



NATIONAL BANK OF RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

21st February, 2019



Outline

- Global and regional economy
- Domestic economy
- Financial sector stability
- Outlook



Global and Regional Economy

- **Global economy slowing down**: 3.8% (2017); 3.7% (est. 2018), 3.5% (proj. 2019)

- But **EAC economy on expansion** path: 5.2% (2017); 5.9% (2018); 6.3% (proj. 2019).

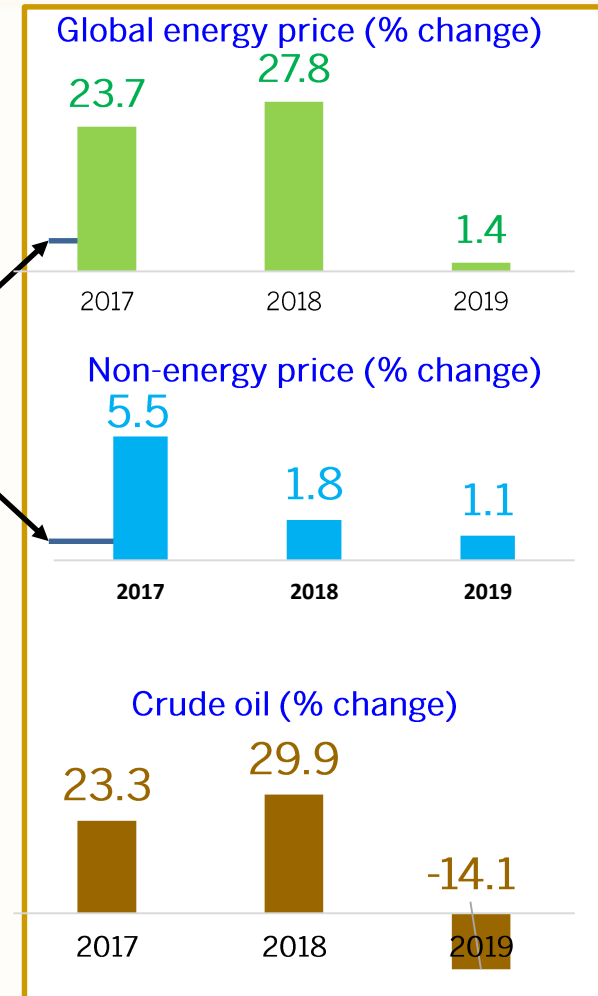
- **Deceleration in growth** rate of global energy and non-energy prices

 - ↪ Oil prices dropping since November 2018 (oversupply and fears of trade wars)

- **World inflation stabilizing** at 3.8% in 2018 and 2019, from 3.2% (2017).

 - ↪ Monetary policy remained accommodative in most advanced economies.

- **USD appreciated against GBP & Euro** but depreciated against JPY

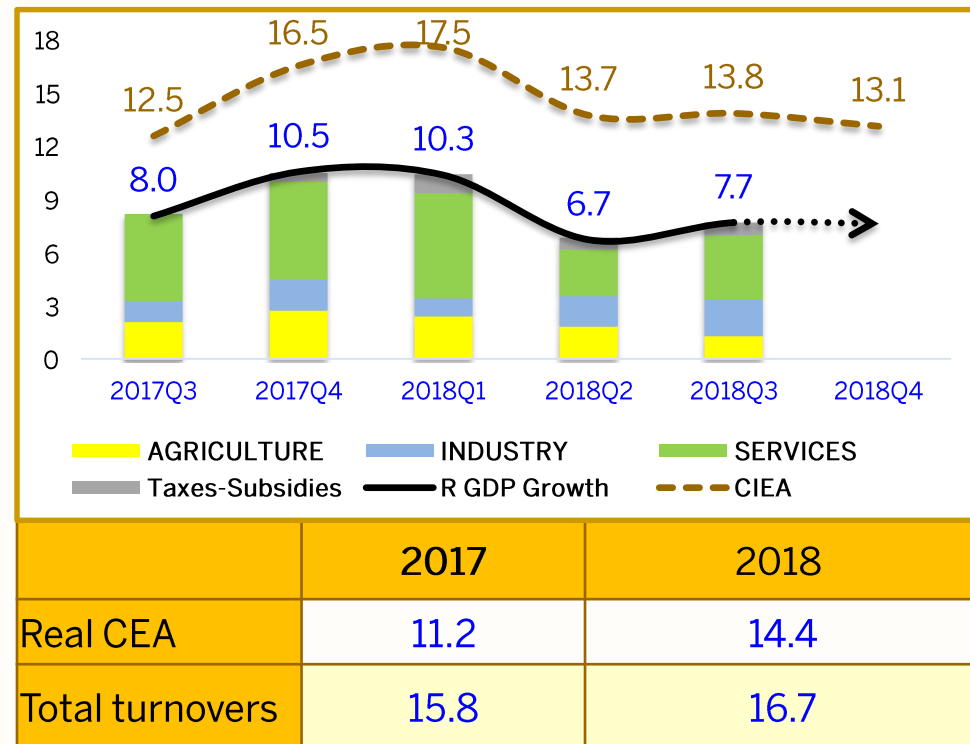
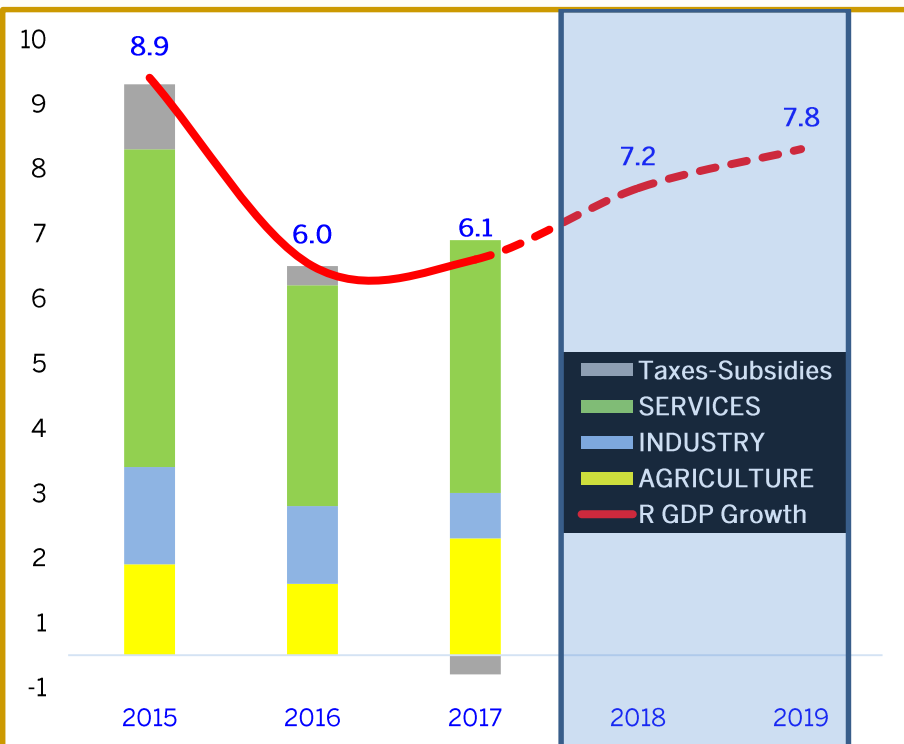




Domestic Economy

Real Sector

- GDP growth likely to be higher than 7.2% initially projected.
- GDP growth: 8.3% (2018Q1-Q3) vs 4.6% (2017Q1-Q3)
- Leading indicators signal continued good performance in 2018Q4

