



NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA



ANNUAL FINANCIAL STABILITY REPORT

JULY 2021 - JUNE 2022



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NBR IDENTITY STATEMENT

The National Bank of Rwanda strives to be a World class Central Bank contributing to economic growth & development, by using robust monetary policy tools to maintain stable market prices. The Bank ensures financial stability in a free market economy as it embraces innovation, inclusiveness, and economic integration.



VISION

To become a World Class Central Bank



MISSION

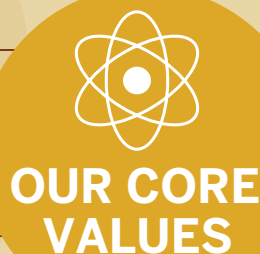
To ensure Price Stability and a Sound Financial System

INTEGRITY

We uphold high moral, ethical and professional standards for our people, systems and data

MUTUAL-RESPECT AND TEAM-WORK

We keep ourselves in high spirit, committed to each other for success



OUR CORE VALUES

ACCOUNTABILITY

We are result-focused and transparent, and we reward according to performance

EXCELLENCE

We passionately strive to deliver quality services in a timely and cost effective manner. We continuously seek improvement by encouraging new ideas and welcoming feedback that adds value to customer services.

NBR

Key Strategic Focus Areas

(2017/18-2023/24)

The National Bank of Rwanda strategic plan sets out six strategic focus areas in which the Bank must excel to achieve its mission and vision. The strategy was designed based on Rwanda's aspirations for economic transformation in line with the National Strategy for Transformation (NST1).





Foreword

One of the key mandates of the National Bank of Rwanda (NBR) is to maintain and strengthen the stability of the financial system. To achieve this statutory objective, the NBR undertakes regular and comprehensive analyses of the macroeconomic environment and identifies risks that pose a threat to the stability of the financial system. In modern central banking business and in particular macroprudential oversight, communication to the general public is very important for fostering the stability of the financial sector. This Financial Stability Report (FSR) is an integral part of such communication. The FSR is an annual publication issued by the NBR that presents an overview of recent developments and the outlook on financial stability in Rwanda focusing on the main risks and the domestic financial system resilience, as well as measures to preserve financial stability.

In this issue of FSR, the key risk assessments are anchored on challenges that the current global economic environment poses on domestic macro financial conditions. The financial sector is vulnerable to unfavorable global economic challenges that could derail the progress achieved in containing pandemic induced risks. The ongoing disruptions to production and supply chains are causing serious economic challenges that have repercussion on the stability of the financial sector. Russia's invasion of Ukraine has heightened these challenges with Russia and Ukraine being significant global producers of energy and food commodities. This conflict has lifted global commodity prices and hence causing significant increase of costs and inflation pressures that adversely affect the real income of corporates and households.

The weak global economic outlook is a challenge to the domestic economy but the financial sector is resilient to a range of potential adverse shocks. The amount of capital and liquidity buffers held by financial institutions makes them resilient to shocks, hence their ability to maintain the provision of financial services to the general public even during times of crisis. Furthermore, payment systems continue to operate smoothly with minimal risks of transferring and settling financial transactions. Going forward, the NBR remains vigilant in monitoring global macro financial conditions and their implication on domestic economic and financial conditions, and stands ready to take timely action in case of any crisis, to preserve the stability of the financial stability.

RWANGOMBWA John
Governor

Acronyms

NBR	National Bank of Rwanda
CAR	Capital Adequacy Ratio
EAC	East African Community
EMDEs	Emerging Market and Developing Economies
EU	European Union
FRW	Rwandan Franc
FSC	Financial Stability Committee
FSR	Financial Stability Report
FY	Financial Year
GDP	Gross Domestic Product
H1	First Half
H2	Second Half
HQLA	High Quality Liquid Assets
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KRR	Key Repo Rate
LA	Left Axis
LCR	Liquidity Coverage Ratio
MFIs	Microfinance Institutions
MMI	Military Medical Insurance
NISR	National Institute of Statistics of Rwanda
NOP	Net Open Position
NPLs	Non-Performing Loans
NSFR	Net Stable Funding Ratio
RA	Right Axis
RIPPS	Rwanda Integrated Payment Processing System
ROA	Return on Assets
ROE	Return on Equity
RSSB	Rwanda Social Security Board
RWA	Risk Weighted Assets
SACCOs	Saving and Credit Cooperatives
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
US	United States
U-SACCOs	Umurenge Saving and Credit Cooperatives
WEO	World Economic Outlook



1. Global Economic and Financial Development

The outbreak of the war in Ukraine has disrupted the positive global economic recovery from COVID-19 and increased risks to the global financial system. Prior to the war, the global economy was on track of a strong recovery from COVID-19 in an environment of accommodative monetary policy, expansionary fiscal policy measures as well as the re-opening of economies. The recovery of global economic activities in 2021 has been followed by gloomy developments in 2022. The economic activities have been significantly hit by negative spillovers from the war in Ukraine, a worse-than-anticipated slowdown in China reflecting resurgence of COVID-19 outbreaks and lockdowns and higher-than-expected inflation worldwide that triggered tighter financial conditions. Consistent with above economic shocks, the world growth prospects have been revised downwards. According to the World Economic Outlook (WEO) of October 2022, the International Monetary Fund (IMF) expects global economic growth to moderate to 3.2 percent in 2022 from 6.1 percent in 2021 (Table 1).

The economic growth in advanced economies is projected to decelerate to 2.5 percent in 2022 from 5.2 percent in 2021, largely reflecting economic slowdown in the United States (US), Eurozone, United Kingdom (UK) and Japan. The US economic growth is anticipated to slow down to 2.3 percent in 2022 from 5.7 percent in 2021, largely reflecting tighter financial conditions, increased inflation and weaker private consumption. Eurozone's economy is projected to grow by 2.6 percent in 2022 from 5.4 percent in 2021 largely on account of spillovers from the war in Ukraine and tighter financial conditions. In fact, the European economy could face serious setbacks given its proximity, trade and financial links with countries involved in the Russian and Ukraine war.

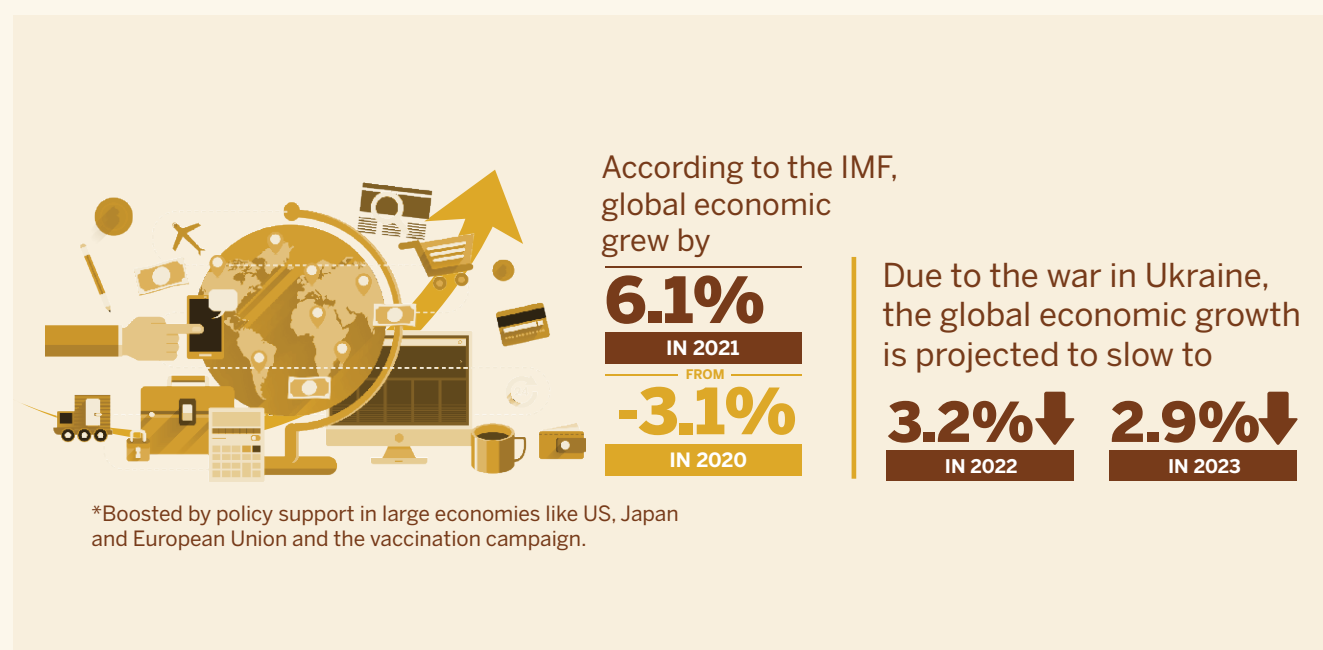
The economic slowdown in China increased vulnerabilities in emerging markets and the downside risks to the global recovery. In Emerging Markets and Developing Economies (EMDEs), economic growth is projected to slow to 3.6 percent in 2022 after 6.8 percent in 2021, mainly due to the sharp slowdown of China's economy, the moderation of the growth in India, Brazil and the economic recession in Russia. In China, the economy is expected to grow by 3.3 percent in 2022 against 8.1 percent in 2021, due to strict pandemic containment policies including lockdowns and the distresses in China's property market. India's economy is projected to grow by 7.4 percent in 2022 from 8.7 percent in 2021, reflecting mainly less favorable external conditions and policy tightening.

The spill-overs effects from global developments have also affected growth in Sub-Saharan Africa (SSA). Economic growth in SSA is expected to slow down to 3.8 percent from 4.6 percent registered in 2021. These projections reflect increased commodity prices and unfavorable weather conditions in some parts of the region. Oil exporting countries have been benefiting from increased oil prices and their growth prospect has been maintained. The economic growth for oil exporting countries is projected to increase to 3.5 percent in 2022 from 2.9 percent in 2021. In contrast, economic growth for oil importing countries is expected to moderate to 4 percent in 2022 from 5.4 percent in 2021.

Table 1: The Global Economic Growth and Projections.

Growth Projections by Region	2019	2020	2021	2022 Proj.	2023 Proj.
World	2.8	-3.1	6.1	3.2	2.9
Advanced Economies	1.6	-4.5	5.2	2.5	1.4
United States	2.2	-3.4	5.7	2.3	1.0
Euro Area	1.3	-6.3	5.4	2.6	1.2
Japan	0.7	-4.5	1.7	1.7	1.7
United Kingdom	1.4	-9.3	7.4	3.2	0.5
Emerging Markets & Developing Economies	3.7	-2.0	6.8	3.6	3.9
Russia	2.0	-2.7	4.7	-6.0	-3.5
Brazil	1.4	-3.9	4.6	1.7	1.1
China	6.0	2.2	8.1	3.3	4.6
India	4.0	-6.6	8.7	7.4	6.1
Sub-Saharan Africa	3.2	-1.6	4.6	3.8	4.0
Nigeria	2.2	-1.8	3.6	3.4	3.2
South Africa	0.2	-6.3	4.9	2.3	1.4
Angola	-0.7	-5.6	0.7	3.0	3.3

Source: IMF, WEO, October 2022



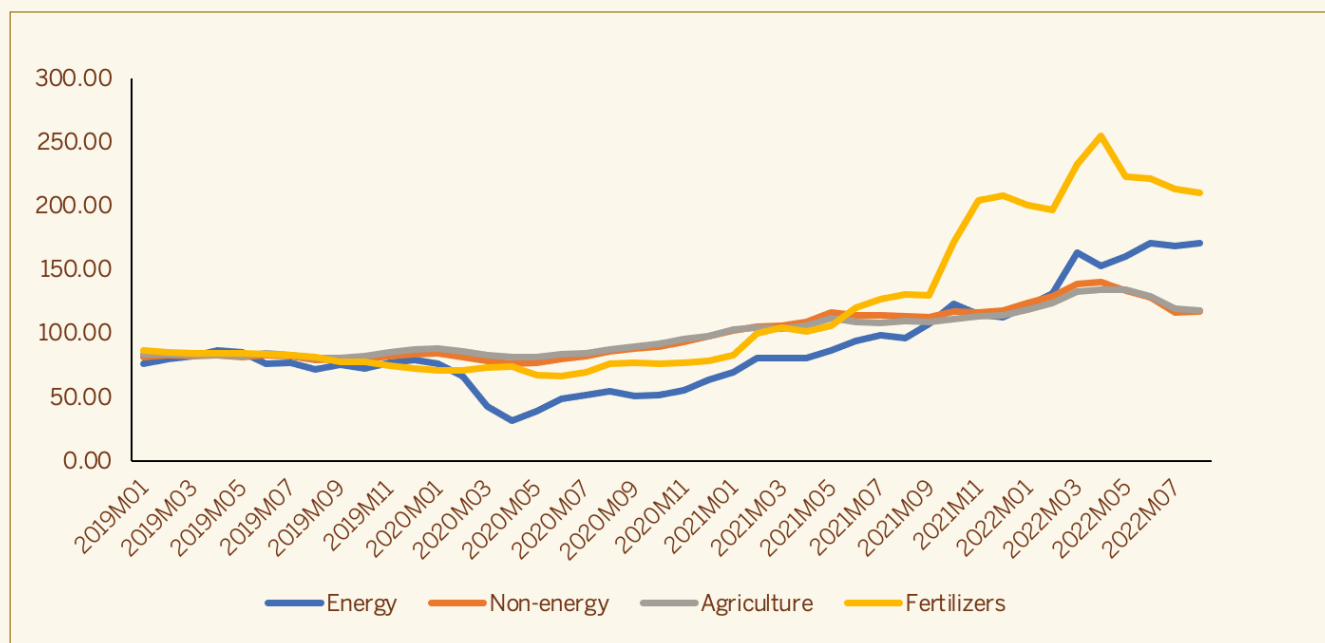
Risks to the growth outlook are tilted to the downside. Escalation of global geopolitical conflicts, persistent global supply chain disruptions, higher inflation and tighter global financial conditions could further dampen consumer and investor confidence, prolonging weak growth in private sector credit. Developed economies remain vulnerable to tighter global financial conditions and global geopolitical risks could continue to hit their economies largely through higher commodity prices, higher inflation and a shift in risk sentiment. As for EMDEs, they are generally more vulnerable to commodity price increases and volatility than advanced economies given their relatively high expenditure on energy and food. In context of increased interest rates in developed countries, EMDEs remain vulnerable to capital outflows that would contribute to exchange rate depreciations, raising the cost of servicing foreign debt and higher inflation. SSA economy is vulnerable to the tightening of the global monetary conditions and a global economic slowdown, especially in US, China and Europe given strong trade linkages. Furthermore, the region remains highly exposed to climate-related shocks that could potentially lead to food shortages and higher inflation in some countries which may adversely affect their economic growth. The Rwandan economy in particular is vulnerable to global economic conditions mainly through trade links. The domestic economy will continue to be indirectly affected by global economic shocks through rising commodity prices and subdued demand for exports, that could in turn adversely affect the financial conditions of corporates and households who are the main customers of the financial institutions.

