



NATIONAL BANK OF RWANDA

**MONETARY POLICY AND FINANCIAL
STABILITY STATEMENT**

RWANGOMBWA John
Governor

30th August 2017



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

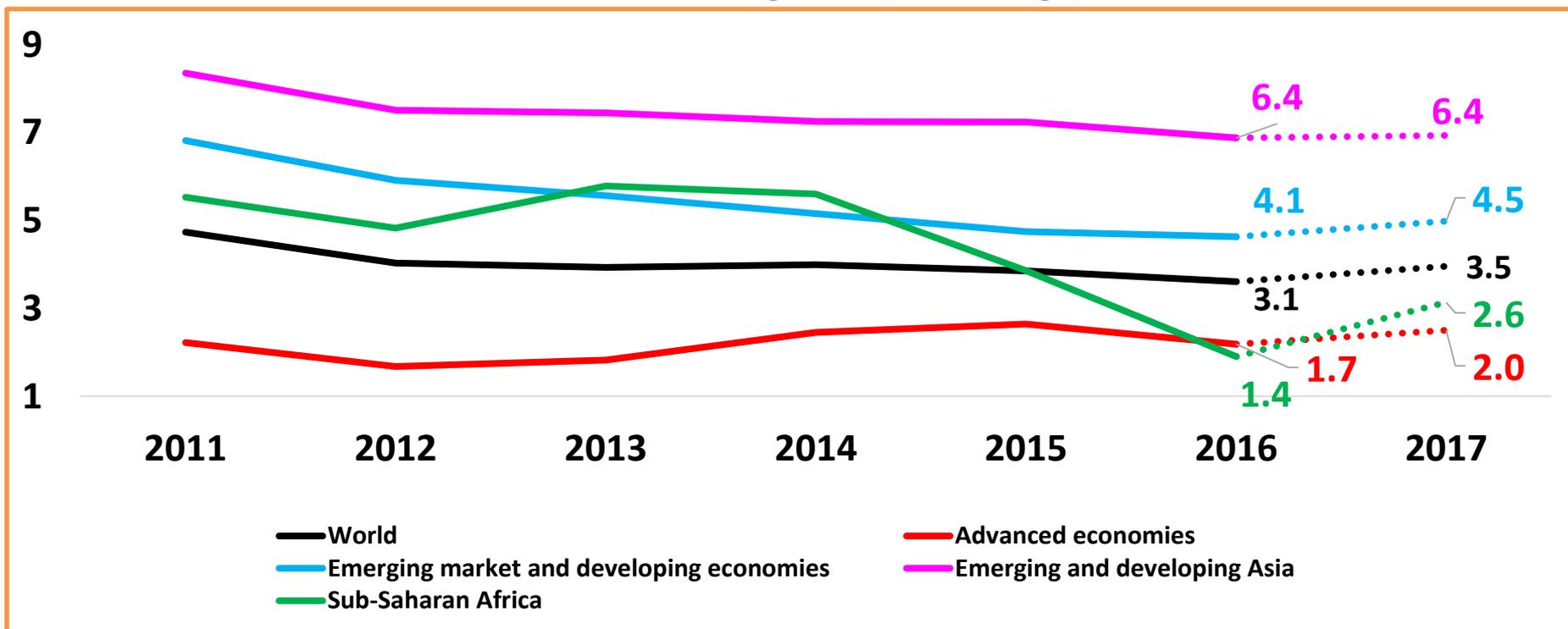


I. GLOBAL ECONOMIC ENVIRONMENT



Improved global economic performance and positive outlook

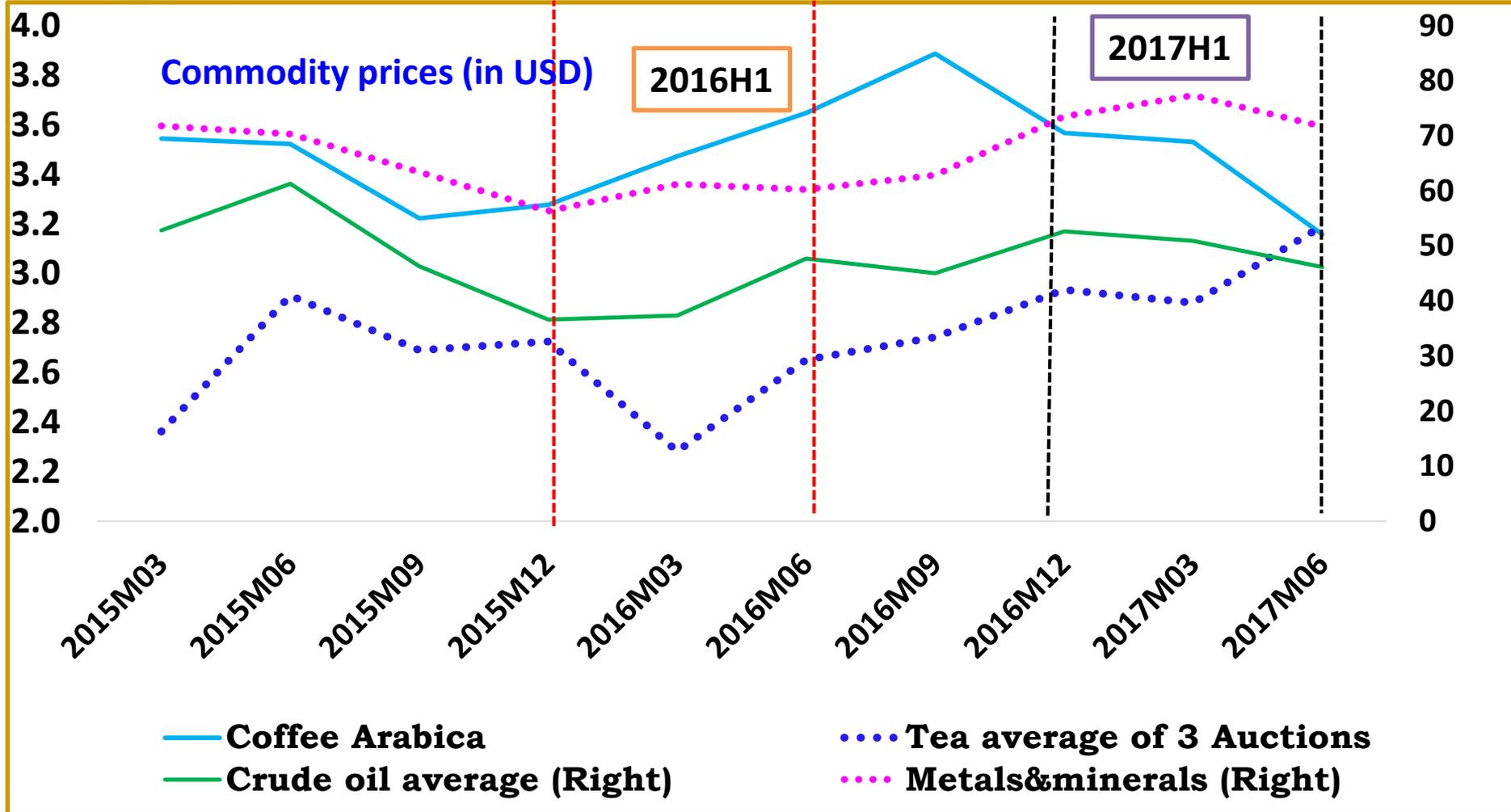
GDP growth (in % change)



- **In advanced economies:**
 - Inflation remains below Central Banks' targets
 - Aggregate demand is still low but improving
 - ➔ Room for accommodative monetary policy by Central Banks



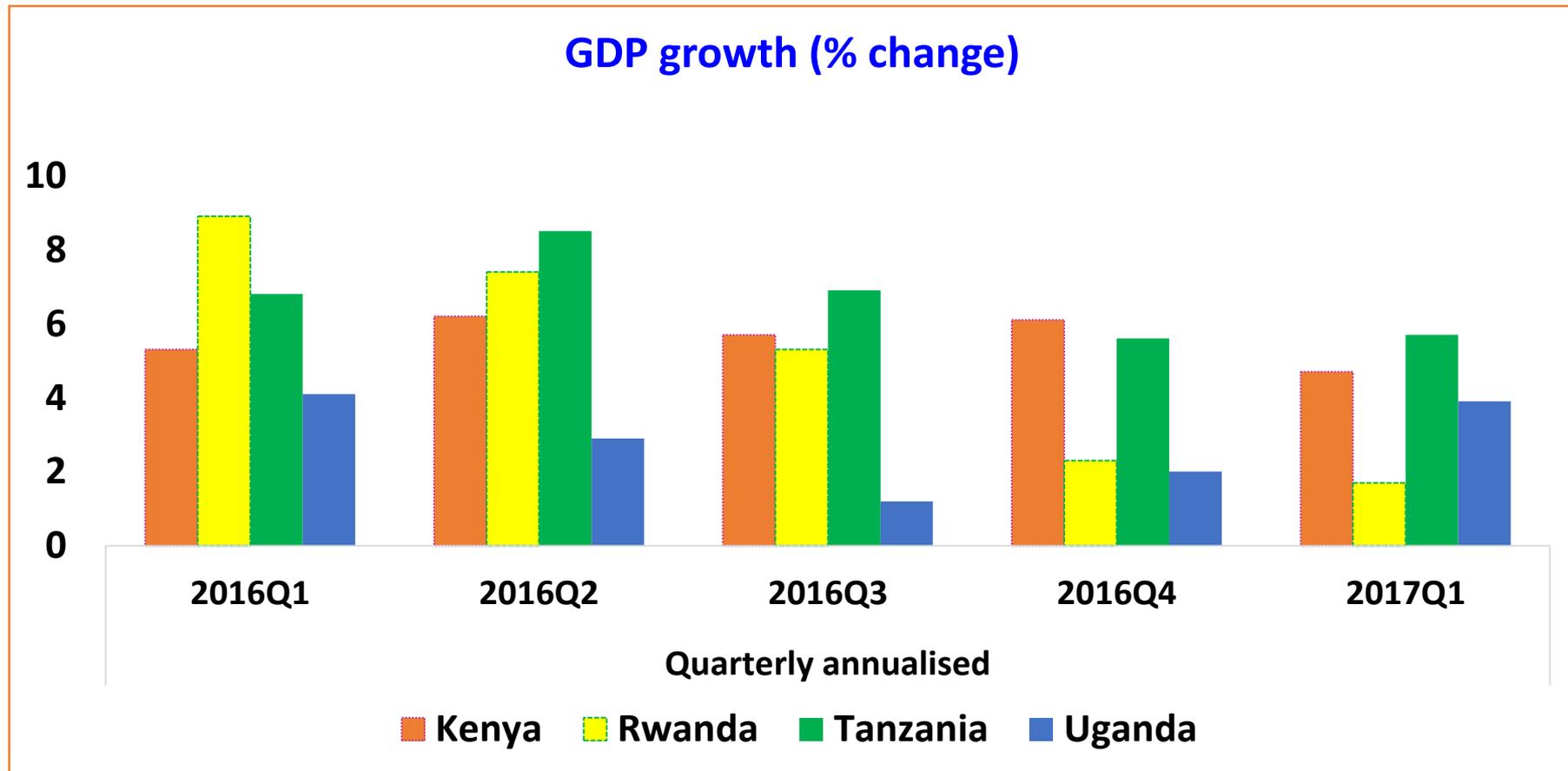
Commodity prices (except coffee) declining in 2017H1 but still above the 2016H1 levels, in line with improving aggregate demand





