NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY REPORT

MAY 2024

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

ACCOUNTABILITY

We are result-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. 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).

SUMMARY OF NBR's
MONETARY POLICY STRATEGY

OBJECTIVE

Monetary Policy shall maintain price stability by keeping headline consumer price inflation within the band of 2% and 8%, with a focus of having it close to 5% in the medium term. In line with best practices, price stability is the primary and overriding objective of the NBR's monetary policy.

NBR shall also ensure financial stability as well as support other general objectives for economic development. NBR will set the Central Bank Rate (CBR) to stabilize inflation in the medium term.

The monetary policy framework is forward looking, therefore relying on the projections of inflation, taking into account economic developments.

DECISION-MAKING PROCESS

The Monetary Policy Committee (MPC) usually holds four quarterly meetings per year, where it decides on the monetary policy stance by setting the CBR to stabilize medium term inflation. Before the MPC decision, there is extensive assessment and economic analysis to guide discussions.

COMMUNICATION

A press release with the monetary policy decision and its main rationales is always published the day after the MPC decision and the Governor holds a press conference. The monetary policy report, detailing recent economic developments, projections, and reasons behind the decision is also published at the same time as the press release.

CONTENTS

I. MONETARY POLICY COMMITTEE DECISION, OUTLOOK, AND RISKS

The Monetary Policy Committee (MPC) convened on May 29th, 2024, to review the impact of its previous decisions, evaluate recent global and domestic economic developments, and decide on the Central Bank Rate (CBR) for the next quarter. The inflation forecasts for May 2024 indicate a significant slowdown in headline inflation (y-o-y), mainly driven by eased inflation pressures from the global economy and improved domestic agricultural production. Headline inflation is expected to rise slightly in the near term but will remain within the 2-8 percent target range in the medium term. This reflects the impact of past monetary policy decisions by the National Bank of Rwanda, other government policies, and easing major international commodity prices.

Throughout the medium term, the anticipated decrease in year-on-year headline inflation mirrors the slowdown expected across its key components, namely core inflation, energy inflation, and food inflation. Pressures on core inflation are expected to remain in 2024 until 2025Q1, and then gradually reduce afterwards, primarily stemming from imported costs which are associated with the high import cost of production. This is likely to keep core inflation elevated in 2024, before a gradual decline in 2025.

Similarly, energy inflation pressures are anticipated to remain positive in 2024, before stabilizing in 2025. Over the policy horizon, energy inflation is projected to remain stable, consistent with the projected supply and demand conditions of energy products, leading to muted pressures on the domestic economy.

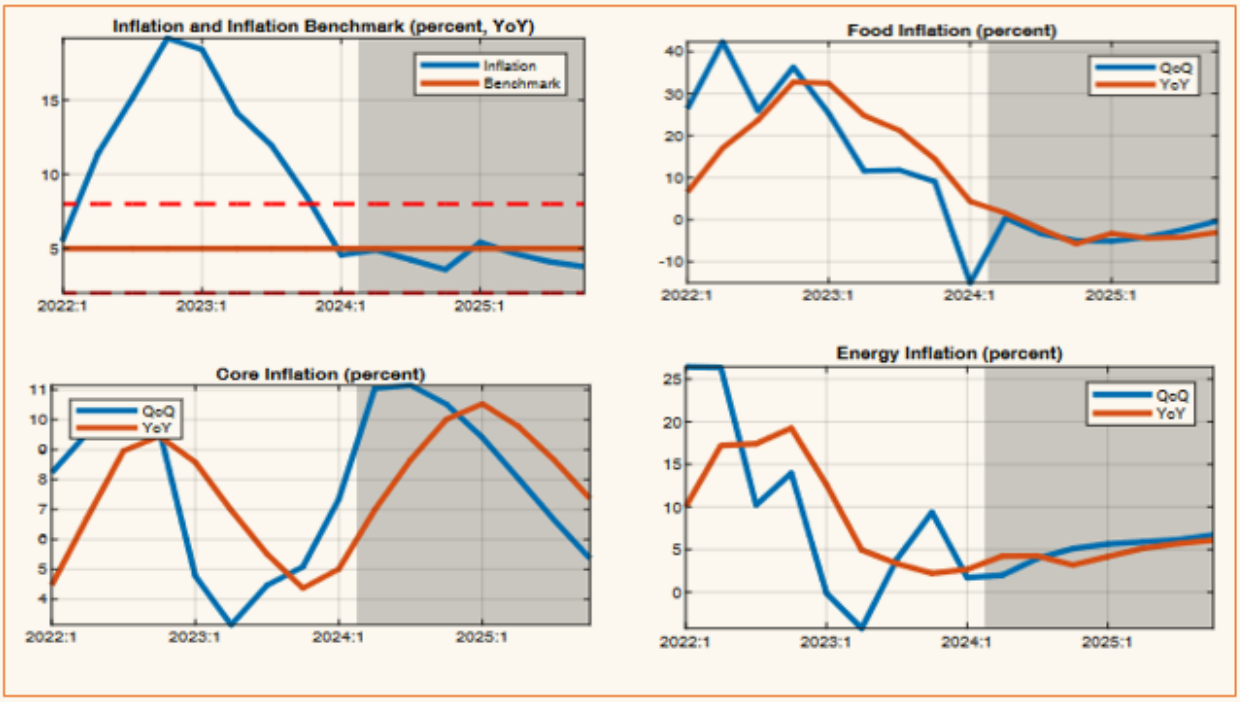
In contrast, food inflation is forecasted to ease in 2024 in line with the decline in international food prices, coupled with the expected normalization of domestic agricultural production and the positive impact of agricultural production for season A 2024, mainly for cereals.

However, there are three primary risks to the inflation projections:

1) Risks associated with international economic developments, particularly geopolitical tensions such as the Russia-Ukraine war, the Israeli-Hamas conflict, and the attacks in the Red Sea.
2) Export bans imposed by key exporting countries on essential commodities like sugar, oil, rice, and other cereals could exacerbate these risks.
3) Risks associated with adverse weather conditions that may negatively affect future agricultural production.

In line with the current developments and the outlook for both domestic and global economies, and considering the risks associated with the projected path of inflation, the Monetary Policy Committee (MPC) has decided to cut the Central Bank Rate (CBR) by 50 basis points, from 7.5 percent to 7.0 percent. This rate is deemed sufficient to keep inflation within the target range, assuming no unexpected events arise.

The Monetary Policy Committee will continue to closely monitor the potential risks that could affect the projected stable inflation path. Should these risks materialize and impact price stability, appropriate adjustments will be made to maintain inflation within the target band (2 to 8 percent).



II. CURRENT ECONOMIC CONDITIONS

SUMMARY

World economic growth is projected to stabilize in 2024, yet it is expected to remain below the historical annual average of 3.8 percent observed from 2000 to 2019, reflecting restrictive monetary policies and the withdrawal of fiscal support. Economic growth in advanced economies is projected to improve in 2024, with an upward revision to US growth and a recovery in the Euro area from low growth in 2023.

Global commodity prices are projected to decline in 2024, consistent with the slowdown in global demand. Both energy and non-energy commodity prices are projected to decline in 2024.

Globally, inflation is easing with a remarkable reduction in advanced economies but remains above pre-pandemic average of 3.5 percent in 2017-2019. The forecast was revised up by 0.1 percentage points relative to the January 2024 update, reflecting unchanged projections for advanced economies and an upside revision of 0.2 percentage points in Emerging Market and Developing Economies.

Despite the reduction in inflationary pressures, major central banks in advanced economies are still indicating the need for policy measures to bring inflation back to their desired targets. However, with the Federal Reserve's tighter monetary policy stance, the US dollar is appreciating against all other major currencies.

Rwanda's economy recorded strong growth in 2023, with real GDP growth averaging 8.2 percent and a notable increase of 10.0 percent in the fourth quarter. This robust performance was primarily driven by significant gains in the services sector, which grew by 13.1 percent due to booming tourism and strong information and communication activities, and the industry sector, which expanded by 12.5 percent, led by construction and manufacturing. Agriculture saw moderate growth despite adverse weather conditions. The momentum continued into the first quarter of 2024, supported by strong domestic demand and increased employment.

In 2023, Rwanda's current account deficit widened to 11.7 percent of GDP, mainly propelled by a rise in the trade in goods deficit, despite a rebound in service exports and steady inflows from remittances. On the financing side, there was a continuous increase in Foreign Direct Investment (FDI) inflows.

In 2024Q1, merchandise exports slightly rose by 0.2 percent compared to 2023Q1, given a relatively good performance in traditional exports and re-exports, which outweighed a temporary decrease in the demand for processed food items. On the other hand, merchandise imports increased by 5.9 percent, mainly due to an increase in capital goods

and consumer goods amid sustained economic growth. Consequently, the trade deficit widened by 9.6 percent in 2024Q1. The widening current account deficit and higher import demand put pressure on the Rwandan franc, leading to a 2.08 percent depreciation against the USD by the end March 2024. Despite this, foreign exchange reserves remained adequate and are projected to cover at least four months of imports of goods and services in 2024.

Market rates increased, in line with the monetary policy stance. In the first quarter of 2024, the interbank rate rose to an average of 8.29 percent, an increase of 93 basis points from 7.36 percent in the corresponding period of 2023. Similarly, the average deposit rate increased by 64 basis points to 10.15 percent, while the average lending rate rose by 38 basis points to 16.35 percent. This reflects a higher share of long-term deposits and loans related to trade, personal borrowing, and mortgages.

Since the beginning of 2024, headline inflation has significantly decelerated, dropping to 4.7 percent in 2024Q1 from 8.9 percent in the previous quarter. This decline reflects decreases in core and fresh food inflation. Core inflation fell to 5.6 percent, driven by lower prices for some processed food items, while fresh food inflation dropped to 2.5 percent due to an improved supply of fresh vegetables. However, energy inflation rose to 2.7 percent, mainly due to increased solid fuel prices. Underlying measures of inflation also showed a broad-based decrease, with mean inflation reducing from 7.0 percent to 6.3 percent in 2024Q1.

II.1. Global Economy and Financial Markets

The global economy remains resilient and is projected to stabilize in 2024.

According to the International Monetary Fund's (IMF's) World Economic Outlook (WEO) April 2024 projections, world economic growth is projected to remain at 3.2 percent in 2024. This projected growth remains below the historical annual average of 3.8 percent observed between 2000 and 2019, reflecting restrictive monetary policies and the withdrawal of fiscal support in many countries, as well as low underlying productivity growth. Relative to the January 2024 update, the forecast for 2024 is 0.1 percentage points higher, reflecting upgrades for the United States, India and Emerging Market, and Developing European Economies.

Economic growth in advanced economies is projected to increase from 1.6 percent in 2023 to 1.7 percent in 2024. The upward revision of 0.1 percentage point relative to the January 2024 update, reflects an upward revision to US growth, and a recovery in the Euro area from low growth in 2023.

In the US, growth is projected to increase to 2.7 percent in 2024 from an estimated 2.5 percent in 2023, with an upward revision of 0.6 percentage points compared to the January 2024 update. This mainly reflects statistical carryover effects from the stronger-than-expected growth outcome in the fourth quarter of 2023 and the stronger momentum expected to persist in 2024.

Growth in the Euro Area is projected to recover from an estimated 0.4 percent in 2023 to 0.8 percent in 2024, reflecting relatively higher exposure to the war in Ukraine. Relative to the January 2024 update, growth has been revised downward by 0.1 percentage points, largely due to a carryover from the weaker-than-expected outcome for 2023. Stronger household consumption is expected to drive the recovery, as the effects of the shock to energy prices subside and a fall in inflation supports growth in real terms.

The UK's economy is set to improve modestly from an estimated 0.1 percent in 2023 to 0.5 percent in 2024, as the lagged negative effects of high energy prices fade. It is also projected to rise to 1.5 percent in 2025, as disinflation allows financial conditions to ease and real incomes to recover.