Global commodity prices increased, reflecting a rebound in global demand and supply disruptions anchored to Russia-Ukraine standoff. The persistence of the demand-supply imbalances that have been exacerbated by the Russia-Ukraine war have caused the global commodity markets to face pressures, causing high increase of prices particularly for commodities where Russia and Ukraine are major exporters. For example, during the first half of 2022 (2022 H1), global energy prices rose by 83.1 percent compared to 61.6 percent in first half of 2021 (2021 H1) mainly due to the rise in crude oil prices and natural gas. Crude oil prices increased by 63.6 percent in 2022 H1 compared to an increase of 59.2 percent in 2021 H1, while natural gas prices surged by 194.3 percent in 2022H1 compared to an increase of 101.0 percent in 2021H1. Prices also increased for key commodities like agricultural commodities, fertilizers, metals and minerals. The average prices for agricultural commodities increased by 21.0 percent in 2022 H1 following the increase of 26.9 percent in 2021 H1. The prices for fertilizers increased by 116.3 percent in 2022 H1 from 45.2 percent in 2021 H1 while metals and minerals prices went up by 13.0 percent in 2022 H1 compared to 60.5 percent in 2021H1. Metal prices continued to hike in 2022, driven by strong demand in China, and ongoing global economic recovery and supply disruptions.

Commodity prices are expected to remain high in the second half of 2022 (2022 H2). The global supply chain disruption and geopolitical standoff between Russia and Ukraine are expected to remain the key driving forces behind price movements. Oil prices are projected to increase by 50.4 percent in 2022, from USD 69.1/barrel in 2021 to USD 103.9/barrel in 2022, while natural gas prices are expected to increase by 88.3 percent in 2022. Agricultural commodities prices are projected to increase by 17.7 percent in 2022 from 24.2 percent in 2021, while fertilizers prices are expected to rise by 69.2 percent in 2022. Further increases in commodity prices could lead to persistently high inflation and rising inflation expectations that would induce central banks to continue tightening monetary policy so as to bring back inflation to the targets. In Rwanda, though increased commodity prices positively contribute to exports receipts, they negatively affect trade balance and exchange rate depreciation through higher imports bill as Rwanda is the net importer of commodities.

Moreover, the impact of rising commodity prices is expected to lead to higher inflation originating from high import costs, weakening real income of households and earnings of corporates in face of increased cost of production, and subdued demand that could arise due increased prices.

Figure 1: The Monthly Commodity Indices



Source: World Bank Commodity Market Database, October 2022.

In reflection of increased commodity prices, inflationary pressures have globally persisted and exacerbated inflationary pressures arising from the pandemic and associated supply chains disruptions. Risks to inflation outlook have intensified and are tilted to the upside globally. Inflationary pressures are expected to persist through 2022 given the headwinds to energy and other commodities for which Russia and Ukraine are significant producers. These pressures are expected to lower real disposable income and demand for financial services and products. The commodity market disruption could indirectly affect the financial market through its impact on the wider economy and given the interconnectedness between financial markets and physical commodity markets.

Financial conditions tightened globally amid heightened inflation risks. According to the Global Financial Stability Report (GFSR) of April 2022, global financial conditions have tightened in 2022 reflecting continued expectations of monetary policy normalization, higher government bond yields, lower equity valuations, and higher borrowing costs. Interest rates have increased as central banks across the world have started to withdraw monetary stimulus that was implemented to cushion the impact of COVID-19 in an environment of persistent and high inflation that exceeds central banks' targets. Tight global financial condition could negatively affect the Rwandan economy mainly through weak external demand and capital outflows. However, the increased external borrowing costs poses limited funding risks to the domestic financial sector, which is less connected to the global financial markets. For example, as at end June 2022, offshore fund of banks represented only 2.9 percent of total liabilities of banks, of which 2.1 percent is non- resident deposits and 0.8 percent is foreign borrowing.

The expectations of rising inflation and monetary policy tightening also affected financial market developments. As a result, government bond yields on global financial markets have risen and prices of many financial assets have modified due to rising global risk aversion. The Russian invasion of Ukraine initially triggered heavy price losses in equity markets due to expectations of monetary policy tightening, inflationary pressures, and uncertainty related to the economic fallout. In particular, the volatility in US and Euro area stocks increased at the onset of the war reflecting uncertainty, slower growth expectations together with higher expectations for interest rates. Furthermore, government bond yields have risen, as market expectations of an increase in monetary policy rates have grown in response to persistently high inflation. For example, the 10-year government bond rate increased in the US, UK, Eurozone and Japan to 3 percent, 2.3 percent, 0.3 percent and 1.3 percent, respectively from 1.5 percent, 1 percent, -0.2 percent and 0.06 percent in December 2021.

The emergency of the new global shocks has increased financial stability risks, however financial stress has been contained so far. The global financial system has proved resilience to the economic impact of the COVID-19 crisis, but the war in Ukraine is putting the financial system to a test once again. Currently, the global financial system remains stable, thanks to the reforms implemented in the aftermath of global financial crisis that limited losses in the corporate sector. However, the global geopolitical tensions are creating new risks. As foreign banks' direct exposures to Russia and Ukraine are limited, the ultimate impact will heavily depend on the further course of the conflict and accompanying second-order effects through supply and demand factors. Further supply chain disruptions, constraints on trade, and sanctions against Russia will have a negative effect on aggregate supply. On the demand side, rising energy and commodity prices will have a negative effect on household and corporate incomes, whereas elevated uncertainty caused by the ongoing war will adversely affect investment and consumer confidence. Hence, credit risk can be expected to rise, and credit policy in banks to tighten, increasing the possibility of negative feedbacks between the financial sector and the real economy.

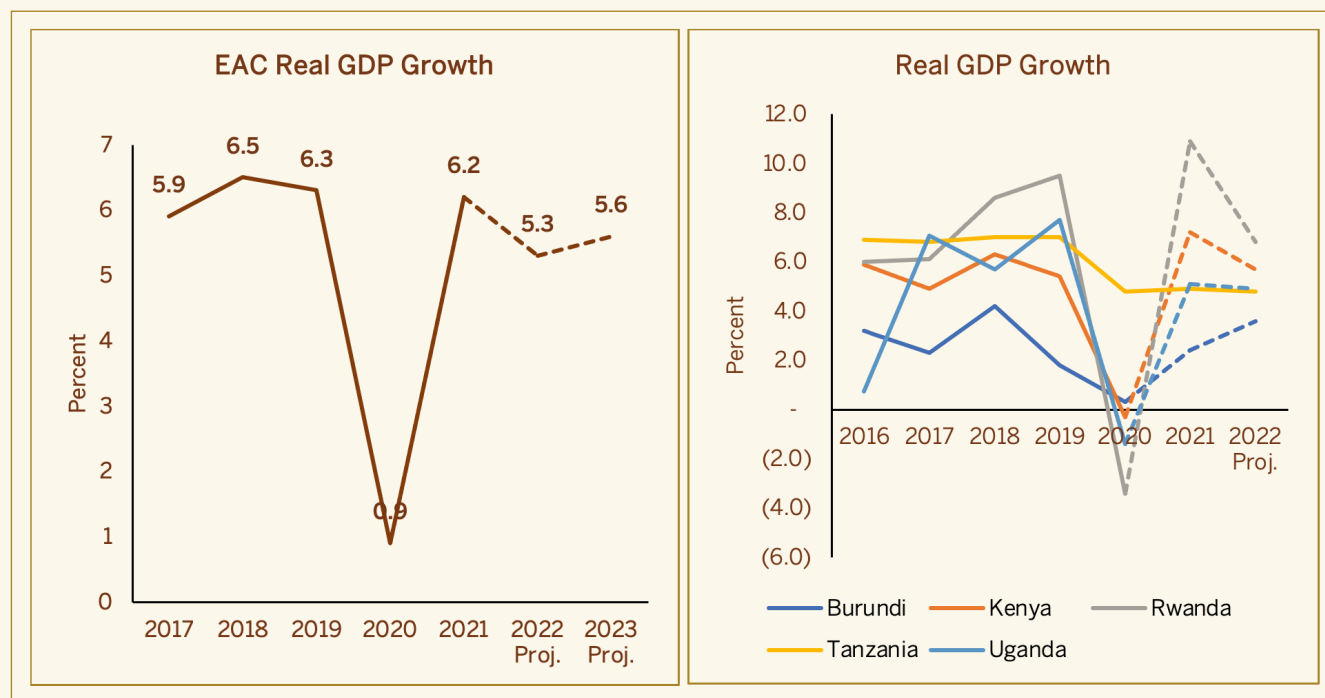


2. Regional Economic and Financial Sector Development: East African Community (EAC)

The global economic shocks are undermining the economic recovery and increasing vulnerabilities to the financial system in EAC. The EAC economy grew by 6.2 percent in 2021 from 0.9 percent in 2020 owing to policy measures implemented to cushion the effects of COVID-19 pandemic, improved global demand and resumption of businesses. At an individual country level. In Rwanda, the growth of real GDP improved (to 10.9 percent in 2021 from a decline of 3.4 percent in 2020), Kenya (to 7.2 percent in 2021 from a decline of 0.3 percent in 2020), Uganda (to 5.1 percent in 2021 from a decline of 1.4 percent in 2020), Burundi (to 2.4 percent in 2021 from 0.3 percent in 2022), and in Tanzania, the economic growth slightly improved to 4.9 percent compared to 4.8 percent in 2021. In fact, the Tanzanian economy was relatively least affected by COVID-19 compared to other partner states as businesses were not stopped in line with the decision of not imposing a nationwide lockdown.

The EAC vulnerabilities to the global economy slowdown, supply-side shocks to inflation, as well as unfavorable weather conditions are expected to slow the pace of the recovery in 2022. The dependence on international trade, imported energy and fuel commodities, supply-side inflation and monetary tightening, and further shocks to the global growth outlook are likely to lead to adverse spillovers to the real sector in EAC. In the medium term, growth of economic activities is projected to decelerate in all EAC partner states (Figure 2), with the real GDP growth in EAC projected to slow to 5.3 percent in 2022, but improve to 5.6 percent in 2023, against 6.2 percent recorded in 2021.

Figure 2: Real GDP Growth and Projections in EAC



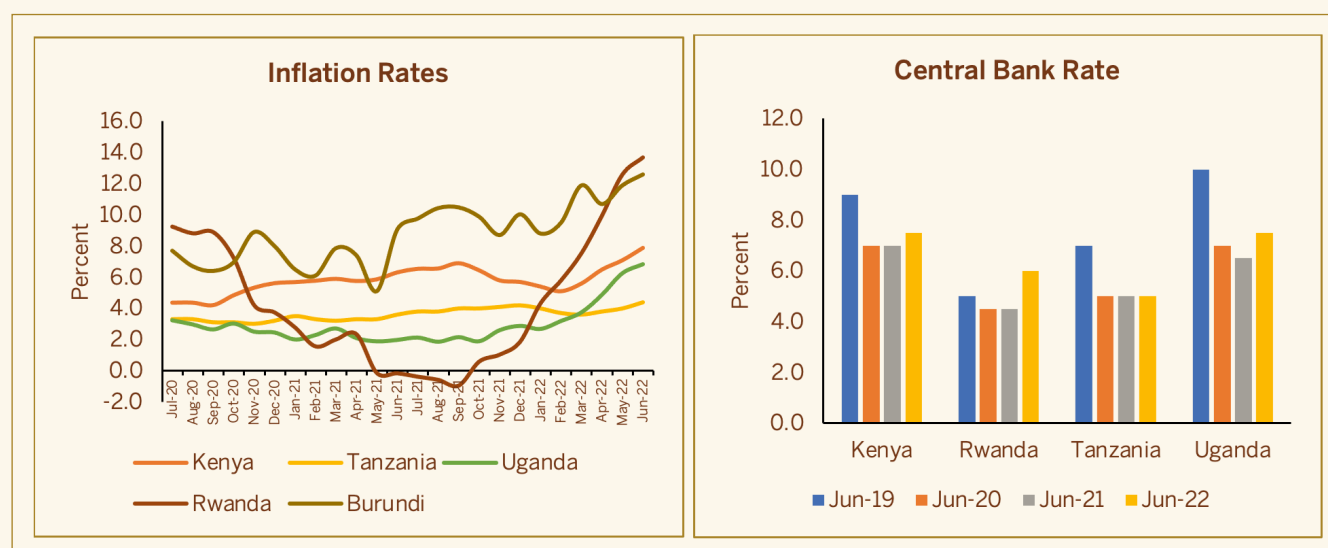
Source: IMF & EAC Partner States National Bureau of Statistics

Inflation risks in EAC increased during the period under review. In line with increased prices of imported commodities and unfavorable weather conditions that negatively affected the agricultural production, inflation in EAC significantly increased. During the year to end June 2022, the annual average inflation increased to 5.7 percent from 4.4 percent during the previous year. In Rwanda, annual inflation rate averaged 4.6 percent during the year to end June 2022 against 4.2 percent during the year to end June 2021. During the same period, the annual inflation rate in Tanzania averaged 4.0 percent against 3.2 percent, while in Uganda it averaged 3.4 percent against 2.5 percent, 6.3 percent against 5.3 percent in Kenya, and 10.4 percent against 7.2 percent in Burundi. The increase of inflation in the region was more apparent in 2022 H1 reflecting a negative spillover of the Russia-Ukraine war that started in February 2022. On average, inflation rate in EAC jumped to 6.9 percent in 2022 H1 compared to 4.0 percent in 2021 H1 and 4.5 percent in 2021 H2. The increase was observed in all partner states though at different levels. In Kenya, inflation averaged 6.2 percent in 2022 H1 against 5.9 percent in H1 2021 H1. During the same period, inflation averaged 3.9 percent compared to 3.4 percent in Tanzania, 4.6 percent from 2.2 percent in Uganda, 9.0 percent from 1.4 percent in Rwanda, and 10.9 percent against 7.0 percent in Burundi.

