



The Governor

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The quarterly Monetary Policy Committee (MPC) meeting convened on February 7, 2019 to review the outcome of its previous decision, recent economic developments and outlook. The Committee observed that 2018 ended with positive macroeconomic conditions, which are expected to continue through 2019 with moderate inflationary and exchange rate pressures. The MPC decided to maintain the Central Bank Rate (CBR) at 5.5 percent.

The MPC noted that:

1. Inflation remained low through 2018. Annual headline inflation decreased to 1.4 percent in 2018 from 4.9 percent in 2017, on account of lower inflationary pressures from food prices. As a result of demand pressures that remained below their full potential, core inflation stood at 1.4 percent in 2018Q4 from 1.5 percent in 2018Q3, while it eased to 1.6 percent in 2018 from 3.9 percent in 2017. In 2019, inflation is expected to be around 3.0 percent on average.
2. Rwanda's formal trade deficit increased by 12.4 percent, resulting from the rise of import bill by 9.5 percent that outweighed the 5.5 percent increase in export earnings. High increase in imports is on account of ongoing infrastructure projects, including the construction of a Peat power plant in Southern province, Bugesera Airport and different roads as well as demand for intermediary goods for industrial production. Imports of capital goods increased by 10.4 percent while the imports of intermediary goods increased by 12.4 percent. As a result, formal exports cover of imports slightly declined to 41.1 percent in 2018, from 42.6 percent recorded in 2017.
3. Exchange rate pressures continued to be moderate, with a depreciation of the FRW against the USD standing at 4.0 percent in 2018. In 2019, the foreign exchange market is expected to remain stable and the foreign exchange reserves are adequate to provide a buffer against short-term shocks.
4. In 2018, new authorized loans increased by 17.1 percent up from 4.6 percent in 2017, thanks to increasing demand for loan and reducing credit risk. The demand for loans in value increased by 29.7 percent in 2018 from 10.8 percent in 2017. During the same period, non-performing loans (NPLs) ratio decreased to 6.4 percent from 7.6 percent, and loan rejection rate dropped to 21.9 percent from 31.0 percent.

5. Money market interest rates remained broadly stable and have been converging towards the CBR. Commercial banks' lending and deposit rates slightly decreased, respectively standing at 16.96 percent and 7.51 percent in 2018, from 17.17 percent and 7.72 percent recorded in 2017.
6. Economic growth remained strong in 2018. In the first three quarters of 2018, GDP growth averaged at 8.3 percent against 4.6 percent in the same period of 2017. This growth resulted from good performance in agriculture sector (6.3 percent), service sector (8.0 percent) and industry sector (9.3 percent). High frequency indicators point to sustained good economic performance in 2018Q4. The composite index of economic activities grew by 13.1 percent in 2018Q4 after 16.5 percent recorded in 2017Q4, and 14.4 percent in 2018 after 11.2 percent recorded in 2017. This momentum is expected to continue in 2019, to reach the initial growth projection of 7.8 percent.
7. Going forward, aggregate demand is expected to improve, but will remain non-inflationary. Exchange rate and inflationary pressures are projected to remain moderate. Inflation is projected to pick up in 2019, but will remain around the 5 percent benchmark.
8. The risks to the Rwandan economic outlook pertain mainly to uncertainties of the global prospects. Global growth is estimated to slow down to 3.7 percent in 2018 from 3.8 percent in 2017, and projected at 3.5 percent and 3.6 percent in 2019 and 2020, respectively.

In line with the above macroeconomic conditions and outlook, the MPC observed that the current policy stance remains appropriate to ensure economic stability and continued financing of the economy. Therefore, the MPC decided to maintain the CBR at 5.5 percent.

The committee will continue to monitor developments in global and domestic economy and stands ready to take additional measures as required.

Kigali, February 7, 2019

RWANGOMBWA John
Governor, Chairperson of MPC

