



NATIONAL BANK OF RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

30th August, 2018



PRESENTATION OUTLINE

1. Global Economy

2. Domestic Economy and Monetary Policy Stance

3. Financial Sector Stability

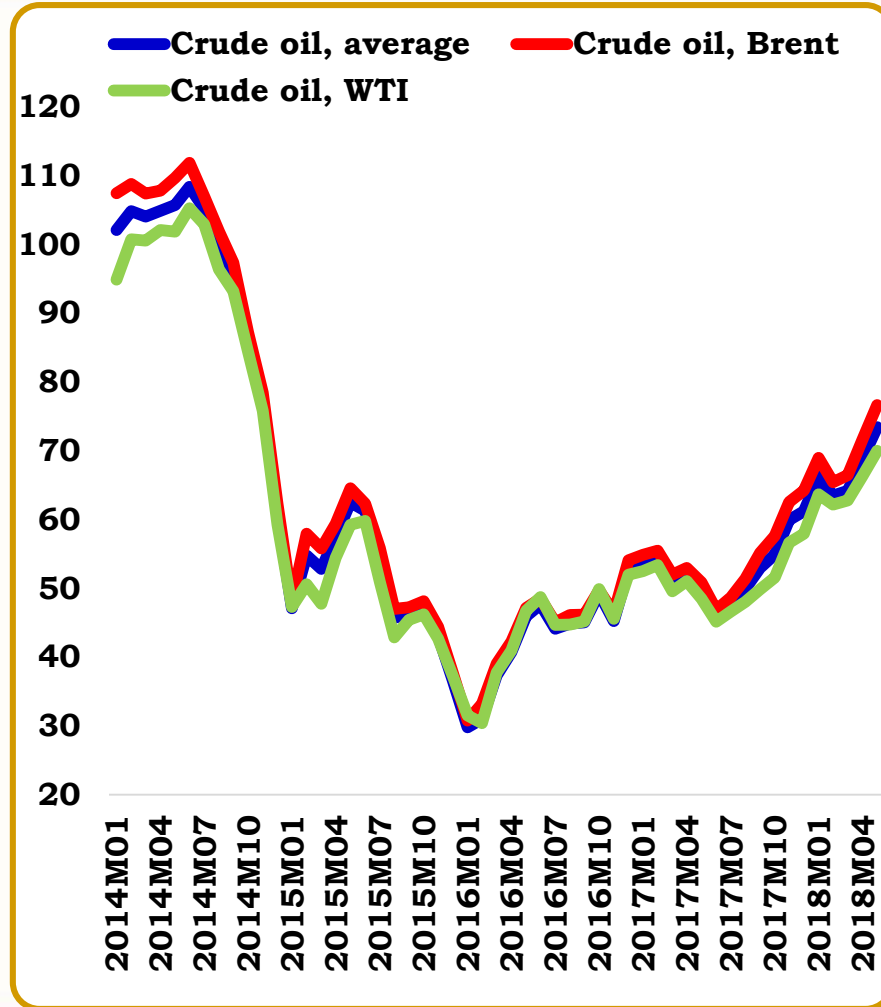
4. Outlook



GLOBAL ECONOMIC ENVIRONMENT

Global uptick expected to continue in 2018 and 2019: GDP projected at 3.9% in 2018 and 2019 after 3.7% in 2017

- **Global economic performance: supported by increased global demand and easy financial conditions;**
- **Rising commodity prices and upturn in the global economy are lifting inflation in advanced economies:**
 - ✓ **US Inflation** > Target → Fed to continue raising interest rates;
 - ✓ **In Eurozone**, lower inflation than the ECB target → Central bank rate remaining unchanged.



NATIONAL ECONOMIC PERFORMANCE



Good economic performance during 2018H1: 2018Q1 GDP growth of 10.6% vs 1.7% in 2017Q1 and CIEA of 15.4% in 2018H1 vs 7.8% in 2017H1

Leading indicators (%)

• Good economic performance in 2018H1, supported by:

- ✓ Good food crop harvest (season A);
- ✓ Transport & tourism;
- ✓ Improved external sector;
- ✓ On-going construction projects, ...

