NATIONAL BANK OF RWANDA

BANKI NKURU Y'U RWANDA

QUARTERLY CREDIT SURVEY REPORT

THIRD QUARTER 2018

BNR IDENTITY STATEMENT

The National Bank of Rwanda strives to become a world class Central Bank that contributes to the economic growth and development by using robust monetary policy tools to maintain stable market prices. The bank embraces innovation, diversity and inclusiveness, economic integration and ensures financial stability in a free market economy.

VISION, MISSION AND VALUES

Vision of the Bank

The Vision of the Bank is to become a World-Class Central Bank

Mission of the Bank

The mission of the Bank is to ensure price stability and a sound financial system

The Bank's Core Values

Integrity

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

Accountability

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

Mutual-respect and Team-work

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

Excellence

We passionately strive to deliver quality services in a timely and cost effective manner

1. Background

The general mission of the National Bank of Rwanda (BNR) is to ensure price stability and sound financial system. To achieve this, BNR needs among others, to understand trends and developments in credit conditions. The bank's lending survey is an input to this work. The banking sector lending survey allows BNR and other users to obtain valuable information about the developments in the bank credit market beyond regular reporting data.

The lending survey conducted by BNR captures past and prospective developments in the credit market. The main objectives of the survey are to: i) understand the drivers and constraints influencing credit growth, ii) enhance the understanding of the lending behavior and loan financing conditions among banks, and iii) get an insight into the loan supply and demand factors from the banks' perspective.

2. Methodology

The lending survey is conducted through a structured questionnaire that enables BNR to obtain quantitative and qualitative information directly from participating banks operating on Rwandan credit market. The questionnaire focuses on both the credit supply side (credit standards and terms and conditions for approving loans as stipulated by banks) and the credit demand side (demand for loans among households and enterprises as perceived by banks) and assesses the most significant factors underlying changes in supply and demand.

The credit survey covers not only the observed evolution of credit standards and credit demand in the previous periods, but also the expected developments in near future. The questionnaire is addressed to senior credit officers of banks to indicate their banks' position in terms of demand for credit, credit standards and terms and conditions. In line with the aforementioned objectives, in this particular survey banks were asked about trends and developments in credit conditions in the first nine months of 2018 relative to the first nine months 2017, and prospects for the subsequent quarter ending December 2018. This report presents the results of the Q3 2018 survey conducted from October 15 to 18, 2018. The qualitative information contained in the survey are based on lenders' own responses to the survey, and do not necessarily reflect the BNR's views on credit conditions.

3. Findings

The Demand for Credit

The findings of the survey revealed that the demand for credit[1] increased during the period to September 2018. Loan applications in value increased by 17.8 percent (from FRW 706.3 billion in the first 9 months of 2017 to FRW 832.1 billion in the first 9 months of 2018) and by 7.9 percent in volume (from 259,849 in the first 9 months of 2017 to 280,469 in the first 9 months of 2018). From banks' perspective, the drivers of increased loan applications include high increase of micro digital loans, improved economic performance that induced more business opportunities and increased desire for spending.

On one hand, the increase of loan applications in value was much noticeable in economic sectors like mortgage, service, trade, agriculture and for consumer loans (Table 1). This trend mainly reflects the financing needs for the key sectors. On the other hand, loans applications reduced in hotels and restaurants, and in mining. The reduction of loans applications in hotels is attributed to the completion of big projects that were financed by banks in 2016 and 2017.

Table 1: Loan Application in Value and Volume

Loan applications by Activity Sector	Loan application in Value (FRW "000")			Loan application in Volume		
	Sep-17	Sep-18	% Change	Sep-17	Sep-18	% Change
Personal loans	72,655,840	92,395,062	27.2	97,095	127,222	31.0
Agricultural, fisheries& livestock	9,904,309	11,980,395	21.0	22,711	18,747	-17.5
Mining activities	834,714	396,758	-52.5	18	10	-44.4
Manufacturing activities	56,708,873	68,550,371	20.9	208	191	-8.2
Water & energy activities	14,880,290	17,358,300	16.7	271	226	-16.6
Mortgage industries	188,973,427	222,857,294	17.9	49,301	62,297	26.4
Trade	263,121,072	290,324,731	10.3	71,769	54,224	-24.4
Restaurants and Hotels	19,551,247	8,824,987	-54.9	284	301	6.0
Transport & warehousing	54,633,795	82,197,068	50.5	926	693	-25.2
OFI &Insurance	9,756,829	2,995,701	-69.3	183	34	-81.4
Service sector	15,309,310	34,215,411	123.5	17,216	16,524	-4.0
Total	**706,329,705**	**832,096,077**	**17.8**	**259,849**	**280,469**	**7.9**

