National Bank of Rwanda
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The Governor

PRESS RELEASE

The National Bank of Rwanda maintains the Central Bank Rate (CBR) at 5.0 percent.

The statutory quarterly Monetary Policy Committee (MPC) meeting held on 11 May 2022 reviewed the impact of its previous decisions and assessed recent economic developments at the global and domestic level, as well as the outlook. The analysis indicates continued increase of global commodity prices, leading to rising inflationary pressures, prompting central banks to tighten their monetary policy stance to bring inflation back to their targets.

In Rwanda, inflation is projected to exceed the upper bound of 8.0 percent in 2022 before decelerating towards the medium-term benchmark of 5.0 percent in the second half of 2023. The projected deceleration is on the back of the monetary policy tightening of February 2022, relatively lower global commodity prices, and slowing domestic and global demand. Given these developments and outlook, the MPC decided to maintain the Central Bank Rate (CBR) at 5.0 percent

The ongoing Russia – Ukraine war slows the global economic recovery.

The ongoing Russia – Ukraine war, sanctions on Russia, and the persistent Covid-19 pandemic (especially in Asia) are expected to reduce global growth in 2022. The world economic growth is projected to slow down to 3.6 percent in 2022 from 6.1 percent in 2021. Downside risks to the global outlook include a possible worsening of the war, escalation of sanctions on Russia, and a sharper-than-anticipated deceleration of growth in China due to its strict zero-Covid strategy. Recent lockdowns in key manufacturing and trade hubs in China will likely compound supply disruptions.

With the impact of the Russia-Ukraine war and the current international price pressures, global inflation is expected to be higher and to remain elevated longer than previously projected. World annual average inflation is projected to increase to 7.4 percent in 2022 from 4.7 percent in 2021. The conflict is likely to have a prolonged impact on commodity prices, affecting oil, gas, and food prices more severely in 2022 before they reduce in 2023. At the end of 2021 and the beginning of 2022, most advanced economies began a monetary policy tightening cycle to help inflation return to central bank targets.

The Rwandan economy continues to recover from the recession caused by the pandemic.

In Rwanda, all indicators point to continued strong recovery momentum in the first quarter of 2022. The Composite Index of Economic Activities (CIEA) increased by 13.7 percent year-on-year in 2022Q1 from 11.9 percent recorded in 2021Q1; suggesting high GDP growth compared to 3.5 percent recorded in 2021Q1. The massive Covid-19 vaccination campaign, that led to a large-scale easing of restriction measures, together with various Government policies and NBR's accommodative monetary policy, supported the improvement of economic activities in the first quarter of 2022. These economic policies will continue to support economic growth in 2022Q2. However, the recent hike in inflation, partly linked to the negative effect of the Russia-Ukraine war, is likely to constrain private consumption. In addition, the shortage and higher costs of some imported inputs, as well as unfavorable weather conditions that affected Agriculture Season A, are expected to have a negative effect on this year's economic growth, which will remain strong but lower than 7.2 percent initially projected.

The interbank market rate increased following the rise in the CBR.

The Central Bank Rate (CBR) was raised by 50 basis points from 4.5 percent to 5.0 percent in February 2022. As a result, in the first quarter of 2022, the interbank rate followed, increasing by 11 basis points to 5.29 percent on average, from 5.18 percent in 2021Q1. The lending rate increased by 71 basis points to an average of 16.53 in 2022Q1 from 15.82 percent in 2021Q1. However, Credit to the Private Sector (CPS) continued to grow, though at a slower pace, by 14.2 percent (y-o-y).

Rwanda's external trade continues to recover.

Rwanda's merchandise trade deficit lessened by 2.6 percent in 2022Q1. Merchandise exports continued to recover from the Covid-19 induced drop, rising by 44.6 percent compared to the same period last year. The increase in export revenues is mainly attributed to a combination of rising commodity prices for traditional exports (coffee, tea, minerals), and increasing volume for non-traditional exports. This increase in volume was driven by a recovering manufacturing sector, supported by ongoing Government policies. On the other hand, merchandise imports rose by 14.2 percent, driven by rising international commodity prices and high domestic demand.

The FRW continued to depreciate against the US dollar at a slower pace

Regarding foreign exchange markets, the FRW depreciated against the US dollar at a relatively slow pace (0.89 percent) as of end March compared to end December 2021, reflecting improving foreign exchange inflows such as export proceeds, remittances, and budgetary grants. Over the medium term, the foreign exchange market is expected to remain broadly stable, and foreign exchange reserves will remain adequate covering 4.6 months of imports of goods and services at the end of 2022 (against a benchmark of 4 months).

Headline inflation is projected to evolve above the inflation benchmark band in 2022.

In 2022Q1, headline inflation accelerated to 5.9 percent from 1.2 percent recorded in 2021Q4. The upsurge was broad-based across the main components of headline inflation; core, fresh food, and energy inflations. The increase in core inflation to 5.9 percent in 2022Q1 from 3.5 percent in 2021Q4 is mainly coming from increasing prices of processed food items, housing-related prices (maintenance and repair of dwellings), and restaurant and hotels' food and drinks, as well as prices of purchase of vehicles.

Similarly, fresh food inflation rose to 4.1 percent from a deflation of 8.6 percent. This increase resulted from a low supply of fresh food due to unfavorable weather conditions. Over the same period, energy inflation increased to 10.8 percent from 3.4 percent, mainly driven by solid fuels (charcoal) inflation, as liquid fuel inflation also continued to increase in line with international oil prices.

In line with global inflation developments, Rwanda's headline inflation is projected at 9.2 percent in 2022 above NBR's upper bound of 8.0 percent, before decelerating to 7.6 percent in 2023. The projected international commodity prices are expected to be the main drivers of high inflation. The Committee noted these inflationary pressures surrounded by global uncertainties that may start to weigh on domestic and global demand negatively. Therefore, the MPC has decided to maintain the central bank rate at 5.0 percent and will continue to monitor the situation closely, standing ready to take further action as necessary.

NATIONAL BANK OF RWANDA: THE GOVERNOR

RWANGOMBWA John

Governor & Chairperson of the MPC