



NATIONAL BANK OF RWANDA

MONETARY POLICY AND FINANCIAL STABILITY STATEMENT

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12TH FEBRUARY, 2014



OUTLINE

- I. **OVERVIEW OF ECONOMIC ENVIRONMENT**
- II. **MONETARY SECTOR DEVELOPMENTS**
- III. **FINANCIAL SECTOR STABILITY**
- IV. **KEY FOCUS FOR 2014**



I. OVERVIEW OF ECONOMIC ENVIRONMENT



I. 1. GLOBAL ECONOMY: ECONOMIC GROWTH SLOWED DOWN IN 2013

- **Global economy recovery in 2013 driven by advanced economies and developing ASIA**
- **Positive outlook globally, including Sub-Saharan Africa**

| | 2012 | 2013 | 2014 (proj.) |
|--|------------|------------|--------------|
| World economy | 3.1 | 3.0 | 3.7 |
| Advanced economies | 1.4 | 1.3 | 2.2 |
| USA | 2.8 | 1.9 | 2.8 |
| Euro Zone | -0.7 | -0.4 | 1.0 |
| Japan | 1.4 | 1.7 | 1.7 |
| Emerging & developing economies | 4.9 | 4.7 | 5.1 |
| Developing Asia | 6.4 | 6.5 | 6.7 |
| China | 7.7 | 7.7 | 7.5 |
| Sub Saharan Africa | 4.8 | 5.1 | 6.1 |



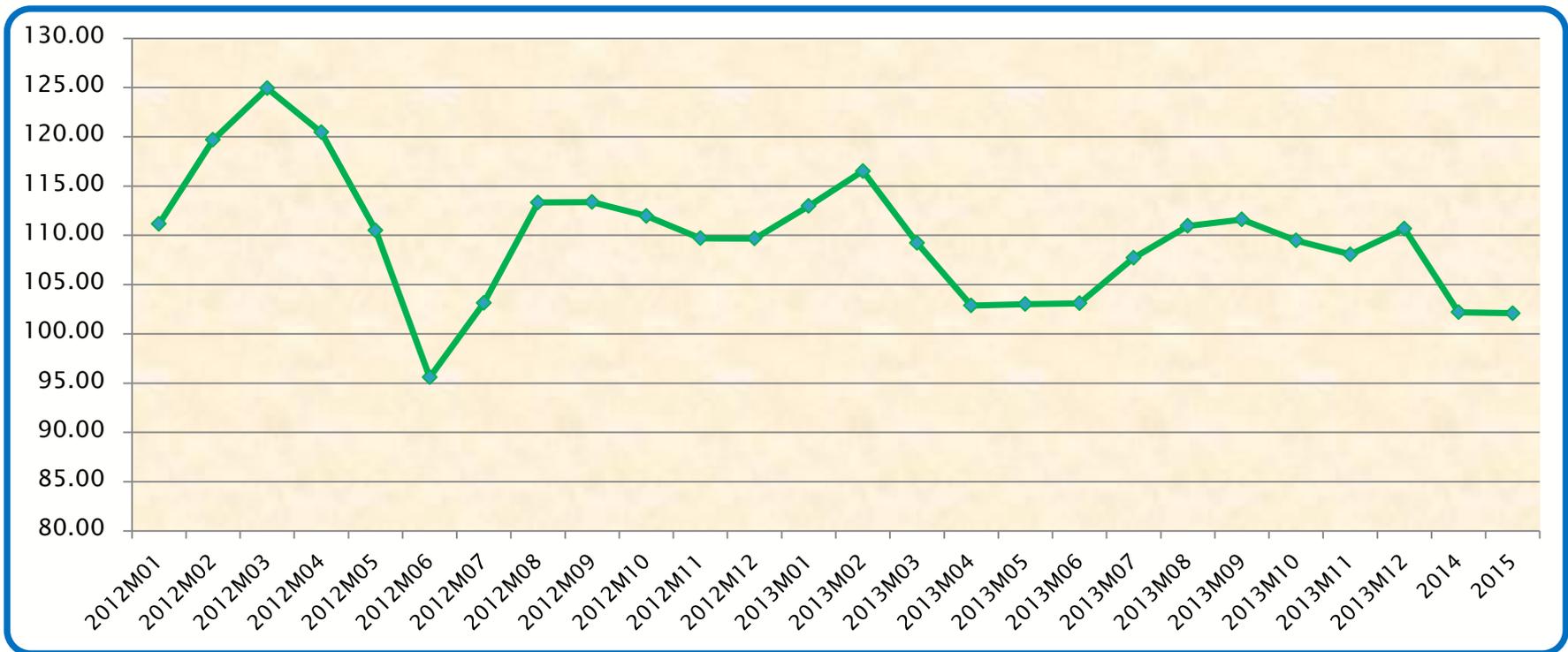
GLOBAL ECONOMY: LOW INFLATION IN 2013

- **Low global inflationary pressures**
 - ✓ **In developed countries:** 1.4% from 2.0% in 2012 and projected at 1.7% in 2014 ;
 - ✓ **Emerging and developing economies:** 6.1% from 6.0% in 2012 and projected at 5.6% in 2014;
- **In EAC,** inflationary pressures remained globally moderate due to good economic performance and efficient monetary policy.



BRENT CRUDE PRICE DEVELOPMENTS (USD/ BARREL)

Energy prices recorded a slight overall decline in 2013 and this trend is expected to continue in near future





I.2. NATIONAL ECONOMY

- **Moderate economic performance :**
 - Real GDP: +6.4% in Q.1, +5.7% in Q2 and +3.9% Q3; due to:
 - ✓ Reduction in public spending and;
 - ✓ Slowdown in credit to private sector
- **Good performance recorded in industry sector.**





EXTERNAL SECTOR DEVELOPMENTS

Good performance in export sector:

- Exports: +18.7% in value and +6.8% in volume
- Imports of goods: +2.2% in value and 4.3% in volume;
- Imports of goods coverage by exports: 25.4% from 21.9% in 2012 and 30.0% from 27.7% when including informal cross border trade.



