



**The Governor**

## **PRESS RELEASE**

### **QUARTERLY FINANCIAL STABILITY COMMITTEE AND MONETARY POLICY COMMITTEE MEETINGS**


**December 28, 2016** – The quarterly Financial Stability Committee (FSC) and Monetary Policy Committee (MPC) Meetings were held in Kigali on 27<sup>th</sup> and 28<sup>th</sup> December respectively. The FSC observed that the financial sector continues to expand, remains sound and profitable, with adequate buffers to withstand adverse shocks; the FSC took measures to continue ensuring financial institutions' resilience and capacity to finance the economy. The MPC reviewed economic and financial developments, the outcomes of its previous monetary policy decisions and the outlook for 2017Q1 and decided to revise down the policy rate so as to further support the financing of the economy by the banking sector.

#### **1. The FSC observed that:**


- 1.1. The assets of the financial sector continued to grow in 2016. Total assets of the banking sector registered an annual growth rate of 9.8 percent in September 2016 to FRW 2.2 trillion. In the same period, assets of the Microfinance Sector (MFIs) registered an increase of 13.5 percent to FRW 221 billion. Assets of the insurance and pension sectors increased by 14.2 percent (to FRW 342 billion) and 13.0 percent (to FRW 599 billion) respectively.
- 1.2. The financial soundness indicators for banks, microfinance and insurance companies show that Rwanda's financial sector remains sound and resilient to shocks. Key financial soundness indicators are within prudential limits. The FSC specifically noted the following:

- 1.2.1. Sufficient capital and liquidity buffers of banks were maintained in 2016. The capital adequacy ratio of banks (CAR) stood at 22.5 percent in September 2016, compared to 24.2 percent in September 2015. This level of CAR remains above the BNR regulatory minimum requirement of 15 percent. In the same period, liquidity ratio for the banking system stood at 43.8 percent from 46.8 percent in September 2015. This again is above the prudential requirement of 20 percent. For the microfinance sector, CAR stood at 33.2 percent in September 2016 compared to 41.2 percent in September 2015, against 15 percent prudential requirement and liquidity ratio was at 90.4 percent and 88.4 percent in September 2016 and September 2015 respectively, against the 30 percent prudential benchmark.
- 1.2.2. Credit risk increased in 2016 in both banks and MFIs. The non-performing loans (NPLs) ratio of banks increased from 6.3 percent in September 2015 to 7.5 percent in September 2016. In the same period, NPLs of the microfinance sector increased from 7.8 percent to 8.2 percent. The FSC resolved to ensure that Rwandan financial institutions make adequate provisioning of impaired assets as required by the regulation and enhance their internal credit analysis and monitoring processes.
- 1.2.3. The financial sector continued to generate profits in 2016, albeit lower compared to last year. The banking sector's net profits (after tax) in September 2016 was FRW 32 billion, 2.8 percent lower than last year (FRW 33 billion). In the same period, microfinance sector profits increased by 39.7 percent to FRW 7.1 billion.

## **2. The MPC noted that:**


- 2.1. The global economic growth is expected to stand at 3.1 percent in 2016 slightly lower than 3.2 percent recorded in 2015. Advanced economies are expected to moderately grow by 1.6 percent from 2.1 percent in 2015. Emerging and developing economies slowed: some countries are still recording negative growth rates and economic activity remained subdued especially in resource exporting countries.
- 2.2. In advanced economies, inflation remained persistently low, reflecting still low but improving commodity prices and weak global demand. Inflation fell to 0.3 percent in 2015 from 1.4 percent in 2014, while expected to slightly hike to 0.8 percent in 2016, pointing to continuous accommodative monetary policy. 



- 2.3. In Sub-Saharan Africa, inflation hiked to 7.0 percent in 2015 from 6.3 percent in 2014 and is projected to increase further to 11.3 percent by end 2016. In EAC region, inflation remained moderate due to reducing pressures on regional currencies despite pressures from food and oil prices.
- 2.4. On the domestic side, the Rwandan economy grew by 6.5 percent in the first half of 2016 on average and the economy continues to perform well but at a low pace compared to the corresponding period of 2015 and in line with the projected growth of 6 percent in 2016. In the first eleven months of 2016 real CIEA grew by 11.2 percent compared to 13.2 percent in the corresponding period of 2015, while total turnovers of industry and services grew by 10.3 percent from 13.4 percent.
- 2.5. Rwanda's trade deficit reduced by 5.1 percent in the first eleven months of 2016 from a deficit of USD 1,602.21 million to a deficit of USD 1,519.97 million as a result of a decrease in formal imports by 2.4 percent in value against an increase in formal exports by 6.1 percent in value. Formal exports covered 26.2 percent of formal imports in the first eleven months of 2016 against 24.1 percent in the corresponding period of 2015. Including informal cross border trade, exports covered 29.9 percent of imports from 27.2 percent in the first eleven months of 2015.
- 2.6. The high import bill against low export revenues continued to exert pressures on FRW exchange rate and on inflation. Relative to December 2015, the FRW depreciated by 9.3 percent against USD end November 2016 compared to 6.8 percent in the corresponding period of 2015.
- 2.7. Headline inflation increased from 4.5 percent in 2016Q1 to 4.9 percent in 2016Q2 before surging to 6.4 percent in 2016Q3 on average, as result of the hike in food inflation that rose from 7.0 percent in 2016Q2 to 12.3 percent in 2016Q3. Pressures on food prices mainly came from the rise in vegetables inflation from 14.2 percent in 2016Q2 to 24.5 percent in 2016Q3 following the effect of a prolonged dry season. However, headline inflation dropped from 7.4 percent in October to 6.4 percent in November 2016 as food inflation eased and is expected to continue declining in coming quarter as season A 2016/2017 harvest period sets in.
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- 2.8. In the first eleven months of 2016, money supply increased by 4.1 percent compared to 18.0 percent in the corresponding period of 2015. The outstanding credit to the private sector grew by 7.4 percent from 26.9 percent for the same period, mainly due to slowdown in the growth in new authorized loan to 4.0 percent from 13.2 percent, amounting to FRW 701.0 billion from FRW 674.2 billion, which is a result of the recent developments of economic activities.
- 2.9. In view of the abovementioned current macroeconomic conditions, the MPC decided to revise down the policy rate to 6.25 percent for 2017Q1 from 6.5 percent in 2016Q4 to further support the financing of the economy by the banking sector. BNR will continue to monitor developments in the domestic and global economy so as to take appropriate and required actions in a bid to anchor inflation expectations.

Done at Kigali, 28<sup>th</sup> December 2016

  
**John RWANGOMBWA**  
**Governor, Chairman of MPC and FSC**

