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The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on August 9th, 2022, to assess the performance and soundness of the financial sector for the period ending June 2022 as well as assess its outlook. The committee noted that the financial sector continues to grow and remained stable and sound in this period, owing to the strong performance during the pre-COVID 19 periods, reforms implemented that increased the quality and quantity of assets and support measures implemented since the outbreak of the pandemic. However, uncertainties brought about by risks and negative spillovers from the war in Ukraine are likely to pause risks on the performance and stability of the financial sector.

The sections below summarize key observations from the Committee:

Assets of the financial sector continue to grow. The total assets of the financial sector expanded by 17 percent from FRW 6,914 billion in June 2021 to FRW 8,102 billion in June 2022. In the banking sector, assets grew by 18.8 percent from 4,624 billion in June 2021 to 5,492 billion in June 2022 mainly driven by an increase in deposits (19 percent) and capital base (15 percent). Similarly, the Microfinance sector's assets expanded by 23 percent from FRW 386 billion in June 2021 to FRW 473 billion in June 2022, buoyed by increased deposits and capital. As for the insurance sector, assets grew by 17 percent from FRW 638 billion in June 2021 to FRW 748 billion in June 2022, driven by investment income and capital increments. This growth demonstrates the financial sectors' continued contribution to spurring economic growth and development with the sector's assets representing 70.9 percent of GDP in June 2022 up from 40 percent a decade ago.

The financial sector continued to be well capitalized and liquid to absorb losses and support the provision of intermediation activities. As at end June 2022, the banking sector and microfinance sectors' aggregate total CAR stood at 23.1 percent and 33.9 percent respectively, higher than the 15 percent minimum prudential requirements. The aggregate solvency ratio of private insurers improved to 180 percent in June 2022 from 147 percent in the same period last year, higher than the 100 percent minimum prudential requirement. Regarding liquidity, financial institutions held sufficient buffers of liquid assets, with the banking industry's aggregate Liquidity Coverage Ratio (LCR) standing at 224.7 percent as at end June 2022, higher than the 100 percent minimum requirement. The aggregate liquidity ratio of Microfinance stood at 105.2 percent as at end June 2022, higher than 30 percent minimum regulatory requirement, while in the insurance sector, the liquidity ratio of private insurers reached the required minimum level of 100 percent in June 2022 from 94 percent in June 2021.

Risks to the financial sector continue to subside but vulnerabilities remain. The level of Non-Performing Loans (NPLs) have reduced in Banks and MFIs. As at June 2022, the outstanding non-performing loans reduced to FRW 166 billion from FRW 179 billion in June 2021 mainly due to improved ability to service loans driven by the recovery of the economic activities, write off of long outstanding NPLs and increased outstanding loans in 2022. In light of reduced stock of non-performing loans and increased stock of outstanding loans, the non-performing loans ratio dropped to 4.3 percent end June 2022 against 5.1 percent in June 2021. In addition, the outstanding loans on moratorium reduced to FRW 50 billion (1.6 percent of total banks' loans) from FRW 215 billion (7.8 percent of total loans) in June 2021. In the microfinance sector, the assets quality improved as small-scale businesses recovered since the relaxation of COVID 19 containment measures. The stock of NPLs in microfinances dropped by FRW 1 billion from FRW 14 billion in June 2021 to FRW 13 billion in June 2022. Consequently, during the same period, NPL ratio dropped from 6.6 percent to 5 percent. However, vulnerabilities associated with new emerging risks including the effects of the war in Ukraine continue to hit the borrowers already weakened by the pandemic. In Banks, borrowers in manufacturing, construction, transport and tourism will continue to face the challenges related to the disrupted global supply chain, increased commodity prices, and effects of domestic inflation. For the microfinance sector, risks associated with the shortage and higher cost of fertilizers have started to materialize. The level of NPLs in agriculture sector has increased to 7.1 percent in June 2022, up from 5.6 percent.

Payment systems remain safe and resilient. Mobile technology continues to play a prominent role in creating an inclusive cashless society by driving the usage and adoption of electronic payments. For instance, Person to Person (P2P) transactions increased by 20 percent and 46 percent in value and volume respectively; Bank to Wallet (B/W) transactions increased by 80 percent in volume and 60 percent in value, while Wallet to Bank (W/B) transactions increased by 137 percent in volume and 76 percent in value due to free service and merchants push transactions. Mobile money interoperability that was launched in May 2022 is expected to promote further the cashless economy by improving payments efficiency and effectiveness.

Financial sector stability outlook. In the medium term, the financial sector is expected to remain sound and stable. The increasing inflationary pressures are expected to cause a moderate impact on the stability of the financial sector but the regulated financial institutions have enough capital and liquidity to continue providing financial services to the customers and at the same time remain resilient to external shocks.

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 to make sure that supervised institutions hold sufficient regulatory capital in relation to low-quality assets.

RWANGOMBWA John

Governor and Chairman of FSC

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