NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

# MONETARY POLICY REPORT
## August 2022

# NBR IDENTITY STATEMENT

The National Bank of Rwanda strives to be a World class Central Bank contributing to economic growth & development, by using robust monetary policy tools to maintain stable market prices. The Bank ensures financial stability in a free market economy as it embraces innovation, inclusiveness, and economic integration.

## VISION

To become a World Class Central Bank

## MISSION

To ensure Price Stability and a Sound Financial System

## OUR CORE VALUES

### INTEGRITY

We uphold high moral, ethical and professional standards for our people, systems and data

### MUTUAL-RESPECT AND TEAM-WORK

We keep ourselves in high spirit, committed to each other for success

### ACCOUNTABILITY

We are result-focused and transparent, and we reward according to performance

### EXCELLENCE

We passionately strive to deliver quality services in a timely and cost effective manner. We continuously seek improvement by encouraging new ideas and welcoming feedback that adds value to customer services.

# NBR
## Key Strategic Focus
(2017/18-2023/24)

The National Bank of Rwanda strategic plan sets out six strategic focus areas in which the Bank must excel to achieve its mission and vision. The strategy was designed based on Rwanda's aspirations for economic transformation in line with the National Strategy for Transformation (NST1).

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## MONETARY POLICY COMMITTEE DECISION, CURRENT OUTLOOK, AND RISKS

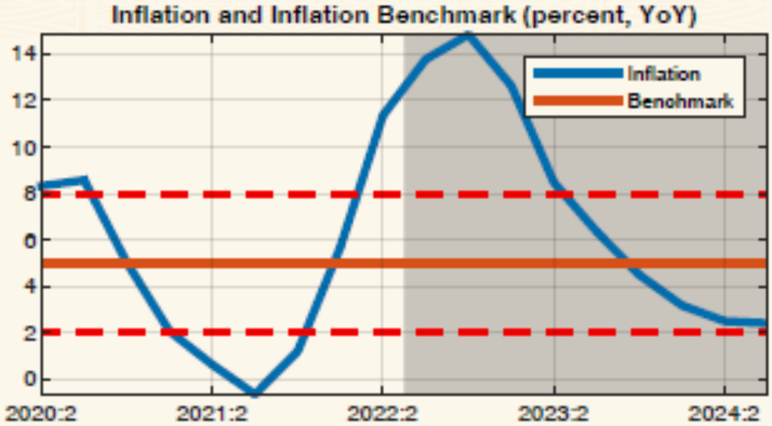
The statutory quarterly Monetary Policy Committee (MPC) meeting convened on 9th August 2022 to review the impact of its previous decisions, assess recent economic developments at the global and domestic level, as well as the outlook and to decide on the level of the Central Bank Rate (CBR) for the next three months. The analysis indicates that inflationary pressures remain high, mainly due to global supply challenges as well as lower domestic agriculture output. Indeed, the relaxation of COVID-19 related restrictions globally and the economic recovery support measures led to excess demand for commodities. Consequently, prices have been increasing for key commodities such as oil, gas, and food. The war between Russia and Ukraine, two major producers and exporters of oil, gas, fertilizers, metals, cereals, and sunflower-seed oils, exacerbated this trend. On the domestic front, lower domestic food supply linked to climate constraints and increased prices of inputs have led to increased food prices.

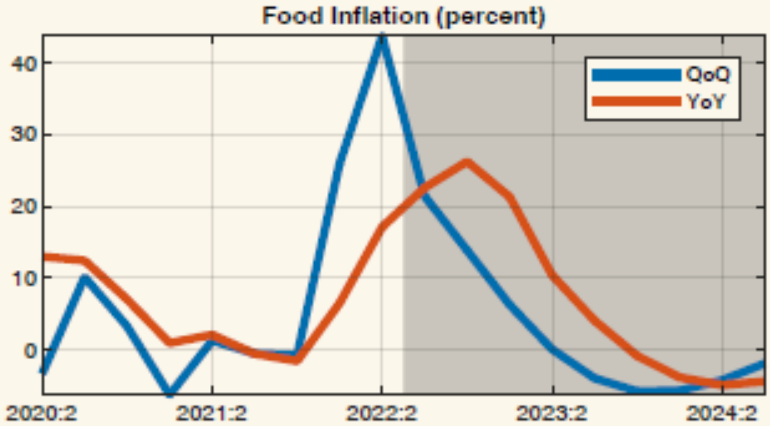
In line with the above, Rwanda's headline inflation is projected to average around 12.1 percent in 2022. Given these developments and the outlook, the MPC decided to increase the CBR by 100 basis points, from 5.0 to 6.0 percent, with the aim to reduce inflationary pressures and therefore preserve the purchasing power of consumers. Consistent with the monetary policy stance and other policy measures, inflation is expected to decelerate towards the 5 percent benchmark in the second half of 2023.

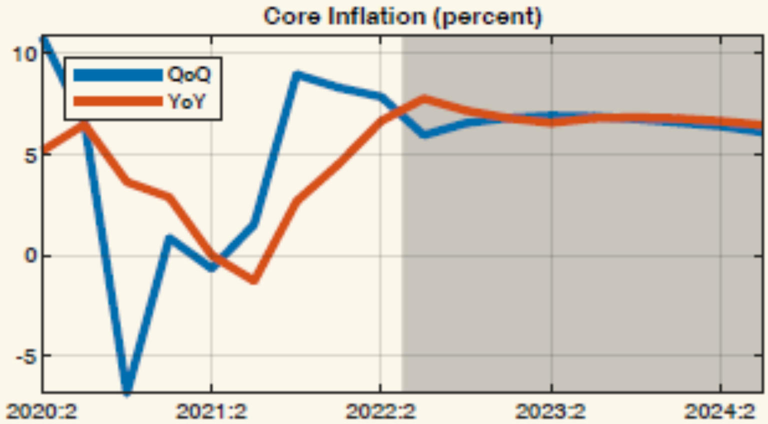
The August 2022 projections indicate an increase in core inflation, mainly in the second half of 2022, due to high imported costs. However, pressures are expected to stabilize over the policy horizon, consistent with the projected slowdown in economic recovery in 2022 and stable imported costs of core products and services.

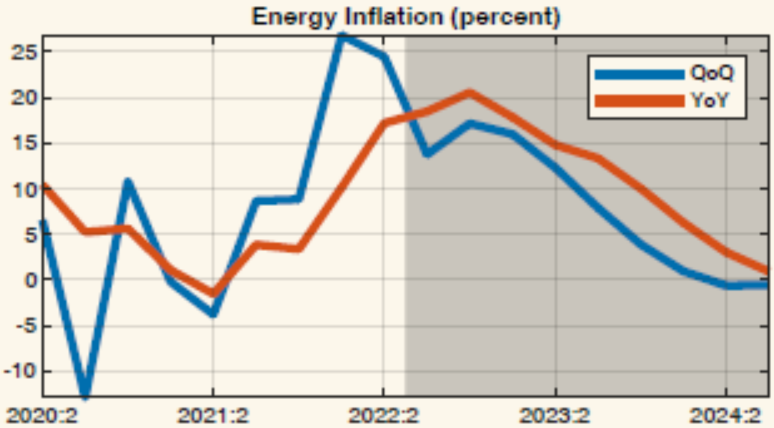
Similarly, food inflation that hiked in the first half of 2022 because of agriculture's poor performance and the upticks recorded in the international food prices is likely to moderate over the policy horizon. The projected decline is on the back of the normalization of domestic agriculture production and the expected reduction in global food prices over the medium term. The Ukraine-Russia trade agreement signed on 22 July 2022 will likely facilitate the transportation/shipments of food products via the Black Sea Port, increasing global supply.

Upward pressures recorded on energy inflation in 2022Q1 and 2022Q2 originated mainly from international oil prices, and such upward pressures are likely to continue until the end of 2022. Over the policy horizon, pressures are expected to ease as imported costs normalize.


Inflation and Inflation Benchmark (percent, YoY)
Inflation
Benchmark
14
12
10
8
6
4
2
0
2020:2
2021:2
2022:2
2023:2
2024:2


Food Inflation (percent)
QoQ
YoY
40
30
20
10
0
2020:2
2021:2
2022:2
2023:2
2024:2


Core Inflation (percent)
QoQ
YoY
10
5
0
-5
2020:2
2021:2
2022:2
2023:2
2024:2


Energy Inflation (percent)
QoQ
YoY
25
20
15
10
5
0
-5
-10
2020:2
2021:2
2022:2
2023:2
2024:2

## I. GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

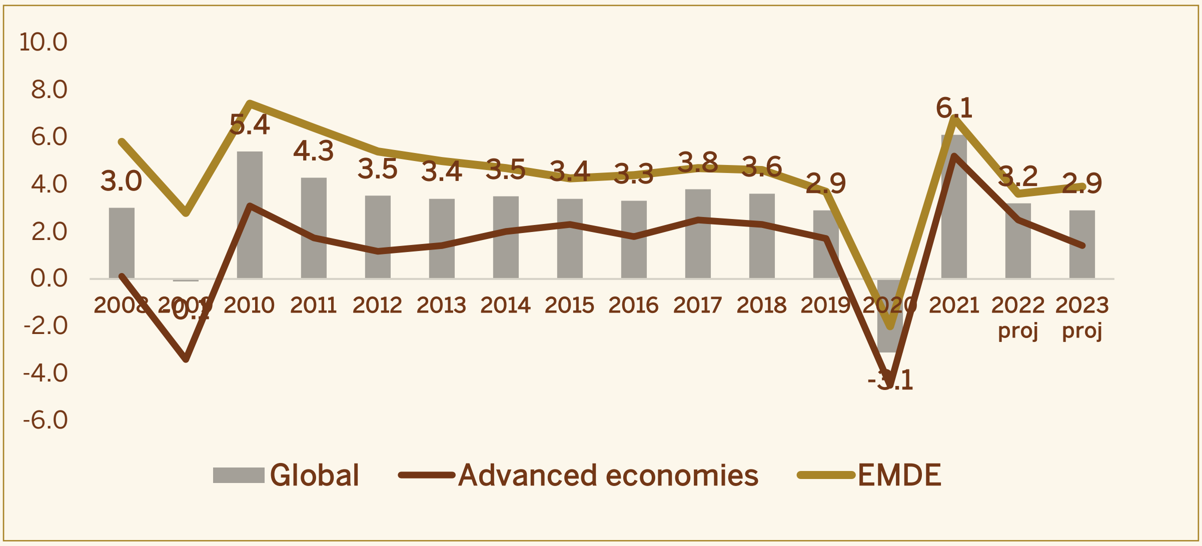
*According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) update published in July 2022, the world economic growth is projected to moderate to 3.2 percent in 2022, from 6.1 percent in 2021. Growth projections for 2022 were revised down by 0.4 percentage points relative to April 2022 projections, reflecting forecast downgrades to the advanced economies, and emerging markets and developing economies, as risks have materialized and multiple crisis facing the world have intensified.*

### *The ongoing Russia – Ukraine war slows the global economic recovery*

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) update published in July 2022, the world economic growth is projected to moderate to 3.2 percent in 2022 from 6.1 percent in 2021. Growth projections for 2022 were revised down by 0.4 percentage points relative to April 2022 projections, reflecting forecast downgrades to the advanced economies and emerging markets and developing economies, as risks have materialized and multiple crisis facing the world have intensified.

Economic growth in advanced economies is projected at 2.5 percent in 2022 after 5.2 percent in 2021, revised down by 0.8 percentage points relative to April 2022 projections, largely reflecting downgrades to the United States, Eurozone, United Kingdom and Japan. Emerging market and developing economies are projected to grow by 3.6 percent in 2022, after growing by 6.8 percent in 2021. The forecast for the group is marked down by 0.2 percentage points relative to April 2022 projections, largely attributed to downgrades for China and India as well as a projected recession in the emerging and developing Europe.

Chart 1: GDP growth and projections across regional blocks (% change)




**Source:** IMF WEO update, July 2022

Relative to April 2022 WEO projections, the US economic growth projections are revised down by 1.4 percentage points to 2.3 percent in 2022 after 5.7 percent in 2021. The USA downward revision reflects weaker-than-expected growth in the first two quarters of 2022, with significant less momentum in private consumption, in part reflecting the erosion of household purchasing power and the expected impact of a steeper tightening in monetary policy.

Eurozone's economy is projected to grow by 2.6 percent in 2022 from 5.4 percent in 2021, growth projections revised down by 0.2 percentage points relative to April 2022 projections. This reflects spillovers from the war in Ukraine as well as the assumption of tighter financial conditions, with the European Central Bank ending net asset purchase and raising rates in July 2022 for the first time since 2011.

The United Kingdom's economic growth is projected to slow down to 3.2 percent in 2022 from 7.4 percent in 2021, and growth projections are revised down by 0.5 percentage points relative to April projections. The downward revision is largely due to the consumption projected to be weaker than expected as inflation erodes real disposable income, while tighter financial conditions are expected to cool investment.

Japan's economy is projected to grow by 1.7 percent in 2022 same growth as in 2021, and growth projections were revised down by 0.7 percentage points relative to April 2022 projections, reflecting in part weaker domestic demand as higher oil prices are expected to weigh on private consumption and investment, and a drag from lower net exports.

Economic growth in emerging markets and developing economies is projected to slow to 3.6 percent in 2022 after 6.8 percent in 2021, revised down by 0.2 percentage points relative to April 2022 projections. Growth for 2023 was also revised down by 0.5 percentage points to 3.9 percent. The negative revisions for 2022-2023 reflect mainly the sharp slowdown of China's economy and the moderation in India's economic growth. This revision includes a 1.1 percentage point downgrade to growth in China, to 3.3 percent, the lowest growth in more than four decades, excluding the initial Covid-19 crisis in 2020, owing primarily to the aforementioned Covid-19 outbreaks and lockdowns.

In China, growth is projected to moderate at 3.3 percent in 2022, from 8.1 percent in 2021, as growth projections were revised down by 1.1 percentage points, relative to April projections. The downgrade revision was largely due to further lockdowns and the deepening real estate crises, with major global spillovers.

