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The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on February 16, 2021, to assess the macro-financial conditions, performance, soundness and stability of the financial sector, emerging risks and vulnerabilities as well as take appropriate measures to mitigate these risks. The committee noted that the financial sector remained solvent and liquid during 2020, despite the looming uncertainties weighed in by the pandemic. Overall, credit risk, capital strength, operational resilience of systems and people due to remote working are the main areas of concern and will be the supervisory priorities going forward. The financial sector is expected to remain resilient in the near term on account of existing capital and liquidity buffers as well as economic recovery hinged on the planned global domestic rollout of the vaccine commencing in Q1 2021.

Below are specific observations of the committee;

Assets of the financial sector continued to grow in 2020:

Assets of the banking sector increased by 24 percent (year-on-year) to FRW 4,310 billion in December 2020 (and represented 53 percent of GDP), against 12.5 percent registered in December 2019 on the back of growth of deposits (especially institutional investors), borrowings from other financial institutions and capital injection. Microfinance sector's assets increased by 11 percent to FRW 356 billion in December 2020, lower than 14.7 percent in 2019 as the pandemic significantly impacted the cash flows of households, micro, small and medium enterprises thereby reducing their capacity to save and increasing their deposit withdrawal needs to cater for the pandemic uncertainties. Insurance sector's assets (private and public) grew by 15 percent to FRW 591.7 billion, higher than 14 percent growth registered in the previous year due to retained earnings and capital injections. Growth of the public pension fund assets moderated to 10.7 percent to FRW 985.6 billion as at end December 2020, lower than 15.3 percent growth registered in 2019 due to revaluation losses on some assets as well as reductions in pension contributions following suspensions of some employers from declaring and paying pension contributions, reduced employees' salary base in some institutions either due to reductions in salaries or termination of some employees in response to the pandemic.

The financial sector was adequately capitalized and liquid:

The banking sector aggregate Tier 1 Capital Adequacy Ratio (CAR) and total CAR stood at 20.3 percent and 21.1 percent respectively as at end December 2020, higher than 12.5 percent and 15 percent minimum prudential requirements. During the same period, the microfinance sector CAR stood at 36 percent, against the 15 percent minimum prudential requirement. Private insurers' aggregate solvency ratio stood at 114 percent, against the 100 percent minimum prudential requirement.

The financial sector is liquid with the banking industry aggregate Liquidity Coverage Ratio (LCR) at 254.7 percent as at end December 2020, higher than the 100 percent minimum requirement. The aggregate liquidity ratio of the microfinance sector stood at 101.5 percent at end December 2020, against the 30 percent minimum requirement. Private insurers' liquidity ratio stood at 134 percent compared to the 120 percent minimum prudential requirement. The strong capital and liquidity positions enabled financial institutions to support financial intermediation as well as extend various relief measures to customers.

The pandemic increased credit risk across the financial sector:

The pandemic and required containment measures resulted in a contraction of GDP by 4.1 percent year-on-year in the first three quarters of 2020, led to a reduction in incomes of households and businesses thereby weakening debt service capacity, and increased credit risk. In response, banks provided loan repayment deferrals to their customers and at the end of December 2020, restructured loans were worth FRW 799.9 billion representing 31.7 percent of total loans. In the microfinance sector, restructured loans stood at FRW 14.8 billion representing 7 percent of total loans. Insurance premium receivables also increased from FRW 4.9 billion in December 2019 to FRW 8.5 billion in December 2020. The significant restructured loans in the financial sector are indicative of a potential uptick of non-performing loans and provisions for bad loans in 2021 and into 2022.

The uptake of digital financial services increased:

Financial Service Providers (FSPs) increased their rollout and users increased their adoption of digital payment channels. The number of active mobile payment subscribers increased by 13 percent from 4,139,075 to 4,688,124 while mobile payment transactions increased by 85 percent from 378.8 million worth FRW 2,349 billion in 2019 to 701 million worth FRW 7,177 billion in 2020. Mobile points of sale (POS) increased significantly to 39,743 (excluding the acceptance points provided by motor cycle taxi riders) in December 2020 from 13,675 in 2019. Mobile POS transactions increased by 511 percent in volume from 7 million to 45 million and by 1,514 percent in value from FRW 52 billion to FRW 846 billion. Other electronic payment channels such as mobile banking, internet banking as well as card based payment services also experienced notable growth. The COVID 19 pandemic and associated containment measures played a catalytic role in the adoption of digital payments as customers, merchants and FSPs sought safe means of payment to prevent the spread of the virus as well as flexible operational models given travel restrictions, hours of operation and other social distancing measures.

Measures to address the risks identified:

The committee recommended to enhance supervisory oversight of credit risk to ensure prudent assessment of borrowers that are unlikely to pay (UTP), proper classification of the portfolio as well as timely and accurate provisioning to avoid cliff and pro-cyclical effects that could amplify the economic cost of the pandemic and stability of the financial sector. It also recommended an assessment of the Business Continuity Management in all supervised institutions, as part of the operational resilience, to understand institutions' ability to deliver critical operations through disruption. Further, the committee recommended continued engagement with relevant stakeholders on measures to support recovery of severely affected sectors like tourism and its value chains, public passenger transport, and education among others.

The committee will continue to monitor and assess economic developments and their impact on the financial sector and will take appropriate policy actions depending on how the crisis develops.

Done at Kigali, 18 February 2021

Digitally signed by
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Governor, Chairman of FSC