



The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on May 9, 2023, to assess the performance and stability of the financial sector. The committee noted that the financial sector remains stable and maintained its growth momentum amid challenges caused by economic uncertainties and the current global banking disruptions. The capital and liquidity buffers held by financial institutions make them resilient to shocks and are therefore capable of maintaining the provision of the financial services to the general public. The recent global banking disruptions have not affected the Rwandan financial sector due to its limited integration with the global banking businesses and diversified investments.

The following sections highlight the key observations from the committee:

The financial sector continued to grow amid the challenges of economic uncertainties and global financial market distress.

The financial sector continued to grow amidst challenging global and domestic economic conditions. As at March 2023, total assets of the financial sector grew by 17 percent to FRW 9,113 billion from FRW 7,795 billion in March 2022. The banking sector, which is the biggest sub-sector grew by 15 percent, on the back of the growth of capital and deposits. The assets of the pension sector (both public and private) increased by 17 percent, mainly driven by the growth in pension contributions and investment income. The assets of the insurance sector grew by 18 percent mainly supported by improved underwriting returns, capital injections and investment income. Similarly, during the period under review, assets of microfinance sector expanded by 26.3 percent 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 64.6 percent in March 2023. This portrays the prominent and expanding role the financial sector continues to play in financing the economy.

The financial sector remains adequately capitalized and liquid.

The capitalization of the financial sector remains strong as the regulated financial institutions continue to maintain the capital positions above regulatory requirements. As at end March 2023, the aggregate total Capital Adequacy Ratio (CAR) of banks stood at 24 percent, higher than the minimum regulatory requirement of 15 percent. Similarly, the microfinance sector continues to comply with the capital adequacy requirements. The consolidated CAR of Microfinance Institutions (MFIs) stood at 32.2 percent, higher than the 15 percent minimum regulatory requirement. Generally, the stable capitalization of lending institutions is explained by the continued enhancement of capital by Banks and MFIs through retained earnings and capital injection, coupled with improved quality of assets. The solvency position of the insurance sector also remained high during the period under review. In particular, the solvency ratio of private insurance significantly improved to 237 percent in March 2023 from 157 percent in March 2022, on the back of improved profitability and quality of assets.

The liquidity position of financial institutions also remains strong. Banks continue to hold adequate liquidity buffers both in the short- and long-term perspective. As at end March 2023, the Liquidity Coverage Ratio (LCR) that measures the ability of banks to fund cash outflows for 30 days, stood at 215.9 percent, while the Net Stable Funding Ratio (NSFR) that gauges whether banks hold enough stable funding to cover the duration of their long-term assets stood at 154.4 percent. In Microfinance Institutions (MFIs), the aggregate liquidity ratio stood at 98.5 percent, against 30 percent minimum prudential requirement and all categories of MFIs comply with this regulatory requirement. The liquidity ratio of private insurers also improved to 111 percent in March 2023 from 95 percent in March 2022, in line with increased capital and improved quality of assets.

Credit risks in lending institutions subsided, but challenges remain.

The stock of Non-Performing Loans (NPLs) in Banks reduced to FRW 157.8 billion in March 2023 from FRW 166.6 billion in March 2022 mainly on account of bad loans recoveries and write off of long overdue loans. As a result, the NPLs ratio dropped to 3.6 percent in March 2023 from 4.6 percent in March 2022. Similarly, Banks' loans in watch category (loans whose repayment is late by 30 to 90 days) decreased to FRW 363 billion in March 2023 (8.5 percent of total loans) from FRW 491 billion in March 2022 (14.0 percent of total loans). However, the manufacturing sector, continued to record higher amount of loans in watch category on the back of supply chain disruptions associated with the global geopolitical tensions and the lingering effects of the pandemic. In the microfinance sector, the NPLs ratio declined to 4.2 percent in March 2023 against 5.0 percent in March 2022 due to the improved performance of micro-businesses during the period under review. However, the performance of MFI loans are expected to be negatively impacted by the recent floods in the Northern, Western and Southern provinces. NBR will continue to



monitor possible impacts that may arise from climate related risks to the financial institutions in general.

The payment service providers continue to modernize the payment systems with mobile payment technology dominating electronic payments.

Mobile technology continues to play a paramount role in creating an inclusive cashless society by driving the usage and adoption of electronic payments. Person to Person (P2P) transactions increased by 70 percent and 90 percent in volume and value respectively, while Person to Business (P2B) transactions increased by 128 percent in volume and 80 percent in value. During the same period, the volume of Bank to Wallet (B2W) transactions increased by 30 percent and by 40 percent in value, due to the removal of fees. Active merchants increased by 291% percent and unique users increased by 61 percent in March 2023 compared to March 2022. Regarding the systems' operational resilience, NBR continued to enhance the upgrade of the Rwanda Integrated Payments Processing System (RIPPS) which is currently working 24/7. As a result, night and weekend transactions continue to grow with an average of 12,753 number of transactions and an average of FRW 14 billion in value of transactions per month. In addition, the onboarding of MFIs has also increased RIPPS transactions both in number and value.

Financial sector stability outlook

In the medium term, the financial sector is expected to remain sound and stable. To ensure the financial sector is safeguarded from different cascading shocks and rising risks, the NBR continues to monitor and assess the impact of the macroeconomic environment, implications of global banking distress and sovereign debts on financial stability and stand ready to take suitable measures to mitigate these risks. In addition, through regular oversight of the financial sector, the NBR will continue ensuring that financial institutions hold enough capital relative to the risks they undertake, as well as sufficient liquidity to meet financial obligations.

Kigali, 11th May 2023

RWANGOMBWA John
Governor and Chairman of FSC