EXPORTS DEVELOPMENTS (VOLUME IN THOUSANDS TONS; VALUE IN USD MILLION)

| | 2012 | | 2013 | | % change | |
|-----------------------|--------------|--------------|--------------|--------------|------------|-------------|
| | Volume | Value | Volume | Value | Volume | Value |
| EXPORTS | 288.7 | 482.8 | 308.4 | 573.0 | 6.8 | 18.7 |
| Coffee | 17.0 | 60.9 | 20.0 | 54.9 | 17.7 | -9.8 |
| Tea | 22.5 | 65.7 | 21.0 | 55.5 | -6.4 | -15.6 |
| Tin | 4.6 | 52.9 | 4.9 | 61.1 | 5.6 | 15.5 |
| Coltan | 1.1 | 56.9 | 2.5 | 134.6 | 115.4 | 136.5 |
| Wolfram | 1.8 | 26.3 | 2.2 | 30.1 | 26.7 | 14.4 |
| Hides and Skins | 10.0 | 14.4 | 10.3 | 16.0 | 2.7 | 11.5 |
| Re-exports | 57.1 | 108.0 | 97.6 | 135.0 | 71.1 | 25.0 |
| Other export products | 174.6 | 88.0 | 150.0 | 81.9 | -14.1 | -6.9 |



IMPORTS INCREASED SLIGHTLY IN 2013

Total imports increased by 2.2% in value and 4.3% in volume:

- **Intermediary goods:** +1.7% in value and 8.5% in volume, driven by industrial products and construction materials;
- **Capital goods:** +1.2% in value and -13.3% in volume dominated by transport and machines, devices and tools;
- **Consumer goods:** +1.2% in value and -0.4% in volume, dominated by food products.
- **Energy & Lubricant:** +6.4% in value and +6.5% in volume.

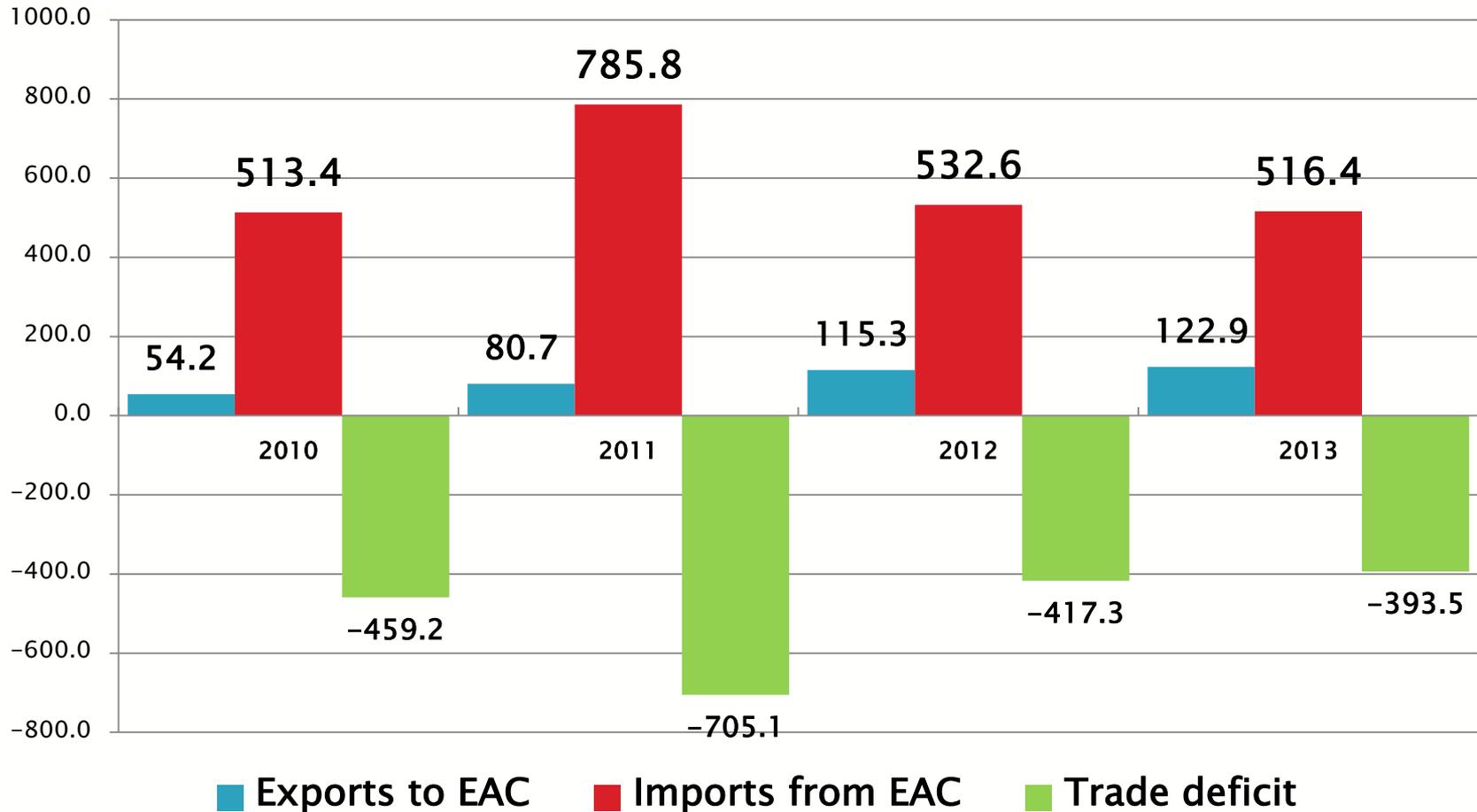


IMPORTS DEVELOPMENTS (VOLUME IN THOUSANDS TONS; VALUE IN USD MIOS)

| | 2012 | | 2013 | | % change | |
|-----------------------|---------------|---------------|---------------|---------------|------------|------------|
| | Volume | Value | Volume | Value | Volume | Value |
| TOTAL IMPORTS | 1708.5 | 2199.1 | 1781.9 | 2247.4 | 4.3 | 2.2 |
| Consumer goods | 577.0 | 626.1 | 574.4 | 633.6 | -0.4 | 1.2 |
| Capital goods | 68.1 | 589.2 | 59.0 | 596.3 | -13.3 | 1.2 |
| Intermediary goods | 810.3 | 622.4 | 878.9 | 632.9 | 8.5 | 1.7 |
| Energy and lubricants | 253.2 | 361.4 | 269.7 | 384.6 | 6.5 | 6.4 |



