



*The Governor*

## **PRESS RELEASE**

### **QUARTERLY FINANCIAL STABILITY COMMITTEE AND MONETARY POLICY COMMITTEE MEETINGS**

**December 28, 2017** – The quarterly Financial Stability Committee (FSC) and Monetary Policy Committee (MPC) Meetings were held in Kigali on 27<sup>th</sup> and 28<sup>th</sup> December, respectively. The FSC observed that the financial sector continues to play an important role of financing the economy. The committee noted that the financial sector remains adequately capitalized, liquid and profitable. The MPC observed that 2017 is ending with stable macroeconomic conditions as evidenced by low inflationary and exchange rate pressures. Thus, the MPC decided to reduce the policy rate from 6.0 percent to 5.5 percent in 2018Q1.

#### **1. The FSC observed that:**

- 1.1. Assets of the financial sector continued to increase in the third quarter of 2017. Total assets of the banking sector increased by 17 percent (year-on-year) in September 2017 to FRW 2.6 trillion while the microfinance sector (MFIs) increased by 9.5 percent to FRW 242.4 billion. In the same period, assets of the insurance sector and pension increased by 13 percent and 15 percent to FRW 386.6 billion and FRW 690.9 billion respectively.
- 1.2. The financial sector remains well capitalized. As at end September 2017, the Capital Adequacy Ratio of banks and microfinance institutions stood at 22.2 percent and 36 percent respectively, above the BNR regulatory minimum requirement of 15 percent. The solvency of private insurers improved significantly from 37 percent in September 2016 to 160 percent, compared to the prudential benchmark of 100 percent.
- 1.3. Banks and MFIs maintained sufficient liquidity. The banking sector liquidity ratio stood at 42.9 percent at end September 2017, compared to 20 percent minimum prudential requirement. In the same period, the liquidity ratio of MFIs was at 96.1 percent, higher than the minimum prudential requirement of 30 percent.

- 1.4. The quality of the financial sector's assets improved. As at September 2017, the level of NPLs ratio in Banks stood at 7.7 percent down from 8.2 percent as at June 2017, while that of MFIs declined to 8 percent from 12.3 percent in the same period.
- 1.5. The financial sector remains profitable. Total banking system net profit (after tax) stood at FRW 30.6 billion in September 2017 while that of the microfinance sector and the insurance sector was FRW 3.1 and FRW 29.4 billion respectively.

## **2. The MPC noted that:**

- 2.1. In October 2017, the IMF revised upwards the forecasts for the global economic growth to 3.6 percent against 3.5 percent forecasted in July, from 3.2 percent recorded in 2016. As a result, global inflation is projected to slightly increase to 3 percent in 2017 from 2.8 percent in 2016.
- 2.2. In Sub-Saharan Africa, economic growth is projected to increase to 2.6 percent in 2017 from 1.4 percent in 2016, in line with a recovery in international commodity prices that is supporting growth in resource-rich countries. EAC growth is estimated to stabilize at 5.4 percent in 2017 before rising to 5.9 percent in 2018.
- 2.3. The Rwandan economy grew by 8.0 percent in 2017Q3 compared to 4.0 percent and 5.4 percent in 2017Q2 and 2016Q3 respectively, mainly supported by good performance of the agriculture sector and rising international commodity prices.
- 2.4. Rwanda's trade deficit reduced by 21.1 percent in the first eleven months of 2017 compared to the same period of 2016, as a result of the significant increase in formal exports value by 53.7 percent and a decrease in formal imports value by 1.4 percent.
- 2.5. The depreciation of FRW against the USD is expected at 3.07 percent end December 2017 compared to 9.7 percent observed in 2016. The ease in exchange rate pressures was mainly due to good performance of the external sector.
- 2.6. Headline inflation further reduced to 2.2 percent in November 2017, compared to 6.4 percent in November 2016, thanks to the subdued demand-side and supply-side pressures, coupled with the stability of the exchange rate. This enabled BNR to implement an accommodative monetary policy stance since December 2016.

- 2.7. As a result of the above policy stance, broad money expanded by 9.5 percent in November 2017 compared to 4.1 percent in the corresponding period of 2016. Outstanding credit to the private sector expanded by 12.3 percent in November 2017 compared to 8.8 percent in the same period of 2016 while total new authorized loans grew by 7.7 percent from 4.5 percent in the corresponding period of 2016. Despite these improvements, growth in monetary aggregates remains below the historical trends.
- 2.8. In view of the above economic and financial developments, the MPC decided to reduce the key repo rate from 6.0 percent to 5.5 percent in 2018Q1 to continue supporting the financing of the economy.

Done at Kigali, 28<sup>th</sup> December 2017

**RWANGOMBWA John**  
**Governor, Chairman of FSC and MPC**