Source: Credit Survey Findings

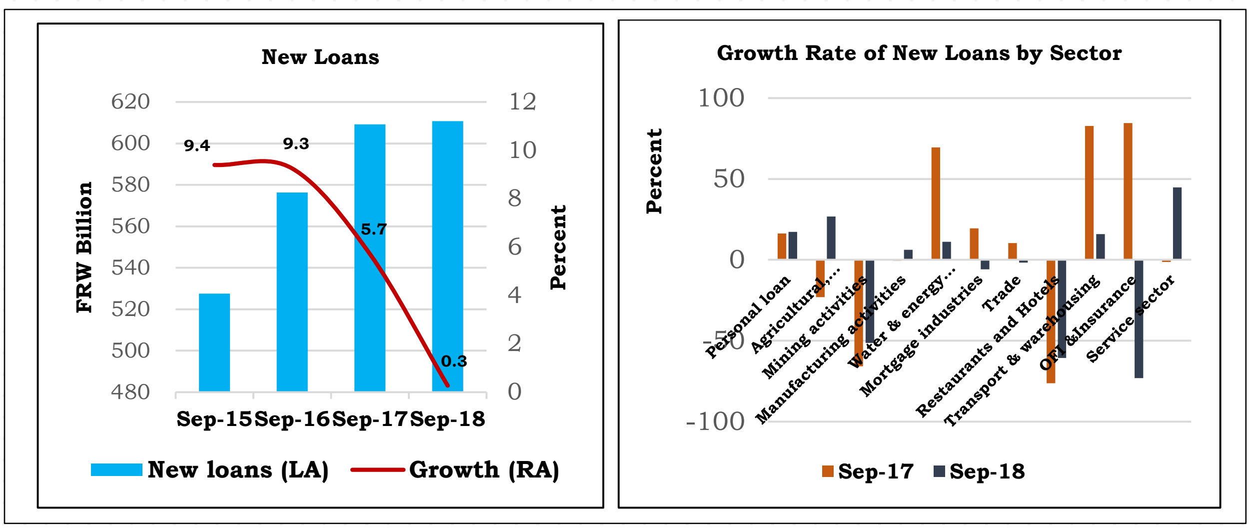
[1] Demand for credit refers to the demand for new loans by borrowers as indicated by the volume and value of applications received.

The Supply of Credit

During the first 9 months of 2018, the new authorized loans by banks grew by o.3 percent compared to the growth of 5.7 registered in the first 9 months of 2017 (Figure 1). Between January and September 2018, banks approved 251,106 loans worthy FRW 610.8 billion, compared to 204,829 loans worthy FRW 609.2 billion that were approved during the corresponding period in 2017. The slowdown of growth of new loans is mainly attributable to tighter credit standards[2] implemented by banks that led to higher loan rejection rate.

The growth of new loans improved for consumer loans (from 16.3 percent to 17.3 percent), agriculture (from -23.2 percent to 26.8 percent), manufacturing (from -0.5 percent to 6.2 percent) and service sector (from -1.3 percent to 44.7 percent). The most two financed sectors, mortgage and trade, saw a decline in the growth of new loans during the first 9 months of 2018, at the rate of -5.9 percent for mortgage and -1.6 percent for trade, down from the growth of 19.4 percent for mortgage and 10.3 percent for trade that was observed in the first 9 months of 2017. Nevertheless, in terms of sectoral distribution, new loans to mortgage and trade sectors constituted the biggest portion of the new loans approved by banks with a share of 25.7 percent and 35.9 percent respectively.