FORMAL TRADE WITH EAC, IN USD MILLION

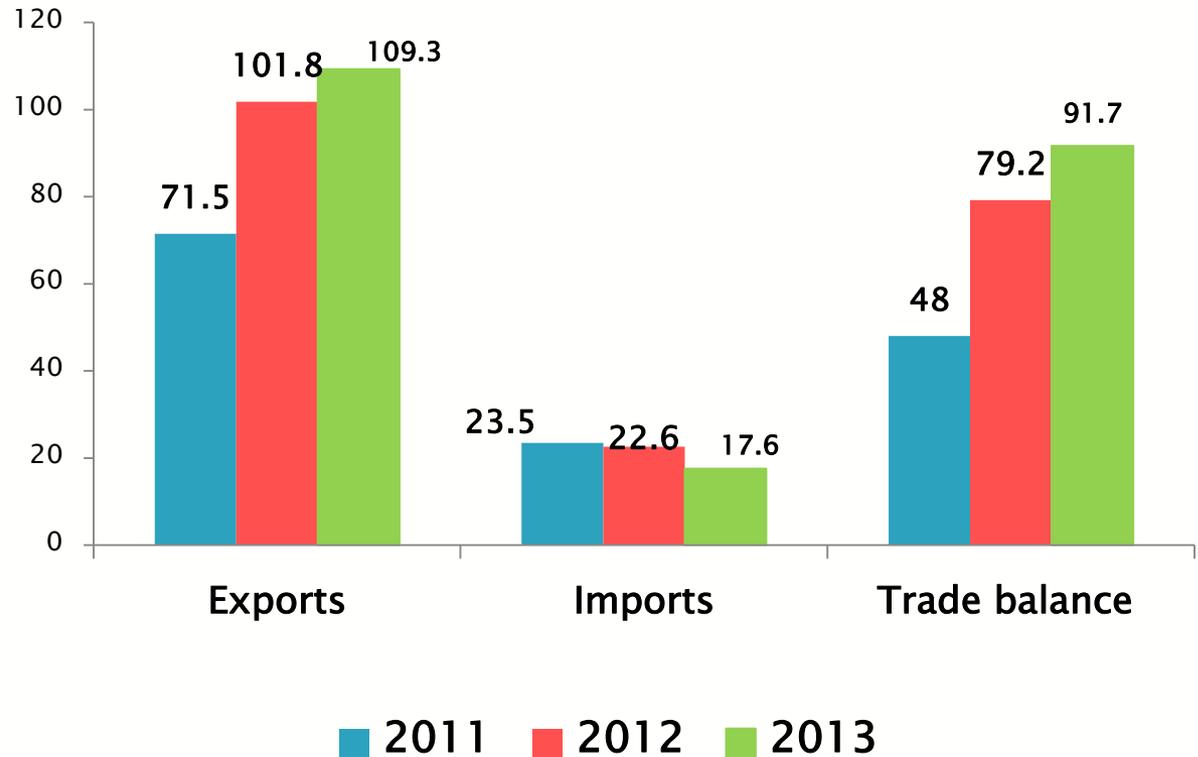




INFORMAL CROSS BORDER TRADE

- Total informal exports represented about 19.0% of formal exports;
- Main trading partners remained DRC (75% of informal cross border exports) and Uganda (45% of Informal cross border imports).

In USD million





II. MONETARY SECTOR DEVELOPMENTS



Inflation kept at moderate levels

- **Headline Inflation:** 3.7% in Dec-13 from 3.9% in Dec-2012;
- **Core Inflation** (which excludes fresh food and energy): 4.0% Dec-13 from 4.7% in January 2013;
- **Good performance is a result of:**
 - ✓ Effective monetary policy and good policy coordination, particularly fiscal and monetary;
 - ✓ Easing inflationary pressures in trading partners;
 - ✓ Overall stability of international oil prices;
 - ✓ Improved food harvests;
 - ✓ Limited exchange rate depreciation pass-through to domestic prices.



Annual inflation by origin and category (%)

| | 2012 | | 2013 | | |
|----------------------------------|------------|-------------|-------------|-------------|------------|
| | Dec | Mar | Jun | Sep | Dec |
| Headline inflation | 3.9 | 3.2 | 3.7 | 5.1 | 3.7 |
| Local Goods | 4.1 | 3.2 | 4.1 | 5.7 | 4.2 |
| Food and non-alcoholic beverages | 10.0 | 1.9 | 4.4 | 7.8 | 3.9 |
| Fresh food | 10.0 | -3.8 | 6.3 | 13.6 | 4.9 |
| Vegetables | 8.3 | 11.4 | 10.8 | 15.9 | 4.3 |
| Imported Goods | 3.2 | 3.4 | 1.9 | 2.5 | 1.6 |
| Energy | 5.7 | 4.6 | 0.9 | 2.8 | 0.0 |
| Core inflation | 2.5 | 4.8 | 3.4 | 3.3 | 4.0 |



MONEY SUPPLY AND DEMAND(CT'D)

- **Broad Money (M3):** +15.7% against 14.0% in 2012;
- **Outstanding Credit to the Private Sector:** +12.9% in 2013 against +34.0% in 2012 and +28.4% in 2011;
- **New authorized loans:** FRW 472.5 billion in 2013 from FRW 498.9 billion in 2012;
- **The slowdown was due to:**
 - ✓ **Low increase in Government spending and;**
 - ✓ **Banks' policy to enhance the risk management.**



Money supply and demand(ct'd)

| POLICY OBJECTIVE | PERFORMANCE IN 2013 | OUTLOOK IN 2014 |
|---|---|---|
| <p>Progressively reducing cash Utilization</p> | <ul style="list-style-type: none"> ● Currency in circulation (CIC): +9.0% in 2013 against +4.1% recorded in 2012 and +13.6% in 2011; ● CIC/M3 ratio: +11.3% in 2013 from 12.0% in 2012; 13.1% in 2011 and 14.6% 2010: good progress in reducing cash utilization in the Rwandan economy, following improved access to finance and payment system modernization; ● Banks' deposits: +16.7% in 2013 against +15.5% in 2012. | <p>To keep momentum in reducing cash utilization</p> |