Japan's economy is projected to slow from an estimated 1.9 percent in 2023 to 0.9 percent in 2024, reflecting the fading of one-off factors that supported growth in 2023. These include a surge in inbound tourism.

Emerging Market and Developing economies are projected to remain broadly stable at 4.2 percent in 2024, reflecting an upward revision of 0.1 percentage point higher than the January 2024 update, following upgrades for some regions including, emerging markets & developing Europe. Low–income developing countries are expected to experience gradually increasing growth, from an estimated 4.0 percent in 2023 to 4.7 percent in 2024, as some constraints on near-term growth ease.

Concerning China, growth is projected to slow from 5.2 percent in 2023 to 4.6 percent in 2024, as the positive effects of one-off factors, including the post-pandemic boost to consumption and fiscal stimulus ease, and weakness in the property sector persists. Growth in India is projected to remain strong at 6.8 percent in 2024, reflecting an upward revision of 0.3 percentage points relative to the January 2024 update, with robustness reflecting continued strength in domestic demand and a rising working-age population.

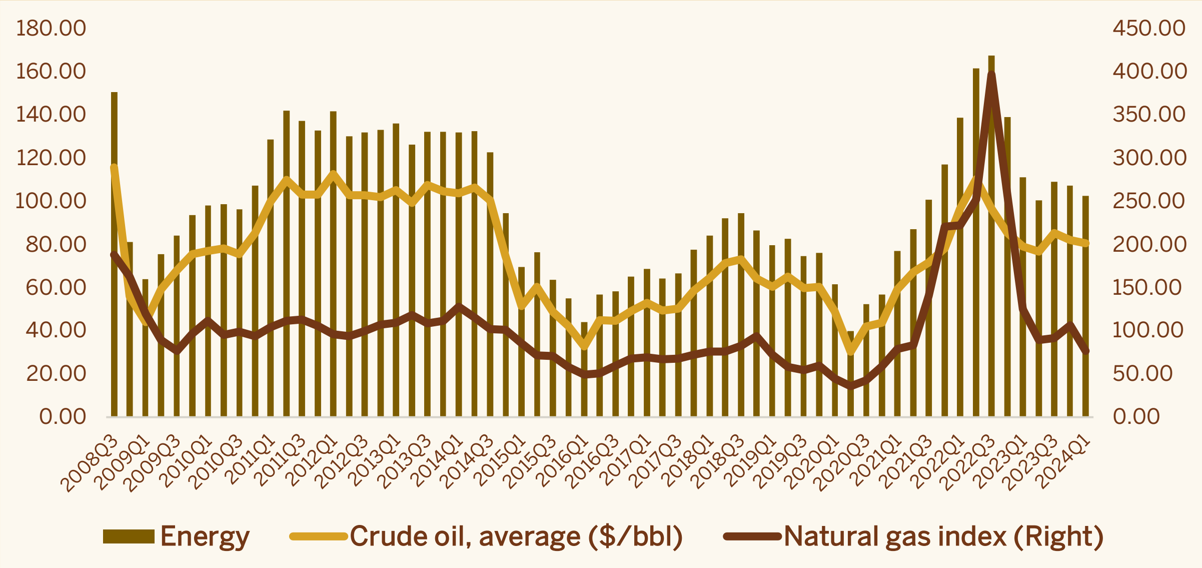
In Sub-Saharan Africa (SSA), growth is projected to increase from an estimated 3.4 percent in 2023 to 3.8 percent in 2024, as the negative effects of earlier weather shocks subside and supply issues gradually improve. However, growth will remain below the historical average of 4.8 percent. The forecast remains unchanged relative to the January 2024 update, as the downward revision to Angola, due to a contraction in the oil sector, is broadly offset by an upward revision to Nigeria. Nigeria's economy is projected to improve from 2.9 percent in 2023 to 3.3 percent in 2024, with an upward revision of 0.3 percentage points compared to the January 2024 update.

Economic performance in the East African Community (EAC-5[1]) countries is projected at 5.4 percent in 2024, from an estimated 5.3 percent in 2023, following projected upward revisions for most member countries.

Commodity prices are projected to decline in 2024 due to slowing global demand.

In the first quarter of 2024, the global commodity price index decreased by 3.1 percent quarter-over-quarter, following a 1.2 percent decline in the fourth quarter of 2023. It is projected to fall by 2.5 percent in 2024, after dropping by 24.2 percent in 2023, reflecting slowing global growth amid tight financial conditions. The energy price index fell by 4.3 percent in 2024Q1, following a 1.8 percent decline in 2023Q4, driven by decreasing crude oil prices, which account for almost 85 percent of the global index. Annually, the energy price index is projected to drop by 2.7 percent in 2024, after falling by 29.9 percent in 2023, as subdued global growth reduces demand pressure.

Chart 1 – Energy commodity prices index in nominal US dollar (2010=100)



Source: World Bank Commodity Prices, April 2024

Despite the tensions in the Middle East, in 2024Q1, average crude oil prices dropped (q-o-q) by 1.8 percent after declining by 3.8 percent in 2023Q4, reflecting abundant spare capacity and non-OPEC+ supply growth. The implementation of output curbs by OPEC+ was more than offset by strong output growth in Iran and non-OPEC countries led by the US, Brazil, and Guyana. According to April 2024 WEO projections, crude oil prices are projected to drop by 2.5 percent in 2024, amid slowing global growth.

The natural gas index decreased by 27.8 percent in 2024Q1, after rising by 16.9 percent in 2023Q4, amid ample supplies. The World Bank projects natural gas average prices to drop by 19.0 percent in 2024, after declining by 53.9 percent in 2023, driven by slowing demand.

[1] EAC-5 members are Burundi, Kenya, Rwanda, Tanzania and Uganda

The forecast assumes relatively mild weather in the northern hemisphere and no disruptions in supplies.

Non-energy commodity prices dropped slightly by 0.6 percent in 2024Q1, after decreasing by 0.2 percent in 2023Q4, mainly owing to declining prices across all non-energy commodity prices. In April 2024, the World Bank projects non-energy to drop by 2.1 percent in 2024, after decreasing by 9.8 percent in 2023. The downward trend reflects the projected falling prices across all non-energy commodities.

In 2024Q1, average prices for agricultural commodities slightly increased by 0.3 percent after increasing by 0.2 percent in 2023Q4, attributed largely to increasing beverages prices offset by declining food prices. Agricultural commodity prices are projected to drop by 1.4 percent in 2024, after falling by 7.0 percent in 2023, owing to ample supplies.

Food prices dropped by 3.9 percent in 2024Q1 [of which cereals (-4.3 percent), oils and meals (-5.2 percent), and other foods (-2.2 percent)], after decreasing by 1.0 percent in 2023Q4. Global food prices are projected to drop by 5.5 percent in 2024, after decreasing by 9.2 percent in 2023. Following the projected drop in 2024, the cereals price index is projected to fall by 11.3 percent in 2024, amid ample supplies and adequate stock levels. However, rice prices will remain high in 2024, assuming India maintains its export restrictions.

Coffee (Arabica) prices increased by 4.9 percent in 2024Q1, matching the 4.9 percent rise in 2023Q4. However, they are projected to drop by 3.1 percent in 2024, following a 19.4 percent decrease in 2023. Tea prices (Mombasa) increased slightly by 0.8 percent in 2024Q1, after decreasing by 0.5 percent in 2023Q4.

Metals & minerals prices slightly increased by 0.5 percent in 2024Q1, after dropping by 0.1 percent in 2023Q4. Annually, they are projected to slightly decline by 0.6 percent in 2024, after decreasing by 9.6 percent in 2023. Tin prices increased by 7.3 percent in 2024Q1, after dropping by 8.8 percent in 2023Q4, driven by increased demand from the electronics sector. On an annual basis, tin prices are projected to increase by 4.1 percent in 2024, after dropping by 17.2 percent in 2023, reflecting increasing demand from the electronics sector.

Fertilizer prices dropped by 20.3 percent in 2024Q1 (q-o-q), after decreasing by 4.9 percent in 2023Q4. The World Bank projects fertilizer prices to drop by 21.7 percent in 2024, after declining by 34.9 percent in 2023, as supply disruptions ease gradually.

Global inflation is expected to ease in 2024 but will remain above central banks' targets.

World annual average inflation is projected to ease to 5.9 percent in 2024, down from 6.8 percent in 2023. This reflects a broad-based decline in global core inflation but remains above pre-pandemic levels of 3.5 percent recorded in 2017-19. The forecast for 2024 was revised up by 0.1 percentage points compared to the January 2024 update, reflecting unchanged projections for advanced economies, and an upward revision of 0.2 percentage points for emerging markets and developing economies.

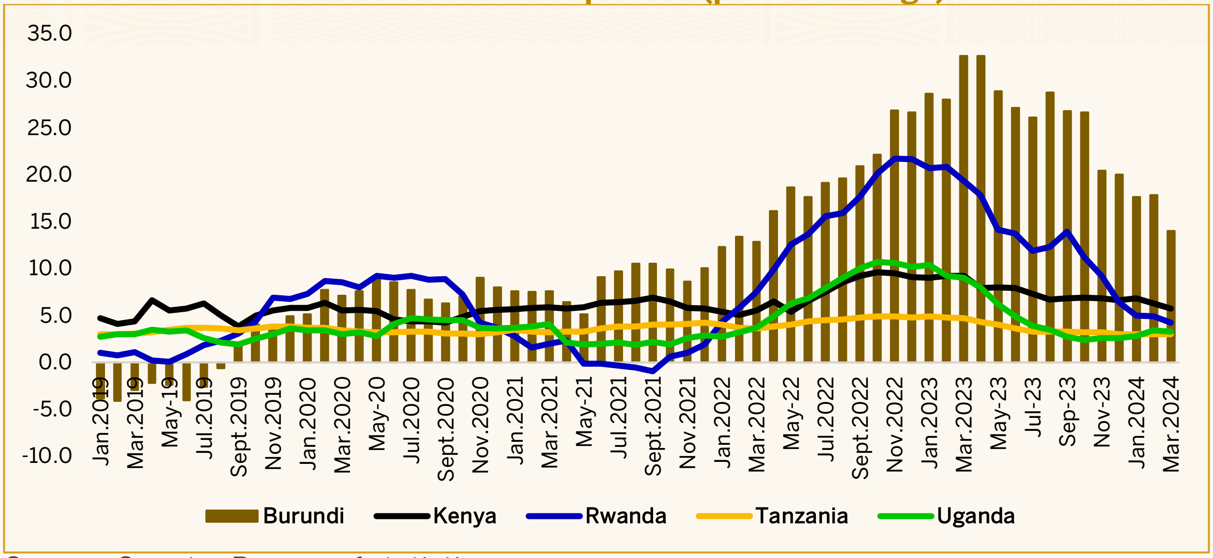
In advanced economies, consumer price inflation is expected to ease to 2.6 percent in 2024 from 4.6 percent in 2023, resulting from previous tighter monetary policy stances and communications. Consistent with this projected easing in inflation, US headline inflation is projected to decelerate to 2.9 percent in 2024 from 4.1 percent in 2023. Eurozone inflation is expected to ease to 2.4 percent in 2024 from 5.4 percent in 2023, and annual headline inflation for the UK is projected to ease to 2.5 percent in 2024 from 7.3 percent in 2023, reflecting easing energy and food prices.

In Emerging Markets and Developing Economies, annual headline inflation is expected to remain at 8.3 percent in 2024 same as in 2023. China's headline inflation is projected at 1.0 percent in 2024 after 0.2 percent in 2023, and headline inflation for India is projected to ease to 4.6 percent in 2024 from 5.4 percent in 2023.

