

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

22nd August, 2019

CORE VALUES: Integrity, Mutual Respect & Team Work, Accountability and Excellence



Outline

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



Global Economy

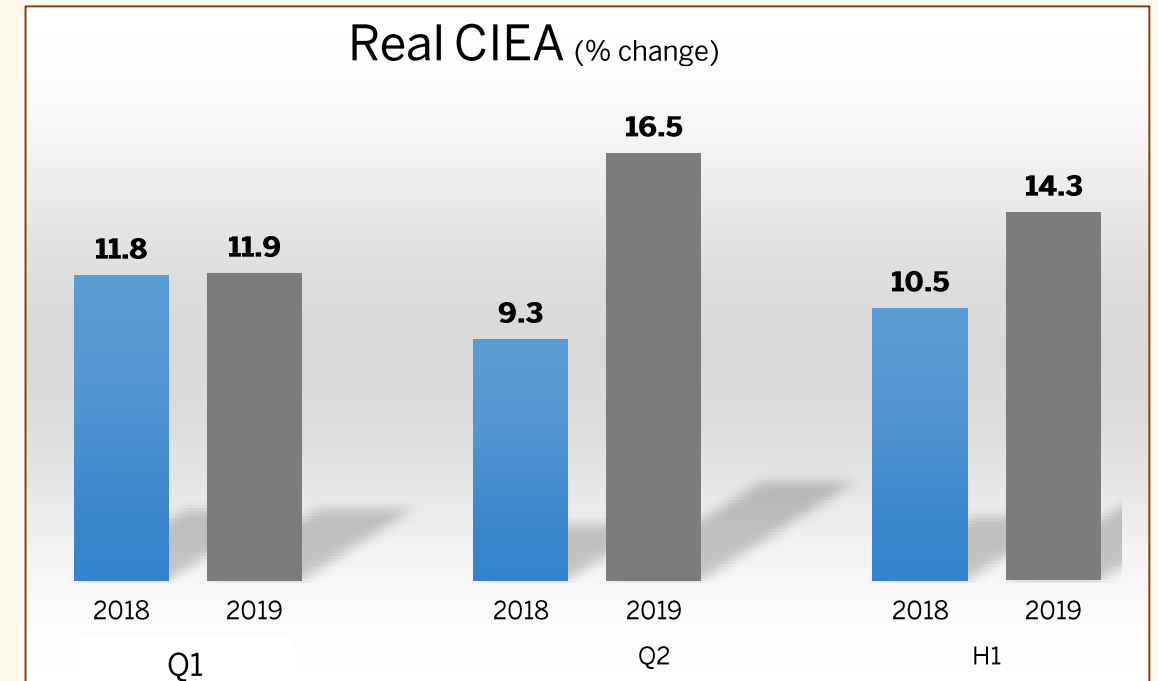
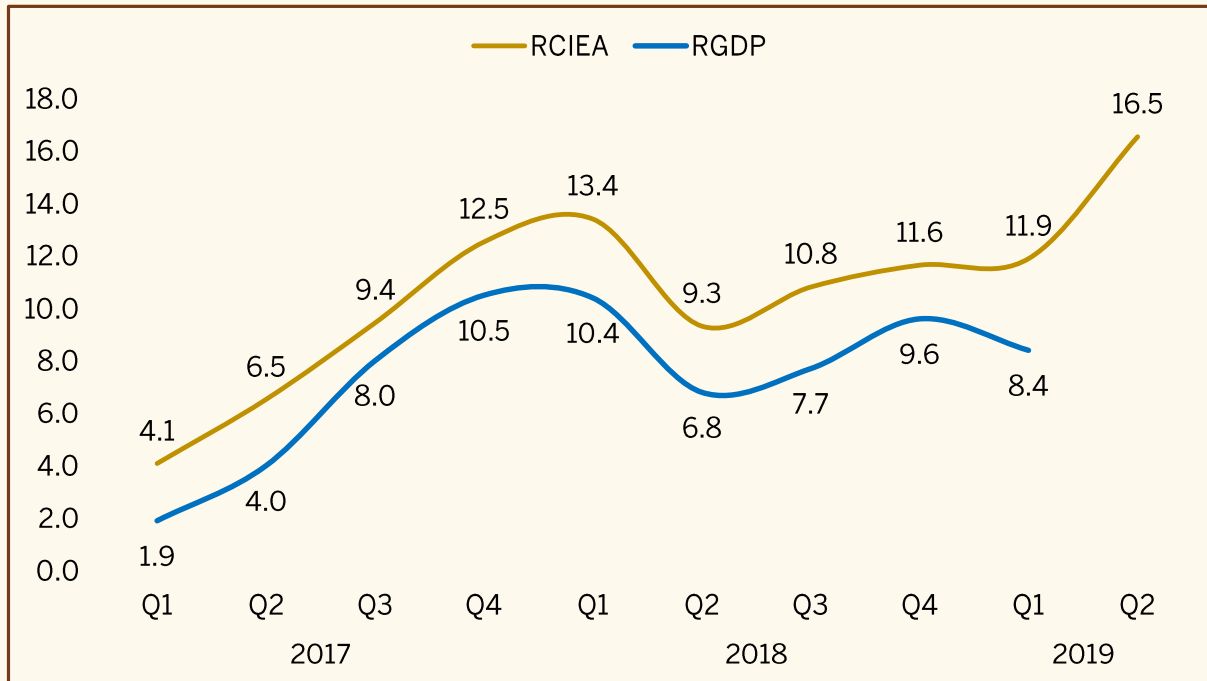
- **Global economy slowing down**: 3.2% (2019 proj.), and 3.5% (2020 proj.), after 3.6% (2018)
 - ↳ Following escalating trade tensions as well as prolonged uncertainty on Brexit
- **World inflation projected** at 3.58% in 2019 and 3.62% in 2020, from 3.64% (2018)
 - ↳ Falling of global energy and non-energy prices,
 - ↳ Oil prices dropping since 2018Q4 (following softening global demand)
 - ↳ Monetary policy remained accommodative in most advanced economies



Domestic economy



Since 2017Q3, Rwanda experiences strong economic growth (+8.8% on average)