LOAN REJECTION IN 2013

▶ **Loan rejection rate:**

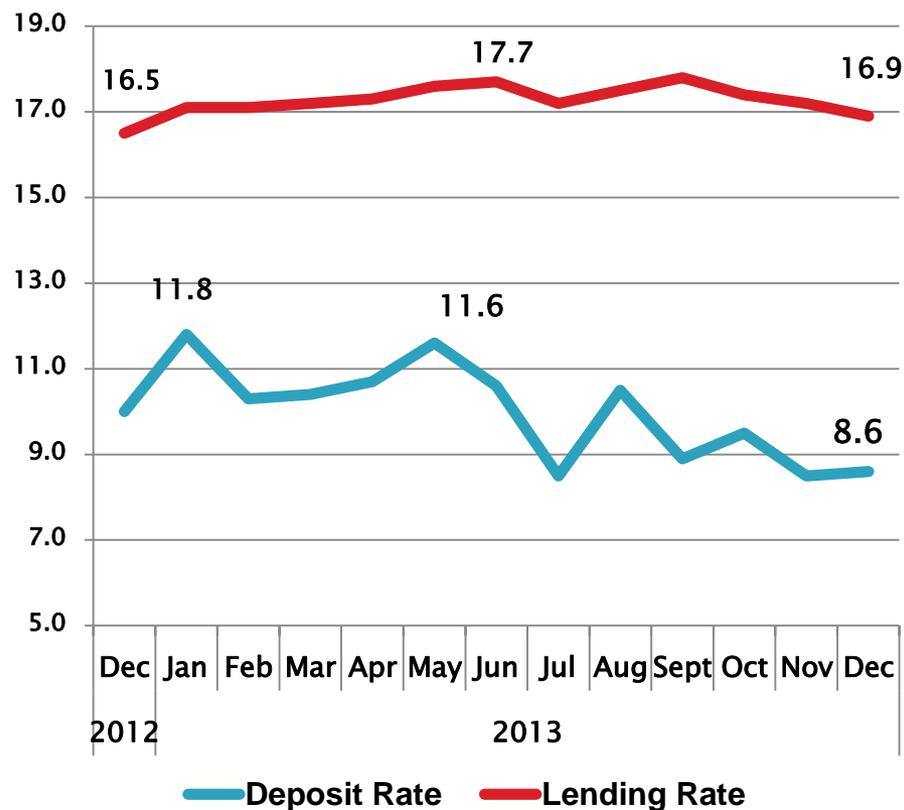
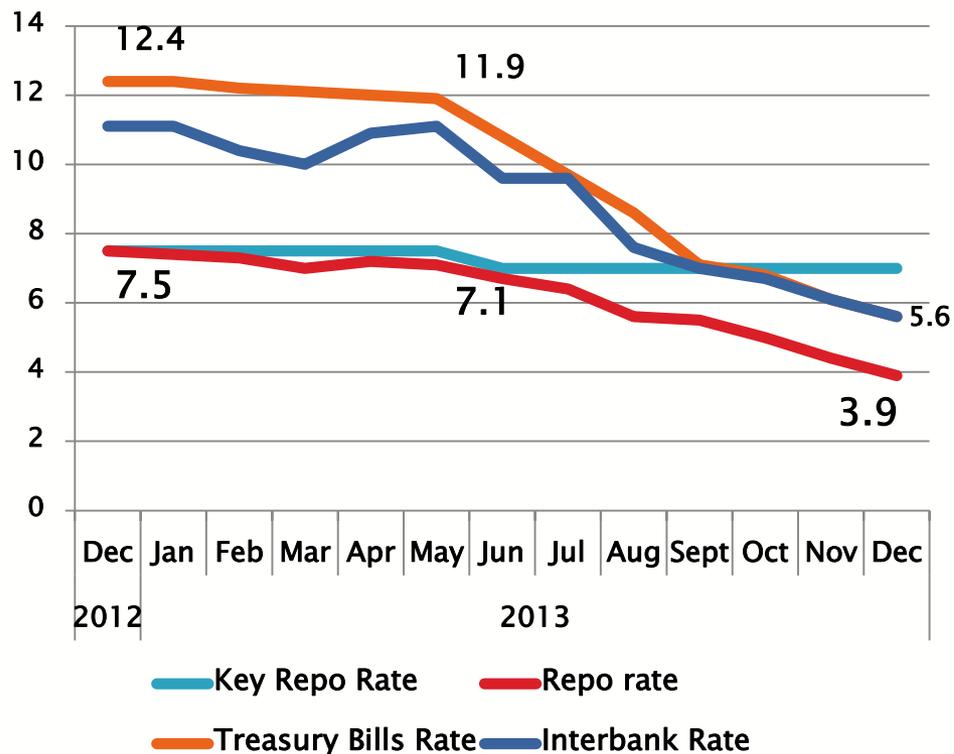
- ✓ 7.5% of total number of loan applications from 6.7% recorded in 2012;
- ✓ 13.3% of total requested amount against 8.5% in 2012;

▶ **Main reasons for loan rejection:**

- ✓ Repayment ability not proved;
- ✓ Lack of collateral and weak cash-flows;
- ✓ Bad credit history;
- ✓ Lack of project profitability and low equity/low owner's contribution



Interest rates developments, in %





Exchange rate depreciated on high demand for imports

| POLICY OBJECTIVE | PERFORMANCE IN 2013 | POLICY ORIENTATION IN 2014 |
|--|--|--|
| <p>Maintain a stable exchange rate of the FRW and ensure that it remains market driven.</p> | <ul style="list-style-type: none"> ● High demand for forex to finance imports; ● Moderate FRW depreciation with limited impact on Inflation: <ul style="list-style-type: none"> ✓ USD/FRW: +6.1% against 4.5% in 2012; ✓ GBP/FRW: +8.0%; ✓ EUR/FRW: +10.1%; ● Against currencies of EAC countries, FRW depreciated by 5.3% against KES; 6.2% against TZS; 11.7% against UGS and 4.9% versus Burundian franc; ● The Real Effective Exchange Rate depreciated by 2.7% against 1.6% in 2012 due to nominal depreciation of FRW. | <p>Exchange rate to remain market driven.</p> |



FOREIGN EXCHANGE MARKET DEVELOPMENTS (con'd)

- ▶ In 2013, the banking system recorded a significant increase of 12.4% in forex resources compared to 2012;
- ▶ Expenditures increased more rapidly (22.9%) leading to a cash deficit of USD 64.3 million by end 2013;
- ▶ Increase in resources was mainly attributed to increase in private transfers by USD 304.4 million, exports' receipts by USD 142.5 million and services' receipts by USD 83.1 million.
- ▶ The increase in resources partially limited the impact of reduction in BNR forex sales banks from USD 455.51 to 320.5 million between 2012 and 2013.



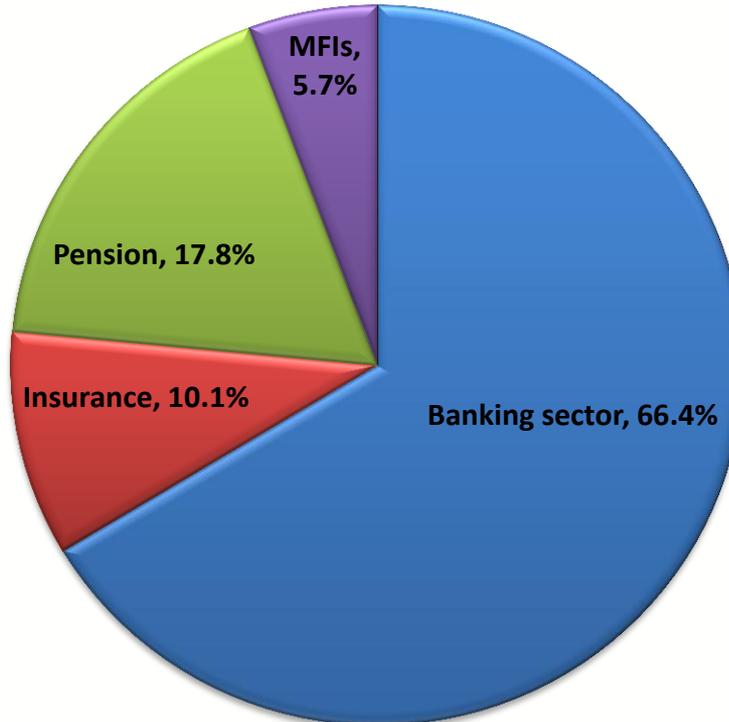
III. FINANCIAL SECTOR STABILITY



STRUCTURE OF THE FINANCIAL SECTOR

- Rwanda's financial landscape is dominated by banks, microfinance and non-banking financial institutions such as insurance and pension;
- Banking sector is leading with a market share of 66.4% in terms of assets