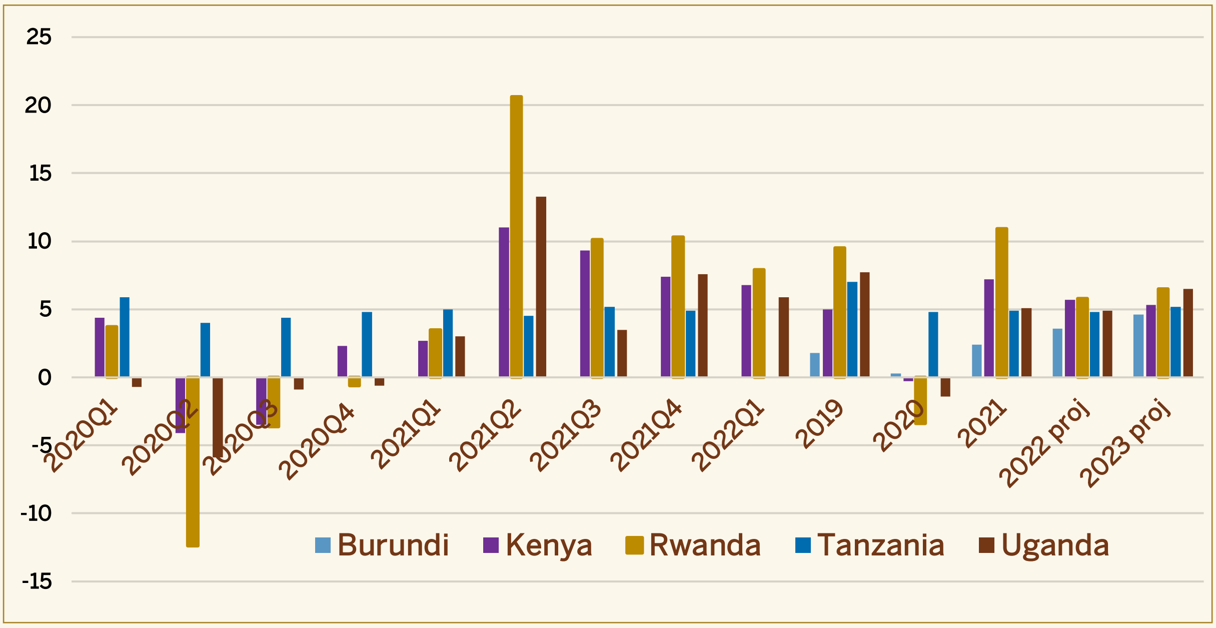
India's economy is projected to grow by 7.4 percent in 2022, from 8.7 percent in 2021, and growth projections for 2022 were revised down by 0.8 percentage points relative to April projections, reflecting mainly less favorable external conditions and more rapid policy tightening.

The Sub-Saharan African economy is projected to grow by 3.8 percent in 2022, unchanged from April 2022 projections, compared to the growth of 4.6 percent in 2021. Growth projections reflect the increase in oil prices that have maintained growth prospects for the region's oil exporters, such as Nigeria (3.4 percent in 2022), and Angola (3.0 percent in

2022). South Africa's growth was revised up by 0.4 percentage points relative to April projections, to 2.3 percent in 2022.

The economic performance in the East African Community (EAC) countries[1] is projected to slow to 5.3 percent in 2022 from 6.2 percent recorded in 2021, following a projected slowdown for all member countries compared to the previous year. The projected deceleration in growth is mainly due to the subdue global demand and rising commodity prices.

Chart 2: Economic growth in EAC-5 countries (% change)




**Source:** IMF WEO, April 2022 projections and Country Bureau of statistics

Kenya's real GDP grew by 6.8 percent in 2022Q1 from 7.4 percent in 2021Q4 and projected to slow to 5.7 percent in 2022 from 7.2 percent recorded in 2021. The slowdown in Kenya's real GDP, which accounts for more than 40 percent of the total community's output (EAC-5), will negatively affect the growth of EAC in general.

Rwanda's economy grew by 7.9 percent in 2022Q1 after 10.3 percent in 2021Q4 and projected to moderate to 6.0 percent in 2022 after 10.9 percent in 2021, following global economic slowdown, rising commodity prices and supply chain disruptions.

Uganda's GDP growth slowed to 5.9 percent in 2022Q1 after 7.6 percent in 2021Q4 and projected to slow to 4.9 percent in 2022 from 5.1 percent recorded in 2021. Tanzania's economic growth is projected to slightly moderate to 4.8 percent in 2022 after 4.9 percent

[1] IMF WEO Projections, April 2022.

in 2021. In Burundi, the economy is projected to grow by 3.6 percent in 2022 from 2.4 percent in 2021.

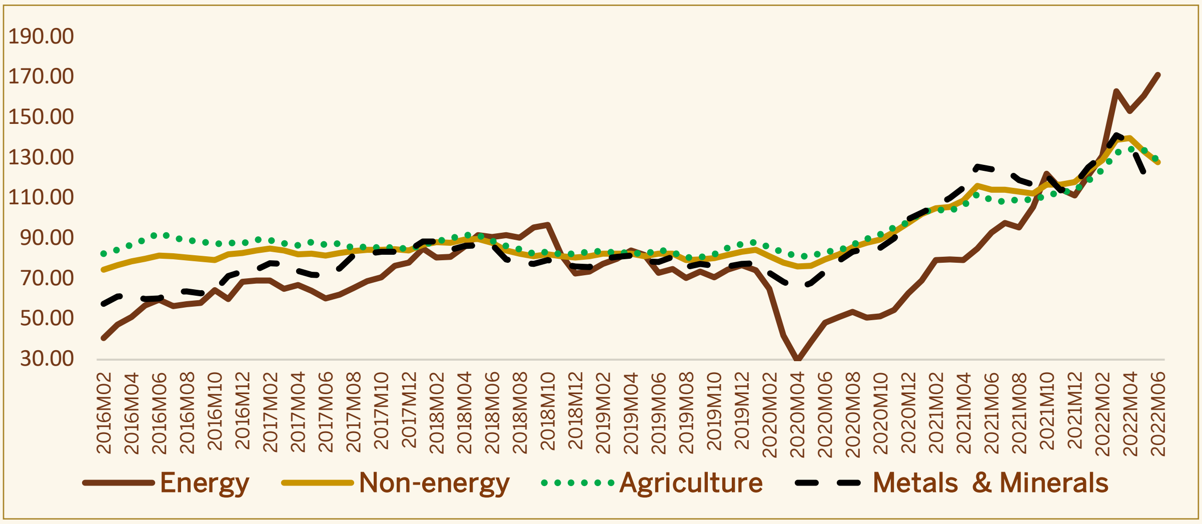
High uncertainty however surrounds global economic prospects, and risks to the outlook dominate, as outlined here below:

- The war in Ukraine could lead to a sudden stop of European gas imports from Russia.
- Inflation could be harder to bring down than anticipated either if labor markets are tighter than expected or inflation expectations unanchored.
- Tighter global financial conditions could induce debt distress in emerging market and developing economies.
- Renewed COVID-19 outbreaks and lockdowns as well as a further escalation of the property sector crisis might further suppress Chinese growth, and
- Geopolitical fragmentation could impede global trade and cooperation.

***Higher global commodity prices induced by a rising global demand and worsened by the current Russia- Ukraine standoff.***

In 2022Q2 (y-o-y), global commodity prices increased, reflecting a rebound in global demand together with supply disruptions linked with Russia-Ukraine standoff. Energy prices rose by 86.0 percent compared to 118.6 percent in 2021Q2, attributed mainly to the rise in crude oil prices and natural gas.

Chart 3: Commodity prices index in nominal US dollar (2010=100)

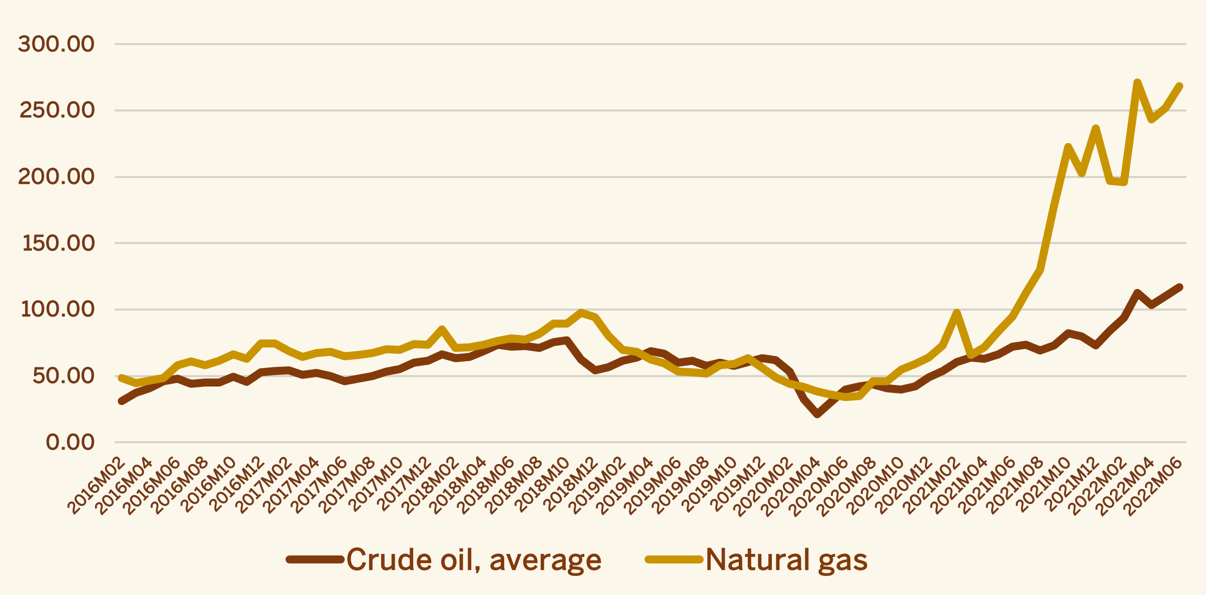



**Source:** World Bank Commodity Prices, July 2022

In 2022Q2, crude oil prices increased by 64.2 percent on average compared to an increase of 121.3 percent in 2021Q2, following supply disruptions due to the war in Ukraine. In July 2022, IMF projects oil prices to increase by 50.4 percent in 2022, from USD 69.1/barrel in 2021 to USD 103.9/barrel in 2022, and later drop by 12.3 percent in 2023.

Natural gas prices surged by 206.0 percent in 2022Q2 compared to an increase of 131.9 percent in 2021Q2, following the outbreak of the war in Ukraine, which disrupted Russia's natural gas exports. World Bank projects natural gas prices to increase by 88.3 percent in 2022, which reflects disruptions to energy supplies as a result of the war in Ukraine and related sanctions and policies.

Chart 4: Crude oil and natural gas developments (USD/barrel)




**Source:** World Bank commodity prices, July 2022

Non-energy commodity prices increased by 18.3 percent in 2022Q2, after 46.0 percent in 2021Q2, owing largely to higher prices of all non-energy sub-group (agricultural commodities, metals & minerals, and fertilizers).

In 2022Q2, average prices for agricultural commodities increased by 21.3 percent after 33.1 percent in 2021Q2. This increase reflects trade and production disruptions for some commodities like wheat due to the war in Ukraine, subdued production of soybean due to adverse weather in South America, a surge in input costs, especially energy and fertilizers, and strong demand for animal feed commodities in China. Agricultural commodities prices are projected to increase by 24.2 percent in 2022 from 5.0 percent in 2021.

Food prices increased by 26.6 percent in 2022Q2 compared to 43.0 percent in 2021Q2, of which oils & meals (+27.2 percent), grains, (+27.6 percent), and other foods (+24.9 percent). Global food prices are projected to increase by 30.8 percent in 2022 from 7.0 percent in 2021.

Beverages prices increased by 23.5 percent in 2022Q2 after 13.1 percent in 2021Q2, mainly led by coffee prices due to weather-related production shortfalls in Brazil following a frost that affected the country's coffee production. Tea prices (Mombasa) increased by 24.0 percent in 2022Q2 after dropping by 4.8 percent in 2021Q2, as tea production reflects weather-related production shortfalls in East Africa, especially in Kenya, the world's largest tea exporter.

Metals & minerals prices went up by 3.0 percent in 2022Q2, after 76.3 percent in 2021Q2, reflecting the impact of rising demand that favored industrial production activities. Metal prices continued to hike in 2021, driven by strong demand in China, the ongoing global economic recovery, and supply disruptions.

The war in Ukraine has been a key driving force behind aluminum and nickel price movements, while high-energy prices have affected most metals, especially aluminum and zinc. Tin prices increased by 18.5 percent in 2022Q2 compared to 97.2 percent in 2021Q2, supported by a strong demand from the electronics sector. World Bank projected metal prices to increase by 15.8 percent in 2022, of which tin prices are projected to increase by 26.6 percent in 2022 before dropping by 14.6 percent in 2023.

Precious metals dropped slightly by 0.4 percent in 2022Q2 after rising by 13.7 percent in 2021Q2, reflecting higher investment demand due to rising inflation and increased-safe haven buying following the war in Ukraine. Precious metals are projected to increase slightly by 3.0 percent in 2022 but fall by 8.9 percent in 2023 on prospects of tighter monetary policy.

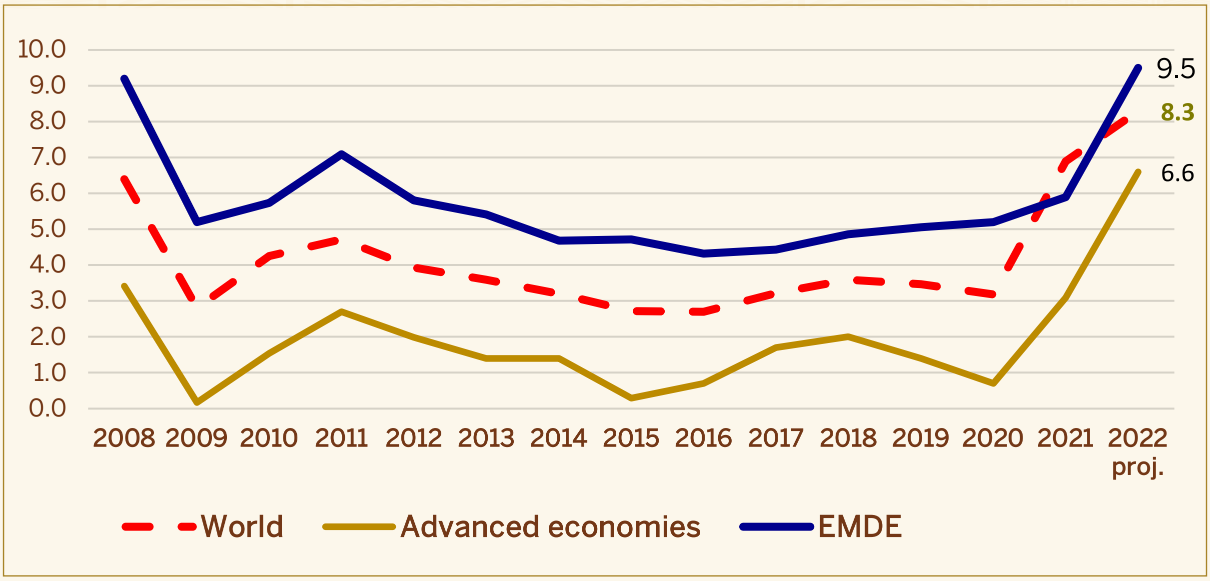
Gold prices increased by 3.3 percent in 2022Q2 after rising by 6.7 percent in 2021Q2, as rising inflation and geopolitical risks more than offset the impact of higher nominal interest rates in advanced economies. Gold prices are projected to increase modestly by 4.4 percent in 2022, before falling by 9.6 percent in 2023, weighed down by tighter monetary policy in the US and EU, with additional rate increases expected this year and next year by the Federal Fund to address inflationary pressures.