2019Q1 Growth was mainly led by

- Construction activities,
- Manufacturing,
- Service activities

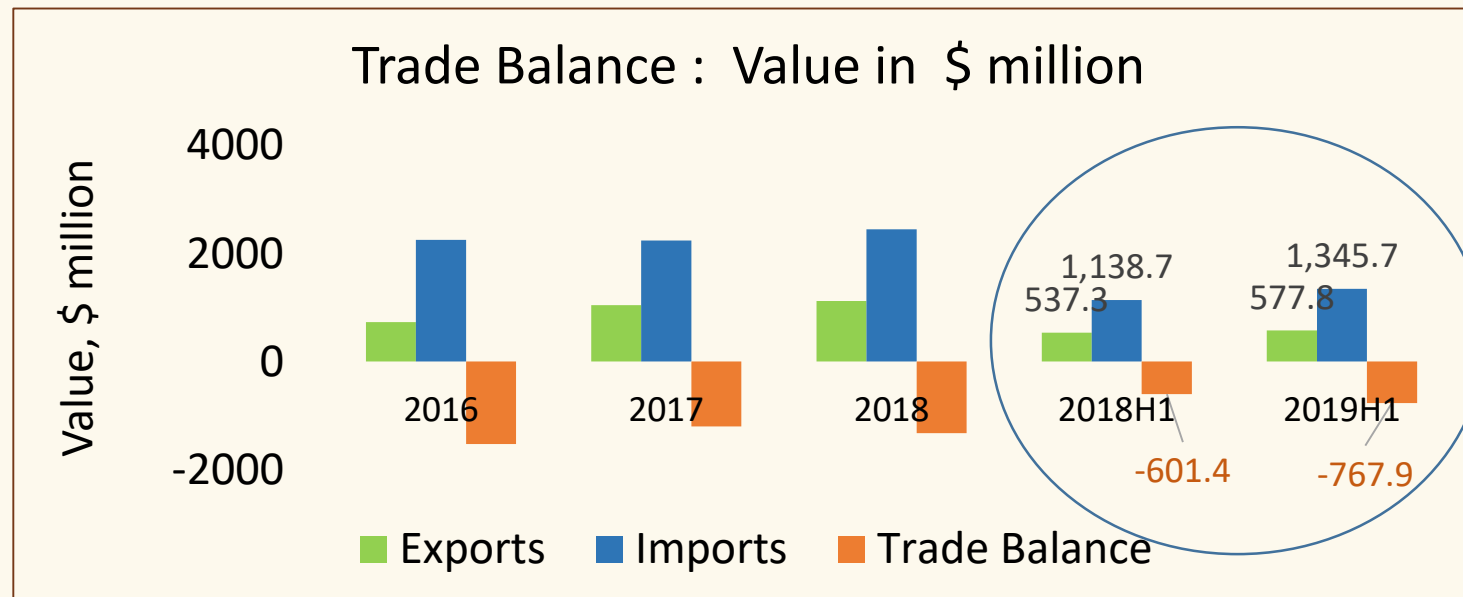
- The Real CIEA points to good economic performance in 2019Q2



Domestic Economy

External sector developments

- Good performance of non-traditional exports (+25.2%) and re-exports (+18.9%)
↳ Increased Rwanda' exports (+7.5%).
- Increasing demand of capital goods (+40.3%) and intermediary goods (+20.6%)
↳ Raised Rwanda's imports bill (+18.2%).



- Exchange rate depreciation remained moderate in 2019H1: 2.2% depreciation against USD

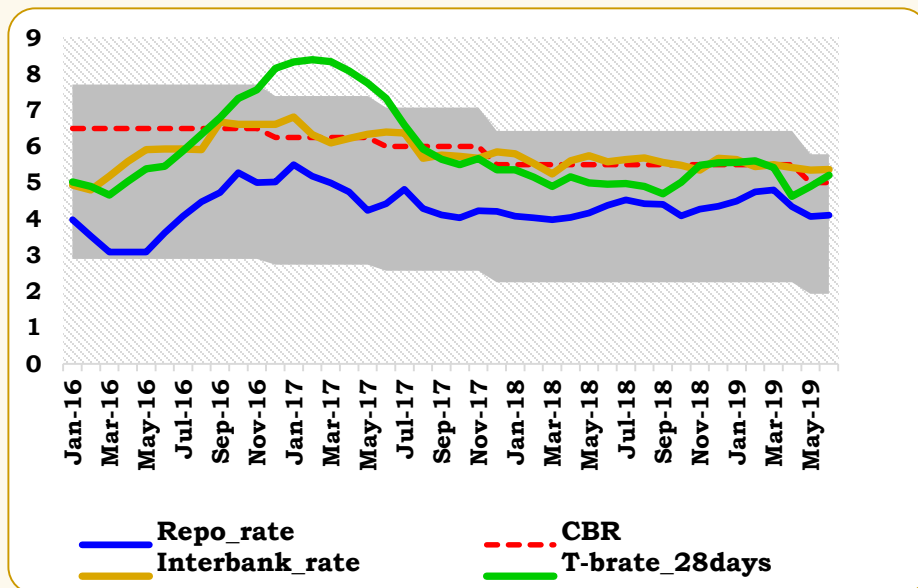


Domestic Economy

Monetary Sector

- NBR implemented an accommodative monetary policy by reducing the policy rate to 5.0% in May 2019, from 5.5%:
 - ↳ Continued support of the financing of the economy as inflationary and exchange rate pressures remained subdued.

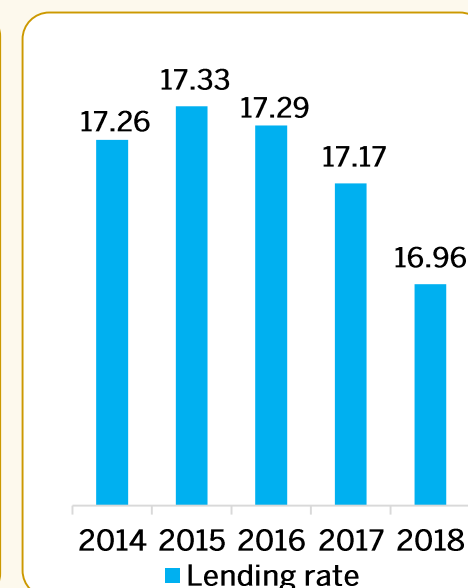
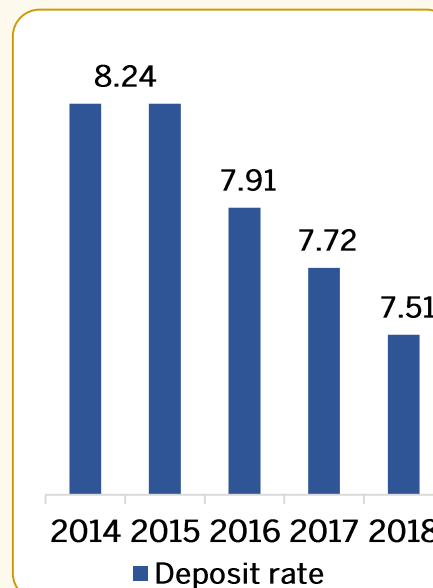
↳ Money market rates converging towards CBR



↳ Downward trend in commercial banks' rates:

↳ Lending rate: **16.64%** (2019H1) vs **16.98%** (2018H1)