Figure 1: New Authorized Loans by Banks



Source: Credit Survey Findings

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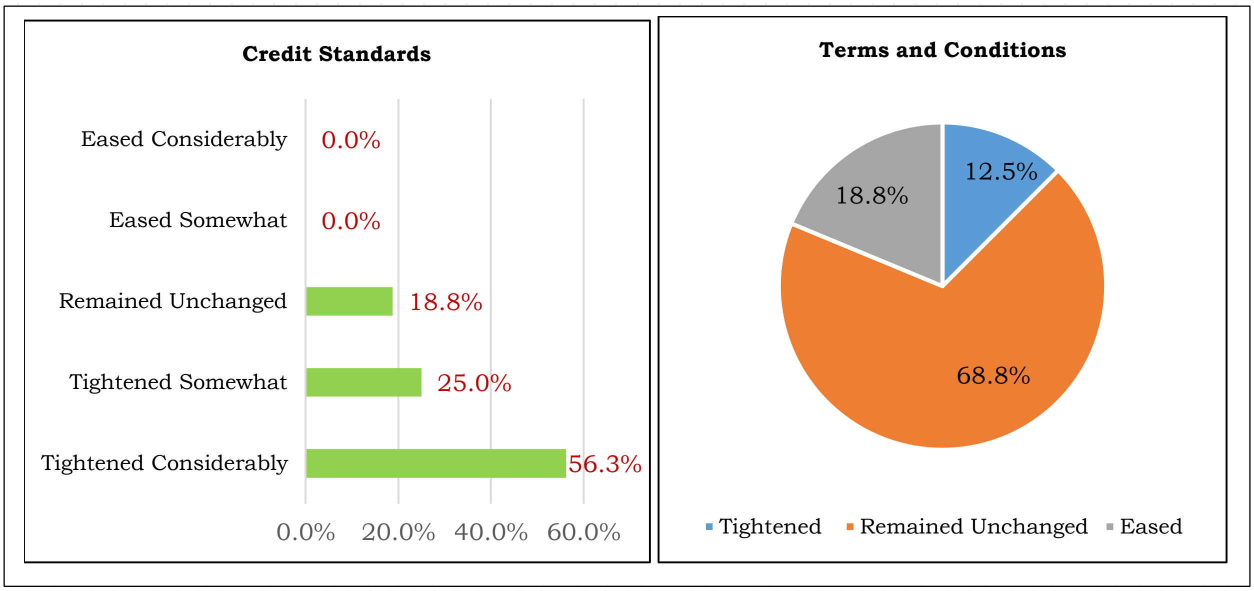
[2] Credit standards are internal guidelines used by a bank to determine if a potential borrower is creditworthy. They mainly include collateral requirement and size of the loan.

Developments in Credit Standards and Conditions

The findings from the survey showed that credit standards were tight with 81.3 percent of the responding banks indicating that the approval of loans tightened (Figure 2). Despite favorable economic prospects in 2018, perception of credit risk and changes in regulations were the major drivers for tightening credit standards.

Regarding credit terms and conditions[3], 68.8 percent of banks indicated that terms and conditions remained unchanged, while 18.8 percent indicated that credit terms and conditions tightened and 12.5 percent indicating that the credit terms and conditions eased. Among the factors that contributed to changes in overall terms and conditions, banks cited competition, cost of funds and balance sheet position as the main factors that contributed to easing of credit terms and conditions, while operating costs and revision of pricing model were the main reasons for tightening credit terms and conditions.

