NATIONAL BANK OF RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

6th March 2018

PRESENTATION OUTLINE

I. GLOBAL ECONOMIC ENVIRONMENT

II. NATIONAL ECONOMIC PERFORMANCE

III. POLICY STANCE AND OUTCOMES

IV. FINANCIAL SECTOR STABILITY

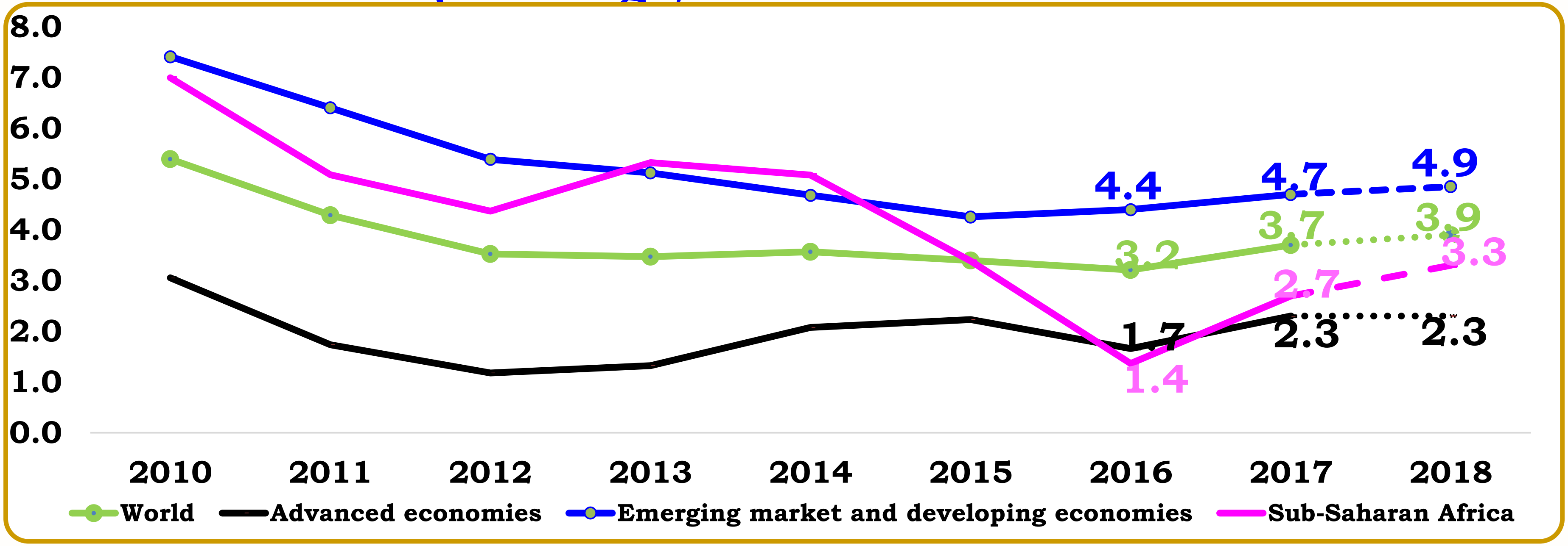
V. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

I. GLOBAL ECONOMIC ENVIRONMENT

Sustained positive growth momentum across the world in 2017 and going forward in 2018

- Improving global economic growth/prospects: **3.7% in 2017→ 3.9% in 2018:**
  - ✓ Rising global demand;
  - ✓ Favorable financial conditions.

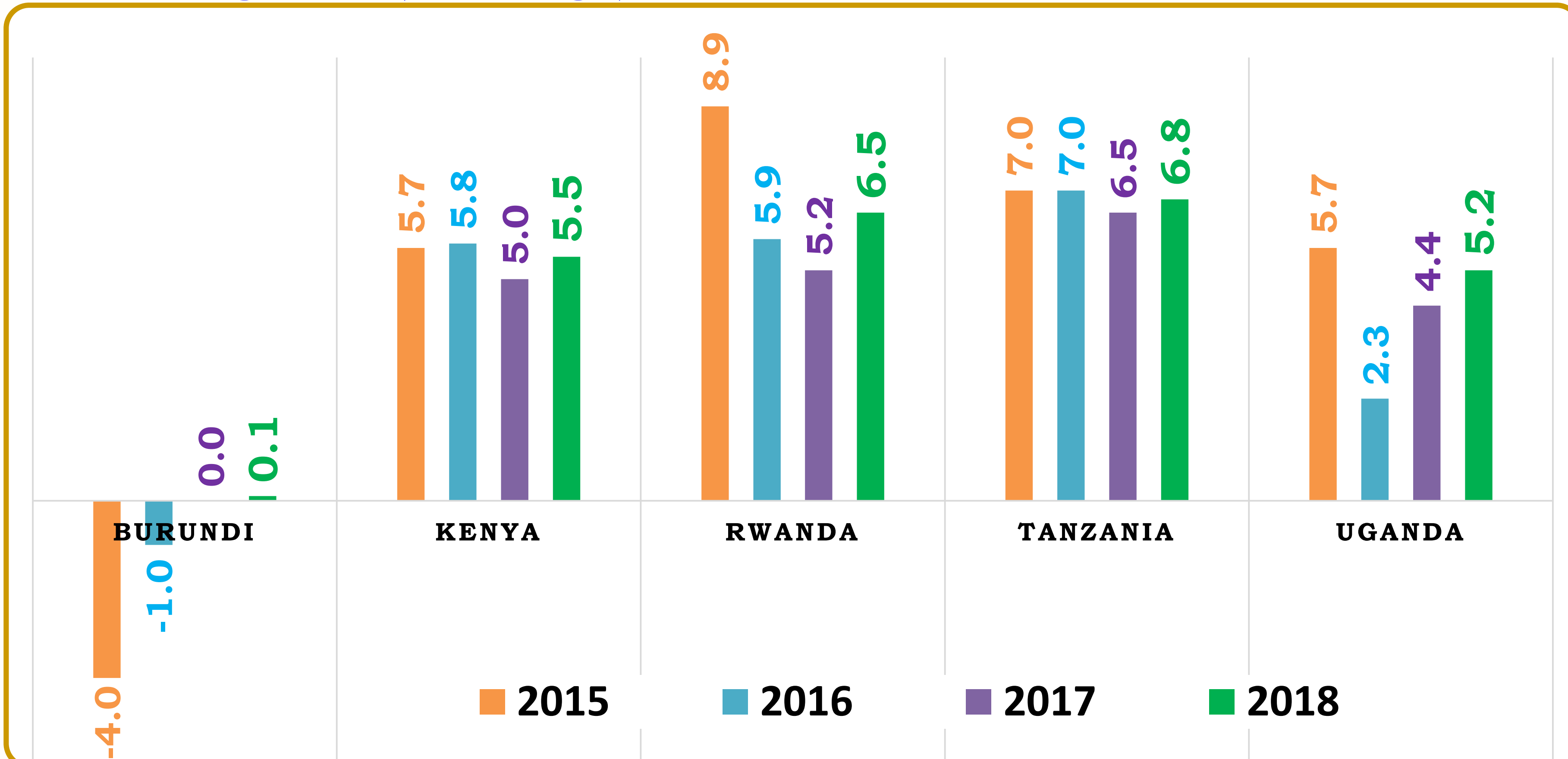
GDP Growth rate (% change)



Source: IMF, WEO October 2017& WEO January 2018

Regional growth resilient in 2017 despite challenging weather conditions → Positive growth prospects in 2018

EAC GDP growth (% change)

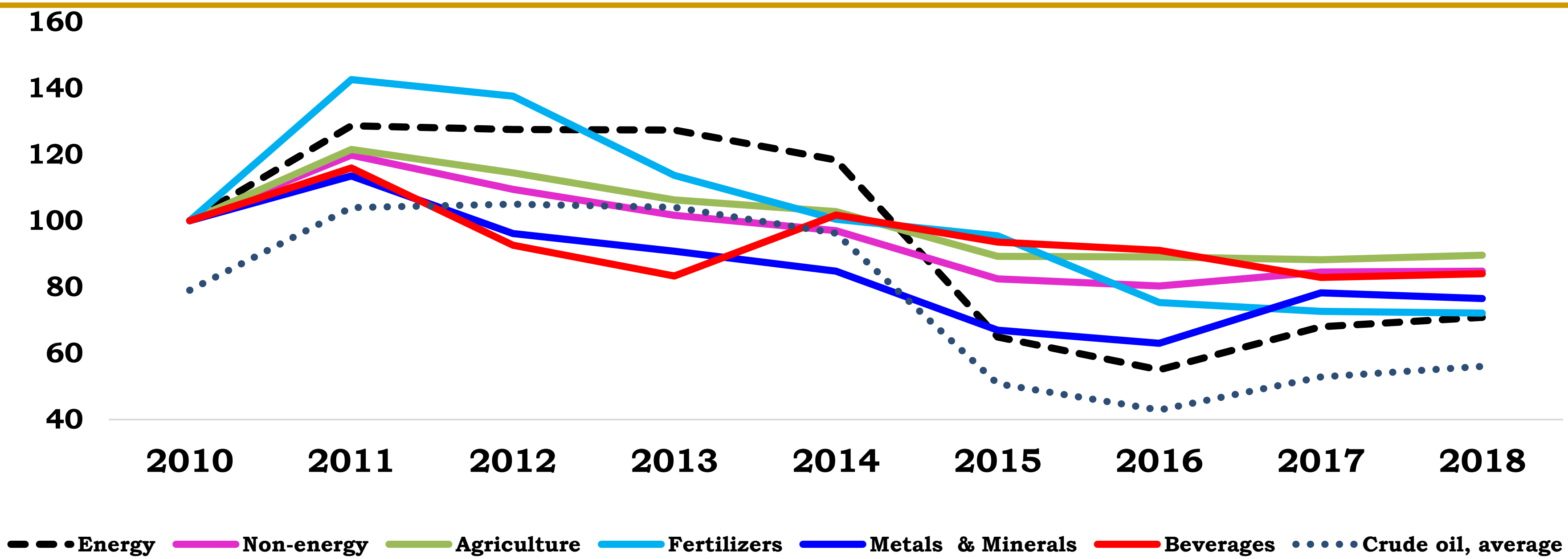


Source: IMF, WEO, Oct.2017

Global commodity prices recovered in 2017

- **In 2017, on account of improving global demand:**
  - ✓ **Energy prices: +23.6%** from **-15.2%** in 2016;
  - ✓ **Non-energy prices (metals, minerals,…): +5.2%** from **-2.6%** in 2016;
- **In 2018: improvement in global demand to be sustained.**

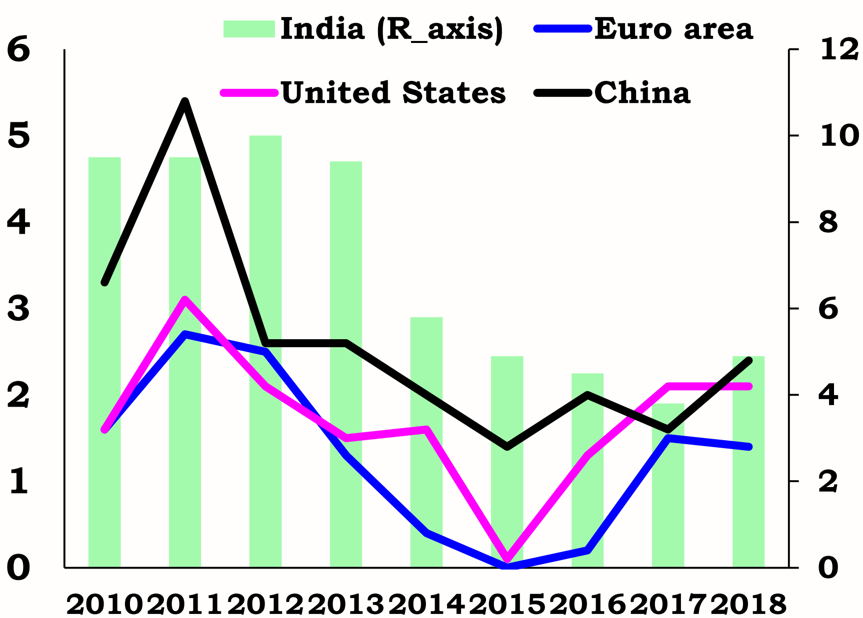
Commodity prices indices 2010=100 (in nominal USD)

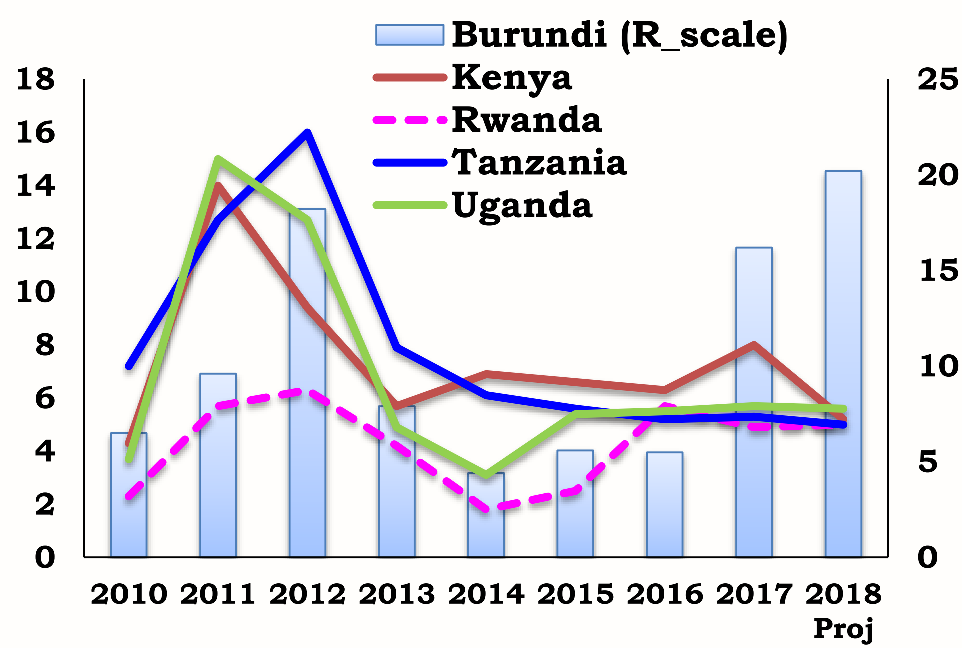


Rising global headline inflation backed by rising energy and strong global demand

- Core inflation remained below CBs' targets in most developed countries, on weak wage growth pointing to still accommodative monetary policy.

- Easing exchange rate pressures and improving weather conditions in the second half 2017 helped easing inflation in the region.