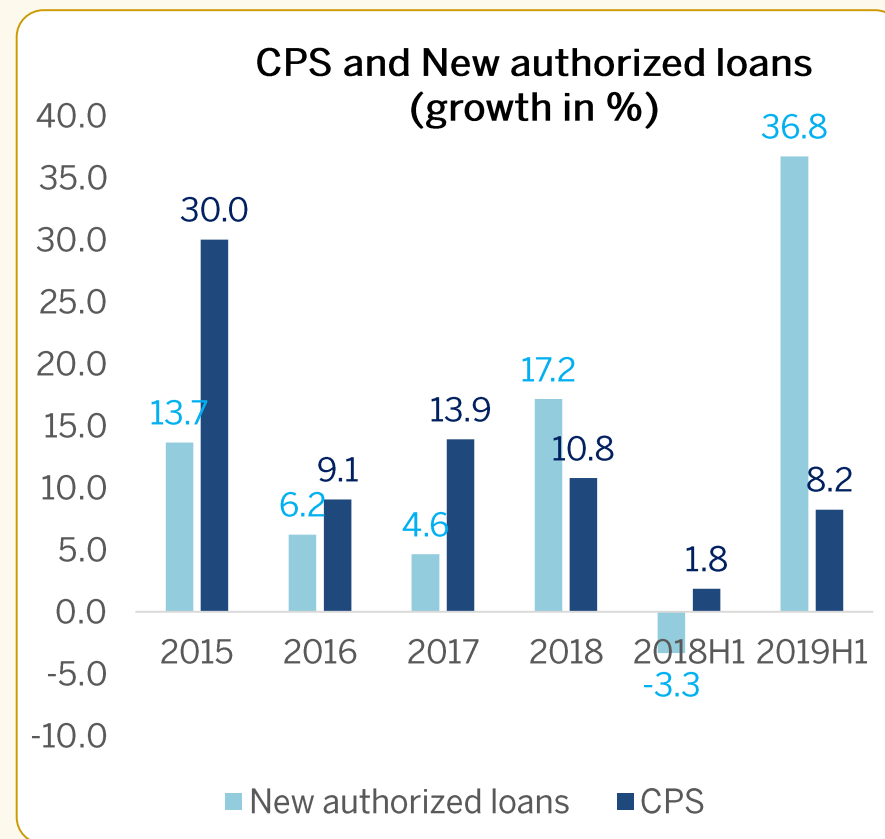
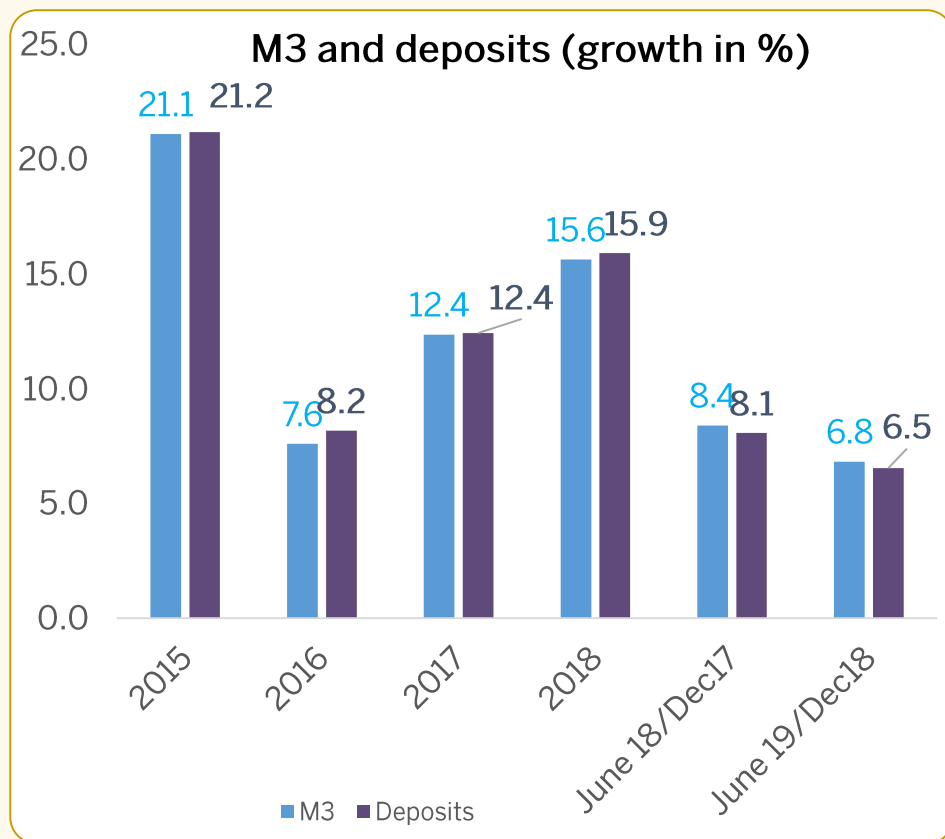
↳ Deposit rate: **7.52%** (2019H1) vs **8.01%** (2018H1)



Domestic Economy

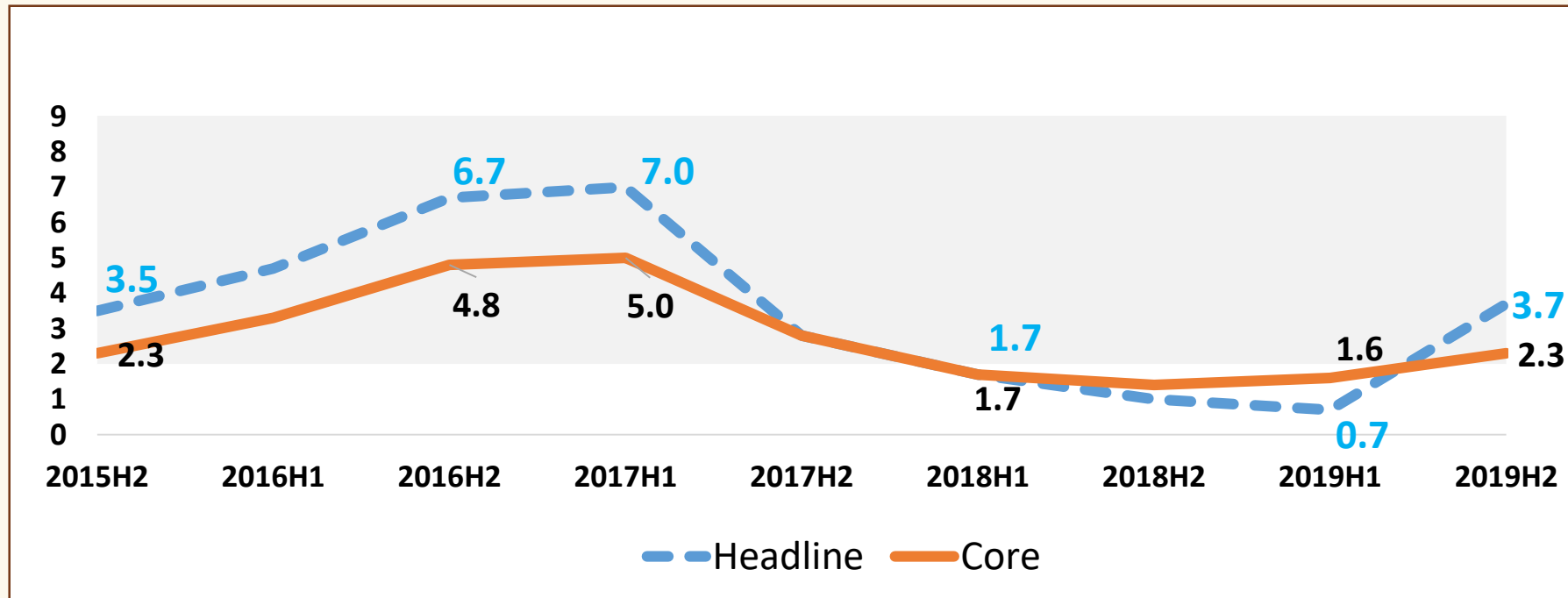
Monetary Sector

- Monetary aggregates increased in the first half of 2019:



Domestic Economy Inflation

- Headline inflation declined to 0.7% in 2019H1 from 1.8% in 2018H1
 - ↳ Following good agricultural production
- Core inflation slightly decelerated to 1.6% in 2019H1 from 1.8% in 2018H1
 - ↳ Because aggregate demand remains non-inflationary
- Average headline inflation is projected to be around 2.0 percent in 2019.