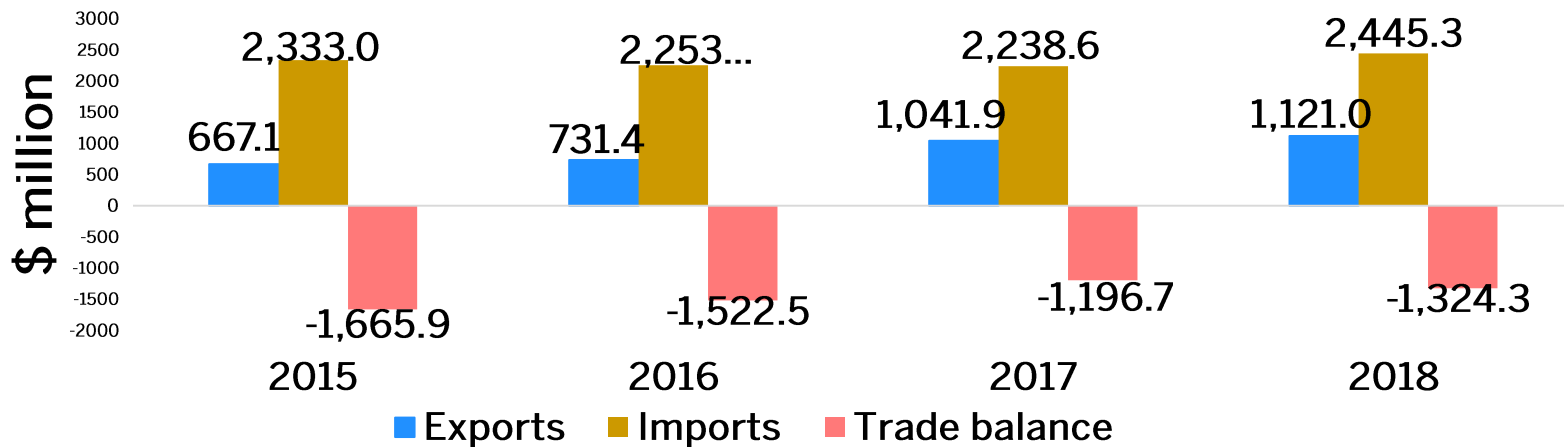


	2017	2018
Real CEA	11.2	14.4
Total turnovers	15.8	16.7



Domestic Economy External Sector

- Trade deficit widened +10.7% (2018)
 - ↳ Imports (+9.2%) while exports (+7.6%)



- Current account (CA) deficit reduced by 9.5% in the first nine months of 2018
 - ↳ Remittances (+22.1%), services receipts (+2.3%)
- The CA deficit mainly financed by steady financial inflows (+12.8%): FDI (+22.3%), private borrowing (+133.5%)
- Exchange rate depreciation remained moderate 2018: 4.0% depreciation against USD



Domestic Economy

External Sector

- Export performance of selected commodities in 2018
 - ↪ Early signs of economic outcome of “Made in Rwanda” policy.

Products (value in \$ million)	2016	2017	2018	% Change 2018/2017
Textiles and text. articles	3.34	4.28	6.28	46.9
Iron and steel iron	2.28	5.13	9.31	81.6
Mattresses	2.11	2.46	3.24	31.8
Flowers	2.5	2.56	3.89	52
Edible vegetables, roots and tubers	3.97	8.14	18.61	128.6
Products of the milling industry	24.86	51.27	52.98	3.2

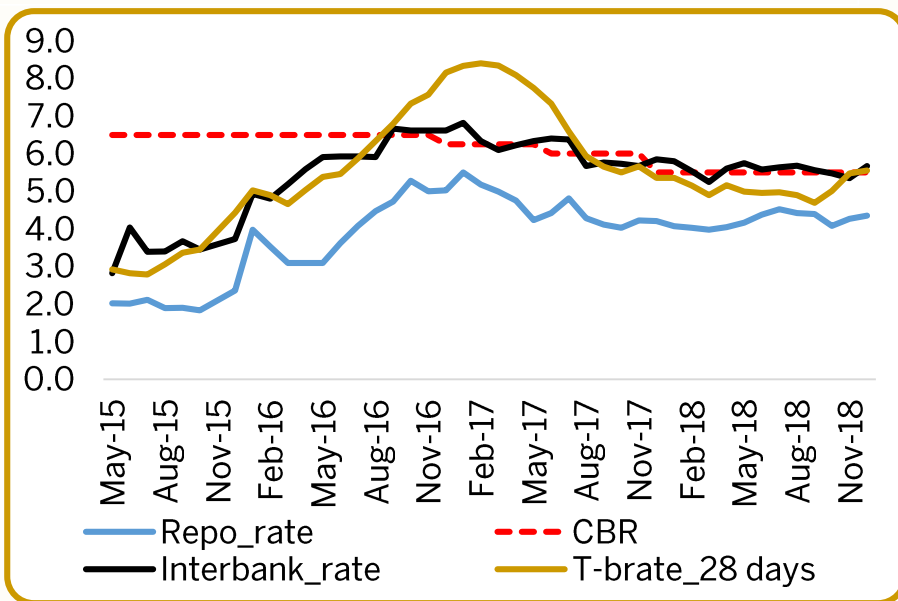


Domestic Economy

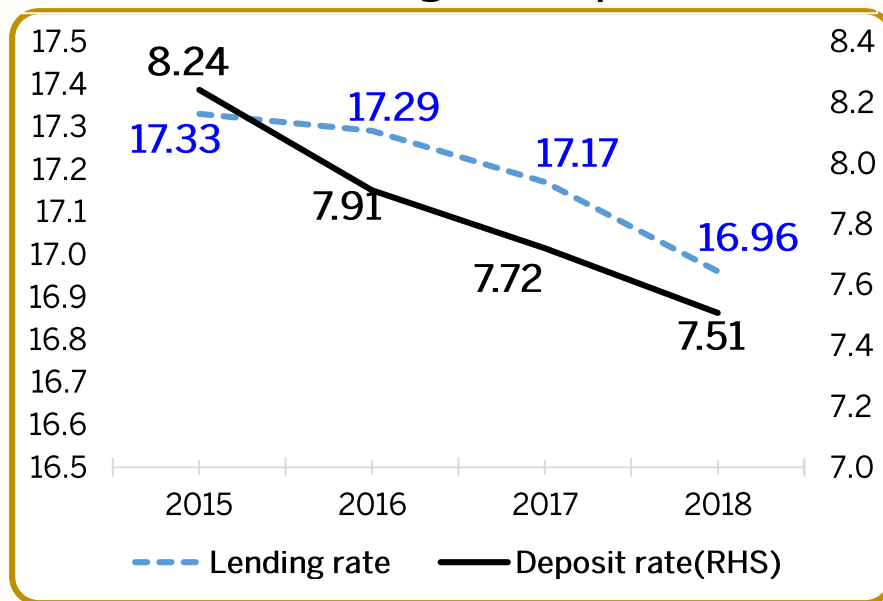
Monetary Sector

– Improving monetary transmission mechanism :

↪ Money market rates converging towards CBR



↪ Downward trend in commercial banks' lending and deposit rates



A decline in T- bond rates (2018 compared to 2017):

- 3 years: from 12.0% to 11.15%
- 5 years: from 12.20% to 11.80%
- 7 years: from 12.40% to 12.18%
- 10 years: from 13.0% to 12.20%
- 15 years: from 13.50% to 12.90%