Inflation is expected to remain high in 2022 H2 mainly driven by high import costs. The increasing commodity prices due to the war in Ukraine, especially for food and energy, will hike recent inflationary pressures in the near term. The majority of EAC citizens depend on agricultural activities, therefore an increase in fertilizer price will have adverse effect in the production of both food and cash crops in the region. The impact may spill over to the prices of other food products thus exerting more pressure on inflation. In 2022, annual average inflation is projected to increase to 6.2 percent from 4.4 percent in 2021 and all partner states are expected to experience inflation hikes.

The EAC inflation outlook triggered the withdraw of monetary policy accommodation, but the costs of borrowing remained relatively stable. So far, interest rates charged on loans remained broadly unchanged, largely reflecting the liquidity buffers in the banking system. However, should inflation increase further, more tightening of monetary policy will be required and this will increase the cost of borrowing. A sustained increase in policy and market interest rates should see Net Interest Margins (NIMs) increase as lending rates rise, supporting profitability of banks. However, rising interest rates could be a risk to the credit quality of banks' assets in case debt servicing costs are not matched by revenues. Rising inflation and interest rates could also lower demand for credit and other financial services in general, thus affecting earnings of financial institutions. Furthermore, heightened inflationary pressures have weakened real income of households and could dampen businesses profitability through subdued demand and increased costs of production. There is also a risk that non-performing loan ratios rise, producing losses for the banks and reducing the supply of credit to the economy.

Figure 3: Inflation Rates and Central Bank Rates in EAC



Source: EAC Partner States Central Banks and National Bureau of Statistics

As a commodity importing economy, the EAC financial sector is vulnerable to current global economic challenges that could derail the progress achieved in containing pandemic induced risks. Despite the benefits from exports receipts, higher commodity prices will increase the import bill with direct impact on inflation through imported inflation, insert pressure on foreign reserves, widen trade deficits- hence triggering depreciation of local currencies and weakening real income. The spillover of the effects of the war in Ukraine on the EAC economy could affect credit institutions, through exposures to corporates vulnerable to possible shortages and or increase in prices of raw materials and energy, as well as subdued demand owing to the decreased purchasing power. In particular, an increase in prices of fertilizer may affect earnings of financial institutions, by constraining demand of financial services and products and heightening credit defaults given that a large proportion of the population is engaged in the agricultural sector and the sector has close linkages with other sectors of the economy.

The financial sector remains a catalyst for the economic recovery. In support of the recovery process, banks continued to provide credit to the private sector at an improved pace in line with sound liquidity buffers. During the period under review, outstanding credit in Burundi expanded by 50.5 percent as at end June 2022, higher than the growth of 23 percent registered in June 2021. During the same period, outstanding credit grew by 12.3 percent from 7.7 percent in Kenya, 19.4 percent from 3.6 percent in Tanzania and by 12.2 percent from 7 percent in Uganda. Generally, the improved growth of lending mainly reflected the increased credit demand and low risk perception by banks consistent with resumption of businesses. In Rwanda, outstanding credit grew by 16.0 percent in June albeit lower than 18.6 percent registered in June 2021, largely due to the slowdown of new lending and write offs.

The banking sector remains adequately capitalized, liquid and profitable despite the withdraw of COVID-19 forbearance measures. As businesses resumed, the majority of customers that had benefited from credit moratorium resumed normal course of payment and provided room to central banks to phase out forbearance measures. Such decisions have not materially affected the resilience of banks but shielded them from moral hazard related risk. Banks continue to hold capital and liquidity buffers above the regulatory requirement in all EAC partner states (Table 2). The regulatory reforms implemented in the aftermath of the global financial crisis also played a key role in preserving the resilience of banks to economic shocks. In a specific way, the growth of deposits and accommodative monetary policy measures contributed to the increase of liquidity in the banks, while stable capitalization of banks also mirrors the capital increments originating from fresh capital injections and retained earnings consistent with profitable banking operations. The profitability as measured by the Return on Assets (ROA) and the Return on Equity (ROE) increased in all partner states owing to increased investments in earning assets that generated high income and efficiency gains associated with digitization of financial services and rationalization of operating costs. From the financial sector stability perspective, the improved profitability demonstrates banks' ability to raise capital internally and enhances banks' efficiency through the provision of affordable services and products.

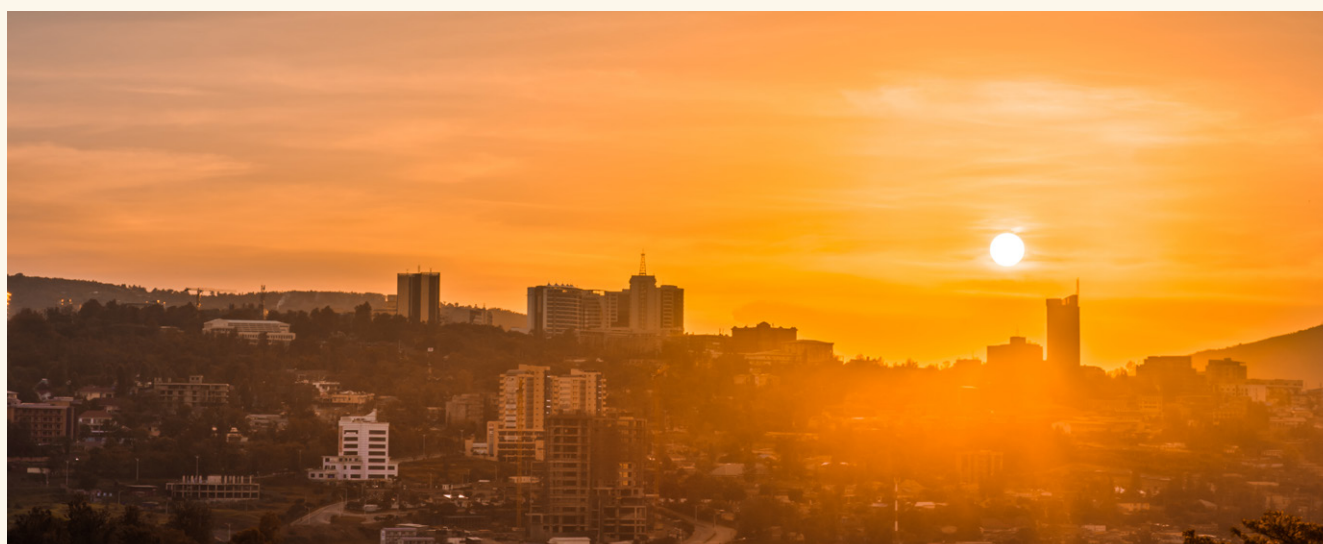
The concentration of credit to vulnerable sectors poses elevated credit risk in the banking sector. During the year to end June 2022, credit risk measured by Non-Performing Loans to gross loans (NPL ratio) increased in Kenya and Uganda, to 14.7 percent and 5.3 percent from 14.0 and 4.8 percent respectively. The deterioration of assets quality largely mirrors the global supply chain challenges that negatively affected the earnings of borrowers in sectors vulnerable to current global economic shocks. The sectors that have been severely hit include trade, real estate, manufacturing and agriculture. In other partner states, the NPL ratio declined as a result of growing loan portfolio, write offs, and measures put in place to contain the effect of COVID 19. One of the features of EAC bank's- loan portfolio is the concentration to key sectors including trade, real estate and manufacturing. These top financed sectors expose the financial sector to elevated credit risk given their dependence on debt financing. The ongoing disruptions to production and supply chains are causing serious economic challenges to operators in these mentioned sectors that could have repercussions on the stability of the financial sector.

Table 2: The Selected Financial Soundness Indicators

CAR (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
KENYA	18.0	18.4	18.5	18.9	18.9
TANZANIA	20.2	18.4	17.9	17.5	20.2
UGANDA	21.8	22.2	22.7	23.5	22.8
RWANDA	21.9	24.1	23.6	22.5	23.1
BURUNDI	24.4	25.4	26.2	28.8	25.5
Liquidity Ratio (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
KENYA	50.5	50.6	55.6	54.8	52.7
TANZANIA	45.5	45.6	39.0	38.4	24.4
Liquidity Coverage Ratio¹ (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
UGANDA	372.4	211.4	279.6	240.3	184.5
RWANDA	299.5	180.5	252.7	226.2	224.7
BURUNDI	-	-	242.8	224.0	179.2
NPLs Ratio (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
KENYA	11.9	12.6	13.1	14.0	14.7
TANZANIA	10.3	10.7	10.8	9.3	7.8
UGANDA	4.4	3.8	6.0	4.8	5.3
RWANDA	6.8	5.6	5.4	5.7	4.3
BURUNDI	13.3	9.7	6.2	4.7	2.5
ROA (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
KENYA	2.7	2.7	0.7	2.7	3.1
TANZANIA	1.6	1.8	2.2	2.4	4.1
UGANDA	2.8	2.7	3.5	2.7	2.7
RWANDA	2.7	2.6	3.2	3.6	4.0
BURUNDI	1.3	1.9	2.1	1.2	1.5
ROE (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
KENYA	23.7	23.8	15.6	22.7	27.1
TANZANIA	7.1	8.8	9.9	10.1	18.5
UGANDA	16.7	15.8	15.2	15.5	15.5
RWANDA	9.5	9.3	11.8	14.4	16.5
BURUNDI	10.4	17.3	16.9	9.7	12.3

Source: EAC Partner States Central Banks

¹Rwanda, Burundi and Uganda adopted Basel III standards. Other partner states central banks are also at advanced stage in implementing this regulatory standard.



3. Domestic Macroeconomic Development

The Rwandan economic recovery remained on track and a created conducive environment for the growth and stability of the financial sector. In 2021, the Rwandan economy grew by 10.9 percent against a contraction of 3.4 percent in 2020. This growth momentum continued in 2022, especially in the services and industry sectors. During 2022 H1, the economy grew by 7.7 percent on average owing to strong performance of services, where the sector expanded by 11.4 percent in 2022 H1 from 10.8 percent in 2021 H1. During the same period, the industry sector grew by 8.1 percent in 2022 H1 against 19.2 percent in 2021 H1, while the growth of agriculture moderated to 1.3 percent in 2022 H1 from 7 percent in 2021 H1. The poor performance in the agriculture sector was due to global supply chain disruptions that are affecting usage of fertilizers coupled with unfavorable weather conditions. Overall, the improved economic performance was underpinned by implemented economic policies that support the recovery and full resumption of businesses.

The unfavorable global economic conditions are expected to cause a setback on the pace at which the domestic economy recovers. Subdued agriculture performance, rising inflation, tight monetary policy and overall unfavorable global economic conditions are expected to limit the pace of the recovery in the 2022 H2, thus impacting the overall economic performance of 2022. The Rwandan economy is projected to grow by 6.8 percent in 2022 and 6.2 percent in 2023, a slowdown compared to the growth of 10.9 percent registered in 2021.