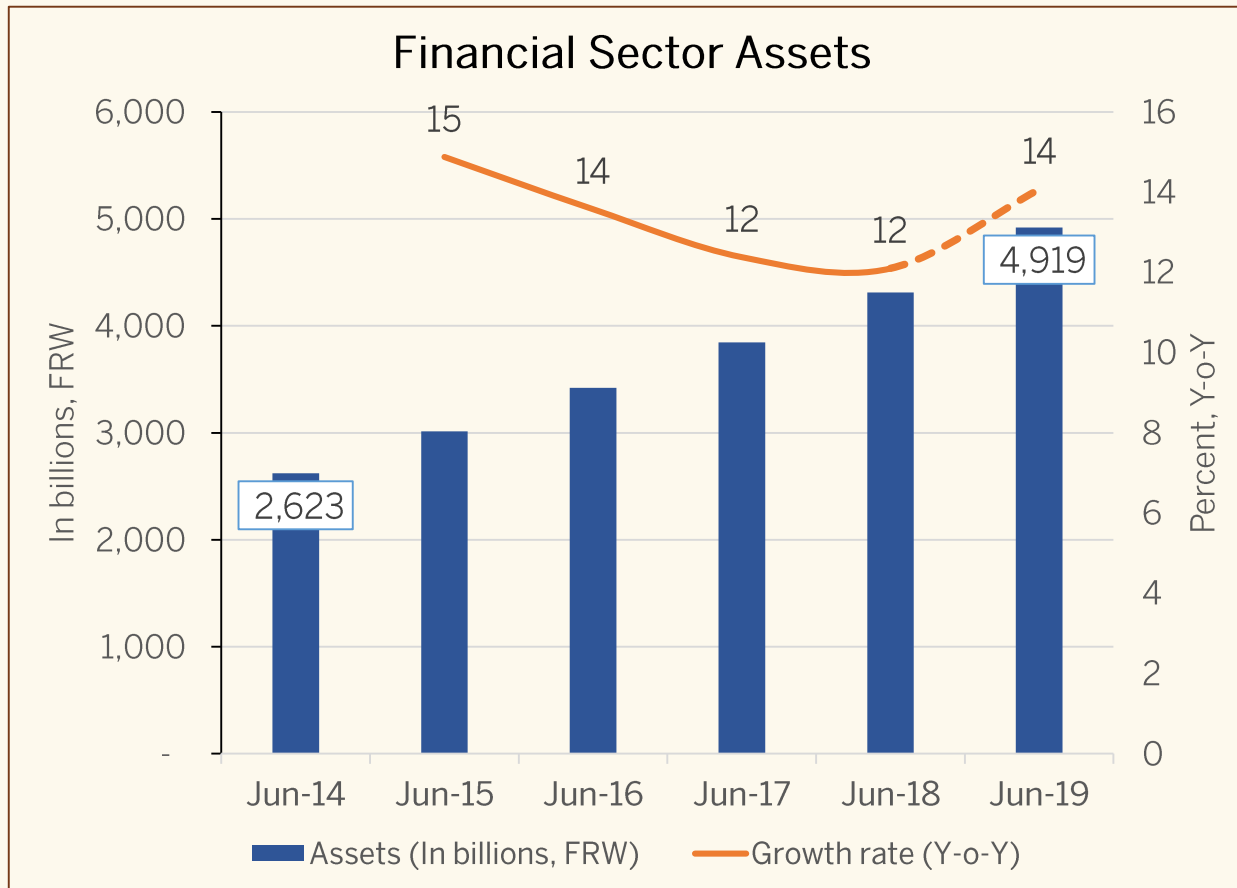


Financial sector



The Financial Sector (Structure & Growth)

- Conducive macroeconomic environment supported the financial sector to grow
- Stronger growth of financial sector assets registered in June 2019



Assets driven up by:

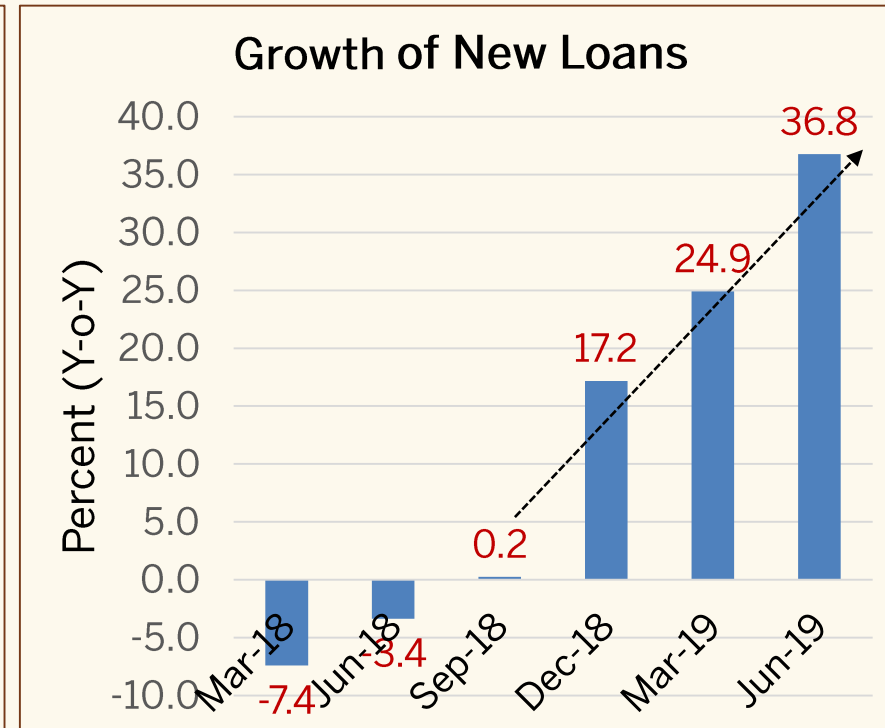
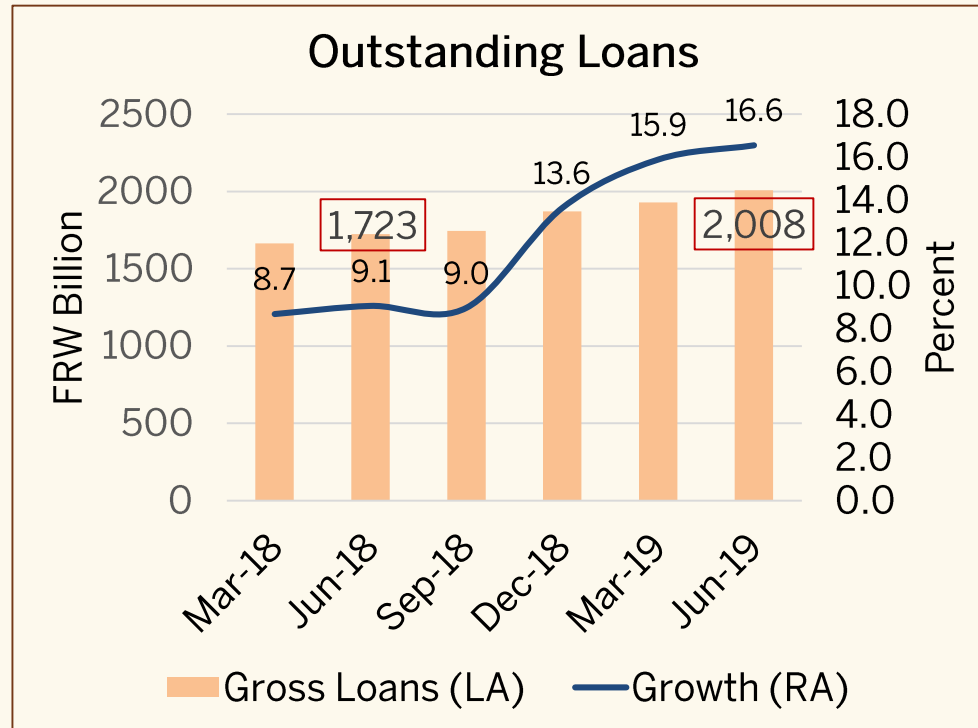
- Strong growth of deposits in banks,
- Retained earning across the financial sector,
- Capital injections in banks & Insurance



