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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, 2022, to assess the financial sector's performance, soundness and stability, emerging risks and vulnerabilities, as well as take appropriate measures to mitigate those risks. The committee noted that the recovering economic activities continue to support the growth and stability of the financial sector. In line with the rebound of economic activities, risks to the financial sector have eased, but vulnerabilities remain, especially those related to borrowers whose earnings have not yet been recovered. Nevertheless, looking ahead, the financial sector is expected to remain stable with sufficient capital and liquidity to absorb shocks.

The sections below summarize key observations from the committee:

Financial sector assets continued to grow supported by the economic rebound.

Total assets of the financial sector expanded by 19.5 percent to FRW 7,569 billion in December 2021, compared to a growth of 20.2 percent registered in December 2020. In the banking sector, this growth was mainly driven by increased lending, with new authorised loans increasing by 15.4 percent to FRW 1,230 billion, compared to a contraction of 8.2 percent recorded in 2020, and the average of 13.9 percent growth recorded in the three years prior to the pandemic. For the insurance sector, growth was driven by the 21.6 percent increase in gross written premiums, higher than the 10.4 percent growth recorded in 2020 and the 13.0 percent average growth recorded in three years pre- pandemic.

The financial sector remains adequately capitalized and liquid.

Regulated financial institutions continue to hold sufficient capital to absorb any losses and support the provision of intermediation activities. As at end December 2021, the banking sector aggregate Capital Adequacy Ratio (CAR) stood at 21.5 percent higher than 15 percent minimum prudential requirements. During the same period, the microfinance sector CAR stood at 35.8 percent, against the 15 percent minimum prudential requirement. Private insurers' aggregate solvency ratio stood at 142 percent, against the 100 percent minimum prudential requirement. Similarly, the financial sector remains liquid with the banking industry aggregate Liquidity Coverage Ratio (LCR) at 269 percent as at end December 2021, higher than the 100 percent minimum requirement. The aggregate liquidity ratio of the microfinance sector stood at 112 percent at end December 2021, against the 30 percent minimum requirement.

Risks to the financial sector have subsided but vulnerabilities remain.

The rebound of economic activities enabled borrowers whose loans had been restructured at the onset and height of the pandemic to start servicing their loans. As at end December 2021, 88.9 percent of total COVID restructured loans had resumed payment. However, vulnerabilities still exist especially for sectors that have not yet fully recovered to their pre-pandemic levels of economic activity.

Non-performing loans ratio remained low at 4.6 percent compared to an average of 5.4 percent recorded in the last 3 quarters of the year 2021, mainly reflecting the higher growth of outstanding loans relative to the growth of outstanding NPLs as well as the write off of long-overdue NPLs. In 2021, banks wrote off FRW 75 billion compared to FRW 22 billion in 2020.

In addition, loans in the watch category (loans where repayment is late by 30 to 90 days) increased by 77 percent to FRW 489 billion in December 2021 (14.2 percent of total loans) from FRW 277 billion in December 2020 (9.3 percent of total loans). In response to the perceived credit risk outlook, banks increased their provisions by FRW 48 billion to FRW 189 billion in December 2021 leading to a provisions coverage ratio of 119.8 percent up from 106.3 percent in December 2020.

Payment systems remain safe and resilient.

During the period under review, both wholesale and retail payment systems continued to operate smoothly without any significant disruptions. The ongoing upgrade of the Rwanda Integrated Payments Processing System (RIPPS) is expected to improve operational resilience and security of the wholesale payment system. Regarding retail payments, mobile technology continues to play a paramount role in creating an inclusive cashless society by driving the usage and adoption of electronic payments. However, the increased use of digital platforms has increased risks in the payment landscape especially in relation to cybersecurity and business continuity.

Financial sector stability outlook

Despite some vulnerabilities in the sector, especially credit risk, the financial sector is expected to continue being sound and stable on the back of sufficient capital and liquidity buffers. The NBR will continue to monitor and assess potential sources of risks to the financial sector, and stands ready to implement timely and adequate measures to preserve the stability of the sector.

Kigali, February 17, 2022

RWANGOMBWA John
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