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The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on November 9, 2021, to assess the stability of the financial sector during the third quarter of 2021 and the outlook of the sector. The committee noted that the financial sector continued to be stable. Supervisory, monetary and fiscal support measures implemented to cushion the impact of the COVID 19 pandemic have been crucial in safeguarding the sector and ensuring that supervised institutions continue to hold sufficient capital and liquidity buffers. Despite this resilience, there are vulnerabilities related to increasing credit risk. Below are the key observations of the Committee;

Financial sector assets continued to grow despite challenges posed by the pandemic

The structure of the financial sector remained relatively unchanged with the banking sector holding 67 percent of financial sector assets, followed by pension (18 percent), insurance (9 percent) and microfinance (6 percent). All these sub-sectors recorded double digit growth for the period ended September 30, 2021 with the pension sector leading with 25 percent growth followed by the banking sector at 21 percent. This growth was driven by the progressive recovery of economic activities, which saw customer deposits, pension contributions, and insurance premiums grow significantly.

The financial sector remains stable and resilient to the pandemic shocks

Supervised financial institutions held sufficient capital and liquidity buffers, which have been crucial in safeguarding the sector against the negative effects of the COVID-19 pandemic. Banks' aggregate total Capital Adequacy Ratio (CAR) stood at 22.2 percent, over 7 percentage points above the minimum requirement of 15 percent. On the other hand, liquidity coverage ratio was more than double the minimum requirement of 100 percent. For the microfinance sector, the consolidated CAR was 36 percent compared to the required minimum of 15 percent while liquidity was close to 4 times of the required minimum of 30 percent. For the insurance sector, the aggregate solvency ratio of 107 percent was marginally above the minimum requirement of 100 percent. The sufficiency of capital and liquidity buffers provides confidence of the sector's ability to weather any pandemic related shocks in the short and medium term.

Credit risk remains a key concern for the financial sector

The pandemic and required containment measures reduced incomes of households and businesses thereby weakening debt service capacity, and increasing credit risk. The non-performing loans ratio in banks slightly reduced from 5.2 percent in September 2020 and 5.7 percent in June 2021 to 5.1 percent September 2021. The reduction was mainly induced by write off of long outstanding non-performing loans as well as the growth in gross loans. However, risks continued to build up as loans in watch category (loans whose repayment is late by 30 to 90 days) increased by close to 70 percent (y-o-y) to FRW 476 billion in September 2021 and represented 14 percent of total loans up from about 10 percent in September 2020. In a bid to avoid moral hazard related risks and instill balance sheet transparency, the credit restructuring forbearance granted to banks in June 2020 in response to the pandemic expired in September 2021. Banks are required to revert to normal regulatory guidance in loan restructuring, classification and provisioning.

The payment systems continued to operate smoothly.

Usage of digital payments continued to deepen mainly driven mobile financial services. The number of active mobile payment subscribers increased by 12.3 percent between September 2020 and September 2021 to 5.3 million while the number of mobile payment transactions increased by 20.4 percent to 237 million boosted by the uptake of digital merchant payments. Similarly, the number of mobile and internet banking transactions increased by 5 percent to 1.6 million and by 30 percent to 430 thousands respectively. Despite the growing number of financial transactions, the key components of Rwanda Integrated Payment and Processing System (RIPPS) continued to facilitate the smooth payment, clearing and settlement of financial transactions and remained stable as the availability of this core financial infrastructure stood at 99 percent during the quarter ended September 2021.

Financial Stability Outlook

The financial sector is expected to remain sound and stable. Regulated financial institutions hold ample capital and liquidity buffers to absorb any losses that may arise from problem assets associated with the pandemic. The economy is recovering progressively and is expected to further sustain stability of the financial sector through improved debt service and asset quality. Going forward, the NBR will continue to focus on supervisory interventions to ensure early detection of risks, timely recognition and provision for problem assets and ensure that supervised institutions hold sufficient regulatory capital in relation to low-quality assets.

Kigali, 11th November 2021

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