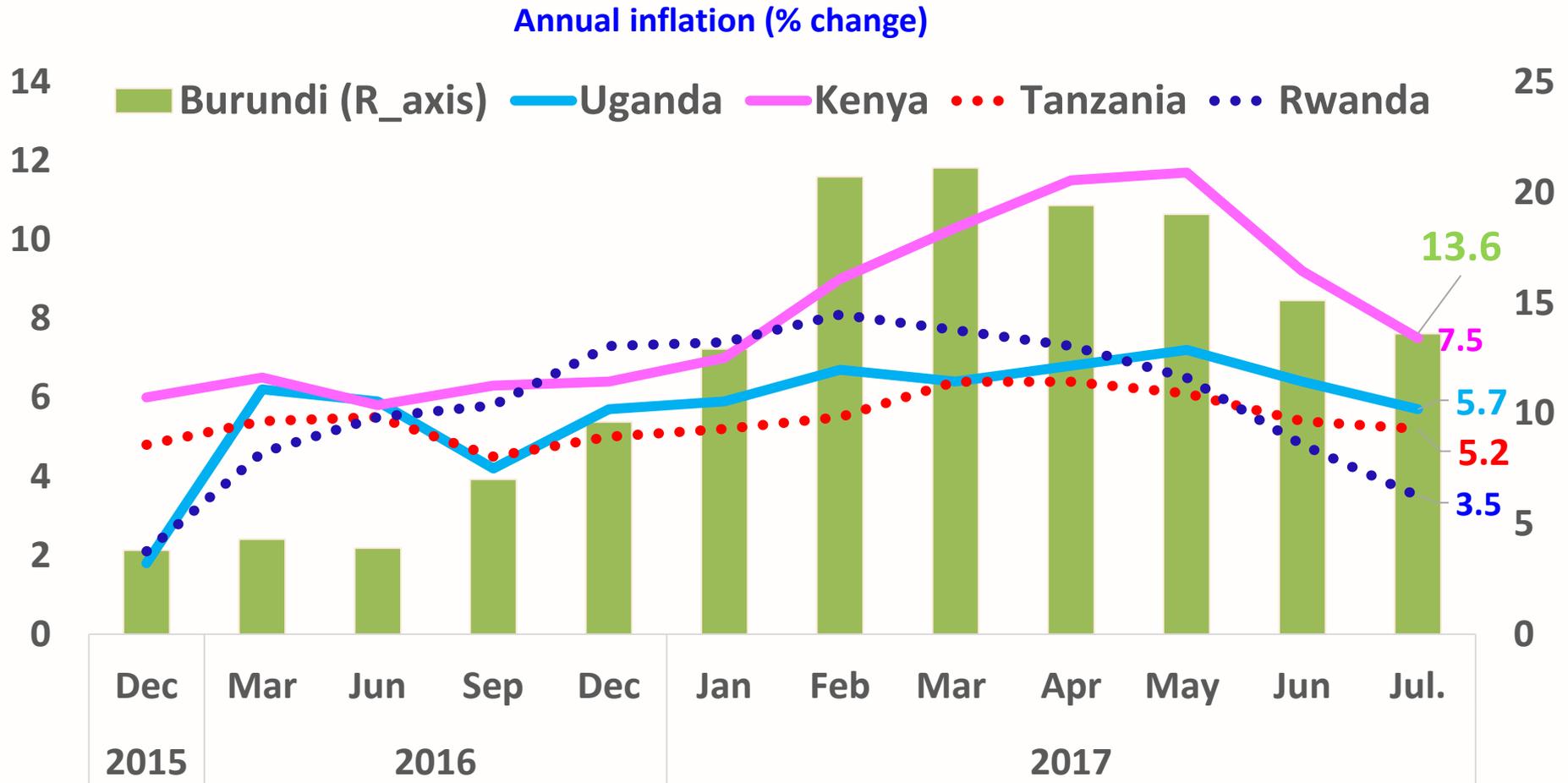
2017Q1 slowdown in some EAC economies mainly due to negative impact from dry weather conditions But recovery is expected in the rest of 2017

But these economies remain broadly resilient





Easing inflationary pressures in EAC mainly due to the decline in food prices and reduced exchange rate pass through





II. NATIONAL ECONOMIC PERFORMANCE

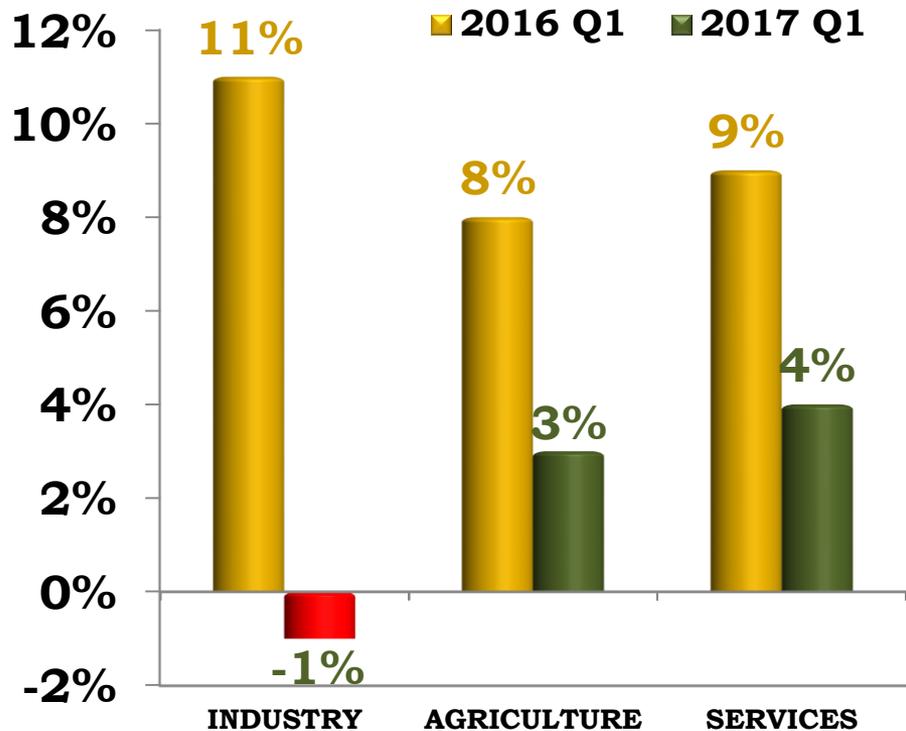


In 2017Q1, Rwandan economy slowed down:

- ➔ the completion of big construction projects;
- ➔ Long spell of the drought

• Real GDP:

✓ 1.7% in 2017Q1 from 8.9% in 2016Q1.



• Leading indicators show that:

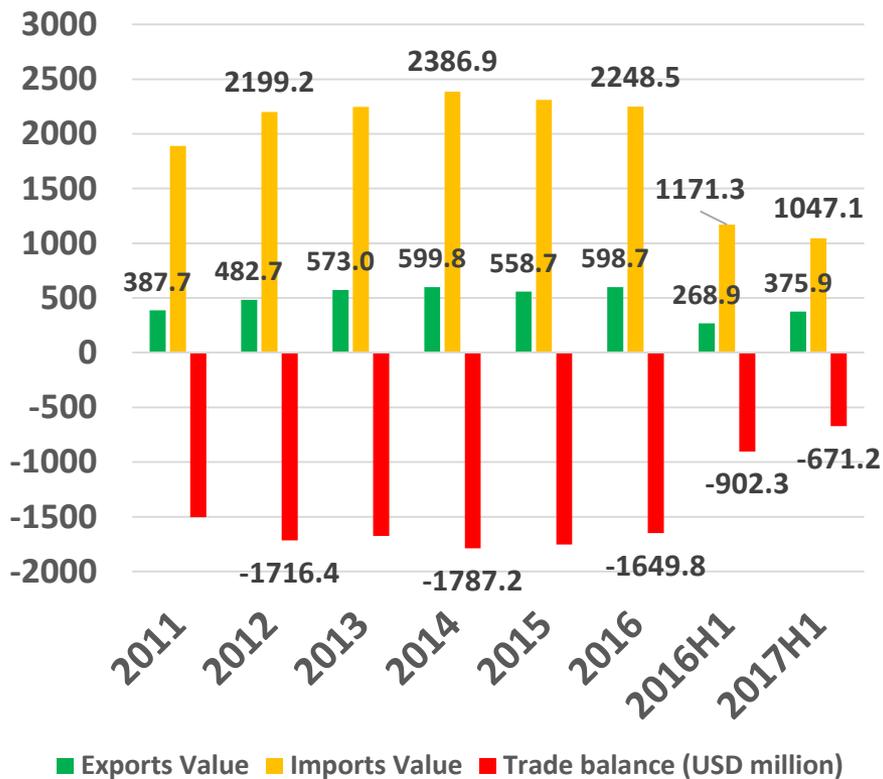
- ✓ Growth is expected to remain low in 2017Q2 vs 2016Q2;
- ✓ But better than in 2017Q1

	2016Q1	2016Q2	2017Q1	2017Q2
Real CIEA	18.0	14.6	7.2	10.3
Total turnovers	11.9	10.1	14.7	16.3
Industries	13.4	4.2	10.1	12.6
Services	11.4	12.3	16.4	17.6



Formal Trade: Trade balance improvement: 25.6%, Exports: +39.8%, Imports: -10.6%

Exports - Imports Goods in Value: USD Million

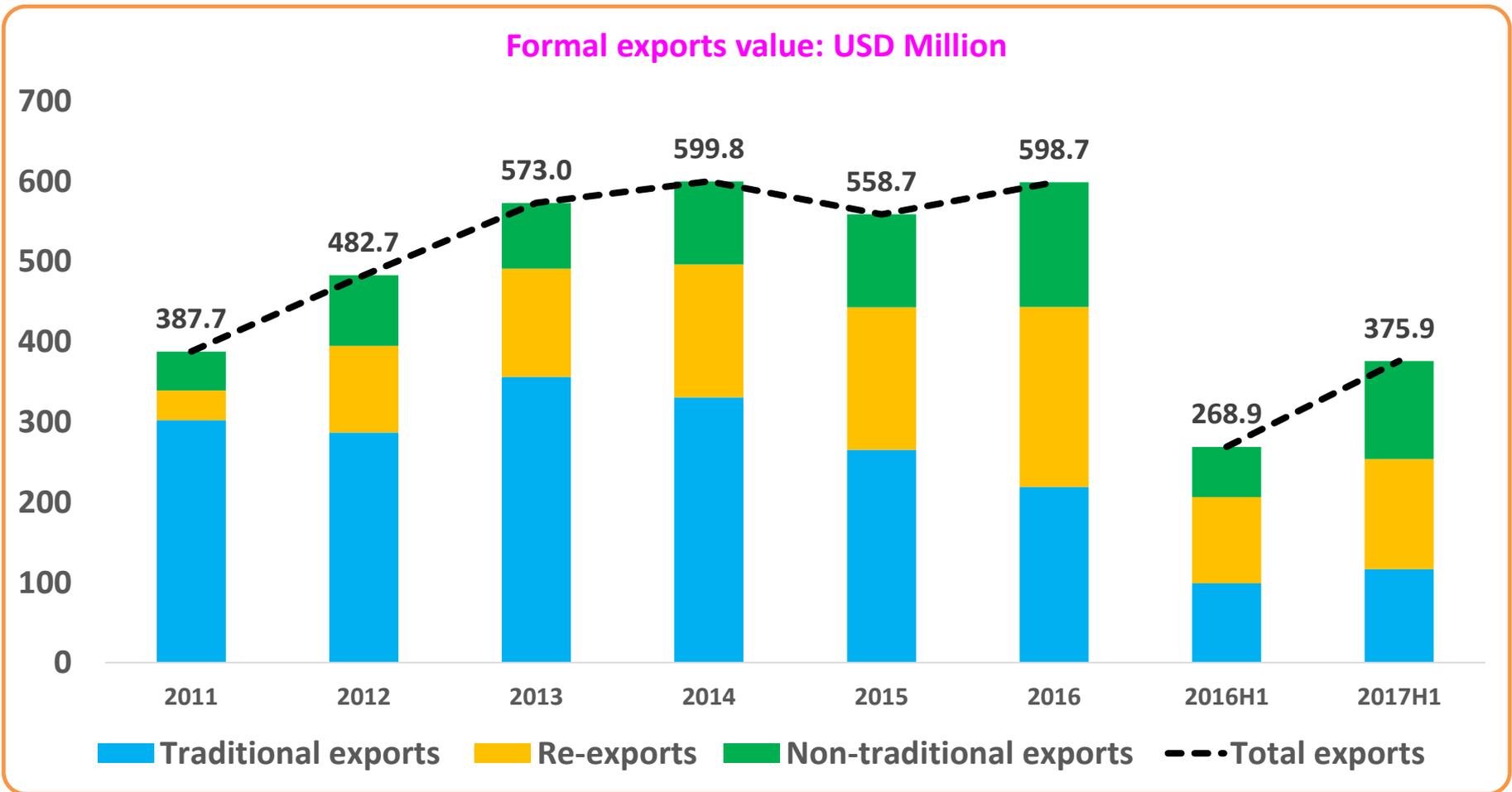


Exports - Imports Goods in Volume: thousands of tons





Exports value shares (2017H1): Re-exports (36.5%), Traditional (31.0%), non-traditional (32.5%)