In Sub-Saharan Africa, annual headline inflation is projected to remain in double digits but on a decelerating trend from 16.2 percent in 2023 to 15.3 percent in 2024. High inflation rates are projected for Zimbabwe (561.0 percent), South Sudan (54.8 percent), Sierra Leone (39.1 percent), Malawi (27.9 percent), Nigeria (26.3 percent), Ethiopia (25.6 percent), Ghana (22.3 percent), Burundi (22.0 percent), and Angola (20.0 percent). In some Sub-Saharan African countries, food prices have increased significantly, amid local shortages and the rise in global food prices.

In the EAC-5 countries, annual average inflation is projected to ease to 5.5 percent in 2024, down from 6.8 percent in 2023. Consistent with this projected path of inflation, Rwanda's headline inflation eased to 4.2 percent in March 2024, compared to 19.3 percent in March 2023. Kenya's inflation eased to 5.7 percent in March 2024, compared to 9.2 percent in March 2023. Tanzania's headline inflation softened to 3.0 percent in March 2024, down from 4.7 percent in the corresponding month of the previous year. Uganda's annual headline inflation decelerated to 3.3 percent in March 2024 compared to 9.0 percent in March 2023, mainly due to easing food prices and falling fuel prices.

Chart 2- EAC-5 Headline Inflation developments (percent change)

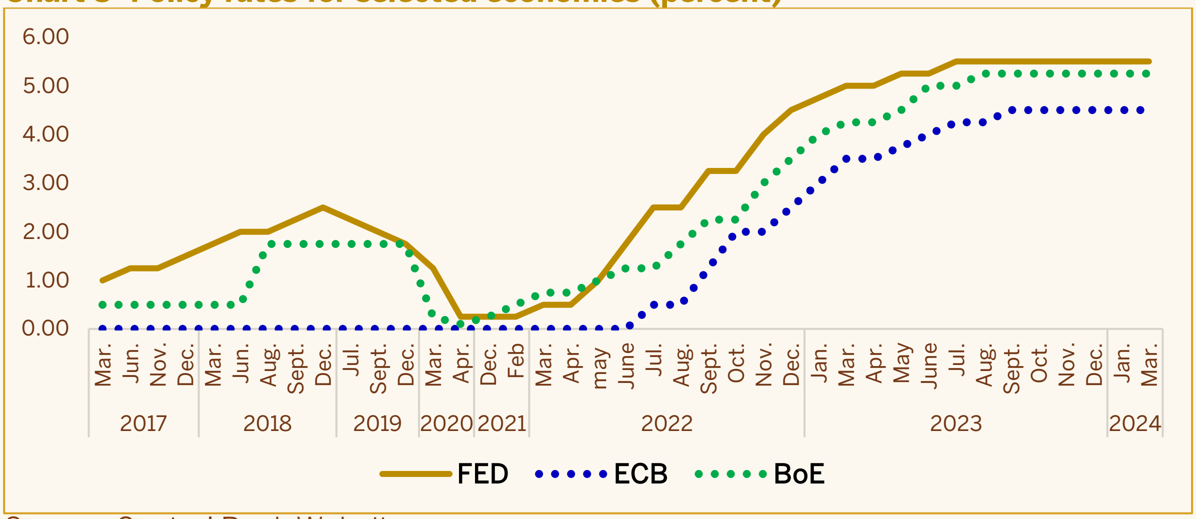


Source: Country Bureau of statistics

Monetary conditions tighten globally amid heightened inflation risks.

Despite easing inflationary pressures, some central banks in advanced economies are still hinting at tight policy responses to return inflation to targets. The US Federal Reserve paused interest rate hikes for the fifth time in March 2024 and maintained the target range at 5.25 to 5.50 percent. The Bank of England maintained the bank rate for the fifth time at 5.25 percent in March 2024, while the European Central Bank also maintained the three key ECB interest rates for the fourth time at 4.50 percent on 7th March 2024.

Chart 3- Policy rates for selected economies (percent)



Source: Central Bank Websites

On the foreign exchange market, the US dollar is appreciating against all major currencies, resulting from the Federal Reserve's tight monetary policy stance. By the end March 2024, the US dollar had appreciated by 7.31 percent (y-o-y) against the Japanese yen, by 2.3 percent against the Euro, by 1.72 percent against the Chinese yuan, and 0.79 percent against the British pound.

The global economy is expected to impact the Rwandan economy in 2024.

The projected declines in crude oil and natural gas prices in 2024 are expected to reduce Rwanda's oil and gas import bill. This expected impact is based on the latest IMF, April 2024, World Economic Outlook projections, as well as the World Bank, April 2024, Commodity Market Outlook.

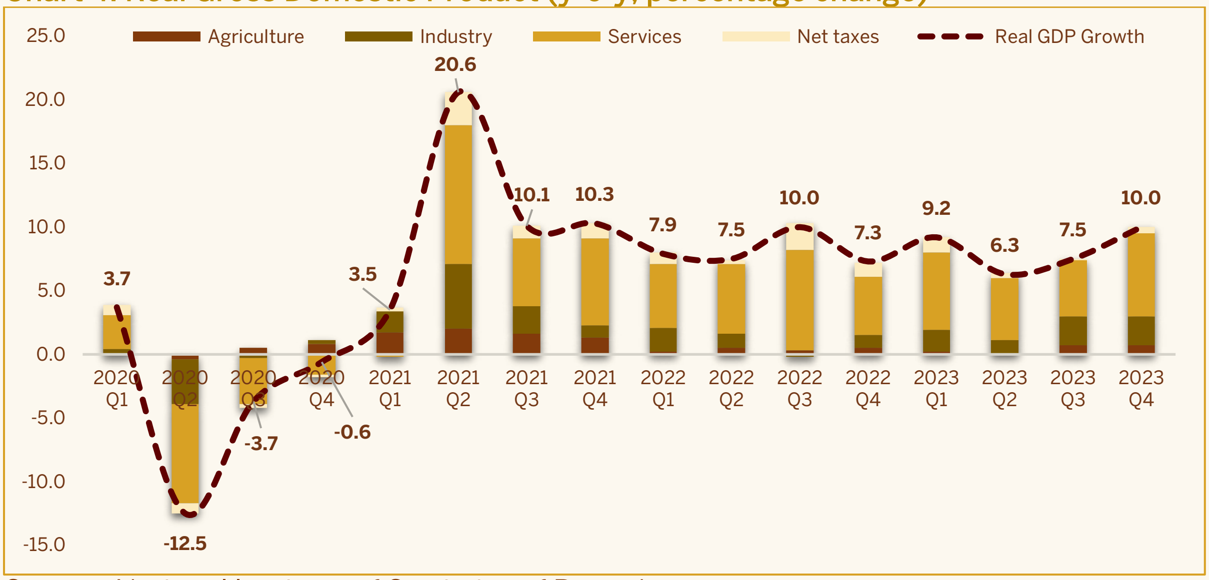
The projected decline in commodity prices such as coffee and tea prices in 2024 and 2025, is expected to have a negative impact on Rwanda's traditional export earnings, hence worsening the trade deficit. Economic growth in most of Rwanda's trading partners is expected to remain moderate leading to low demand for Rwanda's traditional exports.

Concerning the exchange rate, the current appreciation of the US dollar against the Rwandan franc is expected to reduce once the FED starts to ease its monetary policy stance.

II.2. Domestic economic performance and labour market

Rwanda's economy recorded strong economic growth in 2023, with a growth rate of 8.2 percent. The fourth quarter saw the highest increase, with a 10.0 percent year-on-year rise.

Chart 4: Real Gross Domestic Product (y-o-y, percentage change)



Source: National Institute of Statistics of Rwanda

The robust performance of the services and industry sectors mainly drove the high growth of 2024Q4. The services sector gained by 13.1 percent, up from 9.5 percent recorded in 2022Q4, mainly resulting from substantial gains in information and communication (+42.9 percent), public administration (+15.6 percent), education (+15.6 percent), and trade services (+5.2 percent) as well as prosperous tourism activities. The good performance of the tourism is evidenced by a continuous increase in MICE delegates (+66.4 percent in 2023Q4 from +14.9 percent in 2022Q4) as well as the strong growth in hotels and restaurants (+22.1 percent) and transport services (+11.4 percent). Regarding information and communication, the demand for telecommunication was robust throughout 2023, bolstering the services sector's performance. This demand was mainly driven by promotional offers from telecommunication companies, as indicated by the significant growth of voice traffic (+27.4 percent in 2023Q4 versus +2.3 percent in 2022Q4) and used internet bandwidth (+71.1 percent in 2023Q4 versus +35.3 percent in 2022Q4).

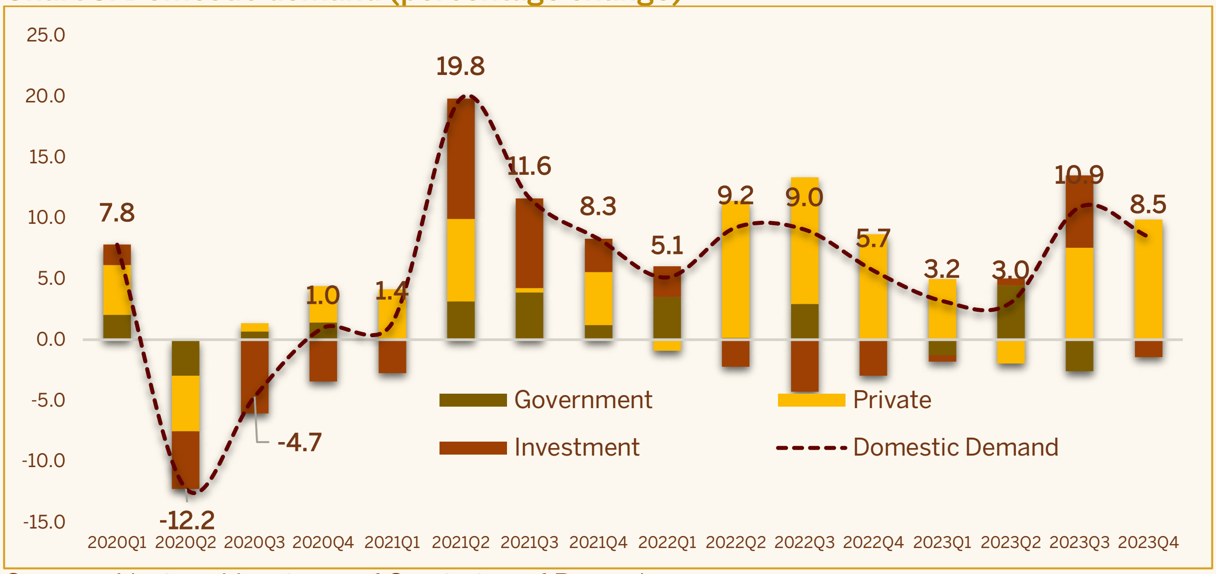
The industry sector, which grew 12.5 percent in 2023Q4 compared to 5.3 percent in 2022Q4, was supported mainly by the robust performance of the construction (+20.6 percent) and manufacturing (+10.7 percent) sub-sectors. Construction activities thrived in 2023, driven by various major construction projects and commercial buildings. In manufacturing, all sub-sectors performed well, especially food processing (led by cereal processing), textiles, chemical production, and construction material production. Moreover, the mining and quarrying sector registered modest growth of 2.0 percent amid the decline in mineral prices on the international market. In 2023Q4, mineral prices fell by 0.9 percent, compared to a 14.6 percent increase in the same period of 2022.

Agriculture recorded moderate growth in 2023Q4 (+3.4 percent) as adverse weather conditions had a detrimental impact on the agriculture sector, resulting in poor harvests of some food crops and export crops.

The strong domestic demand was driven by investment and private consumption.

Domestic demand grew by 8.5 percent in 2023Q4, mainly driven by private consumption and fixed investment. Private consumption recorded a growth of 14.7 percent, overshadowing the slowdown in government consumption, which declined by 0.2 percent. As a result, total final consumption in the fourth quarter of 2023 grew by 12.2 percent.

Chart 5: Domestic demand (percentage change)



Source: National Institute of Statistics of Rwanda

Total investment fell by 7.0 percent following strong disinvestment in inventories (-189.5 percent) that outweighed the increase in fixed investment (+ 15.7 percent). The latter has been mainly driven by construction-related investment that rose by 20.8 percent.

