



The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE AND MONETARY POLICY COMMITTEE MEETINGS

September 27, 2017 – The quarterly Financial Stability Committee (FSC) and Monetary Policy Committee (MPC) Meetings were held in Kigali on 26th and 27th September respectively. The FSC observed that the financial sector continues to play an important role in financing the economy. The committee also noted that the financial sector remains adequately capitalized, liquid and profitable. After observing a decline in inflation, stability in exchange rate and increase in credit to the private sector, the MPC decided to maintain the policy rate unchanged at 6.0 percent in 2017Q4.

1. The FSC observed that:

- 1.1. Assets of the financial sector continued to increase in the second quarter of 2017. Total assets of the banking sub-sector increased by 13 percent (year-on-year) in June 2017 to FRW 2.6 trillion. In the same period, the assets of the microfinance sub-sector (MFIs) increased by 8 percent to FRW 248 billion while those of the insurance and pension sub-sectors increased by 10 percent and 13 percent to FRW 366.5 billion and to FRW 661.3 billion respectively.
- 1.2. The financial sector remains adequately capitalized. As at end June 2017, the Capital Adequacy Ratio (CAR) of banks stood at 20.7 percent, above the BNR regulatory minimum requirement of 15 percent. Similarly, the CAR of the microfinance sub-sector stood at 33.3 percent, compared to 15 percent minimum regulatory requirement. The private insurance companies continued to improve their financial position through injection of additional capital that led to a 16 percent increase in shareholders' funds.
- 1.3. The financial sector is sufficiently liquid. The liquidity ratio of banks stood at 39 percent at end June 2017, compared to 20 percent minimum prudential requirement. In the same period, the liquidity ratio of MFIs was at 99.1 percent, higher than the minimum prudential requirement of 30 percent.

- 1.4. The asset quality of banks recently deteriorated as NPLs ratio of banks increased to 8.2 percent in June 2017, from 8.1 percent in March 2017. In the MFI sub-sector, the NPLs ratio increased to 12.3 percent in June 2017, from 11.7 percent in March 2017. The slowdown of economic activities as well as inadequate monitoring of some large facilities led to the increase in NPLs. The BNR will continue engaging with banks with regard to strengthening the credit underwriting and monitoring processes to ensure good quality loans as well as enhancing recovery processes for NPLs.
- 1.5. Profits of banks and insurance companies improved in the first half of 2017. The total banking system net profit (after tax) grew by 11 percent to FRW 21.5 billion in June 2017 from FRW 19.4 billion reported in June 2016. In the same period, the insurance sector's profit (after tax) was FRW 18.5 billion, up from FRW 10 billion reported in June 2016.

2. The MPC noted that:

- 2.1. According to the July 2017 IMF forecasts and in line with high frequency indicators, the world economy is projected to grow by 3.5 percent in 2017 from 3.2 percent recorded in 2016. A strong economic momentum in advanced economies is likely to lead to a tightening of monetary policy in the medium term, which may reverse capital flows to emerging economies and increase the cost of funding for most developing countries.
- 2.2. In Africa, economic growth is projected to increase to 2.7 percent in 2017 from 1.3 percent in 2016. Big economies such as Nigeria, South Africa and Angola are expected to slightly improve in 2017 due to a recovery in commodity prices. Unfavorable weather conditions such as the recent drought have led to a poor performance in agriculture, creating inflationary pressures especially in the first half of 2017.
- 2.3. In 2017, global inflation projections by IMF were revised to 3 percent from 2.8 percent in 2016. Oil prices are expected to rise by 14.4 percent in 2017 against a 15.7 percent fall in 2016 following reduced oil supply despite high US shale production and large oil inventories. In most developed countries however, core inflation remained below central banks' targets, reflecting weak wage growth. The developments in global economy are expected to support the Rwandan economy through improved external sector performance resulting from increasing commodity prices, and low imported inflation.
- 2.4. The Rwandan economic growth stood at 4.0 percent in 2017Q2 compared to 1.7 percent and 7.5 percent in 2017Q1 and 2016Q2 respectively, following the improvement in agriculture and service sectors.



- 2.5. In the first eight months of 2017 compared to the corresponding period of 2016, Rwanda's trade deficit eased by 24.9 percent, from a deficit of USD 1,179.1 million to a deficit of USD 885.4 million, as a result of a decrease in formal imports by 7.9 percent in value and an increase in formal exports value by 44.9 percent. During the same period, formal exports cover increased to 38.4 percent from 24.4 percent while it increased to 42.3 percent from 29.6 percent when informal cross-border trade is included.
- 2.6. The FRW exchange rate has continued to stabilize against the USD, depreciating by 1.8 percent between December 2016 and August 2017 compared to 8.0 percent observed in the same period of 2016. The ease in exchange rate pressures was mainly due to the improvement in export receipts, in line with rising commodity prices, and a decline in the import bill due to the phasing out of big construction projects and increased domestic production of some items, such as cement.
- 2.7. Headline inflation decreased from 6.2 percent in 2017Q2 to 3.8 percent and 3.2 percent in July and August 2017 respectively. In line with projections, inflation is expected to remain below 5.0 percent in the rest of 2017 as both demand-side and supply-side pressures are anticipated to stay muted.
- 2.8. Following the ease in inflationary pressures and stable FRW exchange rate, BNR implemented an accommodative monetary policy stance since December 2016. As a result, broad money expanded by 11.0 percent in the first eight months of 2017 against 3.0 percent in the corresponding period of 2016. During the same period, outstanding credit to the private sector increased by 8.8 percent from 10.6 percent, while new authorized loans grew by 4.1 percent compared to 11.5 percent in the same period of 2016.
- 2.9. In view of the above economic and financial developments and the fact that the current stance has been yielding good results, the MPC has decided to maintain the key repo rate at 6.0 percent in 2017Q4.

Done at Kigali, 27th September 2017

RWANGOMBWA John
Governor, Chairman of FSC and MPC