Performance of the Banking Sector

Lending Developments

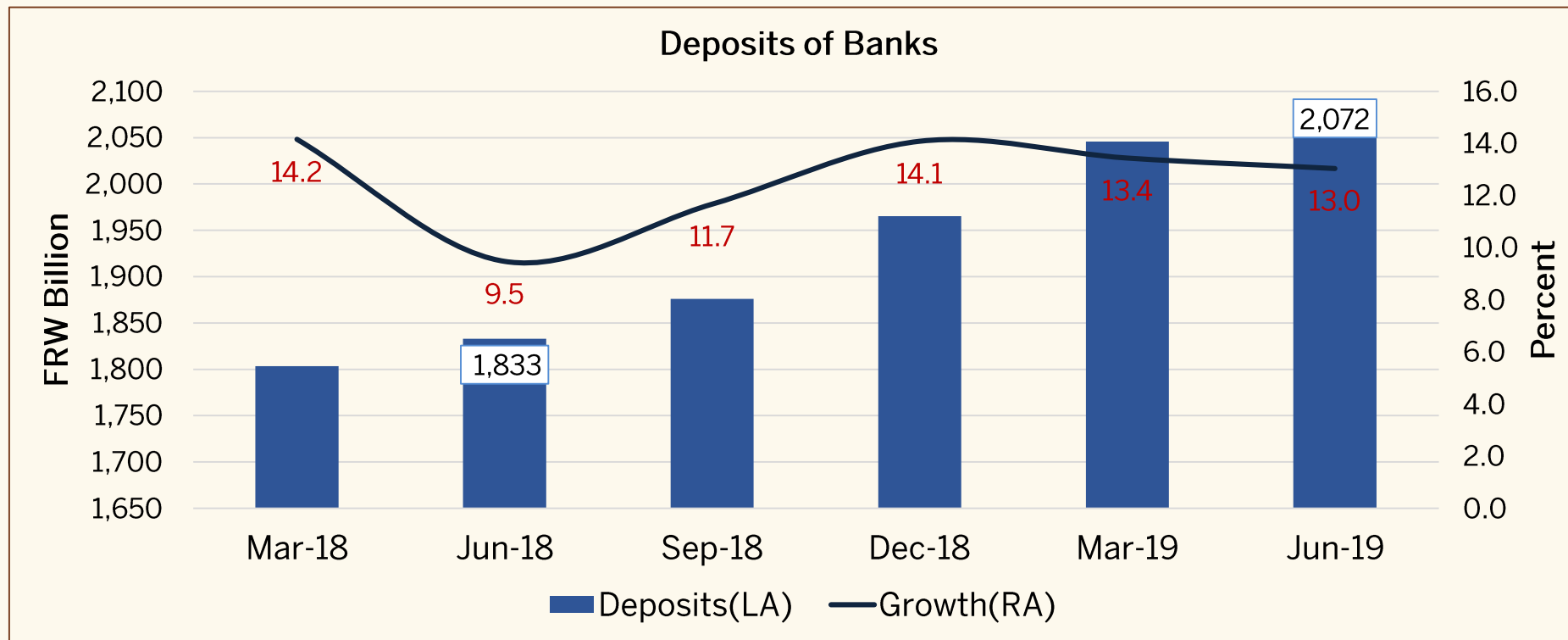
- Banks accelerated lending since Q3 2018 (Stronger demand for loans)
- New loans (H1 2017= **FRW 416.7 bn**); (H1 2018= **402.7 bn**) ; (H1 2019=**550.7 bn**).
- High lending registered in Manufacturing, Water & energy, Transport & comm, agriculture.



Performance of the Banking Sector:

Liabilities

- Banks mainly rely on deposits to finance their business (Depo = 76% of total liabilities)
- Improved growth of deposits: 13% in June 19, against 9.5% in June 18
- Challenge: Deposits are largely short-term. Term deposits= 39% of Bank Deposits



The Soundness of Banking Sector

Capital, Liquidity, Asset Quality

- Banks are well capitalized and liquid
- Banks' NPLs ratio dropping since September 2018
- Banks hold high quality capital (CET1 accounts for **93.7%** of total regulatory capital)

| FSIs | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 |
|--------------------------|--------|--------|--------|--------|--------|--------|
| Tier 1 CAR (Min. 12.5 %) | 19.5 | 20.1 | 20.8 | 23.8 | 22.4 | 21.8 |
| Total CAR (Min. 15%) | 21.1 | 21.9 | 22.6 | 25.5 | 24.1 | 23.3 |
| LCR (Min. 100%) | - | 299.5 | 298.5 | 298.8 | 192.1 | 180.5 |
| NSFR (Min. 100%) | - | 224.7 | 219.9 | 221.8 | 174.0 | 164.3 |
| NPLs Ratio | 6.8 | 6.9 | 7.2 | 6.4 | 6.3 | 5.6 |



Performance of the Banking Sector

Profitability

- Banks profits increased by **14.4%** (June 19/18), from **6.5%** (June 18/17)
- Profits driven up by: strong growth of loans (**16.6%**) and recoveries (**27.2%**)

| FRW Billion | Jun-17 | Jun-18 | Jun-19 | % Change 18/17 | % Change 19/18 |
|-----------------------|--------|--------|--------|----------------|----------------|
| Profits (after tax) | 21.5 | 22.9 | 26.2 | 6.5% | 14.4% |
| ROE (%) | 9.6 | 9.5 | 9.3 | | |
| ROA(%) | 1.7 | 1.6 | 1.6 | | |
| | | | | | |
| Net interest income | 92.4 | 99.6 | 120.2 | 7.7% | 20.6% |
| Interest income | 129.9 | 146.0 | 168.3 | 12.3% | 15.2% |
| Interest expenses | 37.5 | 46.4 | 48.1 | 23.7% | 3.6% |
| Non interest income | 44.2 | 49.7 | 55.3 | 12.4% | 11.2% |
| Non interest expenses | 103.6 | 112.3 | 133.3 | 8.3% | 18.6% |