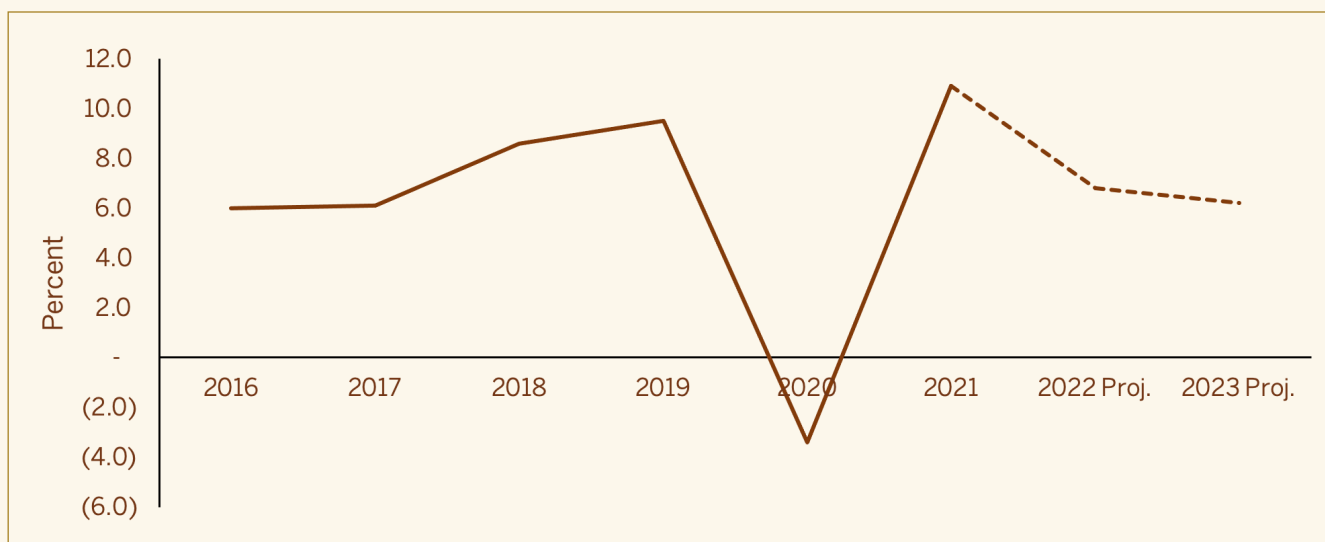


Inflation rate
averaged

4.6%
JUNE 2022

4.2%
JUNE 2021

Figure 4: Annual Real GDP Growth and Projections

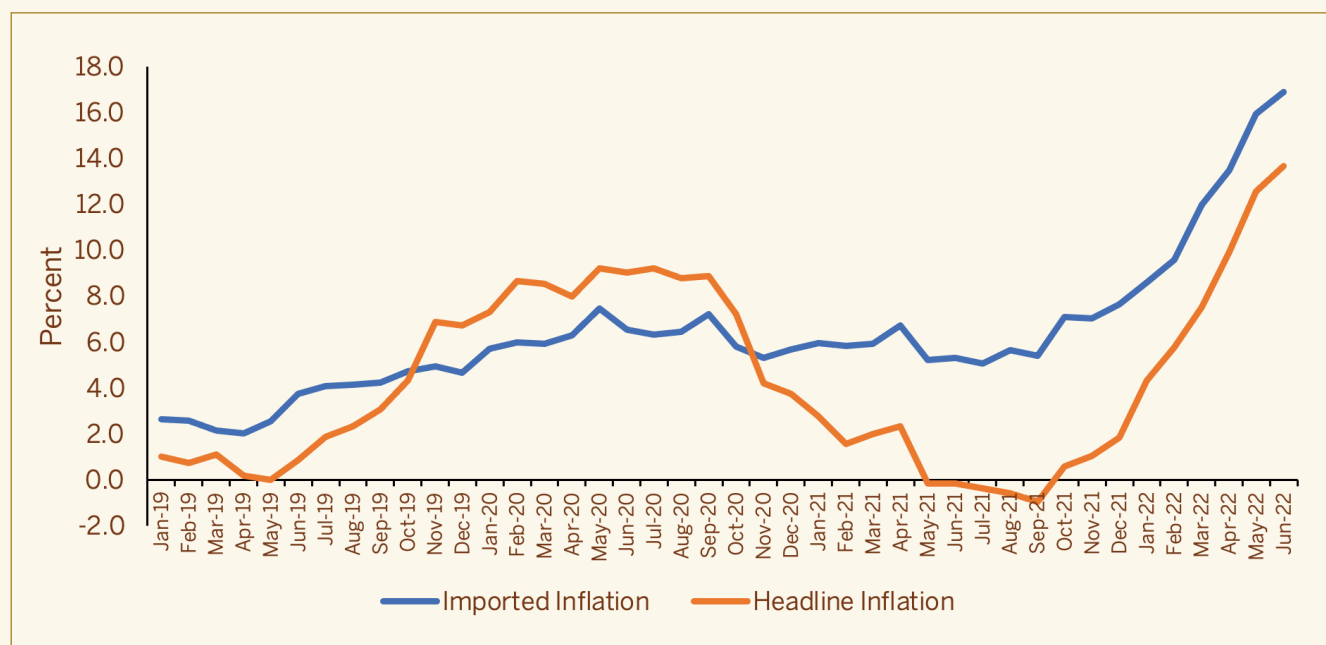


Source: National Institute of Statics of Rwanda & Ministry of Finance and Economic Planning

Inflation risks increased during the period under review. Inflationary pressures continue to build up largely reflecting subdued food production due to poor agriculture performance and increased imported costs. During the year to end June 2022, headline inflation averaged 4.6 percent from 4.2 percent during the previous year. Inflationary pressures highly increased in 2022 H1. Headline inflation increased to 9 percent in 2022 H1 up from 1.4 2021 H1, reflecting an increase in core inflation, fresh food products and energy. The increase in energy inflation was on the back of the rise in commodity prices, especially oil and gas prices. Similarly, core inflation picked up to 8.1 percent from 2.2 percent recorded in the previous year. The uptick in core inflation is consistent with increased imported and domestic costs arising from global supply challenges and increased commodity prices.

In 2022 H2, inflation is projected to remain high. With increased pressures from global commodity prices, subdued domestic food production due to unfavorable weather conditions, and increased fertilizer prices, headline inflation is projected to average 12.1 percent in 2022 compared to 0.8 percent in 2021. In line with this inflation outlook, the NBR increased the central bank rate by 100 basis points, from 5.0 to 6.0 percent in August 2022 to contain inflationary pressures and preserve the purchasing power of consumers. This was the second time the NBR increased the central bank rate after it was raised by 50 basis points to 5 percent from 4.5 percent in February 2022. Consistent with the monetary policy stance, money market rates increased with the average interbank rate rising by 21 basis points to 5.4 percent in 2022 H1, compared to the corresponding period of the previous year. Similarly, the lending rate increased by 51 basis points to 16.4 percent in 2022H1 from 15.9 percent in 2021H1. In contrast, on average, the deposit rate declined by 77 basis points to 7.5 percent in 2022 H1 from 8.2 percent recorded in 2021H1, on the back of an increase in the share of short-term deposits of less than 1 year that attract lower rates. As a result, the spread between lending rate and deposit rate increased by 125 basis points to 8.94 percent on average in 2022H1, from 7.69 percent in 2021H1. Increased lending rates are expected to improve the profitability of banks via interest margin but could induce credit risks, due to increased payment burden and induced lower demand for credit from increased borrowing costs.


Figure 5: Inflation Rates



Source: National Institute of Statics of Rwanda

Rwanda exports receipts benefitted from the increased commodity prices but trade deficit continues to widen. During 2022 H1, exports of goods and services improved significantly by 47.1 percent on back of rising commodity prices mainly of traditional exports, strong recovery of exports of services, good performance of manufacturing exports, and continued strong regional demand of re-exports. On the other hand, imports of goods and services rose by 33.6 percent owing to rising international food and oil prices as well as higher demand of imports in line with the rebound of economic activities. As a result, the trade deficit in goods and services expanded by 18.7 percent in 2022H1.

The expansion of trade deficit was offset by a significant increase in current transfers mainly remittances and official transfers, leading to an improvement in the current account deficit (CAD). The current account deficit (CAD) improved by 6.7 percent to USD 535.6 million in 2022 H1, down from USD 574.2 million recorded in 2021 H1, driven by increasing surplus in secondary income, thanks to higher diaspora remittance and government budgetary grant inflows, which offset the expansion in trade deficit. Projections indicate that the CAD is expected to widen to 12.6 percent of GDP in 2022 from 10.9 percent of GDP recorded in 2021. In 2023, the CAD is expected to improve in line with the recovering service exports and stabilizing global oil prices. Furthermore, the financial account surplus expanded to USD 494.6 million, up from USD 185.0 million, thanks to rising Foreign Direct Investments (FDI) and government inflows. The increase in FDI inflows reflects the improvement in economic activities. Overall, The Rwanda's balance of payments (BOP) deficit improved to USD 18.5 million in 2022 H1, up from USD 191.0 million in 2021 H1 on account of increased current transfers (remittances and government grants), FDI and government borrowing. The coverage of foreign reserves is estimated at 4.6 months of prospective imports of goods and services in 2022 and is projected to remain above 4.0 months over the medium term pointing to low external vulnerability.



The foreign exchange risks remained low owing to a stable foreign exchange market. Despite higher demand for foreign exchange due to increased imports bills, the stability in foreign exchange market was maintained. The Rwandan local currency (FRW) depreciated by 3.8 percent in June 2022 lower than the depreciation of 5.3 percent recorded in the corresponding period of 2021. The stability of foreign exchange market was driven by improved export earnings, tourism revenues, the reopening of informal cross border trade, as well as higher remittance inflows. The stable depreciation of local currency minimized risks associated with banks' net open position in foreign currencies.



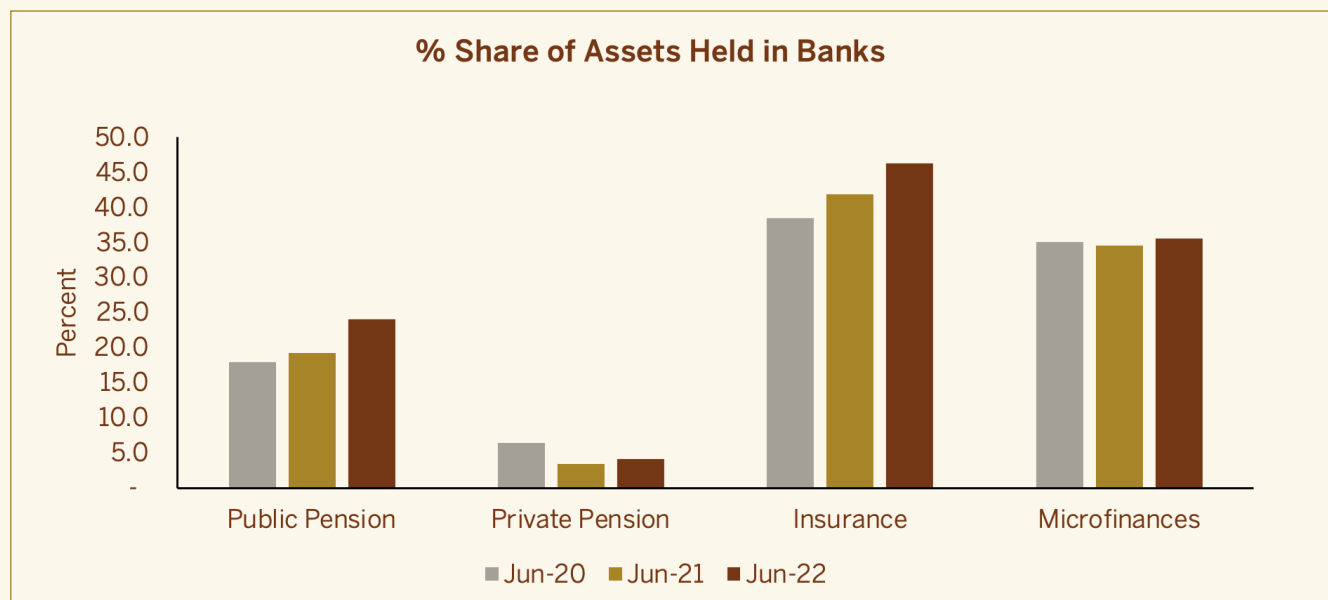
4. Systemic Risks Assessment

To fulfil the mandate of maintaining a stable and sound financial system, the BNR periodically identifies key risks underlying the financial sector and takes measures to mitigate the identified risks. Risks assessed by NBR refer to existing or evolving conditions in the financial sector that make the financial sector vulnerable when faced with economic and financial shocks. These risks relate to the structure of the financial sector, the interconnectivity, the structure of their asset portfolio and, the status of household and corporate sector balance sheets. The section below summarizes the recent assessment of key risks facing the financial sector.

Financial Sector Linkages

The analysis of interconnectedness is an important part of financial stability and risk assessment. This is based on facts that growing interlinkages can amplify and transmit a shock from one institution to another and play a major role in triggering systemic financial crises. The domestic financial sector is becoming more interconnected with direct balance sheet exposure that are mainly in form of deposits and share capital. The cross-institutions linkages are mainly depicted by increasing exposure of Non-Bank Financial Institutions (NBFIs) to banks with the most exposure from insurance. Although banks are also exposed to NBFIs by providing credit to insurers and microfinances through direct lending, the exposure of NBFIs to banks is gaining prominence as NBFIs are important funding sources for banks, therefore leading to sizeable direct exposures. During the year to end June 2022, the insurance sector held 44.8 percent of its assets in the banking sector, while the pension sector and microfinance sector held 24.9 percent and 35.5 percent of their total assets in the banking sector respectively. With these cross institutional interlinkages, NBFIs are highly vulnerable to banking sector shocks. Safeguarding the resilience of banks to shocks remains a top supervisory priority of the NBR, and assessing the nature of financial sector interconnections along which financial shocks can propagate will continue to be part of macro-prudential oversight.

Figure 6: Financial Sector Linkages



Source: NBR, Financial Stability Directorate

Stability of Domestic-Systemically Important Banks (D-SIBs)

The identification of D-SIBs has become part of the broader macro prudential oversight of the NBR. Referring to the Basel Committee on Banking Supervision (BCBS)'s assessment methodology, the NBR has developed a framework for Domestic-Systemically Important Banks (D-SIBs). This framework creates incentives for stronger risk management practices that would reduce the systemic risks that D-SIBs poses and aims at complying with BCBS requirement on supervision of D-SIBs and ensuring transparent assessment of the basis for regulation of D-SIBs. The identification criteria for D-SIBs is based on a weighted combination of five indicators; the size, interconnectedness, substitutability, complexity, and cross- jurisdictional activities.

In line with the D-SIBs identification methodology, a bank is designated a D-SIB if its overall score based on the quantitative methodology, is at least 8 percent. Currently, five banks that have been identified as D-SIBs continue to be sound and stable, hence pose no threat to domestic financial stability. As at end June 2022, the aggregate core CAR and total CAR for D-SIBs stood at 21.7 percent and 22.6 percent respectively. With regards to liquidity, the consolidated LCR and NSFR for D-SIBs stood at 214.6 percent and 186.8 percent respectively. Furthermore, D-SIBs continued to comply with additional regulatory requirements meant to increase their capacity to absorb losses. The NBR will continue to undertake regular assessment of D-SIBs to ensure that they have enough liquidity and capital buffers to absorb any potential losses that may arise.

