

**NATIONAL BANK OF RWANDA**

**BANKI NKURU Y’U RWANDA**

**QUARTERLY CREDIT SURVEY REPORT**

**SECOND QUARTER, 2019**



**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 TEAMWORK**

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. Introduction**

Since June 2017, the National Bank of Rwanda (NBR) conducts the quarterly bank lending survey to supplement the information on credit market conditions derived from the quarterly banks’ balance sheet reports. The bank lending survey provides information on both supply and demand factors with respect to loan developments, including information on changes in loan demand, credit standards, terms and conditions. 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.

The bank lending survey is conducted in the first month of each quarter (i.e., January, April, July and October) through a structured questionnaire that enables the BNR to capture the information on dynamics in the credit market 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. There is a forward-looking element in the survey whereby banks give their opinion on what changes they expect both in their own lending policies and in credit demand and supply during the following three months. 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 above objectives, in this particular survey banks were asked about trends and developments in credit conditions in the first six months of 2019 relative to the first six months 2018, and prospects for the subsequent quarter ending September 2019. This report captures the aggregated results of replies from all banks and is based on lenders’ own responses to the survey, and do not necessarily reflect the NBR views on credit conditions.

**2. The Bank Lending Survey Results**

**2.1 The Demand and Supply of Loans**

The demand for credit refers to financing needs of new or existing customers of a bank as indicated by formal loan applications received during a specified period of time independent of whether these applications will result in a loan or not. At bank level, the demand for credit is approximated by adding up all formal applications including digital loans applications received in all domestic branches during a specified period of time.

During the period under review, the demand for loans continued to increased consistent with improved economic performance. The number of loan applications increased by 52.4 from 239,629 in first half of 2018 to 365,129 in first half of 2019, whereas the value of loan application applications increased by 28.3 percent from FRW 505.7 billion in first half of 2018 to 648.6 FRW billion in first half of 2019. The growth of loans application is largely attributed to the penetration of digital loans and improved macroeconomic conditions which in turn prompted more business opportunities.

Regarding credit supply, the new authorized loans that were approved by banks grew by 36.8 percent in value during the first half of 2019 compared to a decline of 3.4 registered in the first half of 2018. Between January and June 2019, banks approved 206,519 loans worthy FRW 551 billion, compared to 164,714 loans worthy FRW 402.7 billion that were approved during the corresponding period of 2018. The acceleration of new loans is mainly explained by increased demand fro loans and increased lending appetite by banks. Overall, loans rejection rate[[1]](#footnote-1) in value reduced to 15 percent in first half of 2019 from 20.4 percent in first half of 2018 as most banks kept their credit standards[[2]](#footnote-2) relatively unchanged.

**Table 1: Loan Applications in Value and Volume**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Loan Applications** | **Jan-Jun 17** | **Jan-Jun 18** | **Jan-Jun19** | **% change 18/17** | **% change 19/18** |
| **Value (FRW billion)** | **500** | **505.7** | **648.6** | **1.1** | **28.3** |
| **Volume** | **139,131** | **239,629** | **365,129** | **72.2** | **52.4** |
| **Loan approved** | **Jan-Jun 17** | **Jan-Jun 18** | **Jan-Jun19** | **% change 18/17** | **% change 19/18** |
| **Value (FRW billion)** | **416.7** | **402.7** | **551** | **-3.4** | **36.8** |
| **Volume** | **134,330** | **164,714** | **206,519** | **22.6** | **25.4** |
| **Loan rejection rate** | **Jan-Jun 17** | **Jan-Jun 18** | **Jan-Jun19** | **% Points change 18/17** | **% Points change 19/18** |
| **Value** | **16.6** | **20.4** | **15.0** | **3.8** | **-5.4** |
| **Volume** | **3.4** | **31.3** | **43.4** | **27.9** | **12.1** |

**Source:** Credit Survey Findings

**2.2 Implementation of Loan to Value Limit**

The NBR introduced the Loan to Value (LTV) as a macro prudential tool to mitigate risks arising from bank’s high exposure to mortgage. The NBR issued in March 2019, guidelines related to the implementation of LTV. These guidelines were enacted through a directive no 2600/2019-0015 on computation of loan to value ratio for residential and commercial property loans. In this particular survey, banks were asked to provide their opinions on the implementation of this tool. Most banks (14 out of 16) reported not to have encountered any difficulties in implementing this tool. In addition, there are some banks that had been already implementing LTV although its applicability was not homogeneous across the industry. Going forward, banks foresee LTV as an important tool that will help them to measure, control and mitigate potential credit risks associated with lending to real estate.

**2.3 Development in Non-Performing Loans**

The aggregate banking sector non-performing loan ratio reduced from 6.9 percent in June 2018 to 5.6 percent in June 2019. In terms of amount, non-performing loans reduced from FRW 137.6 billion in June 2018 to FRW 125.3 billion in June 2019. The reduction of non-performing loans is attributed to three factors namely improved economic performance, increased lending and write offs. From a sectoral perspective, the NPLs ratio dropped in key sectors including the agriculture, manufacturing, mortgage, hotels, transport and communication. The reduction of NPLs ratio in these sectors mainly reflecting increased lending and write offs to these sectors during the first half of 2019.

