



The Governor

PRESS RELEASE

The National Bank of Rwanda raises its Central Bank Rate by 50 basis points to 7.5 percent.

On 16th August 2023, the Monetary Policy Committee (MPC) convened to decide on the Central Bank Rate (CBR) for the next three months.

Analysis shows that inflationary pressures are on a declining trend, although still high. Inflation is expected to continue decelerating and fall below 8 percent by the end of this year, which is within the desired range of 2 to 8 percent. In 2024, it is expected to average around 5 percent. This projected decrease in inflation is in line with earlier actions by the NBR, including raising the CBR, Government efforts to combat rising prices, and a drop in the prices of major goods traded internationally.

However, there is still uncertainty around these economic projections. Risks include unfavorable weather conditions, which could affect future agriculture production and geopolitical tensions that may continue to influence international commodity prices.

Based on the above-mentioned conditions and projections, the MPC decided to increase the Central Bank Rate (CBR) by 50 basis points to 7.5 percent to ensure inflation decelerates to the 5 percent benchmark in 2024.

Projections indicate a continuous reduction in headline inflation in the coming months.

Headline inflation has been declining since the beginning of 2023, reaching 15.2 percent in 2023Q2 year-on-year from a peak of 20.2 in the last quarter of 2022, explained by a decrease in core, fresh food, and energy inflation. Core inflation (inflation excluding fresh foods and energy items) decreased due to an ease in processed food, housing, and transport inflation.

Energy inflation also slowed down due to an increase in the supply of charcoal and firewood, as well as a downward revision in local pump prices in 2023Q2. Likewise, the decline in fresh food inflation reflects a decrease in fresh vegetables and fruit inflation.

This declining trend in headline inflation continued in July where inflation stood at 11.9 percent. Inflation is projected to continue declining until it reaches the target band, below 8 percent by the end of 2023. This decline is expected for all main components of headline inflation, namely core, energy, and fresh food inflation.

However, the current forecast faces some uncertainty. Indeed, international events such as the termination of the black sea grain deal, and the oil supply cuts by major producers could influence international commodity prices. Additionally, unpredictable events linked to climate change, such as the floods and landslides which took the lives of more than 130 people in May 2023, might affect future agriculture production and supply of food to the market.

The domestic economy continues to perform well but at a slower pace.

The Composite Index of Economic Activities (CIEA) grew by 6.3 percent in 2023Q2 compared to the same quarter last year. This growth, driven by a recovery in the construction and manufacturing industries, as well as a continuous positive trend in the service sector, is slower than the 14.8 percent recorded in 2023Q1. This slowdown is explained by low agriculture output in line with bad weather conditions as well as slowing global economic growth.

Rwanda's trade deficit increased on the back of continuous import growth.

In 2023Q2, both exports and imports continued to grow in value, but at a slower pace due to the falling international commodity prices. Rwanda's merchandise exports increased by 5.3 percent in 2023Q2 compared to the same quarter last year, driven by higher quantities exported, especially of manufactured goods. On the other hand, merchandise imports rose by 9.9 percent, reflecting the continuous growth of economic activities. As a result, the merchandise trade deficit widened by 12.7 percent.

In line with the external sector performance, the FRW depreciated against the US dollar by 8.76 percent end June 2023 compared to December 2022.

In the medium-term, the gross official foreign exchange reserves are expected to remain adequate, covering 4 months of prospective imports of goods and services, coming from an increase in service exports, and in remittance inflows.

Money market rates increased following the monetary policy tightening, but the banks' lending rate remains relatively stable.

In year-on-year terms, the interbank rate rose by 223 basis points to 7.74 percent on average in 2023Q2, following the monetary policy tightening. Similarly, the interest rates of government securities and deposits for all maturities increased. The average lending rate remained relatively stable, rising by only 23 basis points to 16.54 percent in 2023Q2 from 16.31 percent in 2022Q2. Credit to the private sector increased by 13.2 percent in 2023Q2 from 16.5 percent in 2022Q2.

MPC decision.

The Monetary Policy Committee decided to increase the central bank rate to 7.5 percent based on inflation projections and associated upward risks. The MPC remains committed to bringing back inflation within the target band (2 to 8 percent) and will continue to monitor macroeconomic developments. Assuming no unexpected events arise in the coming months, the MPC might pause the tightening cycle.

Kigali, 17th August 2023

Digitally
signed by
BNR(GOV
ERNOR)

RWANGOMBWA John
Governor and Chairperson of the MPC