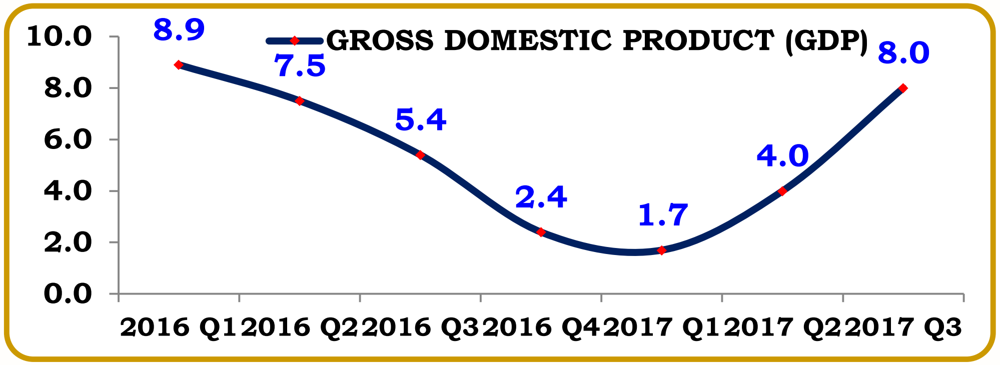


Source: IMF, WEO, October 2017 & Country Bureau of Statistics

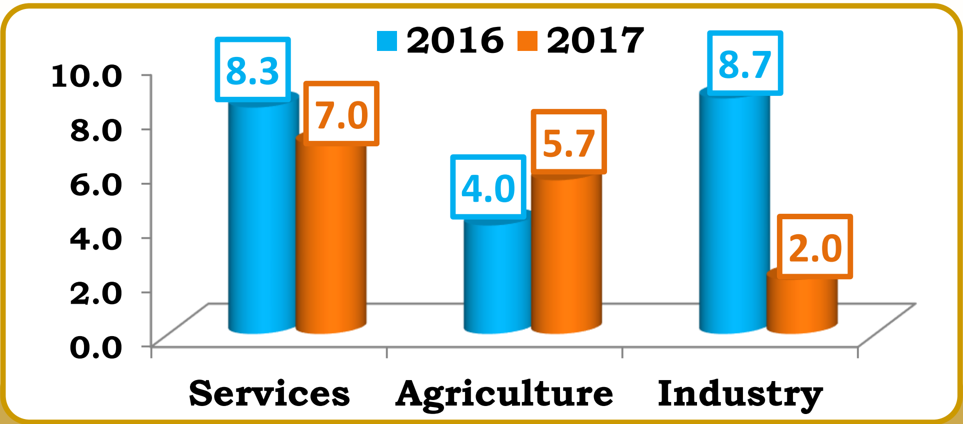
II. NATIONAL ECONOMIC PERFORMANCE

Rwandan economy gradually improved in 2017

- **Economic growth progressively improved:**
  - Mainly on the account of good performance of agriculture sector & services .



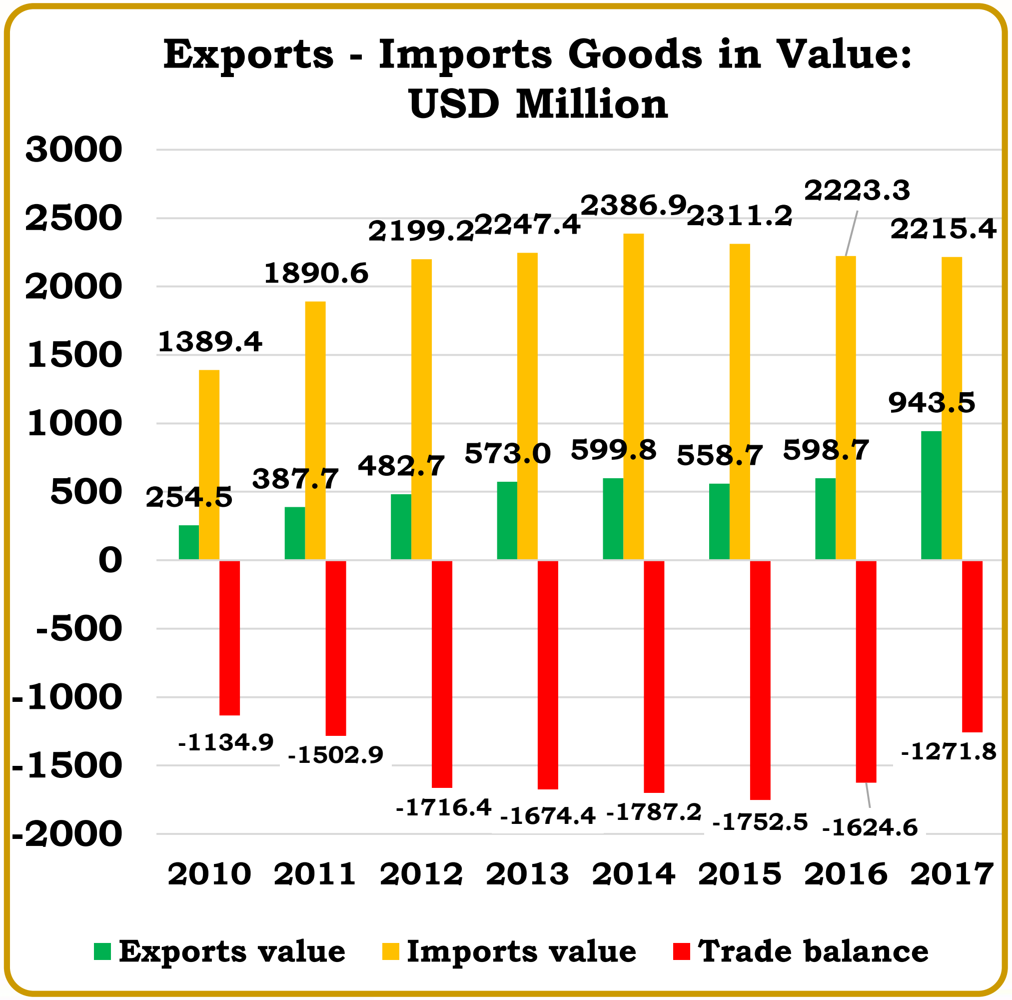
- On average growth in **2017 (Q1-Q3): +4.6%** from **7.3% in 2016Q1-3:**

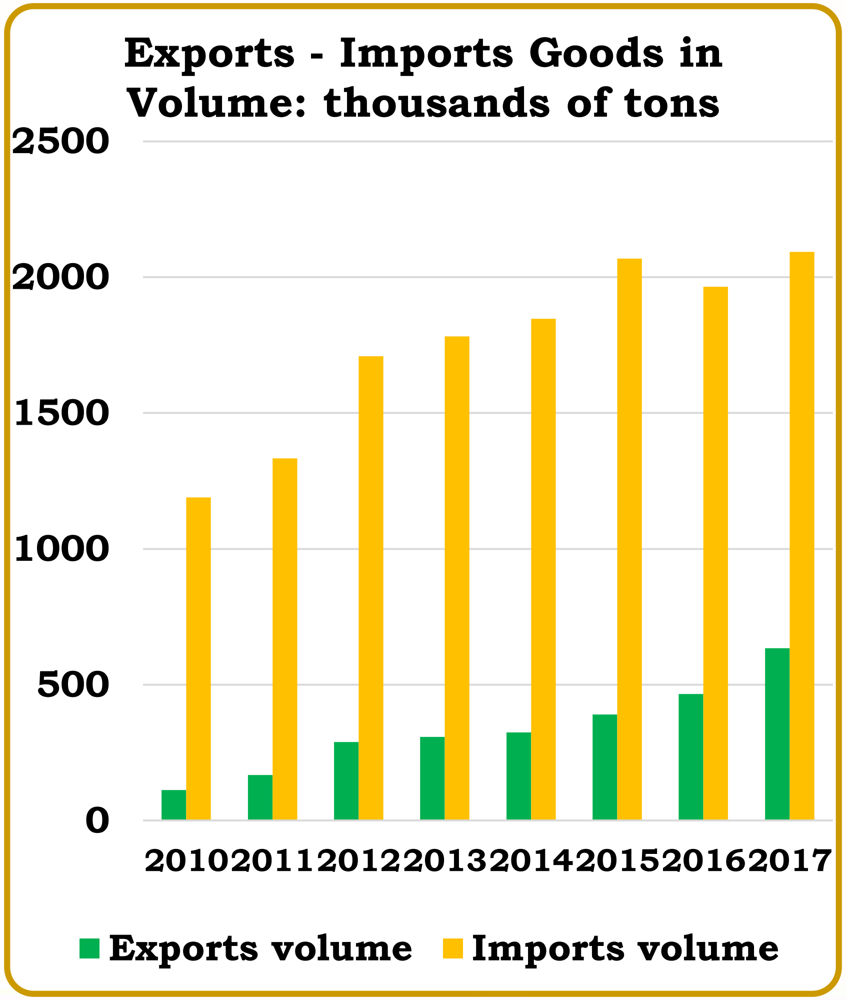


- Leading indicators show that the 2017Q3 good economic performance continued in 2017Q4:
  - ✓ Evolving towards attaining or even surpassing the projected annual growth of 5.2%
  - ✓ However, growth for 2017 is likely to be lower than in 2016.

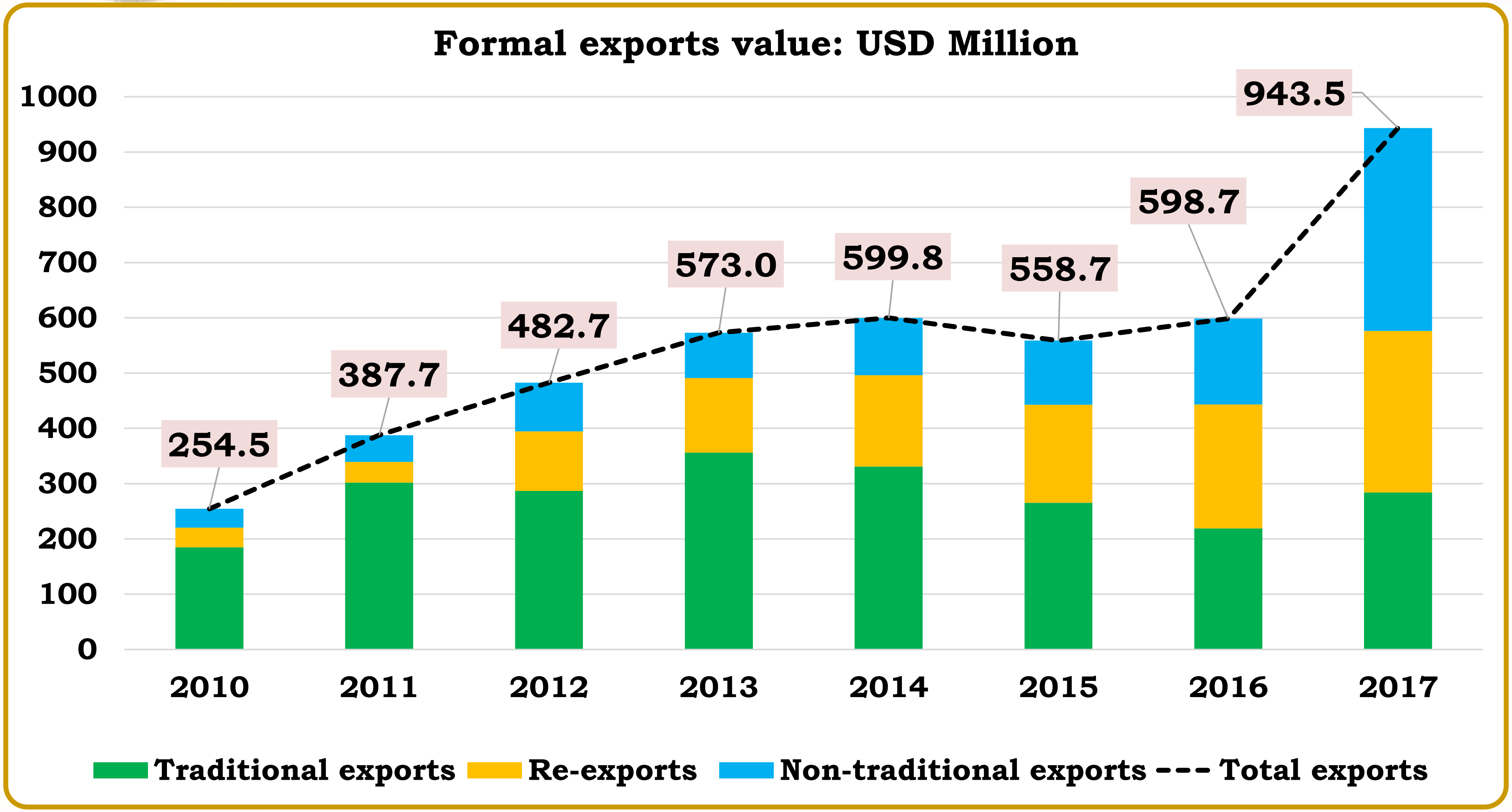
	2016		2017	
	Q4	Annual	Q4	Annual
Real CIEA	6.5	12.3	16.4	11.1
Total turnovers	6.9	10.1	19.3	15.8
Industries	-3.0	7.7	21.0	12.0
Services	10.9	11.0	18.7	17.3