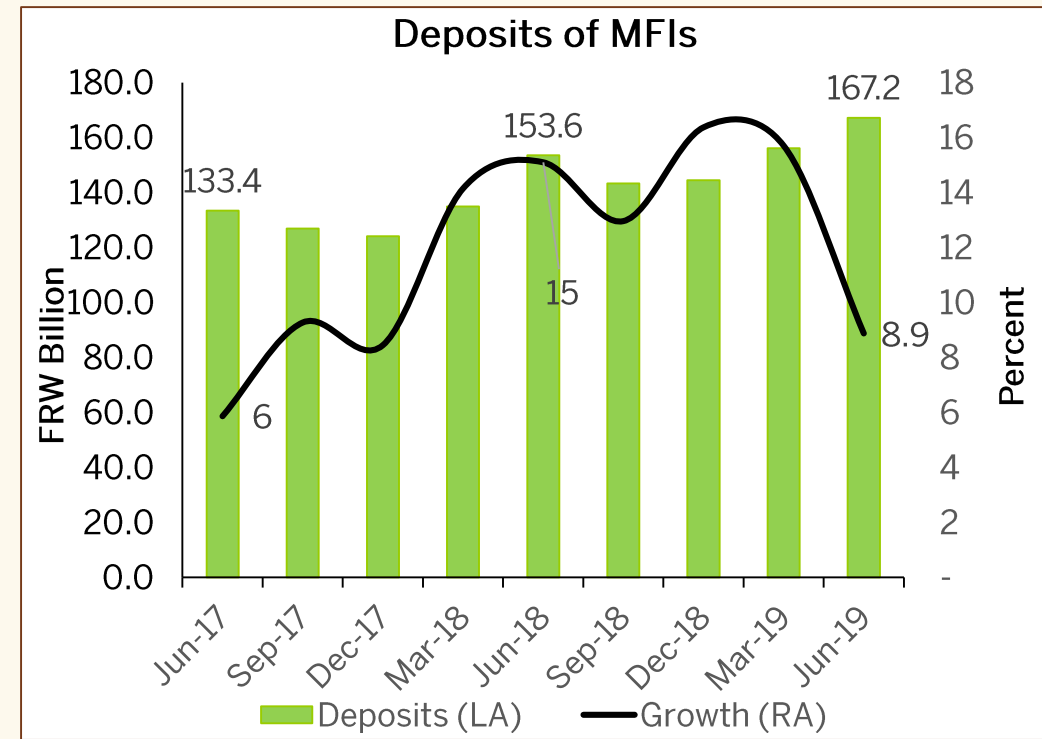
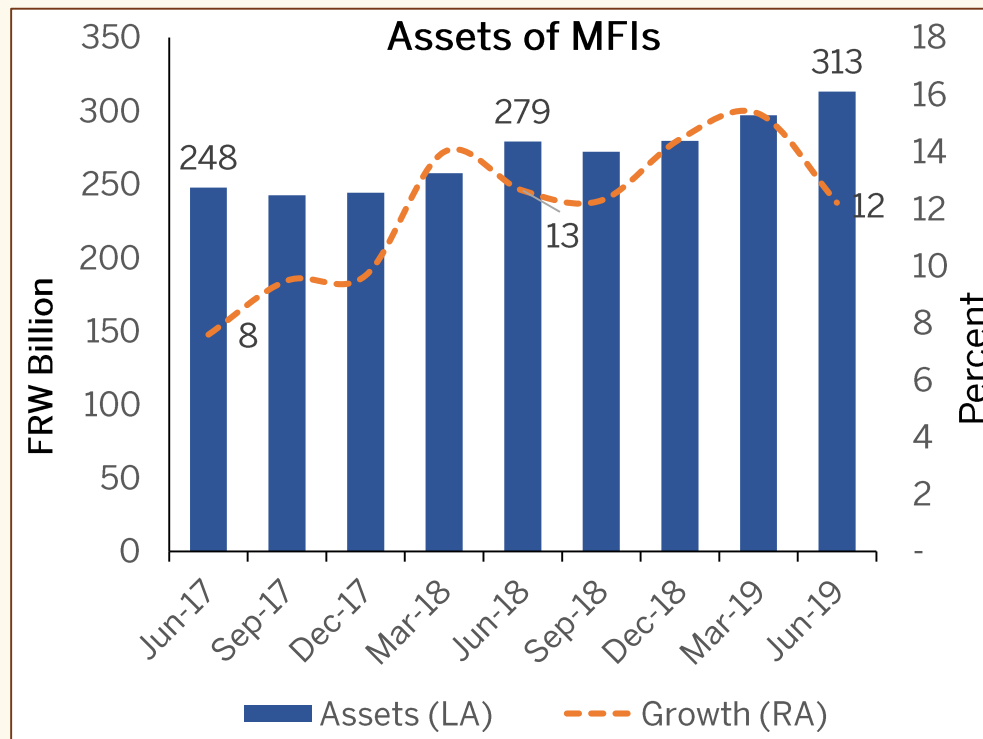


Performance of the MFI Sector

Balance Sheet

The balance sheet of MFIs continued to expand supported by:

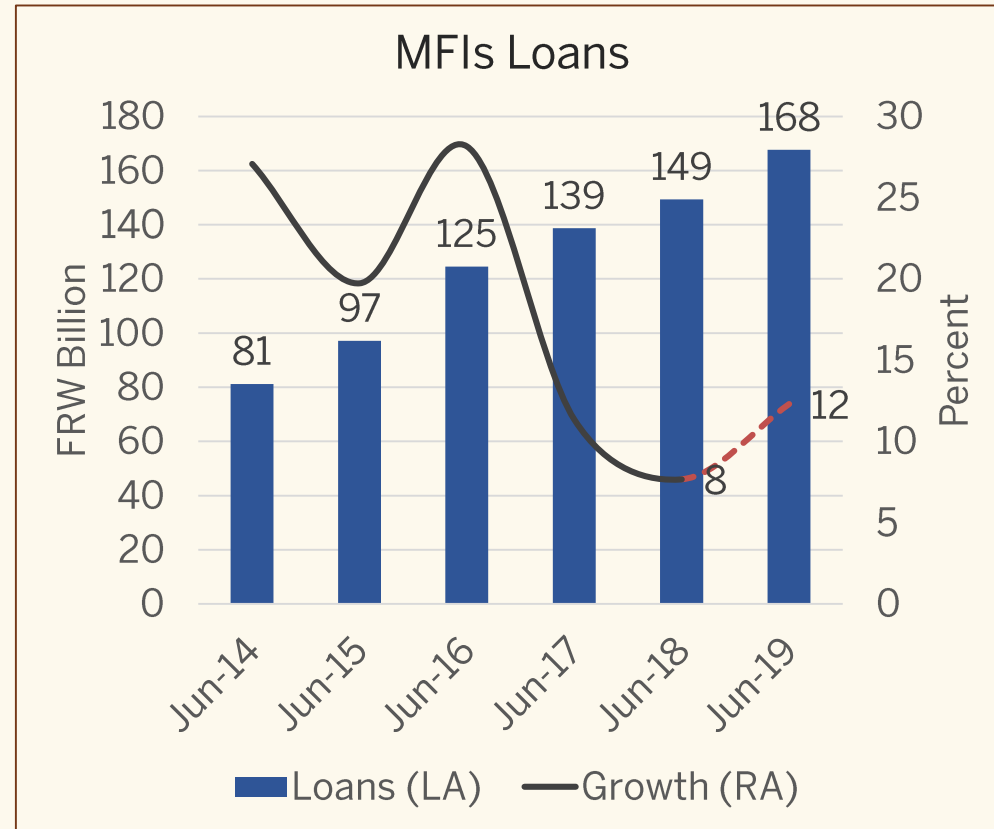
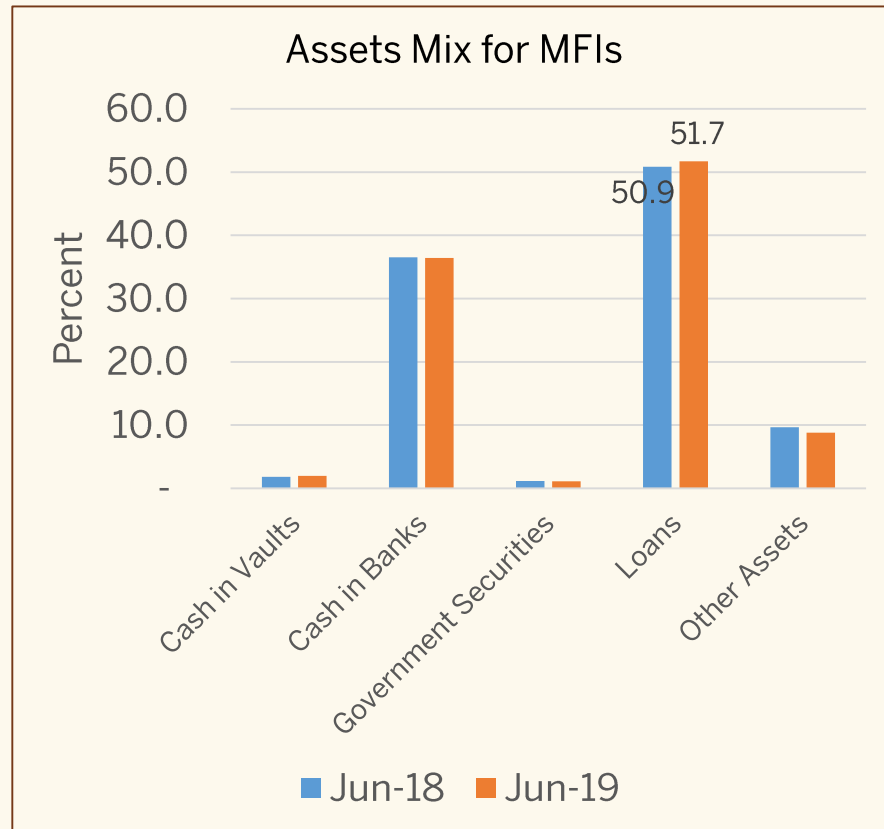
↳ Retained earnings and New Capital and Deposits