Figure 2: Credit Standards and Conditions

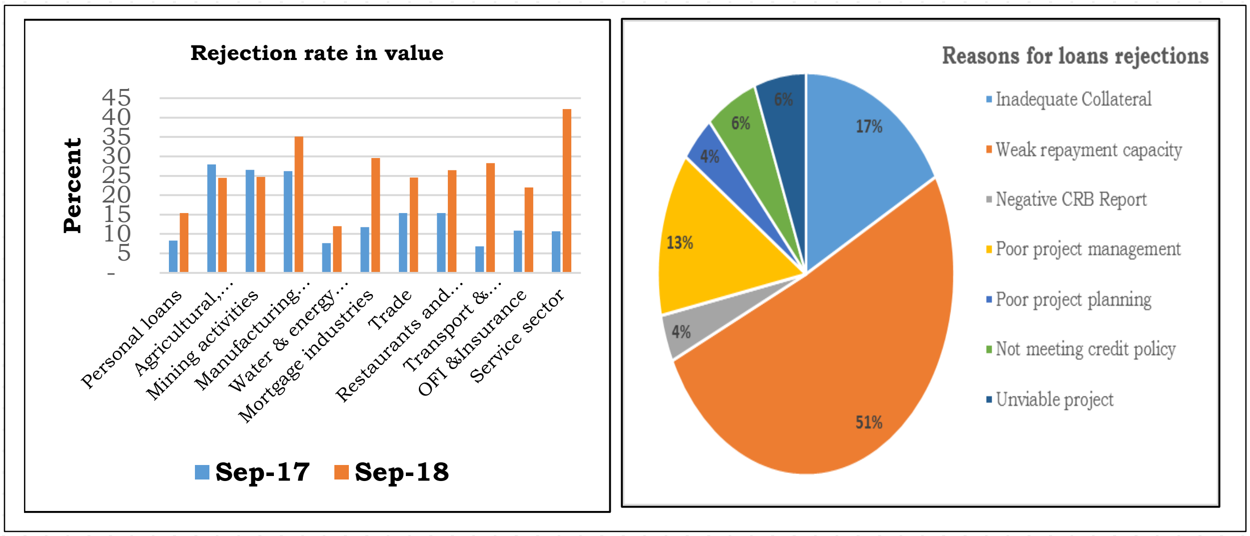


Source: Credit Survey Findings

[3] Credit terms and conditions are the terms on which a bank provides credit to a customer after it has been approved. They mainly include the interest rate, maturity and frequency of payment.

In tandem with the development in credit standards, the rejection rate[4] increased (Figure 3). The overall rejection rate in value increased form 13.8 percent in September 2017 to 26.6 percent in September 2018. Across different economic sectors, the rejection rate varied and generally reflected the risk profile of a particular activity sector. From a sample of 53 projects that were rejected by banks, it emerged that weak repayment capacity, inadequate collateral, negative credit bureau report and poor project preparation were among the key factors contributing to the increased loan rejection rate.

Figure 3: Rejection Rate by Economic Activity Sector



Source: Credit Survey Findings

4. Prospects for Q4 2018

Banks expect demand for loans to continue increasing for the remainder of 2018. In the quarter to December 2018, most banks (81.2 percent) anticipate an overall increase in demand for credit that cuts across enterprises and households. Some of the major reasons given for the expected increase in demand for loans include: a) expected business opportunities resulting from improved economic performance, b) increased demand for consumer loans due to festive season and c) stable lending interest rate. However, banks will continue to curtail credit extension as 69 percent of the reporting banks indicated that they will continue with tight lending. The expected tight credit conditions are largely

[4] The loan rejection rate is the ratio of the value or number of rejected loan applications by all banks to the number of loan applications received by the banks during the same period.

due to the perception of credit risks that has a bearing on the underperforming of the existing portfolio.

In an effort to understand the direction of interest rates from the lenders point of view, banks were asked to indicate the direction of the change in their lending rate in the quarter to December 2018. The survey results indicate that majority of the banks (87.5 percent) expect their lending rates to remain unchanged, while 12.5 percent expect the lending interest rate to decrease. Banks cited the competition in the industry and reduction of cost of funds as the major reasons driving these expectations.

5. List of Respondents

1. AB BANK Ltd
2. ACCESS BANK Ltd
3. BANK OF AFRICA RWANDA Ltd
4. BANK OF KIGALI Ltd
5. BPR Ltd
6. CBA Ltd
7. COGEBANQUE Ltd
8. DEVELOPMENT BANK OF RWANDA Ltd
9. ECOBANK Ltd
10. EQUITY BANK Ltd
11. GT BANK Ltd
12. I&M BANK Ltd
13. KCB RWANDA Ltd
14. URWEGO BANK Ltd
15. UNGUKA BANK Ltd
16. ZIGAMA CSS

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