The labour market continued to improve, with a further drop in the unemployment rate.

The labour force participation rate increased by 1 percentage point in the first quarter of 2024 compared to 2023Q4 and 3.4 percentage points compared to 2023Q1, as the working-age population increased by 3.0 percent to 8.2 million from 7.9 million between the two quarters.

In the first quarter of 2024, 53.1 percent of the working-age population was employed, up from 47.7 percent in the first quarter of 2023, as job opportunities increased across all economic sectors. Total employment rose by 14.8% in 2024Q1, driven by the agriculture sector, which accounted for 46.7% of total employment and saw a 16.4 percent increase. Employment in agriculture has expanded, reflecting the farming activities of season B 2024.

Table 1: Labour market indicators (percentage)

	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1
Unemployment Rate	16.5	23	18.1	24.3	17.2	16.8	18.0	16.8	12.9
Labour Force Participation Rate	54.5	54.3	56.6	58.7	57.6	59.5	59.8	60.0	61.0
Employment %YoY									
Total	11.9	6	16.7	-1.7	6.1	20.1	7.0	14.1	14.8
Agriculture	12.2	-0.9	19.1	-5.2	-6.4	20.6	-12.2	16.5	16.4
Industry	13.1	6.7	16.4	-3.3	5.9	15.7	12.5	-2.3	7.4
manufacturing	*10.6*	*20*	*35.5*	*5.8*	*23.2*	*23.0*	*2.7*	*21.9*	*3.0*
Construction	*17.1*	*-5.4*	*7.8*	*-14.4*	*-6.5*	*17.7*	*19.2*	*-13.0*	*5.1*
Services sector	12.1	16	12.2	4.9	27.8	22.6	31.7	17.8	15.4
Trade services	*7.2*	*29.1*	*-5.9*	*-0.7*	*36.8*	*37.7*	*49.6*	*30.4*	*2.7*
Transport	*26.6*	*29.2*	*35.6*	*15.2*	*22.1*	*19.8*	*32.2*	*-4.3*	*34.1*
Hotels and Restaurants	*11.5*	*18.1*	*107.1*	*31.2*	*86.8*	*70.7*	*65.0*	*50.8*	*22.1*

Source: National Institute of Statistics of Rwanda

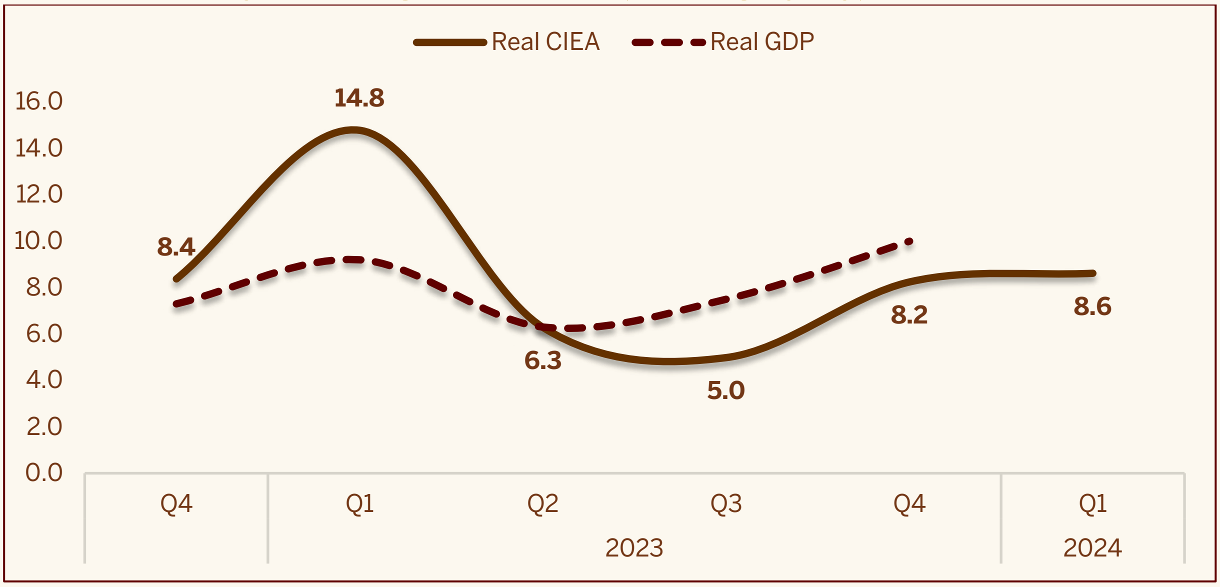
Services are the second largest employer, accounting for 39.4 percent of total employment. Employment in the services sector increased by 15.4 percent, driven by the sector's strong performance. Trade services, transportation, hotels and restaurants, and education, which have seen greater expansion, have all played a significant role in job creation in the services sector.

The number of people employed in the industry sector rose by 7.4 percent, primarily driven by construction and manufacturing activities. These activities accounted for 88 percent of overall industry sector employment, with employment increasing by 3.0 percent in manufacturing and 5.1 percent in construction as these subsectors continued to perform well.

The growth momentum continued in the first quarter of 2024.

The Composite Index of Economic Activities (CIEA) indicates a continuous expansion of economic activities during the first quarter of 2024. The metric had a growth of 8.6 percent, evidencing a sustained expansion of aggregate demand.

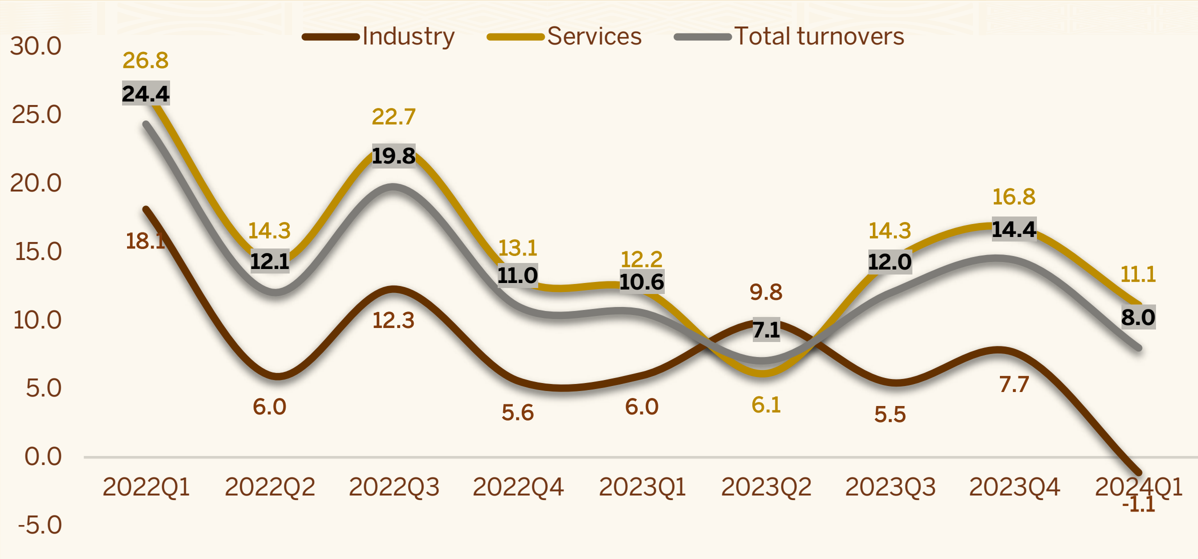
Chart 6: Quarterly real GDP growth vs CIEA (% change, y-o-y)



Source: National Bank of Rwanda

The services sector's performance remained robust, as indicated by its total turnovers, which grew by 11.2 percent during the quarter. This growth was mainly fueled by strong trade services and the expansion of hotel and restaurant services, notwithstanding the performance of transport services. In addition, information and communication services recorded significant growth, driven by strong demand for internet and call services. The expansion of financial services also played a crucial role, with robust financing of economic activities. For instance, credit to the private sector increased by 25.0 percent in 2024Q1, nearly doubling the growth recorded in 2023Q1, which was 12.9 percent.

Chart 7: Turnovers of industry & services sectors (% change, y-o-y)



Source: National Bank of Rwanda

The industry sector continued to be mainly supported by the construction subsector. The turnovers of construction companies grew by 7.6 percent in 2024Q1, as ongoing infrastructure projects continued to be well implemented. However, domestic demand for cement declined by 4.4 percent, as some big projects entered phases that did not require intensive use of cement. This reduction in cement demand had a spillover effect, partly explaining the 7.7 percent decrease in turnovers for manufacturing industries.

Despite the decline in wheat imports, down 45.5 percent in the first quarter of 2024, cereal production remained a major driver of manufacturing growth. In particular, maize flour production continued to grow strongly, as reflected by maize imports, which increased by 3.1 percent in 2024Q1. This growth was supported by existing stocks from high imports in 2023Q4, which were up by 56.9 percent, and the maize bumper crop of the 2024 agricultural season A. Consequently, high production of maize flour continued, as evidenced by a 50.7 percent increase in maize flour exports in the first quarter of 2024.

The agriculture sector has recovered, following the good harvest of food crops of season A 2024. This is evidenced by the easing of fresh food inflation that dropped from 48.9 percent in 2023Q1 to 2.5 percent in 2024Q1.

Given the industry and service sectors' strong performance, coupled with the agriculture sector's strong recovery, the economy appears to be maintaining its robust growth in the first quarter of 2024.

II.3. External sector and exchange rate developments

The current account deficit widened in 2023.

In 2023, the current account deficit widened to 11.7 percent of GDP, primarily driven by a substantial increase in the trade deficit, which surged by 19.1 percent. Nevertheless, there was a robust recovery in service exports alongside consistent inflows from remittances. On the financing side, there was a notable 50 percent increase in Foreign Direct Investment (FDI) inflows, coupled with a significant rise of 113 percent in government projects and budget loans. Consequently, Rwanda's foreign exchange reserves remained relatively robust by the end of 2023 and are anticipated to maintain sufficient levels in the medium term, ensuring coverage for at least four months of imports.