Table 3: Key Financial Soundness Indicators of D-SIBs

FSI (%)	Jun-19	Jun-20	Jun-21	Jun-22
Core CAR	23.4	23.1	21.2	21.7
Total CAR	24.2	23.9	22.3	22.6
LCR	224.6	234.6	218.9	214.6
NSFR	194.5	183.4	178.9	186.8
NPL Ratio	6.3	5.9	5.2	4.4
ROA	2.6	2.8	3.1	2.9
ROE	13.2	13.5	14.6	15.8

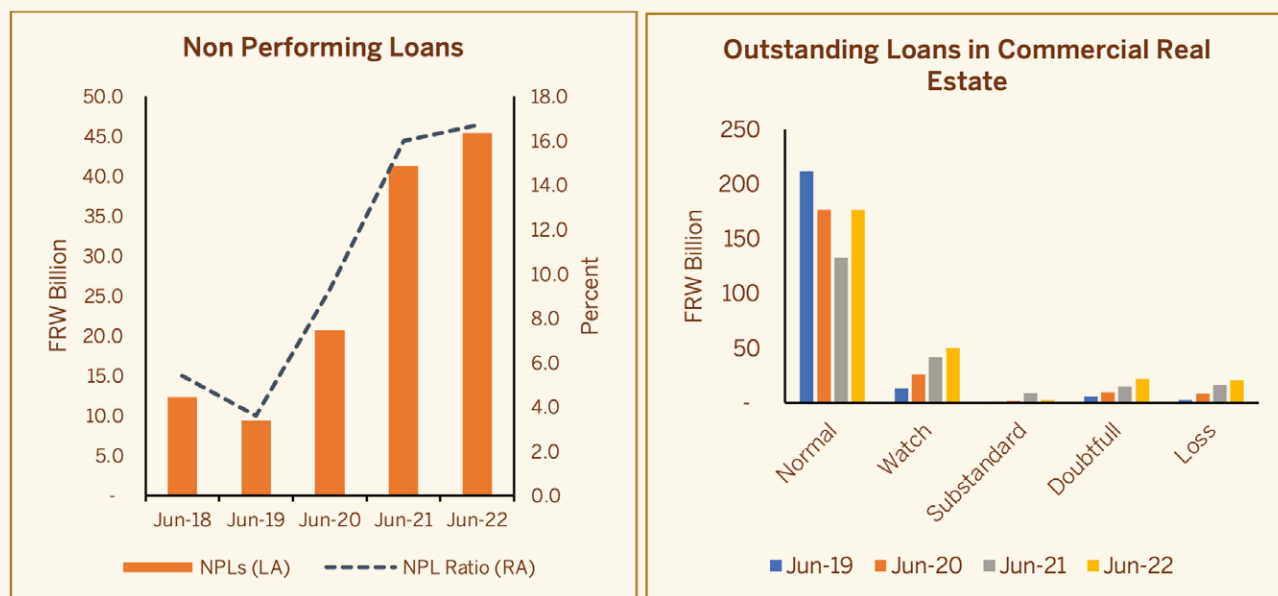
Source: NBR, Financial Stability Directorate

Banks' Exposure to Commercial Real Estate

The growth in commercial real estate lending picked up in recent years making banks more vulnerable to adverse development in the real estate market. Banks' exposure to the commercial real estate sector constitutes around 9.1 percent of total outstanding loans (or FRW 272.4 billion), 12.8 percent of total corporate loans, and accounted for around 14 percent of the growth of bank loans over the past 5 years. Credit defaults in commercial real estate sector have been increasing since the outbreak of the pandemic and this poses a threat to the stability of the financial sector. In absolute amount, non-performing loans for commercial real estate amount to FRW 45.4 billion as at end June 2022, up from FRW 9.4 billion as at end June 2019, FRW 20.7 billion as at end June 2020 and FRW 41.3 billion as at end June 2021. Similarly, non-performing loans ratio increased to 16.7 percent as at end June 2022, from 3.6 percent in June 2019, 9.3 percent in June 2020 and 16 percent in June 2021.

Furthermore, commercial real estate loans in watch category (loans whose payment is overdue between 30 and 90 days) increased to FRW 50.4 billion (18.5 percent of total commercial real estate loans) in June 2022 from FRW 26.4 billion (11.8 percent) and FRW 43.2 billion (16.7 percent) in June 2020 and June 2021, respectively. This increase of loans in watch category indicates that borrowers are still facing income distress and are likely to downgrade to NPLs in case they continue to face income shortfall. In general, the deterioration of assets quality in commercial real estate is mainly linked to the reduction of rental income that weaken the earnings prospects of proprietors of commercial properties. The mismatch between the duration of the completion of the construction of commercial properties, occupation by tenants and grace period provided by banks is also a factor contributing to credit defaults in commercial real estate. In most cases, proprietors of commercial properties start paying back loans before the project is complete to generate rental revenues, therefore failing to sustain credit payment halfway. To tackle risks associated with commercial real estate lending, credit appraisal for commercial real estate needs to be more rigorous. The NBR has recommended banks to regularly stress test the rental-income assumptions provided by borrowers during credit appraisal as evidence depicts that these don't usually materialize as planned. Furthermore, commercial real estate term structures should be commensurate to the size of the building, construction period and entire project life.

Figure 7: Asset Quality for Commercial Real Estate



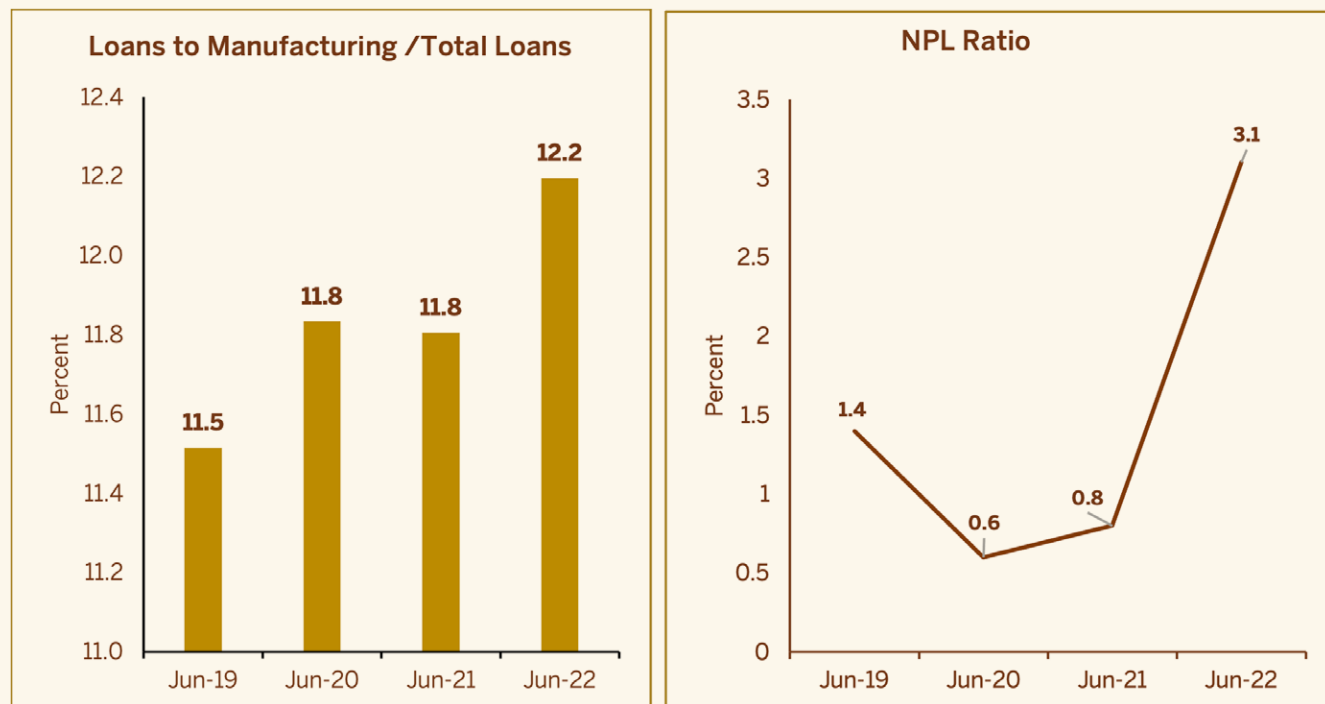
Source: NBR, Financial Stability Directorate

Banks' Exposure to Manufacturing

The disruption in global supply chain is continuing to cause vulnerabilities to the manufacturing sector. Due to the adverse global supply shock associated with the outbreak of the war between Russia and Ukraine, banks' exposure to manufacturing sector is at risk due to the sector heavy usage of energy and other imported inputs that are currently subject to strong increase in prices. The shortages of input materials may substantially slow up and complicate manufacturing processes, increase production costs, thereby weighing on revenues of manufacturers. This impact would be felt regardless of whether manufacturers pass on to their customers the rising costs, since their sales would be affected.

So far, the assets quality in the manufacturing sector remains healthy, though they slightly deteriorated during the year to end June 2022. NPLs ratio in manufacturing sector marginally increased to 3.1 percent in June 2022 from 0.8 percent in June 2021 and 0.6 percent in June 2020. The deterioration of assets quality mainly came from steel and metal producers. In case energy and inputs prices continue to rise, credit risk could become more apparent given that the manufacturing sector is amongst the top financed sectors representing 12.2 percent of total outstanding loans for banks.

Figure 8: Banks' exposure to manufacturing



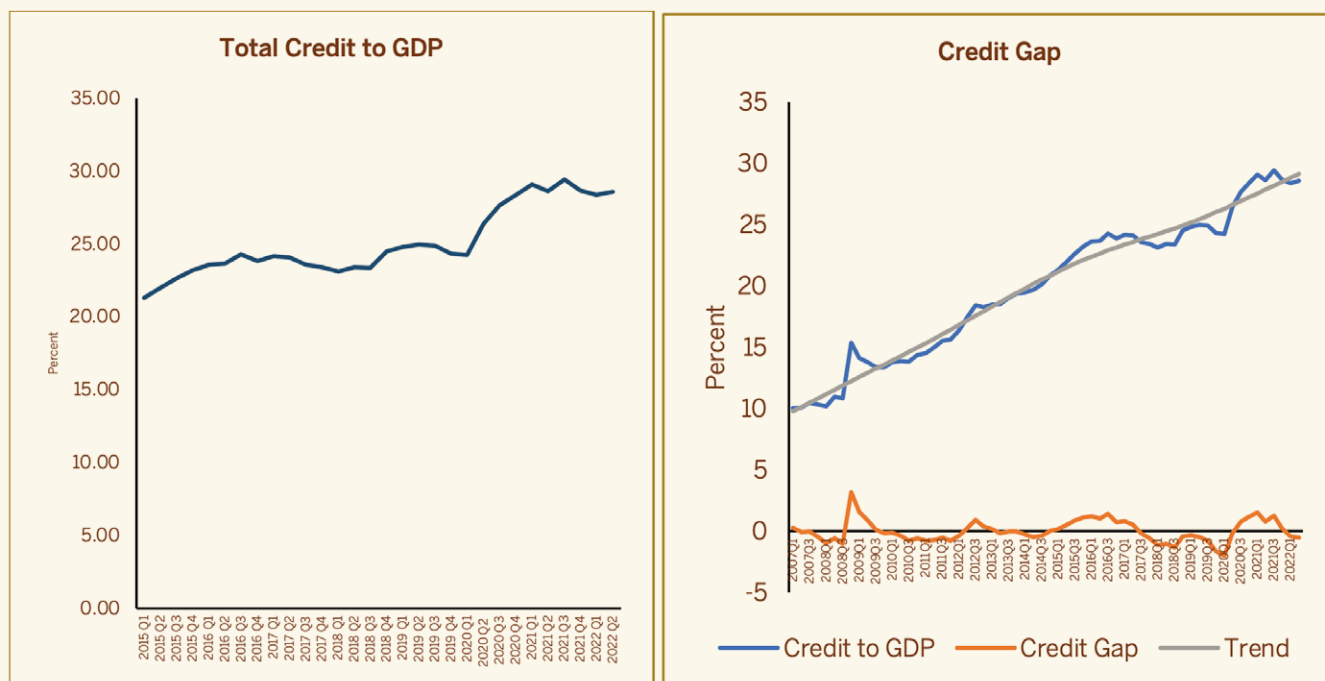
Source: NBR, Financial Stability Directorate

Excessive Credit Growth

Past financial crises and in particular the global financial crisis have proved that excessive credit growth often leads to the build-up of systemic risks to financial stability, which may materialize in the form of systemic banking crisis. To monitor imbalances in credit development, the NBR applies the methodology recommended by BCBS under the Basel III global regulatory framework. This methodology suggests that the credit-to-GDP gap constitute an indicator of excessive credit growth and is considered as a useful indicator of future stress in the banking sector.

Credit imbalance is gauged by comparisons between the actual credit to GDP ratio with its long trend estimated by statistical filtration techniques as detailed in Box 1. The recent assessment that was conducted with data as end June 2022 indicated that the domestic credit growth is in line with its long-term trend and thus not likely to overheat the economy. Overall, there is no indication of excessive and rapid credit growth that could threaten the stability of the financial system.

Figure 9: Credit to GDP and Credit to GDP Gap



Source: NBR, Financial Stability Directorate

Box 1: Method for Estimating the Equilibrium Credit Level

One of the objectives of macroprudential supervision is to mitigate systemic financial stability risks which are sometimes triggered by excessive credit growth. Credit growth that is out of line with trends in economic growth often leads to the build-up of systemic risks to financial stability and triggers banking crises. It is, therefore, important to monitor growth in credit imbalances so that early supervisory interventions can be made. In this regard, the NBR is continually developing tools of assessing whether or not credit growth is excessive. Currently, the NBR measures excessive credit growth based on the Credit-to-GDP Gap. The Bank for International Settlements (BIS) defines the Credit to GDP gap or credit gap as the difference between the Credit to GDP ratio and its long-term trend. This approach has become a useful tool for predicting banking crises.