	2017			2018		
	Q1	Q2	H1	Q1	Q2	H1
Real CIEA ⁽¹⁾	6.2	9.2	7.8	17.5	13.4	15.4
Total turnovers	14.8	16.2	15.5	19.4	12.3	15.7
Industries	10.1	12.6	11.4	17.2	13.6	15.4
Services	16.5	17.6	17.0	20.2	11.9	15.8

(1) CIEA: Composite Index of Economic Activities

NATIONAL ECONOMIC PERFORMANCE



Export base continued to be diversified: share of traditional exports declined from 62.1% in 2013 to 32.4% in 2018H1; Imports supporting local industries; formal trade deficit reduced by 2%

- **Increase in exports value by 23.2% mainly due to:**

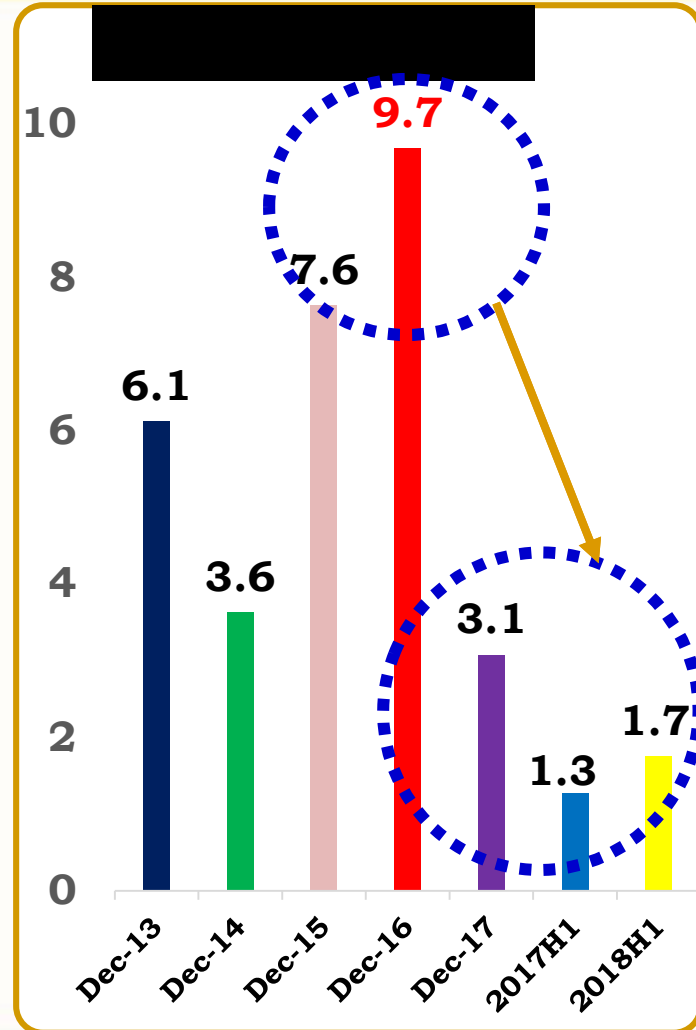
- ✓ **Rise in international commodity prices:** On account of the continued improvement in global demand;
- ✓ **Growth in non-traditional exports:** following the Gvmt initiatives to increase locally produced goods;

- **Increase in imports value by 7.0% mainly driven by:**

- ✓ **Intermediary goods** by local industries for production purposes and construction materials (of which cement);
- ✓ **Energy and lubricants** due to increased oil prices.

- **Low exchange rate pressures:**

- ✓ **Depreciation** is 1.7% in 2018H1 vs 1.3% in 2017H1.