Increasing diversification from traditional to non-traditional exports

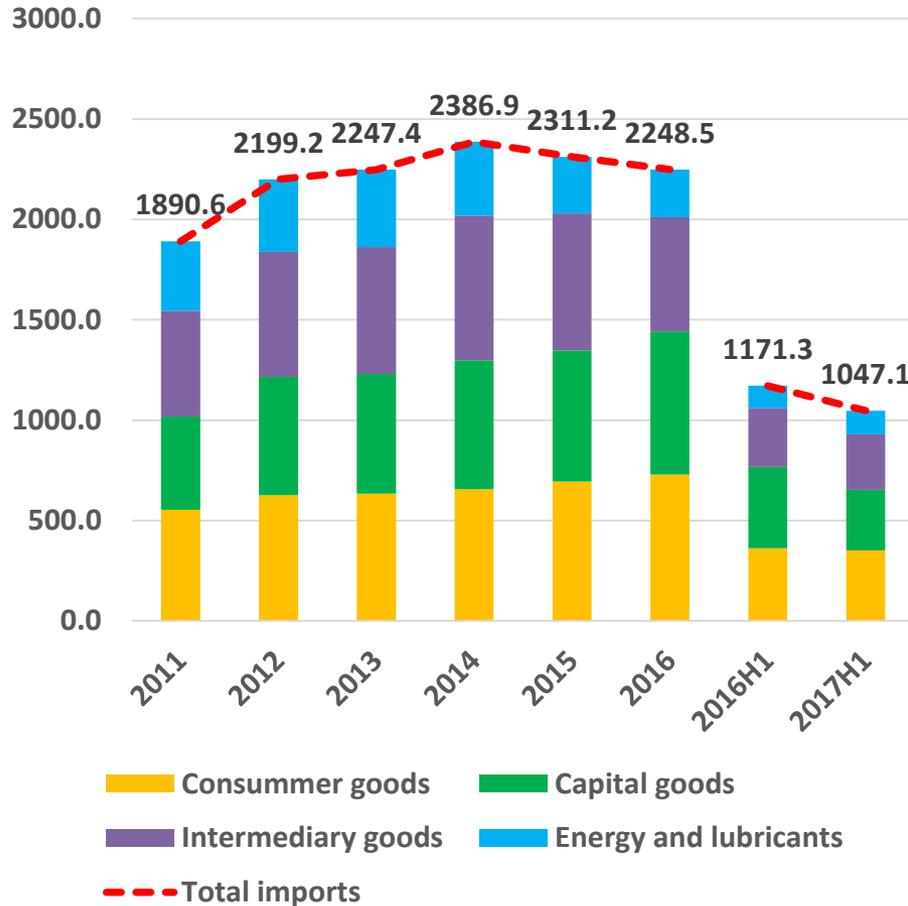
% share



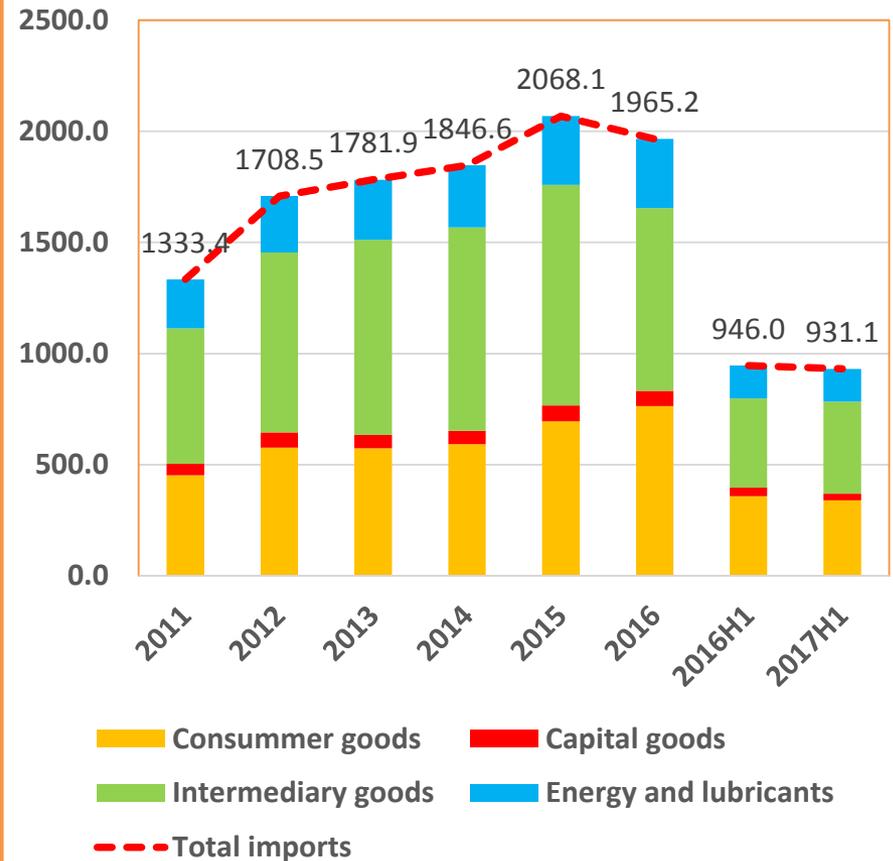


2017H1 shares in imported goods value: consumer (33.5%), capital (29.0%), intermediary (26.3%), energy & lubricants (11.2%)

IMPORTS VALUES: Million USD



IMPORTS VOLUME: 000's tons





III. POLICY STANCE IN 2017H1 & OUTCOMES

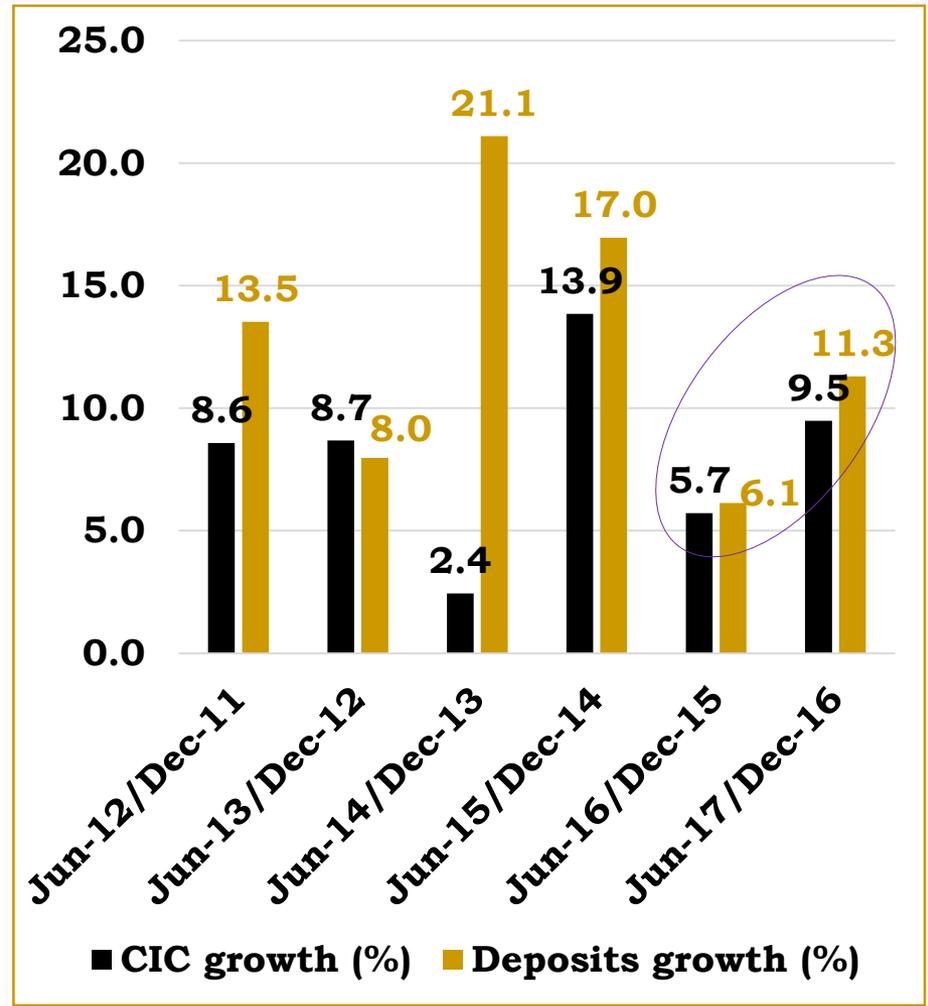
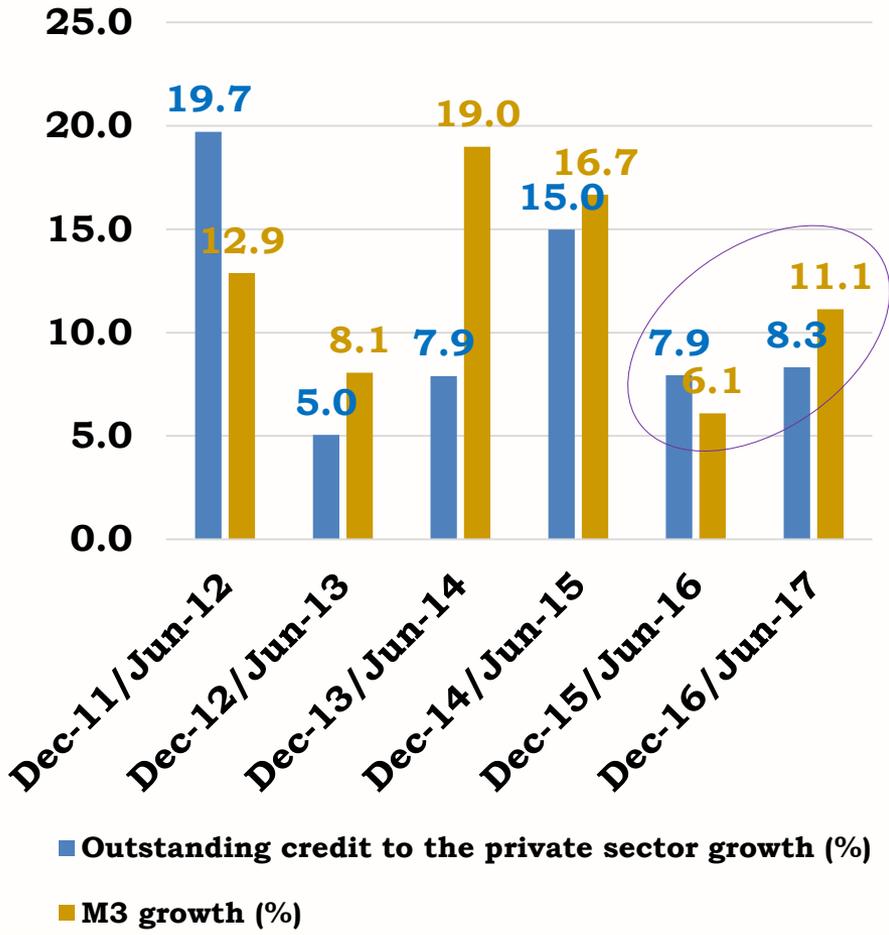


BNR Policy stance

- **Some challenges were observed since last year:**
 - ✓ Weak external sector performance: low commodity prices
 - ✓ Inflationary pressures due to rising food prices and increasing exchange rate pass through
 - ✓ Slowdown in economic activities
 - ✓ Slowdown in monetary aggregates growth (M3 & credit to private sector)
- **But, inflationary and exchange rate pressures were foreseen to ease**
- **Thus, BNR implemented an accommodative monetary policy, KRR reduced from 6.5% to:**
 - ✓ 6.25% in Dec-16 and 6.0% in June-17
- **As a result:**
 - ✓ Improvement in monetary aggregates
 - ✓ Decline in interest rates