The methodology is based on the decomposition of the credit-to-GDP ratio into a long-run trend and a cyclical component using a statistical filter. It proposes the use of a real-time version of the Hodrick–Prescott filter (HP) which is widely used for macroeconomic series, especially the business cycles. To obtain real time estimations of credit, we use a high-pass type of filter which has the property of making stationary processes of integrated orders from 1 up to 4 on past and current observations that are used to compute the trend at each moment in time. The credit gaps calculated using total credit data and GDP at end June 2022 pointed to low credit risks imbalance. This implies that the growth of credit is backed by macroeconomic fundamentals and reflects room for further credit expansion.

Credit Risks in the Insurance Sub-Sector

In November 2021, the NBR revised its regulatory forbearance to limit Private Insurers to selling insurance on credit after the ease of Covid-19, but private insurers continued to sell policies on credit hence increasing premiums received by 90 days mostly in corporate. The Premium receivables in private insurers increased from FRW 15.8 billion in June 2021 to FRW 17.3 billion in June 2022. These premium receivables represented 8 percent of private insurers' gross premiums as at end June 2022. And this might be a source to credit risk in the insurance sector. The NBR will continue monitoring the growth of these receivables, as well as their impact on the liquidity positions of insurers, and take necessary measures where risks are increasing.

Market Risk in Insurance Sub-Sector

Russia-Ukraine conflicts has disrupted the global supply chain hence causing inflation globally to increase. A persistent increase in inflation rates could inflate insurance claims, particularly non-life insurers. Insurers' expenses could also increase by more than allowed for in the pricing of their insurance products. This could lead to losses and, eventually, to a deteriorating solvency position. There is no direct shock from macro-economy transmission channel to the insurance sector so far observed. The NBR will continue to monitor possible transmission channels to ensure risks are contained in a timely manner.





5. The Resilience of the Financial System

Stability of the Banking Sub-Sector

The capital position of the banking sector remained stable with sufficient buffers above regulatory requirements. As at end June 2022, the aggregate total Capital Adequacy Ratio (CAR) of banks stood at 23.1 percent, higher than the minimum regulatory requirement of 15 percent (Table 4). Similarly, the aggregate core CAR deemed as high-quality capital stood at 22.1 percent as at end June 2022, higher than the minimum regulatory requirement of 12.5 percent. From a solo perspective, all banks are solvent and maintained capital buffers above the minimum prudential requirements. The sufficient capital buffer held by banks indicates the resilience of the banking sector to shocks in sense that these buffers are reserves that banks can use to cover losses from their exposures and continue lending without breaching regulatory minimum requirements.

The capital ratios remained above the regulatory requirements predominantly as a result of capital injections, retained earnings and the moderation of the growth of risk weighted assets, due to increased investments in liquid assets. Risk weighted assets of banks increased by 12.6 percent to FRW 3,607 against the growth of 27.1 percent in June 2021. The moderation of the growth of risks weighted assets mirrors the slowdown of lending and increased investment in liquid assets. Furthermore, paid up capital increased by 13.3 percent to FRW 421 billion in June 2022 higher than the growth of 11.2 percent registered in June 2021. During the same period, retained earnings grew by 39.9 percent to FRW 198 billion.

The stress tests performed on the banking sector in June 2022 demonstrated that the banking sector is highly resilient to the adverse shocks. According to stress test results, the banking sector has enough capital buffer to absorb adverse shocks and maintain their overall capital ratio sufficiently above the regulatory threshold of 15 percent even under a

very adverse scenario. The post stress test Capital Adequacy Ratio (CAR) of banks would reduce from 23.1 percent to 20.7 percent, still above the 15 percent prudential requirement. Only 3 small sized banks would have capital that is slightly below the prudential requirement of 15 percent. The shock involved an increase of existing NPLs by 11 percent (considered as a mild case scenario) would a simultaneous increase of inflation and FRW depreciation by 2 standard deviations and a decrease of GDP by 2 standards deviations. The reverse stress testing also indicated that the migration of 12 percent of performing loans to non-performing loans in commercial real estate sector would leave one bank undercapitalized.

The adequate capitalization of banks is also reflected by the leverage ratio from a broader on and off-balance sheet consideration. The leverage ratio is an important additional solvency indicator that measures capital resilience independently of risk-weighted assets and therefore removes possible distortions in the risk weighted estimates. The leverage ratio for the banking sector averaged at 12.7 percent as at end June 2022, higher than 6 percent minimum regulatory requirement. These solvency buffers offer the first line of defense for Banks to absorb losses to a certain extent and at the same time continue the provision of credit to the economy. In medium term, banks are expected to remain adequately capitalized, and thus support households and businesses despite the unfavorable economic outlook.

Liquidity risk remains low. Banks are required to always hold a sufficient stock of liquid assets to be able to meet customers' funding needs during a period of stress. Banks' Liquidity Coverage Ratio (LCR) – which measures holding of liquid assets relative to the potential outflows that could occur in a short-lived but severe stress scenario – have remained above regulatory requirements. As at end June 2022, banks' aggregate LCR stood at 224.7 percent, well above the minimum requirement of 100 percent. This is an indication that banks hold sufficient High-Quality Liquid Assets (HQLA) to meet their short-term (30-day) liquidity obligation.

The liquidity stress tests also suggests that banks are resilient to liquidity shocks in the short term. The liquidity stress test carried out as at June 2022, two simultaneous assumptions were considered: first, the reduction of High Quality Liquid Assets (HQLA) by 9.6 percent which is the double of the current withdrawal rate (average of 4.8 percent in the first five months of 2022), accompanied by the decrease of inflows resulting from the loss on loans being defaulted on, by considering the percentage increase of NPLs. The results of the test showed that the LCR would reduce from 224.7 percent to 143 percent and five banks would fall below the required liquidity requirement of 100 percent. The LCR metric is calibrated on a 30-day stress horizon.

The long-term liquidity position of banks also remains stable. While the LCR provides information on banks' liquidity position from a short-term perspective, the Net Stable Funding Ratio (NSFR) takes a longer-term view and provides information on whether banks have sufficient long-term funding to finance their illiquid assets over a one-year horizon. As at end June 2022, the NSFR stood at 130.9 percent respectively, higher than 100 percent

minimum regulatory requirement.

The robust liquidity conditions of banks are partly reflective of the stable funding base.

The customer deposits that accounted for 74 percent of total banking system liabilities expanded by 19 percent to FRW 3,375 billion in June 2022 from 2,836 billion in June 2021, higher than the growth of 16.2 percent registered in June 2021. Of all the total deposits, 97 percent were mainly from residents, and this minimizes the risks associated with tight global financial conditions and volatility in global financial markets during periods of crisis.

The liquidity risk facing banks relates to the reliance on short-term resources. As at end June 2022, around 65 percent of banks' deposits were demand deposits, funds that can be withdrawn any time. The term deposits held by banks represent 35 percent of total deposits out of which, 92 percent hold a maturity of less than 1-year. With this funding structure, banks are exposed to a funding risk related to excessive maturity transformation. Short-term resources also limit banks' ability to provide credit in the long term.

Credit risk remains the major risk facing the financial sector. The stock of Non-Performing Loans (NPLs) in banks reduced by FRW 12 billion (Y-o-Y) to FRW 166 billion in June 2022 from FRW 178 billion in June 2021 mainly on the account of write off of overdue loans. Between June 2021 and June 2022, write offs amounted FRW 68 billion out of which FRW 16 billion were written off during the second quarter of 2022. Consequently, the NPL ratio dropped to 4.3 percent in June 2022 from 5.7 percent in June 2021 (Table 4). The decline in the NPL ratio is also linked to the growth of outstanding loans during the period under review.

Table 4: Key Financial Soundness Indicators for Banks (Percent)

Indicators (%)	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Total CAR (min 15 %)	21.9	23.3	23.6	22.5	23.1
Tier 1 CAR (Core CAR)	20.1	21.8	22.3	21.4	22.1
NPLs Ratio	6.9	5.6	5.5	5.7	4.3
Provisions / NPLs	67.4	80.2	82.6	99.0	114.4
Return on Average Assets	1.6	1.6	1.8	2.5	2.8
Return on Average Equity	9.5	9.3	9.9	14.4	16.5
LCR (min 100%)	299.5	180.5	253	226.2	224.7
NSFR (min 100%)	224.7	164.3	164.3	157.4	130.9
FX Exposure/Core Capital (\pm 20%)	-6.1	-8.6	-6.6	-4.7	-4.4

Source: NBR, Financial Stability Directorate

From the sectoral perspective, the NPL ratio reduced in key sectors like trade, hotels, transport, public works, residential properties, other services and consumer loans (Table 5). The reduction of NPLs in these economic sectors mainly mirrors the growth of outstanding loans and write offs. However, the NPL ratio increased in other sectors including commercial real estate, manufacturing, water and energy sector and agriculture.

In agriculture and manufacturing, the increase of NPLs reflects the challenges in global supply chain and increased commodity prices, especially for metal and fertilizers that are affecting productivity and earnings of borrowers in these two sectors. The deterioration of assets quality in water and energy sector is largely linked to the poor performance of one big project that downgraded to NPLs, thus affecting the portfolio of the entire sector.

Despite the above-mentioned challenges, most of the loans that had benefited from the credit moratorium resumed repayment supported by the recovery of economic activities.

As result, the stock of loans that remained in moratorium reduced to FRW 50 billion in June 2022 (1.6 percent of total loans) from FRW 83 billion in December 2021 (2.8 percent of total loans) and FRW 215 billion in June 2021 (7.9 percent of total loans). The hotel sector that benefitted from the extended moratorium represents the biggest portion of loans still under moratorium (58 percent). As it was reported in the previous MPFSS of March 2020, the regulatory forbearance on loan restructuring was phased out by end September 2021 to avoid moral hazard-related risks and instill balance sheet transparency among the banks.

Looking ahead, rising inflation originating from increased commodity prices and global supply chain hitches are expected to moderately increase credit risk to banks.

New challenges could arise for households and businesses in the case of continued rising energy prices that indirectly impacts on the performance of other businesses. To preserve the stability of the banking sector amidst these increased risks, the NBR will focus on effective monitoring of credit risk in banks as well as ensure appropriate classification and provisioning.

Table 5: NPLs Ratio by Economic Sector (percent)

Activity Sectors	NPLs Ratio (Percent)				% share in total NPLs
	Jun-19	Jun-20	Jun-21	Jun-22	
Personal Loans	6.0	7.4	5.9	5.5	7.6
Agricultural & Livestock	5.0	4.8	2.6	7.8	1.1
Mining	88.4	80.4	0.1	0.3	0.0
Manufacturing	1.4	0.6	0.8	3.1	6.5
Water & Energy	0.0	0.0	0.0	24.0	16.3
Mortgage	3.8	5.5	8.0	6.7	37.4
Public works	2.3	3.2	5.9	1.4	1.7
Residential Properties	4.9	4.3	3.7	3.4	9.7
Commercial Properties	3.6	9.3	16.0	16.7	26.0
Trade	15.6	10.8	8.1	6.3	15.8
Hotels	8.8	3.8	9.0	5.0	8.9
Transport & Communication	2.3	1.4	1.5	1.4	2.7
Financial Services	1.7	1.1	2.4	2.6	2.9
Other Services	6.7	8.2	4.3	0.8	0.8

Source: NBR, Financial Stability Directorate

The banking sector remained profitable during the period under review. The aggregate net profits of banks increased by 33.1 percent to FRW 74.4 billion in the first half of 2022 from FRW 55.9 billion during the first half of 2021. As result, the Return on Assets (ROA) that gauges how efficient banks managements are in earning profits from the assets on their balance sheet, increased to 2.8 percent in first half of 2022 from 2.5 percent in first half of 2021. During the same period, the Return on Equity (ROE), that measures banks' ability to turn equity capital into profits, increased to 16.5 percent from 14.4 percent. The improved profitability of banks is associated with increased investments in earning assets, notably loans and Government securities, and improved efficiency. During the first half of 2020, banks' revenues increased by 19 percent to FRW 354 billion from FRW 298 billion during the first half of 2021, and exceeded the growth of expenses. The growth of banks' revenues was largely underpinned by the increase of interest income. Interest income represented 75.4 percent of total income of banks and increased by 12.7 percent to FRW 267 billion in 2021H1 from FRW 237 billion in 2020H1. The interest income mainly consists of interest income on loans and advances (82 percent), interest income on Government securities (14 percent) and interest income on banks' placements (3 percent). This structure of banks' revenues implies that credit demand and quality of loans are key factors determining the profitability of banks. The macroeconomic stability is therefore of paramount importance for future profitability and overall stability of banks.

Banks revenues were also beefed up by the growth of non-interest income. During 2022H1, non-interest income increased by 43.4 percent to FRW 87 billion from FRW 61 billion in 2021H1, higher than the growth of 14.9 percent recorded during the corresponding period in 2021. Non-interest income is largely made of commission fees (45 percent), foreign exchange income (23 percent) and recoveries (31 percent). Commission fees increased by 37.7 percent to FRW 40 billion in 2022H1 from FRW 29 billion in 2020H1, against the growth of 26.2 percent recorded in 2021H1. Similarly, foreign exchange income increased by 59.2 percent to FRW 20 billion form FRW 13 billion, while the recoveries grew by 31 percent to FRW 27 billion from FRW 19 billion. Generally, the improved growth of non-interest income is linked to increased demand for financial services consistent with the recovery of economic activities.

Regarding the expenses structure, the growth of expenses increased during the period under review, but at a slower pace compared to the growth of income. Total expenses of banks increased by 14.4 percent to FRW 246 billion in 2020H1 from FRW 216 billion in 2021H1, compared to the growth of 10.1 percent in 2021H1. The growth of banks' expenses happened in interest expenses on deposits which increased by 21.3 percent to FRW 56 billion in 2022H1 higher than the growth of 9.6 percent in 2021H1. The growth of interest expenses largely mirrors the expansion of deposits during the period under review.

