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The Governor

PRESS RELEASE

The National Bank of Rwanda increases the Central Bank Rate to 6.0 percent.

This quarter's 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. Globally, the relaxation of COVID-19 related restrictions and the economic recovery support measures in place 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 Rwandan economy is expected to remain resilient.

The Composite Index of Economic Activities (CIEA), which captures developments in the services and industry sectors, grew by 10.7 percent in 2022Q2 compared to 32.5 percent in 2021Q2, following slower growth in services and industry. Related to the agriculture sector, performance declined in the first half of 2022, following unfavorable weather conditions and an increase in prices of imported agricultural inputs. In 2022 agricultural season A, food production fell by 1.2 percent, leading to an increase in prices for locally produced foodstuffs. On average in 2022, economic growth is projected to decelerate to 6.0 percent from 10.9 percent in 2021.

The interbank market rate was steered to the CBR.

In May 2022, the Central Bank Rate was maintained at 5 percent. Nevertheless, the interbank rate increased to 5.54 percent on average in 2022Q2, from 5.21 percent in 2021Q2 as the February policy rate increase is being transmitted to the money market rates. The lending rate increased by 31 basis points to an average of 16.31 percent in 2022Q2 from 16.0 percent

in 2021Q2. As a result, Credit to the Private Sector (CPS) grew at a slower pace (16.2 percent) when compared to the corresponding quarter of last year (19.1 percent).

Rwanda’s external trade continues to recover.

Merchandise exports rose by 32.2 percent compared to the same period last year mainly due to an increase in commodity prices while merchandise imports rose by 24.5 percent. As a result, Rwanda's trade deficit widened by 20.6 percent year-on-year, as the increase in export revenues was less than enough to offset the larger increase in the import bill. Despite the widening trade deficit, the level of reserves remained adequate, covering 4.8 months of prospective imports of goods and services as of end June-2022.

The foreign exchange market remains relatively stable.

Regarding foreign exchange markets, the FRW depreciated by 1.93 percent end July 2022 compared to December 2021, slightly higher than the 1.80 percent depreciation recorded in the corresponding period of 2021. Over the medium term, the foreign exchange market is projected to remain relatively stable.

Headline inflation is projected to remain above the benchmark in 2022.

In 2022Q2, headline inflation accelerated to 12.1 percent from 5.9 percent recorded in 2022Q1. This increase was due to the rise in core inflation from 5.9 percent to 10.4 percent, from 4.1 percent to 16.4 percent in fresh food inflation, and from 10.8 percent to 18.7 percent in energy inflation. In 2022, headline inflation is projected to average around 12.1 percent before decelerating towards the 5 percent benchmark in the second half of 2023, considering the NBR monetary policy tightening and other policy measures. Inflation is expected to remain high over the next three quarters and start easing in the second half of 2023 when the headline inflation converges towards the 5 percent benchmark. The main drivers of the high inflation projection include high prices of imported energy products, notably oil prices and gas, elevated international food prices, and subdued domestic food production in 2022 following unfavorable weather conditions and increased prices of imported inputs.

In view of these projections and building on the outcomes of the previous monetary policy decisions, the Monetary Policy Committee decided to increase the Central Bank Rate 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. This decision is mainly aimed at limiting second-round effects from higher imported prices due to global shocks.

The MPC remains committed to its objective of price stability. Thus, the committee will continue to monitor the situation closely, engage with various stakeholders, and stands ready to tighten the monetary policy further if inflationary pressures remain high.

RWANGOMBWA John

Governor & Chairperson of the MPC