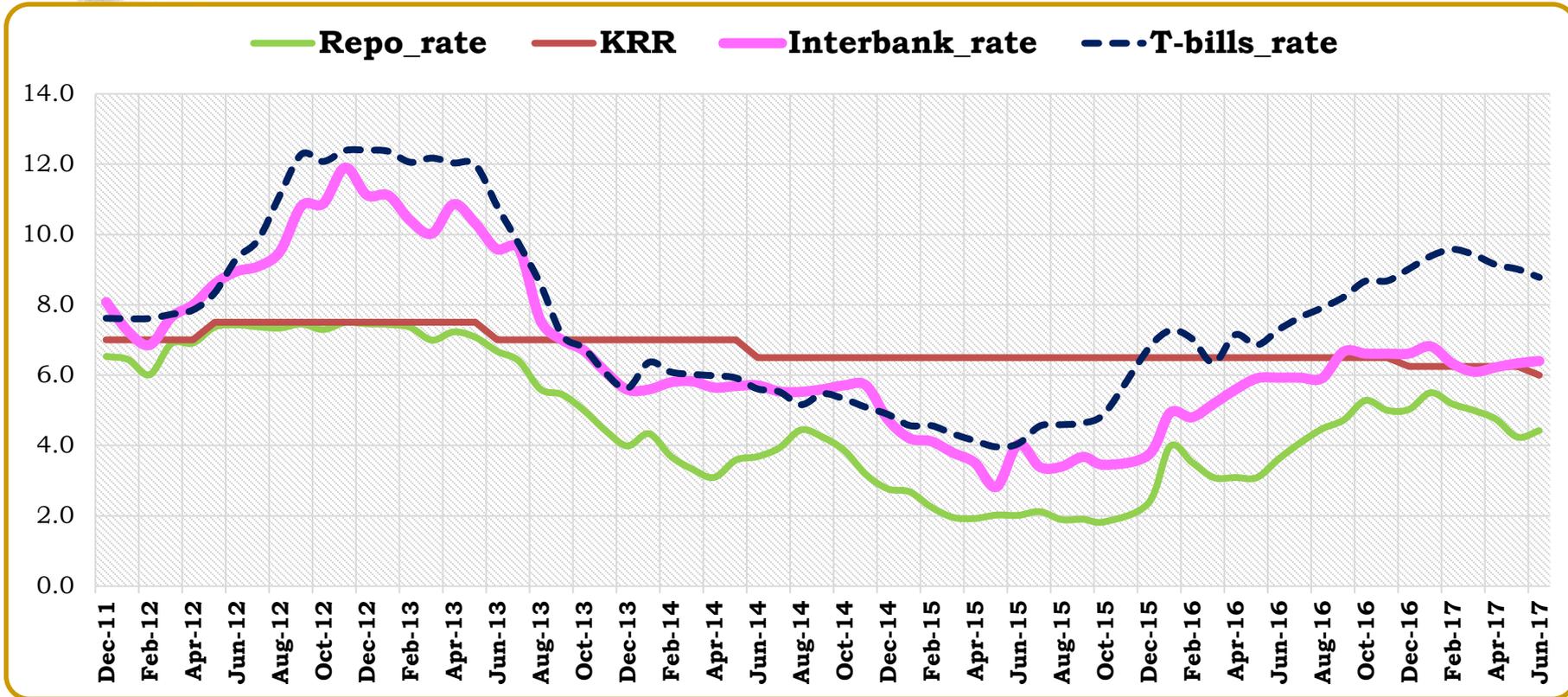


Rising growth of monetary aggregates in 2017H1, despite a decline in new authorized loans (-2.4%) due to completion of big projects in 2016





Downward trend in money market interest rates in 2017H1

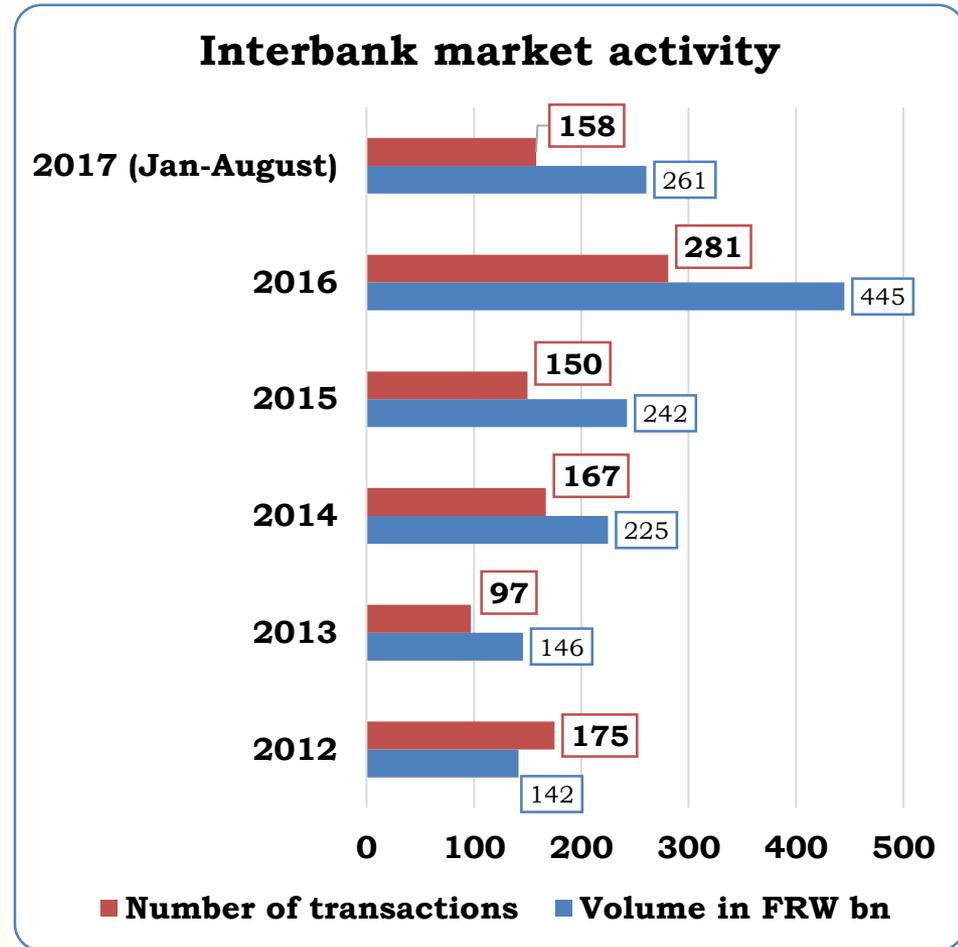
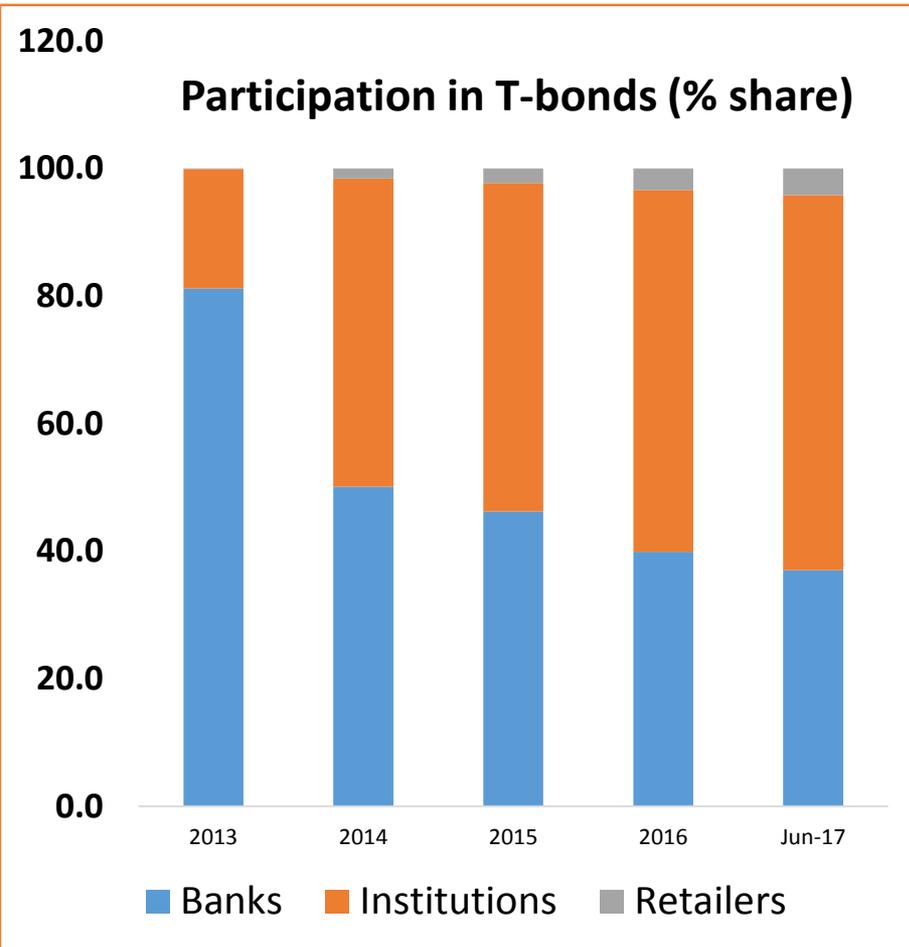


Slight decline in market interest rates, on average:

- Lending rate: 17.08% in 2017H1 from 17.29% in 2016;
- Deposit rate: 7.80% in 2017H1 from 7.91% in 2016.

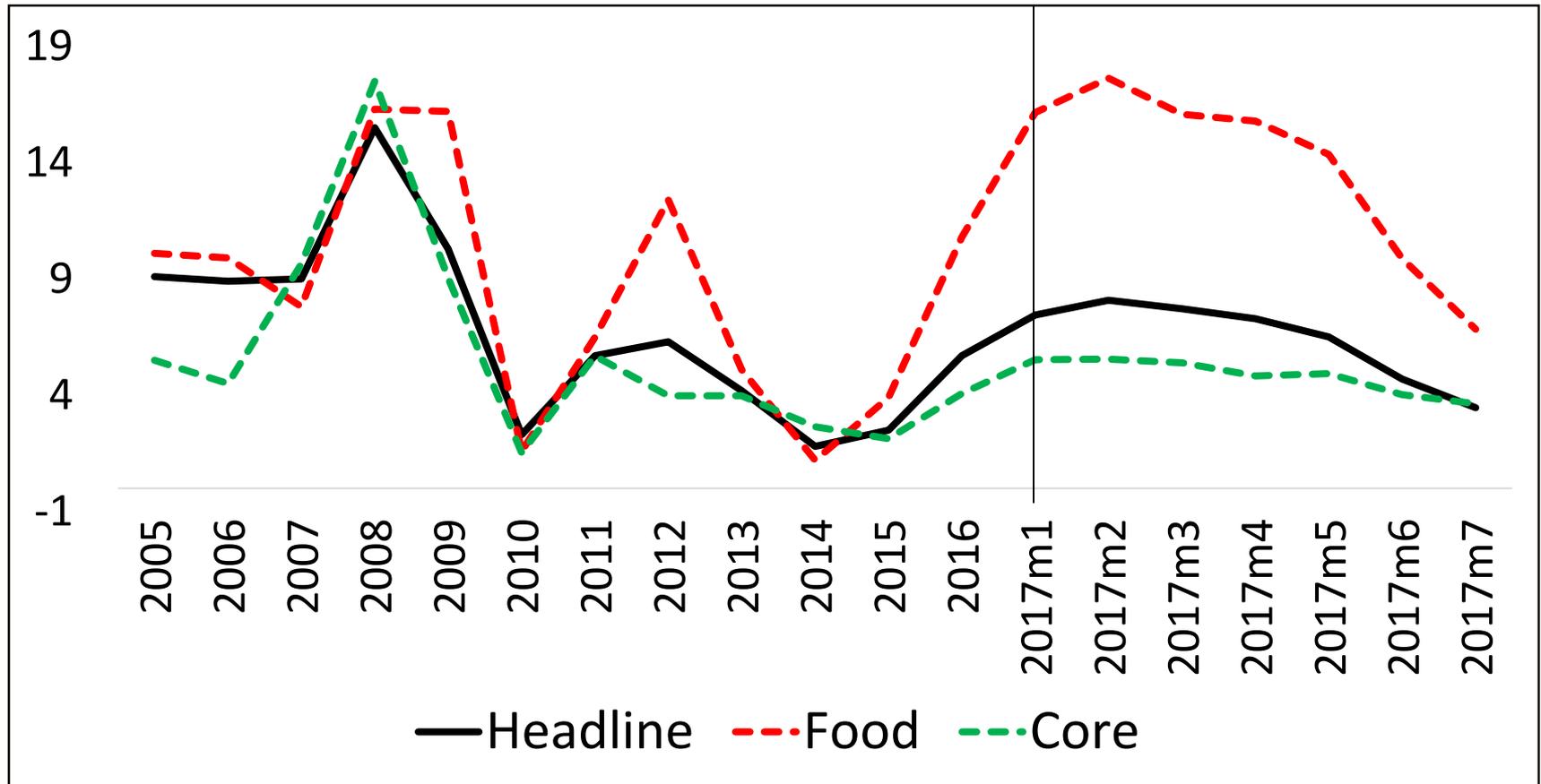


Increasing participation of non-institutional investors in T-bonds & active interbank market