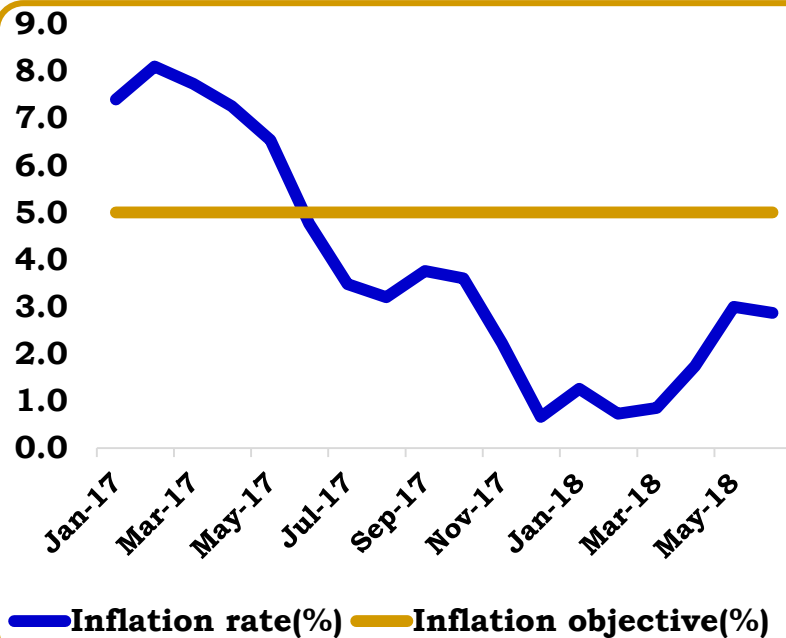


POLICY STANCE AND OUTCOME IN 2018

In 2018H1, NBR maintained accommodative monetary policy by keeping the policy rate at 5.5% to continue supporting the financing of the economy...

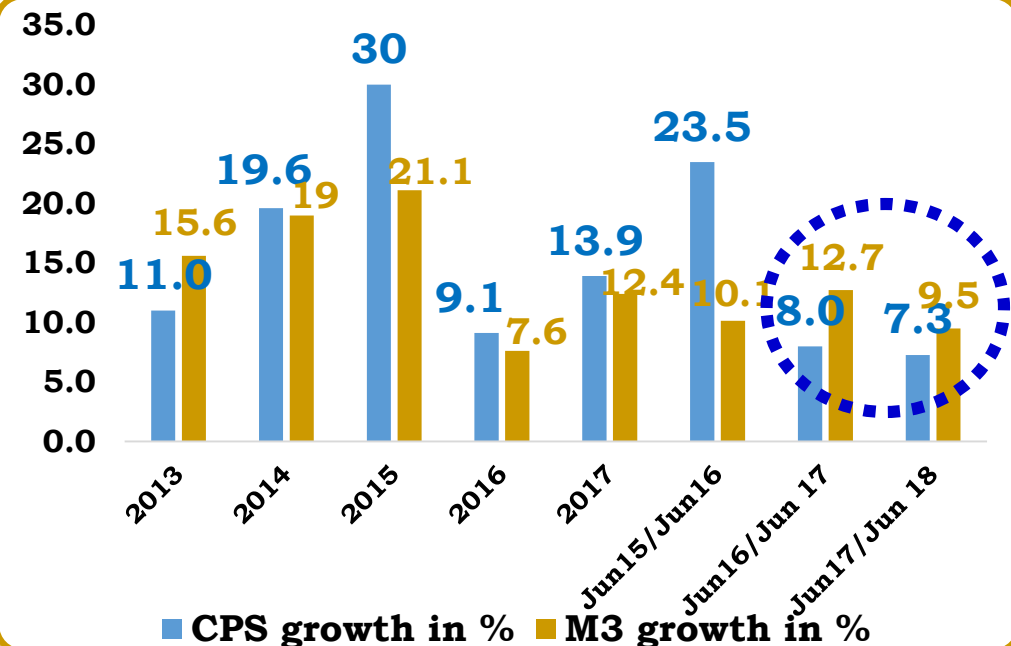
Inflationary pressures remained subdued:

✓ **1.7%** in 2018H1 compared to **7.0%** in 2017H1 and **2.8%** in 2017H2.



Monetary aggregates in 2018H1 compared to 2017H1 (y-o-y):

- M3 growth → **9.5%** against **12.7%**;
- Deposit growth → **9.1%** Vs **13.4%**;
- Outstanding CPS growth → **7.3%** against **8.0%**;
- New loans growth → **-3.3%** from **-2.4%**.



