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The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

July 26, 2018 – The Financial Stability Committee (FSC) held its quarterly meeting and assessed the performance of the financial sector as at end June 2018 as well as the potential risks that could affect its stability. The committee noted that the financial sector remains sound and stable. The financial soundness indicators for banks, microfinance institutions and insurance companies are within the prudential requirements. The payment systems continued to perform in a safe and efficient manner.

Key observations of the committee:

1. The financial sector assets continued to grow during the first half of 2018, albeit at a slower pace compared to last year. Total assets of the financial sector increased by 11.2 percent (year-on-year) to Frw 4,278 billion in June 2018, compared to 12.4 percent growth registered in the corresponding period of last year. The banking sector assets increased by 9.8 percent to Frw 2,824 billion at end June 2018, compared to 12.9 percent growth registered in June 2017. On the other hand, the microfinance, insurance and pension sectors recorded higher growth in 2018 compared to 2017 growing by 14.3 percent to Frw 283 billion (2017: 7.6 percent), 15.4 percent to Frw 423 billion (2017: 10.2 percent) and 19.2 percent to Frw 749 billion (2017 8.2 percent) respectively.

2. The banking and microfinance sectors continue to hold adequate buffers of capital and liquidity relative to regulatory requirements. As at June 2018, the total Capital Adequacy Ratio (CAR) for the banking and microfinance sectors stood at 21.4 percent and 32.5 percent respectively, compared to the 15 percent

prudential requirement. The Liquidity Coverage Ratio[1] for the banking sector stood at 299.5 percent, against 100 percent minimum prudential requirement. The liquidity ratio in the microfinance sector stood at 103.3 percent against the 30 percent prudential requirement. The committee observed that the capital and liquidity buffers demonstrate the capacity of the banking sector to withstand financial and economic shocks.

3. The asset quality for banks and microfinance institutions improved during the first half of 2018. The Non-Performing Loan Ratio (NPLs) in banks declined from 8.2 percent in June 2017 to 6.9 percent in June 2018, while in the microfinance sector it dropped from 12.3 percent to 8 percent. The improved economic performance in the first quarter of 2018 and a clean-up of bad loans in some banks supported this reduction of non-performing loans.

4. The insurance sector held sufficient capital relative to risks undertaken. The aggregate solvency level of the private insures improved to 149 percent in June 2018, against the 100 percent prudential requirement and 61 percent registered in June 2017. The improved solvency position of private insures was underpinned by capital injections as well as improved profitability, and thereby retained earnings, for a number of insurance companies.

5. The financial sector continued to be profitable. Net profits after tax of banks improved from Frw 21.5 billion in June 2017 to Frw 22.9 billion in June 2018. In the same period, microfinance sector profitability improved from a loss of Frw 0.12 billion to a profit of Frw 3.3 billion. The growth in profits was mainly driven by improved loan recoveries and a slower growth in expenses compared to incomes, for both banks and MFIs. Similarly, profits of private insurers improved to Frw 2.7 billion in the first half of 2018, compared to Frw 0.6 billion in the corresponding period of 2017.

6. In conclusion, the committee noted that credit risk continues to be a key risk for close monitoring within the banking and microfinance sectors. The expected continued improvement in economic performance, enhanced credit initiation, administration and monitoring process as well as recovery efforts are expected to mitigate this risk. For the insurance sector, underwriting risk remains the key

[1] In 2018, the National Bank of Rwanda introduced the 100% minimum Liquidity Coverage Ratio (LCR) as a prudential requirement replacing the previous minimum required ratio of 20%

risk requiring close monitoring. Despite these risks, the financial sector is expected to remain sound and stable throughout 2018.

Done at Kigali, 26th July 2018

John RWANGOMBWA

Governor, Chairman of FSC