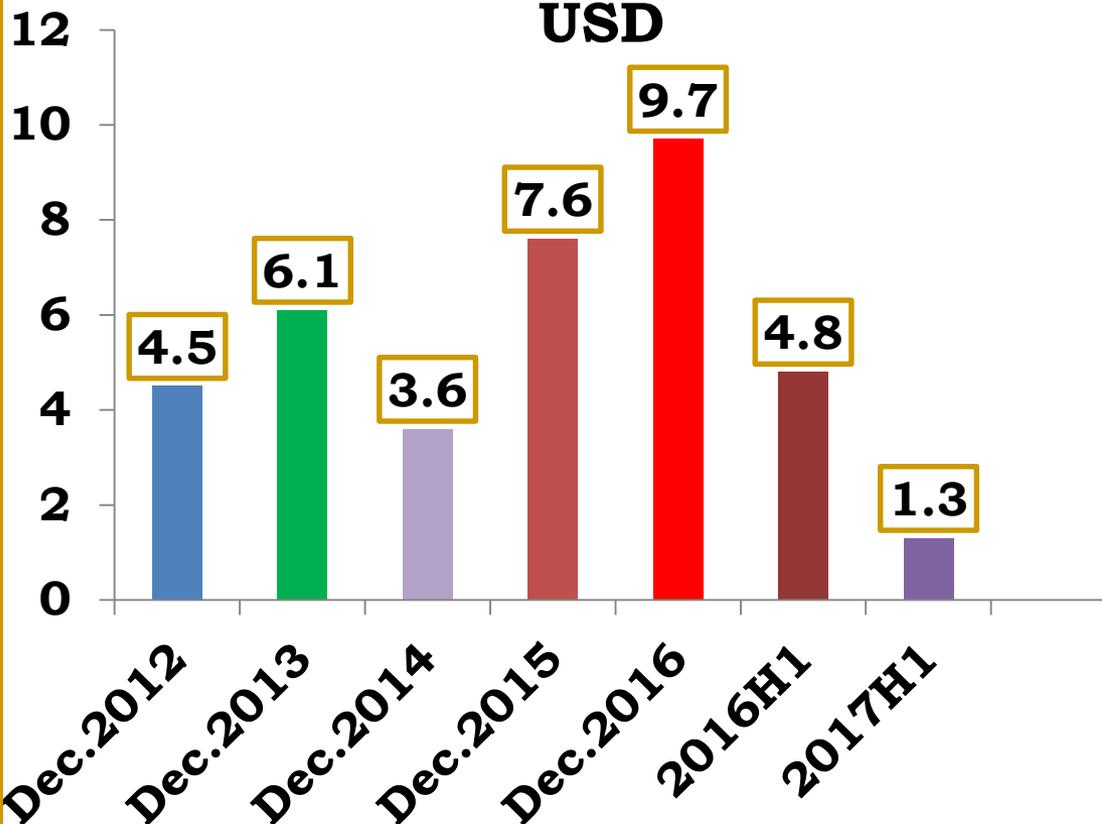
Easing inflation as food prices, transport costs and imported inflation are declining





FRW depreciation against USD: 1.3% in 2017H1 from 4.8% 2016H1 & 9.7% end December 2016

Depreciation of FRW against USD



- **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



Structure of the Financial Sector

Changes in the structure and size of the financial sector.

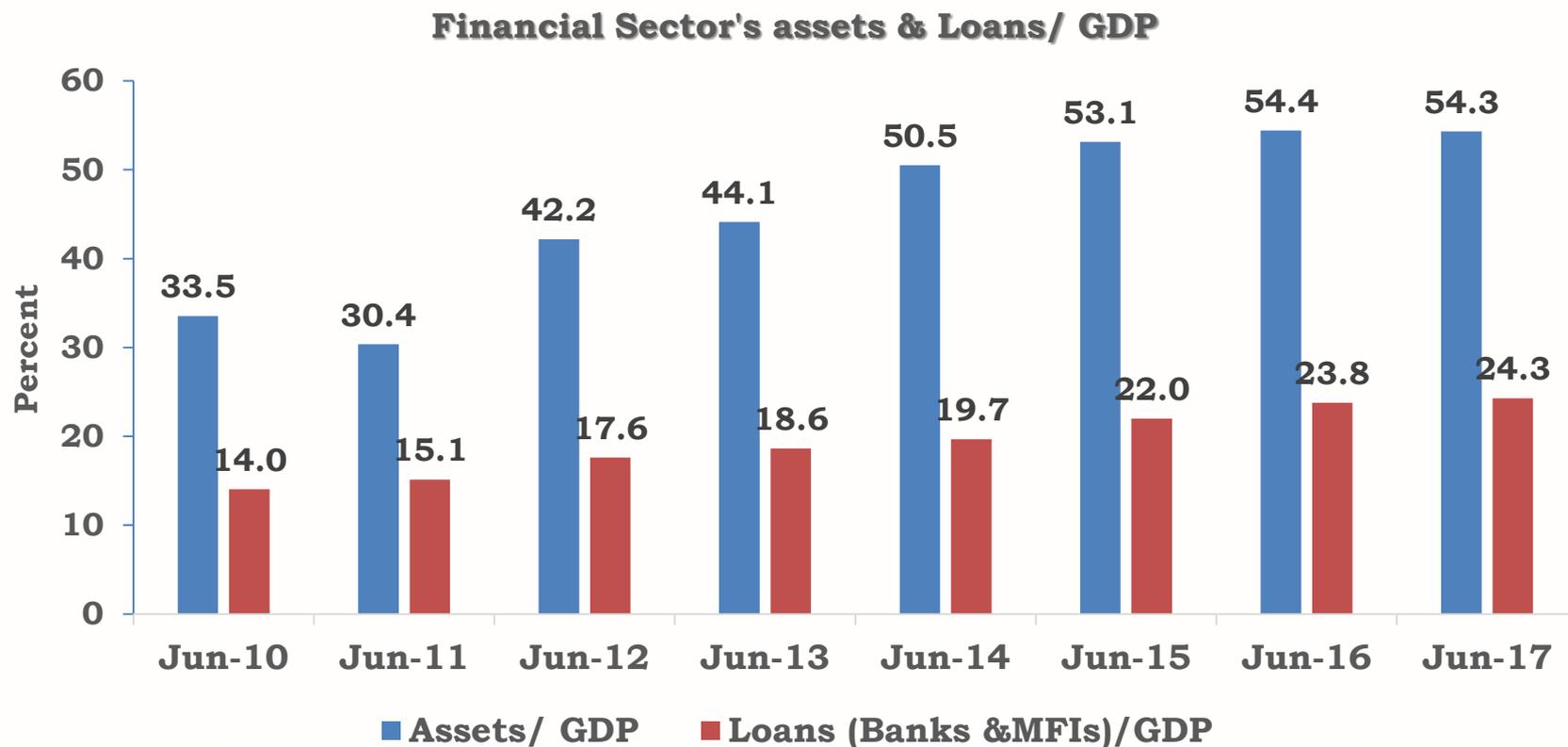
- CBA (Kenya) entered the market and is acquiring CRANE BANK;
- New insurance company (Mayfair) was licensed;
- New MFI Ltd (AXON TUNGA) was licensed.

Financial Sector	Number			Size(% of Total Assets)			Assets/GDP (%)		
	2010	2016	Jun-17	2010	2016	Jun-17	2010	2016	Jun-17
Banking sector	14	16	17	71.3	66.9	66.8	21.6	35.9	36.3
Insurance	8	15	16	10.2	9.7	9.5	3.2	5.5	5.2
Pension	1	1	1	14.8	17.1	17.2	6.4	9.4	9.3
MFI's	524	472	473	3.7	6.3	6.4	2.6	3.5	3.5
Total	547	505	507	100	100	100	33.8	54.4	54.3



Rwanda's financial sector assets=3.8 trillion, 54.3% of GDP

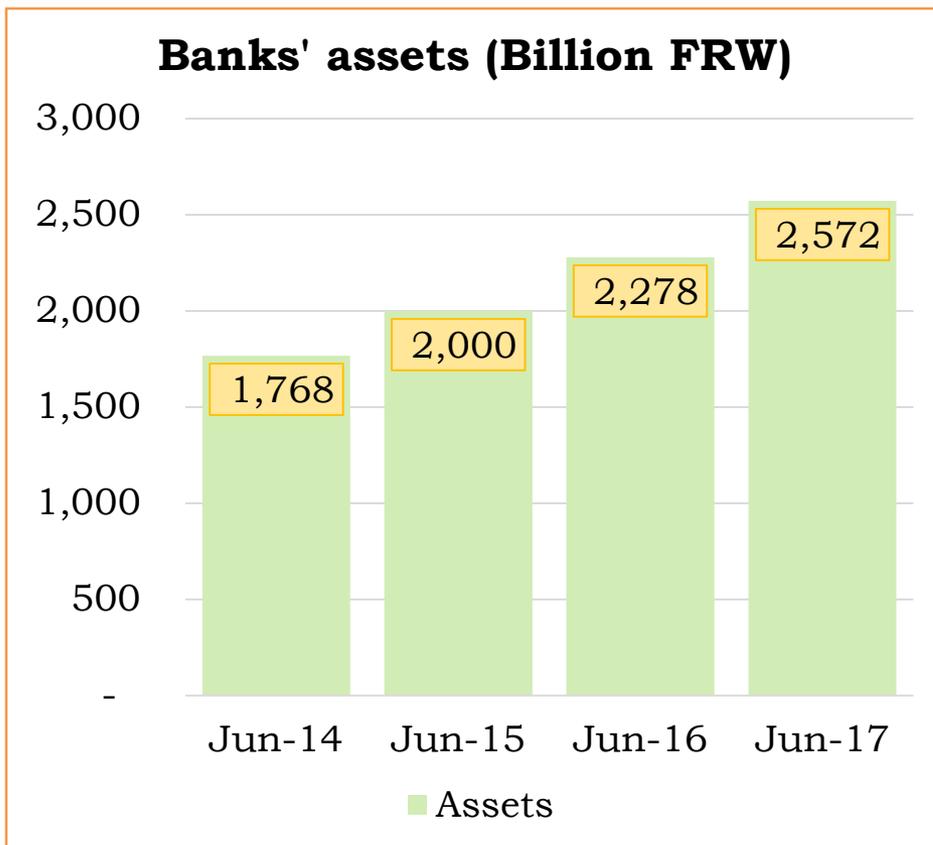
Increasing financial depth in the last 7 years.