Table 2: Summarized Balance of payment

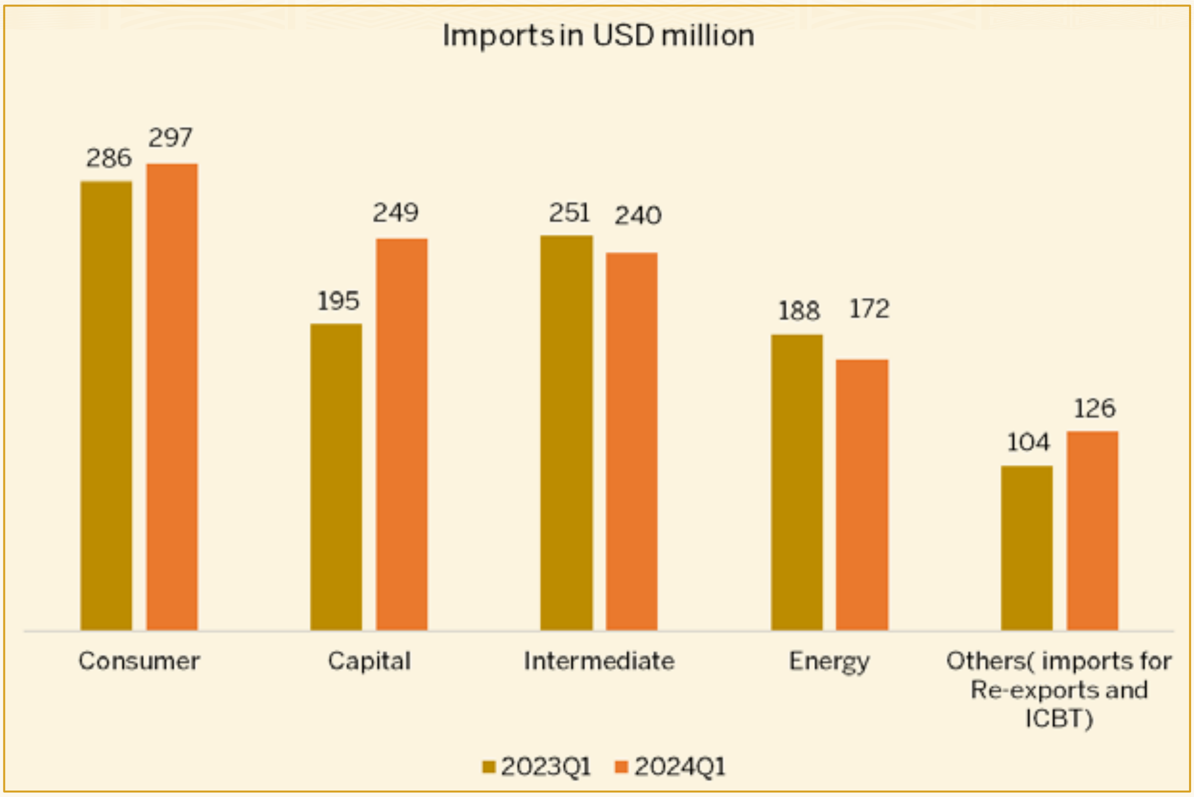
Amount in USD million	2021	2022	2023	Y%Y (23/22)
1.Current account deficit (CAD)	(1,203)	(1,246)	(1,654)	32.7%
CAD in % of GDP	10.9%	9.4%	11.7%	
Goods (balance)	(1,659)	(1,989)	(2,369)	19.1%
Remittances (credit)	379	461	505	9.4%
Travel (credit)	150	400	564	40.9%
Budgetary grants	266	415	281	-32.3%
2.Capital account	421.96	321.8	397.6	23.6%
3.Financial account	908	842	1211	44%
Direct investment	233	305	459	50%
Other net flows (PI &OI)	829	408	859	110%
o\w government loans	550	528	1126	113%
Reserve assets (Increase (-))	-154	+129	-107	
Months of imports	4.9	4.2	4.4	

Source: National Bank of Rwanda

The import bill increased by 5.9 percent in the first quarter of 2024.

In 2024Q1, imports saw a 5.9 percent increase in value. This was primarily driven by a significant rise of 28.1 percent in capital goods, largely influenced by developments in the manufacturing and transportation sectors. Consumer goods also experienced a 4.0 percent increase. However, there was a decline of 4.5 percent in intermediate goods, attributed to decreased imports of construction materials and industrial raw materials. Energy imports decreased by 8.3 percent due to a reduction in imported volume.

Chart 8: Imports in USD million by category

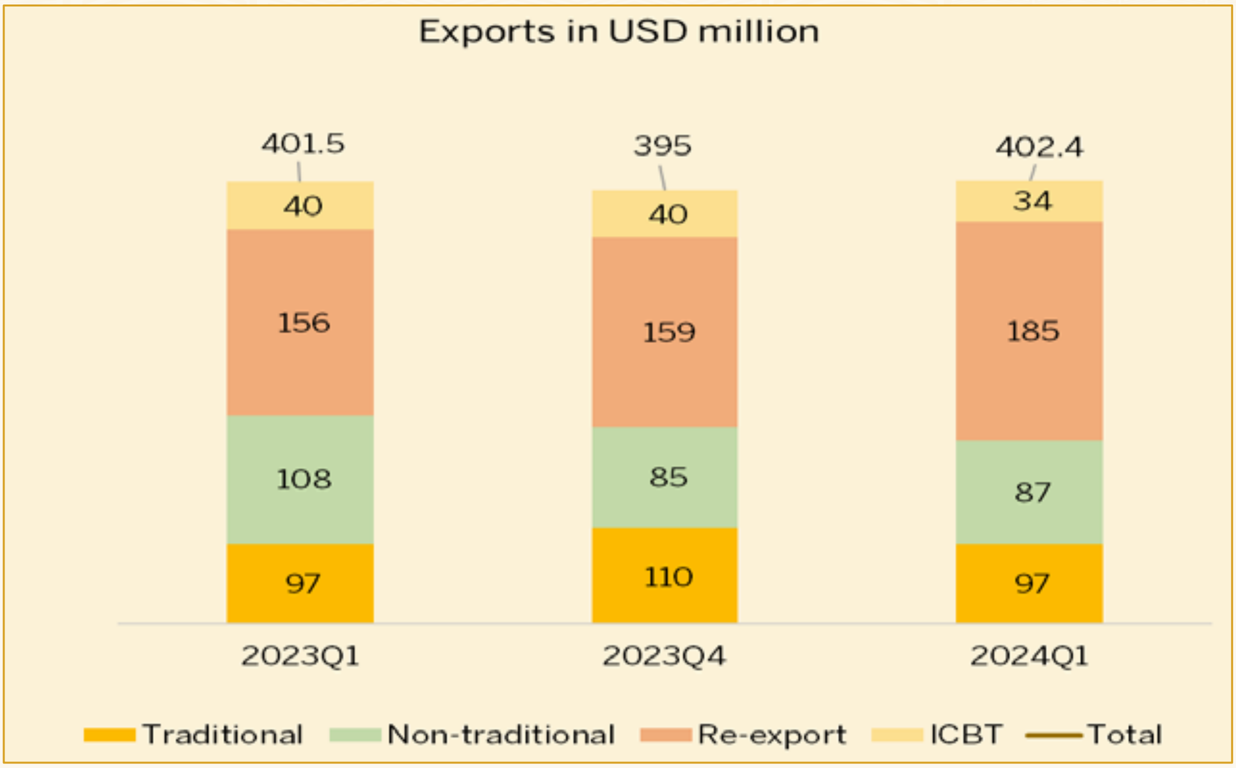


Source: National Bank of Rwanda

Export earnings increased slightly by 0.2 percent in 2024Q1.

Export earnings saw a slight increase of 0.2 percent in 2024Q1. Traditional exports experienced a modest rise of 0.3 percent, attributed to increases in tea and mineral exports, although coffee exports saw a decline due to both volume and unit price factors. Re-exports witnessed a notable increase of 18.1 percent, primarily driven by food products and fuel. However, a temporary decrease in demand for processed food items resulted in a decline of 20.1 percent in non-traditional products. Additionally, Informal Cross Border Trade (ICBT) decreased by 14.7 percent.

Chart 9: Exports in USD million



Source: National Bank of Rwanda

As a result of the above developments, the merchandise trade deficit widened by 9.6 percent in 2024Q1.

The foreign exchange market pressures are easing.

In 2024Q1, the FRW remained weak, reflecting a widening current account deficit, owing to higher imports and lower receipts from traditional exports. Compared to December 2023, the FRW depreciated by 2.08 percent against the USD end of March 2024, down from 3.07 percent recorded in the corresponding period of 2023.

Table 3: Exchange rate of FRW against selected currencies (% changes compared to Dec. previous year)

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGX	FRW/BIF
Dec-18	4.04	-1.96	-0.07	6.20	5.46	1.24	1.77	1.93
Dec-19	4.94	8.48	2.81	6.25	4.53	3.73	5.13	-0.24
Dec-20	5.42	9.42	15.71	11.43	-1.34	5.66	7.17	2.53
Dec-21	3.82	2.94	-4.39	-6.96	0.24	4.78	6.85	1.00
Dec-22	6.05	-5.30	-0.04	-7.90	-2.80	4.47	1.17	2.03
Dec-23	18.05	25.07	22.50	10.78	-6.89	9.78	15.86	-14.13
Mar-23	3.07	5.97	5.31	2.89	-3.86	2.71	1.16	2.65
Mar-24	2.08	0.97	-0.23	-4.73	21.50	0.41	-0.62	1.64

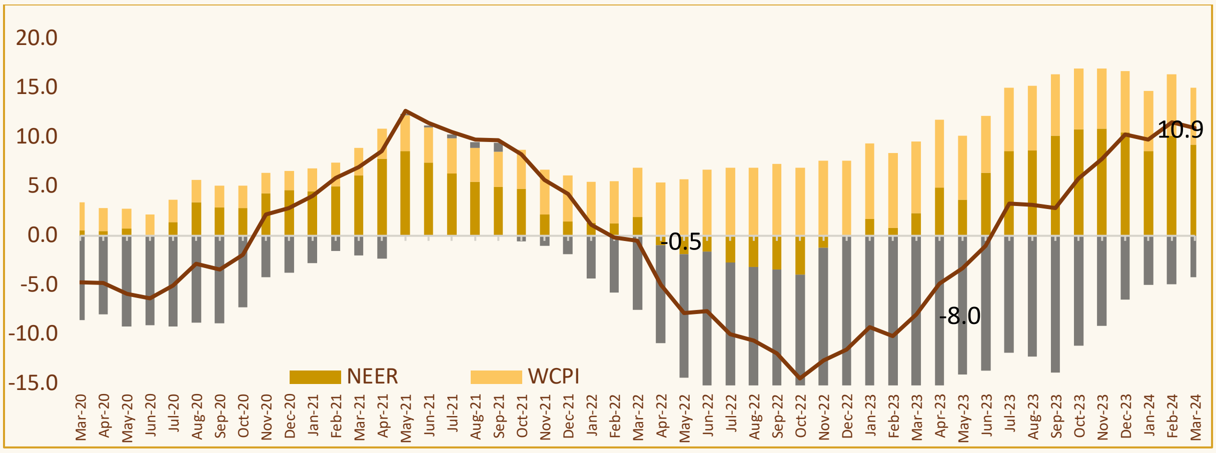
Source: National Bank of Rwanda

Relative to regional currencies, the FRW gained against the Ugandan Shillings (UGX) while it weakened against the Kenyan Shilling (KES), the Tanzanian Shillings (TZS), and the Burundian Franc (BIF). The FRW rose by 0.62 percent vis-à-vis the UGX in 2024Q1 compared to a depreciation of 1.16 percent in the corresponding quarter of 2023. The FRW weakened by 21.50 percent, 0.41 percent, and 1.64 percent respectively versus the KES, TZS, and BIF. These depreciations are lower compared to the corresponding period of last year, except for the KES which strengthened following the issuance of a $ 1.5billion Eurobond.

In the medium term, the FRW is foreseen to remain stable, with a level of international reserves covering at least four months of imports of goods and services, in 2024.

In nominal effective terms, the FRW depreciated by 9.3 percent year-on-year against a weighted average of the currencies of its main trading partners as of the end of March 2024, compared to 2.3 percent depreciation recorded in March 2023. In real terms, the FRW depreciated by 10.9 percent, mainly due to declining domestic inflation and faster nominal depreciation.

