



*The Governor*

## PRESS RELEASE

### QUARTERLY FINANCIAL STABILITY COMMITTEE MEETING

The Financial Stability Committee (FSC) held its quarterly meeting on November 14, 2022, to assess the performance and stability of the financial sector. The committee noted that the financial sector remains stable and maintained its growth momentum despite elevated vulnerabilities caused by the lingering effects of COVID 19, increased inflation and the ongoing spillover effects from war in Ukraine. The financial institutions are holding strong capital and liquidity reserves that make them resilient to shocks and are therefore capable of maintaining the provision of the financial services to the public, even during the times of crisis. 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 economic conditions. During the period under review, total assets of financial sector grew by 18.8 percent to FRW 8,577 billion in September 2022, from FRW 7,219 billion in September 2021. The banking sector grew by 20.2 percent on account of the growth of deposits and capital. The assets of the pension sector (both public and private) increased by 10.4 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 investment income, while the assets of microfinance sector expanded by 22.5 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 69.9 percent in September 2022, from 68.2 percent in September 2021. This portrays the prominent and expanding role that 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 September 2022, the aggregate total Capital Adequacy Ratio (CAR) of banks stood at 22.3 percent, higher than the minimum regulatory requirement of 15 percent. In the microfinance sector, the consolidated CAR of Microfinance Institutions (MFIs) stood at 35 percent, higher than the 15 percent minimum regulatory requirement. All categories of MFIs comply with the capital adequacy requirements. 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 192 percent in September 2022 from 107 percent in September 2021, on the back of improved profitability and quality of assets.

Similarly, the liquidity position of financial institutions remains healthy. Banks continue to hold adequate liquidity buffers both in short and long term perspective. As at end September 2022, the Liquidity Coverage Ratio (LCR) that measures the ability of banks to fund cash outflows for 30 days stood at 250.5 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 154.8 percent. The aggregate liquidity ratio of Microfinance Institutions (MFIs) stood at 98.8 percent, against 30 percent minimum prudential requirement- all categories of MFIs comply with this regulatory requirement. The liquidity risk in Non -Bank Financial Institution (NBFIs) also remains low. The liquidity ratio of private insurers improved to 108 percent in September 2022 from 90 percent in September 2021 in line with increased capital and improved quality of assets.

### **Credit risk in lending institutions subsided, but vulnerabilities posed by gloomy global and domestic economic conditions remain**

The rebound of the economic activities has generally supported debts serviceability but financial stress remains for borrowers and businesses that have not yet fully recovered from the impact of the pandemic. The stock of Non-Performing Loans (NPLs) in Banks reduced to FRW 161 billion in September 2022 from FRW 172 billion in September 2021 mainly on account of write off of long overdue loans that amounted FRW 27 billion during the first nine months of 2022. Subsequently, NPL ratio dropped to 4.1 percent in September 2022 from 5.1 percent in September 2021. The decline of NPLs ratio is also linked to the growth of outstanding loans during the period under review. However, Banks' credit in watch category (loans whose repayment is late by 30 to 90 days) marginally increased to FRW 462 billion in September 2022 (11.6 percent of total loans) from FRW 409 billion in June 2022 (10.7 percent of total loans). The increase was more apparent in hotels (28.7 percent from 22 percent) and manufacturing sector (30.7 percent from 20.8 percent). The financial stress in manufacturing sector particularly reflects the adverse global supply shock associated with the outbreak of the war between Russia and Ukraine, and the accompanying high increase of on energy and other imported inputs prices. The rising inflationary pressures are expected to moderately increase credit risk in Banks and MFIs as debts serviceability of both individuals and businesses is negatively affected by rising prices.

### **The payment systems remain stable**

The payment systems continued to operate smoothly without any significant disruptions. The operational resilience of large value payment systems has been enhanced with the upgrade of the Rwanda Integrated Payments Processing System (RIPPS) that will be operating 24/7. MFIs are expected to access RIPPS by end December 2022. With regard to retail payments, ATMs' uptime average improved to 96.3 percent in September 2022 from 94 percent in September 2021. 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 in volume and value increased by 77 percent and 93 percent respectively while Person to Business (P2B) transactions in volume and value increased by 47 percent and 33 percent respectively. Similarly, the push-pull transactions continued to increase. During the same period, Bank to Wallet (B2W)





transactions in volume increased by 81 percent and by 119 percent in value, due to the removal of fees. Wallet to Bank (W2B) transactions in volume increased by 89 percent and by 82 percent in value as merchants push the money from their mobile accounts to their Bank accounts. Active merchant increased by 70 percent and unique users increased by 46 percent in September 22 compared to September 2021. With regards to interoperability project, the registration to eKash continues to increase.

### **Financial sector stability outlook**

In the medium term, the financial sector is expected to remain sound and stable. The capital and liquidity buffers held by the financial sector indicate the resilience and capacity of the sector to withstand shocks. The NBR continues to monitor and assess the global macro financial conditions and their implication, including potential sources of risks, on domestic economic and financial conditions. Through its 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.

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