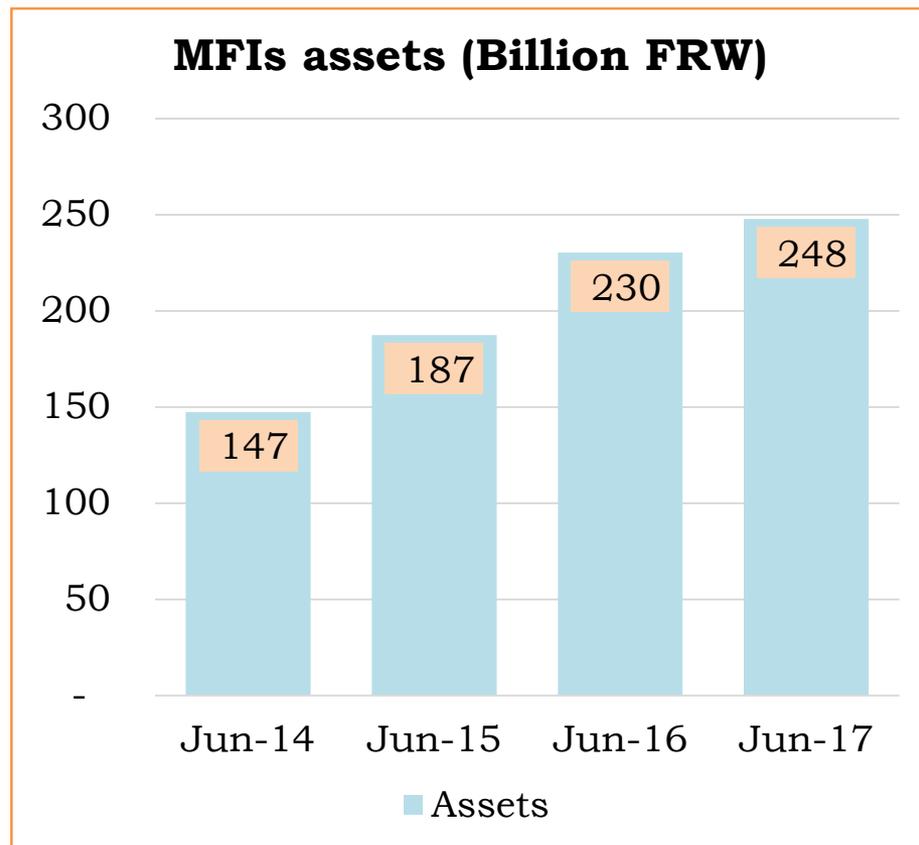


Growth of Lending Institutions' Assets

Growing assets of Banks



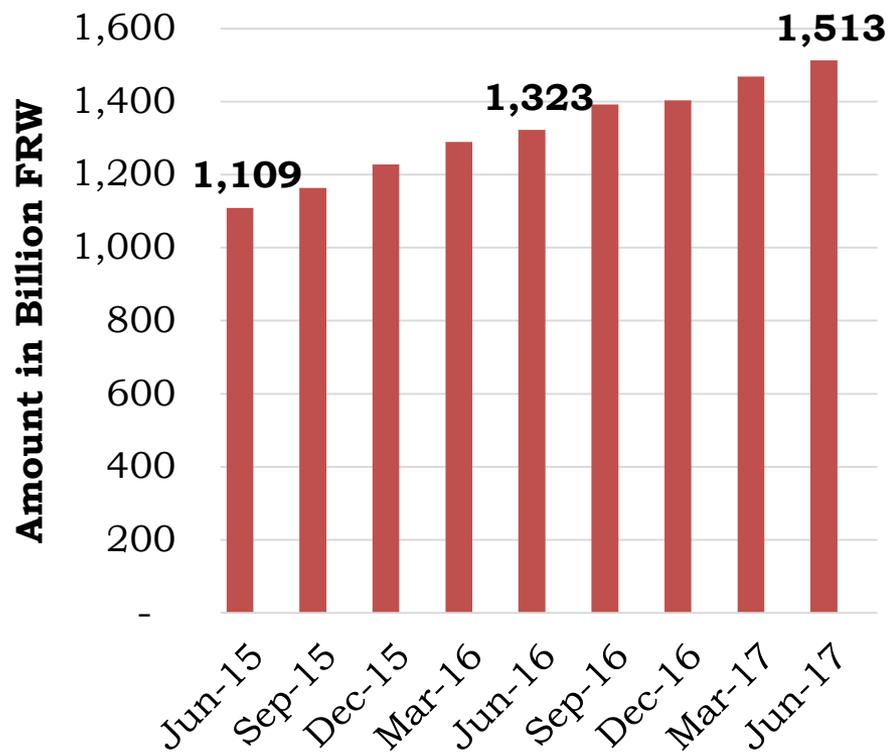
Growing assets of MFIs



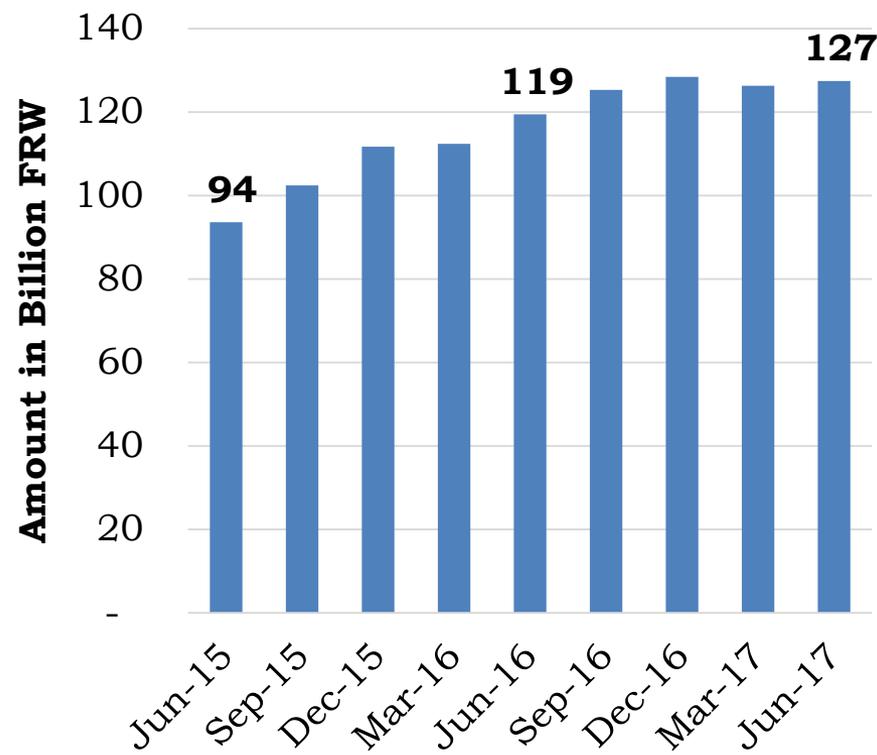


Loans from lending institutions continued to increase in H1, 2017

Banks' Loans



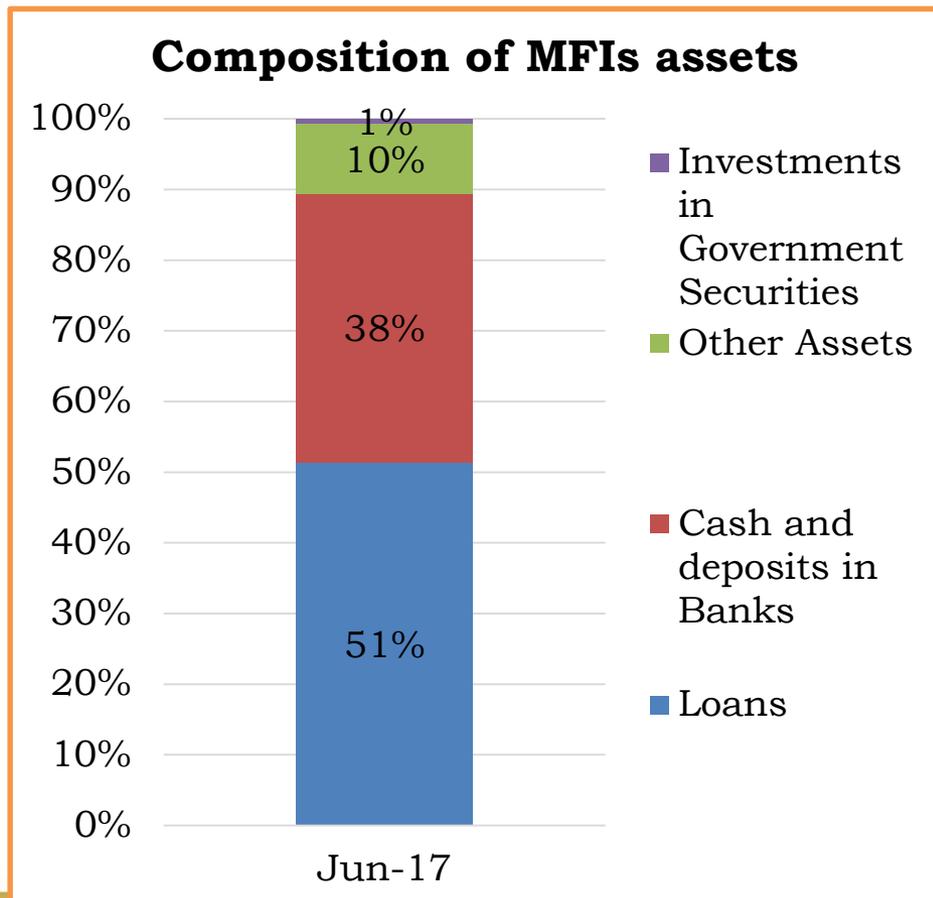
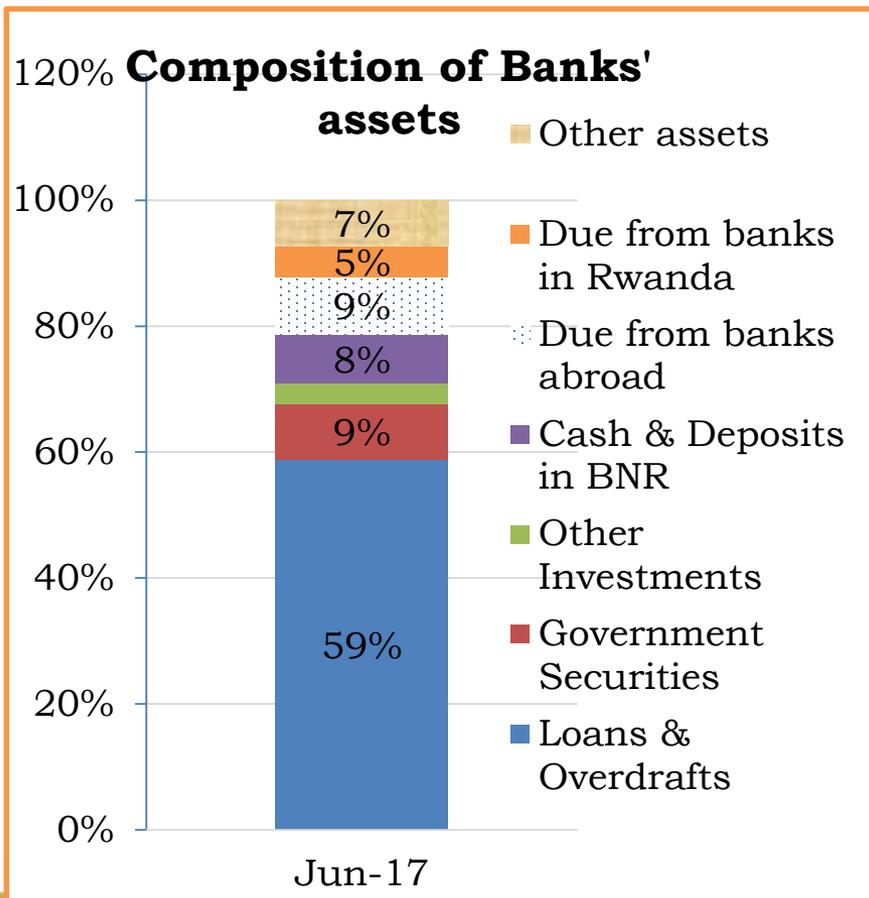
MFIs' Loans





Assets structure for lending institutions

- Loans remain the main component of lending institutions' assets





Lending is still concentrated to mortgage, trade and hotels

Activity Sector (In Billion of FRW)	Jun-15	Jun-16	Jun-17	% Change (Jun 16/Jun 15)	% Change (Jun 17/Jun-16)
Non-classified activities	110	111	122	0.6	9.6
Agricultural, fisheries& livestock	26	30	28	18.1	-7
Mining activities	0	1	2	304.9	37.7
Manufacturing activities	106	133	155	24.7	16.9
Water & energy activities	26	32	48	21.2	53.8
Mortgage industries	383	530	605	38.4	14.2
Trade	309	348	388	12.6	11.5
Restaurant &Hotel	74	99	157	33.8	58.6
Transport & warehousing	69	98	140	42.4	43.3
OFI &Insurance	19	22	27	14	22.6
Service sector	34	47	54	35.9	14.5



Reduced pace of lending was caused by weak credit demand

Loan Applications Vs Loans Approvals

Volume of Loans (Applied Vs Approved)