Chart 10: Drivers of REER movement



Source: National Bank Rwanda

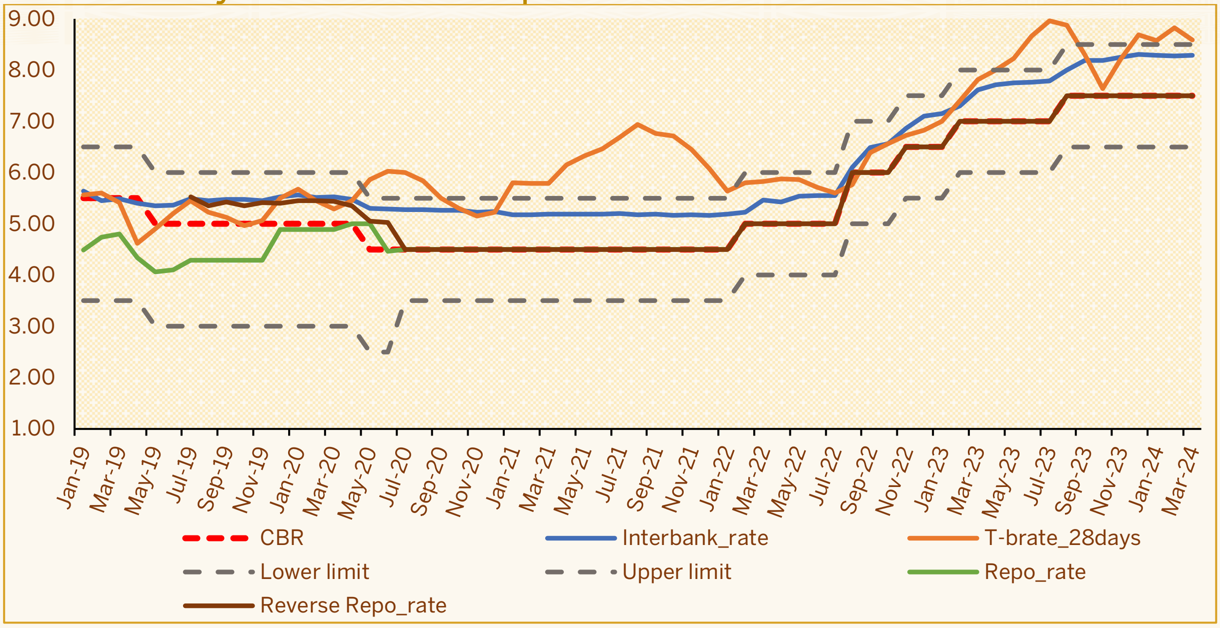
II.4 Domestic credit conditions

Money market interest rates were steered close to the central bank rate.

During its meeting held on February 22nd, 2024, the Monetary Policy Committee (MPC) decided to maintain the Central Bank Rate (CBR) at 7.5 percent for the second time since November 2023. The committee had already raised the CBR by a cumulative 300 basis points in the last two years, which contributed to bringing headline inflation back within the target band (2 to 8 percent).

Consequently, money market rates were steered around the central bank rate, and the interbank rate increased by 93 basis points to an average of 8.29 percent in 2024Q1 from 7.36 percent in 2023Q1.

Chart 13: Money market rates developments

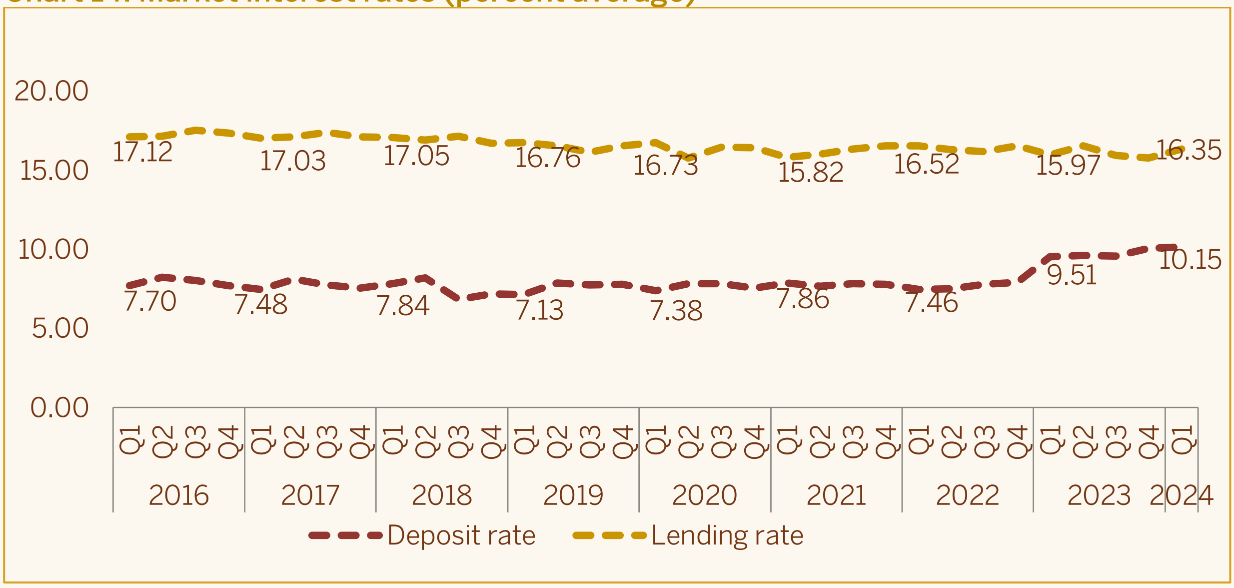


Source: National Bank of Rwanda

Similarly, the average deposit rate rose by 64 basis points to 10.15 percent in 2024Q1, up from 9.51 percent in 2023Q1, primarily resulting from an increased share of long-term deposits.

In 2024Q1, the average lending rate rose by 38 basis points to 16.35 percent, up from 15.97 percent in 2023Q1, mainly attributed to an increase in the share of loans related to trade, personal borrowing, and mortgage.

Chart 14: Market interest rates (percent average)



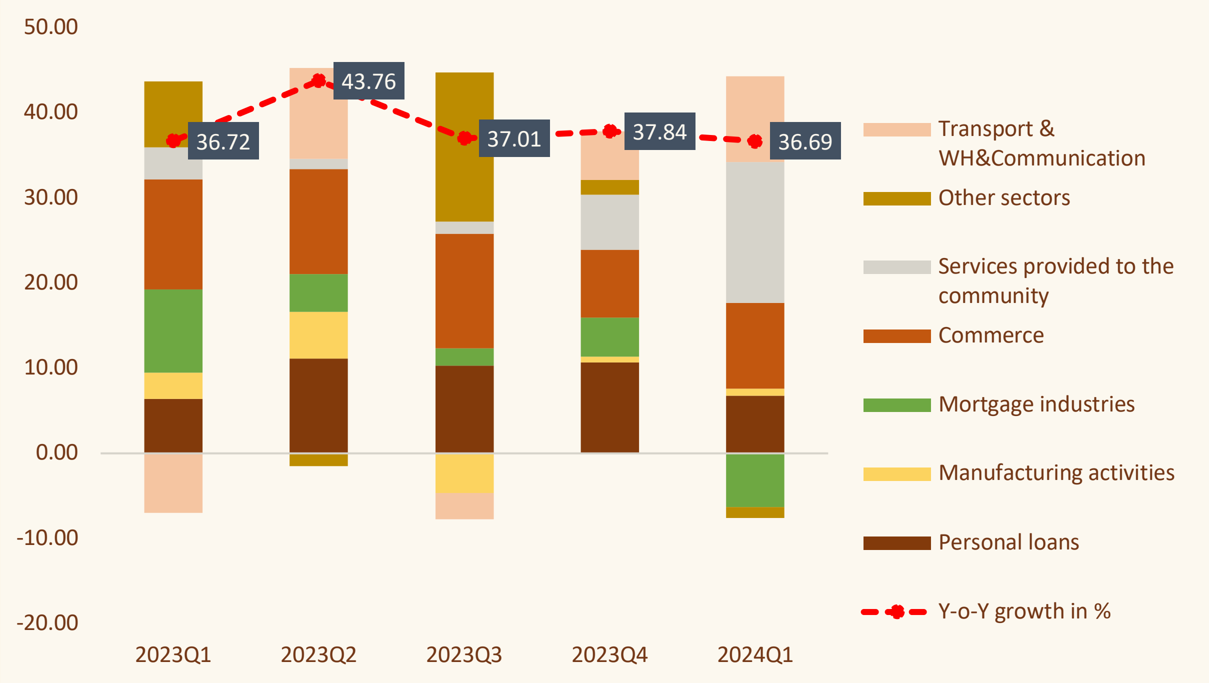
Source: National Bank of Rwanda

Broad money (M3) kept increasing, indicating a long monetary policy transmission lag.

Broad money (M3) grew by 24.9 percent in March 2024, year-on-year, mainly attributed to the growth in outstanding Credit to the Private Sector (CPS), which contributed 20.5 percent, and Net Foreign Assets (NFA) which added 14.2 percent. As of the end of March 2024, CPS rose by 25.0 percent, higher than the 12.9 percent growth observed during the same period in 2023, supported by an increase in New Authorized Loans (NALs). NFA also rose substantially, by 34.0 percent as of end-March 2024, compared to a 1.5 drop recorded in the same period of the previous year.

New authorized loans (NALs) rose by 36.69 percent in the first quarter of 2024, nearly matching the 36.72 percent rise recorded during the same period in the preceding year. Four sectors namely commerce, transport & warehouse & communication, services provided to the community, and personal loans contributed most to the growth in NALs for 2024Q1. These sectors contributed 10.1 percent, 10.1 percent, 16.6 percent, and 60.8 percent to the growth, respectively. Nonetheless, on a quarterly basis, NALs fell by 15.4 percent in 2024Q1 compared to a 23.8 percent increase in 2023Q4. The primary cause of this decline was a substantial amount of money approved in the category of services provided to the community in 2023Q4.

Chart 15: Contributions of sectors to the change in NALs (Y-o-Y % changes)



Source: National Bank of Rwanda

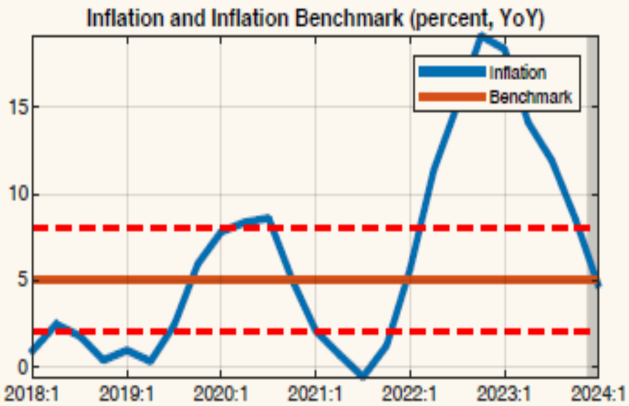
In terms of maturity, short-term loans consistently predominate, accounting for 48.5 percent of the total loans approved in 2024Q1, followed by medium-term debts at 33.8 percent and long-term loans at 17.6 percent. This pattern reflects the ongoing need for working capital by corporates, particularly among companies in the trade and manufacturing sectors.

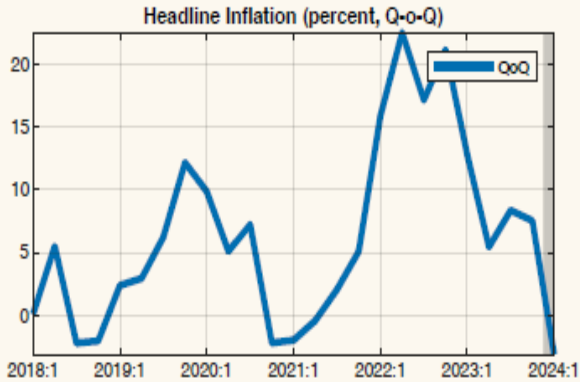
II.5 Prices developments

Headline inflation (y-o-y) decelerated significantly, reflecting the declines recorded mainly in core and fresh food inflation.

In 2024Q1, headline inflation (y-o-y) eased to 4.7 percent from 8.9 percent recorded in the previous quarter. The deceleration in headline inflation reflects decreases recorded in core and fresh food inflation. Core inflation decreased to 5.6 percent from 6.7 percent recorded in 2023Q4, reflecting the slowdowns observed in the prices of some processed food items. Similarly, fresh food inflation dropped to 2.5 percent from 18.7 percent, following the improved supply of some fresh vegetables. Over the same period, energy inflation rose to 2.7 percent from 2.3 percent mainly due to the increase recorded in solid fuels inflation.

Chart 16: Developments in headline inflation (y-o-y & q-o-q).



