

**NATIONAL BANK OF RWANDA**

**BANKI NKURU Y’U RWANDA**

**QUARTERLY CREDIT SURVEY REPORT**

**THIRD QUARTER 2020**



**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. Introduction**

The quarterly credit survey conducted by the National Bank of Rwanda (NBR) are designed to gather quantitative and qualitative information on changes in the demand and supply of credit to non-financial corporations and households and the main factors underpinning the reported changes, including price and non-price lending terms and other credit market developments. The surveys are conducted using a structured questionnaire that entail the backward looking elements and forward-looking elements on credit development. The backward looking information relates to changes over the previous quarter while forward looking information relates to potential changes over the next quarter during a particular financial year.

Since April 2020, the credit market is marked by the impact that the COVID-19 pandemic has had on economic activity and in consequence, the domestic credit developments continue to be predominantly demand driven, with the growth of new lending hampered by weak credit demand. The current credit survey report highlights banks’ views on the evolution of credit conditions during the third quarter of 2020 and their expectations for the fourth quarter of 2020. It is based on lenders’ own responses to the survey, and do not necessarily reflect the NBR views on credit conditions.

**2. The Survey Findings**

**2.1 The Demand and Supply of Credit**

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 loans applications received in all domestic branches during a specified period of time.

In face of COVID-19 shock, the demand for credit moderated during the period under review. Loan applications in value contracted by 12.7 percent (to FRW 927 billion in the first nine months of 2020 from FRW 1,062 billion in the first nine months of 2019). In volume, loan application grew by 0.7 percent (to 325,507 in the first nine months of 2020 from 323,118 in the first nine months of 2019). The deceleration of credit demand largely reflects the downturn of economic activities due to the outbreak of COVID-19 pandemic.

On the supply side, the new loans extended by banks contracted by 8.2 percent (to FRW 791 billion in the first nine months of 2020 from FRW 862 billion in the first nine months of 2019), against the growth of 41.1 percent registered during the corresponding period in 2019. The moderation of new lending is mainly attributed to the demand side factors. Looking ahead, the economic turnaround will determine the trend of credit delivery and the former will in turn much depend on the course of the pandemic and the policy measures instituted to mitigate the effect of the shock on the economy.

**Table 1: Credit Demand and Supply**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Loan application** | **Sep -18** | **Sep-19** | **Sep-20** | **% change 18/19** | **% change 19/20** |
| **Value (FRW billion)** | **832** | **1,062** | **927** | **27.6** | **-12.7** |
| **Volume** | **280,469** | **323,118** | **325,507** | **15.2** | **0.7** |
| **Loan approved** | **Sep -18** | **Sep-19** | **Sep-20** | **% change 18/19** | **% change 19/20** |
| **Value (FRW billion)** | **611** | **862** | **791** | **41.1** | **-8.2** |
| **Volume** | **251,106** | **311,907** | **303,142** | **24.2** | **-2.8** |
| **Loan rejection rate**  **(Percent)** | **Sep -18** | **Sep-19** | **Sep-20** | **% points change 18/19** | **% points change 19/20** |
| **Value** | **26.6** | **18.8** | **14.7** | **-7.8** | **-4.1** |
| **Volume** | **10.5** | **3.5** | **6.9** | **-7.0** | **3.4** |

**Source:** Credit Survey Findings

**2.2 Assets Quality**

The NBR has encouraged banks to assist their clients facing payment difficulties by offering flexibility on some prudential regulatory requirements. Banks have satisfactorily responded to the NBR call and supported their customers mainly by way of loans restructuring, extensions and provision of working capital among other things. In reflection of these support packages that banks have implemented, the banking sector has experienced relatively limited loan impairments to date.

During the period under review, the ratio of nonperforming loans to total loans (NPL ratio) in banking sector marginally dropped to 5.2 percent as at end September 2020 from 5.5 percent as at end June 2020. The reduction of NPLs ratio mainly reflects the growth of outstanding loans and credit payment reliefs measures instituted due to COVID-19 shock. However, in absolute amount, non-performing loans increased by FRW 5.0 billion between June 2020 and September 2020 and by FRW 38.4 billion between December 2019 and September 2020.