Share of assets as of end December 2013

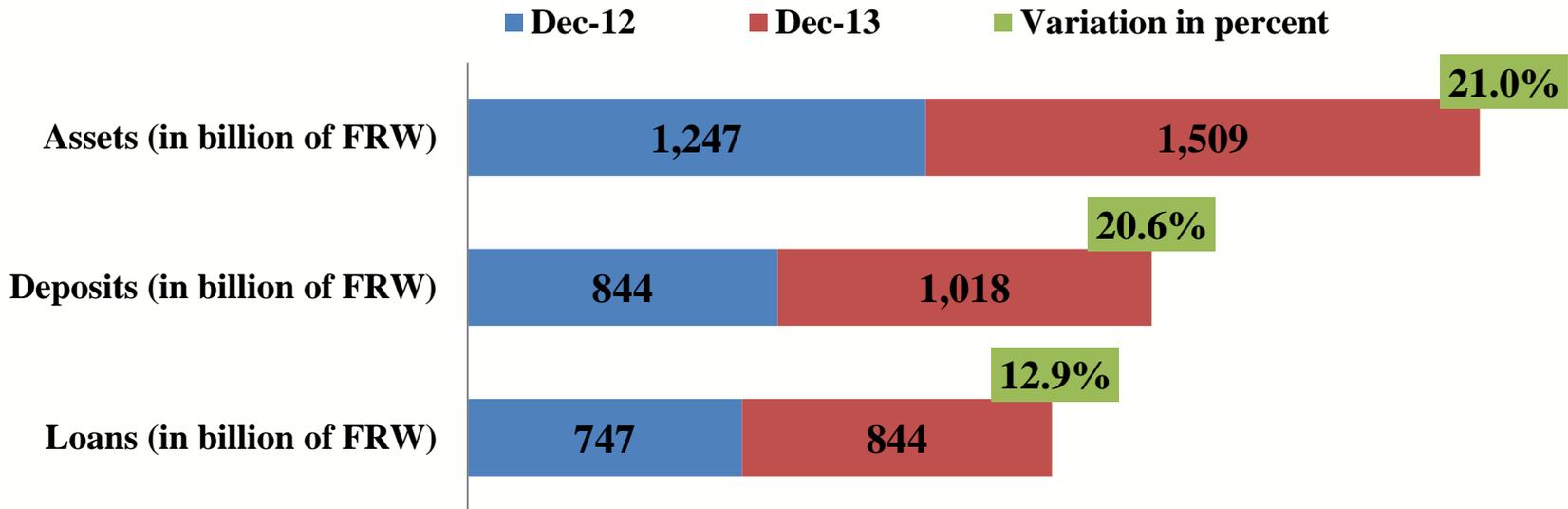




Banking sector remained sound, profitable, well capitalized and liquid

- The banking sector balance sheet continued to grow in 2013 compared to 2012

Growth of Assets, Loans and Deposits



- The net profit in banking sector stood at FRW 22.5 billion against FRW 27.3 billion end 2012



Banking sector remained sound, profitable, well capitalized and liquid (CTD)

Key financial soundness indicators, in %

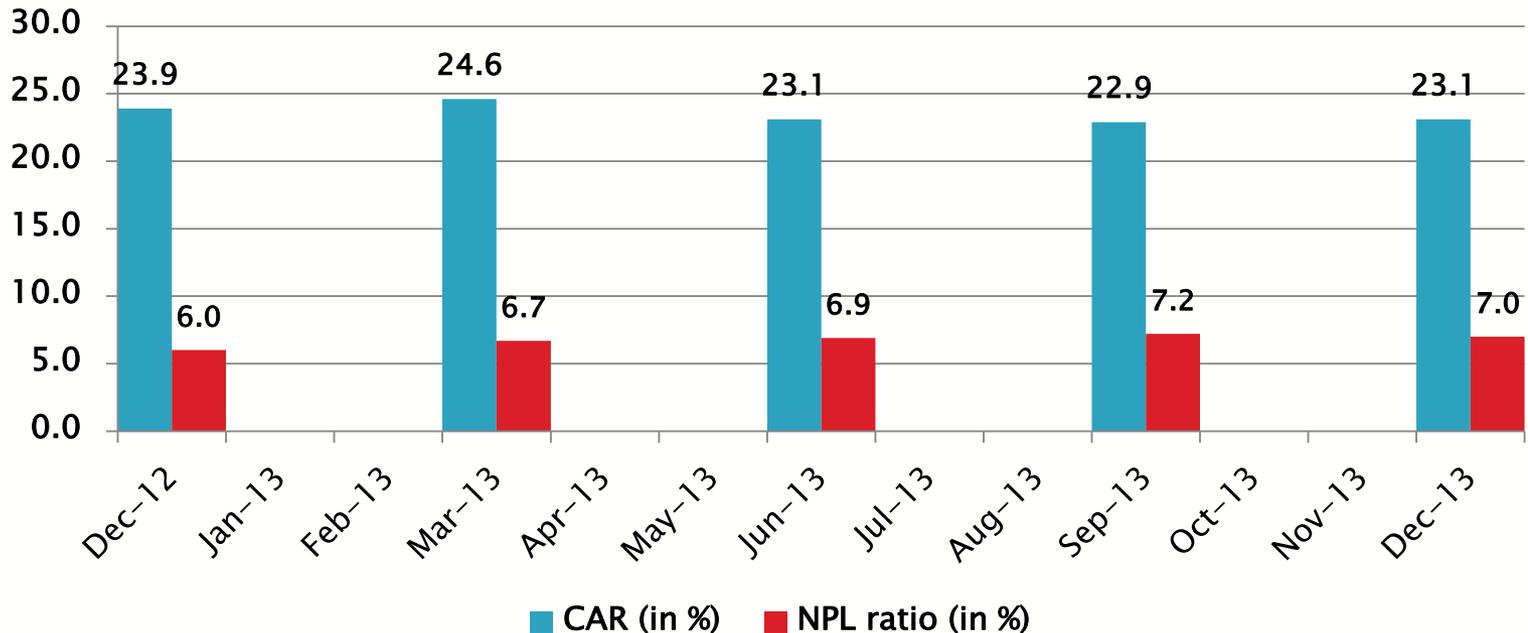
| Indicators | 2012 | | | 2013 | |
|--|-------------|-------------|-------------|-------------|-------------|
| | Dec | Mar | June | Sept | Dec |
| Solvency ratio (total capital) | 23.9 | 24.6 | 23.1 | 22.9 | 23.1 |
| NPLs/Gross Loans | 6.0 | 6.7 | 6.9 | 7.2 | 7.0 |
| Provisions to NPLs | 53.6 | 49.0 | 54.8 | 50.3 | 52.8 |
| Earning Assets to Total Assets | 79.5 | 80.6 | 80.8 | 79.1 | 78.7 |
| Return on Average Assets | 2.2 | 2.5 | 2.1 | 1.7 | 1.5 |
| Return on Average Equity | 10.4 | 11.9 | 9.9 | 8.3 | 7.3 |
| Liquid assets to total deposits | 41.2 | 40.5 | 46.2 | 48.8 | 49.5 |