Prices for fertilizers increased highly by 113.6 percent in 2022Q2 from 57.4 percent in 2021Q2. The increase follows last year's 80.6 percent surge due to supply disruptions, soaring energy costs, and trade restrictions in China and Russia. The Ukraine war threatens further disruptions, as Russia and Belarus are major producers and exporters of fertilizers and their main input, natural gas. The World Bank projects fertilizers prices to rise by 69.2 percent in 2022.

### *Global inflation is expected to remain elevated driven by war-induced commodity prices and broadening price pressures*

World annual average inflation is projected to increase to 8.3 percent in 2022 (on a fourth-quarter-over-fourth-quarter basis), from 6.9 percent in 2021 (on a fourth-quarter-over-fourth-quarter basis), in the April 2022 projections. Global inflation has been revised up due to food and energy prices as well as persistent supply-demand imbalances.

Chart 5: Global inflation and projections across regional blocks (% change)




**Source:** IMF WEO update, July 2022

In advanced economies, consumer price inflation is projected to increase to 6.6 percent in 2022 (0.9 percentage points higher than in April projections), from 3.1 percent in 2021, driven by significant increases in headline inflation among major economies such as the United Kingdom (a 2.7 percentage point upward revision to 10.5 percent in 2022), and Euro area (a 2.9 percentage point upward revision to 7.3 percent in 2022).

The US annual headline inflation surged to 9.1 percent in June 2022 from 8.6 percent in the previous month, and this was the highest inflation rate since November 1981, following a surge in energy and food prices. The big contributors were energy prices (41.6 percent), namely fuel oil (98.5 percent), gasoline prices (59.9 percent), and natural gas (38.4 percent). Food prices also increased by 10.4 percent, the most increase since 1981. Core inflation increased to 5.9 percent, slightly below 6.0 percent in May, but above forecast of 5.7 percent. The annual average inflation is projected to increase to 7.7 percent in 2022 from 4.7 percent in 2021.

The annual headline inflation in the Eurozone increased to a new record of 8.6 percent in June 2022, from 8.1 percent in the previous month, more than four times above ECB target of 2 percent, and the highest rate hike in 11 years, as the war in Ukraine and sanctions pushed fuel and natural gas prices to record high levels. The high increase was mainly due to the rising energy (41.9 percent), food, alcoholic & tobacco prices (8.9 percent), and non-energy industrial goods (4.3 percent). The annual core inflation, which excludes volatile prices of energy, food, alcohol and tobacco eased to 3.7 percent from 3.8 percent in May. The annual average inflation is projected increase to 7.3 percent in 2022 from 2.6 percent in 2021.

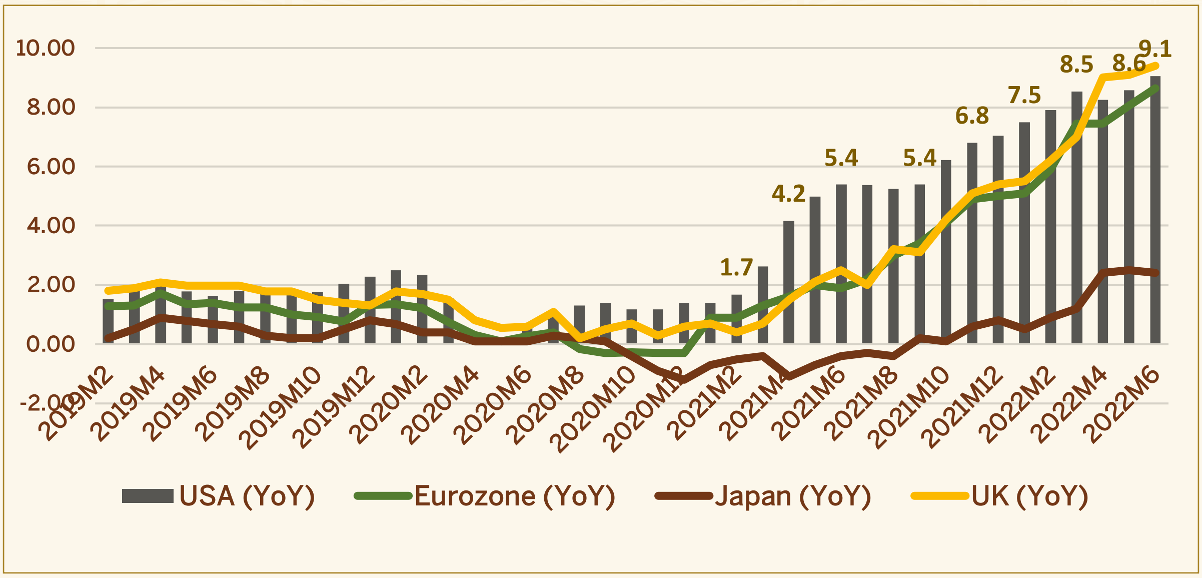
The annual headline inflation in the United Kingdom increased to 9.4 percent in June 2022, from 9.1 percent in the previous month, which is more than 10 times the 0.7 percent recorded in March 2021, and the highest inflation rate since 1982. It is more than 3 times the Bank of England's target of 2 percent. The main upward pressure came from motor fuel prices, which increased at a record of 42.3 percent as average petrol prices rose by 18.1 percent per liter in June 2022. Food prices rose for the highest in a decade with most types of food registering annual increases above 5 percent including milk, cheese, eggs, vegetables and meat. The annual average inflation is projected to rise to 10.5 percent in 2022 from 2.6 percent in 2021.

Japan's annual headline inflation slightly changed to 2.4 percent in June 2022 from 2.5 percent in the previous month, pointing to the 10$^{th}$ consecutive month of increase, amid surging fuel and food prices following Russia – Ukraine war as well as sharply weakening Yen. It was the highest annual inflation rate since October 2018, boosted by a sharp pickup in food prices rising at the fastest pace over the last five years, and a further increase in fuel, light and water prices. The core consumer prices, which excludes fresh food, went up by 2.2 percent (y-o-y), in June 2022, the highest since January 2015, and exceeding the Bank of Japan's 2 percent target for the third consecutive month.

The rising fuel and food prices and a weakening yen that inflates import costs are expected to keep Japan's inflation above the central bank's target for most of this year. This also presents a challenge to the Bank of Japan which views such cost-push inflation as temporary and a risk to consumption. The BOJ raised its core consumer inflation forecast for the current fiscal year to 2.3 percent from 1.9 percent in its July report but maintained ultra-low interest rates despite a global shift towards tighter monetary setting. The annual average inflation is projected to increase to 1.0 percent in 2022 from a deflation of 0.3 percent in 2021.

China's annual headline inflation increased to 2.5 percent in June 2022 from 2.1 percent in May 2022, above the target set at 3.0 percent. It was the highest annual inflation rate since July 2020, with food prices rising most in 21 months as consumption strengthened further following an improvement in Covid-19 situation. In addition, non-food inflation accelerated to 2.5 percent from 2.1 percent, driven by transportation & communications, housing, education, culture, clothing, household goods & services and healthcare. According to the IMF April projections, the annual average inflation for China is projected to increase to 2.1 percent in 2022 from 0.9 percent in 2021.

Chart 6: Annual headline inflation developments (% change)



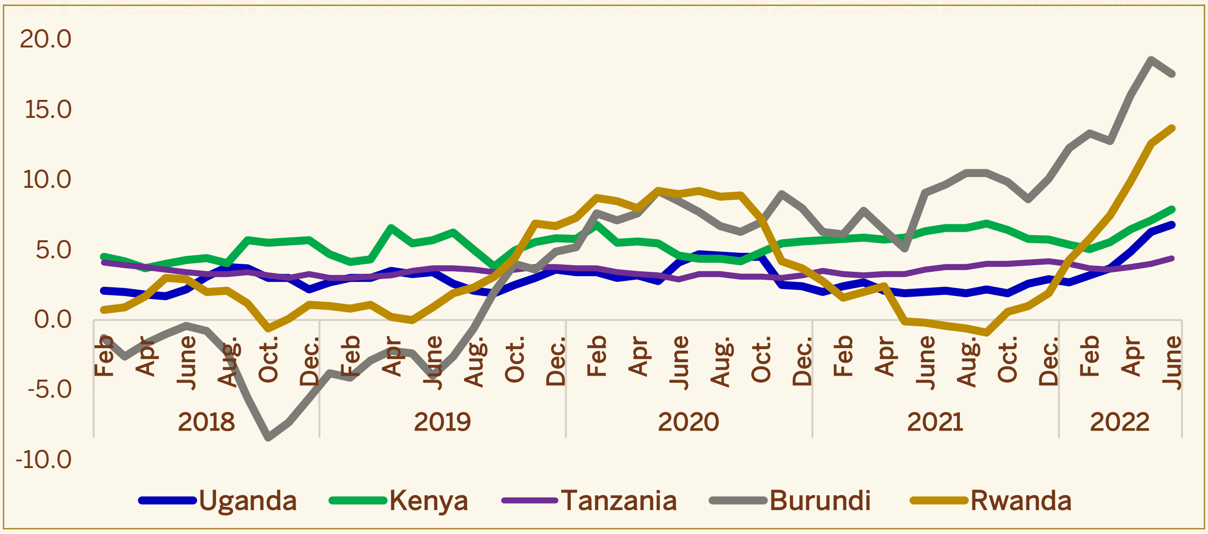

**Source:** Country Bureau of statistics

In Sub-Saharan Africa, annual headline inflation is projected rise to a double digit of 12.2 percent in 2022, from 11.0 percent in 2021, following the projected higher inflation rates in Ethiopia, Ghana, Mali and South Sudan. In some Sub-Saharan African countries, food prices have increased significantly, amid local shortages and the rise in global food prices.

With regard to price developments in the EAC-5 countries, annual average inflation is projected to increase to 6.2 percent in 2022 from 4.4 percent in 2021, following projected increase across all EAC-5 countries. The annual headline inflation in Kenya rose to 7.9 percent in June 2022 from 7.1 percent in the previous month, breaching the upper limit of the Central Bank's target range of 2.5 percent to 7.5 percent for the first time since August 2017. Upward pressure came mostly from prices of food & non-alcoholic beverages, (13.8 percent), namely cooking oil and wheat flour, amid the effects of the war in Ukraine. Inflation also accelerated for transport (7.1 percent from 6.4 percent), as well as housing & utilities (6.8 percent from 6.0 percent). Inflation has been rising since March 2022 as a consequence of disruptions caused by the war in Ukraine. The annual average inflation is projected to increase to 7.2 percent in 2022 from 6.1 percent in 2021.

Rwanda's headline inflation increased to 13.7 percent in June 2022 from 12.6 percent in the previous month, mainly pushed up by a surge in prices of energy (18.1 percent), food & non-alcoholic beverages (25.1 percent), fresh food (22.2 percent), restaurants & hotels (14.3 percent), as well as furnishing, household equipment & routine household maintenance (11.5 percent). The annual average inflation is projected to increase to 12.1 percent in 2022 from 0.8 percent in 2021. Pressures will mainly come from imported costs of production with increased commodity prices especially food and energy.

Chart 7: Annual headline Inflation developments (percent change)




**Source:** Country Bureau of statistics

The annual headline inflation in Tanzania increased to 4.4 percent in June 2022, from 4.0 percent in the previous month, the highest inflation rate since November 2017, amid rising prices for transport (8.9 percent), food & non-alcoholic beverages (5.9 percent) as well as housing & utilities (4.6 percent). The annual average inflation is projected to rise to 4.4 percent in 2022 from 3.7 percent in 2021.

Uganda's annual headline inflation accelerated to 6.8 percent in June 2022, from 6.3 percent in the previous month, the highest inflation rate since October 2021, as prices increased mostly for energy fuel and utilities (14.2 percent up from 12.0 percent), food crops and other related items (14.4 percent from 13.6 percent), as well as other goods inflation (9.3 percent from 7.8 percent). The annual average inflation is projected to rise to 6.1 percent in 2022 from 2.2 percent in 2021.

### *Monetary conditions tighten globally amid heightened inflation risks*

At the beginning of 2022 most advanced economies as well as some emerging market and developing economies started monetary policy tightening to help inflation return to central bank targets.

Following the FOMC statement issued on 27$^{th}$July 2022, the US Federal Reserve hiked interest rate by 75 basis points and decided to raise the target range for the federal funds, its highest benchmark policy rate for the first time since 1994. The Federal Reserve has increased its bank rate four times in 2022 and has increased its policy rates by 2.25 percent this year. The US policy has moved up from the range of 0 – 25 percent to 2.25 – 2.50 percent in the space of a few months this year, tightening global financial conditions and tempting investors.

The Bank of England increased the policy rate by 50 basis points, following the monetary policy meeting held on 3$^{rd}$August 2022. The Bank's monetary policy committee voted by a majority to increase the bank rate by 50 basis points to 1.75 percent, following the 25 basis points hike on 16$^{th}$ June, 5$^{th}$ May, on 17$^{th}$ March and on 3$^{rd}$ February 2022. The BoE has increased its bank rate five times in 2022 following another hike end 2021.

At its monetary policy meeting held on 21$^{st}$July 2022, the European Central Bank decided to raise the three key ECB interest rates by 50 basis points and approve the transmission protection instrument (TPI). Accordingly, the interest rate on the main refinancing operations, marginal lending facility and deposit facility were increased to 0.50 percent, 0.75 percent and 0.00 percent, respectively, with effect from 27 July 2022. At the Governing Council's upcoming meetings, further normalization of interest rates will be appropriate.

In June 2022, the three-month deposit rates remained negative in the Eurozone and Japan, standing at -0.140 percent and -0.125 percent, respectively, affecting banks' deposits in the Central Bank and encouraging economic financing.  In the US, and UK deposit rates increased to 2.172 percent and 1.703 percent, from 0.220 percent and 0.315 percent, respectively, in December 2021.