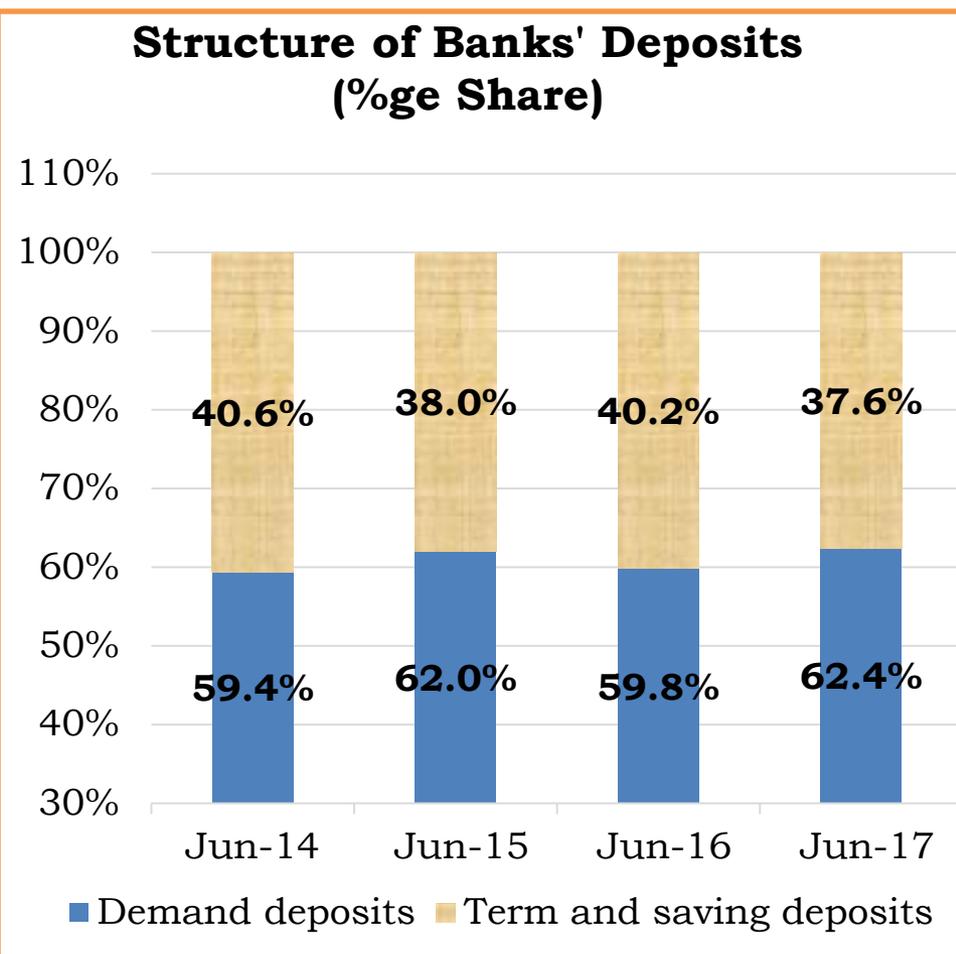
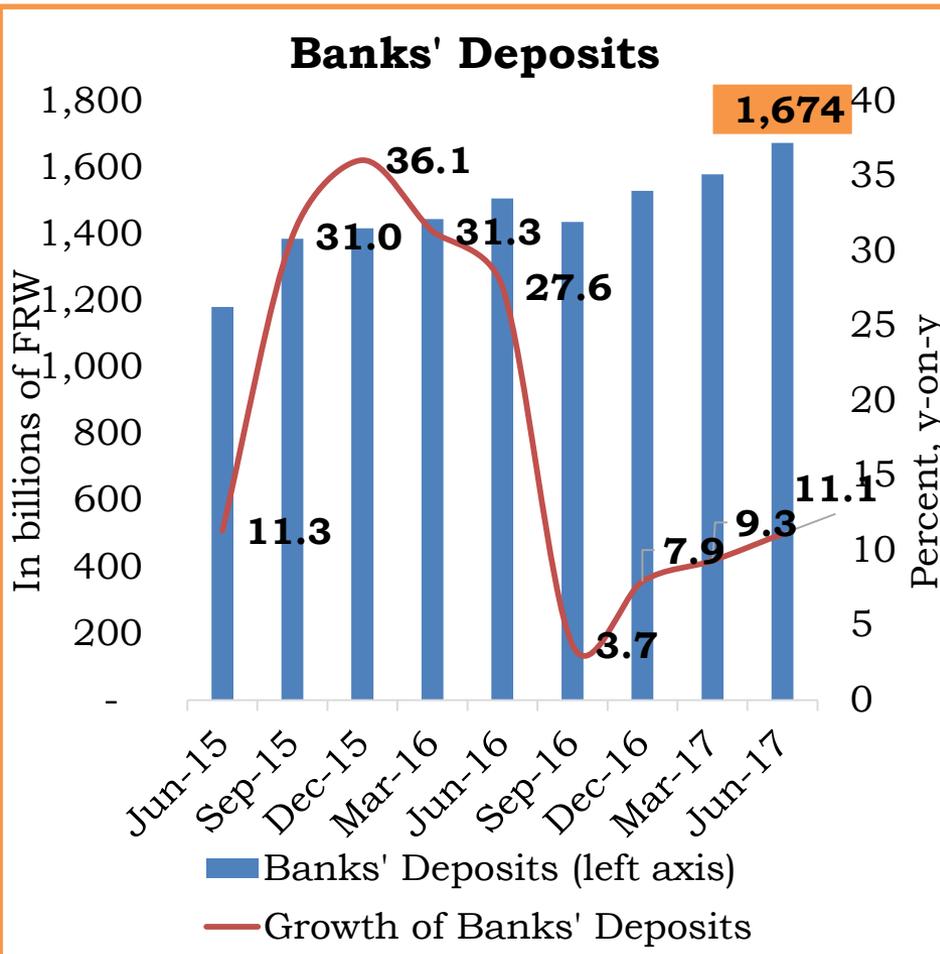
Period	Number of Application	Approved	Rejection Rate (%)
Jan-Jun 2015	128,433	124,014	3.4%
Jan-Jun 2016	137,788	134,830	2.1%
Jan-Jun 2017	139,131	134,330	3.4%
% Change (2015/16)	7%	9%	
% Change (2016/17)	1%	0%	

Value of Loans (Applied Vs Approved): In billions of FRW

Period	Amount of applied for	Approved	Rejection Rate (%)
Jan-Jun 2015 (A)	451	361	20%
Jan-Jun 2016 (B)	485	427	12%
Jan-Jun 2017 (C)	500	417	17%
% Change (2015/16)	7%	18%	
% Change (2016/17)	3%	-2%	



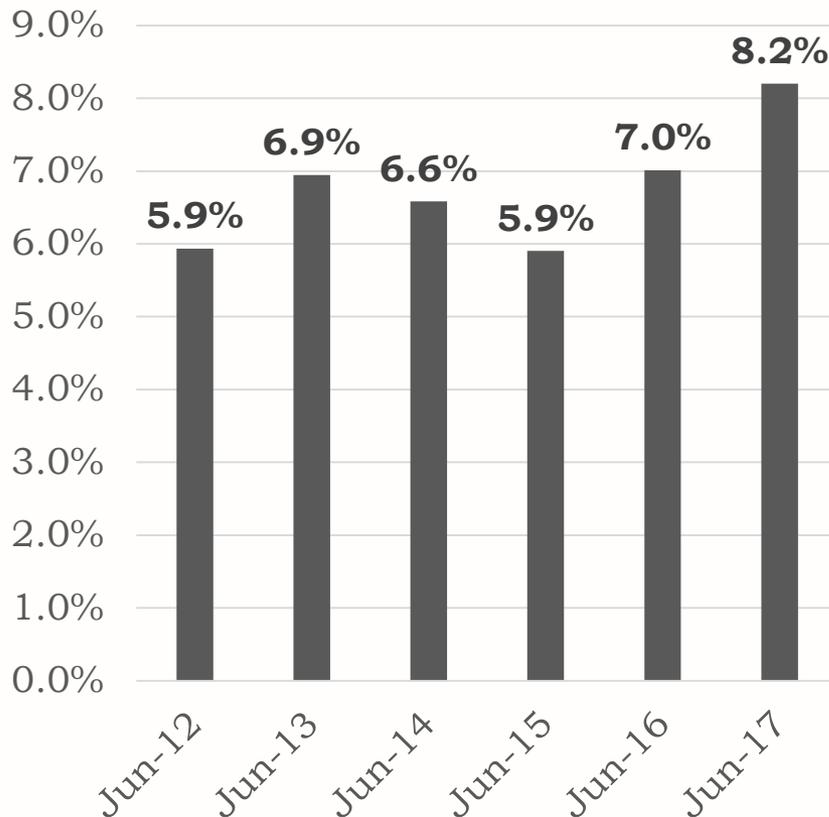
Deposit Growth: Increasing Growth of Banks Deposits since September 2016



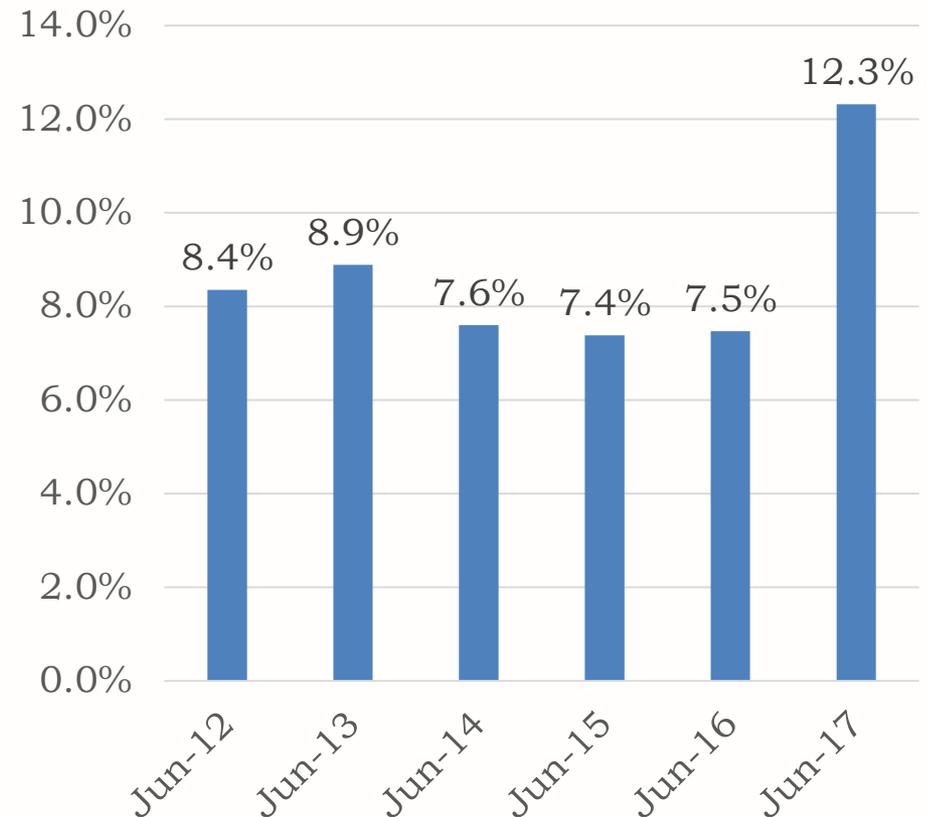


Credit risk increased during the first half of 2017

NPLs ratio (Banks)



NPLs ratio (MFIs)





The lending institutions are well capitalized: They hold enough capital buffer to cushion for adverse shocks.

CAR (%)	Jun-14	Jun-15	Jun-16	Jun-17
Banks	23.57	24.33	23.34	20.70
MFIs	31.86	31.38	30.29	33.30
Required CAR (Banks and MFIs)	15	15	15	15



Lending institutions have adequate liquidity

	Jun-14	Jun-15	Jun-16	Jun-17
Liquid assets/Total deposits (%)	62.8	57.3	42.8	39.0
Required ratio (%)	20.0	20.0	20.0	20.0



Profits of banks increased in 2017H1 compared to last year.

	Profits of Banks (FRW billion)		
		June-16	June-17
Net Profit (After Tax)	Banks	19	22
	MFIs	4.3	-0.1

The improvement in banks' profits was underpinned by:

- Reduced growth of operating expenses (From 15 percent in June 2016 to 8 percent in June 2017)
- Improved growth of non-interest income (fees and commissions increased by 35 percent)

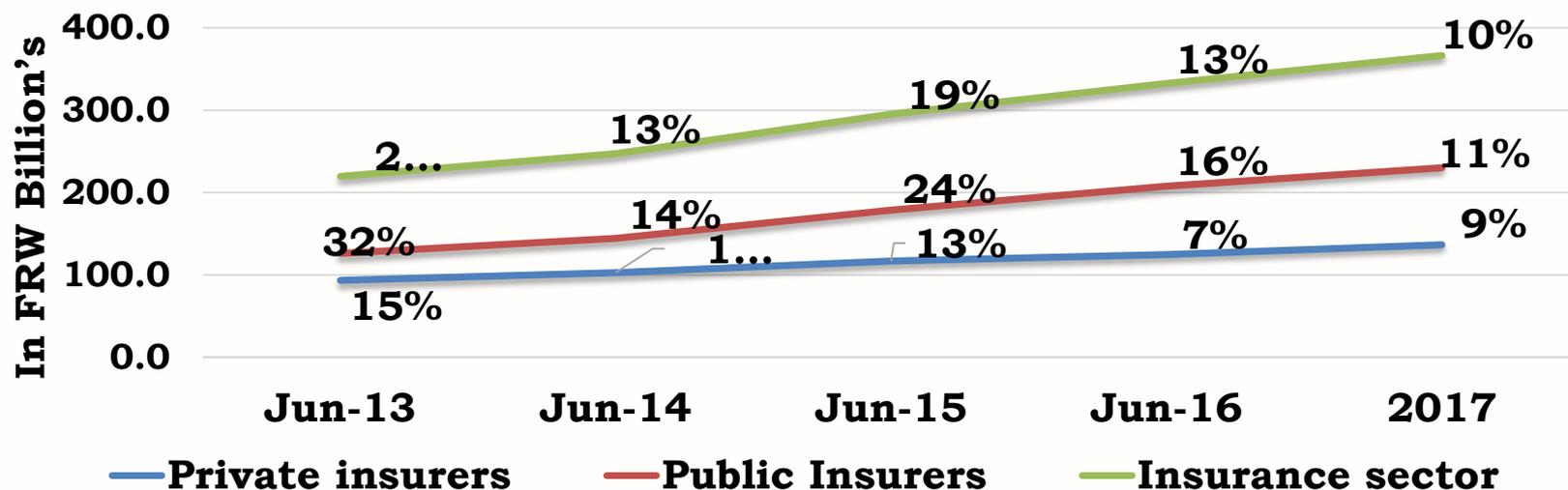
The reduction in MFI profits was underpinned by :

One large MFI faced high increase of NPLs due to poor performance of one large project it financed.