Formal Trade: Trade balance improvement: 21.7%, Exports: +57.6%, Imports: -0.4%

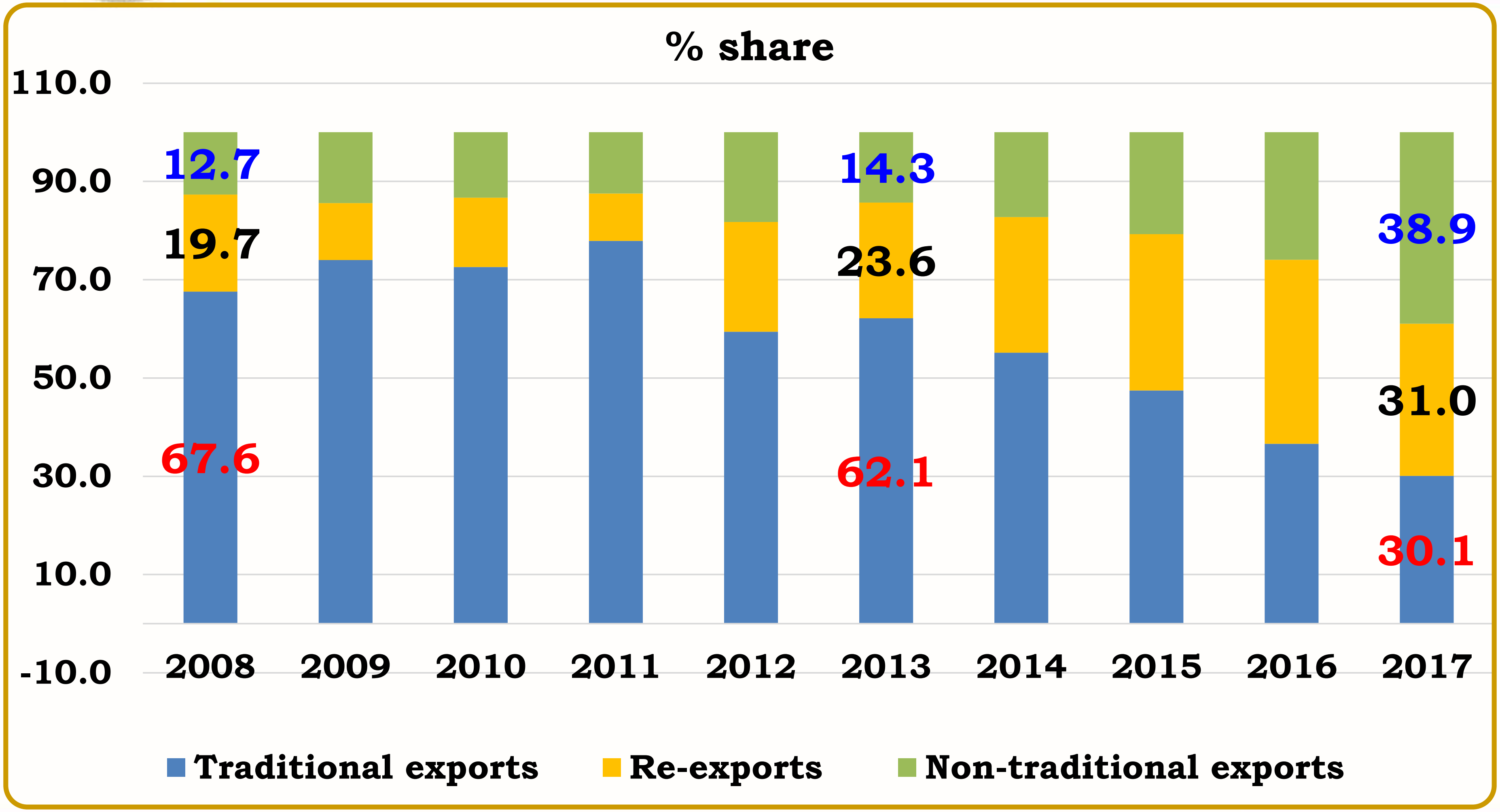




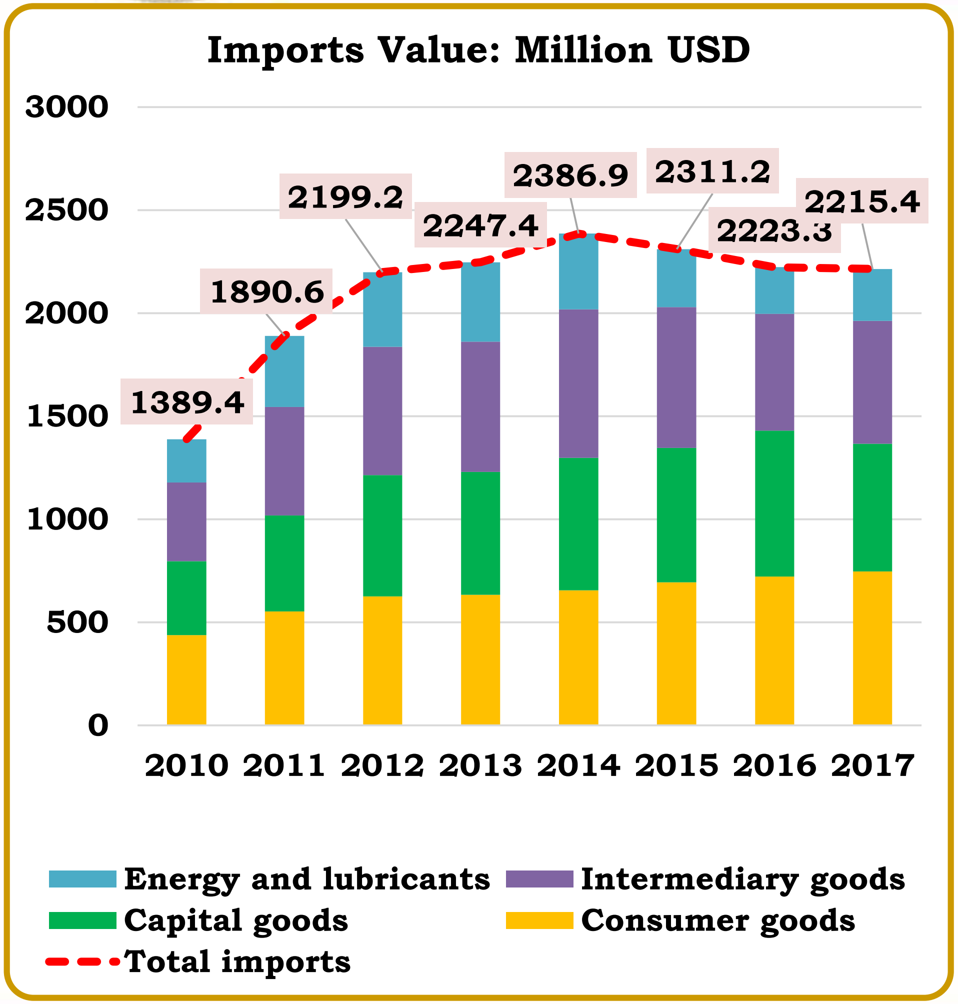
Exports value shares (2017): Non-traditional (38.9%), Traditional (30.1%), re-exports (31.0%)

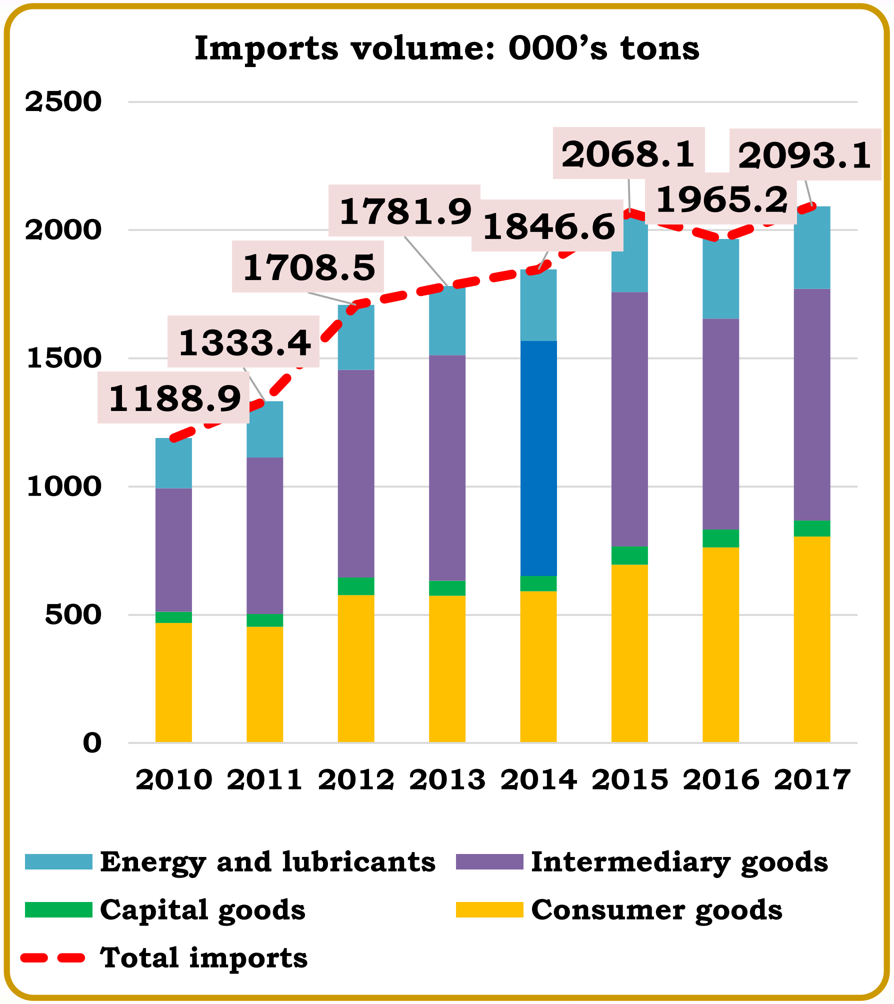


Increasing diversification from traditional to non-traditional exports



2017 shares in imported goods value: Consumer (33.7%), capital (28.0%), intermediary (26.9%), energy & lubricants (11.4%)