The 10 Year government bond rate increased in the United States, United Kingdom, Eurozone and Japan to 3.013 percent, 2.229 percent, 0.225 percent and 1.336 percent, respectively, from 1.510 percent, 0.971 percent, -0.177 percent and 0.065 percent in December 2021.

On the foreign exchange market, the US dollar is appreciating against all major currencies, notably the Japanese Yen, the British Pound, the Euro, and the Chinese Yuan. By end of June 2022 (y-o-y), the US dollar appreciated by 17.94 percent against the Japanese Yen, by 11.08 percent against the British pound, by 8.48 percent against the Euro, and by 5.40 percent against the Chinese Yuan.  As the world's most important currency, the dollar often rises in times of turmoil, in part because investors consider it relatively safe and stable.

Factors roiling the global economy partly explain why the dollar has suddenly become so much stronger. As central bankers around the world try to tame inflation by raising interest rates, the Federal Reserve is moving more quickly and more aggressively than most. It is estimated that more than half the rise in the dollar this year could be explained by the Fed's comparatively aggressive monetary tightening. In addition, the dollar was rising because high-energy prices were hitting the economies of importers, including most Europe, harder than US, which is less reliant on buying oil and gas from abroad.

## II. EXTERNAL SECTOR DEVELOPMENTS

*Rwanda's trade recovery continued in the second quarter of 2022.*

In 2022Q2, merchandise exports[2] rose by 32.2 percent amounting to USD 366.1 million, up from USD 276.9 million recorded in the same quarter of 2021. The increase is owed to rising global commodity prices, value addition in minerals and good performance of domestic manufacturing activities.

Traditional exports revenues grew by 39.0 percent, year -on- year, in 2022Q2 amounting to USD 93.6 million, up from USD 67.4 million in 2021Q2, due to increased prices of minerals (+31.3 percent), coffee (+49 percent) and tea (+12 percent), reflecting improving global commodity prices and value addition in minerals.

Furthermore, non-traditional exports rose slightly by 3.0 percent in 2022Q2, registering USD 77.4 million from USD 75.1 million a year ago, owed to increased receipts from manufacturing exports notably cement, iron and steel, milling products and textile as well as agricultural products mainly flowers, fruits and vegetables, which are largely exported to neighboring countries and Europe.

Lastly, receipts from re-exported products soared by 42.7 percent year-on-year in the second quarter of 2022, standing at USD 164.1 million from USD 115.0 million recorded in 2021Q2, largely driven by a high demand for refined petroleum oil and other food products by neighboring countries. Exports revenues from Informal Cross-Border Trade (ICBT) amounted to USD 31.0 million in 2022Q2, up from USD 19.5 million representing an increase of 59.0 percent as Covid-19 restrictions measure decrease.

Merchandise imports rose by 24.5 percent mainly driven by higher international commodity and oil prices but also the continued recovery of domestic economic activities. On one hand, energy imports grew by 75.0 percent in value terms driven by increasing global oil prices, intermediate goods rose by 26.5 percent driven by fertilizers and construction materials, and consumer goods grew by 20.1 percent. In contrast, capital goods imports reduced by 0.5 percent. Imports revenues from Informal Cross-Border Trade (ICBT) grew by 109.0 percent, amounting to USD 2.4 million in 2022Q2. As a result, Rwanda's trade deficit amounted to USD 649.2 million in 2022Q2 from USD -538.5 million in 2021Q2, representing an increase of 20.6 percent.

Projections indicate that the current account deficit (CAD) is expected to widen to 12.6 percent of GDP in 2022 from 10.9 percent of GDP recorded in 2021. In 2023, the CAD is expected to improve in line with the recovering service exports and stabilizing global oil prices. On the financing side, the current account will continue to be financed by foreign direct investment and government borrowing. However, Rwanda's external vulnerability remains marginal as the gross international official reserves remain adequate. The

[2] Merchandise exports/ imports refers to exports/imports excluding gold. It includes formal exports and informal cross-border trade (ICBT).

coverage of foreign reserves is estimated at 4.6 months of prospective imports of goods and services in 2022 and is projected to remain above 4.0 months over the medium term.

## III. DOMESTIC ECONOMIC DEVELOPMENTS

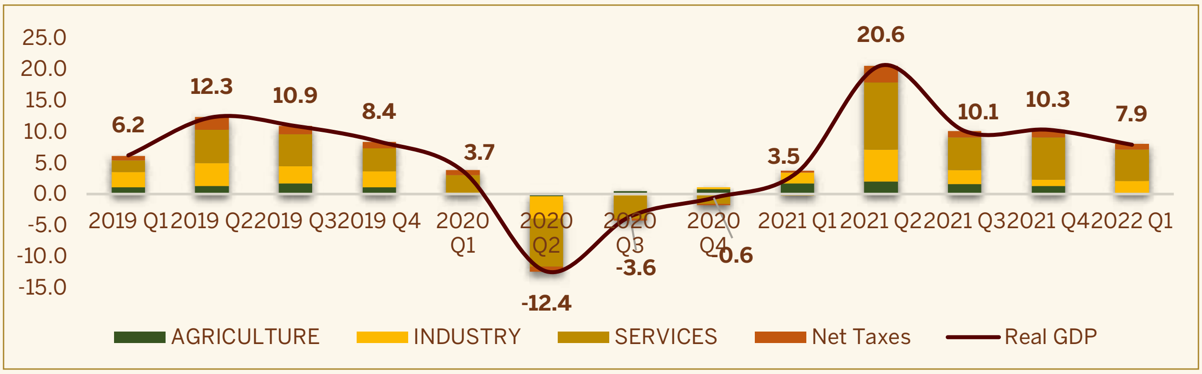
### 3.1 Economic growth in 2022

*The Rwandan economy continued to recover from the adverse effects of COVID-19, on the back of sizeable fiscal and monetary policy support. The real GDP increased by 7.9 percent in the first quarter of 2022 compared to 3.5 percent recorded in the first quarter of 2021.*

***Continuous economic recovery in 2022Q1 despite weak agricultural production***

Rwandan economy continues to recover from the adverse effects of COVID-19 pandemic, with real GDP growth standing at 7.9 percent in the first quarter of 2022 mainly due to strong performance in the industry and service sectors.

Chart 8: Real Gross Domestic Product (% change, y-o-y)




**Source**: National Institute of Statistics of Rwanda

Industry sector recorded a growth of 10 percent in 2022Q1 similar to the corresponding quarter of 2021, supported by fiscal and monetary policy measures meant to alleviate the economic fallout from COVID-19. This recovery was observed across all industrial sub-sectors. In mining and quarrying, activity continued to improve, growing by 16 percent against 3 percent recorded in 2021Q1, mainly supported by increasing mineral prices on international markets. The price index for metals and minerals increased, year-on-year, by 13 percent in 2022Q1. Manufacturing and construction grew by 11 percent and 6 percent in 2022Q1 respectively. Good performance in construction was driven by infrastructure projects that stimulated local production of construction materials such as cement, bricks and other similar products (+36 percent).

The services sector grew by 10.8 percent in 2022Q1 from -0.4 percent in 2021Q1, especially boosted by tourism related services. Due to relaxed restriction measures from the pandemic, international tourist arrivals increased and led to strong performance of air transport (+86.6 percent in 2022Q1 from a contraction of 54.6 percent in 2021Q1), travel agents and tour (+28.6 percent in 2022Q1 against -43.3 percent in 2021Q1) as well as hotel and restaurant (+80.0 percent in 2022Q1 from -34.4 percent in 2021Q1) subsectors. Overall, transport services expanded in 2022Q1, reflecting strong performance of both air transport and land transport (+8.5 percent).

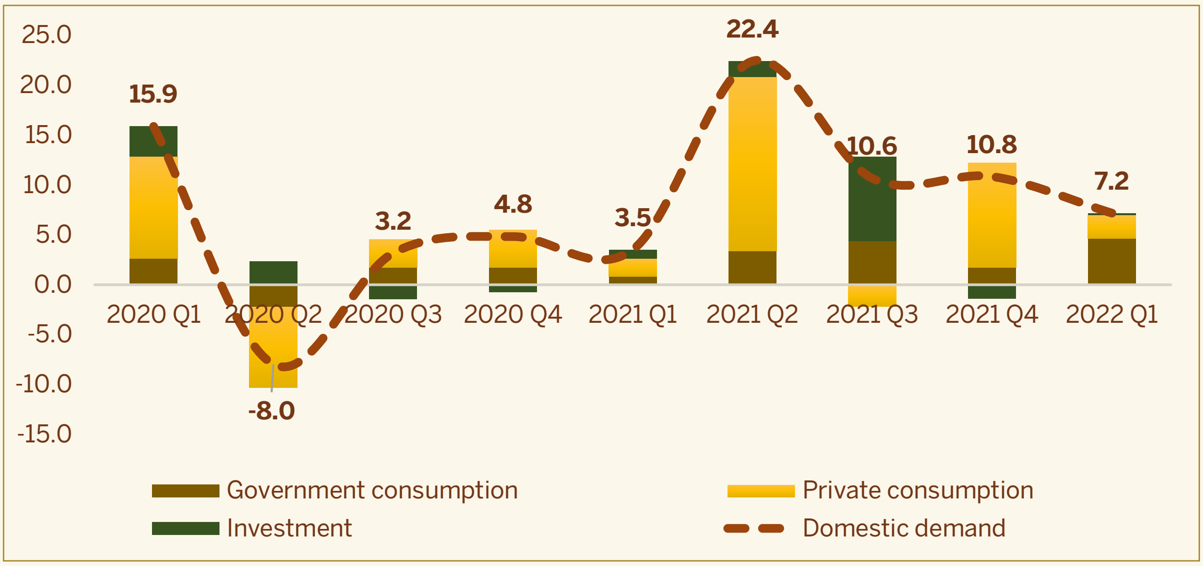
The good performance of services sector was associated with good progress in information and communication (+16.5 percent), financial services (+13.2 percent), health (+21.9 percent); professional, scientific & technical services (+5.4 percent), real estate (+4.5 percent) and trade services (+6.9 percent).

However, the agriculture sector recorded poor performance, growing by 0.6 percent, mainly due to unfavorable weather conditions that led to bad harvest for 2022 agricultural season A. Food crop production that represents 64 percent of agriculture sector declined by 1.2 percent in 2022Q1 from a growth of 7.0 percent in 2021Q1.

***The domestic demand continued to recover, driven by strong government consumption.***

In 2022Q1, the domestic demand grew by 7.2 percent mainly driven by government consumption. The later increased by 32.2 percent from 6.0 percent in 2021Q1, as the government undertook supportive measures in order to help the economy to recover from the impact of COVID-19. Private consumption also continued to improve, growing by 3.6 percent, faster than 2.7 percent recorded in 2021Q1, amid eased COVID-19 containment measures and the successful vaccination campaign. Investment slowed down (+0.8 percent from +4.4 percent in 2021Q1) following huge investments recorded in 2021Q1 related to infrastructure projects such as school building, which have been completed.

Chart 9: Domestic demand (% change, y-o-y)




**Source**: National Institute of Statistics of Rwanda

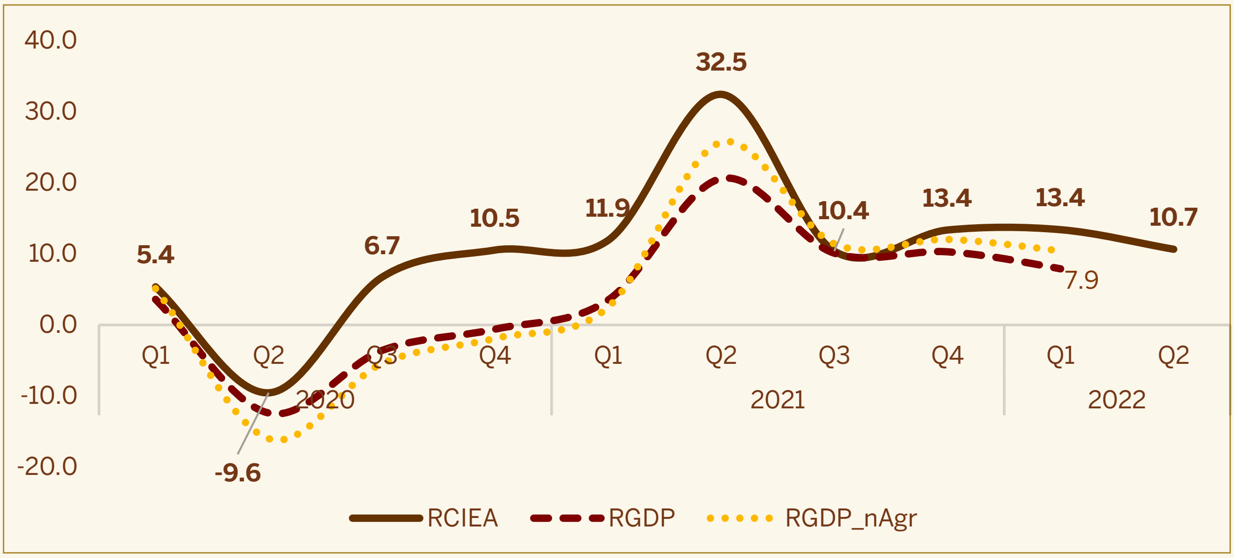
## 3.2 High frequency indicators in the second quarter of 2022

*Domestic economic activities moderated during 2022Q2 following recent high inflation, shortage and high costs of some imported goods which limited private consumption as well industrial production. This is evidenced by slowing growths in the high-frequency indicators between 2021Q2, 2022Q1 and 2022Q2. In addition, agricultural productivity was damaged by poor weather conditions.*

***High-frequency indicators point to slowing economic growth in 2022Q2.***

In 2022Q2, the speed of the economic recovery from COVID-19, has been constrained by recent high inflation and industrial inputs supply disruptions. The Composite Index of Economic Activities (CIEA) grew by 10.7 percent after 13.7 percent and 32.5 percent in 2022Q1 and 2021Q2 respectively, signaling a slowdown of economic growth for 2022Q2.