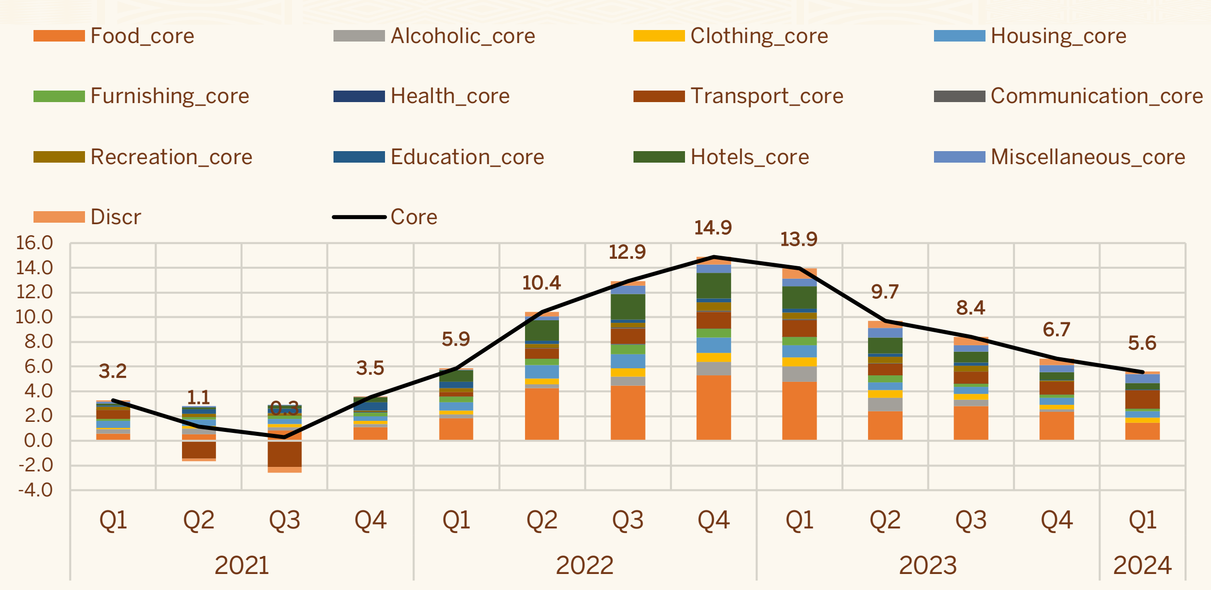


Source: National Bank of Rwanda

Core inflation (y-o-y) reduced, reflecting slowdowns observed in the price pressures of housing and processed food items.

The decline observed in core inflation (y-o-y) stems from declines recorded in core food (from 14.3 percent to 8.9 percent), core alcoholic beverages and tobacco (from 4.3 percent to -0.2 percent), and core housing (from 2.8 percent to 2.5 percent) inflation, which offset an increase observed in core transport inflation (from 7.6 percent to 10.6 percent). Over the same period, transport inflation increased due to higher imported costs, driven by a stronger US dollar and increased shipment costs, which pushed the prices of vehicles upward. Moreover, the recent upward revision in transport services, as of April 16th, 2024, also contributed to the rise observed in transport inflation in 2024Q1.

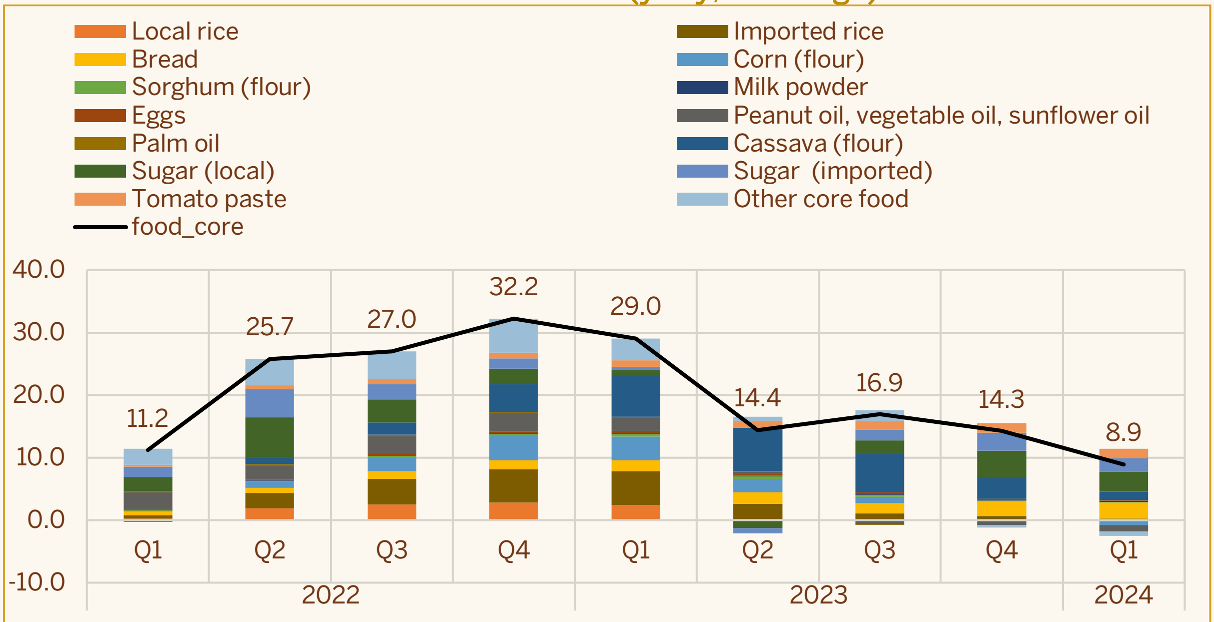
Chart 17 Contributors to core inflation (y-o-y, % change).



Source: National Bank of Rwanda

In 2024Q1, core food prices declined due to the good supply of some core food items such as rice, corn and cassava flour, cooking oil, and sugar, in line with the ease in international food prices, coupled with improved domestic cereal production. Globally, the downward trend observed in international food prices is supported by an increase in cereal and flour production, coupled with lower global demand.

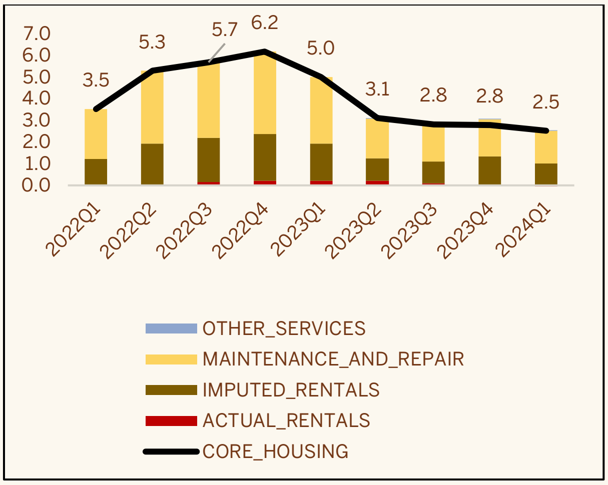
Chart 18: Contributors to core food inflation (y-o-y, % change)

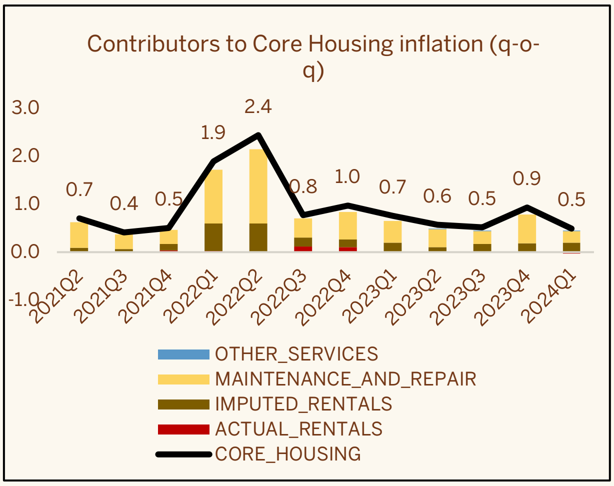


Source: National Bank of Rwanda

Core housing inflation, which picked up in 2022, started to decelerate in early 2023 and experienced a significant drop in 2024. This decline is consistent with the easing trend observed in the prices of maintenance and repair of dwellings, reflecting stable domestic labor costs.

Chart 19: Contributors to core housing inflation (y-o-y & q-o-q, % change)



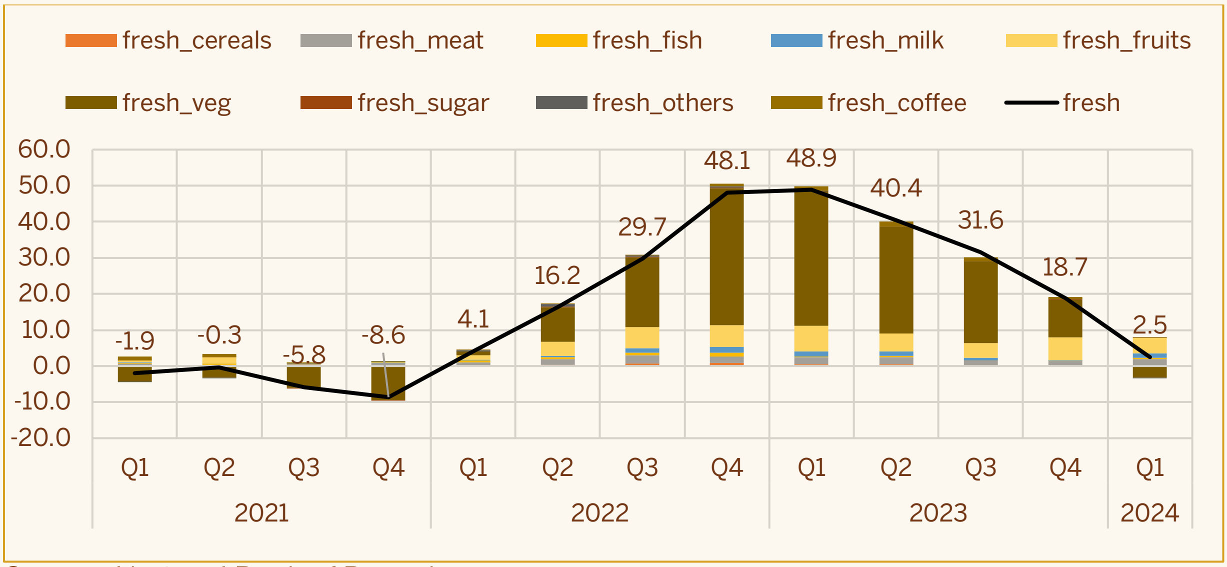


Source: National Bank of Rwanda

Fresh food inflation decelerated, reflecting the good performance of agriculture production in Season A 2024.

The drop in fresh food inflation in 2024Q1 resulted from significant decelerations noted in fresh vegetables inflation (from 21.1 percent to -6.3 percent) and fresh fruit inflation (from 32.6 percent to 20.9 percent). The observed deceleration in fresh vegetable inflation reflects an improved supply of Irish potatoes, dry beans, tomatoes, onions, and carrots, in line with the good performance of agriculture production in Season A 2024.