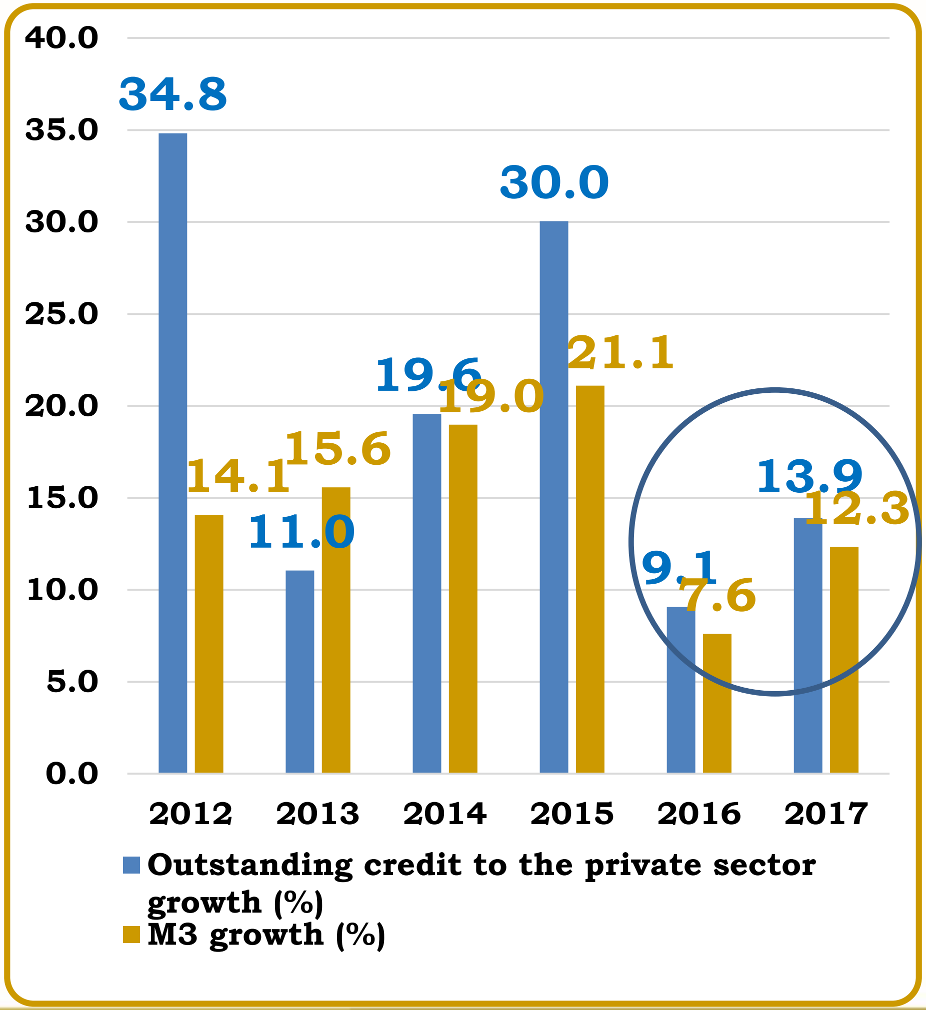


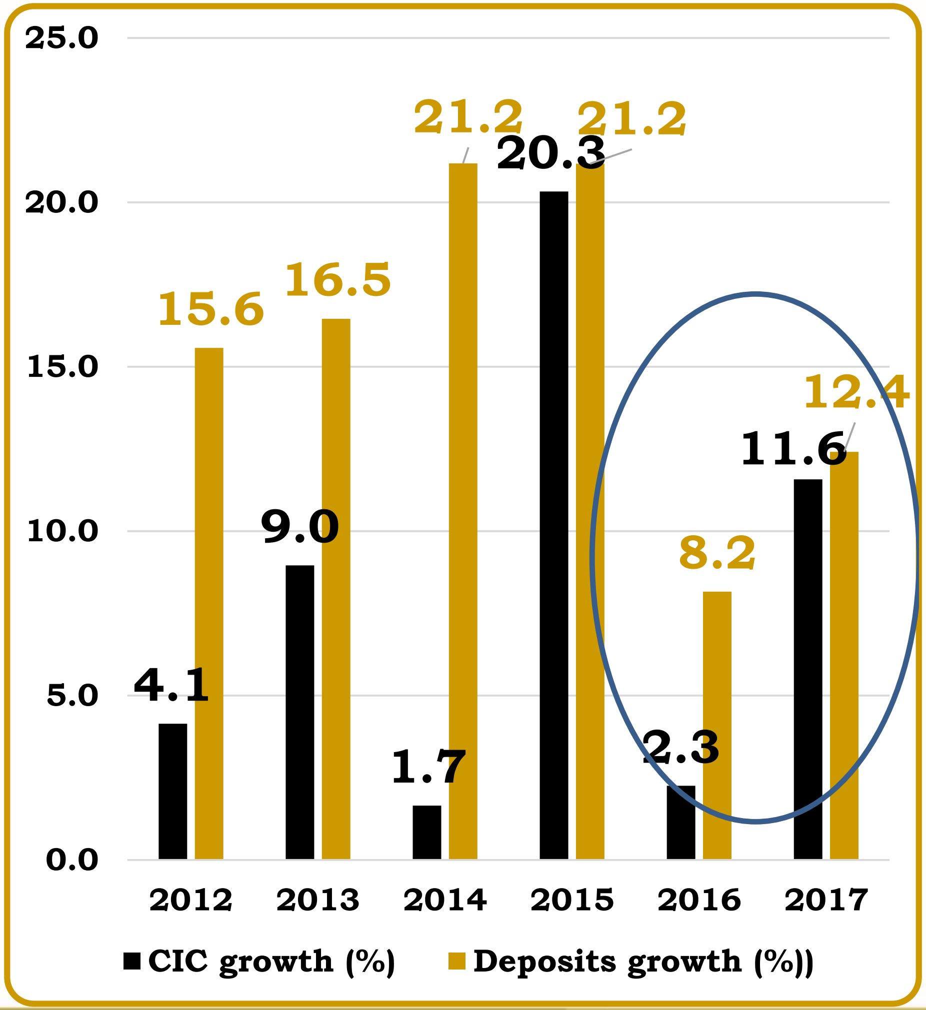
III. POLICY STANCE OUTCOMES IN 2017

NBR Policy Stance

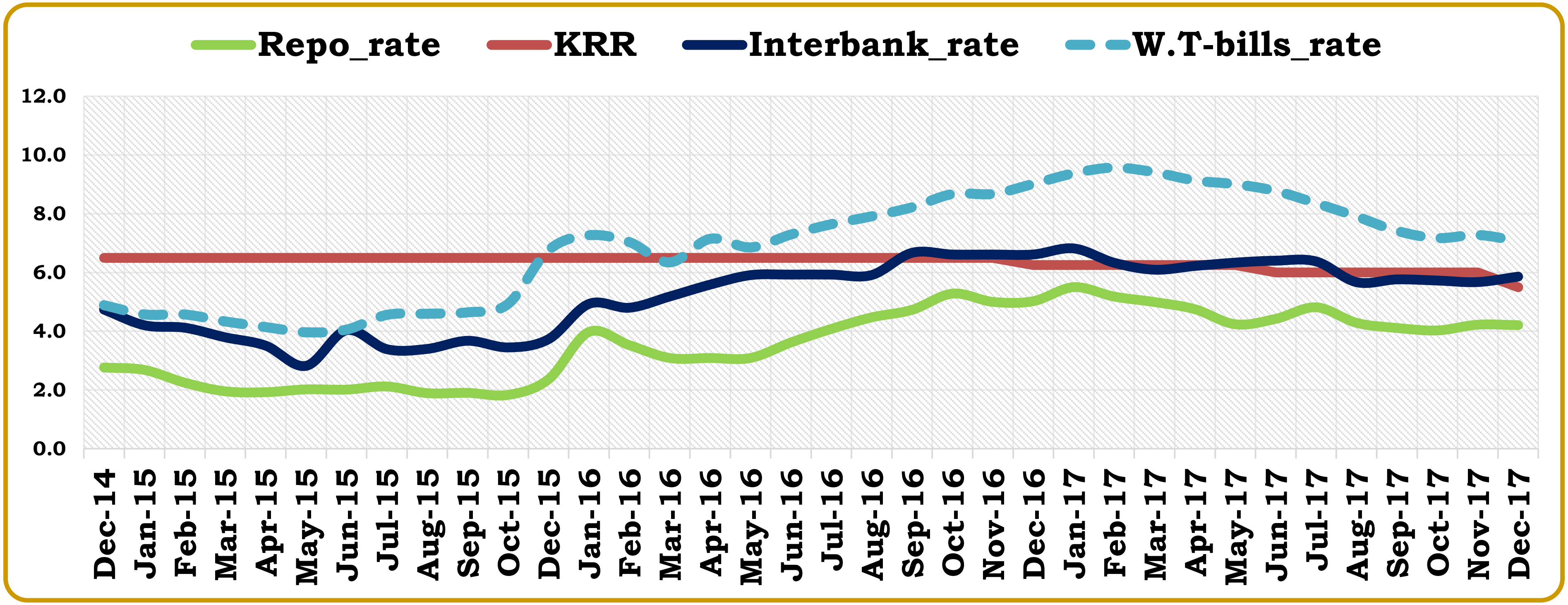
- **In 2017, the NBR conducted an accommodative monetary policy to continue supporting the financing of the economy by the banking sector as:**
  - ✓ Inflationary pressures eased in line with agriculture sector performance;
  - ✓ Exchange rate pressures reduced;
  - ✓ Economic activities and monetary aggregates improved, though still below the historical levels.
- **Central bank rate (KRR) reduced from 6.25% in Dec-16 to 6.0% in June-17 and 5.5% in Dec-17.**
- **As a result:**
  - ✓ Improvement in monetary aggregates;
  - ✓ Decline in money market interest rates in tandem with the policy rate.

Rising growth of monetary aggregates in 2017





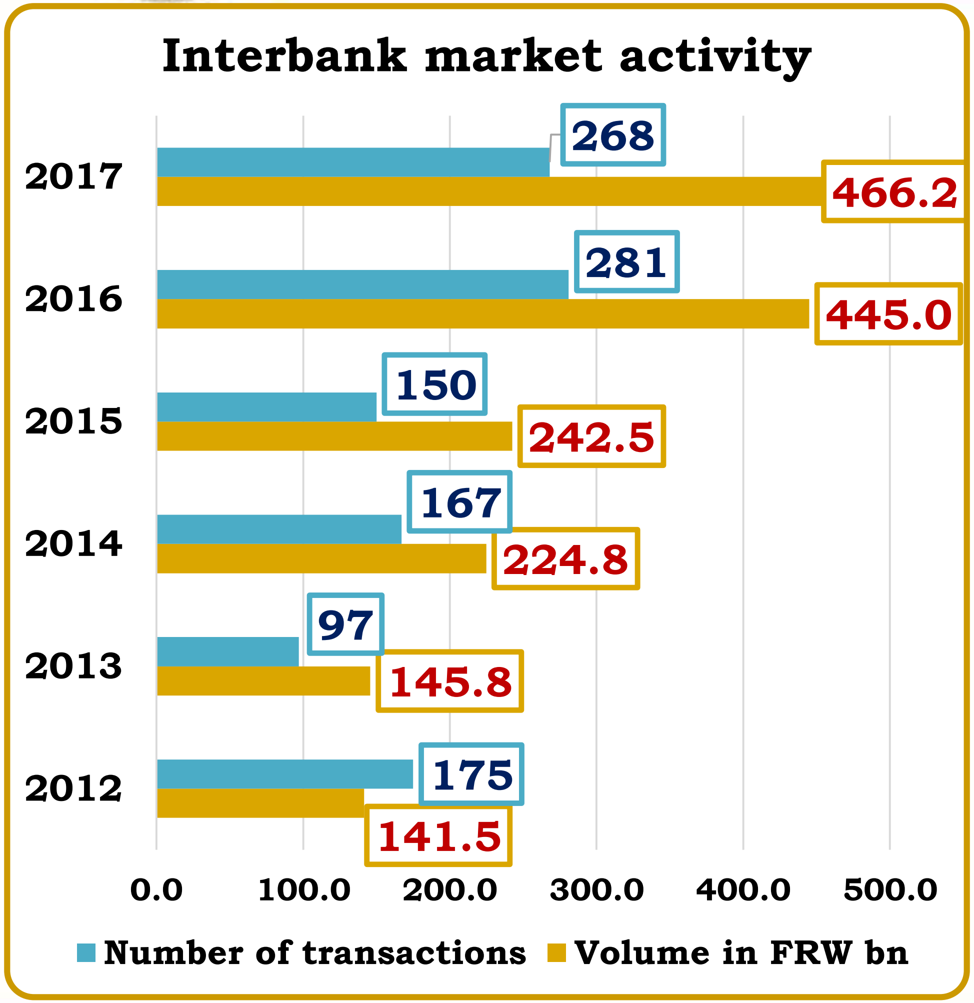
Downward trend in money market interest rates in 2017



Slight decline in market interest rates, on average:

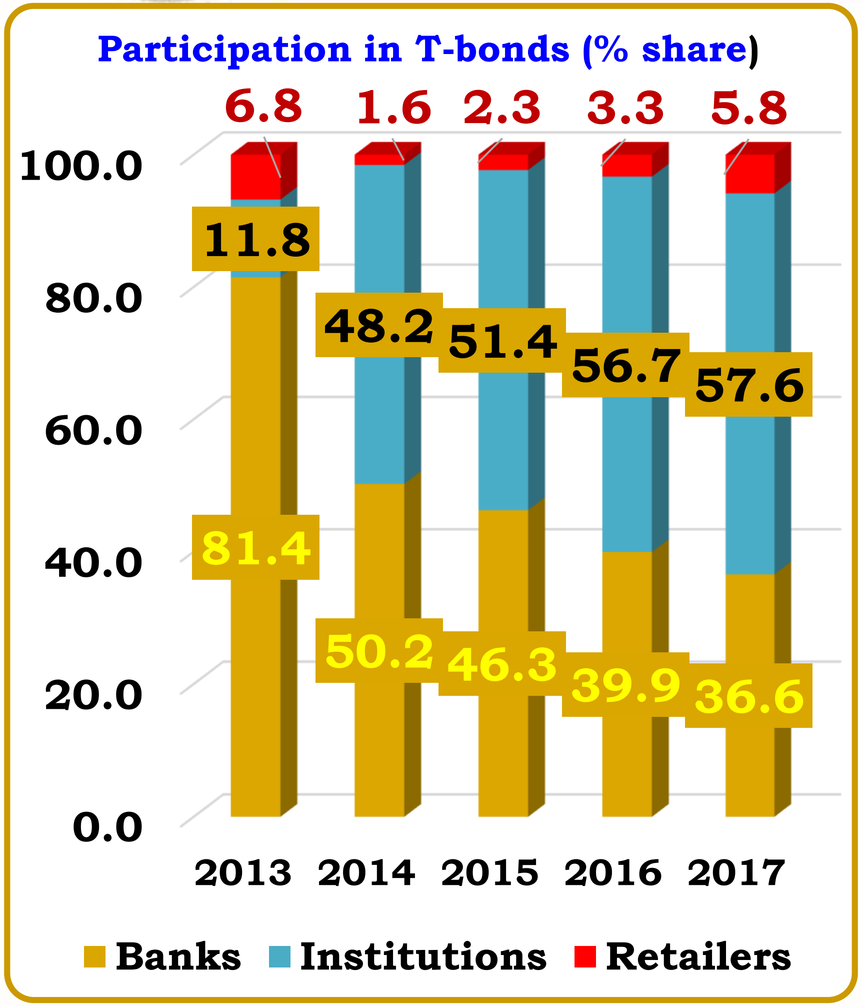
- **Lending rate: 17.17% in 2017 from 17.29% in 2016;**
- **Deposit rate: 7.63% in 2017 from 7.91% in 2016.**

Financial market development: key for the effectiveness of monetary policy



- **Value of transactions on interbank market:**
  - From 445.0 billion in 2016 to FRW 466.2 billion in 2017→ **5% increase.**

Financial market development: key for the effectiveness of monetary policy

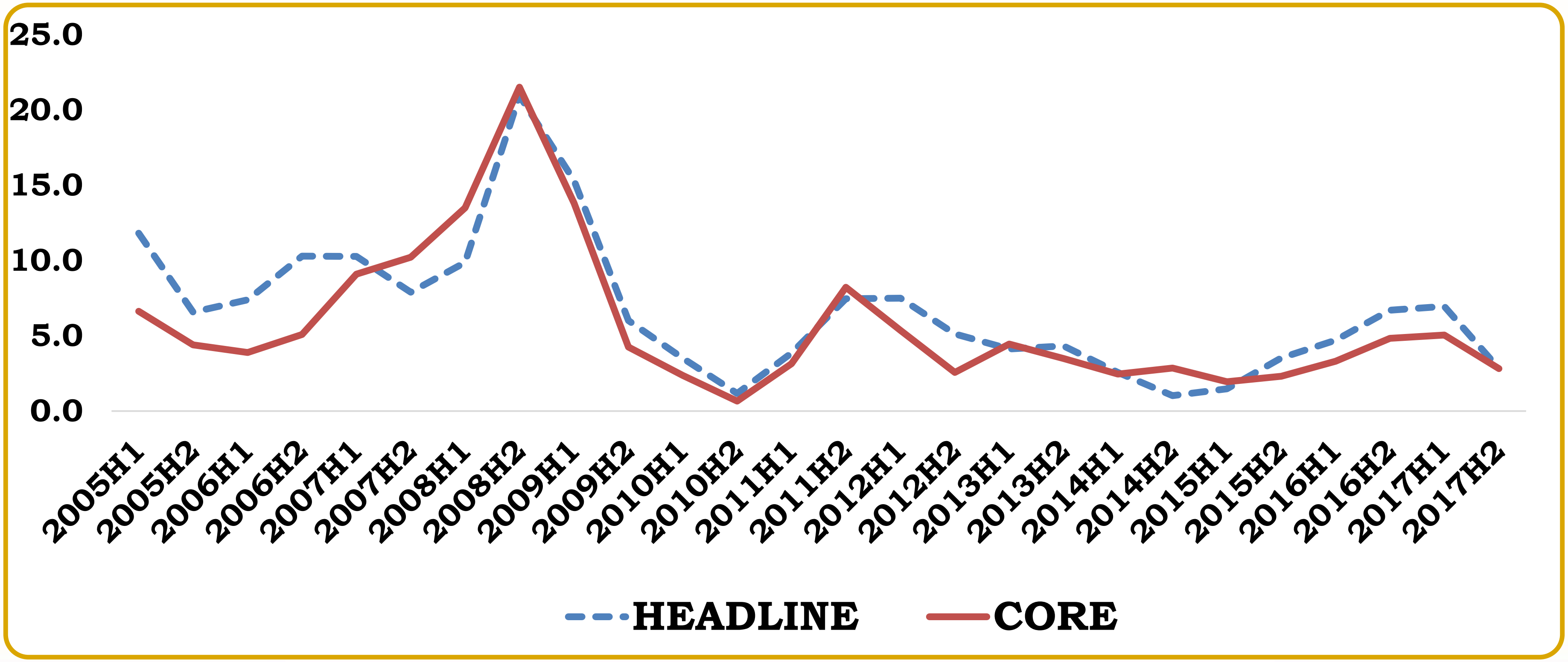


- **Shares in T-bonds market:**
  - → **Institutional investors:** from 18.8% in Dec-13 to 57.6% in Dec-17;
  - → **Retail investors:** from 0.1% in Dec-13 to 5.8% in Dec-17;
  - → **Banks:** from 81.2% in Dec-13 to 36.6% in Dec-17.
- **Trends attributable to continued awareness campaigns.**