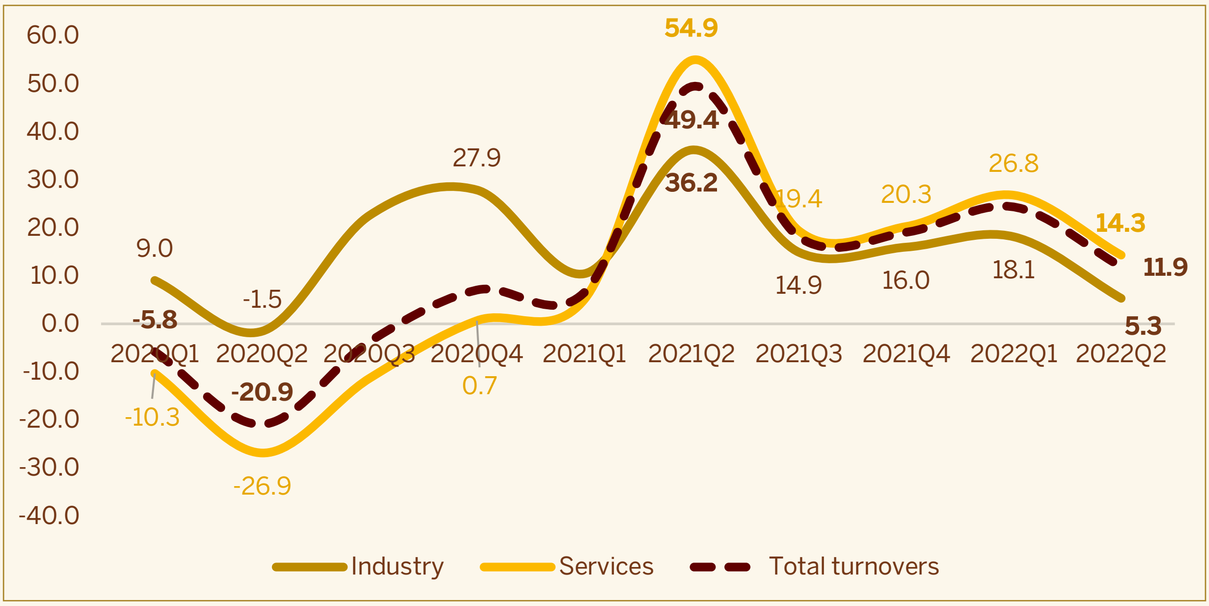
Chart 10: Quarterly real GDP growth vs CIEA (% change, y-o-y)




**Source:** NBR, Monetary Policy Department

The slowing economic growth is reflected by total turnovers of industry and services sectors, which growth declined by 37.5 percentage points to 11.9 percent in 2022Q2 from 2021Q2. This growth shrinkage was observed across all subsectors of industry and services sectors, partly due to the base effect, as 2021Q2 recorded high production and consumption levels that followed the resumption of economic activity after COVID-19 restriction measures were being eased. The other reason was the high cost of inputs that weighed down the productivity of the industry sector. The index of industrial production declined by 2.3 percent in 2022Q2 from 46.7 percent in 2021Q2. Covid-19 related supply chain disruptions, the demand-supply mismatch and the war in Ukraine, in addition to increased prices of logistics have caused high cost of industrial inputs, increased price of industrial goods hence constraining the private demand and later led to a reduction of industrial production. However, the mining and construction subsector continued to record strong performance as evidenced by the increase of their turnovers to the tune of 28.7 percent and 11.9 percent respectively in 2022Q2. The mining subsector continued to be supported by increase in minerals prices on international market (+3.0 percent in 2022Q2) and the construction subsector was boosted by on-going public and private infrastructure projects. These projects supported the local industry that produce construction materials, mainly cement, which production increased by 14.3 percent in 2022Q2.

Chart 11: Turnovers of industry & services sectors (% change, y-o-y)




**Source:** NBR, Monetary Policy Department

The services sector, mainly trade services, was negatively impacted by the high inflation which weighed on the demand for consumption. The trade service turnovers increased by 11.9 percent in 2022Q2, slowing from 24.6 percent and 53.6 percent in 2022Q1 and 2021Q2 respectively. This trend was observed also in the performance of real sector (+10.7 percent from +55.2 percent) and financial services (+11.0 percent from +31.6 percent). On another hand, the tourism services remained on the path of recovery, thanks to recent hosted big events, including CHOGM. This is evidenced by the high growth of transport services (+54.0 percent) and hotels and restaurants' turnovers (+60.6 percent).

Furthermore, the agriculture performance has been weak in the first half of 2022. The 2022 agricultural season A recorded poor harvest, as food production fell by 1.2 percent due to unfavorable weather conditions. Consequently, prices of locally produced goods soared in 2022Q1 and 2022Q2 which exacerbated the impact of global inflationary pressures.

Therefore, the combined effects of lower agricultural production and high prices of some inputs, consumer goods and logistics service were partly offset by the good performance of construction sector and strong recovery of tourism sector, but overall the aggregate demand has slowed down in 2022Q2. The outlook for economic growth is on the downside since these factors may persist over the rest of 2022. The annual economic growth for 2022 is projected to decelerate to 6.0 percent from 10.9 percent in 2021.

## IV. INFLATION DEVELOPMENTS AND OUTLOOK

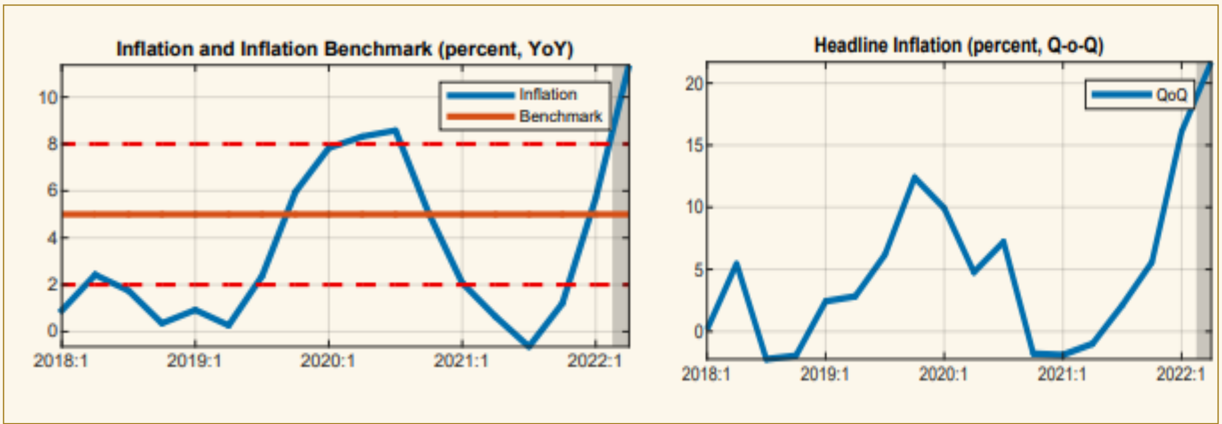
### 3.1 . INFLATION DEVELOPMENTS

*In 2022Q2, headline inflation (y-o-y) increased to 12.1 percent from 5.9 percent recorded in the previous quarter. The increase in headline inflation was reflected in its key components. The rise in core inflation is consistent with both imported and domestic costs, while the rising trend observed in fresh food inflation is attributed to the reduction in the food supply. An increase recorded in energy inflation is associated with the upward revisions in local pump prices in 2022Q2, consistent with an increase in the international oil prices over the same period.*

***Headline inflation accelerated in 2022Q2, reflecting the rise in inflation recorded in its key components.***

Headline inflation in y-o-y terms rose reflecting an increase in the core, fresh food products, and energy inflation. Core inflation picked up to 10.4 percent in 2022Q2 from 5.9 percent recorded in 2022Q1, while fresh food inflation accelerated to 16.4 percent from 4.1 percent over the same period. Similarly, energy inflation surged to 18.7 percent in 2022Q2 from 3.4 percent recorded in the previous quarter. The recent upticks in core inflation are consistent with imported and domestic costs. The rising trend recorded in fresh food inflation originated from the lower food supply in line with the poor performance of crop production for Seasons 2022A and 2022B. The increase in energy inflation was on the back of the rise in the international oil prices.

Chart 12: Developments in headline inflation (% change)




**Source:** NBR, Monetary Policy, and Research Directorate

*Core inflation in y-o-y terms increased in 2022Q2 on the back of the rise in imported and domestic costs.*

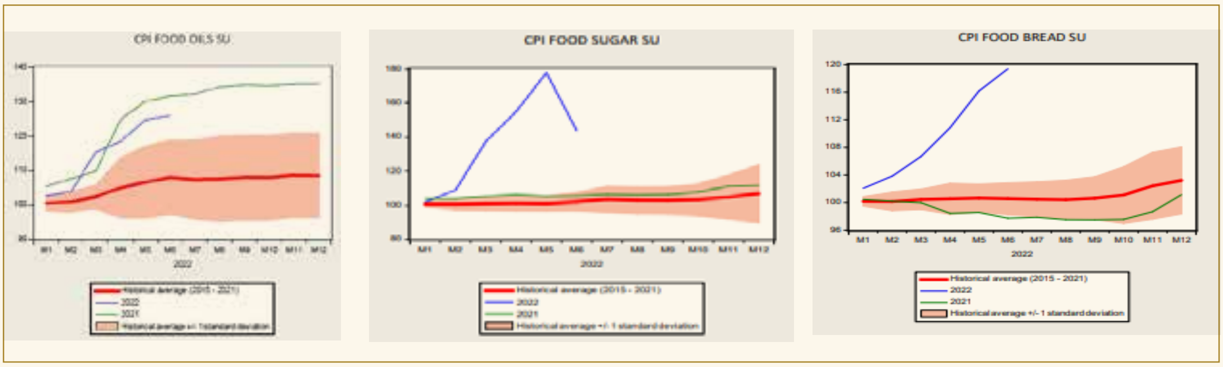
The increasing trend in core inflation (y-o-y) observed in 2022Q2 was reflected in core food inflation, which increased to 25.7 percent from 11.2 percent, core housing inflation that rose to 5.3 percent from 3.5 percent, and core transport inflation that hiked to 5.9 percent from 2.6 percent. Consistent with international food prices, imported core food prices picked up. They also exerted pressures on some core food products processed in the country.

Some food items that were mostly affected include sugar, cereals (wheat, rice, corn, millet, sorghum), and cooking oils. The upward trend observed in housing inflation reflects the rise in maintenance and repair of dwellings inflation (from 8.7 percent to 12.8 percent), following the hikes in the price of building repairs (supplies) and an increase in labor cost.

The rise observed in core transport inflation mainly reflects the increase in vehicles inflation (from 8.4 percent to 10.8 percent) and transport services inflation (from -2.3 percent to 1.8 percent). In 2022Q2, prices of cars, moto cycles, and bicycles picked up following the increase in the costs of shipments. Over the same period, air transport inflation rose on account of the increase in the prices of air ticket flights due to high demand.

### Chart 13: Cooking oils, Sugar and bread & cereals prices

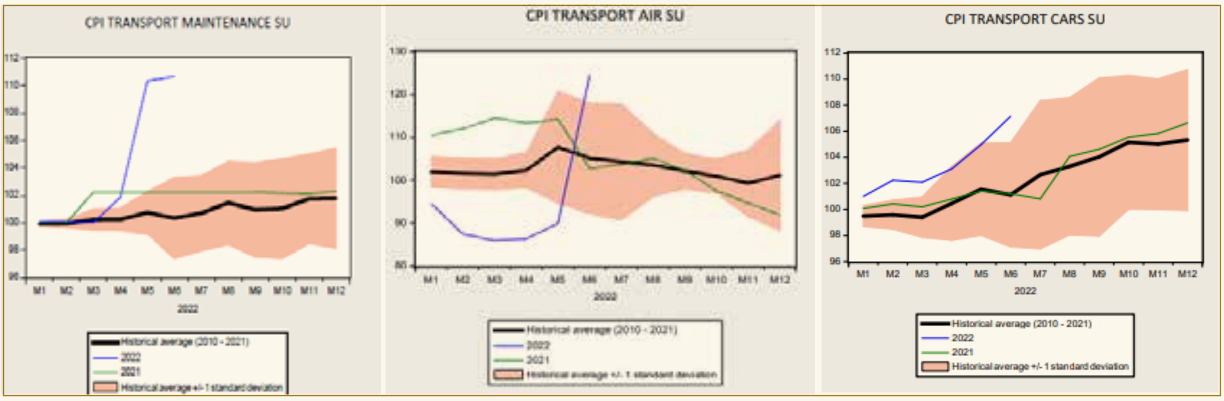
The prices of these core foods components remained high and above the historical average since 2022.




**Source:** NBR, Monetary Policy, and Research Directorate

### Chart 14: Core transport (maintenance, air transport, and purchase of cars)

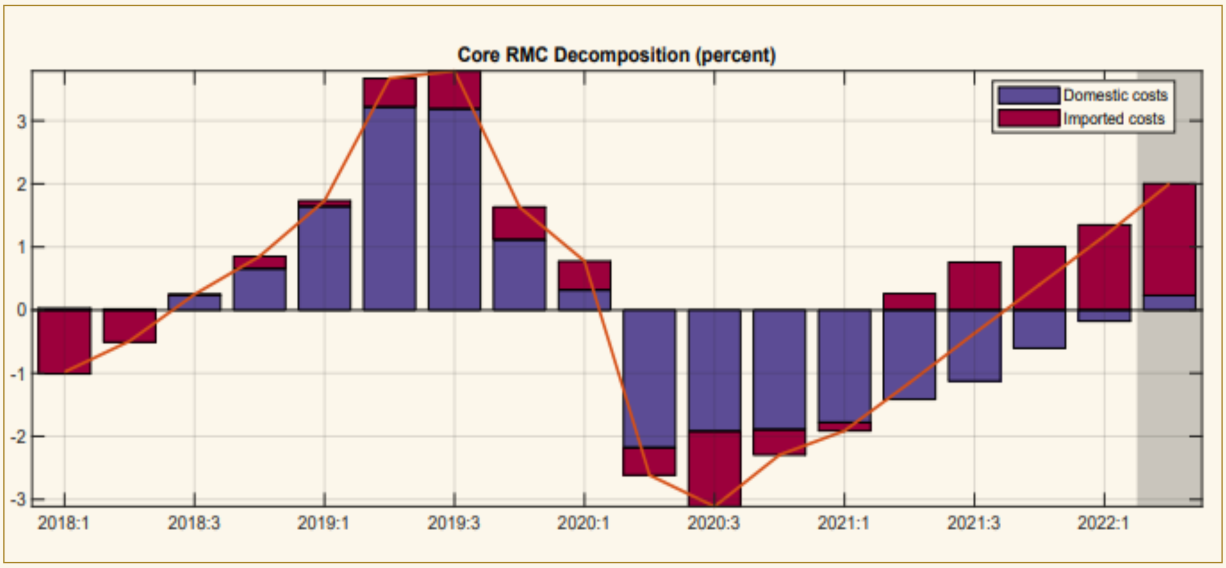
Prices for some transport components evolved above the normal range, and the historical averages 2




Source: NBR, Monetary Policy and Research Directorate

The increasing trend was also observed in core inflation that excludes food and energy components. Core excluding food components picked up in both q-o-q and y-o-y on the back of the rise in imported costs of production that started in 2021Q3.