Other interest expenses that comprise of interest expense on borrowings increased by 15 percent to FRW 22 billion in 2022H1, lower than the growth of 33.2 percent in 2021H1. The moderation of the growth of other interest expenses is linked to the slowdown of the pace of

borrowing during the period under review. As at end June 2022, banks' borrowings increased by 24.3 percent down from 29 percent during the previous year. Furthermore, the growth of staff costs that accounted for 20 percent of total expenses of banks remained relatively stable at 9.3 percent in 2022H1 relative to 9.7 percent in 2021H1. The provisions for bad debts declined by 26 percent to FRW 35 billion in 2022H1 against the growth of 19.8 percent in 2021H1 mainly due to the write back of provisions on loans in moratorium.

In period ahead, the improving efficiency is expected to continue enriching the profitability of banks. The total cost to total income ratio used to measure the efficiency at which banks are being run dropped to 69.7 percent in June 2022 from 72.5 percent in June 2021, 79.5 percent in June 2020 and from a pick of 90.2 percent in June 2010.

The Stability of the Microfinance Sub-Sector

The microfinance sector continues to be adequately capitalized. As at end June 2022, the aggregate CAR of MFIs stood at 33.9 percent, higher than the 15 percent minimum regulatory requirement (Table 6). All categories of MFIs comply with the capital adequacy requirements. The CAR of U-SACCOs stood at 32.9 percent as at end June 2022, while the CAR for Public limited companies and other SACCOs stood at 24.7 percent and 44.4 percent respectively. The robust capitalization of MFIs is also associated with the expansion of capital base and improved assets quality. On one hand, total equity of MFIs increased by FRW 23 billion to FRW 160 billion in June 2022 from FRW 137 billion in June 2021. On the other hand, the reduction of NPLs resulted in a decline of provisions for bad debts and increased profits of MFIs.

The liquidity position of MFIs also remains healthy (Table 6). Industrywide, the liquidity ratio of MFIs stood at 105.2 percent, against 30 percent minimum prudential requirement and all categories of MFIs comply with this regulatory requirement. For example, the liquidity ratio of U-SACCOs and PLCs stood at 101.6 percent and 86.3 percent as at end June 2022 respectfully, while the liquidity ratio of other SACCOs stood at 152.8 percent. The stable liquidity levels of MFIs is largely linked to the growth of deposits, capital and the growth of revenues in line with increased lending and improved assets quality.

Asset quality of MFIs have improved consistently with the rebound of the economy, and more specifically the recovery of small-scale businesses. The stock of NPLs in MFIs declined by FRW 1.2 billion to FRW 12.9 billion in June 2022 from FRW 14.1 billion in June 2021. As result, the NPL ratio in MFIs dropped to 5 percent in June 2022 from 6.6 percent in June 2021. The reduction of NPLs was most apparent in U-SACCOs and other SACCOs. In U-SACCOs, outstanding NPLs dropped to FRW 5.8 billion in June 2022 from FRW 6.2 billion in June 2021. During the same period, outstanding NPLs in other SACCOs reduced to FRW 2.3 billion from FRW 3.5 billion. Accordingly, the NPL ratio in U-SACCOs dropped to 7.8 percent as at end June 2022 from 10.6 percent as at end June 2021, while in other SACCOs, it dropped to 2.4 percent in June 2022 from 4.3 percent in June 2021.



Total equity of MFIs
increased to

FRW 160 bn

JUNE 2022

FROM

FRW 137 bn

JUNE 2021

In PLCs, NPLs ratio declined to 5.4 percent in June 2022 from 6 percent in June 2022 mainly on account of higher growth of outstanding loans relative to the growth of NPLs.

Sector wise, the NPL ratio dropped in transport (to 7.8 percent from 8.5 percent), in trade (to 5.1 percent from 8.2 percent), construction (to 4.1 percent from 5 percent) and for consumer loans (to 3 percent from 6.4 percent). However, NPLs ratio increased in agriculture sector to 7.1 percent from 5.6 percent, on account of growth moderation of the agriculture output which is associated with bad weather condition. Looking ahead, the shortage and increased prices of fertilizers will continue to weigh on the agricultural output, thus affecting the financing of this sector.

The microfinance sector remains profitable. During the period under review, net profits of MFIs increased by 18 percent to FRW 10.6 billion during the first half of 2022, up from the profit of FRW 9 billion recorded during the corresponding period in 2021. The increase in the profit of MFIs is mainly linked to the improved growth of revenues and reduction of provisions for bad debts. On one hand, the revenues of MFIs increased by 21 percent to FRW 36.6 billion during the first half of 2022 from FRW 30.3 billion during the first half of 2021, against a decline of 1.5 percent during the first half of 2021. The improved growth of income is mainly a reflective of increased lending and improved asset quality. On the other hand, provisions for bad debts reduced to FRW 1.7 billion during the first half of 2022 from FRW 2.1 billion during the first half of 2021 on account of the reduction of NPLs.

Table 6: Performance Indicators of Microfinances

Microfinance Sector	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Net profit/Loss (FRW billion)	3.3	6.6	1.1	9.0	10.6
Capital Adequacy Ratio (%)	32.5	33.9	34.5	35.4	33.9
NPLs Ratio (%)	7.9	6.7	12.8	6.6	5.0
Liquidity Ratio (%)	103.4	108.8	110.1	106.1	105.2
U-SACCOs	Jun-18	Jun-19	Jun-20	Jun-21	
Net profit/Loss (FRW billion)	1.8	2.9	0.3	3.9	4.7
Capital Adequacy Ratio (%)	32.2	31.9	32.8	33.6	32.9
NPLs Ratio (%)	12.3	12.5	21.8	10.6	7.8
Liquidity Ratio (%)	117.7	117.5	113.2	106.9	101.6
Public Limited Companies	Jun-18	Jun-19	Jun-20	Jun-21	
Net profit/Loss (FRW billion)	-0.6	1.1	-1.1	0.7	1.6
Capital Adequacy Ratio (%)	20.5	23.2	22.2	24.9	24.7
NPLs Ratio (%)	8.7	5.2	12.4	6.0	5.4
Liquidity Ratio (%)	72.6	77.6	82.1	78.6	86.3
Other SACCOs	Jun-18	Jun-19	Jun-20	Jun-21	
Net profit/Loss (FRW billion)	2.1	2.5	1.9	4.4	4.3
Capital Adequacy Ratio (%)	43.1	47.0	48.7	48.2	44.4
NPLs Ratio (%)	4.2	3.7	7.1	4.3	2.4
Liquidity Ratio (%)	102.5	138.5	157.8	165.7	152.8

Source: NBR, Financial Stability Directorate

Stability of the Insurance Sub-Sector

The insurance sub-sector remained solvent and liquid during the period under review.

Private insurer's solvency ratio stood at 180 percent as at end June 2022 compared to 147 percent in June 2021 driven by increased quality of assets due to changes in investment mix of insurers. The private insurers have increased investment in non-deducted assets like placements in banks and government securities and reduced investment in high-deducted assets during computation of solvency ratio, like investment in properties and equities, and this affected the solvency position of private insurers positively. The solvency position of public insurers remained far above solvency requirements at 1087 percent, in line with stable business of these Insurers (Table 7).

Generally, insurance companies are required to maintain a liquidity ratio of 100 percent to minimize bankruptcy risk and in June 2022, the liquidity ratio of private insurers stood at 100 percent, the same as the prudential requirements of 100 percent, improving from 94 percent in June 2021, due to increased investments in more liquid assets, and reduction of premium receivables between December 2021 and June 2022 (Table 7)

The insurers do reinsure part of their business as a risk management tool. The principal purpose of reinsurance is to manage insurance risks, to maintain financial capacity to meet commitments to policyholders, to comply with the solvency requirements, and to maintain sufficient capital to continue doing business on a going-concern basis. For good practices private insurers should not ceded to reinsurer more than 30 percent of their total gross premium written. In June 2022 the retention of the ratio of private insurers was 74 percent after reinsurance and coinsurance arrangement. Private insurers are still using reinsurance as risk mitigation more than the recently encouraged coinsurance arrangement.

Table 7: Financial Soundness indicators of the Insurance Sector

Description (Ratios %)	Private Insurers			Public Insurers			Insurance sector		
	June 2020	June 2021	June 2022	June 2020	June 2021	June 2022	June 2020	June 2021	June 2022
Solvency margin (Min. 100%)	136	147	180	2463	2765	1087	1218	1374	410
Claims ratio (max.60%)	62	64	64	55	49	49	59	56	56
Expenses ratio (max. 30%)	39	36	36	22	23	20	30	30	28
Combined ratio (max.90%)	101	101	101	77	72	68	89	86	84
ROE (Min.16%)	18	18	16	9	13	13	10	14	13
ROA (Min.4%)	6	6	5	9	12	13	8	10	10
Current Ratio (min. 120%)	74	81	90	2998	3489	3630	243	239	250
Liquidity ratio (min. 100%)	90	94	100	3189	4413	4796	268	294	311

Source: NBR, Financial Stability Directorate

The National bank of Rwanda is implementing a new standard and a modern regulatory & supervision approach to ensure the stability of the sector in line with recent market developments in insurance business. In this context, NBR has embarked on introducing a new supervision framework “risk-based supervision framework”, to replace the current compliance-based supervision framework. The Risk based supervision framework establishes solvency ratio requiring all Insurers to hold the same amount of capital resources, regardless of their risk profile. To implement this holistic risk-based supervision framework, the NBR started implementing Risk Based Capital adequacy (RBC) approach as the pillar I in this framework, that requires the Insurer to hold capital level based on the size, complexity and risk profile of each individual Insurer. The introduction of this new approach is expected to further strengthen the resilience, while also stirring growth potentials in the insurance industry. (Box 2 discusses RBC approach in detail).

Box 2: The Risk Based Capital(RBC) Implementation:

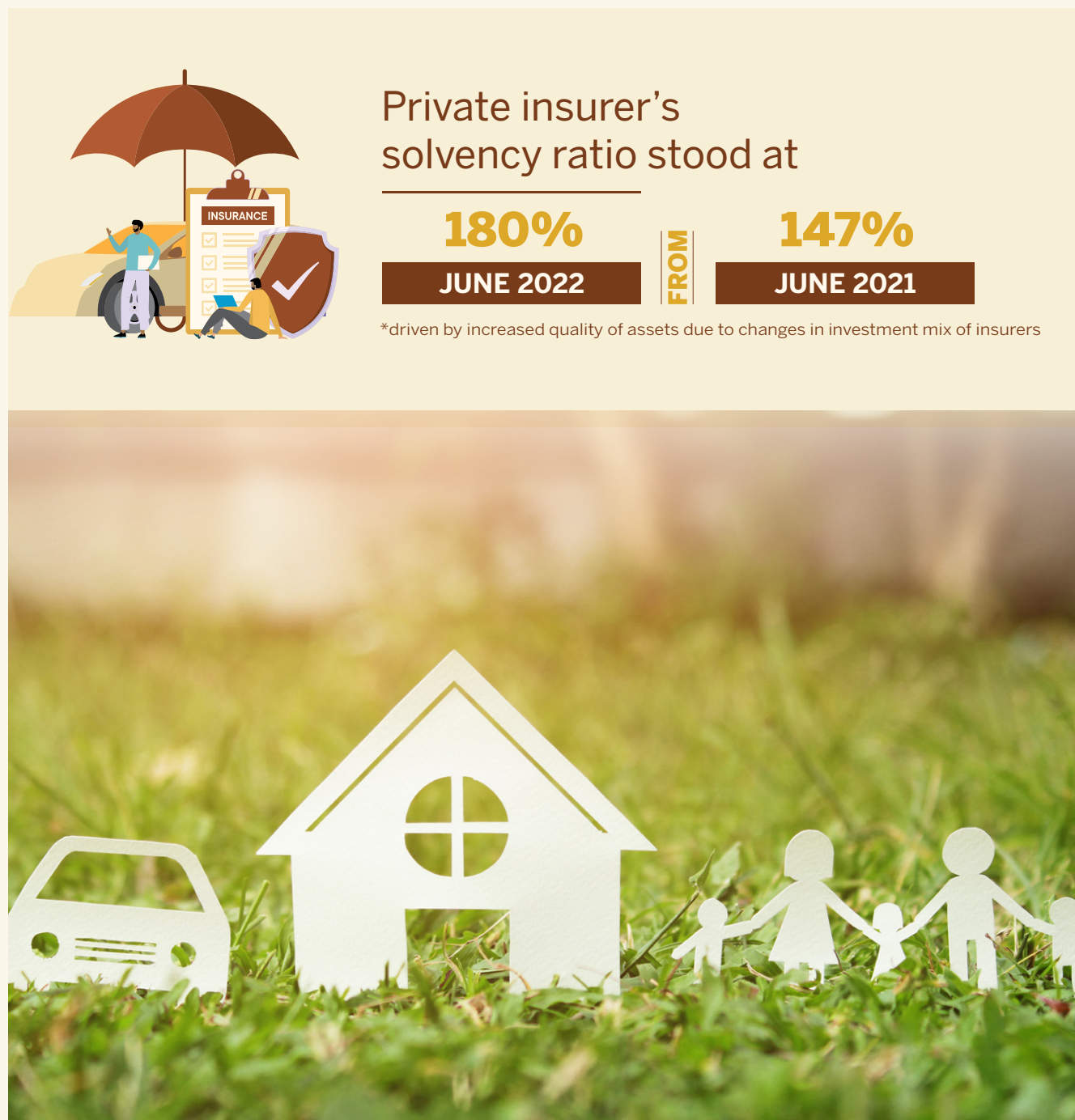
Global financial regulatory settings are changing rapidly and challenging the existing approaches to supervision and regulation of the financial sector. New developments in supervision and regulation have brought other approaches to ensure effective supervision of financial institutions. International Association of Insurance Supervisors (IAIS), a global standard setting organization requires its members (Insurance regulators) in different jurisdictions to apply core principles for effective insurance supervision, with an emphasis on insurance core principle 16, which specifies the importance of insurers having in place an effective Enterprise Risk Management for Solvency Purposes. Globally, many regulators have established enterprise risk management requirements for solvency purposes that encourage insurers to phase out compliance-based approach to supervision and regulation and a shift towards effective risk-based supervision to ensure financial safety and soundness.

