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

On August 14th, 2023, the Financial Stability Committee (FSC) convened its quarterly meeting with the objective of evaluating the financial sector's performance and overall stability. The committee observed that despite the contractionary monetary policy to mitigate the high inflationary pressures resulting from the spillover effects of Russia's war with Ukraine, unpredictable weather conditions, and the strengthening of the US dollar, the financial sector has remained stable and sustained its growth momentum. This resilience is due to the strong capital and liquidity buffers maintained by financial institutions, ensuring their ability to withstand shocks and sustain the delivery of financial services to the public.

The following sections highlight the key observations from the committee:

The financial sector grew despite macro-economic uncertainties.

Amidst challenging global and domestic economic conditions, the financial sector demonstrated continued growth. As of June 2023, the financial sector's total assets surged by 18.3 percent to FRW 9,635 billion from FRW 8,145 billion in June 2022. The largest sub-sector, the banking sector, grew by 18.1 percent, propelled by retained earnings and growth in deposits. The pension sector, both public and private, increased by 16.2 percent, due to rising pension contributions and investment income. Meanwhile, the insurance sector's assets expanded by 17.2 percent, driven by retained earnings and capital injections. In the same manner, the microfinance sector experienced a 26.5 percent asset growth, on the back of increased deposits and capital.

With improved asset growth, the financial sector continued to deepen. Measured by the size of the financial sector assets relative to Gross Domestic Product (GDP), the depth of the financial sector grew to 63.1 percent in June 2023 above the five-year average of 61.4 percent. This emphasizes the significant and expanding role the financial sector continues to play in financing the economy.

The financial sector maintains sufficient capital and liquidity.

The financial sector's capitalization stays robust, with regulated institutions consistently holding capital above required levels. As of June 2023, banks maintained an Aggregate Total Capital Adequacy Ratio (CAR) of 21.1 percent, exceeding the regulatory minimum of 15 percent. This ratio assesses a bank's ability to absorb potential losses from its operations. Likewise, the microfinance sector maintains compliance with capital adequacy regulatory requirements. The consolidated CAR for Microfinance Institutions (MFIs) was 31.6 percent, surpassing the 15 percent regulatory minimum. Stable capitalization in lending institutions results from increased capital by Banks and MFIs through retained earnings and injections, coupled with improved asset quality. The insurance sector maintains strong solvency. The solvency ratio of private insurance increased to 256 percent in June 2023 from 180 percent in June 2022, owing to better profitability and asset quality.

Financial institutions continue to maintain a strong liquidity position, ensuring effective fulfillment of obligations. Banks maintained substantial liquidity buffers in both short- and long-term outlooks. As of June 2023, the Liquidity Coverage Ratio (LCR), assessing banks' 30-day cash outflow capacity, stood at 274.1 percent. Additionally, the Net Stable Funding Ratio (NSFR), indicating banks' stable funding against long-term assets, reached 129.8 percent, both exceeding the 100 percent regulatory requirement. Microfinance Institutions (MFIs) maintained a favorable liquidity ratio, with an aggregate of 90.2 percent, surpassing the 30 percent minimum requirement. The liquidity ratio of private insurers also progressed to 112.7 percent in June 2023 from 99 percent in June 2022, aligning with increased investment in liquid assets.

Credit risks in lending institutions subsided.

The Non-Performing Loans (NPLs) held by Banks decreased to FRW 163.8 billion in June 2023, from FRW 166.1 billion in June 2022. Consequently, the NPL ratio lowered to 3.6 percent in June 2023, a decrease from 4.3 percent in June 2022. This reduction is attributed to the growth of outstanding loans and write-offs. Notably, this decline in the Non-Performing Loans (NPLs) ratio is consistent across various sectors, except for the manufacturing sector, where the Non-Performing Loans' ratio rose from 3.1 percent to 7.8 percent. The factors contributing to increased credit risks in the manufacturing sector are not broad based but concentrated within a few manufacturers.

Similarly, in the banking sector, the loans classified as "watch" (those with repayments delayed by 30 to 90 days) reduced to FRW 362 billion, accounting for 7.8 percent of total loans, compared to FRW 409 billion in June 2022, constituting 10.6 percent of total loans.

Within the microfinance sector, the Non-Performing Loans' ratio decreased to 3.7 percent in June 2023, down from 4.7 percent in June 2022, attributed to growth in lending. Regarding the recent floods in the Northern and Western provinces, the assessment highlighted no immediate significant disruptions in the financial sector. However, the NBR will continue to evaluate institutions in affected areas to mitigate potential emerging risks.

The payment service providers continue to modernize the payment systems.

From June 2022 to June 2023, the payment system sector operated smoothly, highlighted by a significant increase in mobile payment transactions and transfers. Person to Person (P2P) transactions surged by 65 percent in volume and 78 percent in value. Person to Business (P2B) transactions experienced a substantial increase of 136 percent in volume and 57 percent in value. Similarly, Bank to Wallet (B2W) transactions grew by 36 percent in volume and 58 percent in value, in alignment with cost-free push and pull transaction services. During this period, active merchants surged by 392 percent, and unique users rose by 55 percent by June 2023 in comparison to June 2022. Regarding operational resilience, the NBR actively enhanced the Rwanda Integrated Payments Processing System (RIPPS), with the inclusion of MFIs leading to increased transactions in terms of both number and value. Furthermore, payment service providers diligently reinforced the resilience and security of their systems, leading to fewer disruptions and instances of fraud.

Financial sector stability outlook.

In the medium term, the financial sector is expected to remain stable and Sound. This will be supported by adequate capital and liquidity reserves, enhanced risk management practices, and ongoing economic recovery alongside reduced inflationary pressures. The NBR will continue monitoring potential risks arising from macroeconomic conditions, climate-related factors, and global supply chain disruptions.

Furthermore, the Bank will continue to ensure its regular oversight of the financial sector. This will ensure that financial institutions maintain sufficient capital to weather adverse economic conditions, maintain adequate liquidity to fulfill financial obligations, and uphold secure payment systems that guarantee the stability, integrity, and efficiency of the financial system.

Kigali, 17th August 2023

Digitally signed by BNR(GOVERNOR)

NATIONAL BANK OF RWANDA: THE GOVERNOR
REPUBULIKA Y'U RWANDA
UBUMWE - UMURIMO - GUKUNDA IGIHUGU

RWANGOMBWA John
Governor and Chairman of FSC