



The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE AND MONETARY POLICY COMMITTEE MEETINGS

June 27, 2017 – The quarterly Financial Stability Committee (FSC) and Monetary Policy Committee (MPC) Meetings were held in Kigali on 23rd and 27th June respectively. The FSC observed that the financial sector remains adequately capitalized, liquid and profitable. The committee noted an increase in Non-Performing Loans (NPLs) and resolved to continue engaging banks and microfinance institutions to enhance their credit underwriting and monitoring practices. The MPC observed a decline in inflation, stability in exchange rate and increase in credit to the private sector compared to the corresponding period of 2016. The MPC decided to change the policy stance by reducing the central bank rate.

1. The FSC observed that:

- 1.1. Assets of the financial sector continued to increase in the first quarter of 2017. Total assets of the banking sector increased by 11.3 percent (year-on-year) in March 2017 to FRW 2.4 trillion. In the same period, assets of the microfinance sector (MFIs) increased by 11 percent to FRW 226 billion. Assets of the insurance sector and pension increased by 9.2 percent and 13 percent to FRW 353 billion and to FRW 629 billion) respectively.
- 1.2. The banking and microfinance sub-sectors remain adequately capitalized and liquid. As at end March 2017, the Capital Adequacy Ratio of banks (CAR) stood at 21.2 percent, above the BNR regulatory minimum requirement of 15 percent. In the same period, the CAR of the microfinance sector was 33.8 percent, compared to 15 percent regulatory requirement. Solvency of private insurance companies continue to improve. The banking industry remain adequately liquid with a liquidity ratio of 42.6 percent at end March 2017, compared to 20 percent prudential requirement. In the same period, the liquidity ratio of MFIs was at 91 percent, higher than the prudential requirements of 30 percent.

- 1.3. The financial sector was profitable in the first quarter of 2017. Total banking system net profit (after tax) amounted to FRW 9.8 billion in March 2017. In the same period, microfinance sector profit was 937 million, while that of the insurance sector was FRW 8.7 billion, up from 5.9 billion achieved in March 2016.
- 1.4. Assets of the financial sector remain healthy, despite an increase in Non-Performing Loans (NPLs). The NPLs ratio of banks increased from 6.2 percent in March 2016 to 8.1 percent in March 2017. In the same period, the NPLs ratio of MFIs increased from 8.5 percent to 11.7 percent. The committee noted that increased NPLs are due to (1) weak credit analysis and monitoring and (2) poor project design and implementation. To contain growth of NPLs, the BNR will continue engaging financial institutions on enhancement of their credit underwriting and monitoring standards.

2. The MPC noted that:

- 2.1. According to IMF's April 2017 prospects, the global economy will grow by 3.5 percent in 2017 against 3.1 percent realized in 2016. Financial conditions remain globally supportive despite uncertainties in some areas. World trade continues recovering, rising commodity prices are expected to be supportive mostly in resource rich countries and, the economic activity are expected to normalize in previously distressed large economies such as Brazil and Russia. Advanced economies are expected to grow by 2.0 percent from 1.7 percent in 2016 and emerging and developing economies by 4.5 percent against 4.1 percent in 2016. Supported by recovering commodity prices, the Sub-Saharan African economic growth is projected to increase from 1.6 percent in 2016 to 2.6 percent in 2017.
- 2.2. Globally, inflation increased in recent months reflecting the rebound in oil prices. In advanced economies, headline inflation rose but core inflation remained below Central bank target on persistently negative output gap and subdued wage pressures pointing to continuous accommodative monetary policy. In USA, annual inflation decelerated to 1.9 percent in May from 2.2 percent in April 2017 while in the Eurozone, annual inflation decreased to 1.4 percent from 1.9 percent in the same period.
- 2.3. In Sub-Saharan Africa, the impact of drought in some countries and exchange rate pressures on local currencies are likely to fuel inflationary pressures. Headline inflation stood at 11.4 percent on average in 2016 while projected at 10.7 percent in 2017 as local currencies will be recovering with rising commodity exports. In EAC, inflationary pressures have been growing and this is mainly attributed to the effect of droughts though for Tanzania and Rwanda inflation eased in May 2017.



- 2.4. The Rwandan economy grew by 5.9 percent in 2016. The real Composite Index of Economic Activities (CIEA), total turnovers and the credit to private sector respectively grew by 8.6 percent, 16.1 percent and 6.9 percent in the first five months of 2017 from 16.5 percent, 9.7 percent and 6.6 percent in the corresponding period of 2016.
- 2.5. In the first five months of 2017, relative to the corresponding period of 2016, Rwanda's trade deficit improved by 22.6 percent from a deficit of USD 749.7 million to a deficit of USD 580.6 million as a result of a formal exports increase of 37.2 percent while formal imports decreased by 9.2 percent in value. Formal exports covered 33.7 percent of formal imports against 22.3 percent of the corresponding period of 2016. Including informal cross border trade, exports cover of imports increased to 38.6 percent compared to 27.5 percent in the corresponding period of 2016.
- 2.6. Pressures on the FRW exchange rate have significantly eased following the improvement in the trade balance coupled with the completion of some big projects. Consequently, relative to December 2016, the FRW depreciated by 1.15 percent on 22nd June 2017 compared to a depreciation of 4.6 percent by the same date of 2016 and expected to be below the initial projection for 2017.
- 2.7. Headline inflation decreased from 7.7 percent in 2017Q1 to 7.3 percent and 6.5 percent in April and May 2017 respectively, and the trend is expected to continue in 2017H2. The decline in the first five months was reflected in three major components of the CPI basket namely food, housing and transport. Imported inflation dropped from 8.8 percent 2017Q1 to 7.4 percent and 6.8 percent, and core inflation declined from 5.5 percent in 2017Q1 to 4.8 percent and 4.9 percent during the same period.
- 2.8. Broad money (M3) increased by 5.6 percent between December 2016 and May 2017, against 1.2 percent recorded in the corresponding period of 2016. Outstanding credit to the private sector grew by 6.9 percent against 6.6 percent in the same period of 2016 while total new authorized loans expanded by 9.0 percent in the first five months of 2017 from 2.7 percent of the corresponding period of 2016.
- 2.9. In view of the above developments in inflation, exchange rate and monetary aggregates, the MPC has decided to change the policy stance for 2017Q3 by reducing the key repo rate to 6.0 percent from 6.25 percent.

Done at Kigali, 27th June 2017

RWANGOMBWA John
Governor, Chairman of MPC and FSC

