



The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE AND MONETARY POLICY COMMITTEE MEETINGS

March 28, 2018 – The quarterly Financial Stability Committee (FSC) and Monetary Policy Committee (MPC) Meetings were held in Kigali on 26th and 28th March, respectively. The FSC observed that the financial sector continues to grow and to finance the economy. The financial sector remains adequately capitalized, liquid and profitable. The MPC observed that 2018 started with positive macroeconomic conditions and decided to retain an accommodative monetary policy stance by maintaining the key repo rate at 5.5 percent in 2018Q2.

1. The FSC observed that:

- 1.1. Assets of the financial sector continued to increase in the fourth quarter of 2017. Total assets of the banking sector increased by 12.9 percent (year-on-year) in December 2017 to FRW 2.7 trillion. In the same period, the assets of the microfinance sector (MFIs) increased by 9.7 percent to FRW 244.3 billion. Assets of the insurance sector increased by 15.3 percent to FRW 399.8 billion, while assets of the pension fund increased by 17.7 percent to FRW 717.9 billion.
- 1.2. The financial sector remains well capitalized. As at end December 2017, the Capital Adequacy Ratio (CAR) of banks and MFIs stood at 21.4 percent and 35.8 percent respectively, compared to 15 percent minimum prudential requirement. The solvency of private insurers improved significantly from 78 percent in December 2016 to 193 percent in December 2017, well above the regulatory minimum requirement of 100 percent.
- 1.3. Banks and MFIs maintain sufficient liquidity. The banking sector liquidity ratio stood at 43.7 percent as at end December 2017, compared to 20 percent minimum prudential requirement. In the same period, the liquidity ratio of MFIs was at 102 percent, higher than the minimum prudential requirement of 30 percent.

- 1.4. The NPLs ratio of banks and MFIs reduced in the second half of 2017. In banks, the NPLs ratio reduced from 8.2 percent registered in June 2017 to 7.6 percent in December 2017. In MFIs, the NPLs ratio reduced from 12.3 percent registered in June 2017 to 8.2 percent in December 2017.
- 1.5. The financial sector remains profitable. Total banking and MFI sectors' profit before tax stood at FRW 54 billion and FRW 3.3 billion respectively in December 2017. In the same period, profits before tax for private insurance was FRW 5.3 billion.


2. The MPC noted that:

- 2.1. According to the IMF January 2018 forecasts, the global economy is projected to grow by 3.9 percent in 2018 from 3.7 percent estimated for 2017, in line with the improvement in consumer confidence, investment, global trade and easy monetary conditions.
- 2.2. In Sub-Saharan Africa, economic growth is estimated at 2.7 percent in 2017 from 1.4 percent in 2016. The recovery in commodity prices has helped oil exporting countries, while favorable weather conditions led to the improved agriculture production in countries previously hit by the drought including EAC member states. Consistent with the above positive prospects, the Sub-Saharan African economy is projected to grow by 3.3 percent in 2018.
- 2.3. The Rwandan economy grew by 6.1 percent in 2017, above the 5.2 percent initially projected and higher than 6.0 percent realized in 2016, mainly supported by the good performance in services and agriculture, which grew by 8.0 percent and 7.0 percent, respectively. The economy continued to perform well in 2018Q1 as indicated by the high frequency indicators of economic activities.
- 2.4. Rwanda's external sector performed well in 2018Q1 as formal exports' value grew by 31.0 percent in the first two months of 2018 while formal imports' value rose by 13.2 percent during the same period. Formal exports coverage of imports increased to 37.7 percent in the first two months of 2018 from 32.6 percent registered in the corresponding period of 2017. When including informal cross border trade, exports coverage of imports increased to 42.8 percent in the first two months of 2018 compared to 37.1 percent in the same period of 2017, contributing to the ease in exchange rate pressures.
- 2.5. Pressures on the Rwandan Franc have remained subdued. Relative to December 2017, the FRW depreciated against the USD by 0.8 percent as at 20th March 2018 compared to 0.6 percent at the same date in 2017 and is projected to depreciate by 4.5 percent y-o-y end December 2018.



- 2.6. Headline inflation eased from 8.1 percent in February 2017 to 1.3 percent and 0.7 percent in January and February 2018, respectively. In line with good weather conditions and exchange rate stability, headline inflation is estimated to evolve around 1.4 percent in 2018Q1 and is projected at around 2.0 percent in 2018Q2. In 2018, inflation is expected not to exceed the medium term objective of 5.0% on average.
- 2.7. Broad money expanded by 3.8 percent in February 2018 compared to 0.4 percent in February 2017 and is projected to grow by 16.5 percent in 2018. Outstanding credit to the private sector increased by 9.3 percent y-o-y in February 2018 compared to 7.4 percent recorded in the same period of 2017 and it is expected to grow by 15.0 percent in 2018.
- 2.8. In view of the above developments and outlook and in order to cement the outcomes of its previous decisions, the MPC decided to retain an accommodative monetary policy stance by maintaining the key repo rate at 5.5 percent in 2018Q2 to encourage the banking sector to continue financing the economy.

Done at Kigali, 28th March 2018


RWANGOMBWA John
Governor, Chairman of FSC and MPC