Performance of the MFI Sector

Lending Development

- MFI lending picked-up (increased demand for loans/Good agriculture season)



The Soundness of MFIs Sector

- Profits of MFIs increased in H1 2019 due to improved assets quality and recoveries.
- MFIs sector continue to be adequately capitalized and liquid

| Profits of MFIs (Billion FRW) | | | | |
|-------------------------------|--------|--------|--------|--------|
| | Jun-16 | Jun-17 | Jun-18 | Jun-19 |
| All MFIs | 4.3 | (0.1) | 3.2 | 6.6 |
| U-SACCOs | 2.6 | 2.0 | 1.8 | 2.9 |
| LTD MFIs | 0.2 | (3.6) | (0.6) | 1.1 |
| Other SACCOs | 1.6 | 1.5 | 2.1 | 2.5 |

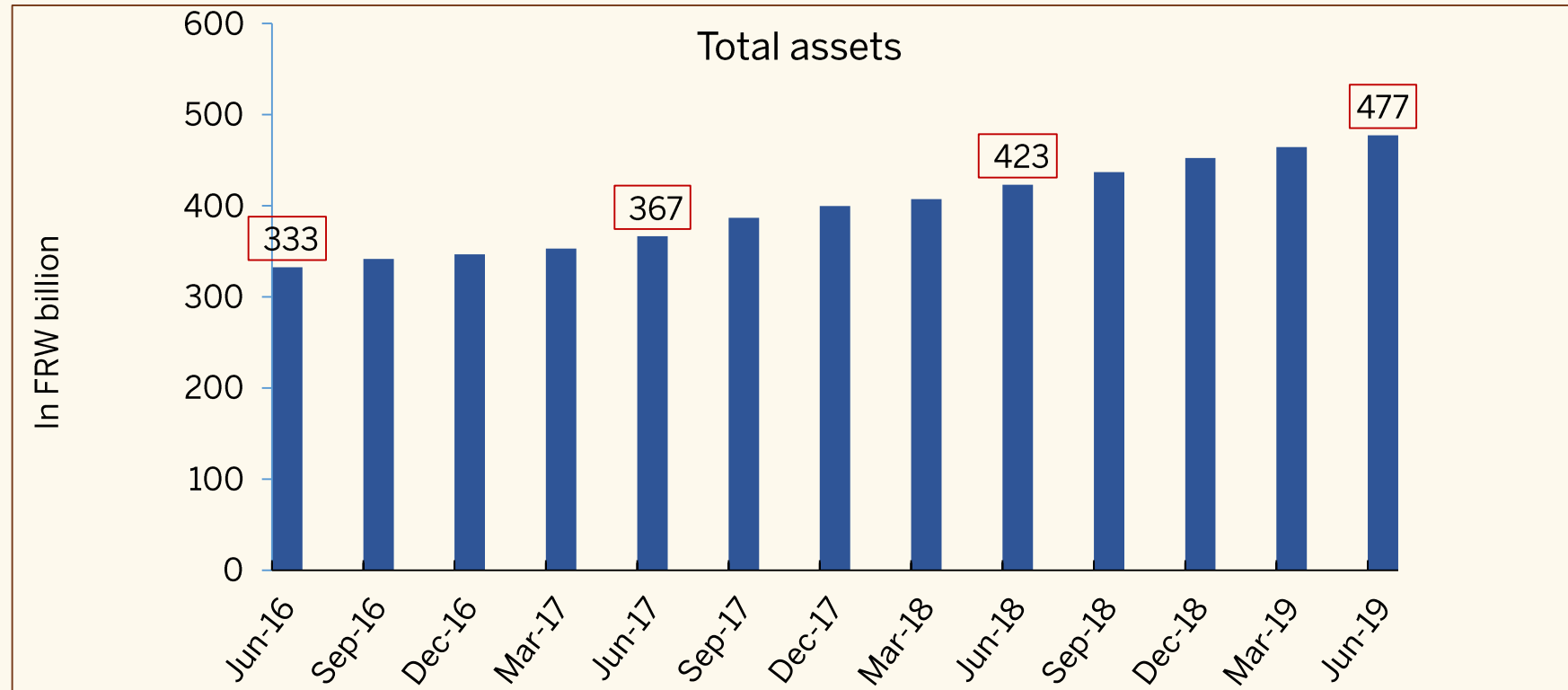
| FSIs (%) | | | | |
|----------------------------|--------|--------|--------|--------|
| | Jun-16 | Jun-17 | Jun-18 | Jun-19 |
| CAR (Min. 15%) | 30.3 | 33.3 | 32.5 | 33.9 |
| Liquidity ratio (Min. 30%) | 95.1 | 99.1 | 103.4 | 108.8 |
| NPLs ratio | 7.5 | 12.3 | 7.9 | 6.7 |



Performance of the Insurance Sector: Asset Growth and Structure

Insurance sector assets increased due to:

- Capital injection (FRW 4.3 billion), retained earnings (FRW 50 billion).