Nevertheless, NPLs ratio increased in trade and mining. NPLs ratio in trade sector increased from 11.5 percent in June 2018 to 15 percent in June 2019. During the same period, NPLs ratio in mining sector increased from 0.6 percent to 88.4 percent. In nominal value, non-performing loans in trade increased form FRW 32.6 billion in June 2018 to FRW 45.1 billion in June 2019, while in mining NPLs increased from FRW 22 million in June 2018 to FRW 2.9 billion in June 2019. The increase of NPLs in trade and mining is attributed to few big loans that underperformed in trade and the deceleration of commodity prices that affected the exports revenues from minerals.

**Table 3: Non-Performing Loans Ratio by Activity Sector**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Activity Sectors** | **Sectoral NPLs Ratio (percent)** | | | | |
| **Jun-15** | **Jun-16** | **Jun-17** | **Jun-18** | **Jun-19** |
| Personal loans | 7.2 | 6.4 | 7.8 | 6.1 | 6.0 |
| Agriculture | 14.9 | 16.9 | 18.2 | 7.2 | 5.0 |
| Mining activities | 2.8 | 0.9 | 0 | 0.6 | 88.4 |
| Manufacturing | 1.1 | 6 | 8.8 | 13.9 | 1.3 |
| Water & energy | 2.6 | 0.2 | 0.1 | 0.0 | 0.0 |
| Mortgage industries | 4.5 | 5.1 | 5.8 | 5.3 | 4.0 |
| Trade | 7.1 | 6.9 | 8.8 | 11.5 | 15.0 |
| Hotels | 6.1 | 9 | 9.8 | 11 | 8.8 |
| Transport & Communication | 4 | 3.1 | 3 | 2.6 | 1.9 |
| OFI &Insurance | 4.2 | 4.2 | 0.4 | 0.4 | 1.7 |
| Other services | 6.5 | 4.5 | 10.7 | 8.9 | 6.7 |

**Source:** Credit Survey Findings

**2.4 Credit Standards, Terms and Conditions**

Credit standards consist of internal banking guidelines, which will determine what type of loans and amount to be provided to which clients. They mainly embody capacity of the borrower, collateral requirements, borrowers’ own contribution to the project and credit history of the borrower. The credit survey measures changes in such standards including cases where a bank has introduced a new lending policy or amended existing one. Results from the current survey revealed that credit standards generally remained unchanged in Q2 2019. Most banks (11 banks out of 16 banks) reported that their credit standards remained unchanged during the second quarter of 2019. The tightness of credit standards in some few banks was mainly linked to bank specific factors, including the desired securitization level and bank perception of risk such as the borrower’s creditworthiness risks related to collateral demanded and banks’ risk tolerance.

Similar to credit standards, the credit terms and conditions[[3]](#footnote-3) also remained broadly unchanged. Out of 16 banks operating on Rwandan credit market, 9 banks indicated that their overall terms and conditions remained unchanged, while 4 banks indicated that credit terms and conditions eased and 3 banks indicated that the credit terms and conditions tightened somewhat. From banks’ perspective, operating costs and the perception of risk were the main reasons for tightening credit terms and conditions while the competition, reduced cost of funds and liquidity position were the main factors that contributed to easing of credit terms and conditions. In context of this survey, the easing of credit terms and conditions mainly characterizes the reduction of lending interest rate, increased size of consumer loans and the extension of maturity for mortgage loans.

**Figure 1: Credit Standards, Terms and Conditions**

**Source:** Credit Survey Findings

**2.5 Banks’ Expectations for Q3 2019**

Generally, banks expected credit delivery to increase in quarter to end September supported by increased credit demand, expectations for higher economic growth, increased Government spending in new financial year, the high appetite for credit by Small and Medium Sized Enterprises (SMEs), stable interest rate and provision of free collateral loans to individuals. With regards to the lending interest rate, the survey results indicate that majority of the banks (13 banks out of 16 banks) expect their lending rates to remain unchanged over the next quarter to September 2019. Banks’ expectation on lending interest rate hinge on the liquidity conditions in banking sector, reduced costs of funds and banks’ efforts to remain competitive in the market.

**Figure 2: Bank’s Expectations for Q3 2019**

**Source:** Credit Survey Findings.

**Annex 1: List of Participating Banks**

1. AB BANK RWANDA Ltd

2. ACCESS BANK RWANDA Plc

3. BANK OF AFRICA RWANDA Plc

4. BANK OF KIGALI Plc

5. BANQUE POPULAIRE DU RWANDA Ltd

6. COGEBANQUE Plc

7. COMMERCIAL BANK OF AFRICA RWANDA Plc

8. DEVELOPMENT BANK OF RWANDA Plc

9. ECOBANK RWANDA Ltd

10. EQUITY BANK RWANDA Plc

11. GT BANK RWANDA Plc

12. I&M BANK Plc

13. KCB RWANDA Ltd

14. UNGUKA BANK Ltd

15. URWEGO BANK Plc

16. ZIGAMA CSS



1. 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. [↑](#footnote-ref-1)
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. [↑](#footnote-ref-2)
3. credit terms and conditions are terms and conditions 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. [↑](#footnote-ref-3)