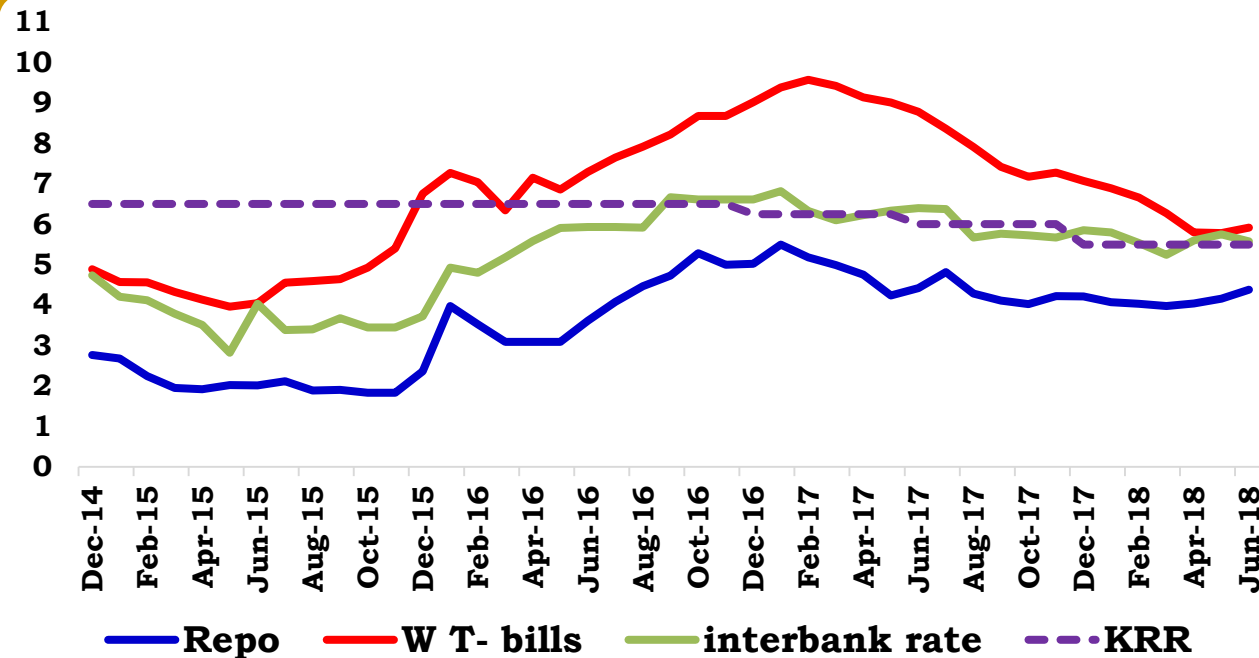


POLICY STANCE AND OUTCOME IN 2018

... Money market interest rates converging towards KRR and continuing upward trends in interbank market, supporting the transition towards a new (price-based) MP framework...

- **Money market interest rates remained in line with NBR monetary policy stance (KRR) in 2018H1:**

- ✓ Improved **liquidity forecasting and management**;
- ✓ Improved **monetary policy implementation**: informed decisions on timing & size of operations.



- **Average lending rate** : declined by 10 basis points to 16.97%
- **Average deposit rate** : increased by 21 basis points to 8.01%
- **Spread** : decreased by 31 basis points to 8.96%.



POLICY STANCE AND OUTCOME IN 2018

Financial market development: key for a successful new monetary policy framework

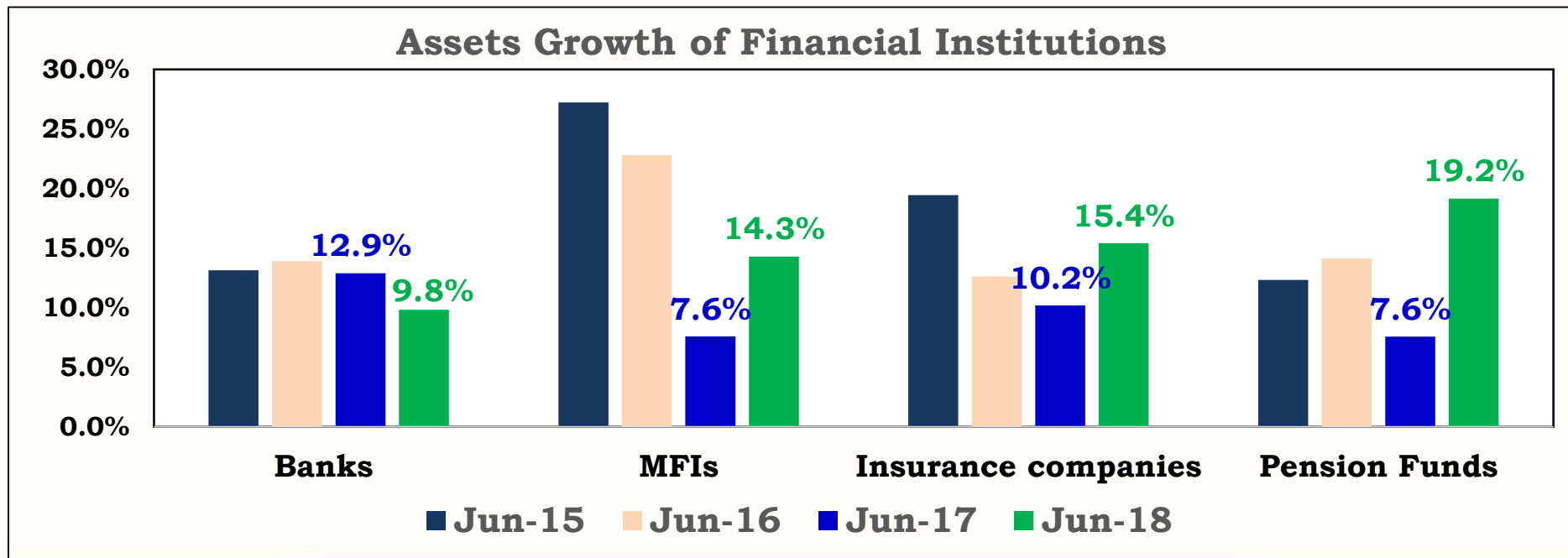
- **Active interbank market by July 2018:**
 - ↳ **Value of transactions:** FRW 320.3 billion compared to FRW 243.8 billion in the same period in 2017;
 - ↳ **Number of transactions:** 159 transactions from 136 in the same period of 2017.
- **Increased share of non-bank players in government securities; extended scope for monetary policy:**
 - ↳ **Non-bank institutional investors:** 54.9% end June 2018 from 23.4% Dec 2014;
 - ↳ **Banks:** 36.1% end June 2018 from 50.1% end 2014;
 - ↳ **Retail investors:** 9.0% from 1.6% in the same period.
- **Increased trades for Government bond on secondary market:**
 - ↳ **Value traded increased by 73.8%:** RWF 6.1 billion in 2018H1 from RWF 3.5 billion in 2017H1.