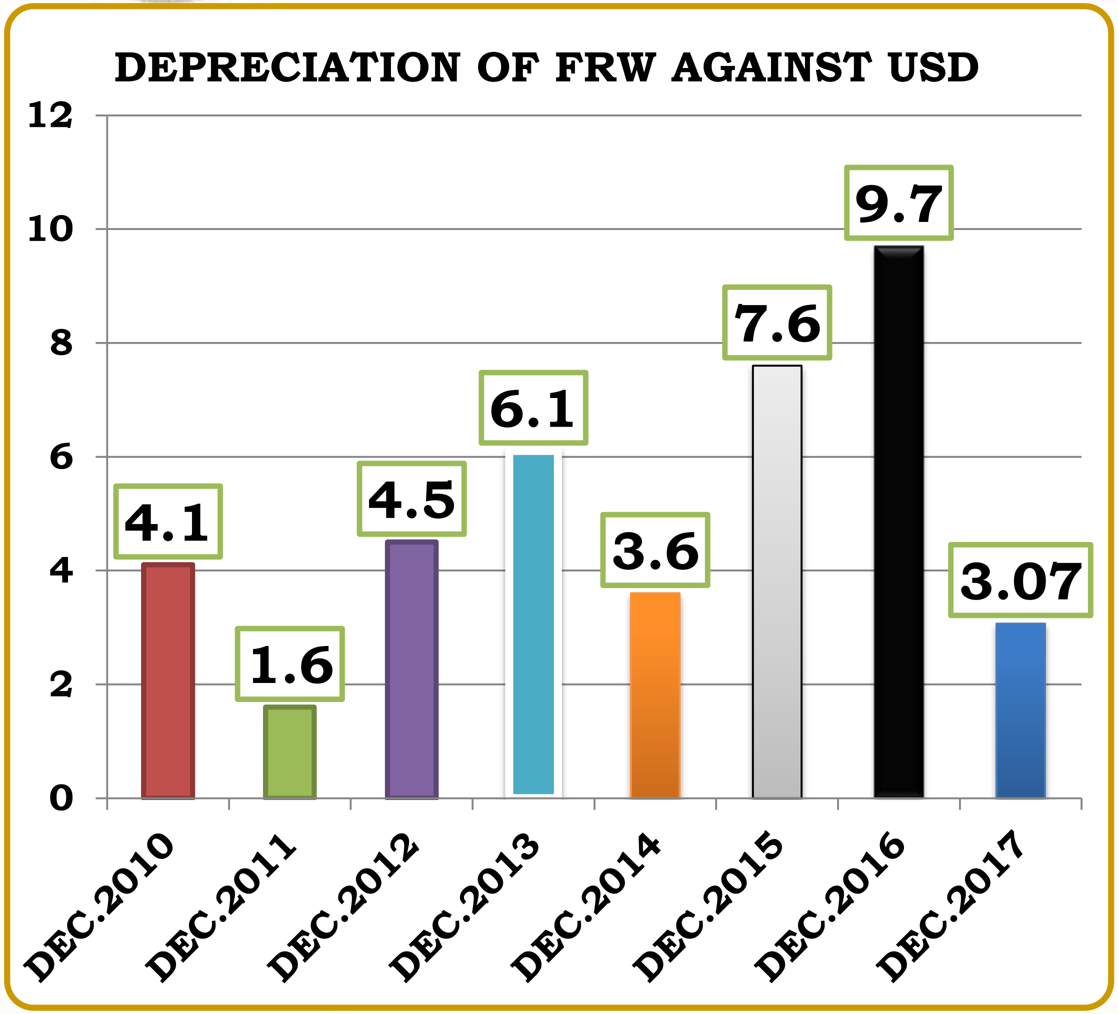
Inflation developments

- **Inflation eased from 5.7% in 2016 to 4.9% in 2017 in line with good performance of agriculture.**

Headline and Core Inflation Developments (Percent, y-o-y)



End December FRW depreciation against USD: 3.07% in 2017 from 9.7% in 2016



- **Pressure on exchange rate eased due to:**
  - Improved export receipts in line with the recovery in international commodity prices;
  - Reduction in import bill.

IV. FINANCIAL STABILITY

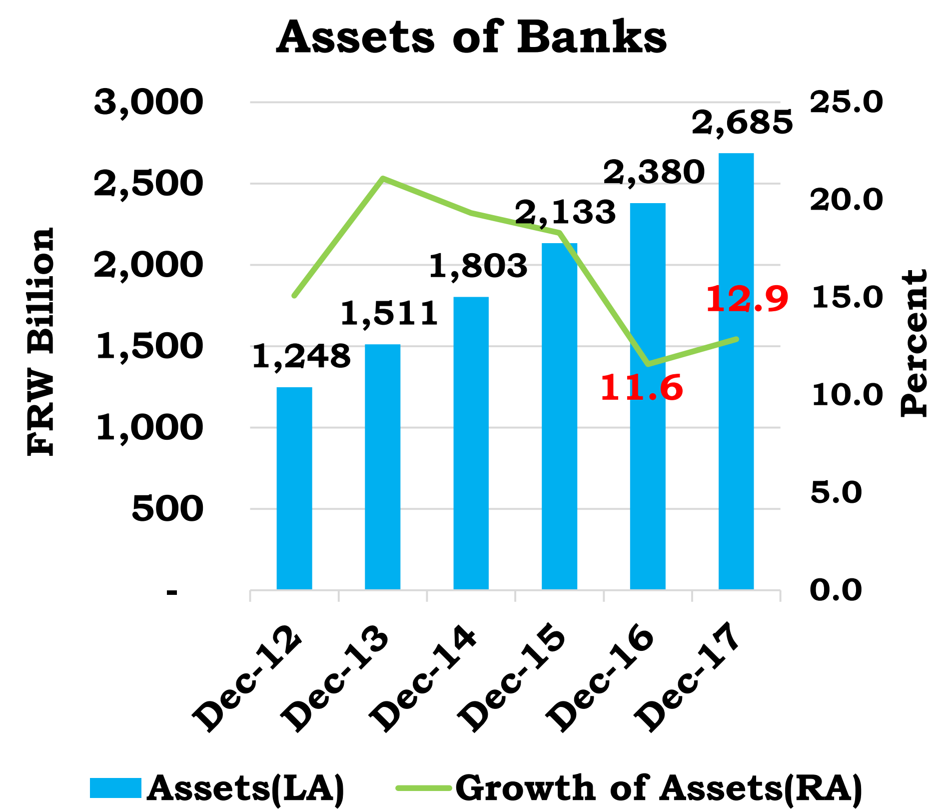
Performance of the Financial Sector

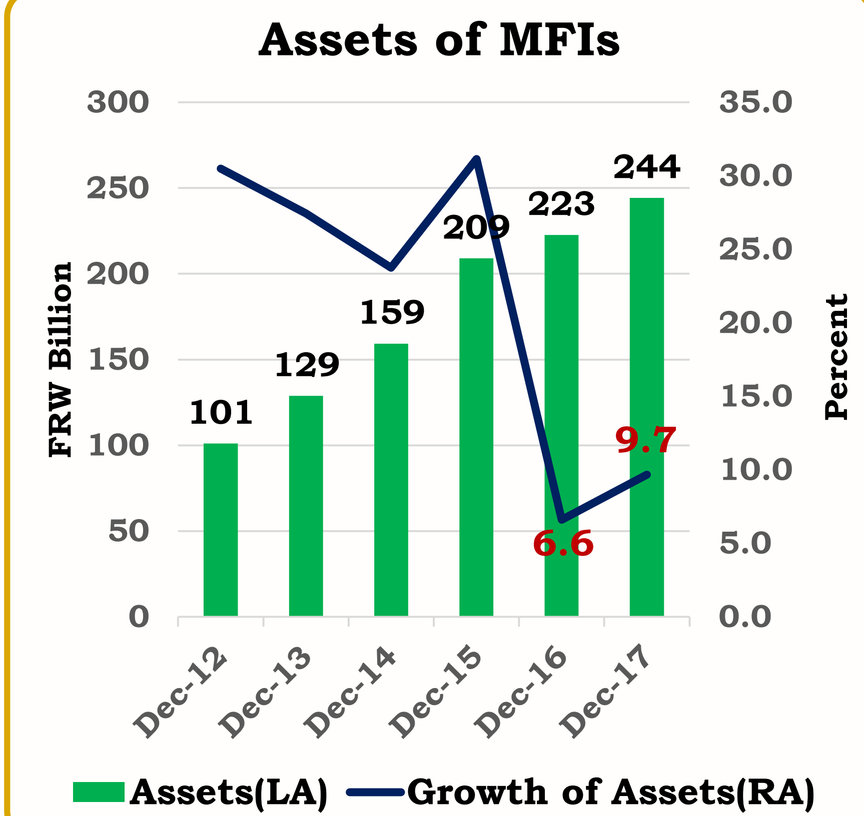
- Performance of the financial sector in 2017 was shaped by the overall economic performance
- The sector moderately performed in the first half (2017H1), but improved in the second half (2017H2).

Selected Indicators	2017H1	2017H2
Growth of deposits (y-o-y)	11%	12.6%
Growth of new loans (y-o-y)	-2.4%	12.9%
Loan application (y-o-y)	3%	33%
NPLs ratio (Banks)	8.2%	7.6%
NPLs ratio (MFIs)	12.3%	8.2%
Growth of Premiums (y-o-y)	12.8%	16%

Performance of Banks and MFIs: Assets

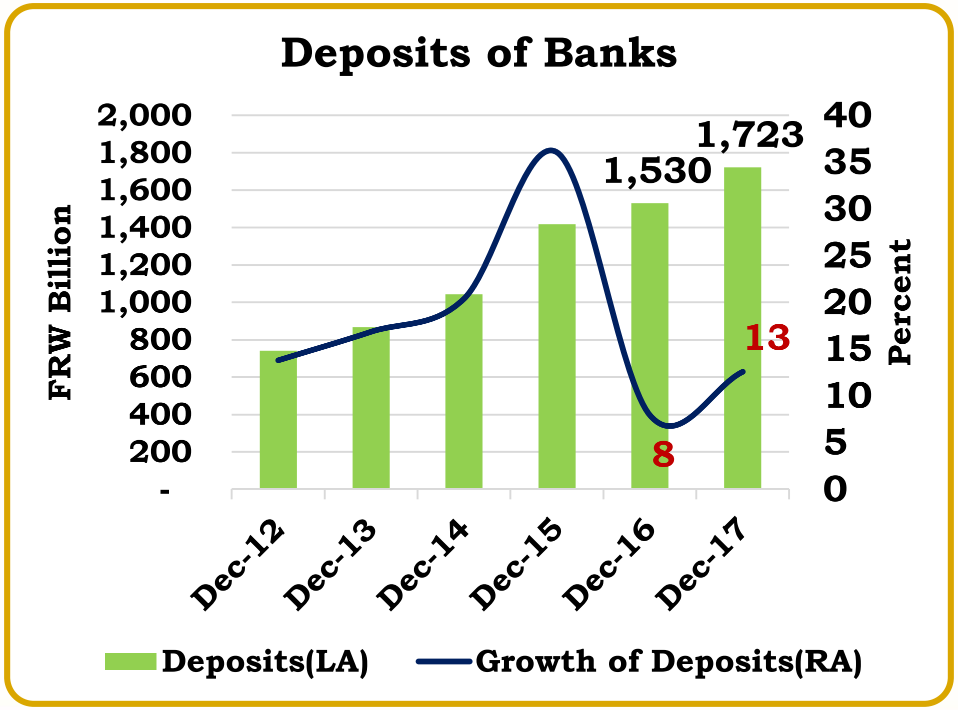
- The growth of assets of banks and MFIs improved in 2017.

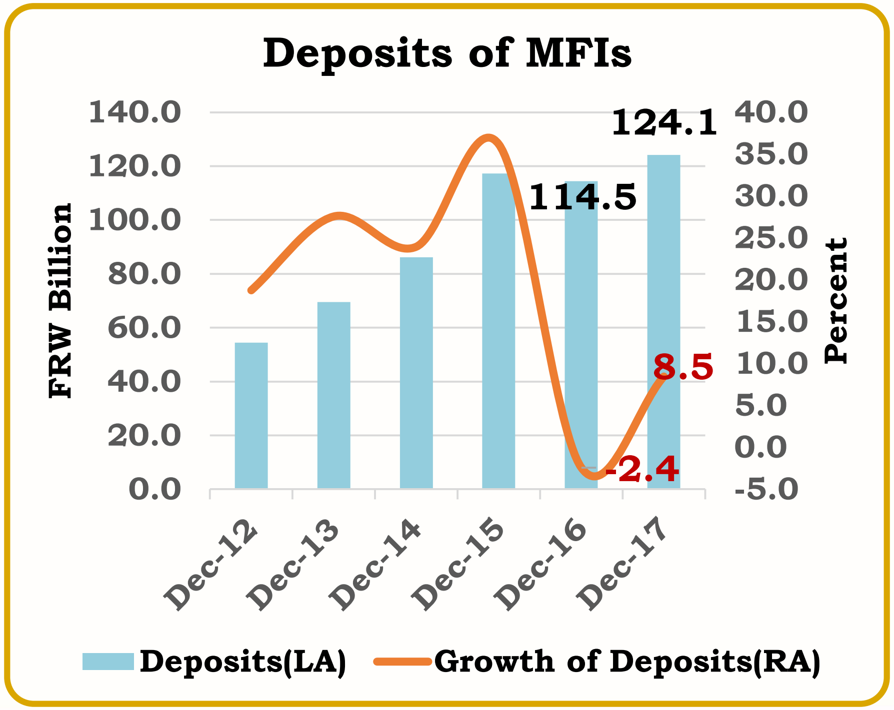




Performance of Banks and MFIs: Deposits

- **Faster growth of deposits explain the strong growth of assets:**
  - Deposits account for **77.4 %** of banks’ liabilities.
  - Deposits account for **79.2 %** of MFIs liabilities.

