National Bank of Rwanda
Banki Nkuru y'u Rwanda

KN 6 Av.4 / P.O. Box 531 Kigali - Rwanda
Tel: (+250) 788199000 /
Website: www.bnr.rw /
E-mail: info@bnr.rw /
Swiftcode: BNRWRWRW /
Twitter: @CentralBankRw

The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on August 13, 2021, to assess the performance and stability of the financial sector during the second quarter of 2021. The committee noted that the financial sector continued to be stable and resilient despite the economic effects of the COVID-19 pandemic. Regulated financial institutions held sufficient capital and liquidity buffers and the support measures implemented to cushion the pandemic's impact have been effective. The committee observed that:

The Financial sector continues to grow

Banking sector assets increased by 20 percent from FRW 3,853 billion in June 2020 to FRW 4,624 billion in June 2021 compared to the 18.5 percent growth recorded in the previous year. This growth was driven by growth in loans to customers on the back of increased customer deposits, borrowings from international lenders, interbank borrowings on the local market and capital injections. Similarly, microfinance assets increased by 16.8 percent in June 2021 compared to 5.4 percent growth in 2020, increasing from FRW 330 billion to FRW 386 billion driven by the growth in customer deposits and capital.

On the other hand, insurance sector assets grew by 16 percent compared to the 15 percent growth in June 2020, from FRW 548 billion to FRW 638 billion supported by growth in premiums underwritten as well as capital build up. Similarly, the pension sector, including Ejo Heza fund, grew by 25.9 percent in June 2021 compared to the growth of 13.5 percent, driven by growth in investment income and pension contributions.

The sector remains stable and resilient in the face of the pandemic

Financial institutions hold sufficient capital and liquidity buffers, which have been crucial in safeguarding the sector against the economic effects of the COVID-19 pandemic. Aggregate total Capital Adequacy Ratio (CAR) was 22.5 percent for banks and 35.4 percent for microfinance institutions as at June 2021, above the 15 percent minimum prudential requirement. The solvency ratio of private insurers stood at 147 percent as at end June 2021 compared to the required minimum of 100 percent.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), the key liquidity indicators of banks, stood at 226.2 percent and 157.4 percent respectively, above the 100 percent minimum prudential requirement. During the same period, the industrywide liquidity ratio of MFIs stood at 106 percent, against the 30 percent minimum prudential requirement.

Credit risk has been elevated by the COVID-19 pandemic

The pandemic and related containment measures impacted the economy with GDP contracting by 3.4 percent in 2020 and growing by 3.5 percent in 2021Q1. Borrowers' ability to meet debt obligations was thereby also affected especially in the hotels & restaurant, transport and education sectors as well as the associated value chains. As a result, Non-Performing Loans (NPLs) increased by 26 percent in nominal terms to FRW 178 billion as at end June 2021. The NPL ratio increased to 5.7 percent from 5.4 percent in June 2020. Similarly, watch category loans increased to FRW 422 billion in June 2021 (representing 13.2 percent of total loans) from FRW 157 billion (representing 6 percent of the portfolio) in June 2020 symbolizing an uptick of portfolio at risk. In the microfinance sector, the NPL ratio declined to 6.6 percent in June 2021 against 12.8 percent in June 2020 due to the resumption of micro-businesses including agri-business related activities during the period under review.

Payment systems continue to operate efficiently and in a safe manner

Payment systems, both wholesale (the Rwanda Integrated Payment Processing System – RIPPS) and retail (mobile financial services, mobile banking, internet banking, and card based), continued to operate securely, reliably and efficiently.

Retail payment systems are dominated by mobile payments, which constituted 96 percent of volume and 48 percent of value as at June 2021 compared to 97 percent and 54.7percent respectively in June 2020. The decrease in share of value was compensated by an increase in the share of card payments (9 percent to 14 percent) and mobile banking (1 percent to 2 percent) in line with a pick-up of business activity in 2021Q2 compared to 2020Q2.

Financial stability outlook

The financial sector has been resilient to the pandemic shocks on the back of timely policy actions, previous regulatory reforms, as well as historical performance that enabled financial institutions to internally generate capital for risks absorption. However, there are vulnerabilities hinged on global, regional and domestic economic uncertainties, which may pose a risk to financial stability. In the near-term, the National Bank of Rwanda, in collaboration with other stakeholders, will focus on the smooth unwinding of existing blanket support measures and on the implementation of more targeted interventions for the most affected sectors and borrowers in a bid to preserve financial stability.

Done, August 17, 2021

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RWANGOMBWA John

Governor and Chairman of FSC

National Bank of Rwanda