PERFORMANCE OF FINANCIAL SECTOR: Balance Sheet

The financial sector assets increased from FRW 3,846 Billion as at June 2017 to FRW 4,312 as at June 2018:

- Assets significantly increased in MFIs, Insurance sector and pension
- Banks' assets grew at a lesser pace compared to last year. Growth of banks' assets reflects the reduced growth of deposits (**9.5%, against 11.1%**)





THE SOUNDNESS OF THE FINANCIAL SECTOR: Profitability

Profits of the financial sector improved in H1 2018:

- ✓ In banks & MFIs, profits were driven by higher non-interest income & lower growth of operating expenses;
- ✓ Profits of the insurance sector were driven up by higher investment income and improved underwriting results.

Profits in 2018H1 (FRW billion)

	Jun-15	Jun-16	Jun-17	Jun-18
Banks' Profits (after tax)	23.6	19.4	21.5	22.9
MFIs' Profits (after tax)	3.4	4.3	-0.1	3.3
Insurance sector (all)	14.7	10.0	18.6	24.9
<i>Private Insurance</i>	0.3	(4.1)	0.6	2.7



THE SOUNDNESS OF THE FINANCIAL SECTOR: Assets quality improved and financial institutions hold sufficient capital and liquidity

- The NPLs ratio dropped in Banks & MFIs;
- Capital and Liquidity positions in Banks & MFIs are maintained above the prudential requirements;
- The solvency position of private insurers improved.

Selected FSIs (%)	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Banks					
Capital Adequacy Ratio (Min 15%)	23.6	24.3	23.3	20.8	21.4
Leverage ratio (Min 6%)					11.8
NPLs / Gross Loans	6.6	5.9	7	8.2	6.9
Liquidity Coverage ratio (Min 100%)					299.5
Net Stable Funding Ratio (Min 100%)					224.7
MFIs					
Capital Adequacy Ratio (Min 15%)	31.9	31.4	30.3	33.3	32.5
NPLs / Gross Loans	7.6	7.4	7.5	12.3	8
Liquidity ratio (Min 30%)	86.2	95.4	95.1	99.1	103.3
Insurance (Private)					
Solvency margin (Min. 100%)	131	88	-30	61	149
Combined ratio (Max. 90%)	120	110	128	112	110
Liquidity ratio (Min.150%)	121	128	52	94	121
Pension Fund					
Pension Coverage ratio		6.1	6.3	7.1	8.0

Core Values: Integrity, Accountability, Mutual Respect and Team work , Excellence