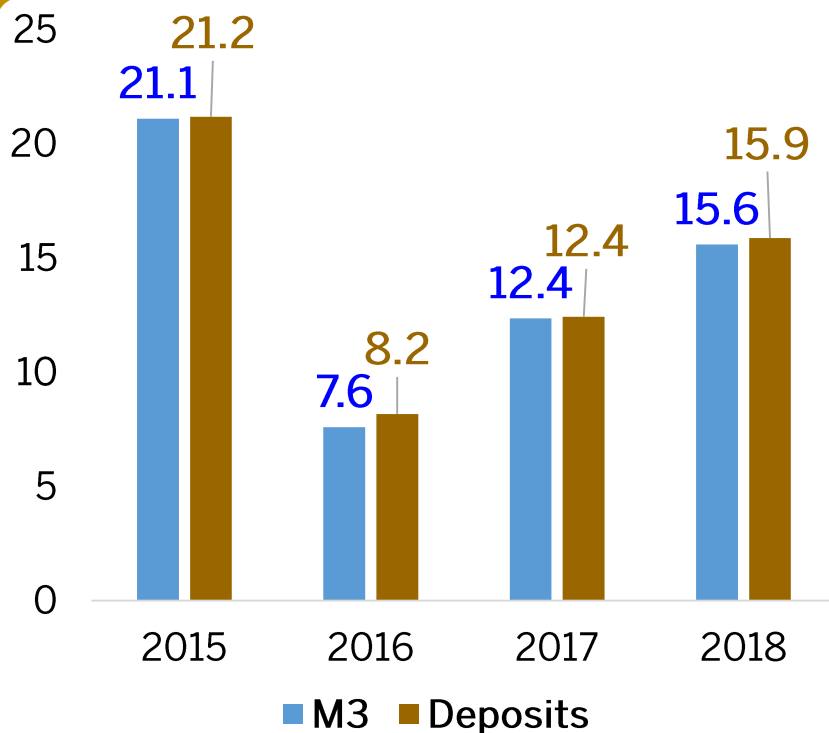


Domestic Economy

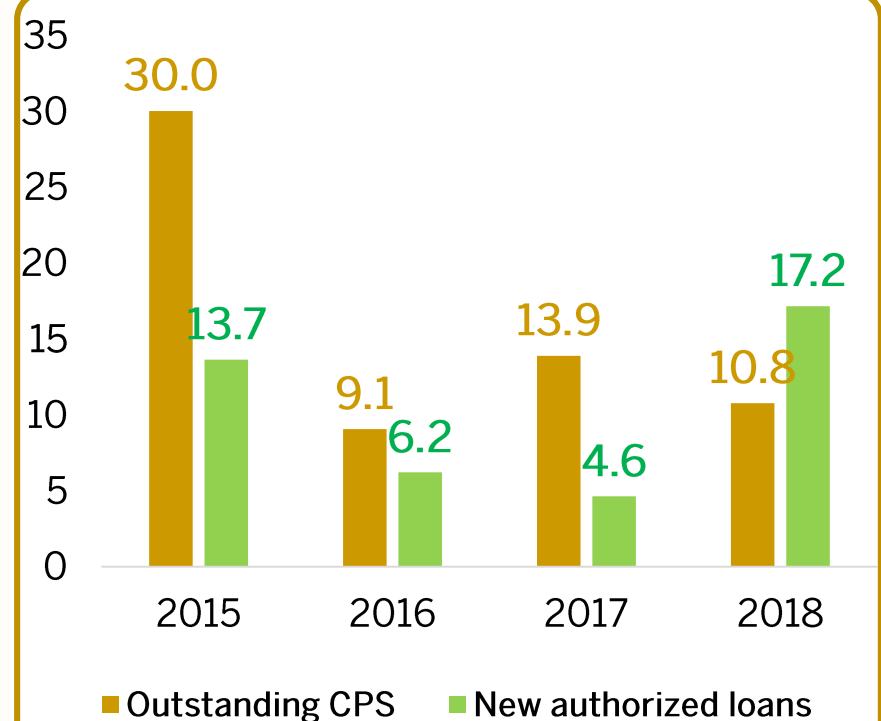
Monetary Sector

- NBR maintained accommodative monetary policy by keeping the policy rate at 5.5%
 - ↳ Monetary aggregates significantly increased compared to 2017

M3 and deposits (growth in %)



CPS and New authorized loans (growth in %)

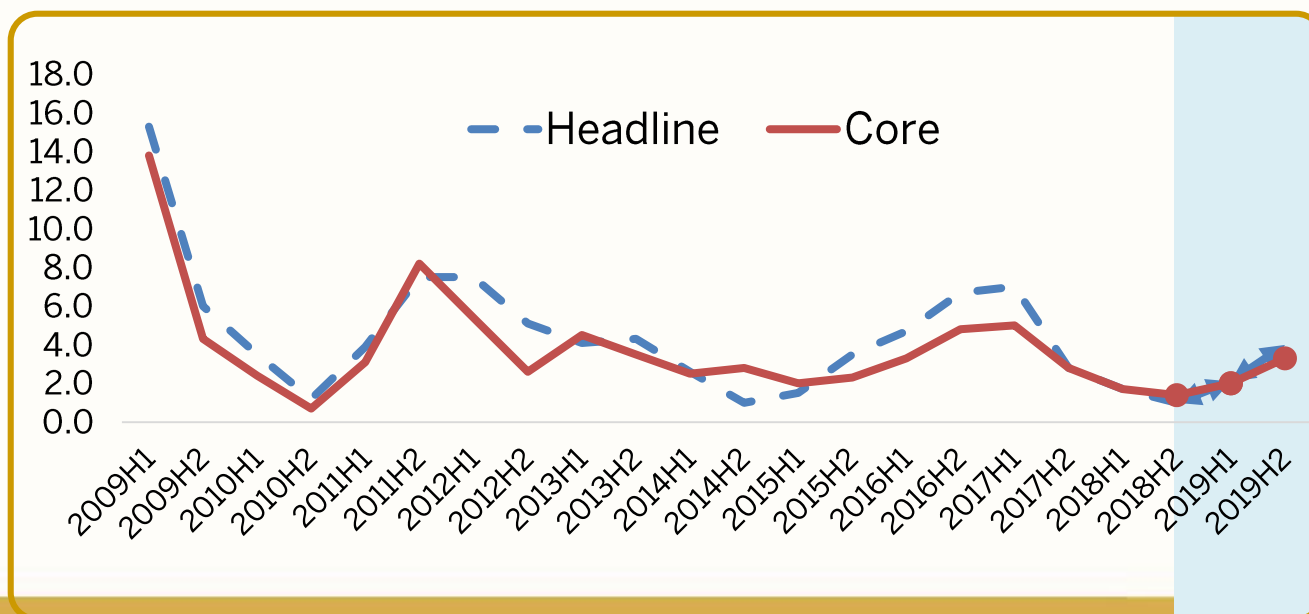




Domestic Economy

Inflation

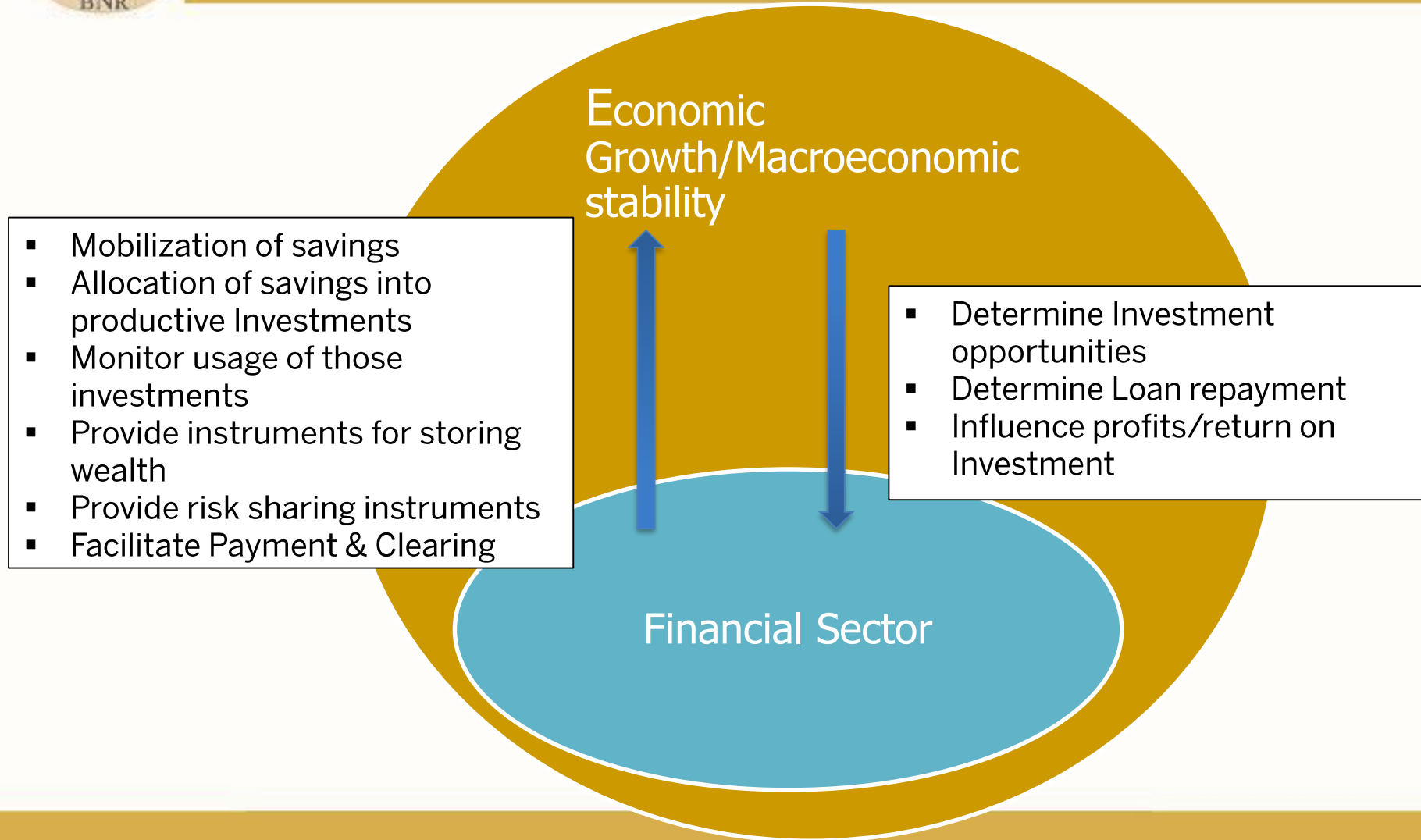
- Headline inflation dropped from 4.9% in 2017 to 1.4% in 2018, partially driven by good agricultural production.
- Core inflation decreased from 3.9% in 2017 to 1.6% in 2018, as aggregate demand remaining below potential.
- In 2019, inflation is expected to evolve at around 3.0%.