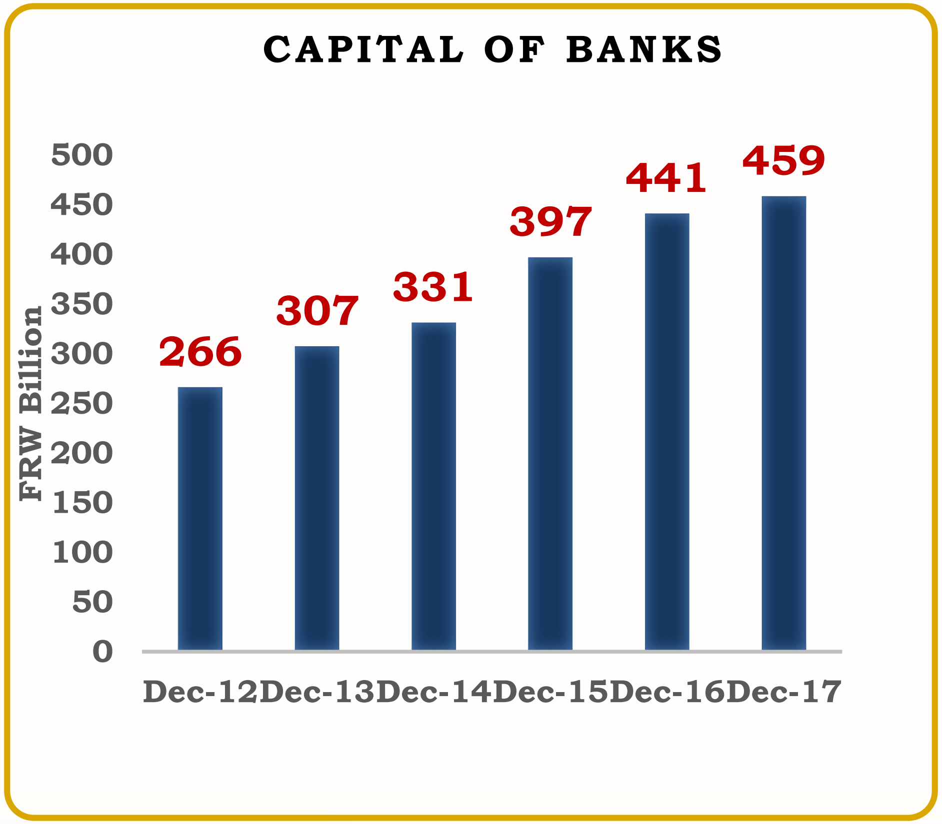


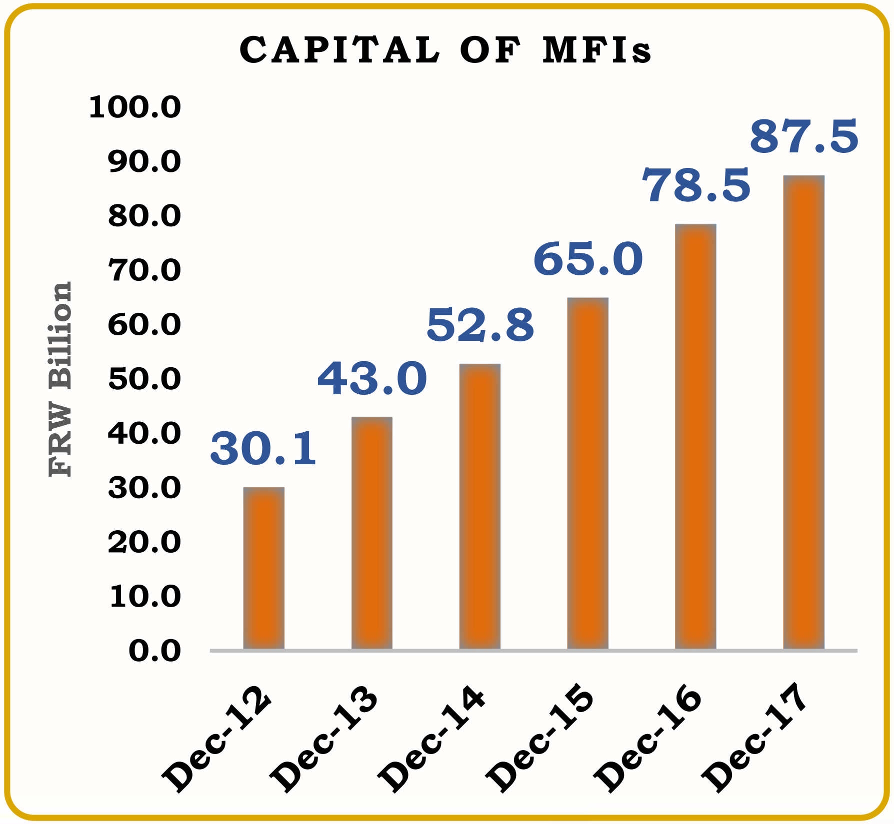


Performance of Banks and MFIs: Capital

Banks and MFIs increased their capital base:

- Total capital of banks increased by **FRW 18 billion;**
- Total capital of MFIs increased by **FRW 9 billion.**

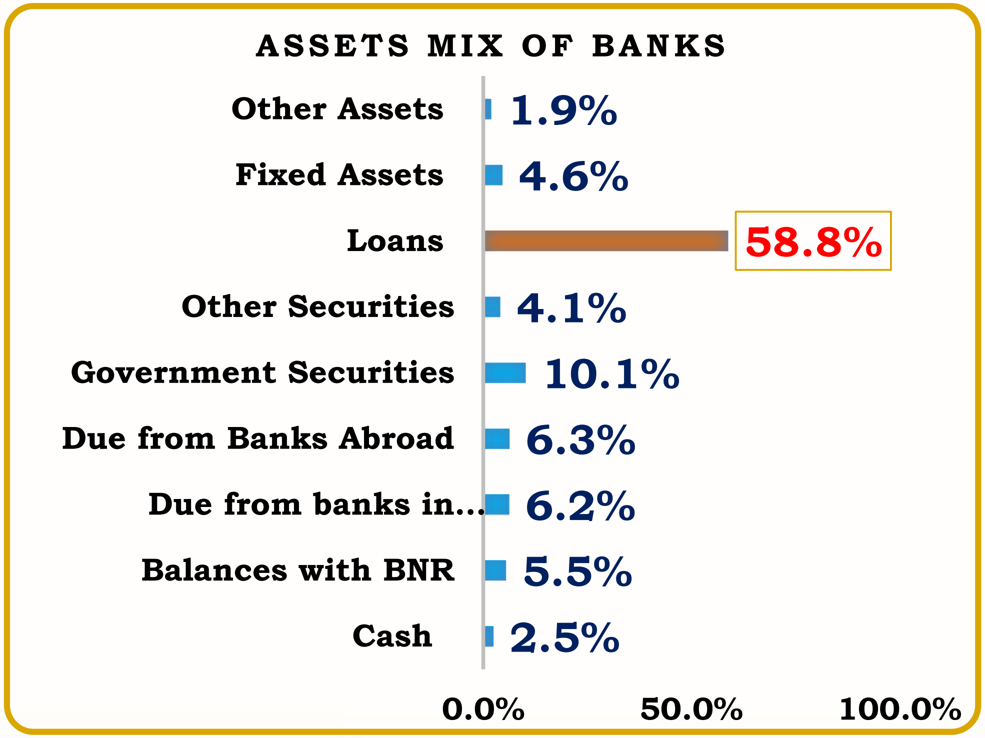


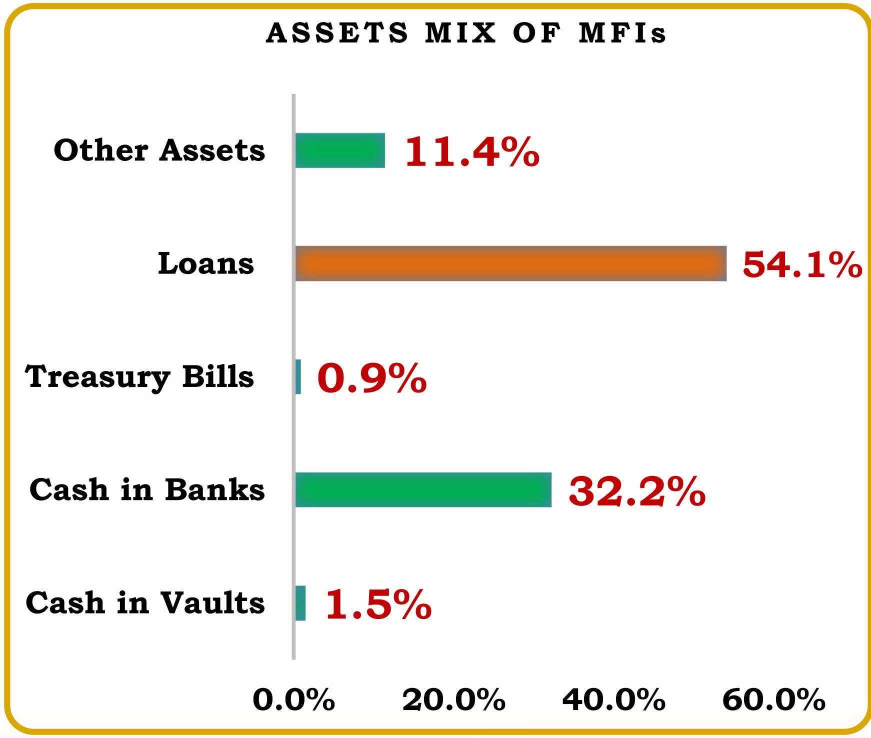


Performance of Banks and MFIs: Asset Mix

Lending remains the main business for banks and MFIs:

- Loans account for over **50%** of total assets for Banks & MFIs;
- The ratio of earning assets increased from **82%** (Dec.2016) to **83%** (Dec-2017);
- Credit demand and loan quality will continue driving profits of banks and MFIs.



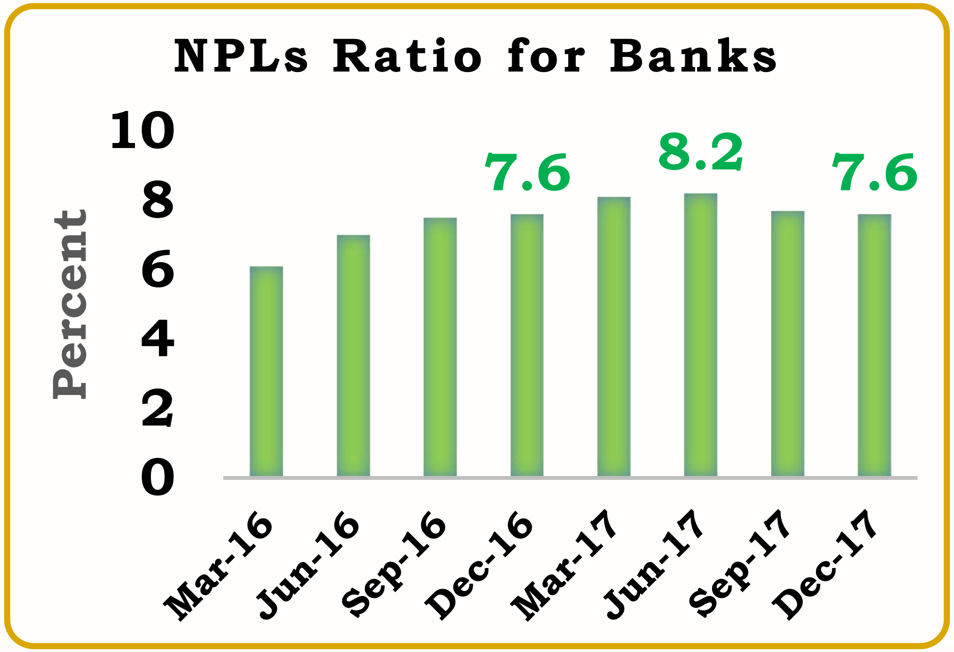


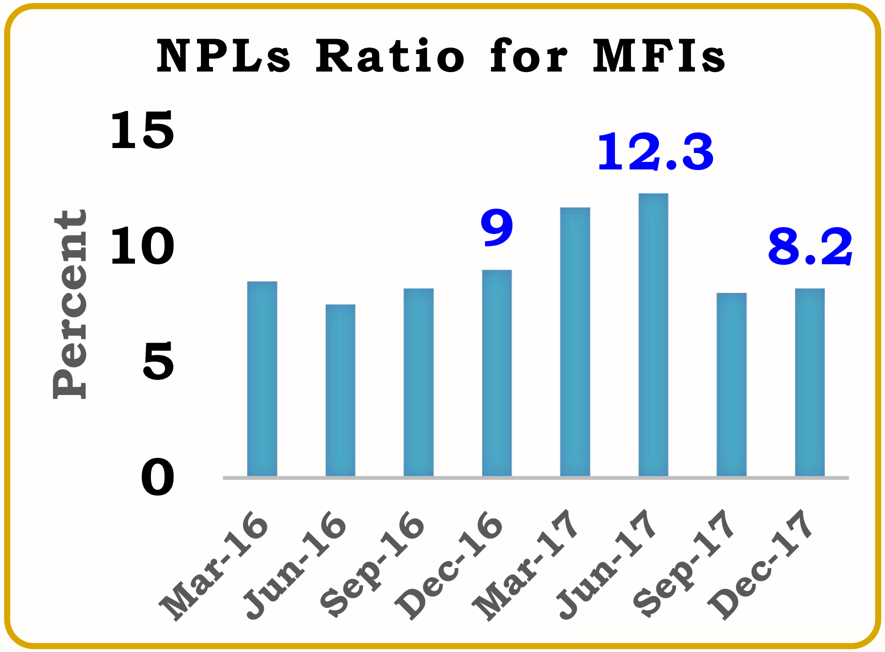
The Soundness of Banks and MFIs: Assets Quality

The NPLs ratio declined in the second half of 2017.

Improvement is attributed to:

- The rebound of economic performance;
- Write offs by banks;
- Write offs by MFIs.





