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The Governor

PRESS RELEASE

The financial sector remains stable and sound

The Financial Stability Committee (FSC) held its quarterly meeting on August 13, 2019 and assessed the performance of the financial sector as at end June 2019. The committee observed that good economic performance in the first half of 2019 supported the improved performance of the financial sector, particularly through growth of deposits, demand for loans, and the reduction of Non-Performing Loans (NPLs). The financial sector continues to maintain sufficient capital and liquidity buffers above the prudential requirements. Profits improved across the financial sector, reflecting a supportive macroeconomic environment and enhanced operational efficiency.

Financial sector assets maintained a sustained growth

Assets of the financial sector increased at a higher pace during the period ended June 2019, driven by growth in deposits, capitalization of institutions, as well as profits. As at end June 2019, total assets of the financial sector expanded by 14 percent (y-o-y) to FRW 4,919 billion (56.9 percent of GDP), up from the 12 percent growth registered in June 2018. Banks and MFIs particularly increased their pace of lending in the first half of 2019, reflecting stronger demand for credit. As at end June 2019, the outstanding loans of banks increased by 16.6 percent (y-on-y) to FRW 2,008 billion, compared to 9.1 percent growth registered in June 2018. Similarly, during the same period, Loans of MFIs increased by 14 percent to FRW 162 billion, compared to 11 percent growth registered in June 2018.

The Non-Performing Loans ratio continue to drop in banks and MFIs

The Non-Performing Loans (NPLs) ratio dropped in Banks and MFIs. The NPLs ratio dropped in Banks from 6.9 percent in June 2018 to 5.6 percent in June 2019. Similarly, during the same period, the NPLs ratio in the MFI sector dropped from 7.9 percent to 6.5 percent. The improved agriculture performance for season A supported the reduction of NPLs in MFIs, especially SACCOs with a sizeable proportion of loans to this sector. The on-going loan recovery process in SACCOs, led by a National Taskforce, also contributed to this reduction of NPLs in the MFI sector.

Profits of the financial sector increased in the first half of 2019.

Net profits (after tax) of Banks increased from FRW 22.9 billion in H1 2018 to FRW 26.2 billion in H1 2019. During the same period, profits of MFIs increased from FRW 3.3 billion to FRW 7 billion, while that of the Insurance sector (public and private) increased from FRW 20.7

billion to FRW 23.2 billion. For banks and MFIs, increased lending, as well as recoveries from NPLs and written-off loans drove up profits. The improvement in Insurance sector profits was mainly supported by improved performance of the motor insurance product in terms of premiums written as well as claims management.

The financial sector is liquid.

As at June 2019, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), the two main indicators of liquidity in banks, stood at 180.5 percent and 164.3 percent, respectively, against the 100 percent minimum prudential requirement. On the other hand, the liquidity ratio in the Microfinance sector stood at 108.8 percent, against the 30 percent prudential requirement. The liquidity ratio of private insurers stood at 125 percent, against the prudential minimum of 120 percent.

The financial sector maintained adequate capital buffers.

The financial sector remained well capitalized. The Capital Adequacy Ratio (CAR) of Banks stood at 23.3 percent in June 2019, higher than 21.9 percent registered in June 2018 and the 15 percent prudential minimum. The CAR of MFIs stood at 33.9 percent in June 2019, higher than 32.5 percent registered in June 2018 and the 15 percent prudential minimum. The solvency position of private insurers was 174 percent in June 2019, higher than 149 percent registered in June 2018 and the prudential minimum of 100 percent. Sufficient capital buffers held by the financial sector indicate improved resilience of the sector to shocks.

Loan concentration, high loan write-offs in banks, and increasing operational expenses among private insurers were identified as key risks facing the financial sector. The committee resolved to continue engaging financial institutions, and other stakeholders on how these risks can be contained.

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RWANGOMBWA John
Governor, Chairperson of FSC

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