Macro-financial Linkages

Good Economic Performance supported the growth and stability of the financial sector

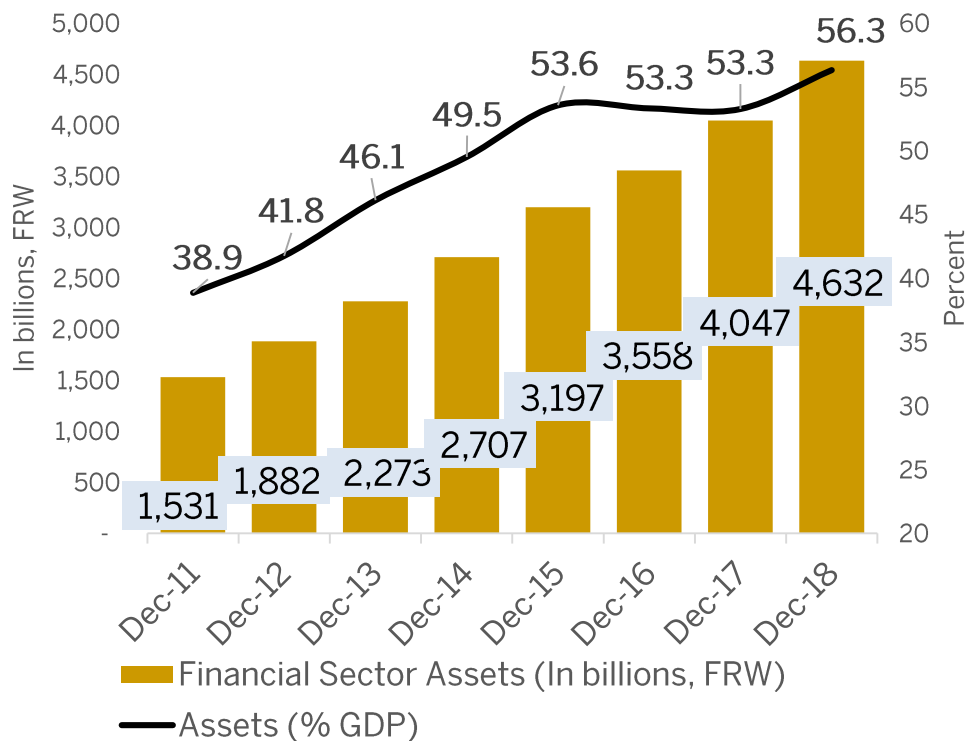




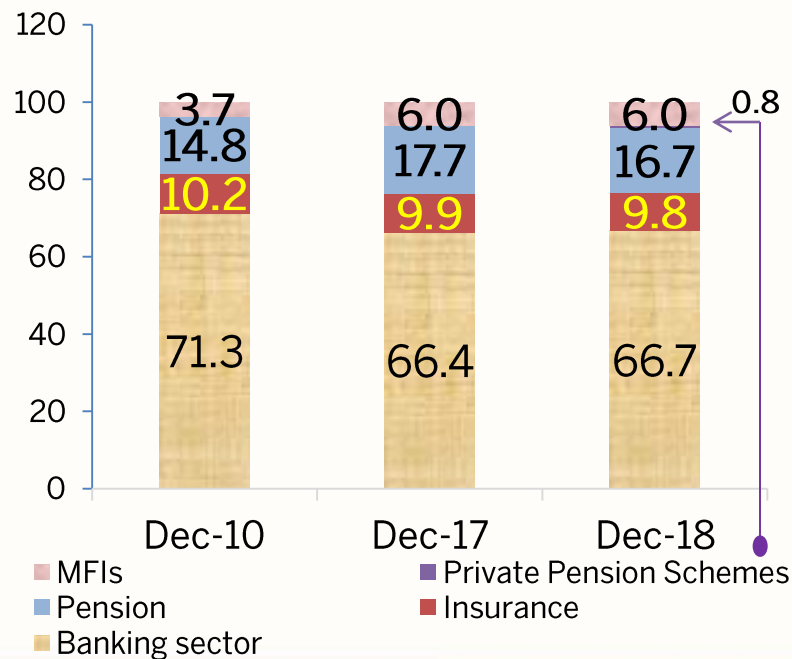
Financial Sector: Structure & Growth

- The financial sector **3** times bigger than it was 8 years ago. Banks dominate the financial sector;
- In 2018, assets increased by **14.5%**, from **13.7%** in 2017;
- 16** banks; **459** MFIs; **16** Insurers; **1** Mandatory Pension (RSSB); **12** Private Pensions

Financial Sector Assets (2011-2018)



Composition of the Financial Sector (% of Total Assets)