Chart 20: Contributors to fresh foods inflation (y-o-y, % change)



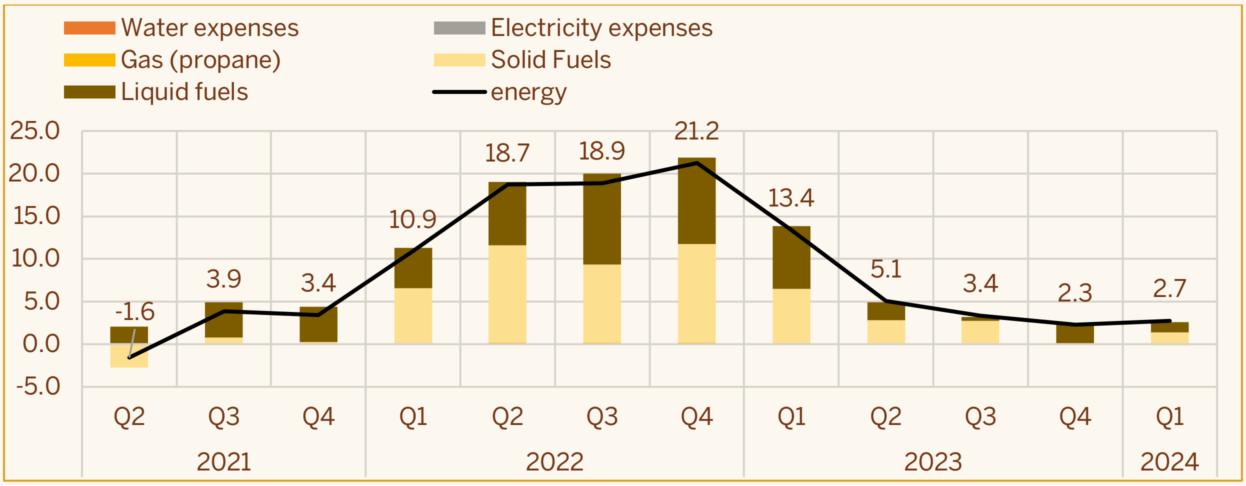
Source: National Bank of Rwanda

In 2024Q1, energy inflation (y-o-y) rose due to the increase in solid fuel inflation.

In 2024Q1, energy inflation (y-o-y) increased to 2.7 percent from 2.3 percent recorded in the previous quarter, reflecting a rise in solid fuel inflation. Solid fuels inflation increased to 2.8

percent from 0.2 percent, following unconducive weather conditions for the production and supply of charcoal and firewood. During the same period, liquid fuel inflation decelerated to 4.8 percent from 8.8 percent in y-o-y terms, consistent with international oil prices.

Chart 21: Contributors to energy inflation (y-o-y, % change)

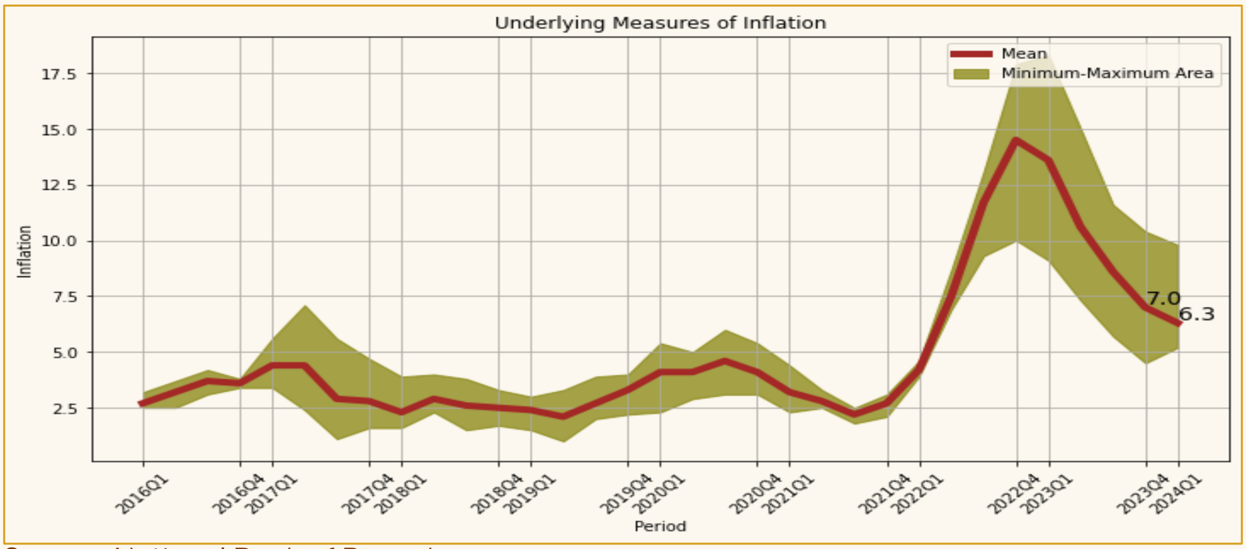


Source: National Bank of Rwanda

Underlying measures of inflation indicate a broad-based decrease in inflation.

The underlying measures of inflation reduced from 7.0 percent to 6.3 percent in 2024Q1, mainly due to declines recorded in non-volatile CPI components such as housing and hotels, reflecting reduced pressure from production costs.

Chart 22: Indicators of underlying inflation vs headline inflation (y-o-y)



Source: National Bank of Rwanda

III.INFLATION OUTLOOK

III.1. Forecast assumptions.

The global economy is projected to remain steady over the policy horizon, limiting the stimulus to the domestic economy.

Global growth is projected to stabilize at 3.2 percent in 2024 and 2025. The economic outlook for 2024 has been revised up by 0.1 percentage points from the January 2024 World Economic Outlook (WEO) update and by 0.3 percentage points compared to the October 2023 WEO projections. However, over the policy horizon, the global economy is expected to remain stable but below the historical (2000-2019) annual average growth rate of 3.8 percent. This reflects several factors, including restrictive monetary policy, low underlying productivity growth, increasing geo-economic fragmentation, the removal of fiscal support due to excessive debts, the long-term effects of the COVID-19 pandemic, and the war in Ukraine.

Consistently, the impact of global economic growth on the domestic economy is expected to be moderate. Though domestic economic recovery will keep improving, the path is expected to be at a slower pace over the medium term.

Global inflation is expected to reduce over the policy horizon.

The latest IMF projections as of April 2024 indicate that global inflation is expected to decrease from an estimated average of 6.8 percent in 2023 to 5.9 percent in 2024, and 4.5 percent in 2025. The decline of inflation is anticipated to happen more quickly in advanced economies compared to emerging markets and developing economies. The projected downward trend in global inflation is attributed to the subdued global economic performance that will remain non-inflationary over the medium term, coupled with the declines of global energy and food prices. Evolving closer to the target level, global Inflation is projected to pose less pressure on imported consumer price indices.

International oil prices are projected to ease over the medium term, exerting downward pressures on Rwanda's imported inflation.

Prices for energy-related items are projected to slow down on the back of the expected energy supply from non-OPEC countries and the slowing down of the global economy that is expected to weaken demand for energy products. Additionally, there has been an increase in natural gas production, particularly in the United States. Subsequently, with the current projected path in international oil prices originating from less global demand, imported prices are projected to reduce over the medium term, hence less pressure on domestic inflation.

International food prices were revised downward throughout the policy horizon and will have a neutral impact on imported inflation.

Over the policy horizon, international food prices are projected to decline due to the expected good agricultural production in major food-producing countries, and subdued global demand. Once this materializes, minor pressures are likely to be recorded on imported food products.

III.2. Drivers of inflation projections

The May 2024 inflation projections are supported by an anticipated decrease, mainly in domestic costs of production, and will remain non-inflationary over the policy horizon. In contrast, imported costs are expected to exert pressure on core inflation because of the continuous strengthening of the US dollar vis-à-vis the FRW.

Pressures on energy inflation are anticipated to ease over the policy horizon in line with the expected trends in both domestic and global economies. Similarly, the international food price pressures will remain negative, though reducing towards positive territory. Over the policy horizon, the normalization of agricultural production will ease pressures on food inflation.

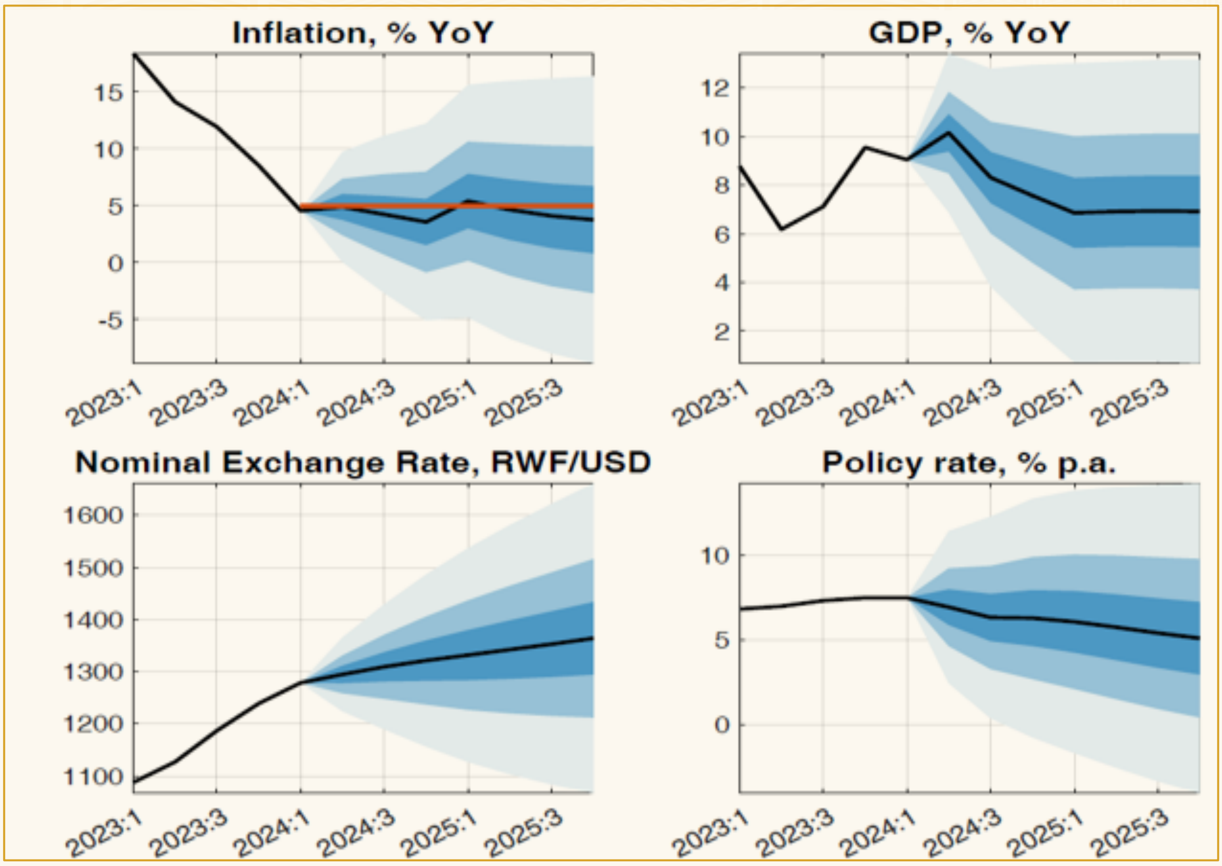
Baseline projections of the key macroeconomic indicators

Like the previous projections done in February 2024, the current projections as of May 2024 indicate that inflation is expected to hover around the medium-term target of 5 percent, reflecting the recent domestic economic developments and other global macroeconomic factors. As a result, headline inflation is projected to fluctuate around 5.0 percent in 2024.

Core inflation is anticipated to rise in 2024 and then decelerate towards the end of 2025. The primary pressures on core inflation will stem from imported costs, in line with expected developments in the global and domestic economy. Food inflation is projected to decline in 2024 and gradually normalize in 2025, following the expected decrease in international food prices and the normalization of domestic agricultural production. Similarly, energy inflation is projected to follow a declining path over the policy horizon due to the expected ease in international oil prices.

The figure below presents the projections for key domestic macroeconomic variables over the policy horizon.

Chart 23: Projections of key macroeconomic Indicators (y-o-y)



Source: National Bank of Rwanda

Risks to the baseline projections

The projections above are associated with risks that may originate from domestic and external economic developments. From an external perspective, there is an expected impact of geopolitical tensions like the Russia-Ukraine war, the Israeli-Hamas war, and the Red Sea attacks that may affect the supply chain of key commodities. Further, there are expected risks stemming from export bans, licenses, and taxes on key core food products (sugar, cereals, and cooking oils) as countries continue to put in place measures limiting exports. On the domestic side, there are uncertainties related to weather conditions, which may negatively affect crop production. Finally, the continued strengthening of the US dollar may also impact core inflation through an increase in imported costs.

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