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The Governor

PRESS RELEASE

The Financial Stability Committee (FSC) held its quarterly meeting on November 9, 2020, to assess performance of the financial sector, impact of the prevailing COVID-19 pandemic and take measures required to safeguard the stability of the sector. The committee noted that the sector was sound and stable as at the end September 2020 with sufficient capital and liquidity buffers built during the pre-COVID times as a result of recent regulatory reforms, strong financial performance of the sector supported by stable macroeconomic conditions before the pandemic. The monetary, fiscal and regulatory measures taken to mitigate the economic impact of the pandemic have also been crucial in safeguarding the sector's soundness and stability.

Nonetheless, the economic downturn in 2020 and related deterioration of balance sheets of firms and households increased credit risk in the sector. Despite the elevated credit risk, the financial sector is projected to remain stable in the near-term, due to adequate buffers of capital and liquidity and the projected recovery of the economy that begun in Q3 2020.

The sections below summarize the observations of the committee and supervisory priorities to safeguard financial stability.

The financial sector maintained sufficient capital and liquidity buffers as at end September 2020.

The Banking and MFI sectors' consolidated Capital Adequacy Ratios (CAR) stood at 22.6 percent and 35.6 percent, respectively in September 2020, compared to the 15 percent minimum prudential requirement. The solvency position of private insurers was at 123 percent in September 2020, compared to the 100 percent minimum solvency requirement. The financial sector also held sufficient liquidity with the consolidated Liquidity Coverage Ratio (LCR) of banks at 254 percent in September 2020, more than double of the minimum prudential requirement of 100 percent, while the MFI sector liquidity ratio was 104.1 percent, against the 30 percent prudential minimum requirement. Private insurers' liquidity ratio stood at 134.6 percent, compared to 120 percent minimum prudential requirements.

The COVID-19 pandemic increased credit risk by negatively affecting clients of financial institutions (firms and households).

The pandemic and its associated economic downturn negatively impacted several customers of financial institutions with significant drops in revenue, job cuts and increased uncertainty regarding future business prospects. Lending financial institutions responded by using capital and liquidity buffers to provide loan repayment deferrals to stressed clients— as at end September 2020, banks had restructured 45 percent of their total loan portfolio, while microfinance institutions had restructured 21.9 percent of total loans. Although the payment relief offered by financial institutions was necessary to enable stressed firms to navigate through this shock, it increased credit risk to the sector. In Insurance, the pandemic triggered increase of insurance premiums receivables. Despite elevated credit risk in Banks and liquidity risks in insurance, the FSC expects the financial sector to largely remain sound and stable based on the current capital and liquidity buffers and the recovery of the economy since Q3 2020 (based on leading economic indicators).

Demand for credit and growth of insurance premiums slowed due to the pandemic

New loans approved by banks declined by 8.2 percent in the first 9 months of 2020 (from FRW 862 billion to FRW 791 billion) compared to the 41.1 percent growth registered in the first 9 months of 2019. The contraction of new lending is connected to weak credit demand arising from the subdued economic activities amid the COVID-19 crisis. Demand for loans reduced from FRW 1,062 billion in the first 9 months of 2019 to FRW 927 billion during the first nine months of 2020. The pandemic also slowed growth of insurance sector premiums to 7.7 percent (y-o-y) as at September 2020 (from FRW 112.9 billion to FRW 121.6 billion), compared to the 13.5 percent growth registered in September 2019. The moderation of the growth of insurance premiums is linked to cancellation and suspension of insurance policies following the outbreak of COVID-19.

Increased adoption of mobile payments

The silver lining of this crisis has been increased adoption of digital payment channels. The increase of trust balances of MNOs from Frw 29.7 billion in September 2019 to Frw 59.5 billion in September 2020 reflects increased mobile money transaction. Usage of mobile money has particularly increased in merchant payments— from 4 percent of total Mobile Payments' transactions in September 2019 to 10 percent in September 2020.

Measures to address risks identified

In the context of elevated credit risks, the committee recommended enhanced supervisory oversight of credit classification and provisioning in supervised institutions to ensure that losses and capital shortfalls are detected early enough and remedial actions taken. Existing liquidity facilities will be maintained to support solvent institutions that could face liquidity stress.

November 12, 2020

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RWANGOMBWA John
Governor, Chairperson of the FSC