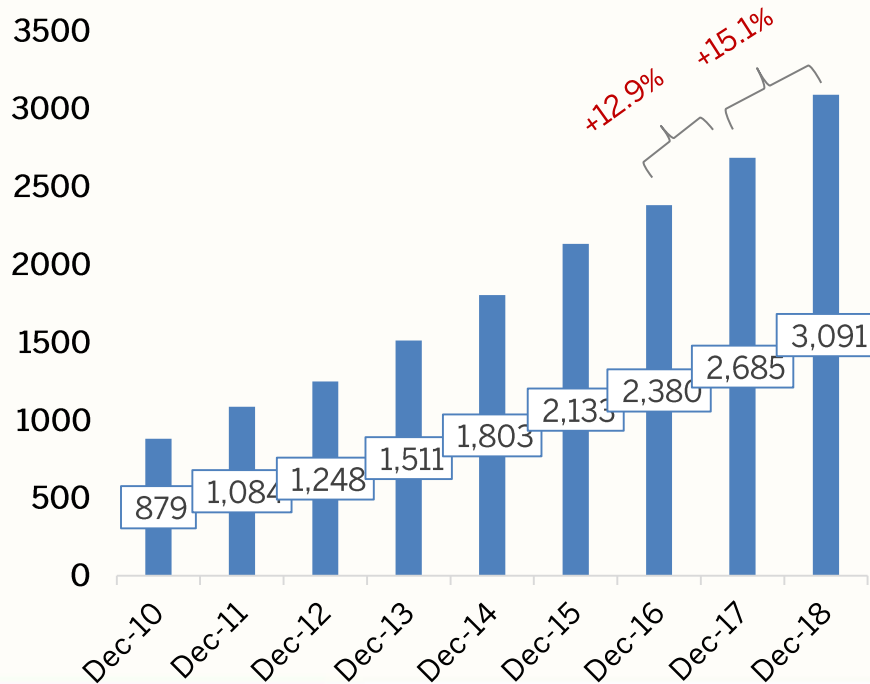


Banking Sector: Growth

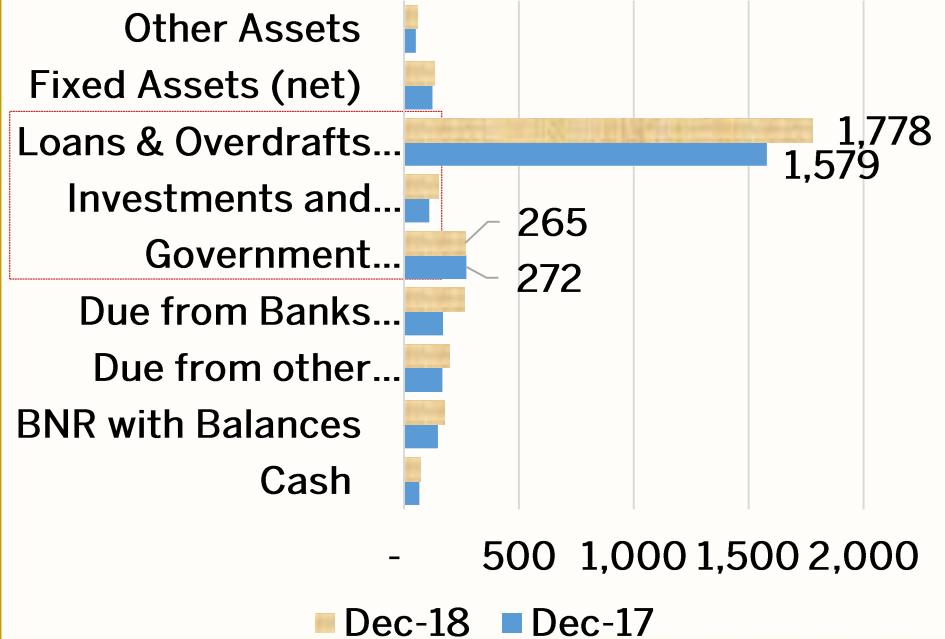
- Growth of assets in 2018 mainly driven by growth of deposits and capital injection
- Lending remains the main business of banks

Demand for loans/loan repayment determine performance of banks

Banking Sector Assets



Asset mix of Banks (Billion FRW)

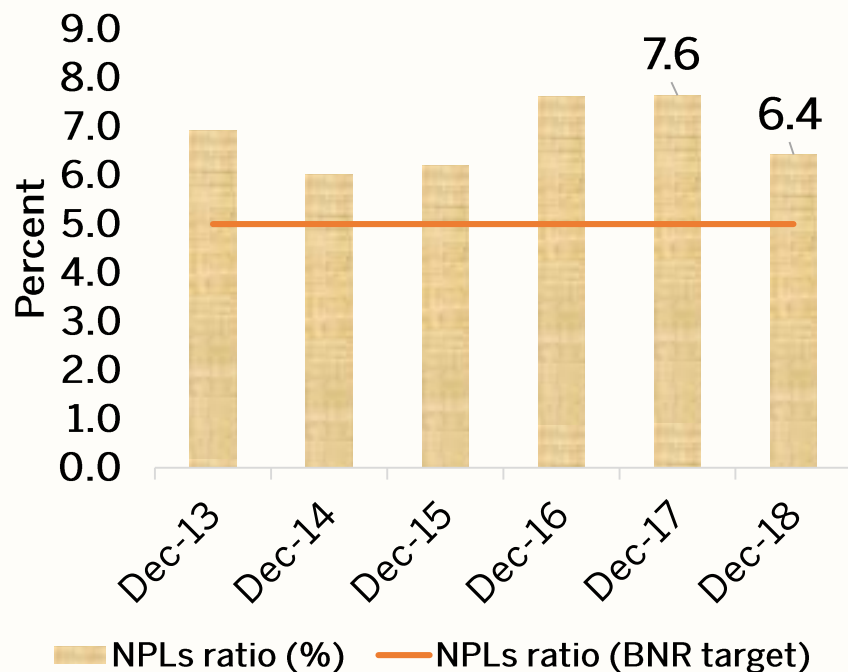




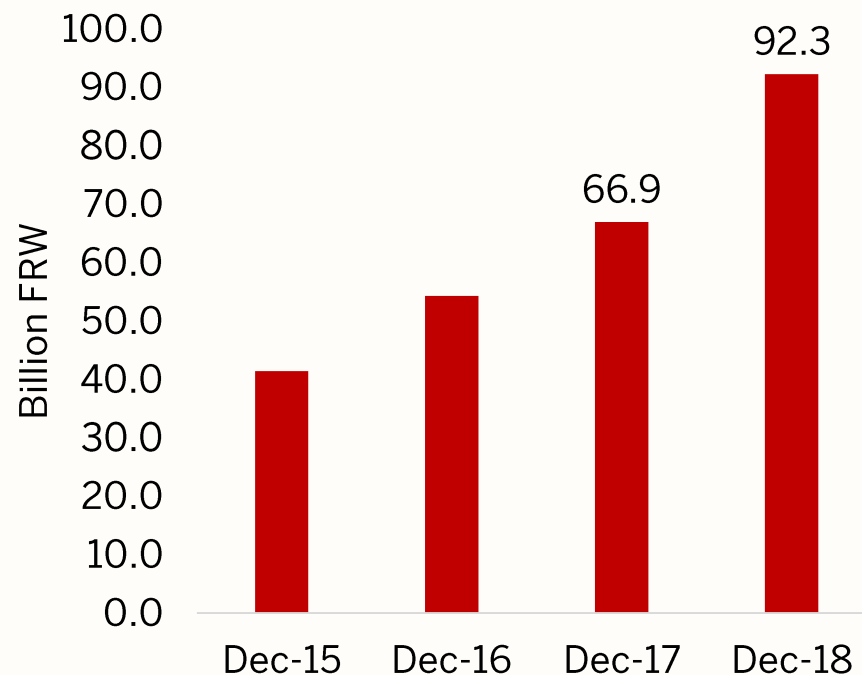
Banking Sector: Assets Quality

- NPLs ratios declined due to a rebound of economic performance and write offs;
- Write offs still a challenge (2016=**29.6 billion**; 2017=**47.9 billion**; 2018= **49.7 billion**);
- Provisions increased significantly mainly due to IFRS 9 implementation.

NPLs ratios



Provisions





Soundness of the Banking Sector: Profitability

- Profits of banks significantly improved mainly due to;
 - Interest income growth
 - Growth of non-interest income mainly
 - Improved recoveries (FRW 26.6 billion 2018 v FRW 14.2 billion 2017).
 - FX income also grew by 17.8% (Dec-18) against -0.4% (Dec-17)
 - Slower growth of expenses.

Profits of Banks					
	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Profits (after tax)-Billions, FRW	33.8	43.1	38.3	28.5	56.6
ROA	1.9%	2.1%	1.7%	1.1%	1.9%
ROE	10.5%	11.2%	8.8%	6.2%	11.2%



Soundness of Banks

- Banks continued to be adequately capitalized;
- Liquidity metrics are maintained at higher levels compared to minimum requirements.