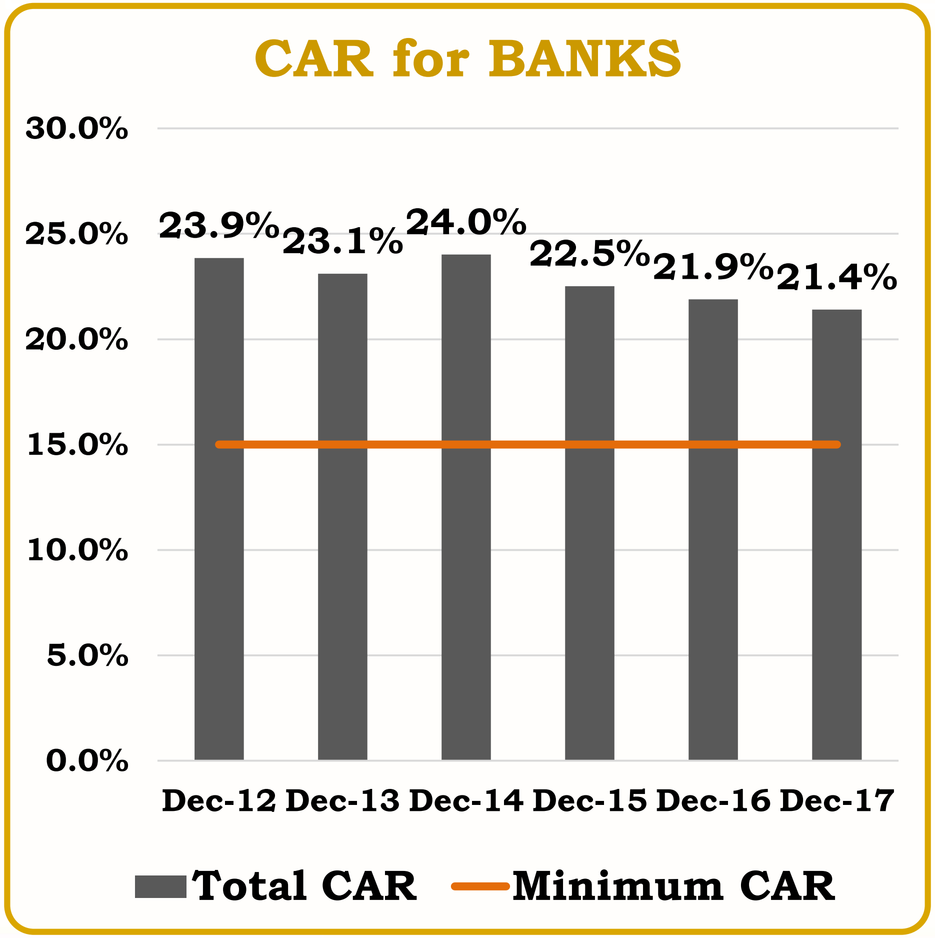
The Soundness of Banks: Assets Quality

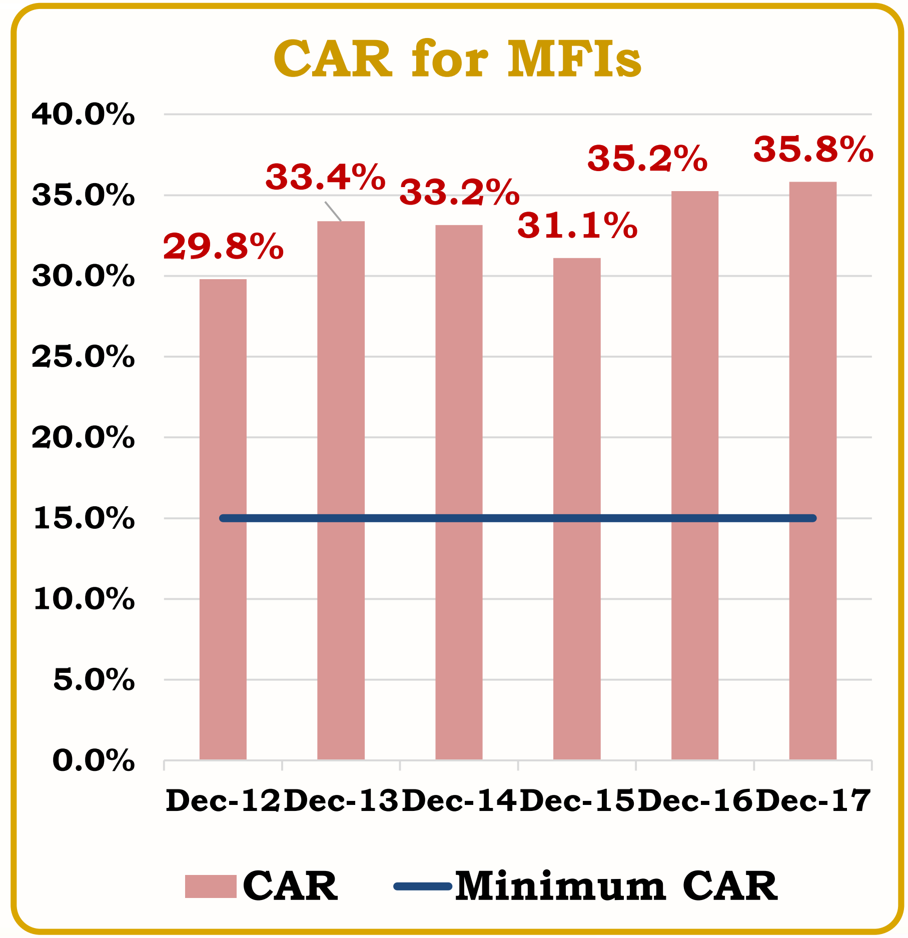
- The NPLs ratio declined in agriculture, mortgage and personal loans;
- NPLs ratio increased in manufacturing, trade and hotels.

Activity Sector	% of Total loans	NPLs per total loans of the sector (%)		
	Dec-17	Dec-15	Dec-16	Dec-17
Personal loans	8.5	6.2	6.7	5.4
Agriculture, fisheries & livestock	1.5	13.5	22.7	10
Mining activities	0.2	1.6	0	0.7
Manufacturing activities	10	2.5	9.4	13.9
Water & energy activities	2.7	0.2	0.1	0
Mortgage industries	37	4.4	5	4.5
Trade	17.9	8.3	8.9	12
Hotels	8.5	7.6	7.8	11.6
Transport & warehousing	9	3.5	3.2	2.4
OFI &Insurance	1.6	3.8	0.8	0.2
Service sector	3.1	5.6	9.9	11.2

The Soundness of Banks and MFIs: Capital Adequacy

- **Banks and MFIs are sufficiently capitalized:**

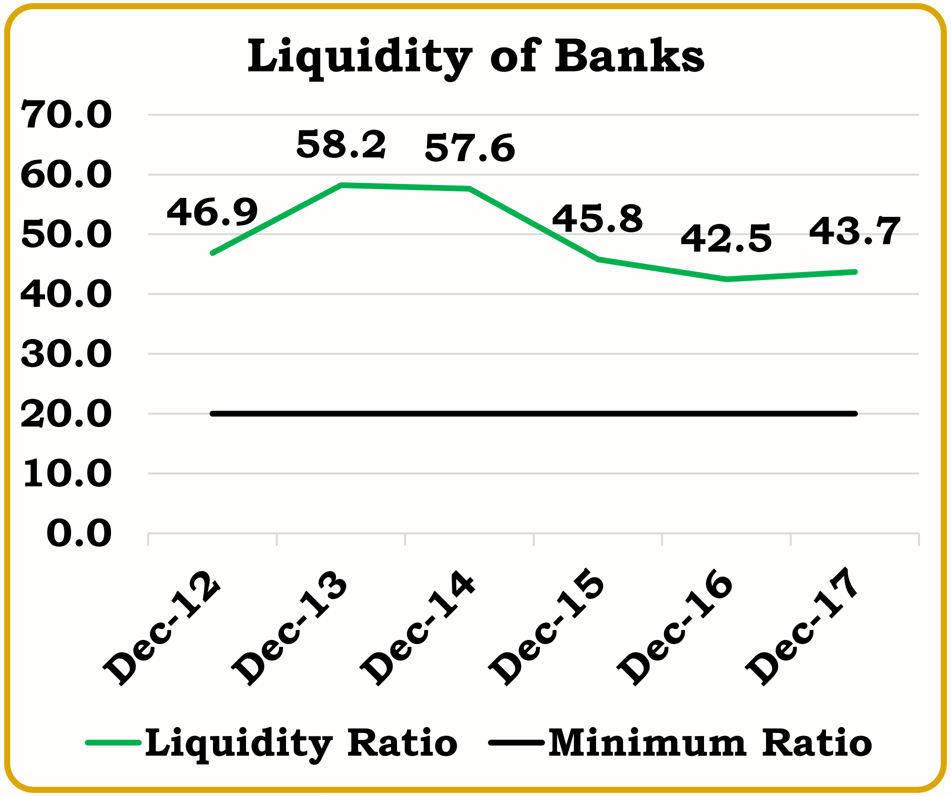


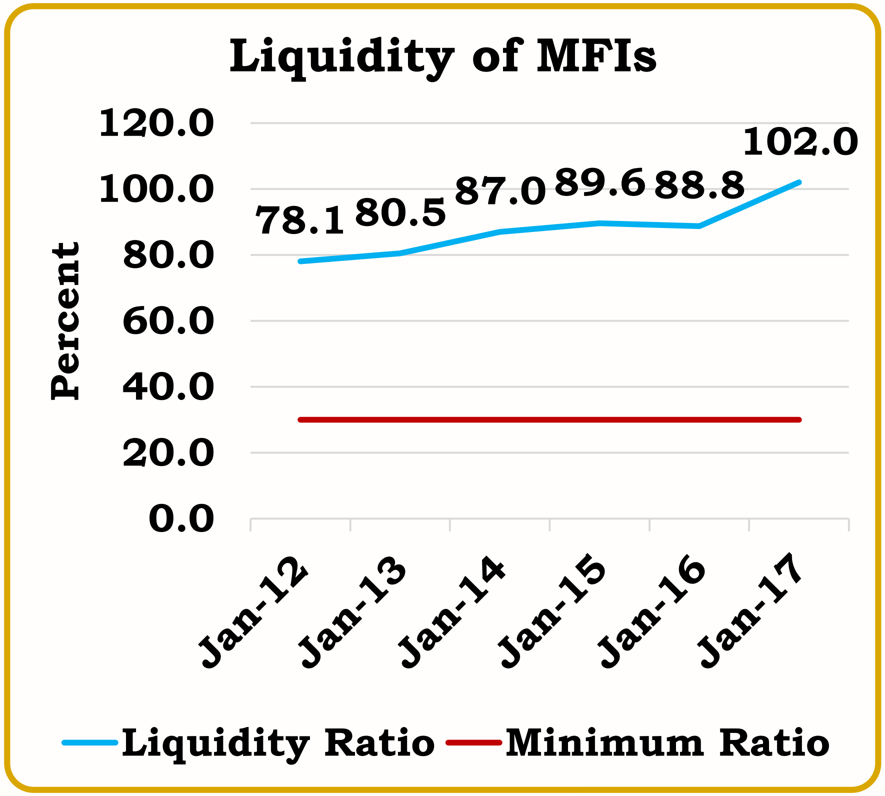


The Soundness of Lending Institutions: Liquidity

Banks and MFIs are sufficiently liquid

- Increased liquidity ratios reflects higher increase of funding than lending.





The Soundness of Banks and MFIs: Profitability

- Profits of Banks reduced by FRW **2.6** billion;
- Profits of MFIs reduced by FRW **6.5** billion.

Profits Before Taxes (FRW billion)	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Profits of Banks	38.2	27.6	46.9	57.2	56.7	54.1
Profits of MFIs	2.6	3.2	4.3	6.8	10.0	3.5

The reasons for the decrease of profits are:

1. Increased loan loss provisions, as follows:

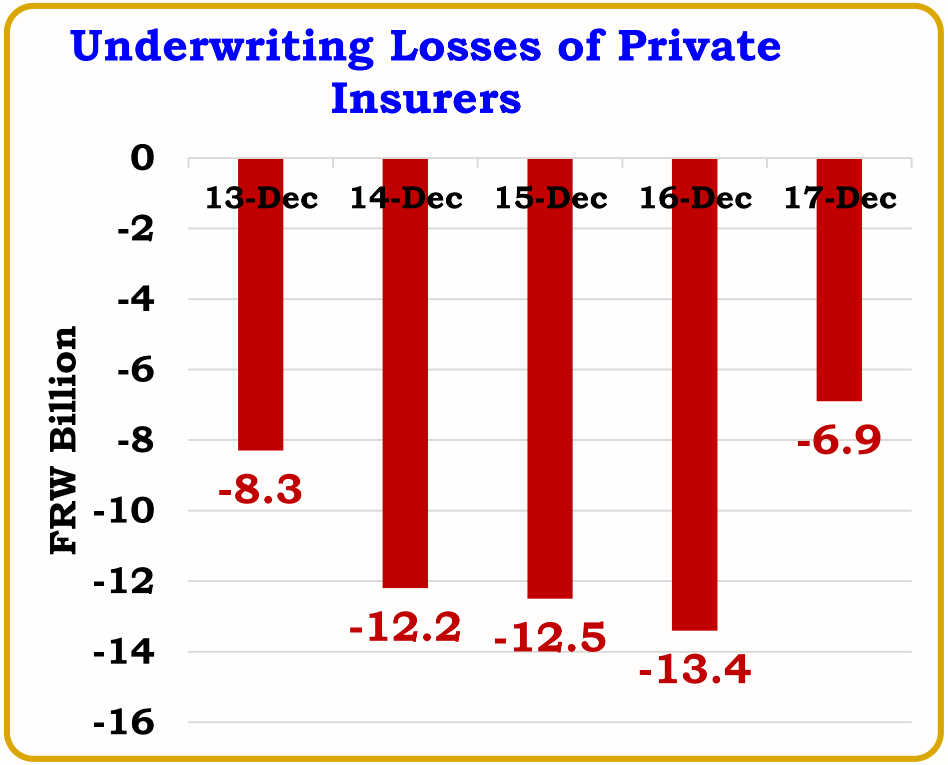
- *Banks (from FRW **42** billion to **53** billion);*
- *MFIs (from FRW **3.2** billion to **7.5** billion).*

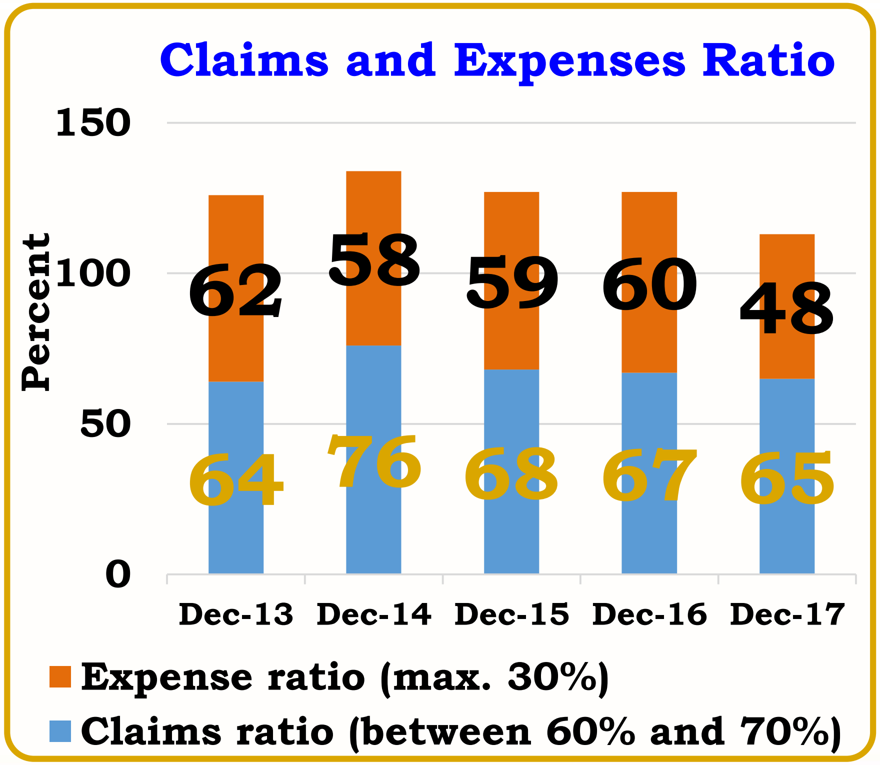
2. Weak credit demand, and lending in 2017H1.