### Chart 15: Core inflation (% change)



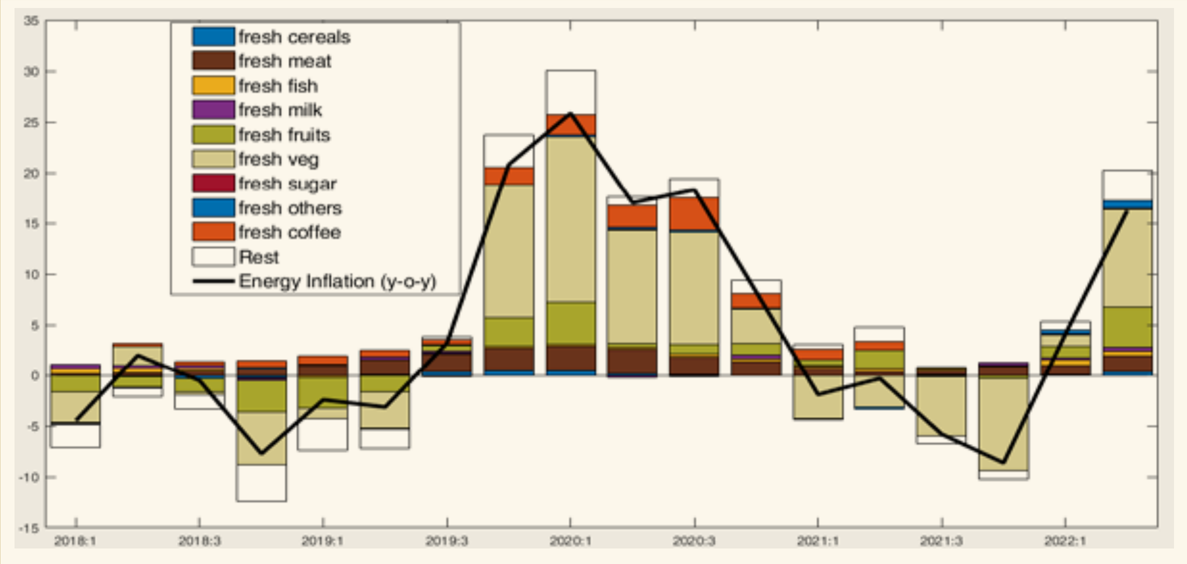

Source: NBR, Monetary Policy, and Research Directorate

*Fresh food inflation (y-o-y and q-o-q) surged on the back of lower supply of food stuff.*

The increasing trends in fresh food inflation (y-o-y and q-o-q) for 2022Q2 were mainly reflected in vegetables and fruits inflation. Vegetables inflation (y-o-y) picked up to 19.0 percent in 2022Q2 from 1.8 percent recorded in 2022Q1. Similarly, fruits inflation (y-o-y) rose to 20.0 percent in 2022Q2 from 6.0 percent recorded in the previous quarter.

These recent developments in vegetables inflation (y-o-y) are attributed to lower food supply over the same period coupled with a base effect.

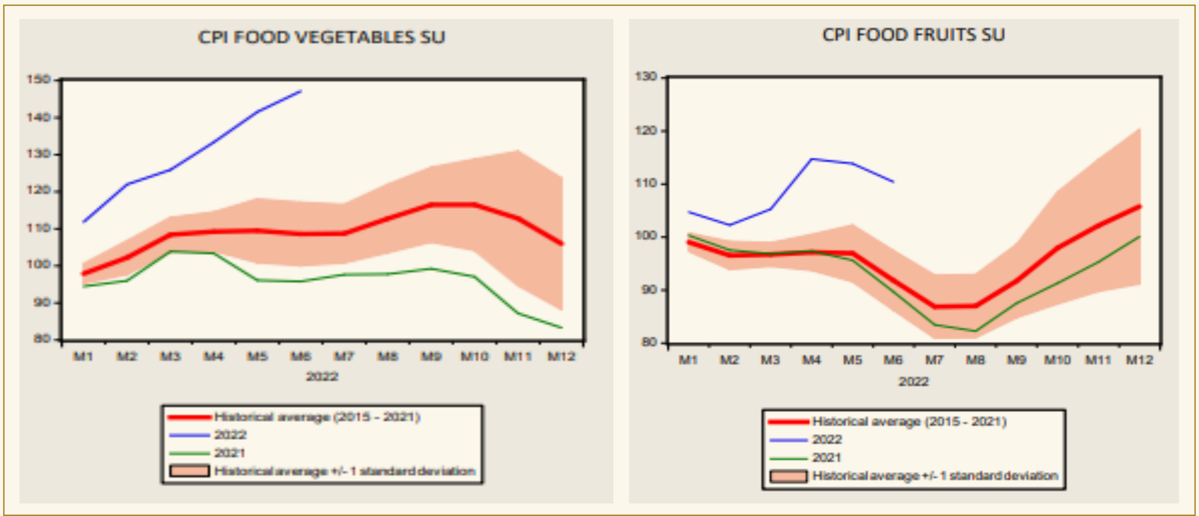
## Chart 16: Fresh food product inflation (y-o-y)




Source: NBR, Monetary Policy, and Research Directorate

Vegetables and fruits prices in the first six months of 2022 evolved above the 2021 price levels and the typical patterns of the historical average prices (2015-2021). In q-o-q terms, vegetables inflation increased to 17.3 percent in 2022Q2 from an inflation of 12.0 percent recorded in the previous period.

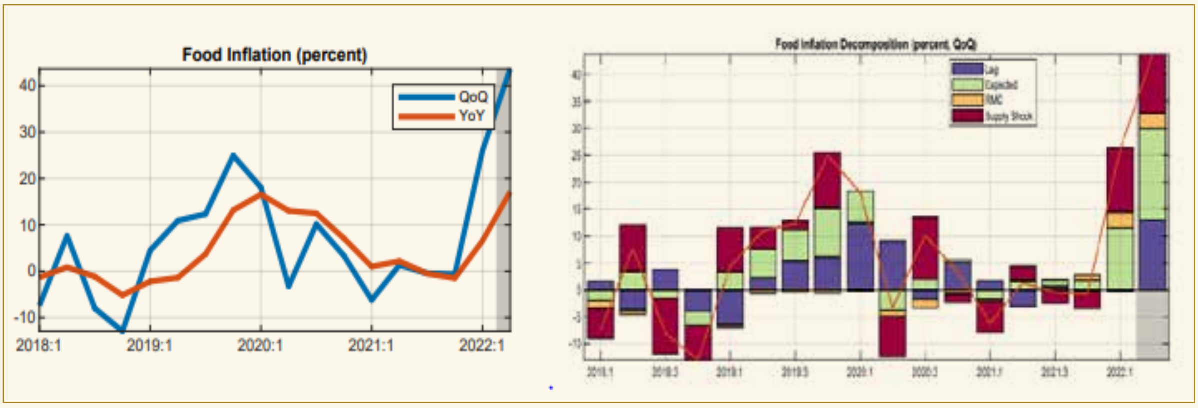
## Chart 17: Vegetables and fruits CPI




Source: NBR, Monetary Policy, and Research Directorate

The rise in food inflation (q-o-q and y-o-y) recorded in 2022Q2, is essentially consistent with the rise in international food prices, coupled with the increase in domestic production costs and lower food supply.

Chart 18: Food and beverages inflation



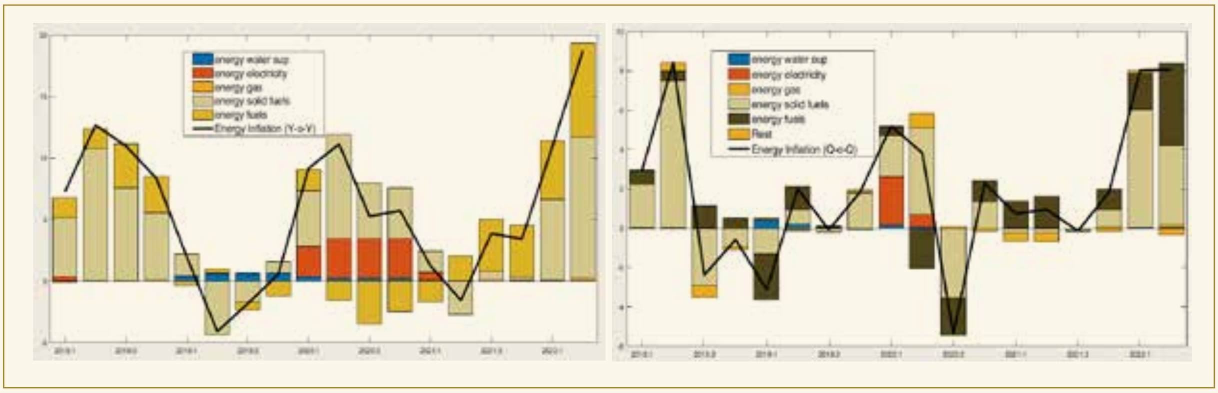

**Source:** NBR, Monetary Policy, and Research Directorate

*The rise in energy inflation in 2022Q2 reflects the upticks recorded in solid fuels and liquid fuels inflation.*

The acceleration observed in energy inflation (y-o-y) from 10.9 percent to 18.7 percent mainly reflects the hikes in solid and liquid fuels inflation. Solid fuels inflation increased to
22.3 percent in 2022Q2 from 12.6 percent recorded in 2022Q1, reflecting the lower prices recorded last year in the corresponding period. Over the same period, liquid fuels inflation (y-o-y) picked up to 29.8 percent from 18.8 percent, in line with the international oil prices.

In q-o-q terms, an increase in liquid fuels inflation observed in 2022Q2 is associated with the upward revisions in local pump prices done in April and June 2022. Overall q-o-q energy inflation stabilized at 8.0 percent as a rise in liquid fuels inflation (from 7.2 percent to 16.2 percent) was offset by a slowdown in solid fuels inflation (from 11.6 percent to 7.9 percent).

Chart 19: Energy inflation (y-o-y ; q-o-q)

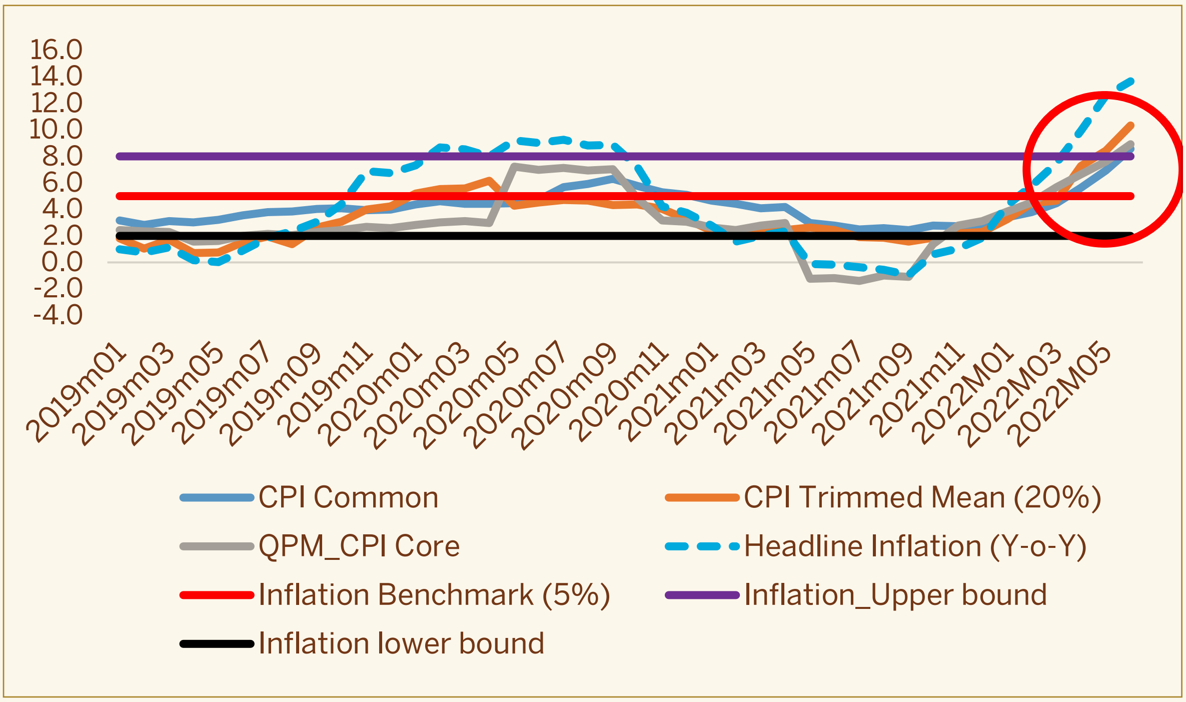


**Source:** NBR, Monetary Policy, and Research Directorate

### *Underlying inflation[3] measures indicate a broad-based increase in inflation*

In 2022Q2, the underlying measures of inflation show an uptick in prices, and this rise is consistent with macroeconomic fundamentals. Both underlying inflation measures (CPI Trimmed mean4, CPI Common5, CPI core excluding foods components) and headline inflation picked up in 2022Q2 and stood above the upper band. However, underlying inflation measures in 2022Q2 are rising slower than headline inflation. CPI Trimmed Mean picked up to 8.7 percent in 2022Q2 from 4.1 percent in 2022Q1. CPI Common surged to 7.0 percent in 2022Q1 from 3.9 percent in 2022Q1. CPI core (excluding food components) hiked to 7.7 percent in 2022Q2 from 4.7 percent in 2022Q1.

Chart 20: Indicators of underlying inflation vs headline inflation (y-o-y)




**Source:** NBR, Monetary Policy, and Research Directorate

[3] Underlying inflation refers to the inflation components that would prevail if the transitory shocks or noise could be removed from the CPI data.

[4] CPI trimmed mean is the measure that exclude most volatile CPI subgroups on a period-by- period basis.

[5] CPI common is the measure that uses different statistical methods to systematically exclude or reduce the significance of those parts of the CPI components whose prices vary substantially.