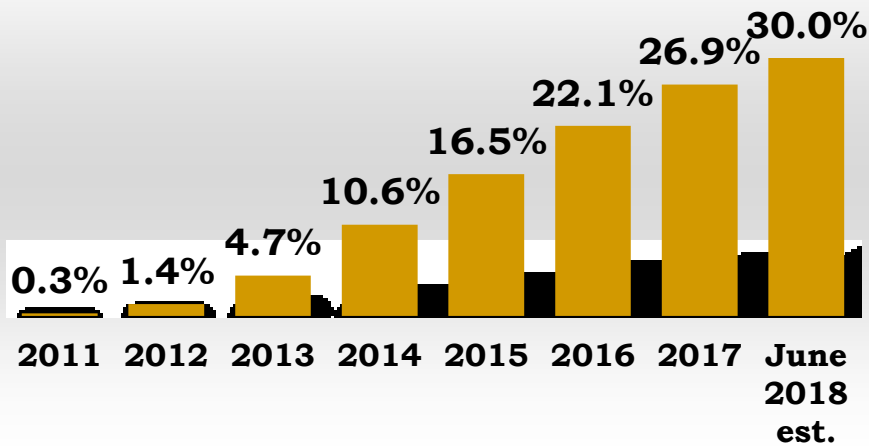


PAYMENT SYSTEM

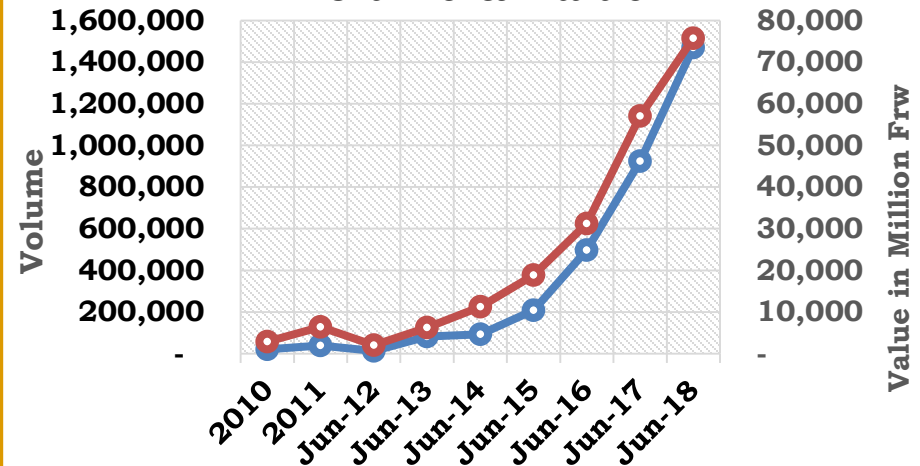
Electronic payments continue to grow due to increase of acceptance points and adoption

Payment Access and Usage	Jun-17	Jun-18	% Change (Jun-18/Jun-17)
Traditional POS terminals	2,031	2,198	8%
Modern POS terminals	N/A	33,285	N/A
Mobile POS	N/A	25,811	N/A
Active users of mobile financial services	3,377,111	3,987,980	18%
Users of Internet Banking	157,129	285,719	82%
Mobile operators' agents	83,550	124,945	50%

The Value of Retail E-payment to GDP



POS transactions Volume & Value





FINANCIAL SECTOR OUTLOOK

- ***The financial sector is expected to remain solvent and liquid:***
 - ↳ The capital and liquidity positions of banks will strengthen further under the new Basel II/III compliant standards;
- ***The level of long-term savings is expected to improve:***
 - ↳ Saving awareness campaigns and saving incentives continue to bear fruits.
- ***The drive towards a cashless economy is expected to build momentum:***
 - ↳ A blueprint for an open and inclusive interoperable Rwanda Digital Payment System has been established;
 - ↳ A sandbox regulatory framework has been put in place to allow testing innovative products in payment system;
- ***To support innovation and modernization, BNR will continue to review the legal and regulatory environment.***



MONETARY POLICY OUTLOOK

Monetary policy stance is foreseen to remain accommodative

- ***Inflation to remain contained and exchange rate pressures expected to stay low:***
 - ↳ **FRW depreciation against the USD:** projected at **4.0%** maximum end December 2018;
 - ↳ **Inflation:** not to exceed the medium term objective of **5.0%**.

- ***NBR to anchor price expectations and ensure well informed decisions by economic agents:***
 - ↳ **Moving to price-based monetary policy framework by end 2018.**



THANK YOU!