009

- Liquidity in the banking system has been diminishing over the year 2008 as a consequence of a significant improvement in the absorption capacity of the economy;
- Rwanda is likely to be affected by the current global economic recession through four principal transmission channels: decline in commodity demand and prices, slowdown in FDI, NGOs transfers and remittances from the Rwandan diaspora and possibly decline in official transfers;

## IV.2. Recent Developments and challenges in 2009 (ctd)

- Hopefully, the fall in international oil prices, the stability of imported food prices and prospects for a low global inflation in 2009 in general, are perceived as mitigating factors to the negative effects of the above mentioned risks of external shocks.

## III.3. Monetary policy Response

### A. Liquidity management

- **In Short Term**

- To stimulate domestic saving, NBR increased its policy rate in January 2009 from 8% to 9% and reduced the width of the interbank corridor from 3% to 2%;
- In order to provide the banking system with more liquidity to finance the economy:
  - ✓ NBR reduced the reserve requirement ratio from 8% to 5% on February 6th 2009;
  - ✓ All short term Government T-bills maturing in 2009 will not be automatically rolled over;

### III.3. Monetary policy Response (CTD)

- **In the Medium Term**
- Implementation of the domestic saving Mobilization strategy;
- Acceleration of the payment Systems Reforms to keep money within the banking system
- Mobilization of Regional and International Financial Institutions to increase their interventions in Rwanda to sustain the current investment trends.

## B. Exchange rate Policy

- NBR will continue to sell foreign exchange to market in order to smoothen the RWF exchange rate fluctuations and to ensure that Rwanda's exports remain competitive;
- The daily reference rate will be more market driven as the interbank foreign exchange market develop;
- A code of conduct will shortly be in place after ratification by all banks as well as formation of a dealers association;

## IV.4. FINANCIAL SECTOR DEEPENING

### A. Banking sector reforms

- The main priorities for 2009 will include:
  - ✓ Full application of Risk Based Supervision (RBS) and improved use of CAMELS “benchmarks”;
  - ✓ Continued on-site review of banks’ risk management processes and practices ;
  - ✓ Inclusion of the market risk component in the solvency ratio;
  - ✓ Reduce NPL level to 7% for each bank;
  - ✓ Implementation of a Credit Bureau;

# Banking sector reforms (ctd)

- Expansion of the current banks branches network: At least 25 branches and 4 counters will be opened by banks in 2009.
- Development of marketing strategies by banks to raise the awareness of low income segments of the population by offering innovative saving and credit products as well as payment services.

## **B. Expansion and Modernization of the microfinance sector**

- The development of MFIs will focus on overcoming financial exclusion due to various barriers as evidenced by Rwanda FINSCOPE 2008 survey;
- Efforts will be concentrated on capacity building of MFIs and improvement of their MIS;
- Creation of at least one SACCO per UMURENGE in order to promote access to financial services to all and mobilize domestic savings;

## **B. Expansion and Modernization of the microfinance sector (ctd)**

- All licensed MFIs will have to comply with the solvency ratio of 15% by the end of 2009;
- For the remaining prudential norms, the current number of non compliant MFIs should be reduced by half by end 2009 and to zero by end 2010.

## C. Non banking financial sector regulation

- NBR will continue to intensively draft laws for the supervision of insurance sector, pension industry and other collective investment schemes;
- The draft legal instruments to be put in place include: Regulations and Directives provided within the Insurance law, Insurance contract law, Mandatory insurance law, law regulating pension, law regulating the CIS;

## C. Non banking financial sector regulation (ctd)

- Financial and management audit for insurance companies is planned in 2009;
- The Risk Based Approach CAMELS will be introduced.

## D. Capital market developments

- By end of February 2009, a final report of the legal framework study will be ready for implementation;
- The public education program will also continue;
- Some other issuers working on raising debt capital through the bond market: a municipal bond; some corporates;
- We do expect in 2009 trading to the OTC market the first Government shares in privatized companies.

## E. Payment system modernisation

- Government has already made compulsory to all public institution to use bank accounts for their payments;
- NBR will request banks to implement similar measures that will create incentives for their clients to use bank accounts rather than withdraw cash to make payments;
- Integrate and embed a Banking card aspect into the National ID cards;

## E. Payment system modernisation (CTD)

- All banks will closely work with SIMTEL to ensure that our payments infrastructure accepts international cards for the benefit of tourists and business people that visit our country;
- SIMTEL will start to personalize all cards issued in Rwanda at their offices;
- Between 2009 and 2010, the NBR intends to have the payments landscape changing drastically by implementing the RIPPS (Rwanda Interbank Payment and Processing System).

**THANK YOU**