Banking sector remained sound, profitable, well capitalized and liquid (CTD)

- The banking sector is well capitalized with Capital Adequacy Ratio (CAR) of 23.1% end 2013 (well above the minimum requirement of 15%)
- As of end Dec 2013, the NPL ratio in banking sector stood at 7.0%

Trend of CAR and NPL ratios

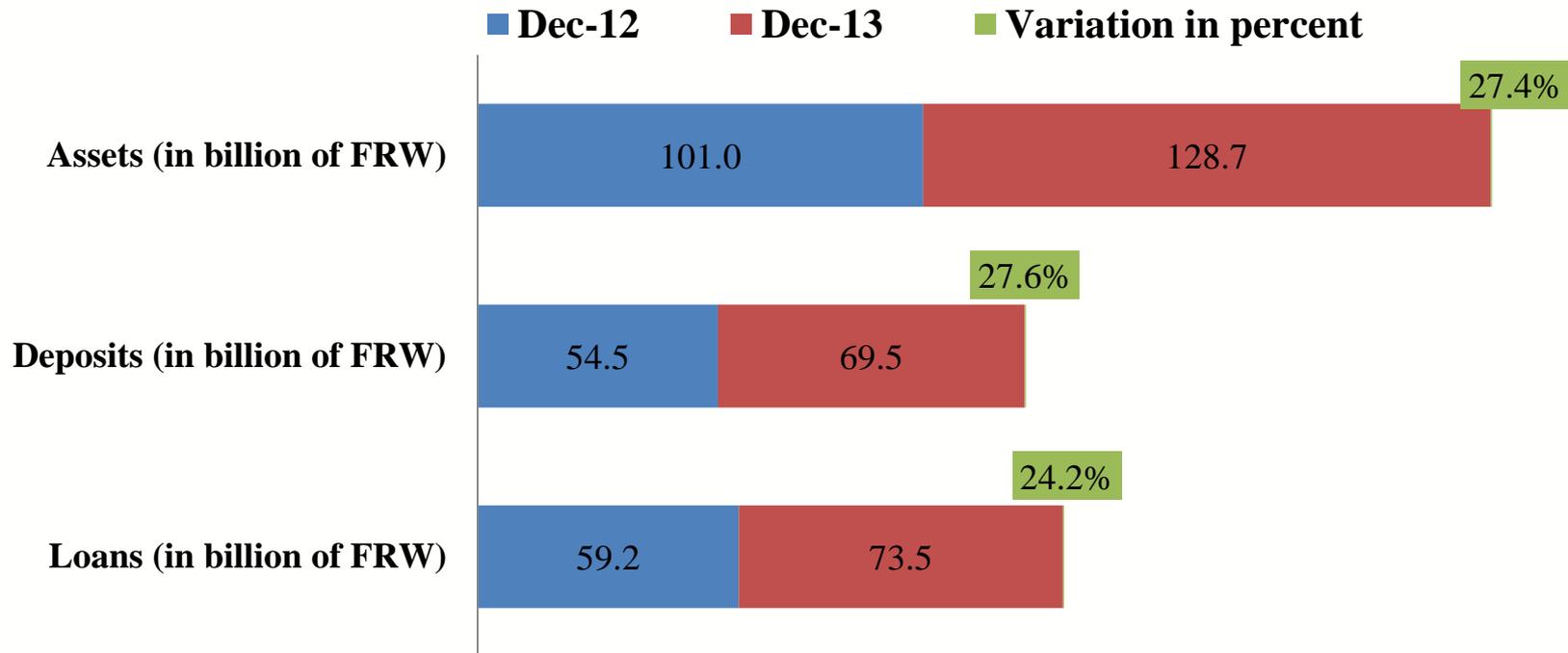




Microfinance sector remained sound, profitable, well capitalized and liquid

- The Microfinance sector balance sheet continued to grow in 2013 compared to end 2012

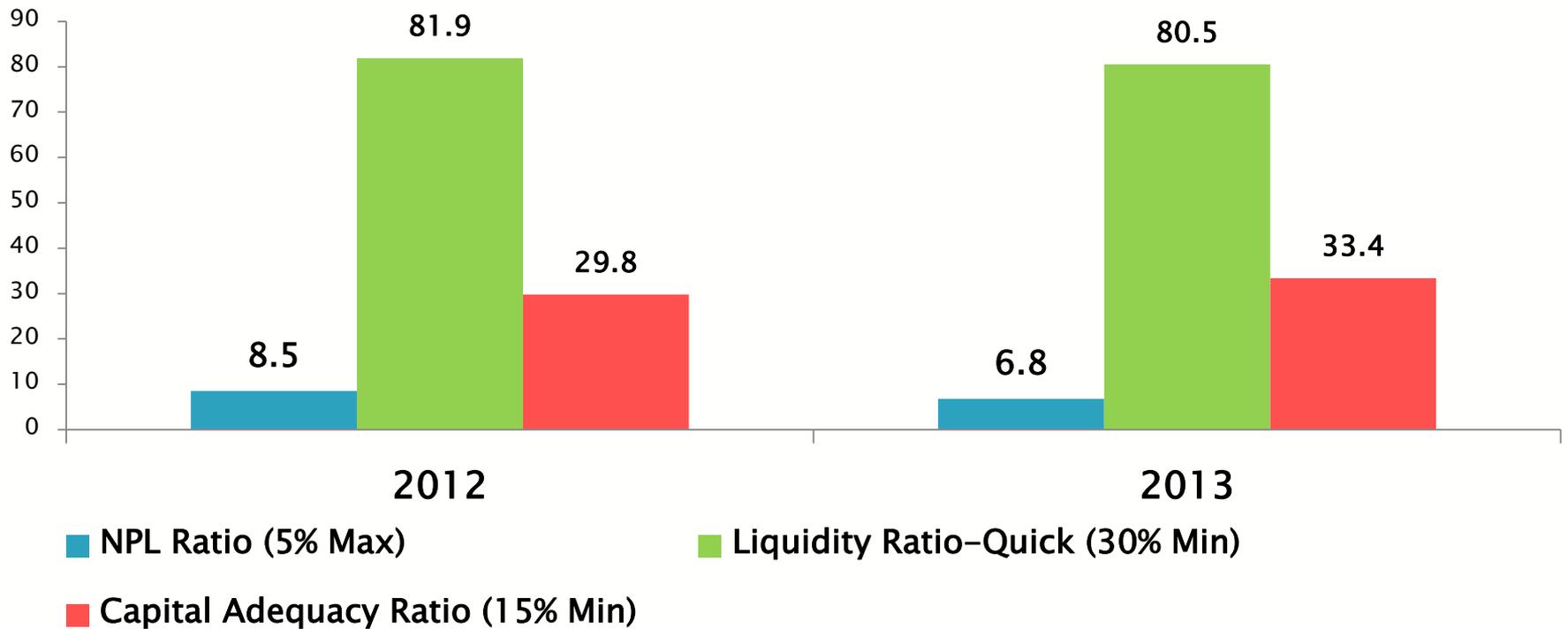
Growth of Assets, Loans and Deposits





Microfinance sector remained sound, profitable, well capitalized and liquid (CTD)