Therefore, Solvency II framework — a risk based supervision framework, developed by European Union member states, introduced for the first time a harmonized, sound and robust prudential framework for insurers, and reflects level supervision pegged on the Insurer risk profile. Solvency II is based on 3 pillars: (i) pillar I that deals with quantitative requirements, insurer must satisfy and have adequate capital resources aligned with the underlying risks of an insurer by using total balance sheet approach (risk based capital requirements); (ii) qualitative requirements that relate to governance and other supervisory review processes, which are envisaged to enhance approach to risk-based supervision of insurers; (iii) Pillar III deals with disclosure requirements — relating to reporting tools and disclosure and transparency requirements.

NBR has been using the compliance-based supervision framework since the enactment of the insurance law in 2008. The framework suggests rules to be abided by all insurers and also requires all insurers to hold the same level of capital resources, regardless of their risk profile. In effort to implement full risk-based supervision framework, the NBR started to implement Risk Based Capital adequacy (RBC) approach as pillar I of Solvency II approach. RBC approach determines the required level capital resources based on the size, complexity and the risk profile of each individual Insurer. The NBR issued a directive on the parallel run for implementation of the RBC adequacy requirements in October 2018. The parallel run period will help insurers measure their compliance level vis-à-vis the new solvency capital adequacy requirements providing Insurers enough time to develop ways on how to address any gaps identified during the prescribed transition period.

Risk based capital is being implemented under parallel run with Compliance based approach and full implementation of risk based capital approach will be in 2023. The minimum Capital Adequacy Ratio requirement reported under risk based capital approach has been improving. The CAR increased from 90 percent reported in June 2021 to 119 in June 2022. As of June 2022, 4 out of the 9 Non-Life companies meet the minimum Capital Adequacy Ratio requirement of 100 percent and on the other hand in life insurance 1 out of 3 life insurance met the minimum Capital Adequacy Ratio.

Besides the implementation of the RBC, the NBR is in the process of adopting IFRS 17 on insurance contracts, to replace the current standard IFRS 4 (Box 3). IFRS 17 is an accounting standard which establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an insurer provides relevant information that authentically represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. This standard is expected to contribute to long-term IFRS 17 and is used as a valuation basis in Insurance Company's regulatory solvency control framework resulting in an earlier trigger for appropriate supervisory intervention.



Box: 3 IFRS 17 insurance contracts and Implementation status

The International Accounting Standards Board (IASB), is an independent, global accounting standard-setting body that issues International Financial Reporting Standards (IFRS) for different sectors, including the insurance sector. These IFRS Standards provide high quality, internationally recognized set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world, enabling investors and other market participants to make informed economic decisions. In May 2017, IASB Instituted the International Financial Reporting Standard for insurance contracts (IFRS 17), marking one of the most significant developments in the insurance industry in recent years. This standard for insurance companies (coming into effect by 1 January 2023) is expected to revolutionize the method of valuation and the principles of calculating profits and losses in each accounting period. Since the issuance of the standards, insurance companies worldwide have started working towards implementing IFRS 17. Many Countries and regions around the world recognized and will adopt IFRS 17 to replace the current accounting standard IFRS 4.

The IFRS 4 issued in March 2004, was a temporary standard which was meant to be in place until the Board completed its project on insurance contracts. IFRS 4 permitted entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements, subjected to limited improvements and specified disclosures. These diverse requirements have instigated difficulties for key stakeholders of insurers (investors and regulators etc.) for easy comparability the financial position of insurers in different jurisdictions. In addition, existing accounting models for insurance contracts did not provide investors with enough information to fully understand the insurer's financial position, performance and risk exposure. In May 2017, the Board completed its project on insurance contracts with the issuance of IFRS 17 Insurance Contracts. IFRS 17 replaces IFRS 4 and sets out principles for recognition, measurement, presentation and disclosure of insurance contracts within the scope of IFRS17. The scope of this standard specifies that an entity shall apply IFRS 17 Insurance Contracts to: Insurance contracts, including reinsurance contracts, it issues; Reinsurance contracts it holds; and Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

The objective of IFRS 17 is to ensure that an entity provides relevant information that authentically represents those contracts. This information gives basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 will bring on board the key solutions, to address gaps appearing in current standard as follows: (1) providing one accounting policy for all insurance contracts; (2) providing better comparability of insurance companies across countries; (3) providing similar accounting methods for insurance and non-insurance companies; (4) estimates will be updated each reporting period; (5) key drivers of profit (investment versus underwriting results) are transparent, and (6) discount rate based on the cash flows of the contract rather than investment.

From the supervisory perspective, IFRS 17 will have implication on the supervisory framework established by NBR. In this context, NBR started the process of introducing the necessary legislative or regulatory changes to help in the implementation of this standard and to ensure that the Insurance industry is working towards meeting the standard requirements in time. To achieve the effective date of the standard- January 2023, the NBR have requested insurers to conduct self-assessment preparedness towards IFRS 17. The self-assessment reports of Insurers are facilitating the NBR to closely monitor the implementation status of this standard, considering the challenges in place to implement this standard, while finding ways to address those challenges. The impact of the new standard varies significantly between insurance companies, with a larger impact on life insurance. This allowed the NBR to evaluate the current state of readiness and implementation issues for the industry in Rwanda and facilitate the NBR's preparations and development of its project plan. The second training gave the NBR some information that enabled to begin defining the needs for the regular reporting of qualitative and quantitative information from all insurers, specifying the scope, content, and frequency of the information to be reported with the appropriate accounting and auditing standards to be used. This will be followed by a guidance to be issued to all, on how IFRS 17 will be smoothly implemented in the insurance industry

Stability of the Pension Sub-Sector

The Public Pension Fund's investment mix is well diversified with 38.9 percent of total investments were held in equities. Domestic unquoted equities in a variety of sectors including, manufacturing, banking, insurance, construction and hotels represented 56 percent of total equity investments and 22 percent of total investments. On the other hand, domestic listed equities held 23 percent of total equities and 9 percent of the Fund's investment portfolio. These have been key in facilitating the development of the local capital market and are across a variety of sectors including manufacturing, telecommunication and banking. Offshore equity investments represented 29 percent of total equity investments and 9 percent of total investments. 10 percent of these are held in equities listed in the region in banking and telecommunication.

Bank deposits represented 18 percent of the investment portfolio. These deposits are diversified across all the banks in the sector. Investments in properties represented 18.2 percent of the Fund's investment portfolio and increased by 3 percent due to the acquisition of additional land for development.

The pension sector plays a paramount role in the financial system as a liquidity provider for banking sector. As of June 2022, the sector had investment in banks equivalent to 44.3 percent of their total investment in both deposits and equities.

To maintain the stability of the pension sector through proper regulation, supervision and monitoring the development of the Social security institutions and pension funds/ schemes, Law N° 05/2015 of 30/03/2015 governing the organization of pension schemes was enacted. But due to some gaps observed in the law, it is being reviewed to address the gaps including immediate withdraw of the pension savings, the requirements for accessing old age benefits to be reduced to 55 years from current 60 years, to mention a few.

Table 8: Investment allocation for Public Pension Fund.

Description (Billion FRW)	Jun-21	Jun-22	Share	%change Jun-21/20
Government Securities	210	213	17.4%	2%
Equities	464	476	38.9%	3%
Investment in properties	219	223	18.2%	3%
Deposits in banks	225	221	18.0%	-2%
Other Investments	36	91	7.4%	152%
Total investments	1,153	1,224	100%	6.1%

Source: NBR, Financial Stability Directorate

Stability of Payment Systems

Payment systems play a key role in fostering the stability of the financial system. Safe and efficient payment systems strengthen financial stability by mitigating settlement risks associated with financial transactions. To support this vital role, payment systems need to be resilient so that there are no disruptions with significant financial stability repercussions to the rest of the economy. The NBR holds a core responsibility of ensuring the safe and efficient functioning of the payment and settlement systems and the oversight of payment systems has become a crucial element in the NBR's mandate of maintaining stability of the domestic financial system. During the year to end June 2022, the NBR continued to embark on safeguarding the payment systems by enhancing the regulatory framework and the operational resilience for both large value transactions and retail payment systems.

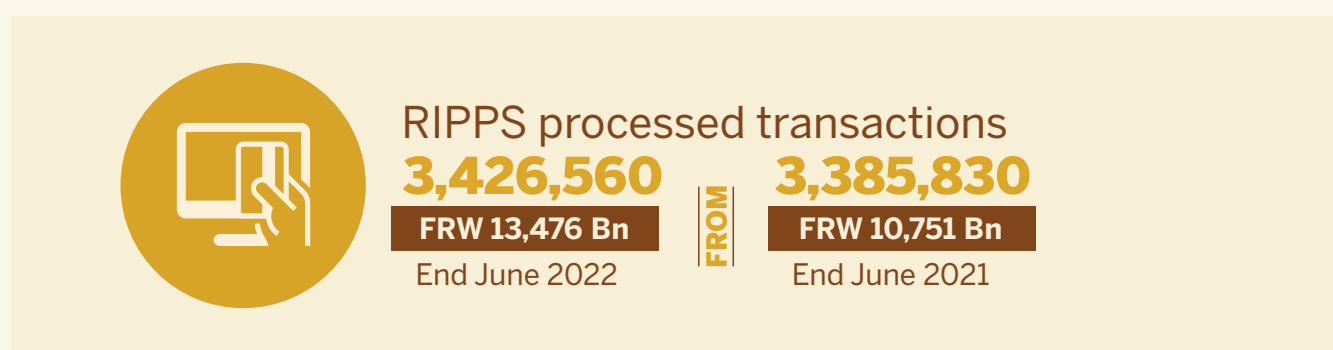
The large value payment systems continued to operate smoothly. All systemically important payment systems that include the Rwanda Integrated Payments Processing Systems (RIPPS), the Central Securities Depository (CSD) and the Automated Clearing House (ACH) operated without significant disruptions despite the increased number of transactions during the year ended June 2022. In particular, RIPPS processed 3,426,560 transactions worth FRW 13,476 billion as at end June 2022 against 3,385,830 transactions worth FRW 10,751 billion as at June 2021, representing an increase of 1.2 percent in volume and 25.3 percent in value. The RIPPS transactions continued to be dominated by customer credit transfers accounting for 91.4 percent in volume and 69.4 percent in value. Interbank transactions and cheques clearing represented 0.0 percent and 21.4 percent volume while in value, they represented 8.5 percent and 9.0 percent respectively.



Table 9: RIPPS Transactions

	June 2021				June 2022				Annual Change (%)	
	Volume	Value	% Share in volume	% Share in value	Volume	Value	% Share volume	% Share value	vol-ume	value
		FRW Billion				FRW Billion				
Customer transfers	3,126,932	7,651	92.4%	71.2%	3,133,250	9,379	91.4%	69.4%	0.2%	22.6%
Interbank transactions	625	2,089	0.0%	19.4%	763	2,889	0.0%	21.4%	22.1%	38.3%
Cheques	258,273	1,011	7.6%	9.4%	292,547	1,208	8.5%	9.0%	13.3%	19.5%
Total	3,385,830	10,751	100%	100%	3,426,560	13,476	100%	100%	1.2%	25.3%

Source: Financial Stability Directorate



The operational resilience of the large value payment systems has been enhanced. The NBR successfully upgraded the RIPPS, a move that aimed at improving operational resilience, speed, the functionalities of the high value payment system, offering greater access and strengthening end-to-end risk management. RIPPS has been adapted to new technology to improve efficiency including operating 24hours/7days. With the extended operating period, the NBR introduced the liquidity saving mechanism and automated the intraday liquidity mechanism to mitigate the liquidity risk that could emerge during extended hours. The upgrade of RIPPS has shown remarkable resilience and has positively contributed towards maintaining the stability of the overall system and is expected to give access to Non-Bank Financial Institutions (NBFIs) by end December 2022.

In the retail payments, financial institutions continued to strengthen safeguards against fraud attempts. While the digital payment penetration is gaining traction, the financial sector is being increasingly exposed to cyber risk as it becomes more technology-intensive and highly interconnected through payment systems. In this regard, financial institutions and other payment participants intensified measures to strengthen their cyber resilience. Alongside measures to educate consumers on payments security, strengthened procedures and controls for dormant accounts reactivation and for Personal Identification Number (PIN) reset were implemented by financial institutions to further protect customers against frauds. Furthermore, the NBR oversight activities laid emphasis on due diligence amongst Payment Services Providers (PSPs) to ensure cyber resilience.

The payment regulatory framework has also been beefed to address potential security risks.

The NBR remains fully committed to establishing a robust payment regulatory framework that promotes penetration of digital payments and at the same time solidifies payment safeguards. Among the key actions undertaken during the period under review, the NBR revised the payment system law and some of its implementing regulations. The new law no 061/2021 of 14/10/2021 Governing the Payment System that reviewed the law no 03/2010 of 26/02/2010 Governing the Payment System was enacted to improve among other things the legal certainty of payment system through introduction of designation framework for payment systems, establishment of a new licensing regime based on activity-based and risk appropriate licensing framework and addressing potential security risks in the payment chain. The new law further strengthens the NBR regulatory power over payment services and payment system to tackle issues related to consumer protections, promote financial inclusion such as requirement safeguarding of customers' money, regulating fees and charges and providing a forward looking and flexible framework for the regulation of payment system and payment service providers in Rwanda.


Fostering innovation also remains a key pillar towards moving to a modern financial system.



The NBR is currently studying and exploring whether the introduction of a Central Bank Digital Currency (CBDC) could confer benefits to the financial system and broader economy. From the global perspective, CBDC has gained prominence as many Central Banks have begun research into their own versions of CBDC. The research is still at early stages and once completed will inform on requirements, readiness, and next steps for the introduction of CBDC.



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