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The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on May 27th, 2024, to review the performance and stability of the financial sector. The Committee noted that the financial sector remains stable and has sustained its growth momentum in line with declines in inflationary pressures. Despite challenges from geo-political tensions, depreciation of the FRW, and climate-related events, the financial sector is expected to remain sound and stable in the medium term, with enough capital and liquidity buffers to absorb any plausible shocks.

The financial sector continued to expand and remains supportive to economic recovery

The financial sector has continued to grow in line with robust economic growth, despite, uncertainties from global and domestic economic conditions. As of March 2024, total assets of the financial sector increased by 20.8 percent, to FRW 11,008 billion, from FRW 9,113 billion in March 2023. The banking sector, the largest subsector, grew by 21.6 percent, driven by improved efficiencies and growth in deposits. The assets of the pension sector (both public and private) rose by 14.9 percent, primarily due to increased pension contributions and investment income. The insurance sector's assets grew by 18 percent, supported by improved underwriting returns, capital injections, and investment income. Similarly, the assets of the microfinance sector expanded by 35.5 percent, fueled by increased deposits and capital. With this improved asset growth, the financial sector continues to deepen: financial sector assets relative to Gross Domestic Product (GDP) grew to 65.4 percent in March 2024, from 64.6 percent in March 2023. This highlights the expanding role the financial sector continues to play in financing the economy.

The financial sector remains adequately capitalized and liquid.

The financial sector's capitalization remains robust as regulated institutions continue to maintain capital positions well above regulatory requirements. Banks held an average Capital Adequacy Ratio (CAR) of 22.3 percent, surpassing the minimum regulatory requirement of 15 percent. Similarly, the consolidated CAR for Microfinance Institutions (MFIs) stood at 31.8 percent, higher than the 15 percent minimum regulatory requirement. This strong capitalization among lending institutions is attributed to ongoing capital enhancements by banks and MFIs through retained earnings and solid profitability.

Additionally, the insurance sector's solvency position, a measure of Insurance's ability to meet medium-term obligations for policyholders remained strong with the solvency improving to 252 percent in March 2024 from 237 percent in March 2023, driven by increased profitability and asset quality.

The liquidity position of financial institutions remains strong. Banks continue to maintain adequate liquidity buffers for both short-and long-term needs. As at end March 2024, the Liquidity Coverage Ratio (LCR), which measures banks' ability to fund cash outflows for 30 days, stood at 290.5 percent, reflecting an increase in high-quality liquid assets. The Net Stable Funding Ratio (NSFR), which assesses banks' ability to fund outflows for one year, was at 166.3 percent. Additionally, the average liquidity ratio for microfinance institutions was 91 percent, significantly above the minimum prudential requirement of 30 percent. The liquidity ratio of private insurers also improved to 114 percent in March 2024 from 111 percent in March 2023, driven by increased investments in highly liquid assets.

Intermediation and quality of loans

Lending institutions continued their intermediation role with minimal disruptions. In March 2024, outstanding loans in banks increased by 15.4 percent, with new loans rising by 31.7 percent to FRW 498 billion, from FRW 378 billion in March 2023. As a result, the proportion of net loans to total assets of banks grew to 52 percent in March 2024. During the same period, in the MFI sector, outstanding loans increased by 46.6 percent, in line with increased lending appetite and migration of 3 banks to MFI category.

In the banking sector, the ratio of Non-Performing Loans (NPLs) to gross loans stood at 5.0 percent in March 2024, remaining in compliance with the benchmark of 5 percent

In the Microfinance sector, though the Non-performing loan (NPL) ratio increased to 4.4 percent as of March 2024, from 4.2 percent in March 2023it also remained below the benchmark of 5%.

Payment systems remain robust with mobile payments dominating electronic payments

Mobile payments are leading the way in the payment industry, showing strong growth. Transactions like Person-to-Person (P2P) and Person-to-Business (P2B) are on the rise, with P2P transactions growing by 55% in volume and 64% in value. Similarly, P2B transactions saw a 70% increase in volume and 40% in value. Bank to Wallet (B2W) transactions also grew by 37% in volume and 39% in value, while wallet to Bank (W2B) transactions increased by 35% in volume and 53% in value. Merchants and users are adopting these payment methods, with a significant increase seen in both. The NBR is working with Payment service providers to ensure the security and reliability of their systems

Financial sector stability outlook.

Over the medium term, the financial sector is expected to remain sound and stable despite global and domestic macroeconomic uncertainties. This resilience is backed by good governance, ample capital and liquidity reserves, strengthened risk management practices, and continuous domestic economic growth. The National Bank of Rwanda will continue monitoring potential risks through stress tests and other supervisory measures to ensure financial institutions can absorb plausible shocks.

Kigali, May 29th, 2024

NATIONAL BANK OF RWANDA THE GOVERNOR

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