The Performance of Insurance Sub-Sector: Private Insurers

Private insurers registered underwriting losses in recent past due to:

1) High claims;
2) High management expenses;
3) Price undercutting.





The Performance of Insurance Sub-Sector: Private Insurers

Underperformance of private insurers mostly driven by poor performance of motor insurance business line

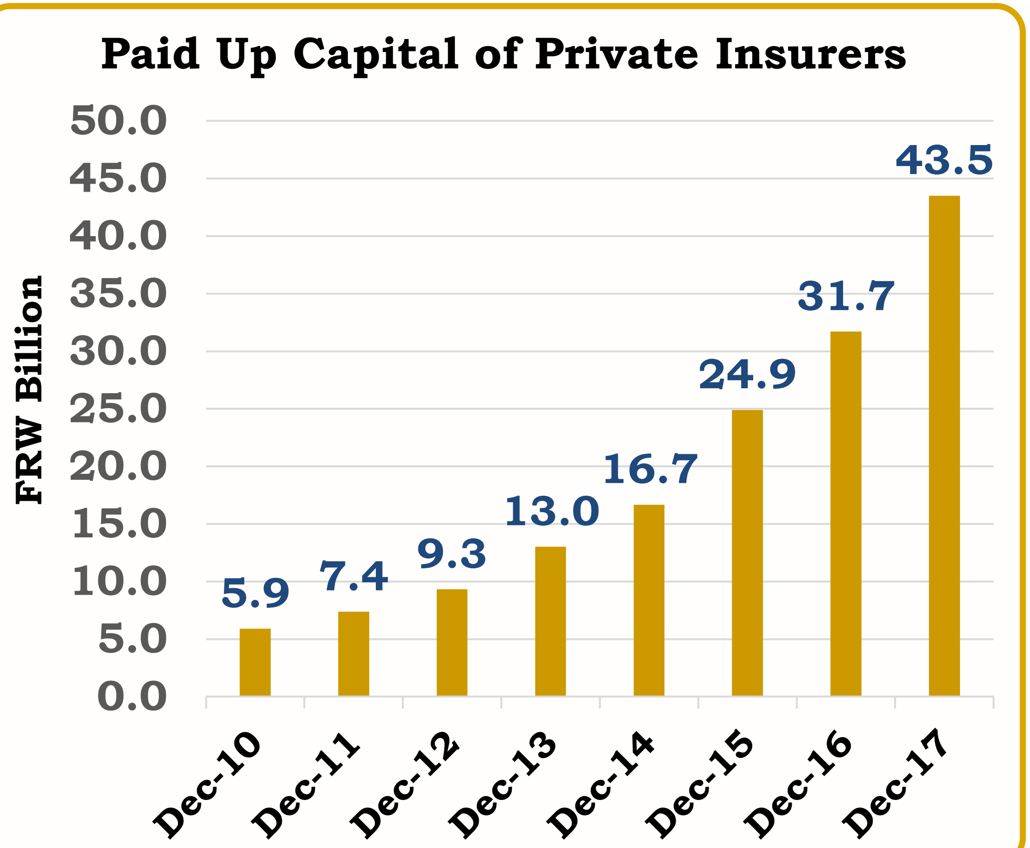
Extract on Motor insurance performance (FRW billion)	2014	2015	2016	2017
Net earned Premiums	13.4	19.3	19.2	21.3
Claims Incurred	(8.2)	(12.1)	(12.5)	(15.9)
Expenses	(8.3)	(9.9)	(10.6)	(9.7)
Net underwriting profit/(loss)	**-3.3**	**-2.7**	**-3.9**	**-4.3**
Key financial ratios				
Claims ratio (max 60%)	**61%**	**63%**	**71%**	**75%**
Expenses ratio (≤30%)	56%	45%	52%	40%
Combined Ratio (< 100%)	**117%**	**108%**	**123%**	**115%**

The above losses were due to:

- ✓ Weak underwriting risk assessment;
- ✓ Price undercutting;
- ✓ High claims.

The Performance of Insurance Sub-Sector: Repercussions of Losses

- **As a result insurance companies had to inject new capital to comply with solvency requirements:**



- **3 priorities to improve performance of the insurance sctor:**
  - ✓ **Proper risk analysis;**
  - ✓ **Proper risk pricing;**
  - ✓ **Improved operational efficiency.**

The Performance of Insurance Sub-Sector:
Solvency and Profits of private insurers improved in 2017

Selected FSIs (Private insurers)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Solvency margin (Min. 100%)	118	126	116	78	193
Claims ratio (max.60%)	64	76	68	67	65
Expenses ratio (max. 30%)	62	58	59	60	48
Combined ratio (max.90%)	125	134	127	127	113
ROA	1	-6	-4	-4	2
ROE	4	-18	-13	-11	5

Improved solvency due to:
(1) Capital injections and;
(2) High growth of investment income (Dec-2016= **9.4%**; Dec-17=**21.2%**)

Performance of Pension Sub-Sector

- **Higher growth of pension (2016= 12%, 2017 = 18%)**

High asset growth was driven by:

- Increased number of contributors (from **391,424** to **398,303**);
- Increased investment income (mainly from term deposits & Gvt securities).

DESCRIPTION (in FRW Billion)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	%change Dec-15/16	%change Dec-17/16
Total assets	416.3	480.7	546.3	609.8	717.9	**12**	**18**
Total contributions	58.2	56.9	68.4	73.8	85.5	**8**	**16**
Total benefits paid	11	13.4	15.4	17	18.8	**10**	**11**
Operating expenses	7.2	5	4.7	4.5	4.5	**-4**	**-2**
Investment income	14.6	20.7	21.8	24.1	30	**10**	**24**

Payment System

- RIPPS customer's transfers(91% share of total volume) increased by **12%.**
- New mobile financial services continued to grow thanks to MNOs and Government initiative(Rwanda Online)

RIPPS Transactions

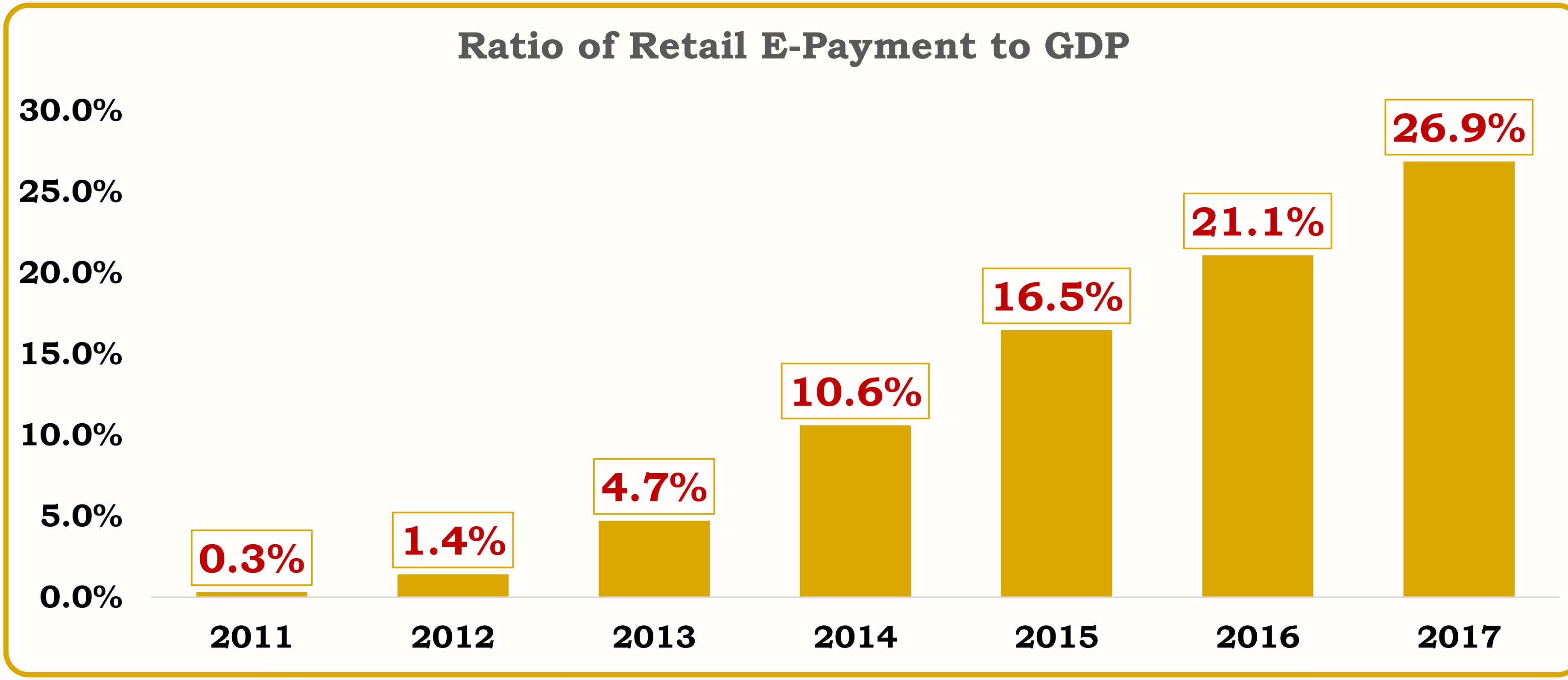
Mode of payment	January-December 2016		January-December 2017		% Change	
	Volume	Value (FRW Million)	Volume	Value (FRW Million)	Volume	Value
Customer transfers	2,716,645	4,107,461	3,041,717	4,678,067	12	14
Interbank transfers	14,736	2,728,485	15,240	2,106,699	3	-23
Cheques	284,779	708,981	254,293	726,556	-11	2

Usage of Mobile Financial Services

Services	Jan-Dec 2016		Jan-Dec 2017		% Change	
	Volume	Value (Million FRW)	Volume	Value (Million FRW)	Volume	Value
Micro saving	**209,390**	**2,888**	**963,848**	**4,535**	**360**	**57**
Cross border	**63,927**	**2,684**	**101,186**	**3,385**	**58**	**26**
P2G	**253,320**	**1,363**	**948,201**	**5,752**	**274**	**322**

Payment System

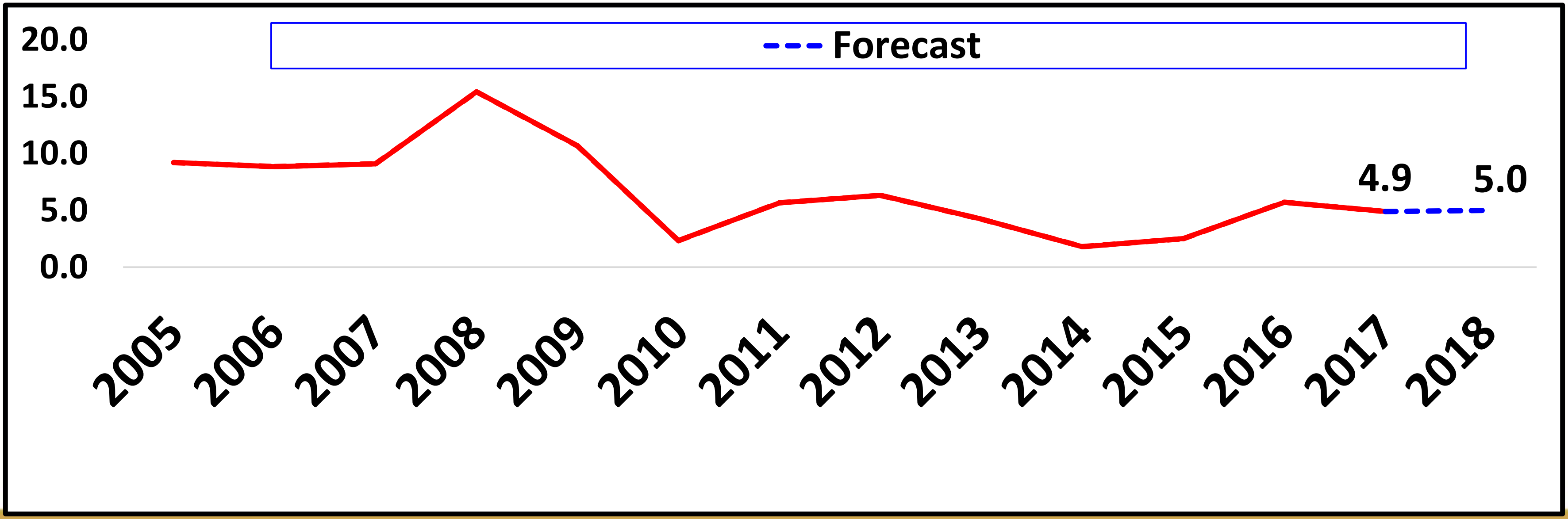
- The retail electronic payments are increasing as a result of different initiatives in payment industry.
- The target is to reach **55% by 2020** and **80% by 2024.**



V. MONETARY POLICY OUTLOOK

Monetary policy outlook

- **The global and domestic economy expected to continue improving:**
  - ✓ Rise in global aggregate demand;
  - ✓ Improvement in Rwanda's export receipts
- **Rwanda's inflation expected to not exceed 5.0%:**
  - ✓ Improvement in food supply & moderate exchange rate pressures



Monetary policy outlook

- **Room for continued accommodative monetary policy to support the financing of the economy by the banking sector:**
  - ✓ Outstanding credit to the private sector forecast at **13.0%** while M3 growth is projected at **14.0%;**
  - ✓ However, NBR will continue to monitor key macroeconomic developments to decide on the appropriate monetary policy stance.
- **NBR will continue to strengthen liquidity forecasting to facilitate the use of the interest rate based monetary policy framework:**
  - ✓ Thus, NBR is planning to shift to a more forward-looking price based monetary policy framework to further improve the effectiveness of monetary policy.

Financial Sector Outlook

- The projected improved economic growth in 2018 will expand opportunities for financial institutions to lend, increase the capacity of borrowers to service their loans and arrears.
- BNR will continue to engage private insurers on proper risk analysis, risk pricing and efficiency so as to improve the performance of private insurers.
- The review and enhancement of the legal and regulatory framework done in the last 3 years is also expected improve the resilience, transparency and integrity of the financial sector in the medium-term.
- The implementation of IFRS 9 and the new capital adequacy and liquidity requirements in line with Basel II/III during this year will further enhance the resilience of the banking sector.
- The BNR will also continue to educate the public and engage with key stakeholders to drive the uptake of e-payment channels and instruments in a bid to promote a cashless society.

THANK YOU