FSIs of Banks

	Dec-15	Dec-16	Dec-17	Dec-18
CAR (Minimum $\geq 15\%$)	22.5	21.9	21.4	25.5
Core Capital / RWA (Minimum $\geq 12.5\%$)	19.9	20.0	20.0	23.8
Earning Assets / Total Asset	83.1	82.4	83.0	84.8
Liquidity Coverage Ratio (LCR) (Minimum $\geq 100\%$)				637.0
Net Stable Funding Ratio (NSFR) (Minimum $\geq 100\%$)				222.0

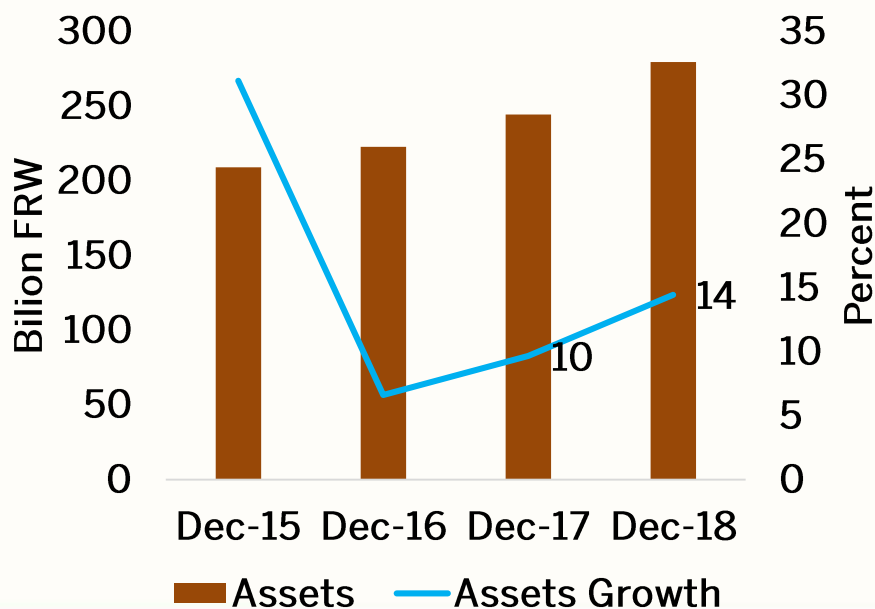


Performance of the MFI Sector

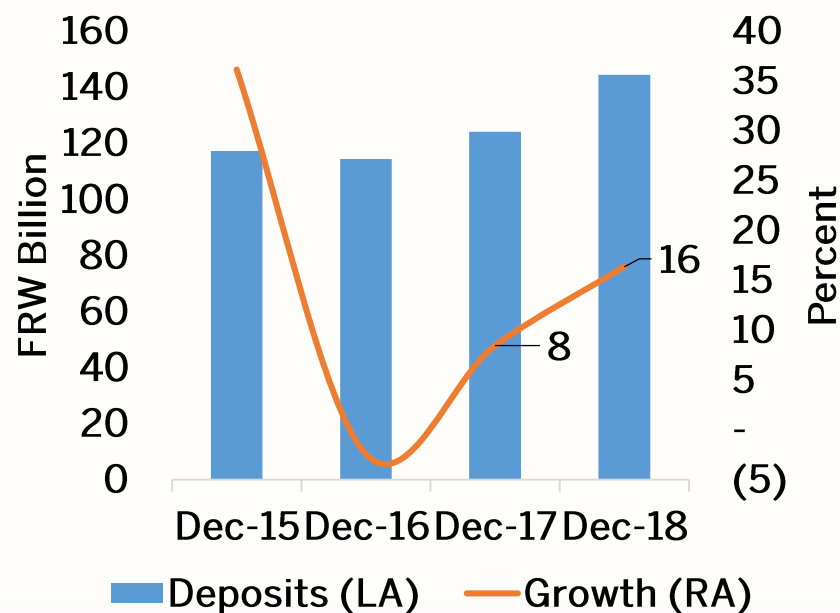
Balance sheet of MFIs continued to improve

- The growth of assets improved due to improved business environment: clients increased their savings/deposits and profits were also higher (owed to improved assets quality);
- The loan-to-deposit ratio for the MFI sector increased from **96%** in 2017 to **99%** in 2018 (U-SACCOs LTD ratio stand at **65%** in 2018).

Growth of assets in MFIs



Deposits of MFIs

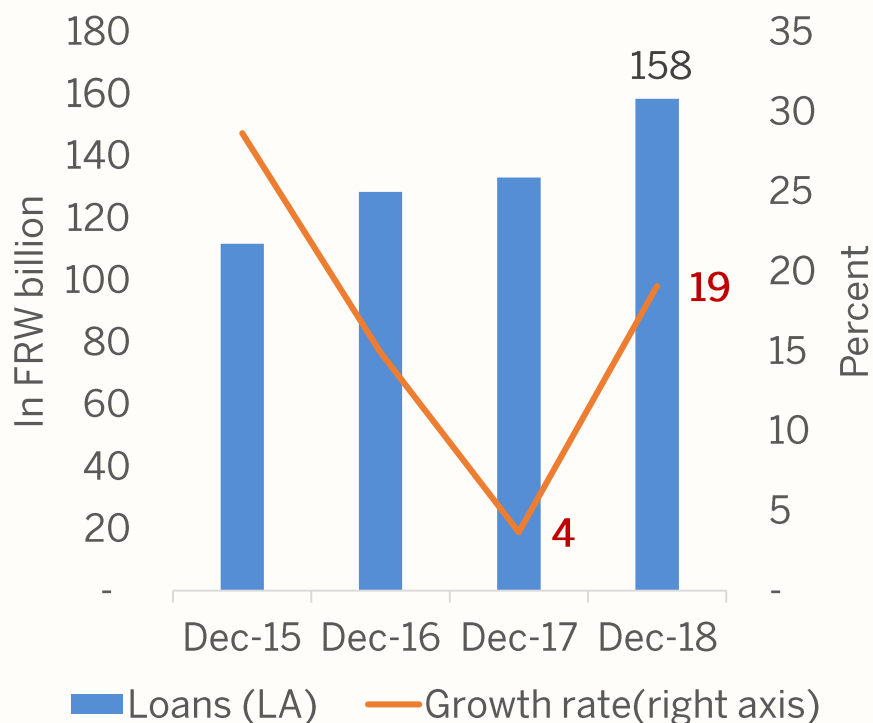




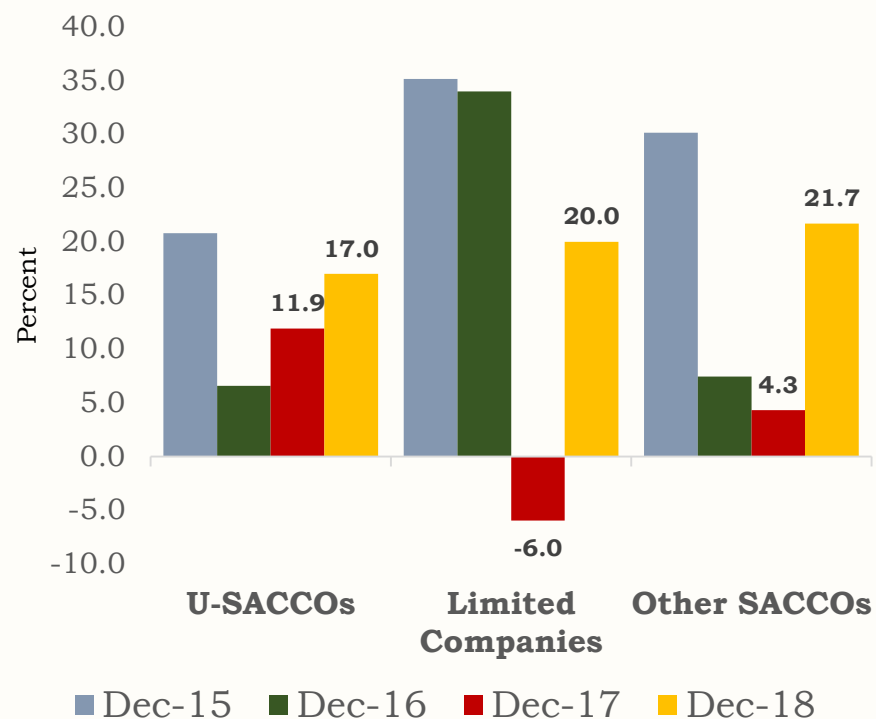
Performance of the MFI Sector Lending

- Improved assets reflects into pick up of loans in all categories of MFIs;
- Loans portfolio of U-SACCOs is low (**29%**) compared to total MFIs' loans.