## 3. 2. INFLATION OUTLOOK

### 3.2.1. Forecast assumptions

*In 2022 and 2023, the global economy is projected to reduce. However, the global economy is expected to evolve around the potential level, which will moderate external negative effects on the domestic economy recorded during the Covid-19 pandemic.*

The IMF projections released in July 2022, indicate that the global economic growth is expected to decline from 6.1 percent recorded in 2021 to 3.2 percent in 2022. Economic growth forecasts for the key advanced economies such as the USA and Eurozone were revised down on the account of lower growth noted in the beginning of 2022, the decelerations from household purchasing power and tighter monetary conditions. For instance, economic growth in USA was revised down by 1.4 percent and 1.3 percent in 2022 and 2023, respectively, on the back of weaker than expected growth in the first two quarters of 2022 and the projected impact of steeper tightening in monetary policy. In the Eurozone, the growth outlook was revised down by 0.2 percent for 2022, reflecting the spillovers from the war in Ukraine and the assumptions of tighter financial conditions.
Despite this downward revision in global economic growth, the recovery is expected to continue, though at a slower pace, which will allow major economies to evolve around the potential levels over the policy horizon. Subsequently, the global demand is likely to not weigh on the domestic economy over the same period.

***Global inflation and international commodity prices (food and energy) are expected to remain high, keeping current pressures on imported inflation.***

Since 2021H2, inflation rates accelerated above targets worldwide, following high shipments costs consistent with supply chains bottlenecks. In 2022, inflationary pressures strengthened especially reflecting upticks in food and energy prices because of the shortage in supply due to Ukraine-Russia war. Over the medium term, despite the projected declines, inflation rates are expected to remain above target and prices above pre-Covid levels. Corollary imported costs are likely to maintain pressures on imported inflation.

### 1.2 Baseline projections of key macroeconomic variables

### 1. Drivers of inflation projections

***Over the medium term, domestic economy is projected to operate to its potential level.***

In the past two quarters of 2022, the recovery of the domestic economy continued on the back of relatively liquid monetary conditions and the recovery in the global demand. Currently, the domestic economy is estimated to be evolving slightly above the full capacity utilization. Despite the tightening path undertaken by the NBR, the projections indicate that monetary conditions will remain relatively accommodative, supporting GDP growth in the second half of 2022. Consistent with the projected path in monetary conditions and global demand over the policy horizon, the domestic economy is expected to grow close to its potential level, with no additional pressures on core inflation.

*The imported costs of production are projected to remain high in 2022H2.*

The increasing trend in the international commodity prices and global inflation in 2022Q1 and 2022Q2 directly pushed up imported inflation, but also amplified pressures on imported costs. Corollary, imported inflation is projected to remain high in 2022H2. Over the medium-term, import prices are projected to recede but likely to remain costly. Therefore, imported costs pressures are expected to stabilize.

## 2. Projections of key macroeconomic indicators

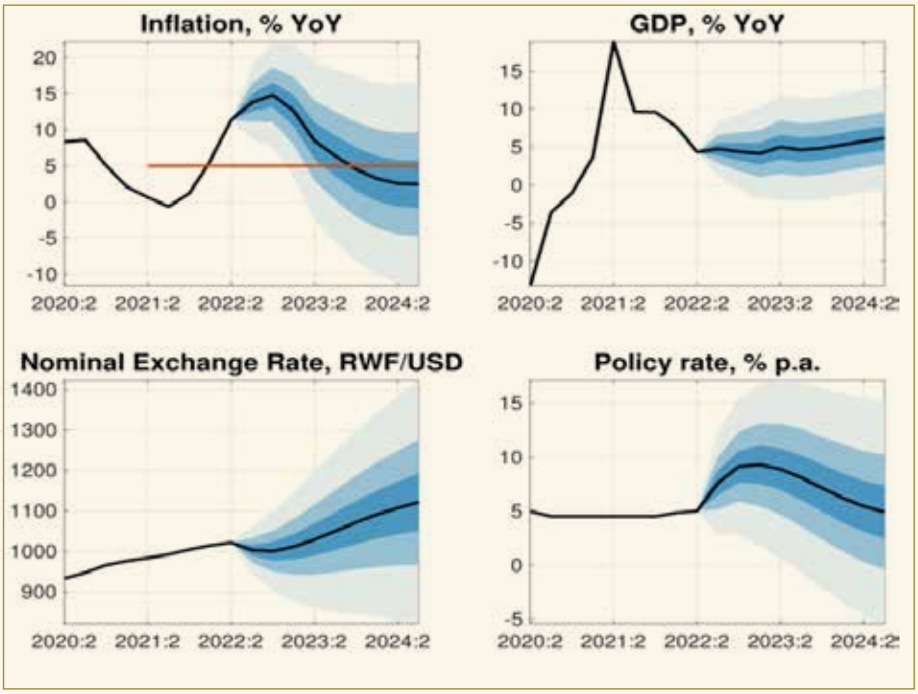
In line with the recent developments in the economy, assumptions on the global economy, and other macroeconomic variables, headline inflation is projected to evolve above the upper bound in the upcoming quarters, standing at 12.1 percent in 2022, before decelerating towards 5.0 percent in the second half of 2023. For 2022, the projections were revised up on the account of new developments in inflation and other upward pressures originating from imported costs.

Core inflation is expected to increase in the second half of 2022 but will remain stable over the policy horizon. In the medium-term, domestic costs of production are expected to be moderate as a result of a slowdown in economic growth and the predicted easing trend in imported costs.

Upward pressures from imported costs will continue to create pressures on food inflation in 2022H2, but such downward pressures from international food prices are expected to stabilize over the medium term as global food prices reduce. Similarly, imported energy will continue to generate upward pressures on energy inflation in the second half of 2022. Over the policy horizon, energy inflation will be rising on the back of the expected increase in the international oil prices, but pressures will be declining towards the end of 2023.

The figure below indicates the outlook for key macroeconomic variables over the policy horizon.

Chart 21: Macroeconomic variables over the policy horizon




**Source:** NBR, Monetary Policy and Research Directorate

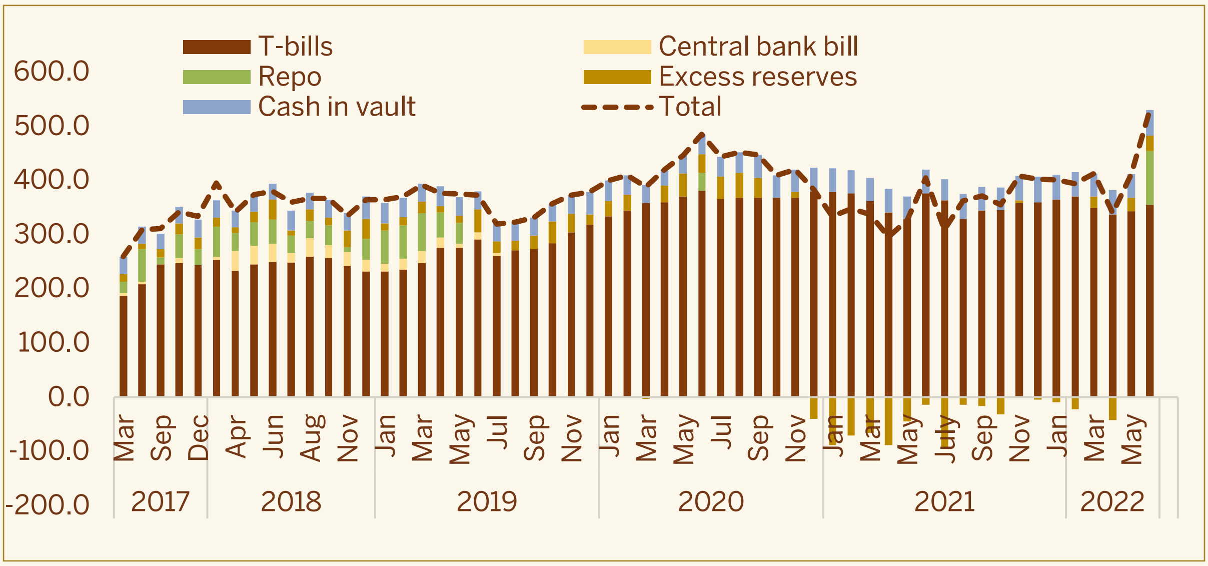
## V. FINANCIAL AND MONETARY DEVELOPMENTS

*In line with expectations, money market rates remained steered around the central bank rate with the interbank interest rate increasing by 33 basis points to 5.54 percent y-o-y in 2022Q2. Regarding market rates in 2022Q2, the average lending rate rose by 31 basis points to 16.31 percent. During the same period, broad money and outstanding credit to the private sector picked up by 20.3 percent and 16.2 percent (y-o-y), respectively.*

### *The growth of banking system liquidity stems from the rebound in excess reserves.*

In June 2022, the bank's most liquid assets rose by 30.9 percent to FRW 529.6 billion, from FRW 404.7 billion recorded in June 2021. This growth is mostly attributed to the rebound in excess reserves from increased government spending in 2022Q2.

Chart 22: Most liquid assets of commercial banks (FRW billion)

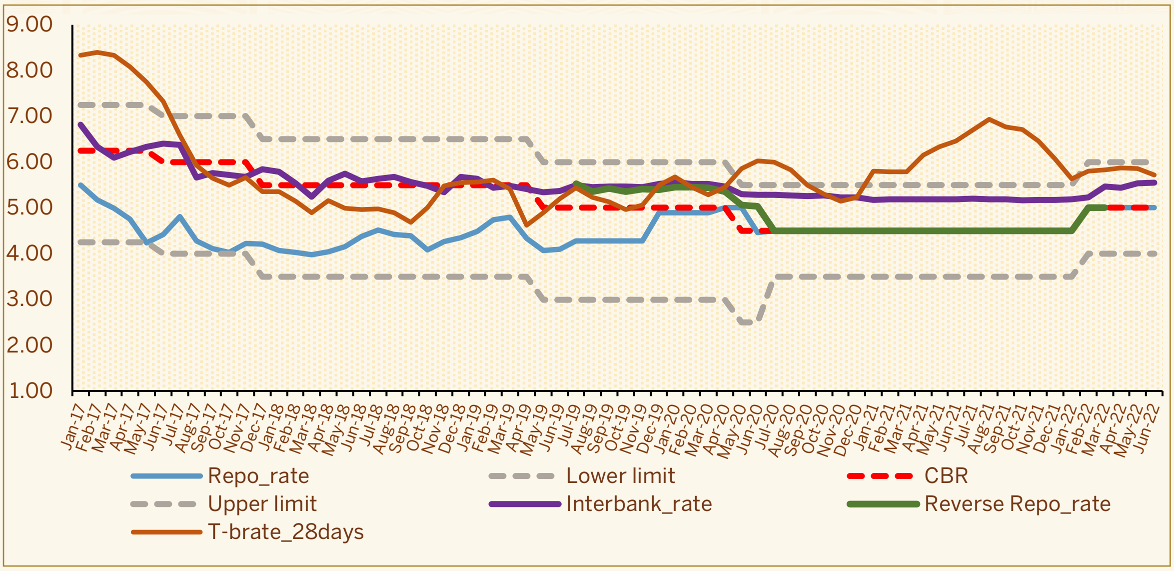



**Source:** NBR, Monetary Policy and Research Directorate

### *Money market interest rates remained close to the central bank rate.*

The Monetary Policy Committee (MPC) meeting held on 17th February 2022 raised the Central Bank Rate (CBR) by 50 basis points to 5 percent, with an anticipation that increasing global commodity prices were going to be transmitted to domestic prices. In May 2022, the CBR was maintained at 5 percent, as the rise of February continued its transmission to money market rates, with the interbank rate rising by 33 basis points to 5.54 percent on average in 2022Q2 from 5.21 percent in 2021Q2.

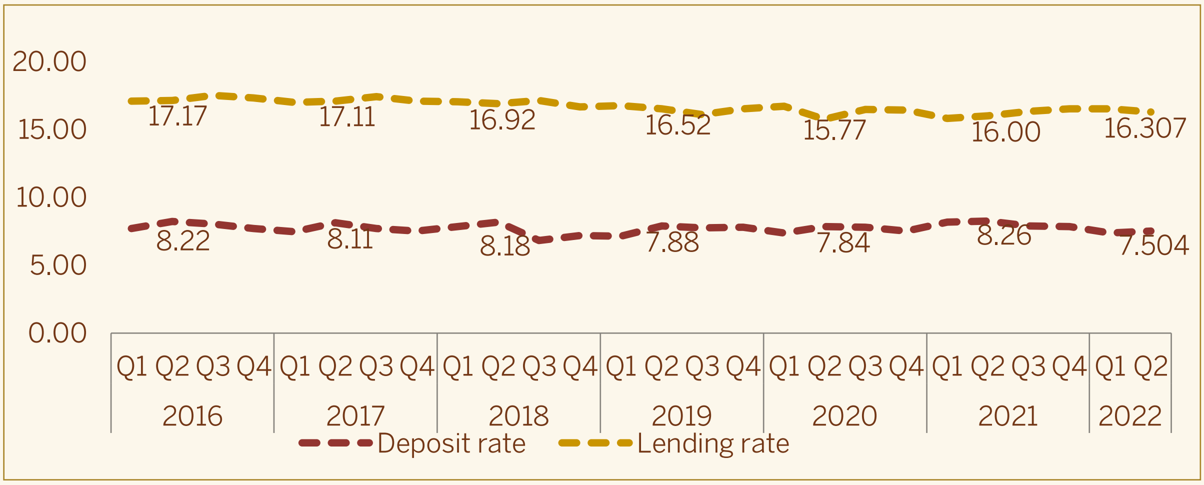
### Chart 23: Money market rates developments




**Source:** NBR, Monetary Policy and Research Directorate

Regarding market rates, the lending rate rose by 31 basis points to 16.31 percent in 2022Q2 from 16.00 percent in 2021Q2, reflecting the increased share of short-term and medium-term loans, which were priced at high rates compared to long-term loans. During the same period, the deposit rate reduced by 76 basis points to 7.50 percent y-o-y in 2022Q2 from 8.26 percent in 2021Q2, on increasing share of short-term deposits of less than 1 year.

### Chart 24: Market interest rates (percent average)




**Source:** NBR, Monetary Policy and Research Directorate

***The foreign exchange market remains stable.***

In the quarter ending June 2022, the Rwandan franc (FRW) remained weak compared to the US dollar, but erased some previous losses helped by rising export proceeds and increased forex inflows from development partners as well as improving remittances despite higher demand from importers in industry, oil and general trade sectors. Year-on-year, the FRW depreciated by 3.78 percent in June 2022, slower than 5.34 percent depreciation recorded in the corresponding period of 2021.

The FRW continued to gain against other major currencies and recorded respective appreciation of 9.10 percent, 8.83 percent and 16.02 percent versus the Pound, Euro and the Japanese Yen after losing 18.61 percent, 11.55 and 2.69 percent in June 2021.