Looking ahead, the impairment rates are expected to rise in near term as payment moratorium come to an end and the impact of the pandemic shock on economic activity could still have repercussions on many businesses and households given that the economy has not yet fully recovered from the shock.

Figures 1: Non-Performing Loans in Banking Sector

**Source:** NBR, Financial Stability Directorate

2.3 Effectiveness of COVI-19 Policy Measures

The NBR and the government have initiated various policy measures to mitigate the financial and economic impact of COVID-19. The key policy actions implemented so far include: i)Easing the loan repayment conditions to borrowers affected by affected by COVID-19 pandemic by allowing banks and MFIs to exceptionally restructure outstanding loans of borrowers affected by COVID 19 pandemic, ii) Flexibility on risk weighting, assets classification and provisioning, iii) Direct liquidity support, iv)Reviewed the existing Treasury bond discount window, v) Reduced the reserve requirement ratio by 100 basis point, from 5 percent to 4 percent, and Vi) Establishment of the Economic Recovery Fund (ERF) to support businesses significantly affected by the COVID-19 pandemic.

These measures have supported liquidity and funding conditions of banks so as to continue providing credit to private sector and at same time absorb COVID-19 shock. In response to the instituted policy measures, the financial market which is key to smooth functioning of the financial sector, continued to operate effectively and the money market rates remained broadly stable. Subsequently, the cost of borrowing was relatively stable during the period under review. The average lending rate stood at 16.4 percent as at end September 2020 from 16.5 percent as at end September 2019.

Further, COVID-19 policy measures enabled banks to provide the payment reliefs to their clients by offering payment holidays ranging from 3 to 6 months and restructuring of loans to extend repayment periods. The granting of credit relief is at the discretion of the granting institution and has been implemented successfully so far. As at end September 2020, banks had restructured loans worthy FRW 1,099 billion (45.2 percent of total banks loans).

With regards to ERF, a total of FRW 46.3 billion has been disbursed including FRW 41.9 provided for hotels refinancing, equivalent to 99.6 percent execution rate and FRW 4.4 billion provided for working capital window, equivalent to 9.5 percent execution rate. Considering the low uptake of working capital window, the government has planned to review the ERF qualifying criterions that are expected to boost the uptake of corporates working capital window going forward.

2**.4 Credit Standards**

Banks’ the credit terms and conditions remained broadly unchanged during the quarter ended September 2020. The results from the current survey revealed that credit standards generally remained unchanged during the previous quarter. Most banks (8 banks out of 16 banks) reported that their credit standards remained unchanged during the third quarter of 2020. Further, 5 banks reported to have tighten their credit standards while 3 banks reported to have eased credit standards. The tightness of credit standards in some few banks was mainly linked to bank specific factors, including the bank perception of risk such as the borrower’s creditworthiness risks related to COVID-19. From banks’ perspective, the perception of risk emanating from the economic downturn was the main reason for tightening credit terms and conditions while the government guarantees 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 and the extension of maturity.

Looking ahead, the majority of banks (10 banks) expect credit standards to remain unchanged for the quarter ending December 2020, mainly on account of positive impact of the policy measures adopted and banks’ stronger capital and liquidity positions. However, there are few banks (4 banks) that indicated that they will tighten their credit standards. Their expectations are largely due to the perception of credit risks that has a bearing on the current economic downturn and underperforming of the existing portfolio.

**3. List of Participants**

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| 1. | AB BANK RWANDA Plc |
| 2. | ACCESS BANK RWANDA Plc |
| 3. | BANK OF AFRICA RWANDA Plc |
| 4. | BANK OF KIGALI Plc |
| 5. | BANQUE POPULAIRE DU RWANDA Plc |
| 6. | NCBA BANK RWANDA Plc |
| 7. | COGEBANQUE Plc |
| 8. | DEVELOPMENT BANK OF RWANDA Plc |
| 9. | ECOBANK RWANDA Plc |
| 10. | EQUITY BANK RWANDA Plc |
| 11. | GUARANTEE TRUST BANK RWANDA Plc |
| 12. | I&M BANK RWANDA Plc |
| 13. | KCB BANK RWANDA Plc |
| 14. | URWEGO BANK Plc |
| 15. | UNGUKA BANK Plc |
| 16. | ZIGAMA CSS |

