National Bank of Rwanda
Banki Nkuru y'u Rwanda

KN 6 Av.4/P.O. Box 531 Kigali-Rwanda
Tel: (+250) 788199000 /
Website: www.bnr.rw /
E-mail: info@bnr.rw /
Swiftcode: BNRWRWRW /
Twitter: @CentralBankRw

The Governor

PRESS RELEASE

QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on February 15, 2023, to assess the performance and stability of the financial sector. The committee noted that the financial sector remains stable and maintained its growth momentum amid challenges caused by global and domestic economic uncertainties. The capital and liquidity buffers held by the financial institutions make them resilient to shocks and are therefore capable of maintaining the provision of the financial services to the general public. The sections that follow highlight the key observations from the committee:

The financial sector continued to expand and remains supportive to economic recovery.

The financial sector continued to grow amidst challenging global and domestic economic conditions. As at December 2022, total assets of financial sector grew by 17.7 percent to FRW 8,904 billion from FRW 7,568 billion in December 2021. The banking sector, which is the biggest subsector grew by 18.3 percent, on account of the growth of capital and external borrowings. The assets of the pension sector (both public and private) increased by 9.6 percent, mainly driven by the growth in pension contributions and investment income. The assets of the insurance sector grew by 17 percent mainly supported by improved underwriting returns, capital injections and investment income. Similarly, during the period under review, assets of microfinance sector expanded by 21.6 percent on the back of increased deposits and capital. With improved asset growth, the financial sector continued to deepen. Measured by the size of the financial sector assets relative to Gross Domestic Product (GDP), the depth of the financial sector grew to 67.0 percent in December 2022 against an average of 62.9 percent over the last five years. This portrays the prominent and expanding role the financial sector continues to play in financing the economy.

The financial sector remains adequately capitalized and liquid.

The capitalization of the financial sector remains strong as the regulated financial institutions continue to maintain the capital position above regulatory requirements. As at end December 2022, the aggregate total Capital Adequacy Ratio (CAR) of banks stood at 21.7 percent, higher than the minimum regulatory requirement of 15 percent. Similarly, the microfinance sector continues to comply with the capital adequacy requirements. The consolidated CAR of Microfinance Institutions (MFIs) stood at 34.5 percent, higher than the 15 percent minimum regulatory requirement. Generally, the stable capitalization of lending institutions is explained by the continued enhancement of capital by Banks and MFIs through retained earnings and capital injection, coupled with improved quality of assets. The solvency position of the insurance sector also remained high during the period under review. In particular, the solvency of private insurance significantly improved to 238 percent in December 2022 from 142 percent in December 2021, on the back of improved profitability and quality of assets.

The liquidity position of financial institutions also remains strong. Banks continue to hold adequate liquidity buffers both in the short- and long-term perspective. As at end December 2022, the Liquidity Coverage Ratio (LCR) that measures the ability of banks to fund cash outflows for 30 days stood at 215.9 percent, while the Net Stable Funding Ratio (NSFR) that gauges whether banks hold enough stable funding to cover the duration of their long-term assets stood at 136.8 percent. In Microfinance Institutions (MFIs), the aggregate liquidity ratio stood at 90.9 percent, against 30 percent minimum prudential requirement and all categories of MFIs comply with this regulatory requirement. The liquidity ratio of private insurers also improved to 98 percent in December 2022 from 94 percent in December 2021, in line with increased capital and improved quality of assets.

Credit risk in lending institutions subsided, owing to the rebound in economic activities.

The stock of Non-Performing Loans (NPLs) in Banks reduced to FRW 127 billion in December 2022 from FRW 158 billion in December 2021 mainly on account of bad loans recoveries and write off of long overdue loans. As a result, the NPLs ratio dropped to 3.1 percent in December 2022 from 4.6 percent in December 2021. Similarly, Banks' credit in watch category (loans whose repayment is late by 30 to 90 days) decreased to FRW 397 billion in December 2022 (9.6 percent of total loans) from FRW 489 billion in December 2021 (14.2 percent of total loans). However, some sectors (manufacturing, water and energy, commercial real estate, and hotels) continued to record higher amount of loans in watch category on the back of supply chain disruptions associated with the global geopolitical tensions and the lingering effects of the pandemic. In the microfinance sector, the NPL ratio declined to 3.5 percent in December 2022 against 4.8 percent in December

2021 due to the improved performance of micro-businesses during the period under review.

The payment service providers continue to modernize the payment systems with mobile payment technology dominating electronic payment.

Mobile technology continues to play a paramount role in creating an inclusive cashless society by driving the usage and adoption of electronic payments. Person to Person (P2P) transactions increased by 71 percent and 83 percent in volume and value respectively, while Person to Business (P2B) transactions increased by 103 percent and 62 percent. During the same period, the volume of Bank to Wallet (B2W) transactions increased by 42 percent and by 57 percent in value, due to the removal of fees. Wallet to Bank (W2B) transactions decreased by 11 percent in volume and increased 30 percent in value due to free services and merchants push transactions. Active merchants increased by 193% percent and unique users increased by 63 percent in December 2022 compared to December 2021. Regarding the systems' operational resilience, NBR continued to enhance the upgrade of the Rwanda Integrated Payments Processing System (RIPPS) and is currently working 24/7. Recent disruptions caused by systems upgrades of one Bank are closely monitored by NBR to ensure objectives of the upgrade are achieved with limited disruptions, and currently the system has largely been stabilized.

Financial sector stability outlook

In the medium term, the financial sector is expected to remain sound and stable. To ensure the financial sector is safeguarded from different cascading shocks and rising risks, the NBR continues to monitor and assess the impact of macroeconomic environment on the financial stability and take suitable measures to contain risks that may arise from uncertain macro financial conditions. In addition, through regular oversight of the financial sector, the NBR will continue ensuring that financial institutions hold enough capital relative to the risks they undertake, as well as sufficient liquidity to meet financial obligations.

Kigali, 16th February 2023

RWANGOMBWA John

Governor and Chairman of FSC
National Bank of Rwanda

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