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The Governor

PRESS RELEASE

The Financial Stability Committee (FSC) held its quarterly meeting on August 10, 2020, to assess performance of the financial sector, and take measures required to safeguard the stability of the sector. Overall, the financial sector was sound and stable at the end of June 2020. However, the slowdown of economic activities following the necessary measures to contain the spread of the pandemic started to weigh down the financial sector's performance since April 2020 through reduced demand for loans and increased demand for loan restructuring. The capital and liquidity buffers held by financial institutions helped them to absorb losses from this shock. Sections below summarize observations of the Committee.

As at end June 2020, the financial sector maintained sufficient capital and liquidity buffers.

Banks were adequately capitalized with Capital Adequacy Ratio (CAR) of 23.7 percent as at end June 2020, compared to the 15 percent minimum prudential requirement; were liquid with Liquidity Coverage Ratio (LCR) of 253 percent, compared to the 100 percent prudential minimum; and held a healthy asset portfolio with an NPLs ratio at 5.5 percent slightly above the 5 percent supervisory benchmark.

Similarly, Microfinance Institutions maintained adequate capital position with aggregate CAR of 34.5 percent as at end June 2020, compared to 15 percent prudential requirement and held sufficient liquidity positions with an aggregate liquidity ratio at 110.1 percent, above the minimum prudential requirement of 30 percent. However, the NPLs ratio in MFIs stood at 12.8 percent above the 5 percent benchmark, and up from 8 percent registered in March 2020. The increase of NPLs in the MFI sector was primarily due to the COVID-19 outbreak.

Private Insurers' aggregate solvency ratio stood at 156 percent, compared to 100 percent minimum requirement, while liquidity ratio — that compares their short-term liabilities to

their liquid assets, stood at 134 percent as at June 2020 above 120 percent prudential requirement. The pension sector remained resilient with stable growth of assets (12.4 percent as at June 2020, compared to 11.7 percent in June 2019)

The COVID-19 pandemic and necessary measures to contain its spread has impacted the financial sector in several ways.

The outbreak of the COVID-19 pandemic disrupted global supply and distribution chains, interrupting travel as well as the delivery of goods into and out of the country. The subsequent lockdown further negatively affected sectors that are primary customers of the financial sector (especially banks, MFIs, and insurers) like hotels, commercial real estate, public transporters, traders, and manufacturing. As such, the pandemic has led to:

Slower growth of lending on the back of weak demand for credit by households and firms: The growth of outstanding loans in banks decelerated to 14.6 percent as at June 2020, down from 16.6 percent recorded in June 2019 while new loans approved by banks during H1 2020 declined by 9 percent compared to the same period in 2019. The H1 2020 credit survey in banks indicated that the number of loan applications reduced by 37.9 percent compared to H1 2019, while the value of loan applications dropped by 12.3 percent.

Banks have provided payment relief to their customers by restructuring 39 percent of their loan portfolio in the second quarter of 2020 (i.e., loan facilities worth FRW 978 billion): In most cases, these restructurings were "payment moratorium" for at least 3-6 months provided to good customers that were servicing their loans well before COVID-19 disrupted their businesses. MFIs also provided payment flexibility to their borrowers affected by COVID-19 by restructuring 23 percent of their loan portfolio (i.e., 41.6 billion) as at end June 2020. The principle assumption and condition underlying all these restructurings is that economic activities will normalize in the next few months and affected businesses will recover.

The economic down turn caused an increase of premium receivables in the insurance sector, although the size of premium receivables remains marginal- at 2.2 percent of total insurance sector assets.

On a positive note, the pandemic has led to increased adoption of digital payments. The volume and value of person-to-person, bank account-to-e-wallet and merchant payments increased significantly during the period ended June 2020 leading to an increase in the value of trust account balances in banks from FRW 27 billion (1 percent of total banking system deposits) in June 2019 to FRW 74 billion (3 percent of total deposits).

Key risks identified

The disruption of economic activities increases the likelihood of firms and households failing to service their debt obligations thereby posing credit and liquidity risk to lending institutions.

The potential growth of premium receivables poses a liquidity and credit risk to insurers.

Earnings of the financial sector are likely to be depressed during 2020 due to the expected decline in revenue, increase in loan loss provisions and declining asset prices and business performance which may translate into potential losses.

Measures implemented to address the risks identified

Monetary, fiscal and supervisory measures taken since the COVID-19 outbreak have and will continue supporting the financial sector. The National Bank of Rwanda established a FRW 50 billion lending facility to support Banks facing liquidity stress, reviewed the existing treasury bond discount window and lowered the reserve requirement ratio by 100 basis point (from 5 percent to 4 percent— releasing FRW 23.4 billion additional liquidity for Banks). NBR also restricted dividend distribution in supervised financial institutions to support their capital positions. The Economic Recovery Fund and other tax relief measures implemented by the Government will also support financial stability.

As a follow-up to NBR's request to Banks to prudently restructure loans of businesses affected by COVID-19, NBR issued a guideline on regulatory and accounting treatment of restructured loans due COVID-19. The guideline provides clarity on IFRS 9 estimation of Expected Credit Losses (ECL) and classification of these loans, as well as, treatment of regulatory capital.

NBR expects that the above measures, in addition to fiscal and other government initiatives, will facilitate the quick recovery of economic activities thereby improving deposit mobilization, performance of loans, uptake of financial products and services (including insurance and pension) and safeguarding the continued soundness and the stability of the financial sector.

Supervisory focus in the near-term will be on monitoring liquidity and credit risk in the financial sector, as well as ensuring that adequate and timely provisions are taken by financial institutions.

August 10, 2020

RWANGOMBWA John

Governor, Chairperson of the FSC