Outstanding loans in MFIs



Growth of Loans in MFIs





Soundness of the MFI Sector FSIs

- MFIs continued to be adequately capitalized and liquid.
- NPLs in MFIs reduced due to improved economic performance;
- Profits improved between Dec-17 and Dec-18 (From FRW 2.4 to 7.3 billion);

Indicators	Dec-15	Dec-16	Dec-17	Dec-18
Capital Adequacy Ratio (%)	31.1	35.2	35.8	35.1
NPLs / Gross Loans (%)	7.9	9	8.2	6.5
Liquidity ratio (%)	89.6	88.8	102	100.4
Net profit/Loss (FRW billion)	6.8	9.8	2.4	7.3
ROA (%)	3.4	4.4	1	2.6
ROE (%)	11.4	13.7	2.9	7.7

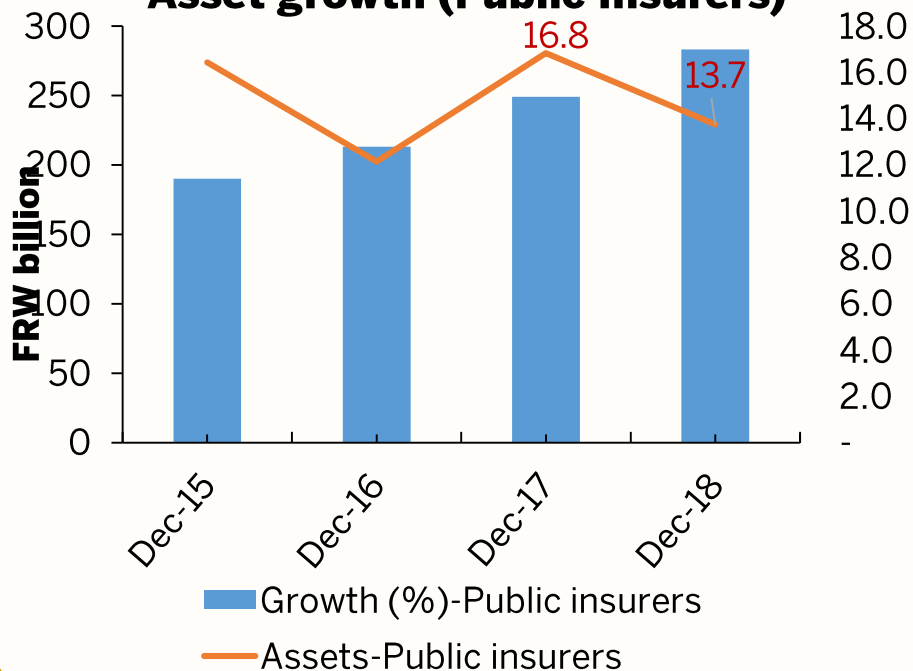


Performance of the Insurance Sub-sector

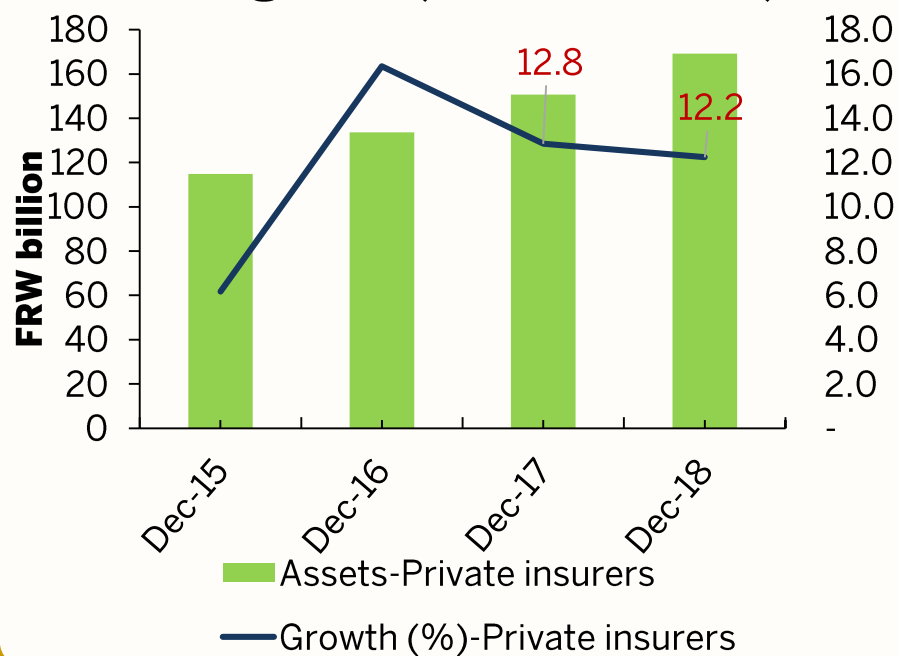
Assets of Insurance sector grew by 13% in Dec-18 from 15% in Dec-17

- Slowdown growth of assets was observed in both (Public & Private) Insurers due to :
 - *Increased medical claims in RSSB medical service providers;*
 - *Slowdown growth of capital injections (by Private Insurers) in 2018 compared to 2017.*

Asset growth (Public Insurers)



Asset growth (Private Insurers)



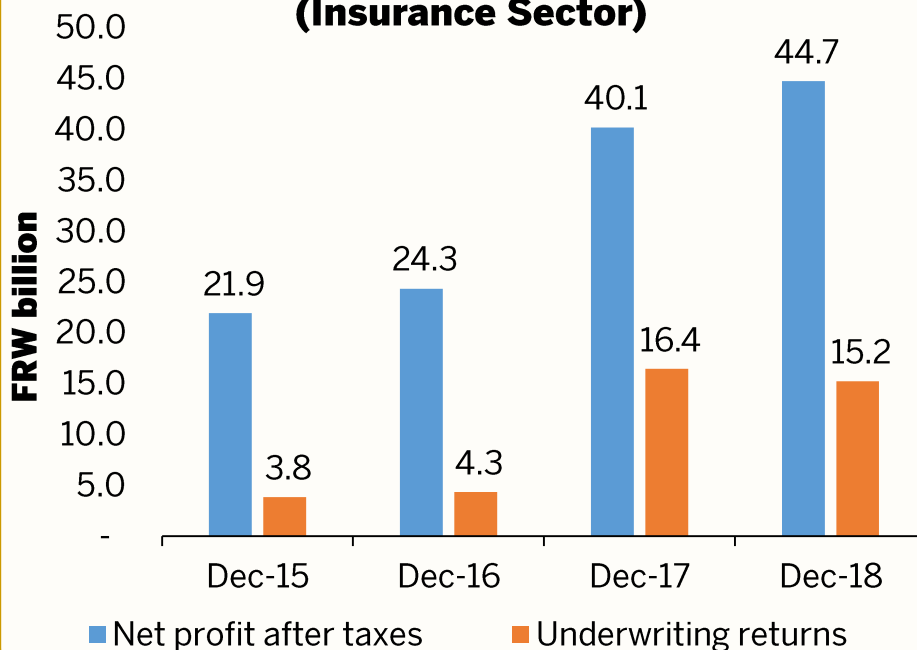


Performance of the Insurance Sub-sector

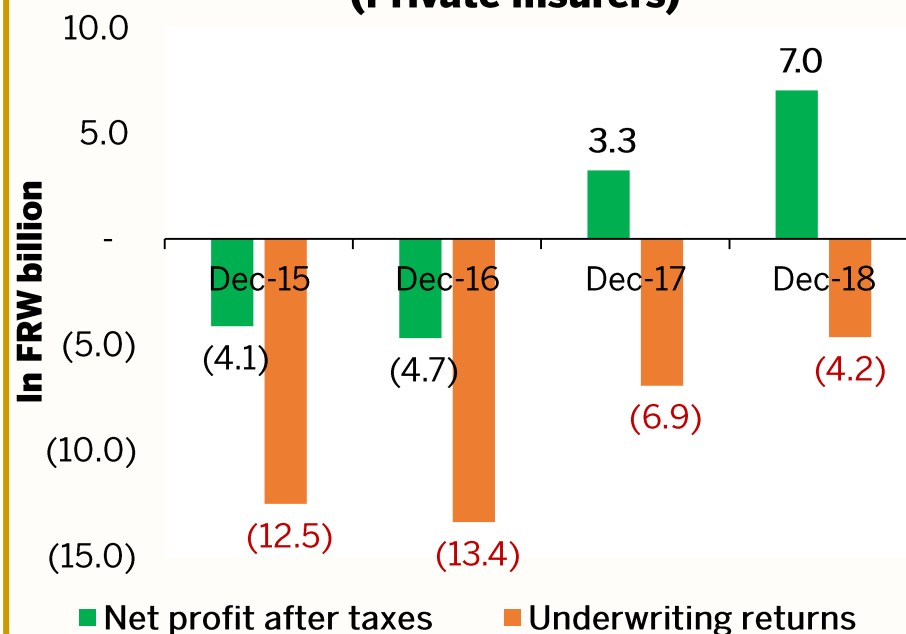
Profitability rebound

- Improved profits is mainly attributable to increased Investment Income and reduction of underwriting losses in private insurers.
- Improved performance of motor insurance explains the reduction of underwriting losses;