Insurance sector's assets grew by 10%: Recapitalization and growth of gross premiums are key drivers

Insurance sector 's assets growth rate

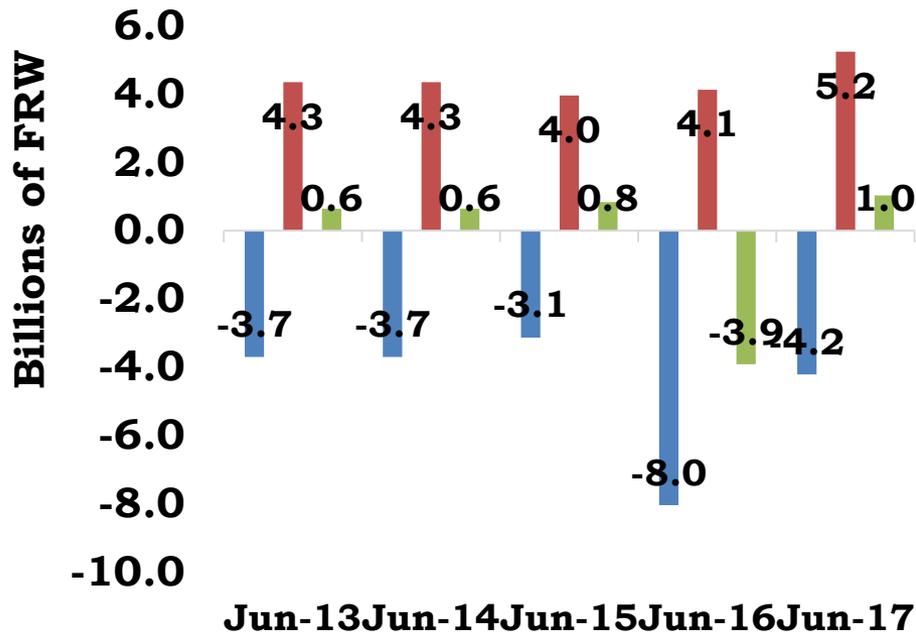


Total assets (in FRW Billion)	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Private insurers	93.3	102.9	116.7	124.7	136.4
Public Insurers	126.1	144.4	178.6	207.9	230.1
Insurance sector	219.4	247.2	295.3	332.6	366.5



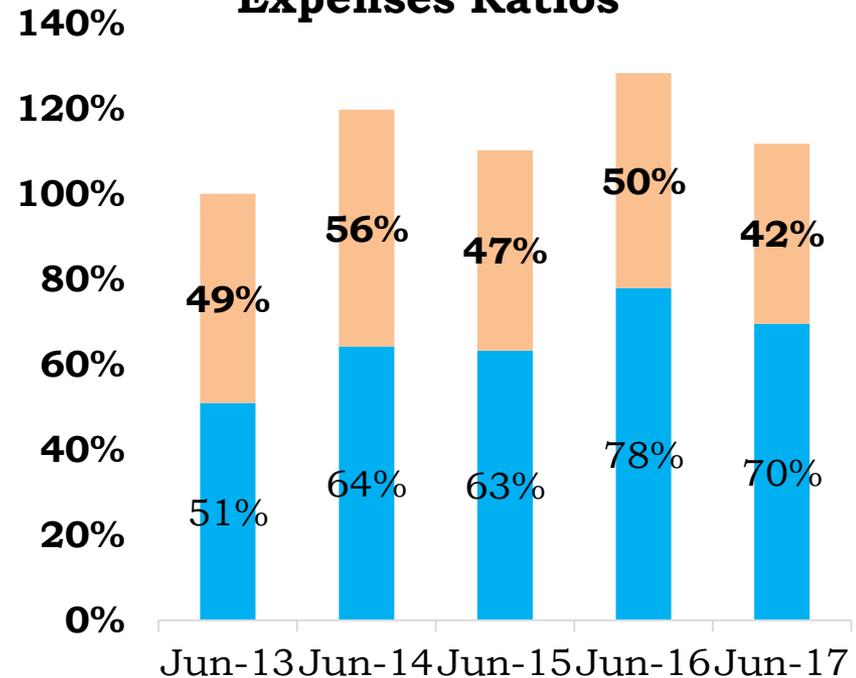
Profits of private insurance companies improved in 2017H1

Private Insurers' underwriting & Investment Income



- Net underwriting results
- Investments & other income
- Net results

Patterns of Claims & Expenses Ratios



- Expense ratio (max. 30%)
- Claims ratio (60% btw 70%)



The Solvency level of insurance companies improved in H1 2017

- **The Insurance sector recapitalized (FRW 11.5 billion injected between June 2016 and June 2017)**

Insurance sector capital (Billions of FRW)				
	June 2015 (A)	June 2016 (B)	June 2017 (C)	Growth of Capital (C-B)
Private Insurers	42	34	39	5
Public Insurers	176	204	227	23
Total Insurance	218	238	266	28

- **The capital injection improved the solvency conditions of the insurance sector**

Solvency of the insurance sector			
	June 2015	June 2016	June 2017
Private Insurers	111%	-53%	61%
Public Insurers	2467%	2394%	2160%
Total Insurance	1162%	991%	1034%



Assets of the pension fund (RSSB) increased by 13% (Jun-16 / Jun-17)

Particulars (Billion FRW)	Jun-15	Jun-16	Jun-17	% Change (Jun-16/ Jun-15)	% Change (Jun- 17/Jun-16)
Total assets	512.1	584.5	661.3	14	13
Total contributions	59.1	74.5	77.6	26	4
Total benefits paid	14.9	15.8	17.7	6	12
Total operating expenses	5.4	4.7	4.5	-13	-4
Total Investment Income	21	23.1	26.4	10	14

- **The number of pension contributors increased from 396,632 in June 2016 to 446,409 in June 2017;**
- **The number of beneficiaries also increased from 32,363 to 33,532.**



Good Developments in Mobile Financial Services + Internet Banking

Period	Number of subscribers	Number of transactions	Value in FRW million
Mobile financial services			
Jan-June 2016	9,234,638	96,199,661	486,396
Jan-June 2017	9,700,545	120,755,221	638,862
% Change	5	26	31
Internet banking			
Jan-June 2016	47,586	254,759	356,197
Jan-June 2017	38,511	157,130	662,822
% Change	-19	-38	86



New payment products: Government Online Gateway (Irembo) continue to promote electronic payment

Services	Volume of transaction			Value of transaction (FRW in million)		
	Jan-Jun 2016	Jan-Jun 2017	% Change (17/16)	Jan-Jun 2016	Jan-Jun 2017	% Change (17/16)
Cross border	26,882	46,874	74	1,002	1,557	55
P2G	71,655	326,210	355	492	2,041	315



New payment products:

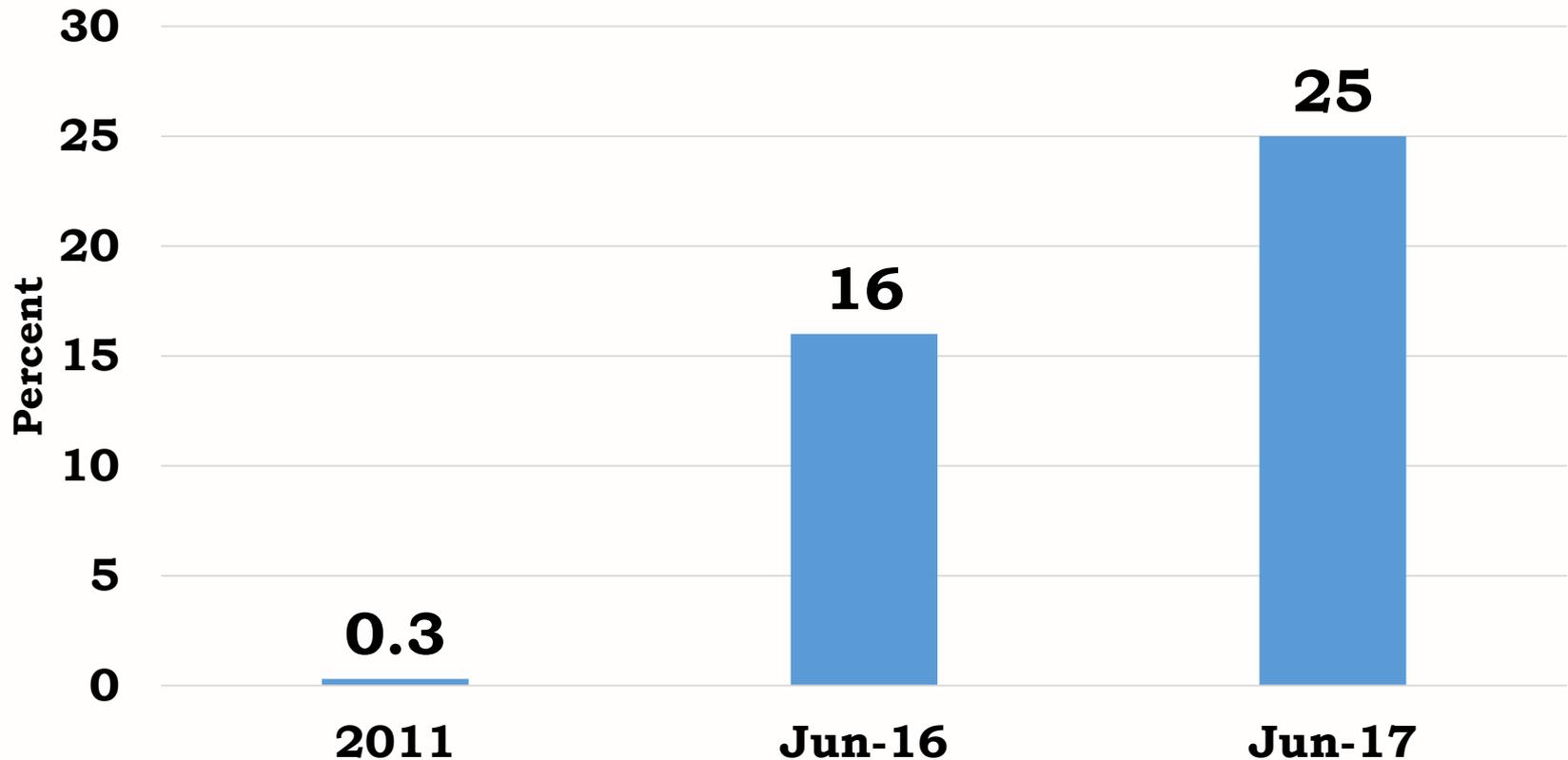
Increased uptake of Microloans and micro-savings through Mobile Money Channel

Loans and savings		Jan-June 2016		Jan-June 2017	
		Volume	Value	Volume	Value
Savings	Savings collected	42,289	254,574,232	582,212	2,203,213,400
	Savings Withdrawals	47,891	292,121,874	459,758	2,154,504,616
	Balance as of End June		128,539,283		129,958,902
Loans					
	Loan Disbursement	-	-	178,232	1,092,961,773
	Loan Repayment	-	-	163,682	675,809,660



Electronic Retail Payment reach out

Electronic Retail Payment to GDP





Access to finance: increasing access points

- **Banking sector access points increased last year offering more formal access opportunities to many Rwandans**

Branches	Jun-15	Jun-16	Jun-17	Change (Jun-2017/16)
Number of Branches	161	177	265	49.7%
Number of Sub-Branches	196	187	75	-59.8%
Number of Counters/Outlets	164	183	213	16.3%
Total Networks of Banks	521	547	553	1.1%
ATMs	371	398	405	1.7%
POS	1,718	1,707	2,031	19%
Mobile Money Agents	35,863	52,081	83,550	60.4%



Usage of financial services increased in form of depositors, but the number of borrowers reduced

- In line with increased access points, the number of deposit accounts in the banking sector increased from **1,736,203** in June 2016 to **1,871,858**

Sector	Kigali	North	East	West	South	Total (Jun-16)	Total (Jun-17)
Number of Deposit Accounts	905,475	189,544	283,130	243,198	250,511	1,736,203	1,871,858
Number of Borrowers	150,171	23,762	37,372	22,736	27,830	299,498	261,871

The number of borrowers in the banking sector reduced on account of weak demand for credit caused by the slowdown of economic activities



V. MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK



MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

- **The global and domestic economy expected to improve:**
 - ✓ Rise in global aggregate demand
 - ✓ Increase in commodity prices → improvement in Rwanda's export receipts
- **Rwanda's inflation expected to lie between 3.0-5.0 percent:**
 - ✓ Improvement in food supply
 - ✓ Moderation of exchange rate pressures: FRW depreciation projected at around 3.0% end-December 2017
- **More room for continued accommodative monetary policy to support the financing of the economy by the banking sector**
- **However, this will depend on:**
 - ✓ Level of NPLs
 - ✓ Improvement in demand for loans/economic activities
- **BNR will continue to strengthen liquidity forecasting to facilitate the use of the interest rate based monetary policy framework**



MONETARY POLICY AND FINANCIAL STABILITY OUTLOOK

To ensure the stability and development of the financial sector, BNR will:

- Continue to review and develop appropriate legal instruments and create favourable regulatory environment for both consumers and suppliers;
- Promote consumer protection and enhance market confidence;
- Ensure the promotion of anti-Money Laundering and Combating Financing Terrorism (AML/CFT) structure and instruments;
- BNR plans to continue engaging banks on improving their project appraisal standards and monitoring of financed projects as well as proper loan classifications and provisions for bad loans.



THANK YOU