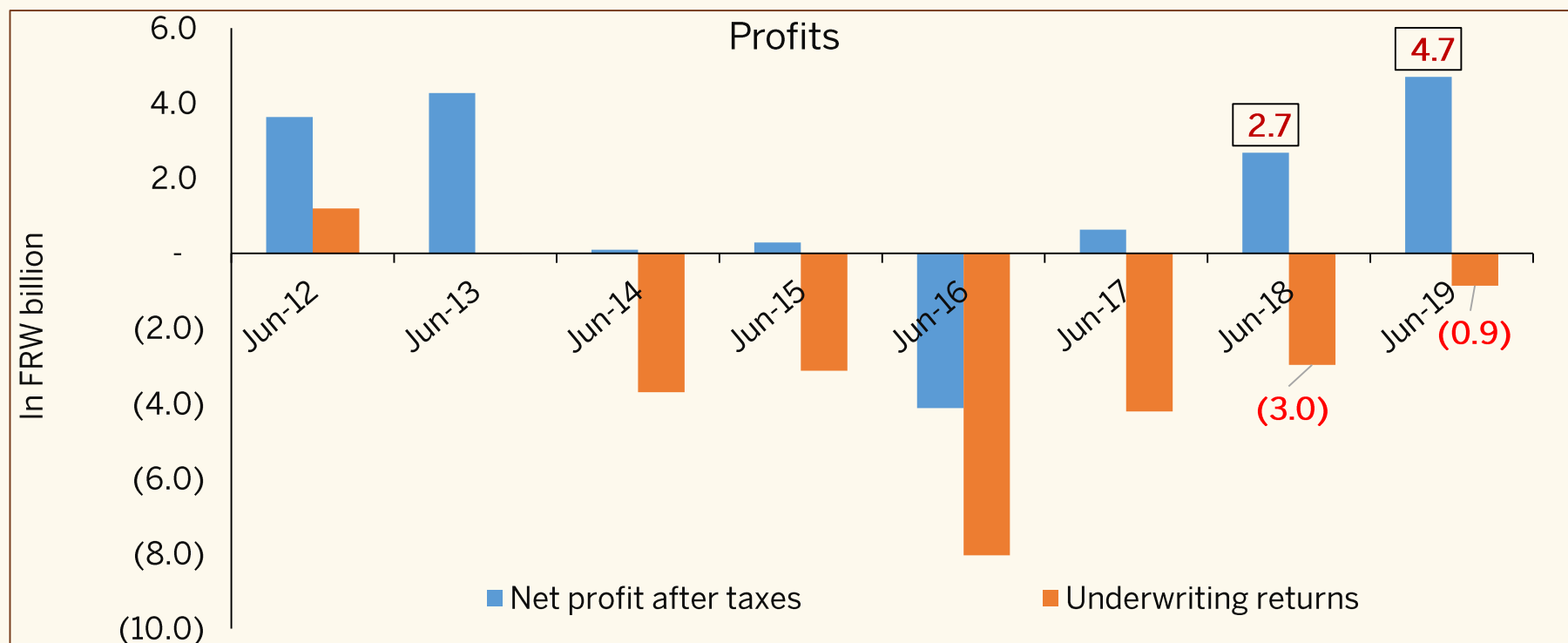


Performance of the Insurance Sector:

Profits of Private Insurers

Improving profits of private insurers:

- Investment income offsetting underwriting losses
- Improving performance of motor insurance product



Performance of the insurance sector :

Key Financial Soundness Metrics

- Private insurers meet the minimum solvency and liquidity requirements
- Claims ratio reduced and falls within acceptable band, but expenses remain high compared to premiums earned .

| Private Insurers | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| Selected FSIs (%) | Jun-15 | Jun-16 | Jun-17 | Jun-18 | Jun-19 |
| Solvency margin (Min. 100%) | 88 | -30 | 61 | 149 | 174 |
| Liquidity ratio (Min.120%) | 128 | 52 | 94 | 121 | 125 |
| Claims ratio (60%-70%) | 63 | 78 | 70 | 64 | 62 |
| Expenses ratio (Max.30%) | 51 | 56 | 42 | 46 | 41 |



Performance of Pension Sub-Sector: Assets Growth

- Assets of the public pension fund increased by **12%** to **FRW 837** billion
- Benefits paid increased due to increased min. pension benefits (**FRW5,200 to FRW13,000**)

| Public Pension (in FRW Billion) | Jun- 17 | Jun- 18 | Jun- 19 | %change Jun-18/17 | %change Jun-19/18 |
|--|--------------------|--------------------|--------------------|------------------------------|------------------------------|
| Total assets | 661 | 749 | 837 | 13 | 12 |
| Total contributions | 78 | 89 | 94 | 15 | 5 |
| Total benefits paid | 18 | 21 | 27 | 19 | 27 |
| Operating expenses | 5 | 6 | 7 | 31 | 25 |
| Investment Income | 27 | 29 | 35 | 7 | 20 |

- The number of licensed private pension schemes increased from **10** (June 18) to **12** June 19
- Total assets of private pensions increased from **FRW 32 billion** (June 18) to **39.8 billion** (June 19)



Payment Systems Infrastructure and Usage

- Mobile Financial Services usage expanding in addition to transfers

| Services in Volume | Jun-18 | Jun-19 | Composition June-18 | Composition June-19 | % change |
|--------------------------|--------------------|--------------------|---------------------|---------------------|----------|
| Airtime | 95,337,006 | 126,043,137 | 36% | 38% | 32% |
| Cash-in | 72,021,981 | 80,765,415 | 27% | 24% | 12% |
| Cash-out | 45,814,770 | 55,312,559 | 17% | 17% | 21% |
| P2P | 22,284,175 | 28,032,208 | 8% | 8% | 26% |
| Electricity | 16,955,310 | 14,057,595 | 6% | 4% | -17% |
| Merchant | 4,683,960 | 12,498,148 | 2% | 4% | 167% |
| Pull/Push | 4,028,172 | 5,622,388 | 2% | 2% | 40% |
| B2P | 1,627,032 | 4,197,650 | 1% | 1% | 158% |
| P2G | 1,611,532 | 2,575,874 | 1% | 1% | 60% |
| Saving | 1,241,911 | 2,087,546 | 0% | 1% | 68% |
| Loan | 1,059,490 | 2,316,716 | 0% | 1% | 119% |
| Water | 123,883 | 261,122 | 0% | 0% | 111% |
| Regional Remittance | 132,173 | 223,094 | 0% | 0% | 69% |
| International Remittance | 69,067 | 169,440 | 0% | 0% | 145% |
| MNO/MNO | 16,944 | 33,413 | 0% | 0% | 97% |
| School Fees | 5,071 | 17,002 | 0% | 0% | 235% |
| TOTAL | 267,012,477 | 334,213,307 | 100% | 100% | |

| Payment Access Points | Jun-2015 | Jun-2016 | Jun-2017 | Jun-2018 | Jun-2019 |
|---------------------------|----------|----------|----------|----------|----------|
| Number of ATMs | 361 | 398 | 405 | 382 | 390 |
| Traditional POS terminals | 1,339 | 1,707 | 2,031 | 2,198 | 3,046 |
| New Types of POS | - | - | - | 10,761 | 14,003 |
| Mobile Payment Agents | 35,863 | 52,081 | 83,550 | 94,672 | 102,181 |



Outlook



Outlook

Domestic Economy

- In 2019, real economy expected to continue performing well (currently projected at around 7.8%):
 - ↳ Low and stable inflation (projected to be around 2.0% in 2019)
 - ↳ FRW depreciation vs USD projected at 4.8% in 2019, from 5.0% initially projected.
- **The accommodative monetary policy is expected to continue;**
- However, challenging global environment, owing to US-China trade tensions and uncertainties around Brexit.
 - ↳ NBR stands ready to take appropriate actions as required, to maintain Rwanda's macroeconomic stability.



Outlook

Financial Sector Stability

- The financial sector is expected to remain sound and stable.
- NBR will continue ensuring that financial institutions hold enough capital relative to the risks they undertake as well as sufficient liquidity to meet financial obligations.
- The uptake of cashless or electronic payment is expected to pick-up as a result of awareness campaign and the forthcoming interoperability initiative.
- Enhancement of the legal and regulatory framework will continue to enhance the resilience of the financial sector to shocks.



THANK YOU!