**Underwriting returns Vs Net profit
(Insurance Sector)**



**Underwriting returns Vs Net profit-
(Private Insurers)**





Soundness of Insurance Sub-sector

Insurers are well capitalized and liquid

- Expenses are still high in private insurers (due to high wage bills, and outsourced services);
- Claim ratio of Public Insurers increased to 56% (2018) from 46% (2017).

INSURANCE SECTOR					
Financial Soundness Indicators (FSIs)	Dec-2014	Dec-2015	Dec-2016	Dec-2017	Dec-2018
Solvency position (Min.100 %)	2066	1,074	1,088	1,133	1,133
Liquidity Ratio (Min.120 %)	313	252	321	349	383
Claims Ratio (60 %- 70 %)	58	57	58	55	58
Expenses Ratio (Max.30 %)	36	37	38	30	30
PRIVATE INSURERS					
Financial Soundness Indicators (FSIs)	Dec-2014	Dec-2015	Dec-2016	Dec-2017	Dec-2018
Solvency position (Min.100 %)	126	116	78	193	165
Liquidity Ratio (Min.120 %)	100	71	88	157	134
Claims Ratio (60 %- 70 %)	76	68	67	65	59
Expenses Ratio (Max.30 %)	58	59	60	48	48



Performance of Motor Insurance

- Underwriting losses of motor insurance are gradually reducing following the implementation of new motor premiums rates;
- The 2nd increase of motor premiums rates called for a study (this is at final stage).

Description (FRW Billion)	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Net earned Premiums	13.4	19.3	19.2	21.3	25.7
Claims Incurred	8.2	12.1	12.5	15.9	15.3
Technical returns	5.2	7.2	6.7	5.4	10.4
Expenses	8.3	9.9	10.6	9.7	11.8
Net underwriting profit/(loss)	-3.3	-2.7	-3.9	-4.3	-1.5
Key financial ratios					
Claims ratio (60% -70%)	61%	63%	71%	75%	60%
Expenses ratio (≤30%)	56%	45%	52%	40%	46%
Combined Ratio (< 100%)	117%	108%	123%	115%	106%



Payment System

The drive towards a cashless economy continued to build momentum

- Digital financial services (lending and savings) continued to increase;
- Stakeholders in the payment system have set up key design features of the interoperable retail payment system (ATMs, POS, and mobile channels)
- The upgrade of RPPS is expected to expand operating hours, open access to non-bank payment services.

Loans & Savings		Jan-Dec 2017		Jan-Dec 18		Changes in %	
		Volume	Value (Million)	Volume	Value (Million)	Volume	Value
Savings	Savings collected	1,695,744	5,553	3,043,269	11,284	79%	103%
	Savings Withdrawn	1,147,752	5,016	2,304,014	10,915	101%	118%
	Balance	176,848	285	268,494	592	52%	107%
Loans	Loan disbursement	317,006	1,912	547,166	1,704	73%	-11%
	Loan repayment	507,987	5,564	1,135,985	5,295	124%	-5%

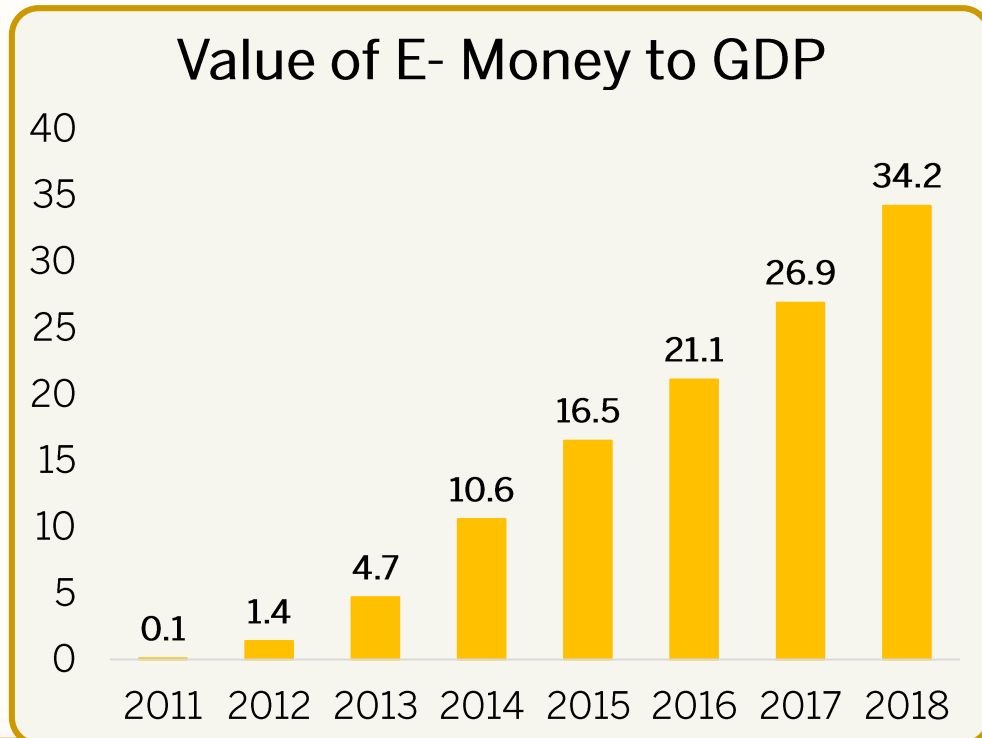


Payment System

Electronic payments continue to grow due to increase of acceptance points and adoption

- The number of POS per 100,000 adult population is **39.3** for Traditional POS and **161.9** for modern POS as end of December 2018;
- Electronic payment continue to support cashless agenda.

Modern POSs	Virtual POS	Mobile POS		Total POS
	(QR Ecobank)	Bank	MNO	
POS Number	4,032	2,475	5,030	11,537
Volume	20,440	18,360	1,133,696	1,172,496
Value (Million)	84	398	21,402	21,884





Domestic Economy Outlook

- In 2019, real economy expected to continue to perform well (currently projected at around 7.8%) in a context of:
 - ↳ Low and stable inflation (projected to be around 3.0% in 2019)
 - ↳ Subdued exchange rate pressures.
- Room to continue an accommodative monetary policy;
- NBR stands ready to take appropriate actions as required, to ensure Rwanda's macroeconomic stability.



Financial Sector Outlook

- The financial sector is expected to remain stable and sound.
- The NBR will continue enforcing proper loan underwriting, classification and adequate provisioning for bad loans in lending institutions;
- NBR will collaborate with other stakeholders to resolve issues identified in the Microfinance Sector (especially U-SACCOs);
- New directive on risk based capital requirements will enhance risk management and operational efficiency of insurers;
- NBR will continue ensuring the smooth running of the payment systems, and spearhead the drive towards cashless economy;
- The NBR will continue to review the legal and regulatory framework of the financial sector to enhance its stability but also ensure compliance with international best practice and development of the sector.



Thank you!