Key financial soundness indicators, in %

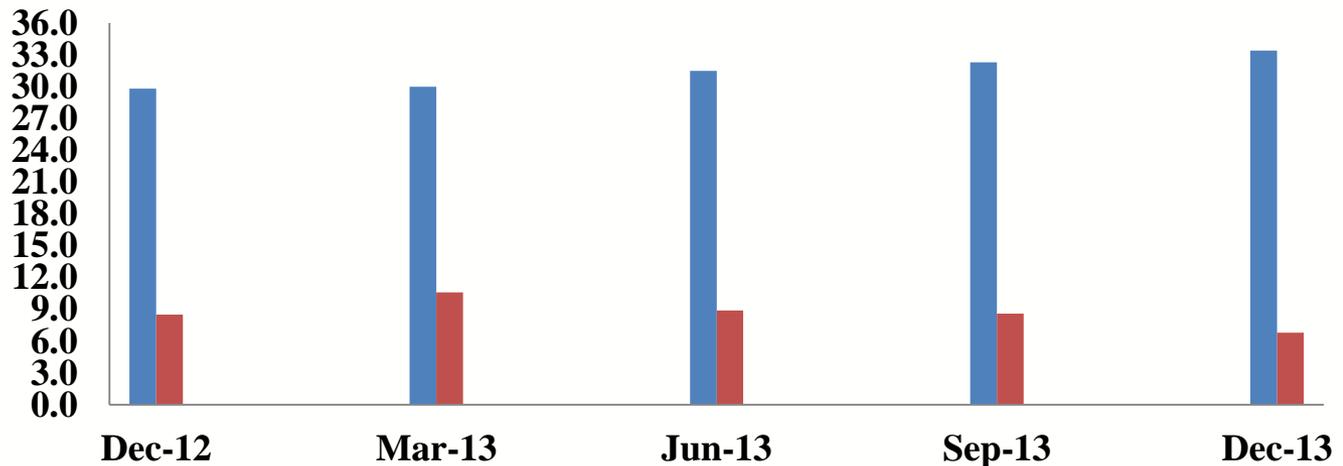




Microfinance sector remained sound, profitable, well capitalized and liquid (CTD)

- Overall microfinance sector is well capitalized with capital adequacy ratio (CAR) of 33.4% end 2013 (well above the minimum requirement of 15%)
- As of end Dec 2013, the NPL ratio in microfinance sector stood at 6.8%

Trend of CAR and NPL ratios



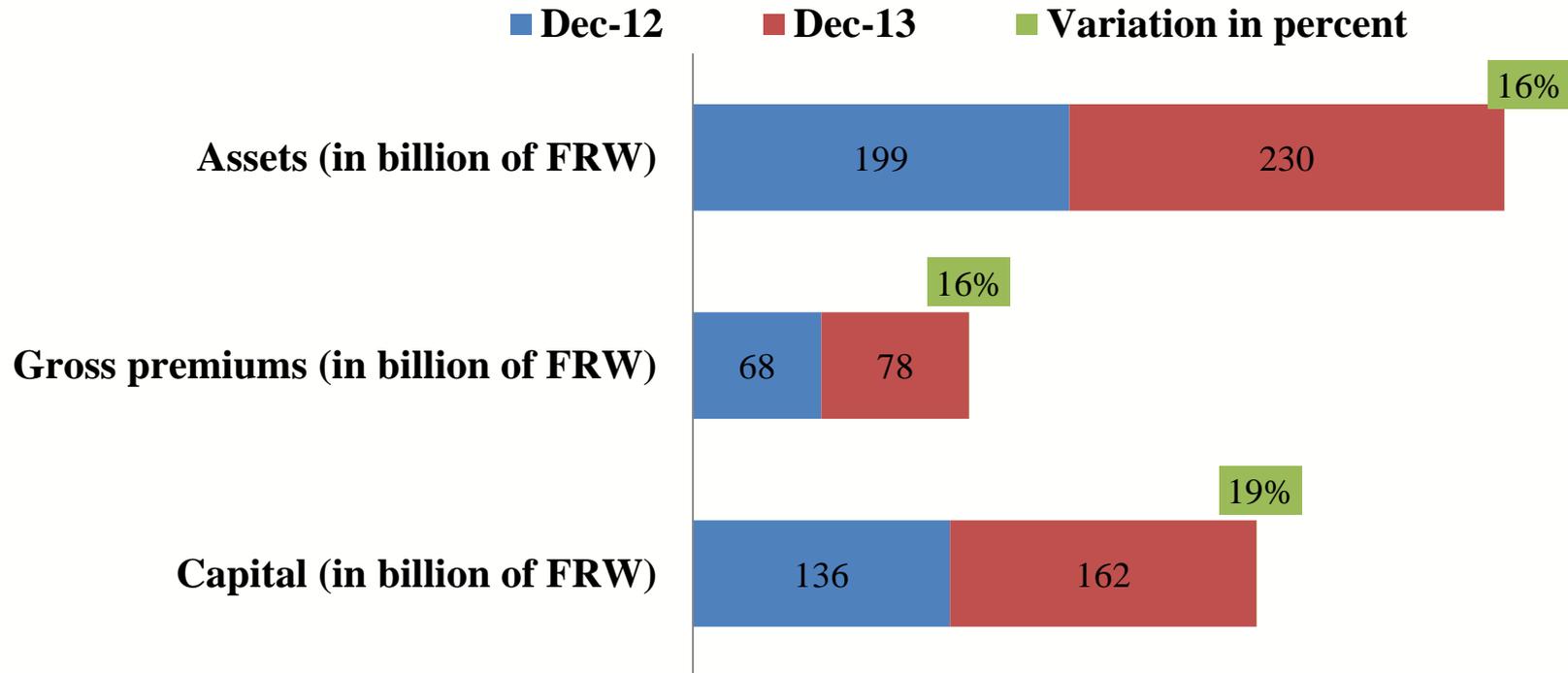
| | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 |
|--------------------------|--------|--------|--------|--------|--------|
| ■ CAR (in percent) | 29.8 | 30.0 | 31.5 | 32.3 | 33.4 |
| ■ NPL ratio (in percent) | 8.5 | 10.6 | 8.9 | 8.6 | 6.8 |



