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The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on 10th May 2021, to assess the 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 of March 2021 with sufficient capital and liquidity buffers. This was mainly due to regulatory reforms as well as strong financial performance of the sector supported by stable macroeconomic conditions before the pandemic. The regulatory measures taken to combat the impact of the pandemic on financial institutions have also been crucial in safeguarding the sector's soundness and stability. Below are specific observations of the committee:

Assets of the financial sector continued to grow in Q1 2021

The financial sector assets continued to grow despite challenges posed by the COVID-19 pandemic. As at end March 2021, total assets grew by 22.5 percent (y-o-y) compared to the 14.5 percent growth registered as at end March 2020. This performance is mainly mirrored in the banking sector whose total assets shared 67.4 percent of total financial sector assets. The banks' assets increased by 23.6 percent to FRW 4,501 billion driven by net fiscal injection of FRW 112 billion in 2021Q1 compared to net absorption of FRW 37 billion in 2020Q1 as well as subdued aggregate demand especially with regard to investments and private expenditure. The microfinance sector assets increased by 14.6 percent to FRW 368.2 billion in March 2021, higher than the 8.2 percent growth in March 2020, reflecting the higher growth of deposits. Growth of insurance sector assets (private & public) edged up by 15.3 percent (year-on-year) to FRW 612.7 billion, higher than 14.4 percent growth registered last year due to retained earnings and capital injections as some companies built their capital base. The total assets of public pension increased by 22 percent to FRW 1,117 billion and private pensions by 29 percent to FRW 60.4 billion, higher than the growth of 13 percent and 28.1 percent respectively registered in March 2020 fueled by steady pension contributions.

The financial sector was adequately capitalized and liquid

Aggregate Capital Adequacy Ratio (CAR) stood at 22.3 percent for the banking sector and 35.6 percent for the microfinance sector as at end March 2021, compared to 24.9 percent and 35.8 percent respectively as at March 2020, higher than the 15 percent minimum prudential requirement. The solvency ratio of private insurers stood at 119 percent in March 2021, compared to 135 percent, higher than the 100 minimum prudential requirement. This strong capital base has made financial institutions resilient to COVID 19 shocks.

The key liquidity indicators for banks also remained above the regulatory requirement. Both the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) stood at 240.8 percent and 159.2 percent respectively, against the 100 percent minimum prudential requirement. The liquidity ratio of the microfinance sector stood at 104.9 percent, higher than 30 percent prudential requirement. The consolidated liquidity ratio of Insurers (private & public) stood at 246 percent compared to 120 percent minimum prudential requirement. These liquidity buffers continued to support the financial institutions to serve their clients during this challenging period of the pandemic.

COVID-19 pandemic has increased credit risks in lending institutions

Credit risk has increased as the pandemic continues to weigh on the performance of borrowers' incomes especially in the corporate sector. The Non-Performing Loans (NPL) ratio, the key indicator of asset quality of lending institutions, increased to 6.6 percent in March 2021 from 4.5 percent in December 2020 and 5.5 percent in March 2020, while in the microfinance sector the NPL ratio increased from 6.7 percent in December 2020 to 7.7 percent in March 2021. Asset quality deteriorated mainly in sectors most affected by the pandemic, in particular hotels and commercial real estate. NPL ratio in the hotel sector and commercial real estate increased to 10.9 and 16.7 percent in March 2021 from 4.5 and 7.5 percent respectively in December 2020. In addition, a significant proportion of outstanding loans were restructured in response to the pandemic. In Banks, loans worth FRW 312 billion (11.8 percent of total loans) are still under moratorium thus posing a risk of increased non-performing loans. In the microfinance sector, the outstanding restructured loans stood at FRW 13.6 billion representing 3.7 percent of total loans. In the Insurance sector, premium receivables increased among private insurers to FRW 19 billion in March 2021 representing 8.3 percent of total assets from FRW 12 billion in March 2020, representing 6.0 percent of total assets.

The usage and uptake of digital financial services continued to increase

Mobile payment transactions increased by 92 percent from 116 million in March 2020 to 223 million in number and, in value, from FRW 736 billion in March 2020 to FRW 3,950 billion as at March 2021.

Similarly, the composition of mobile payments continued to transform away from cash-based (cash in and cash out) to transfers (P2P as well as push and pull to and from e-wallets) and merchant payments. Mobile Points-Of-Sale (POS) increased to 53,882 in March 2021 from 8,452 in March 2020. Consequently, the number of transactions processed on these mobile POS increased more than 10 fold from 2 million to 21.6 million while the value of these transactions increased from FRW 18 billion to FRW 475 billion. This transformation is reflected in the growth of the trust account balances in banks, which increased from FRW 46.3 billion in March 2020 to FRW 66.6 billion March 2021.

Measures to address risks identified

Despite the increasing credit risk, the FSC expects the financial sector to largely remain sound and stable based on the current capital and liquidity buffers, the gradual recovery of the economy as well as other measures taken to safeguard the loss absorption capacity of banks – notably the instruction to withhold declaration and payment of 2020 dividends.

The NBR will continue to support developments in digital financial services through consumer education, enhancement of security and controls by service providers in order to combat fraud. The Bank is also working with payment services providers and other stakeholders for the appropriate pricing structure for these services in order to encourage uptake and usage of digital services while ensuring financial sustainability of service providers.

Kigali, 12th May 2021

RWANGOMBWA John
Governor and Chairman of FSC
National Bank of Rwanda

NATIONAL BANK OF RWANDA: THE GOVERNOR