Table 1: Appreciation/Depreciation rate of FRW against selected currencies (y-o-y)

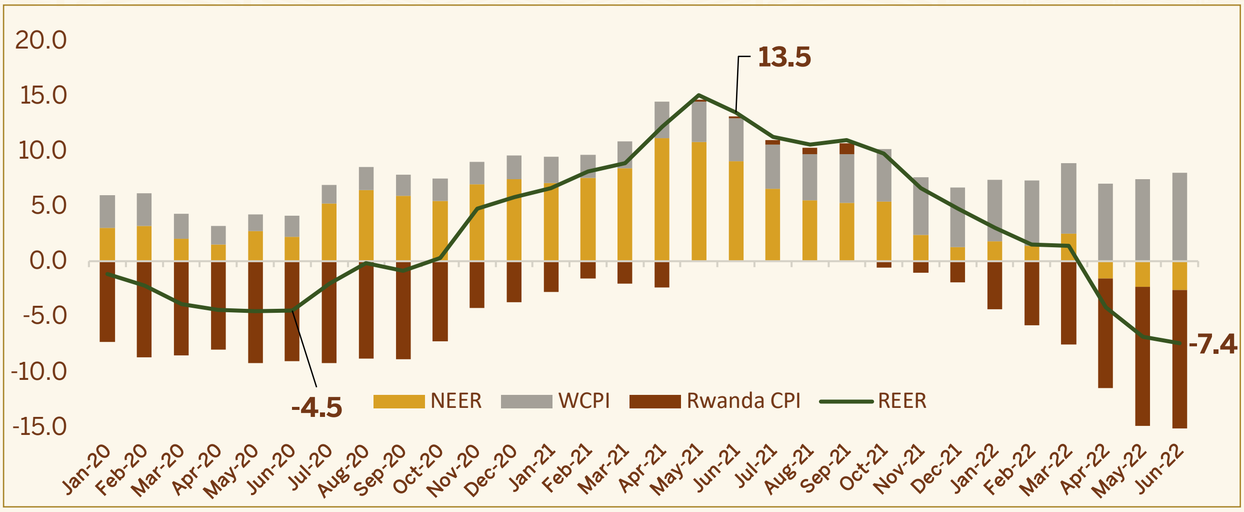
| | FRW/USD | FRW/GBP | FRW/EUR | FRW/JPY | FRW/KES | FRW/TZS | FRW/UGX | FRW/BIF |
|---|---|---|---|---|---|---|---|---|
| 18-Dec | 4.04 | -1.96 | -0.07 | 6.20 | 5.46 | 1.24 | 1.77 | 1.93 |
| 19-Dec | 4.94 | 8.48 | 2.81 | 6.25 | 4.53 | 3.73 | 5.13 | -0.24 |
| 20-Dec | 5.42 | 9.42 | 15.71 | 11.43 | -1.34 | 5.66 | 7.17 | 2.53 |
| 21-Dec | 3.82 | 2.94 | -4.39 | -6.96 | 0.24 | 4.78 | 6.85 | 1.00 |
| Mar-21 | 5.22 | 17.06 | 11.81 | 2.76 | 0.57 | 4.90 | 9.01 | 2.08 |
| Jun-21 | 5.34 | 18.61 | 11.55 | 2.69 | 4.07 | 5.34 | 10.86 | 1.72 |
| Sep-21 | 4.26 | 9.21 | 3.10 | -1.74 | 2.41 | 4.74 | 9.29 | 1.33 |
| Dec-21 | 3.82 | 2.94 | -4.39 | -6.96 | 0.24 | 4.78 | 6.85 | 1.00 |
| Jan-22 | 3.82 | 1.65 | -4.20 | -6.03 | 0.84 | 4.42 | 8.99 | 1.00 |
| Feb-22 | 3.94 | -0.55 | -4.63 | -4.50 | 0.25 | 4.18 | 7.57 | 1.01 |
| Mar-22 | 4.01 | -0.60 | -0.82 | -5.67 | -0.87 | 4.01 | 6.11 | -1.25 |
| Apr-22 | 3.86 | -6.91 | -9.82 | -13.43 | -3.28 | 3.62 | 4.23 | -1.41 |
| May-22 | 3.85 | -7.74 | -8.52 | -11.02 | -4.25 | 3.61 | -2.41 | -0.35 |
| Jun-22 | 3.78 | -9.10 | -8.83 | -16.02 | -4.99 | 3.30 | -2.12 | -0.12 |

**Source**: NBR, Monetary Policy Department

Relative to regional currencies, the FRW gained traction against Kenyan and Ugandan shillings as well as the Burundian franc, appreciating by 4.99 percent, 2.12 percent and 0.12 percent after respective depreciations of 4.07 percent, 10.86 and 1.72 percent in the corresponding period last year. The Rwandan franc weakened by 3.30 percent relative to the Tanzanian shilling, slower than 5.34 percent recorded in June 2021.

In real effective terms, the FRW appreciated by 7.4 percent year-on-year in June 2022 while it had depreciated by 13.5 percent in June 2021. This appreciation reflected a combined effect of largely negative inflation differential (higher domestic than foreign inflation) and the appreciation of the FRW nominal effective exchange rate. Rwanda consumer price index rose by 13.7 percent, faster than the weighted foreign consumer price index that increased by 8.0 percent in June 2022 against 0.2 percent and 3.9 percent respectively. The FRW appreciated by 2.6 percent in June 2022 in nominal effective terms, compared to a depreciation of 9.0 percent in the corresponding period of 2021.

Chart 25: Drivers of REER movement (y-o-y)




**Source**: NBR, Monetary Policy and Research Directorate

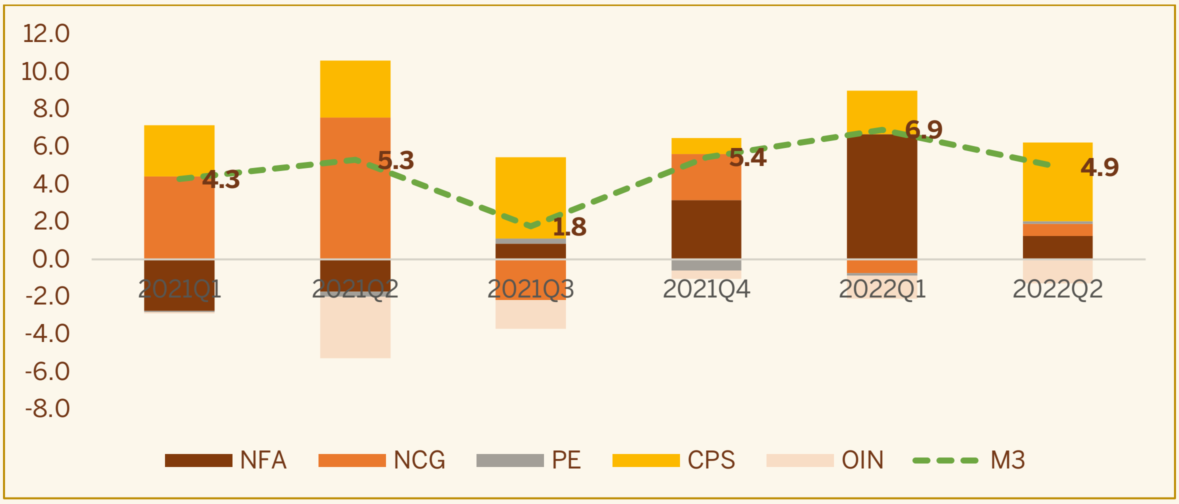
Taken together, the negative inflation differential and the nominal effective appreciation of the FRW led to the appreciation of the real effective exchange rate, making the domestic products less competitive and imports relatively cheaper in June 2022 compared to June 2021.

*Broad money (M3) kept increasing, despite the tightening path monetary policy stance.*

Broad money (M3) rose by 20.3 percent in June, year-on-year, mainly attributed to the growth in Net Foreign Assets (NFA) of 29.2 percent.

Looking at q-o-q changes, the broad money M3 increased by 4.9 percent in 2022Q2 against a growth of 6.9 percent recorded in 2022Q1. This growth mainly came from the increase in outstanding Credit to the Private Sector (CPS), Net Foreign Assets (NFA) and the Net Credit to Government (NCG) of 5.7 percent, 2.6 percent and 7.8 percent respectively.

Chart 26: Contributors to M3 growth from the assets side (Q-o-Q)

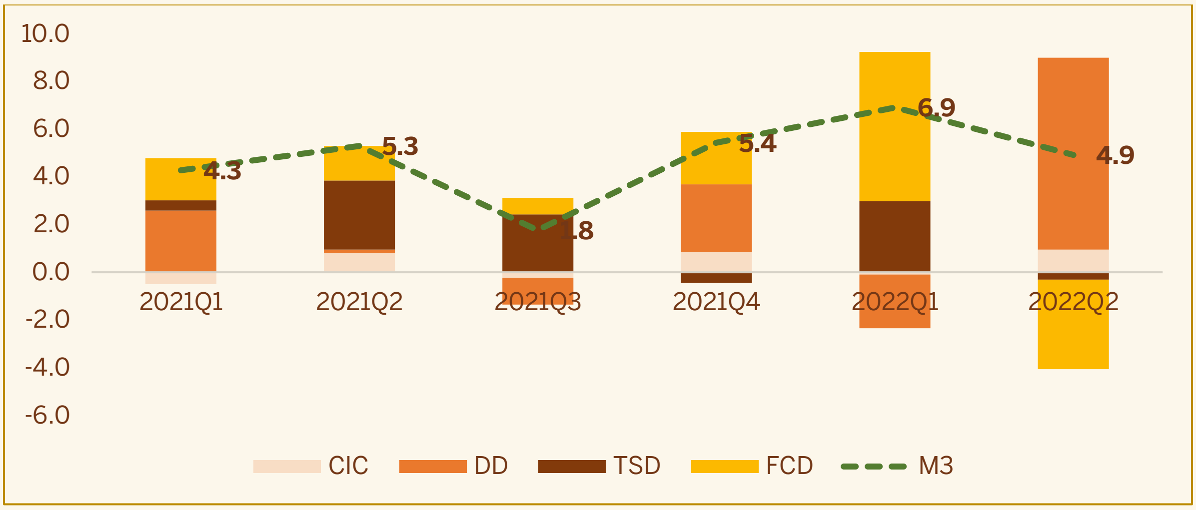



**Source:** NBR, Monetary Policy and Research Directorate

The increase in broad money by 4.9 percent in 2022Q2 (q-o-q) was mainly attributed to the growth in Demand Deposits (DD) of 27.3 percent and Currency in Circulation (CC) of 12.7 percent.

Considering y-o-y changes, the increase of 20.4 percent in M3 was mainly reflected in the growth of demand deposits by 24.9 percent and foreign currency deposits by 21.9 percent.

Chart 27: Contributors to M3 growth from liabilities side (Q.o.Q)

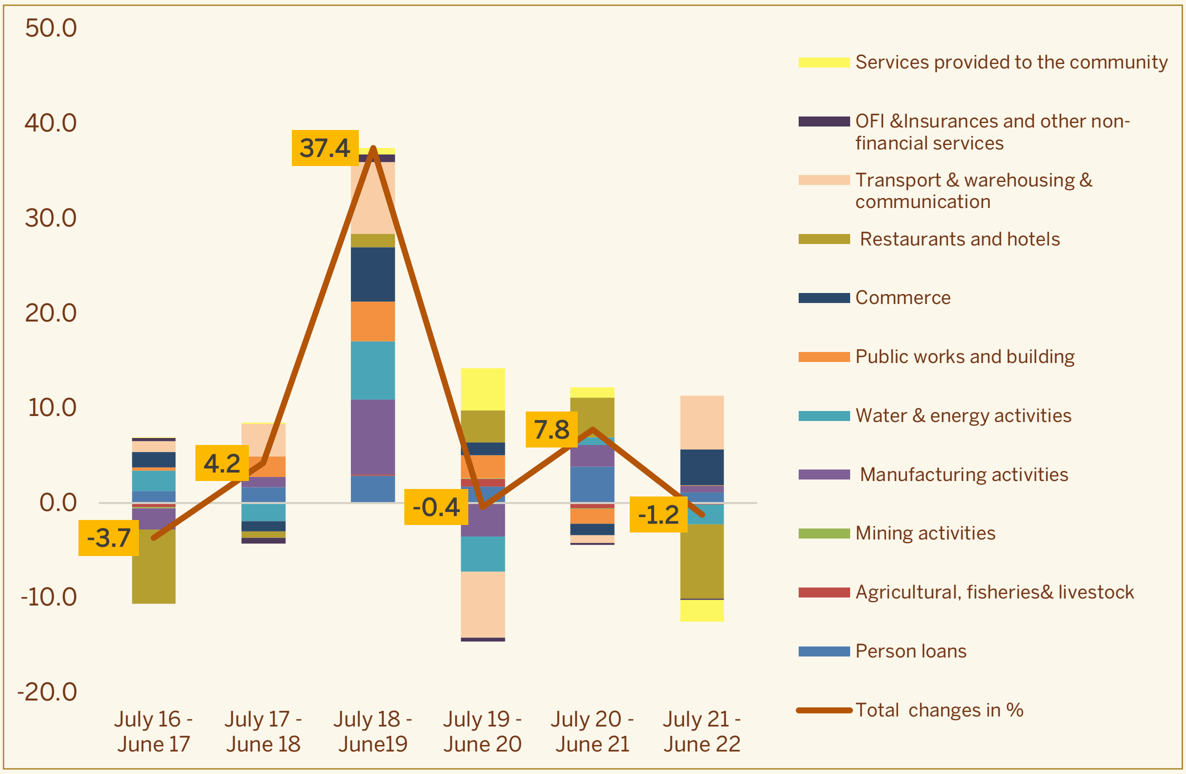



**Source:** NBR, Monetary Policy and Research Directorate

New Authorized loans (NALs) declined by 1.2 percent in twelve months ending June 2022 compared to a growth of 7.8 percent recorded in the corresponding period a year before. The decline in NALs of 2022 is explained by a base effect of big loans granted to large companies in 2021. Looking at quarterly figures, NALs grew by 7.8 percent in 2022Q2 compared to a slowdown of 2.8 percent recorded in 2022Q1.

The top sectors that were largely financed in 2022Q2 are; commerce which was granted 30.9 percent of the total NALs, followed by public works & buildings (23.0 percent), personal loans (16.6 percent), and Transport & warehousing & communication (10.7).

Chart 28: Contributions of Sectors to the Change in New Authorized Loans (% changes)




**Source:** NBR, Monetary Policy Department

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