Insurance sector remained sound, profitable, well capitalized and liquid

● The Insurance sector continued to perform well in 2013

Growth of assets, gross premiums and capital





Insurance sector remained sound, profitable, well capitalized and liquid (CTD)

Insurance sector: Key financial soundness indicators, in %

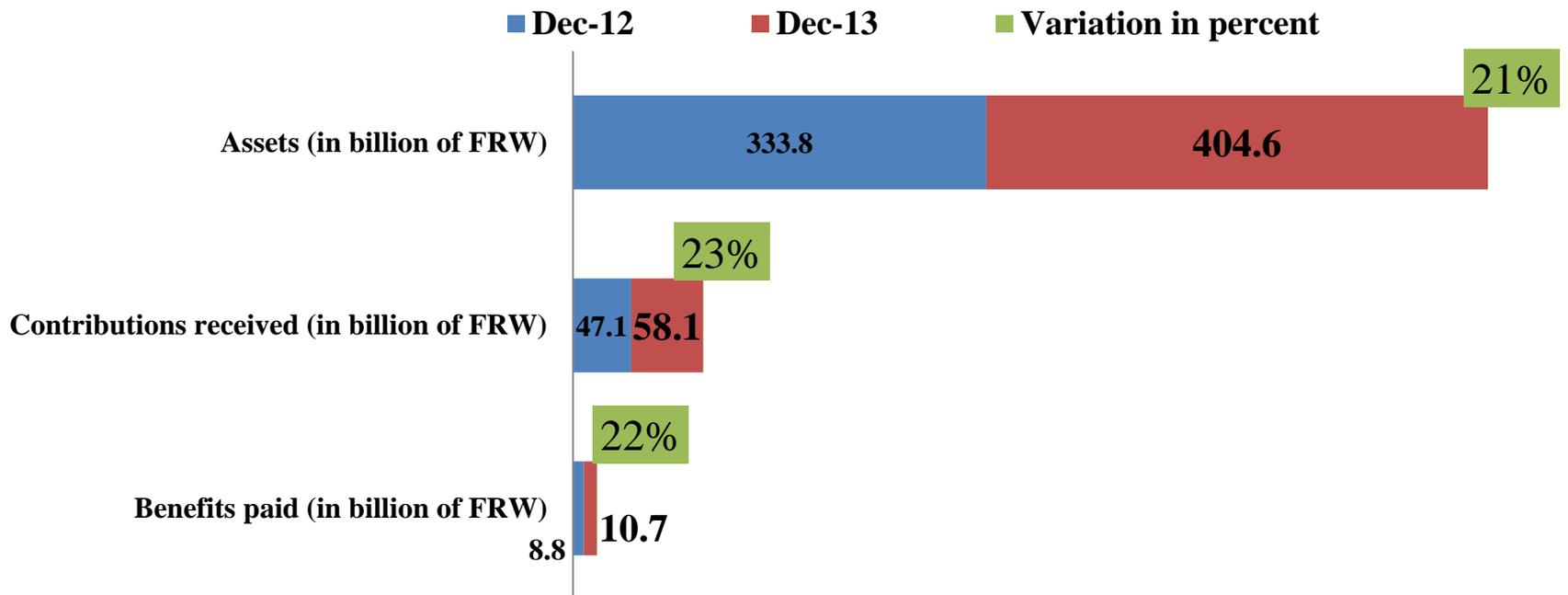
| Indicator | Dec-12 | | | Dec-13 | | |
|------------------------|---------|--------|----------|---------|--------|----------|
| | Private | Public | Industry | Private | Public | Industry |
| Claims ratio | 62 | 41 | 52 | 56 | 40 | 48 |
| Combined ratio | 114 | 59 | 86 | 103 | 78 | 90 |
| Current ratio | 145 | 2413 | 329 | 194 | 1860 | 485 |
| Return on equity ratio | 18 | 34 | 31 | 18 | 18.2 | 18 |
| Return on assets ratio | 5 | 33 | 21 | 6 | 17.6 | 13 |



Pension sector remained sound, profitable, well capitalized and liquid

Overall pension sector performed well in 2013

Growth of assets, contributions and benefits





Access to Finance

- Banking network continued to extend in rural area and microfinance institutions performed well;
- Total banking network increased by 7.5% mainly due to the number of banking agent that increased by 100.9%;
- As result, between 2012 and 2013:
 - Loans to SMEs from banks: +19.3%, from FRW 161.9 to 193.2 bn
 - Number of clients' accounts in banking sector: + 6.1%, from 2.5 to 2.7 mios.
 - Number of accounts in microfinance sector: +18.7% with 38.9% of accounts belonging to women
 - Number of loans granted by MFI: +7.5% of which 29.7% granted to women.



CAPITAL MARKET PERFORMANCE: UPWARD TRADE VOLUME ON RSE AND ENHANCED REGULATION

- RSE turnover: + 133.2% between 2012 and 2013;
- New comer on RSE in October: UCHUMI Supermarket,
- RSE Rwanda share Index (RSI) and RSE All Share Index (ALSI):+ 4.99% and 4.34%, respectively from July 2013 to Dec 2013.



PAYMENT SYSTEMS MODERNIZATION

- **RIPPS availability rate: 99.6%;**
- **Interbank transfers and cheques** decreased respectively by 48.1% and 21.3% in value due to:
 - Improvement of the usage of the modern system by almost all banks and the shifting to more efficient payment instruments.
- **Between 2012 and 2013:**
 - Number of ATMs: + 14.0% from 292 to 333;
 - Volume of transactions: + 35%;
 - Values of transactions: + 44% ;
 - Number of POs terminals: + 42%;
 - Number of credit cards: + 102%



IV. KEY FOCUS FOR 2014



Monetary policy orientation

- To maintain accommodative monetary policy to stimulate credit to the private sector as long as inflationary pressures will remain limited;
- Inflation to be maintained around 5%;
- BNR communication with:
 - Banks: focus on improving efficiency in the banking sector;
 - Public: increase the awareness of the population about their financial right and obligation;
- BNR in collaboration with MINECOFIN and Capital Market Authority (CMA) to play its role in the development of the financial market.



Financial sector reforms

- Strengthen industry wide financial stability analysis including macro prudential assessment;
- Reinforce legal, regulatory and supervisory framework;
- Implementation of Basel II&III;
- Put in place laws in line with FSDP II recommendations: Pension law, new banking law, new microfinance law, deposit insurance law.



Payment systems modernization

- Finalize East African Payment System to join other Central bank in the region;
- Finalize the cheque truncation process for the banking system;
- Support the payment industry to achieve interoperability of the mobile financial services;
- Increase the acceptability of electronic payment instruments in Rwanda.



THANK YOU